Australian Shareholders' Association

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Motoring ahead

Company/ASX Code	Carsales.com/CAR
AGM date	Friday 25 October 2019
Time and location	11.00am La Trobe Ballroom, Level 1, Sofitel Melbourne, 25 Collins Street, Melbourne.
Registry	Computershare Ltd
Webcast	No
Poll or show of hands	Poll
Monitor	Henry Stephens assisted by Hans Ha
Pre AGM Meeting?	Yes, with Kim Anderson (Director) and Nicole Birman (General Counsel)

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

As you would expect from a growing "disrupter" company such as CAR, there is a strong focus on innovation, people and culture. Staff turnover remains at near record lows and staff engagement measures are strong as demonstrated by the Great Place to Work Certification received by the company in July 2019. In addition, the Graduate Trainee Program received over 1,000 applications for only four positions available and the company was ranked fourth in the Australian Association of Graduate Employees Top Graduate Employers List for 2019.

Financial performance

CAR delivered a good result that was within analysts' expectations. Revenue increased 11% from the 2018 financial year (FY18) to $417.5m. Adjusted earnings before interest, depreciation and amortization (EBITDA) rose 7% to $210.1m and net profit after tax (NPAT) increased 3% to $131.3m. Adjusted earnings per share increased 2% to 53.9 cents per share and all of the adjustments are clearly itemised in the 2019 Annual Report (page 108). Net profit was affected by the write down of Stratton Finance which is discussed below. Dealer revenues increased a satisfactory 7% to $154m, private revenue increased 4% and display revenue declined 13% which reflected original equipment manufacturers lowering their marketing budgets due to an 8% reduction in new car sales during the year. EBITDA margins contracted slightly (2%) to 50% which reflects lower margin service businesses (e.g. Tyresales and Redbook) although core domestic margins improved 1% on pcp (prior corresponding period) to 61%. Annual dividends increased to 45.5 cents from 42 cents in 2018.

Key events

During the year the company wrote down the 50.1% investment in Stratton Finance by $47.7m to an insignificant book value amount of $11m. Stratton faced several challenges including the impact of regulatory changes in lending, tightening of credit availability and weak new car sales and is in the process of being sold.

Key Board or senior management changes

In January 2019, Ric Collins retired as Chair after 19 years of service as a Director and was replaced by Pat O'Sullivan. Pat has been a Director since 2007 and has been Chair of the Audit and Risk Management Committee. In May 2019, David Wiadrowski was invited to join the Board. David has 25 years' experience with Pricewaterhouse Coopers where he has a focus on technology, infocoms, entertainment and media and was the lead partner for a number of major media companies.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	85.3*	184.6	109.5	109.3	103.2
UPAT ($m)	131.3	127.8	119.1	107.0	101.8
Share price ($)	13.53	15.12	11.52	12.32	10.19
Dividend (cents)	0.455	0.420	0.382	0.368	0.3353
TSR (%)	-7.5	37.9	-3.4	24.5	-0.4
EPS (cents)	53.9	0.527	0.454	0.454	0.432
CEO total remuneration, actual ($m)	2.12	2.58	**	3.1	3.3

* Includes a $47.8 million non-cash impairment write down attributable to the Stratton Group

**Greg Roebuck retired on 17 March 2017 with Cameron McIntyre succeeding him.

For FY2019, the CEO's total actual remuneration was **24 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

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

Summary of ASA Position

This year's remuneration report is largely unchanged from the previous year except that the board has reduced the financial performance conditions attached to the short-term incentive (STI) (and long-term incentive (LTI)) from 70% financial to 60% and increased the company-wide strategic, personal and cultural objectives (non-financial) to 40% for the FY20 award. ASA has had in-depth discussions with the company about this matter and we agree with the board that the intention is sound in the light of the Hayne Royal Commission and the strong focus on shareholder wealth. In our pre-AGM meeting, the board argues that the CEO needs to drive profit growth but not at the expense of the company and they further argue that project milestones are actually very important and significant; and that increasing the weight to 40% emphasises this point. However, we don't see this business in the same way as the large banks and that if it is about culture change then the Board should demonstrate what it is doing about it, rather than just drop the targets!

The financial measures are strong, being look through revenue and NPAT which included the impact of the Stratton write-off. However, there are aspects of CAR remuneration report ASA does not like - specifically, the use of options (30% of CAR LTI) and our preference for a minimum of 4-year hurdles (preferably 5-year compared to 3-year for CAR) and the lack of specificity in the communication of the long-term non-financial measures. We have no way of ascertaining if the non-financial measures are robust with the current level of disclosure. On balance we will reluctantly vote against the company's remuneration report.

The company has come a long way since 2016 when they received a first strike against their remuneration report of 54% votes against! CAR remuneration report has improved greatly since that time. We strongly support the share-based remuneration payment as aligning the CEO's and shareholder's interests. Currently 64% of the CEO's total remuneration is "at risk" (i.e. STI and LTI's subject to hurdles) which is a substantial amount and only 36% is fixed remuneration. All the directors have a reasonable amount of skin in the game and market value is used to calculate the value of the performance rights. Furthermore, in FY19 the CEO only received 49% of his target LTI (see page 68 annual report) and 67% of the target STI (page 59) which shows the "at risk" part of the remuneration package is truly at risk. Moreover, the remuneration report is transparent, and the information presented is meaningful. We note the company does disclose the number of projects under the STI strategic objectives and they do identify how many project objectives were exceeded, on-target or missed. This year most of the objectives have not been met and they show this.

CEO rem. framework	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.35	56.58	1.35	35
STI - Cash	0.41	17.18	0.881	22.5
STI - Equity	0.14	5.87	0.294	7.5
LTI – Rights	0.284	11.9	0.945	24.5
LTI – Options	0.202	8.47	0.405	10.5
Total	2.386	100.0	3.875	100

Item 3	Re-election of Ms Kim Anderson as a Director
ASA Vote	For

Summary of ASA Position

ASA supports the re-election of Ms Kim Anderson as a Director of CAR. Ms Anderson is the only person on the board with considerable advertising and media experience (25 years). She is Chair of the Remuneration Committee and has been on the board since 2010 and is regarded by ASA as an independent board member. Ms Anderson is a director of a number of other organisations and we do not regard her as having too many board positions. We note that Ms Anderson has sufficient skin in the game according to ASA definition (i.e. more than one year's fees in the company).

Item 4	Re-election of Ms Edwina Gilbert as a Director
ASA Vote	For

Summary of ASA Position

We support the re-election of Ms Edwina Gilbert to the board of CAR. Ms Gilbert has been an independent director of the company since 2016 and she brings to the board valuable experience as Dealer Principal and a director of the Phil Gilbert Motor Group which represents Toyota, Hyundai and Kia in metropolitan Sydney. She is the only person on the board with significant OEM knowledge and experience in car dealerships, and therefore adds diversity of skills to the board of directors. In addition, her legal training contributes to the regulatory capabilities of the board. She has enough skin in the game according to our definition.

Item 5	Election of Mr David Wiadrowski as a Director
ASA Vote	For

Summary of ASA Position

ASA supports the election of Mr David Wiadrowski to the board. ASA believes he will bring some valuable financial skills to the board and is very well qualified for this position. He has had considerable experience at Pricewaterhouse Coopers where he was a Partner for 25 years and Chief Operating Officer of PwC Assurance for five years. His experience at PwC was in the technology, infocoms, media and entertainment industries which will be very useful experience for the CAR board. Mr Wiadrowski is currently a director of Vocus Ltd and Life360, both listed ASX companies. At Vocus he is Chair of the Audit Committee, Chair of the Wholesale Energy Risk Management Committee and member of the Nomination Committee.

Item 6	6a Approval of STI Performance Rights to the Managing Director and CEO Mr Cameron McIntyre
ASA Vote	For

Summary of ASA Position

6a: The STI awards are paid in cash (75%) and performance rights (25%) which are deferred for 12 months. This resolution seeks to grant 25,078 performance rights at no cost to the CEO. The rights are equal to 25% of the total STI achievement for FY20. The maximum value of the award is $308,850 (i.e. 25% of the cap for Mr McIntyre of $1,235,400) and is subject to the achievement of the FY2020 performance conditions. The performance conditions are 60% financial objectives and 40% company wide strategic, personal and cultural objectives. The number of performance rights is determined on a market basis, which ASA strongly supports, and is explained in the Notice of Meeting. However, ASA prefers a 50/50 mix of cash and performance rights, not the 75% paid in cash and 25% performance rights structure the company has adopted.

The financial component is measured against two separate financial measures namely Look Through Revenue and Adjusted NPAT (both 30%). If the CEO meets the maximum target the full 30% of the STI attributable to the measure will be awarded. For achievement below the maximum target the award will on a straight-line pro rata basis to the minimum target. ASA largely agrees with the financial definitions which seek to exclude any one-off transactions such as acquisitions or revaluations from the NPAT or revenues.

The 40% non-financial objectives are measured against three criteria, namely successful delivery of a strategic project(s); achievement of people and culture targets and individual goals of the CEO. ASA regards these objectives as being somewhat vague and not very transparent. We have discussed this issue with the company, and we accept their argument that the projects, targets and goals of the CEO are highly sensitive market information and they should not be disclosed as it may alert their competitors to the company's future strategy and goals. Achievement of non-financial objectives is assessed by the board on a four-point scale.

Item 6b	Approval of LTI Performance Rights and Options to the Managing Director and CEO Mr Cameron McIntyre
ASA Vote	Against

6b: Resolution 6b seeks approval to grant up to 148,871 options and 73,412 performance rights to the CEO as an LTI. The maximum value of the options and performance rights is $1,420,000. The value of the performance rights is calculated using the market value method, using the volume weighted average price of the company's shares for the 20 trading days prior to 1 July 2019 of $13.54. The exercise price of each performance right is $0. The value of the options is based on the Black-Scholes options pricing model and the exercise price of each vested option is $13.54 (calculated as above). We do not support this aspect of the scheme because of the lack of transparency and complexity involved in determining the value of the options. We prefer the use of performance rights because they are transparent and easy to understand and calculate.

Under the FY20 LTI 60% of the award will be determined by financial measures comprising Look Through Revenue and adjusted EPS. The target revenue and adjusted EPS growth is 10% over the three-year period to 30 June 2022. The Notice of Meeting clearly sets out what proportion of the award will vest based on how much of the revenue and EPS hurdle was met. The remaining 40% of the award will be determined by achievement of various strategic milestones which are discussed in the Notice of Meeting and in the resolution 2. It should be noted that if these options and performance rights are issued to the CEO plus previously issued options and performance rights, and they vest, then the CEO's relevant interest in the company would increase by approximately 0.31% to a relatively small 0.40%, based on the issued capital at the date of the Notice of AGM.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.