Australian Shareholders' Association

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Covid blessed

Company/ASX Code	Kogan.com Limited / KGN
AGM date	Friday, November 20, 2020
Time and location	Online
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Brett Morris
Pre AGM Meeting?	Yes, with Chair Greg Ridder

The individual(s) (or their associates) involved in the preparation of this voting intention does not have a shareholding in this company.

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

Summary of ASA Position

Kogan.com is an online business offering retail and business services to customers.

Kogan have achieved 343% total shareholder return to their shareholders between the date of initial public offering in July 2016 and April 2020. Revenue, Gross Profit and Adjusted EBITDA outperformed the prior year by 13.5%, 39.6% and 57.6% respectively. Net profit after tax grew to $26.8 million while gross sales for the year grew to $768.9 million. Dividends for the financial year were 21 cents fully franked. Kogan finished the year with $146.7m in cash with an undrawn bank facility. The share price trebled in the past year from about $5 to about $15.

Kogan has 2.1 million active customers, up 35.7% from 2019 and the percentage of new customers that placed a subsequent order within one month grew by 40% in the second half compared to the corresponding period.

Kogan acquired Matt Blatt during the year. This was formerly a combined online and bricks and mortar furniture store, which they converted into online only. In addition, they expanded the number of white label offerings into credit cards, super, mobile services (in NZ) and energy. They have also grown their own branded product line across a range of categories. They have become the most diverse online emporium in the country, covering everything from telecoms, insurance, credit card, consumer electronics, homewares retail goods, home loans, travel services and car sales. In essence they are beginning to look a little like the Alibaba of Australia.

Kogan conducted a capital raising in the year, raising $100m from an institutional placement and a low $20m from a retail share placement, for which $115m in applications were received from 6.8K shareholders of the eligible base of 13K. The demand from retail shreholders was sufficiently strong that there was little need for the Institutional offer and a PAITREO model would have been both fair and commercially satisfactory for this capital raising. Another example of a capital raising which neglected the needs of retail shareholders.

The Board has reduced to four this year with the departure of the Independent Director Mr Hirschowitz. The CEO and MD is the founder, Ruslan Kogan and the other non-independent Director is his co-founder David Shafer, who carries the titles of CFO, COO and Executive Director. Between them still own 20% of the common stock, even after selling down 6.9% of their equity this year for $160m. Both are also on the executive, so this board is very poorly structured for retail shareholders; not only is there no majority of independent directors, but two of the executives are board members and substantial owners of the company stock.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	26.8	17.2	14.1	6.7	.8
UPAT ($m)					
Share price ($)	$14.85	$4.98	$6.50	$1.67	
Dividend (cents)	.21	.14	.13	.08	
TSR (%)					
EPS (cents)	.28	.18	.15	.04	
CEO total remuneration, actual ($m)	.594	.439	.542	.470	.383

For 2020, the CEO's total actual remuneration was 6.6 **times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

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

Summary of ASA Position

The ASA opposes Kogan's remuneration report.

The fixed component of remuneration is somewhat below the range of what would be expected for companies of its size and type. However, the long-term remuneration arrangements agreed earlier this year between Kogan and its CEO and CFO are excessive. The plan is as follows:

Remuneration comprises a fixed salary at 80% and a cash STI of 20%, with a hurdle of EBITDA above plan.

The LTI is in the form of options, with no performance hurdle other than to remain employed. Issue price is the VWAP for 3 months from Feb to April, namely $5.29. Mr Kogan is to be awarded 3.6m rights and Mr Shafer 2.4m in 3 years. The market price at the time these were finally set by the board was already well in the money (at around $8.50) and at today's market price these awards are worth $51m and $34m respectively. There is an additional clause in the award which states that in the event that options are not able to be granted for any reason (such as from shareholder objection) the board will pay the equivalent in cash. This award fails the pub test on many counts and is demonstrably unfair and excessive. These options must be approved by shareholder resolution, so this clause enabling cash payment is evidently an escape clause in the event of this resolution failing to pass at the AGM.

CEO rem. Framework for FY20	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	.493	80%	NA	100%
STI - Cash	.101	20%	NA	0%
STI - Equity	0	0%	NA	0%
LTI	0	0%	NA	0%
Total	.594	100.0%	NA	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.

Item 3	**Re-election of Mr Harry Debney**
ASA Vote	**Against**

Summary of ASA Position

The ASA will vote against the re-election of Mr Harry Debney.

Mr Debney was first appointed to the board in May 2016. Mr Debney serves on the Audit and Risk Management Committee and is a member of the Remuneration and Nomination Committee. Mr Debney was appointed CEO and Managing Director of the Costa Group in September 2010 and has seen Cost Group move from a private entity to a member of the ASX200. Mr Debney spent 24 years at Visy Industries including eight years as CEO.

The ASA considers that Mr Debney does not have an excessive workload and that he is suitably qualifies to perform the task of director having been a board member during a period of excellent growth in Kogan.

The ASA will vote against the re-election of Mr Debney as he is a member of the remuneration committee which created the excessive and uncapped options plan for the two founders, which is mentioned above.

Item 4	Election of Mr Stephen Mayne
ASA Vote	Against

Summary of ASA Position

Mr Stephen Mayne has offered himself for election as a Director of Kogan. Mr Mayne is 51 and has experience as the founder of Crikey.com.au, counsellor of City of Manningham, counsellor of City of Melbourne and 5 years on the board of the Australian Shareholders Association.

The ASA does not support the election of Mr Mayne. The ASA considers that Mr Mayne does not have the online retail skills required to be a director this company. Having said that, Mr Mayne has in his presentation highlighted the problems in the board structure and the remuneration scheme that we have outlined above, with which we fully concur.

The ASA would like Kogan to expand its board in the near future with truly independent new Directors with appropriate skills and bring some balance to one which is overly weighted to the founders.

Item 5.1	Approval of Grant Options to Mr Ruslan Kogan
ASA Vote	Against

Summary of ASA Position

Kogan have agreed to grant 3,600,000 options to CEO, Mr Ruslan Kogan which may be exercised in 2023.

The ASA will vote against the approval of grant options.

The exercise price for each option is $5.29 having been calculated on a 3 month volume weighted average price between February 2020 and April 2020. This period covered the pandemic plunge in the market, at a time when nearly all share prices were at long term lows. Most ASX listed companies chose to suspend forecast guidance at this time, since the outlook was unclear so it was patently unfair to set a 3 year LTI during this period which had the capacity to deliver very large windfall gains, when business returned to post-Covid normal. At the time the agreement was announced on 12 May 2020 the share closed at $8.66. At the time that the AGM was announced on 16 October 2020 the share price closed at $24.53. Kogan being an online only retailer is a net beneficiary of the pandemic and doubtless their risk management framework should have identified the potential arising from the pandemic. Hence the setting of the vesting conditions for options at the time they did was imprudent.

Kogan have achieved excellent returns for their shareholders since listing in 2016. The Kogan Board consider that it is in the best interest of shareholders that the two directors be retained by the company through a long-term incentive. The ASA agree with the rationale of a long-term incentive but that the long-term incentive that has been agreed is excessive and uncapped. We oppose the award and will vote accordingly.

Item 5.2	Approval of Grant Options to Mr David Shafer
ASA Vote	Against

Summary of ASA Position

Kogan is proposing to grant 2,400,000 options to CFO, Mr David Shafer that could be exercised in 2023.

The ASA will vote against the approval of grant options for the same reason outlined above for that of Mr Ruslan.

Item 6	Ratification of prior issue of Shares under the Placement
ASA Vote	For

Summary of ASA Position

The ASA will vote for the ratification of shares under the placement. In effect this has already occurred, and it would be more disruptive to all shareholders to vote against the issue and unwind the placement.

The ASA is concerned to ensure that companies do not disadvantage small retail shareholders when they raise capital. While the placement of 8,733,625 shares at $11.45 per share to institutional investors was to the benefit of institutional investors, Kogan retail shareholders were offered the opportunity to obtain shares under an SPP of only $20m.This disproportionally favoured the Institutional shareholders, and as we stated in the comments above, the scale back of applications from retail shareholders (who bid for $115m in their offer) was severe.