



Traversing turbulent times

Company/ASX Code	Metcash
AGM date	26 August 2020
Time and location	2.30pm (AEST) online
Registry	Boardroom Pty Ltd
Webcast	Yes
Poll or show of hands	Poll
Monitor	Pamela Murray-Jones assisted by Gary Barton
Pre AGM Meeting?	Yes with Chair Robert Murray and Helen Nash, Chair People and Culture Committee

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

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

Summary of ASA Position

The expertise of Board and management for most Australian companies has been put to the test in the past few months, but even more so with Metcash whose supply chains and independent stores were severely disrupted by the bush fires early in the year, quickly followed by the business disruptions caused by the COVID-19 pandemic and the announcement that the 7-Eleven contract would not be renewed with the new terms sought by 7-Eleven making it unprofitable. On top of this, they lost a valued Board member, Wai Tang to illness in February.

Unprepared as they were, the company has managed well in part because of their “Buy local” strategy. Despite additional costs, Food had started to show improvement prior to COVID-19, the first time Metcash has reported positive wholesale sales since 2012.

The move into Hardware has also been positive. Despite an overall 1.3% decline for the year, sales for the second half of the year were up 1.8%. With 2/3 of the business being in Trade, Metcash considers themselves the leader in Trade. Complementing this, the company is now seeking to acquire a 70% stake in Total Tools whose customers are mainly the builders’ subcontractors that require quality tools. The acquisition is subject to ACCC approval.

While the share price declined to \$2.49 at the end of the year, the decline of 13% was far less than many companies experienced, and the share price has since recovered. Dividends have been held steady with a small decline of 1cent.

The capital raising in April in response to COVID-19 had a dual purpose of ensuring the company remained in a strong financial position and providing the funds to pursue growth opportunities including the acquisition of Total Tools. It was fully subscribed.

Key Board or senior management changes

- A search for a director to replace the position vacated by Wai Tang is currently under way
- Peter Birtles is taking over the role of Chair of the Audit, Risk and Compliance Committee. The previous Chair, Tonianne Dwyer will remain on the Board
- Mark Laidlaw retired from Hardware and has been replaced by Annette Welsh who was an internal candidate
- Brad Soller, Group CFO is retiring and his successor, Alistair Bell was announced on 6 August. Mr Bell's most recent role was Group CFO at GrainCorp Ltd.

Summary

(As at FYE)	2020	2020 Pre AAS816 For Comparison	2019	2018	2017	2016
NPAT (\$m)	(56.8)	(45.9)	192.8	(\$148.2)	171.9	216.5
UPAT (\$m)	198.8	209.7	210.3	216.9	194.8	178.3
Share price (\$)	2.49	N/A	2.87	3.60	2.15	1.76
Dividend (cents)	12.5	12.5	13.5	13.00	04.5	nil
TSR (%)	(8.9%)	N/A	(16.5%)	73.5	24.7	32.3
EPS (cents)	(6.2)	(5.8)	20.8	(15.2)	17.9	23.3
CEO Total Remuneration	3.21	N/A	3.67	4.12 (overlap of CEOs)	3.49	2.98

For 2020 the CEO's total actual remuneration was 35 times the Australian Full time Adult Average Weekly Total Earnings based on November 2019 data from the Australian Bureau of Statistics.

Item 2	Re-election of Robert Murray
ASA Vote	For

Summary of ASA Position

ASA monitors believe that a stable Board during this period is crucial to the success of the company and ASA will be voting in favour of re-electing both directors

Rob Murray was first appointed to the Metcash Board in April 2015 and was elected Chairman of the Board in August 2015. He is an independent director who holds three other board positions. There is no apparent reason ASA would not support his re-election.

Item 3	Re-election of Tonianne Dwyer
ASA Vote	For

Summary of ASA Position

Tonianne joined the Metcash Board in 2014 and is an independent director. She has a heavy workload with five other roles. However, she has relinquished her role as Chair of the Audit, Risk and Compliance Committee and as noted previously, ASA monitors believe that a stable Board during this period is crucial to the success of the company.

We will question Tonianne on her workload, and how she will allocate her scarce time if the COVID-19 crisis escalates.

Item 3	Adoption of Remuneration Report
ASA Vote	Undecided

CEO remuneration framework (Statutory figures p.52)	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration (inc leave)	\$1.8	58.5%	\$1.8	32%
STI - Cash	\$0.6	19.5%	\$1.35	23.5%
STI - Equity	\$0.3	9.8%	\$1.35	23.5%
LTI	\$0.373	12.13%	\$1.2	21%
Total	\$3.073	100%	\$5.7	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.

Summary of ASA Position

This has been no ordinary year and the Board exercised its discretion in reflecting this in the CEO's remuneration with related cuts because of COVID-19 and the non-renewal of the 7-Eleven contract. There was no increase in either director or CEO fixed remuneration

Since last year there has also been some changes in the balance of cash to equity in the STI with 50% being in cash and 50% being paid in equity in a normal year. However, the Board exercised its discretion this year and that percentage was changed as a result, with a higher percentage being paid in cash. It should be noted there is no granting of LTI rights in 2020.

While ASA applauds the changes to the normal % to be awarded in equity and how incentives are calculated, and also appreciates the Board's exercising its discretion to ensure there was no increase in remuneration, the result is that the bulk of incentives is still being paid in cash. In addition, the LTI remains at 3 years rather than ASA's preferred 4 years and the Remuneration Report is dense and confusing.

It is clear that Metcash is attempting to modernise its remuneration packages in line with shareholder expectations and has also put a shareholding policy in place to ensure executives have skin in the game. However, the report and the outcome do not align to retail shareholder expectations and ASA remains undecided on its vote until we get further clarification from the Board at the AGM.

Item 4	Resolution to replace the constitution
ASA Vote	For

Summary of ASA Position

The changes to the constitution are changes to align it to current market practice such as allowing the Board to pay dividends via electronic means. The changes are not controversial and ASA sees no reason not to vote for the replacement.

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