



Metcash still facing considerable headwinds

Company/ASX Code	Metcash/MTS
AGM date	28 August 2019
Time and location	2.30pm, Wesley Conference Centre 220 Pitt Street Sydney, NSW
Registry	Boardroom Pty Limited
Webcast	No
Poll or show of hands	Poll
Monitor	Pamela Murray-Jones with co-monitor Gary Barton
Pre AGM Meeting?	Yes, with Chair Rob Murray and Director Helen Nash

Overview

Metcash is still suffering considerable headwinds particularly in the food business and with the imminent loss of a key customer, Drakes. who have built their own warehouse in South Australia (SA). Metcash will discontinue supply to the Drakes' SA stores from September 2019. However, the Chair noted that decline on the East Coast has now been halted and they have managed to reduce the decline in WA. They believe the move by Drakes in SA has consolidated customer commitment to Metcash there.

While the company continues to generate healthy cash flows, allowing for an increase in the dividend to 13.5 cents, growth has stagnated. The total revenue increased by only 1.75% and earnings before interest and tax (EBIT) was -1.4%. Share price, after a bounce from last year's lows, has once more declined.

Working Smarter has delivered savings of \$125m, the cost of which was approximately 50% of the annualised savings (actual was \$59m). However, the company is struggling to deliver much in the way of innovation through its MFuture strategy:

- convenience stores (which is a growing trend in food retail)
- increasing revenue from its IGA retailers through its Diamond Store Accelerator program
- increasing the spend per customer transaction in liquor by offering premium brands not offered by discount outlets
- and offering both premium services in its hardware retail outlets as well as a focus on trade in other stores

Key Board and senior management changes

The Board:

Anne Brennan is stepping down from the Board after only a year. The reason for this is conflicts of interest arose with her roles on the boards of Charter Hall (Metcash is now their largest customer) and Rabobank.

Fiona Balfour is retiring after 9 years on the Board and Helen Nash replaces her as the Chair of the People and Culture Committee (responsible for remuneration).

There will be two new directors up for election this year: Peter Birtles and Wai Tang.

Management:

In a move which signals the awareness of the challenges being faced by the company in terms of finding opportunities to grow the business, a new position of Chief Strategy and Transformation Officer was created and filled by Matt Havens in April.

Chris Baddock was appointed CEO of Liquor during the year.

ASA focus issues:

Skin in the Game: ASA has continued to lobby Metcash to enhance board and executive alignment with shareholders via shareholding requirements and we are pleased that Metcash implemented such a policy for directors in 2018. They have now announced they will be extending the policy to key management personnel in FY20.

Remuneration: Metcash continues to pay the short term incentive (STI) in cash though they have moved to a greater weighting for long-term incentive (LTI). However, pleasingly, they have taken shareholder concerns into account and from the 2020 financial year (FY20), STI will be paid partly in equity: 33% to be paid in equity for the CEO and 25% for other key management personnel (KMP).

Board Composition: The Board continues to have an appropriate gender balance.

Director Skill Sets: An undertaking was given at the meeting that all directors will speak to their election or re-election and address the skills they bring to the Board in terms of the diversity of skills and the current requirements of the company.

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

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	192.8	*(\$148.2)	171.9	216.5	(384.2)
UPAT (\$m)	210.3	*216.9	194.8	178.3	173.6
Share price (\$)	\$2.87	\$3.60	\$2.15	\$1.76	\$1.33
Dividend (cents)	13.5	13.00	04.5	nil	06.5
TSR (%)	(16%)	61.4	22.16	32.3	(49.8)
EPS (cents)	20.8	* (15.2)	17.9	23.3	(42.4)
CEO Total Remuneration (\$m)	3.67	4.12 [^]	3.49	2.98	2.49

[^]Overlap of CEOs with end of Ian Morrice's term and commencement of Jeff Adams in the role

*Note figures have been adjusted for previous years in line with the new accounting standards.

For 2019, the CEO's total actual remuneration was **42.12 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Item 2a	Election of Peter Birtles as a director
ASA Vote	For

Summary of ASA Position

As a Chartered Accountant and a Member of the Australian Institute of Company Directors, Mr Birtles brings the needed skill in finance to the Board as well as a strong background in retail. He will join the Audit, Risk and Compliance Committee and Nominations Committee.

ASA believes Mr Birtles is a suitable candidate for the Metcash Board.

Item 2b	Election of Wai Tang as a director
ASA Vote	For

Summary of ASA Position

Ms Tang brings experience in supply chain optimisation and innovation demonstrated by her success as former CEO for Peter Alexander Sleepwear.

She is a Fellow of the Australian Institute of Company Directors and a professional independent director. ASA considers her a suitable candidate for the Metcash Board.

Item 2c	Re-election of Helen Nash as a director
ASA Vote	For

Summary of ASA Position

This will be Ms Nash's second term on the Board and she has assumed the role of Chair of the People and Culture Committee following the retirement of Fiona Balfour. She is an experienced director and the ASA monitors were impressed with her understanding of the issues around remuneration, her clarity in explanation and her approach to retail shareholder concerns.

ASA considers her a suitable candidate for the Metcash Board.

Item 3	Adoption of Remuneration Report
ASA Vote	Undecided

Summary of ASA Position

CEO remuneration framework (statutory figures)

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.78	43	1.84	32
STI - Cash	1.20	29	2.70	47
STI - Equity	0	0	0	0
LTI	1.16	28	1.21	21
Total	4.14	100	5.74	100

Current remuneration does not align KMP’s remuneration to shareholder outcomes in the way ASA recommends. And we were disappointed with the increase in fixed remuneration and overall remuneration for the CEO in a year of minimal growth, and when few employees in the workforce have had any increase in their salaries. However, changes will be made in FY20 and given these changes and the Chair’s undertaking there would be no increase in fixed remuneration for FY20 despite many of the KMPs being paid below the market median, we remain undecided on our vote. We would like to hear more from Ms Nash at the AGM on the changes to STI and LTI and the commitment to reigning in increases in fixed remuneration before deciding.

Item 4	Approval of LTI grant to CEO/Managing Director Jeffery Adams
ASA Vote	For

Summary of ASA Position

Mr Adams will be granted 442,804 performance rights as part of his long-term incentive for FY20. The rights are granted by dividing his LTI opportunity of \$1.2m by the share price using volume weighted average price (VWAP) over the 20 trading days ending 30 April 2019 (\$2.71). ASA supports LTI grants so long as the performance criteria are adequate, and shares are issued at market price.

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

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