



## Powering at home, flickering abroad

<b>Company/ASX Code</b>	REA Group/REA
<b>AGM date</b>	21 November 2018
<b>Time and location</b>	2.00 PM at 511 Church St Richmond Victoria
<b>Registry</b>	Link Market Services
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Mike Robey assisted by Belinda White
<b>Pre AGM Meeting?</b>	14 November 2018

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

## Financial performance including dividends and shareholder returns

REA Group has four major segments, namely a) the real estate based Australian online businesses, b) a new Financial Services business operating in Australia, c) a suite of Asian online real estate businesses, operating in southern and south eastern Asia, and d) an investment in a US online real estate business. Aggregate results are excellent, with Revenue, earnings before interest tax depreciation and amortisation (EBITDA), net profit after tax (NPAT), earnings per share (EPS) and dividend all growing by 20% or a little more. In fact over the past 5 years, the average growth rate has been around 20% for all these major financial measures. The share price at year end was up 37% and total shareholder return (TSR) up a whopping 38.5%, mainly on the back of a large increase in share price. REA in 2018 was the darling of the ASX100. REA has shown an ability to create profitable new adjacencies in its Australian market in a very short time.

The business segment results are as follows:

1. The Australian Online real estate businesses, rea.com.au and realcommercial.com.au and the adjacent sites such as Flatmates.com.au account for 91% of revenue, 102% of EBITDA
2. The Australian Financial services business (brokering loans for real estate purchases) accounts for 3.6% of revenue and 2.3% of EBITDA
3. The Asian suite of businesses account for 5.5% of revenue and 0.6% of EBITDA
4. The US business, which is a 20% shareholding, shared with REA's major shareholder, News Corp (which has the remaining 80%) accounts for (-0.3%) of EBITDA. This is treated as an investment in the books, so no revenue appears in the accounts, but REA takes its share of any losses.

Group revenue grew a healthy 20% year on year to \$867.4M, 95% of which is from the Australian business. The Asian business which is billed as a strategic growth opportunity made its first profit and delivered 18% overall revenue growth, but this revenue appears to come from only the Thai, Indonesian and China sites, with the Indian, Malaysian, Singaporean and Hong Kong sites showing promising traffic growth but currently apparently running at a loss. North America has not performed well, with REA taking an increased share of loss this year. The ongoing loss in the North American market, despite a reported revenue growth of 15% is not addressed in detail in the financial report.

Dividends grew 20% to \$1.09 from 91c in the prior year.

The summary position is that the two Australian businesses are performing well, with the new Financial Services business gaining momentum after a very short time in the market. The expansion overseas has started to show some promise in parts of Asia, however this is a long game. The US market has a question mark over it.

**Key Board or senior management changes:**

John McGrath who was the only experienced Real Estate Director on the Board departed the board in January 2018.

Elizabeth Minogue left the company in September 2018.

Nick Dowling, well versed in real-estate, was appointed in May 2018, probably to replace McGrath.

**Summary**

(As at FYE)	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	253	206	253	210
UPAT (\$m)	280	274	255	200
Share price (\$)	\$90.87	66.41	59.50	39.22
Dividend (cents)	1.09	0.91	0.82	0.70
TSR (%)	38.5	13	54	-7
EPS (cents)	210.5	176.9	152.1	152.0
CEO total remuneration, actual (\$m)	3.447	2.368	1.765	1.870

For the 2018 financial year, the CEO's total actual remuneration was **40 times** the Australian Full time Adult Average Weekly Total Earnings based on May 2018 ABS data.

<b>Item 2</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

There are only two KMPs in REA, namely the CEO and CFO. The remuneration structure is as follows:

1. Fixed remuneration, including compulsory Superannuation, and regular benefits
2. Short-term incentive (STI), comprising measures of Revenue, EBITDA and personal KPI's
3. Long-term incentive (LTI), comprising measures of Revenue growth (50%), EPS growth (50%). The target value of the rights was calculated as the face value volume weighted average price (VWAP) for 5 days prior to the date of issue. This year's plan is the first using face value of shares. LTI from prior years, which will continue to vest up until 2020, used a Monte Carlo fair value method.

The STI outcome for the CEO of \$1,112,000 is above the target 100% performance (\$800,000) and below the maximum (\$1,600,000). The target business measures were not revealed, but given the business results of around 20% growth in both measures, they were evidently fair. The CFO percentage outcomes were similar.

The LTI outcome for the CEO for the current year is the vesting of 10,206 rights issued in 2014 (plan 2017), which amounted to \$911,000 at the time of vesting. Similarly 4,724 rights vested for the CFO at a value of \$422,000.

The proposed plan for 2021 is a 3 year plan using the same number of rights for each key management personnel (KMP) as the plan for last year (plan 2020), computed using VWAP for the 5 days prior to the end of FY 2018.

Remuneration tables do not state actual take home pay, so we have computed what we believe to be an accurate reflection of this.

The non-executive directors (NEDs) received no pay increase this year and the NED remuneration pool of \$1.07m is well below the \$1.5m maximum agreed at the last AGM, in part due to the fact that three of the eight Directors are News Corp appointees and receive no fees.

The Board composition has dropped below the ASA gender diversity guideline of 30% female this year with the retirement of Ms Panuccio. In addition, with Ms Conlon coming up for 12 years service in 2019, the Board will from that time have only two independent Directors according to the ASA guidelines, since Mr Amos and Mr Freudenstein both have well exceeded the 12 year service period.

<b>Item 3a</b>	<b>Re-election of Mr Nick Dowling as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Nick Dowling was appointed as a director in May 2018. He is also CEO of Jellis Craig Group, which is a major Melbourne real estate company. This is a prudent appointment as he brings real estate background from both an analyst's and CEO's viewpoint. This experience offsets the loss of experience with the departure of Mr McGrath. His corporate banking experience, where he served as the former Head of Real Estate and Business Banking at Macquarie Bank, will be helpful in navigating the current softening real estate markets.

<b>Item 3b</b>	<b>Re-election of Ms Kathleen Conlon as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms Kathleen Conlon has been a director of REA since 2007. Ms Conlon is also a Director and Chair of the Remuneration Committee and member of the Audit Committee of Lynas Corporation Limited (a resources company) and Director, Chair of the Remuneration Committee and member of the Compliance Committee of Aristocrat Leisure Limited (a gaming company). The ASA supports her re-election as she has already substantial experience with REA during the years of high growth. We note that Ms Conlon will have served 12 years in June 2019, part way through this term as Director, so by our guidelines will no longer be Independent.

<b>Item 3c</b>	<b>Re-election of Mr Hamish McLennan as a Director</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Mr McLennan was appointed as a director and chairman in 2012 whilst still employed by Ten Network Holdings, a company which is a subsidiary of the 61% majority shareholder of REA. He transitioned into the Chairman's role in 2015 without any break in connection. Hence by our guidelines he has never been independent. He is listed in the annual report as a nominee director of News Corp Australia. In fact he holds the equivalent of only 20% of his annual director fees in shares, so even still acts like an employee. This shareholding is far below the commitment levels sought by ASA (100% of annual Remuneration) which are "skin in the game" measures. The ASA have raised this issue at the past two AGMs at least, to no avail. He currently holds directorships with Magellan Financial Group and the Garvin Institute of Medical Research (Fundraising Board).

As a consequence of both his News Corp dependence and low share holding we do not support his reappointment, since we would like to see a truly independent Chairperson or a formally acknowledged lead independent director. This is not to say we find fault in his performance in the role; indeed he has been in the seat during the past few years of stellar growth.

<b>Item 4</b>	<b>Grant of performance rights to CEO</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The resolution is to grant \$1,100,000 in performance rights for the LTI plan (plan 2021) to the CEO. This equates to 11,990 rights, unchanged the previous year's LTI plan. This is computed from the VWAP for REA shares in the 5 days prior to Jul 1 2018 (\$91.74) and is in line with the published plan in the Annual report.

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

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