Australian Shareholders' Association

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Happy 50th birthday Super Retail Group

Company/ASX Code	Super Retail Group / SUL
AGM date	Thursday, 27 October 2022
Time and location	11.30am (AEST) Offices of PricewaterhouseCoopers, Kirra Room, Level 22, 480 Queen Street, Brisbane
Registry	Link Market Services
Type of meeting	Physical with a view only webcast
Poll or show of hands	Poll on all items
Monitor	Paul Donohue, Peter McInally & Fiona Balzer
Pre AGM Meeting?	Yes, with Chairs of Board, Rem Committee and Audit Committee, Sally Pitkin, Peter Everingham and Howard Mowlem. Also, Robert Wruck, Head of Investor Relations

Monitor Shareholding: One individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

- Concerns we raised last year about the CEO remuneration have not been addressed.
- The chair's fee seems high compared to similarly sized companies.
- Ms Judith Swales is a full time CEO at Fonterra, which may impact her capacity to be a director.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of the remuneration report	For
3	Election of Ms Judith Swales as a director	Undecided
4	Approval of grant of performance rights to a Group MD & CEO	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Company overview

In 1972, Reg and Hazel Rowe started selling automotive accessories from their home by mail-order. Fifty years later, that business is now one of largest retailers in Australia and New Zealand with four well known brands: Supercheap Auto, rebel, BCF and Macpac, each targeting a different customer segment.

The Group is pursuing an omni channel strategy. Customers can browse in person at one of 716 stores, shop online with home delivery or use “click & collect”, in which they order online but pick up the products from the store.

Reporting Period Overview

The online presence was critical during the COVID-19 pandemic and sales from that channel across the Group are up 44% this financial year (FY) to $601 million. The company continues to invest significantly in this area and is building capabilities to personalise the customer experience for the nine million active loyalty club members. These customers currently account for 70% of Group sales.

Some retailers have been blindsided by supply chain issues, but Super Retail Group seem to have navigated these choppy waters. They proactively increased inventory during COVID-19 allowing them to benefit from rebounding consumer demand. Stock levels should return to normal as the residual effect of the pandemic wanes.

The next challenge for the Group may be inflationary pressures and a slowing economy. They note increases in their supply chain costs, rent and wages at a time when consumers are feeling the pinch of rising interest rates. Having said that, most of the items they sell are priced under $100, so they are confident of continued support from their loyal customer base.

Governance and culture

Super Retail Group has a well established corporate governance framework which is what you would expect given their Chair, Dr Sally Pitkin, leads the Corporate Governance Committee at the Australian Institute of Company Directors. They publish a comprehensive Corporate Governance Statement on their website which covers all the usual policies and committees.

Surprisingly, their board skills matrix is not actually a matrix. Instead of showing each director’s proficiency in a competency, they present a spectrum summarising the Board’s collective skills. This shows, for example, that only 43% of the Board have significant capability in most aspects of retailing but it does not explain which directors are lacking these skills.

We discussed the board skills matrix at our pre-AGM meeting. An external consultant has been engaged to review the matrix for FY23 so, perhaps, they will recommend a full disclosure matrix.

The Workplace Gender Equality Agency (WGEA) cited Super Retail Group as an “Employer of Choice for Gender Equality” for the second consecutive period. They are one of only two Australian retailers to have achieved this recognition in FY22. The other being Woolworths.

Their commitment to gender equality was recently strengthened with a 2025 goal of 40% female, 40% male & 20% any gender in Board, executive and senior leadership positions. Given they already have 37.5% female representation on the Board, 45.5% executive and 37.3% senior leaders they are well on the way to that target.

Financial performance

Super Retail Group's financial performance was satisfactory given the difficult operating environment with pandemic, adverse weather, inflation and rising interest rates.

FY22 included 53 weeks compared to 52 in FY21 which makes year on year comparisons difficult. For example, Group sales were up 2.8% to $3.55 billion but this drops to only 1% if you adjust for the extra week.

Operating cash flow was down 43% on last financial year while net profit after tax (NPAT), basic earnings per share and the full year dividend were all down about 20%. It should be remembered that these comparisons are against last year's record result and those metrics are all well above their pre-pandemic levels.

Key events

The Group opened 21 new stores in the past 12 months and closed 3, a net addition of 18. This takes the total number of stores to 716 across Australia and New Zealand.

Two non-core investments were adjusted during the period. Their stake in Autoguru, an online car servicing portal, was written down by $5.9 million and, although SUL retains a stake, it is not expected to contribute positively or negatively to future earnings. The joint venture Autocrew Australia was wound up after it failed to open more than two full-service auto workshops in Greater Sydney.

Key Board or senior management changes

There were some important changes to the Board and senior management during the year.

1 November 2021 - Judith Swales joined the board bringing more than 20 years experience in retail, sales, marketing and manufacturing roles. She is currently the Chief Executive Officer - Global Markets at Fonterra and previously held director / executive positions at Heinz Australia, Goodyear Dunlop Tyres Australia, Angus & Roberston & WH Smith Australia.

24 October 2021 - Alex Brandon stepped down as Chief Executive Officer of Macpac.

25 October 2021 - Cathy Seaholme took over as Managing Director of Macpac. Cathy has held senior leadership roles with many retail organisations. Most recently she was General Manager Retail Operations for Priceline Pharmacy and, before that, General Manager for The Body Shop Australia.

ASA focus issues (not discussed elsewhere in this report)

Sustainability

Super Retail Group has a strong commitment to sustainability and in FY22 refreshed their Sustainability Framework to deliver better outcomes in five areas: Team, Community, Responsible Sourcing, Circular Economy and Climate.

During the year, the Group's greenhouse gas emission targets were reset with a new goal of net zero by 2030 in scope 1 (their operations) and scope 2 (their energy usage). They are making progress towards this goal with a 2.4% drop in FY22 and an almost 17% reduction since they started tracking emissions in FY17.

They have a good track record on recycling with 58% of waste from stores, offices and distribution centres being diverted from land fill. During the year, Super Cheap Auto helped customers recycle oil (1m+ litres), and batteries (91k+) while Macpac and Rebel collected more than 56k pairs of shoes.

Macpac's "refuse a bag" program donates 20c to charity each time a customer opts not to put their purchase in a shopping bag. Since the scheme started in 2018, more than a million bags have been declined.

All of this attention to the environment has not gone unnoticed. Australian Council of Superannuation Investors rated Super Retail Group as "leading" for their ESG reporting. Monash University put the Group in the top 18 ASX300 companies for their stance on Modern Slavery. They are a member of the S&P Global Sustainability Yearbook 2022. Their Dow Jones Sustainability Index score improved from 60 to 62 in FY22, putting them in the top quartile of DJSI retail sector.

Macpac was recognised as the National Retail Association's 2021 Sustainability Champion of the Year for its commitment to positive corporate citizenship.

Workplace Safety

The Group's Total Recordable Injury Frequency Rate (TRIFR) increased by 13% in FY22 to 10.7 which, we were told at the pre-AGM meeting, is good for a retailer. At least one large retailer has a rate of 13+. The company has a strong safety team in place and is taking proactive steps to reduce this injury rate.

Three quarters of recorded injuries were caused by manual handling, with COVID-19 being a contributing risk factor for this type of injury. The link being that COVID-19 related staff absences put more workload on other team members and new staff's lack of familiarity with the work environment may have lead to mishaps.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m) Statutory	241.1	301.1	110.2	139.2	127.3
UPAT ($m) Normalised	244.1	306.8	154.1	152.5	145.3
Share price ($)	8.49	12.91	8.05	8.23	8.10
Dividend (cents)	70.0	88.0	19.5	50.0	49.0
Simple TSR (%)	-28.8%	71.3%	0.2%	7.8%	4.8%
EPS (cents) Basic	106.8	133.4	55.8	70.6	65.0
CEO total remuneration ($m) *	3.80	3.35	1.99	1.58	1.50

** The table shows the CEO remuneration calculated in accordance with Australian Accounting Standards.*

Adoption of Remuneration Report

There were a few items relating to CEO remuneration that were contrary to ASA guidelines. Some of these were raised by ASA last year and we are disappointed not to see significant changes.

- Target CEO remuneration was close to 65% cash and 35% equity. For FY23, this will move to approximately 55% cash and 45% equity but by growing the LTI part of the pie rather than by slicing it differently. The actual CEO remuneration was 72% cash and 28% equity. ASA prefers a larger proportion of remuneration to be equity.
- The STI mix is 70% cash and 30% equity with 50% of the equity deferred for one year and the remainder for two years. ASA prefers at least 50% of any STI award to be paid in equity.
- The LTI vesting periods are 50% after 3 years and the remainder after 4 years. ASA prefers LTI equity to vest after 4 to 5 years.
- Target CEO remuneration in FY22 was approximately $3.2m. The target will increase by almost $750k or 21% to $4.2m in FY23.

It became clear at the pre-AGM meeting that while the board understood ASA's concerns and appreciated our feedback, they felt the FY22 & FY23 CEO remuneration was appropriate when compared to similar-sized ASX-listed companies and industry peers.

Board remuneration has increased during the year. The chair's base fee rose by 15% to $360K while other directors received a 3% increase to $145K. ASA has access to market research from Godfrey Remuneration Group which analyses board and executive remuneration. This shows the Super Retail Group chair's base salary is about $100k more than the market average for a similarly sized company. The directors pay, while not excessive, is in the top percentile for similar companies.

For comparison, the chair of JB Hi-Fi (a company with double the market capitalisation) receives $318K and for Lovisa (slightly larger market cap) it is $150K. It should be noted that the chair of Bapcor, a car parts business with similar market capitalisation, is paid $362k.

The board engaged an independent consultancy to perform benchmarking and advise on appropriate board remuneration. It was also pointed out that the chair's fee has not changed in several years, so they felt an increase was appropriate.

Despite the reservations mentioned above, ASA will be voting in favour of the remuneration report.

Election and re-election of directors

Judith Swales

Ms Swales is a retail, sales, marketing and manufacturing professional with more than 20 years' experience in high profile, global, consumer facing companies. Judith is currently a full time executive at Fonterra. She has previously held a number of board and executive positions.

Her skills and experience seem like a good fit for the board however, we have concerns about her workload. She was recently promoted be Fonterra's CEO Global Markets with a remit covering Asia Pacific, Americas, Middle East and Africa. This seems like a considerable increase in scope from her previous role and, despite the assurances of the board, it seems possible the demands of the CEO role might impact her capacity to be a director.

We understand that Ms Swales will be speaking about her re-election at the AGM and we will take that opportunity to raise the issue of workload. Until then, we are undecided on this resolution.

Approval to issue rights to the CEO

This resolution relates to granting long term incentive rights to the CEO, Anthony Heraghty for FY23. Because Mr Heraghty is also a director shareholder approval must be obtained to grant the rights.

ASA will vote in favour of this resolution.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FYXX	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.35	42%	1.35	30%
STI - Cash	0.80	25%	1.20	27%
STI - Equity	0.34	11%	0.51	12%
LTI	0.67	21%	1.35	30%
Total	3.19	100%	4.44	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.

Some observations on the remuneration report.

- Last financial year's remuneration report received a 97.2% yes vote from shareholders.
- Due to COVID-19, Super Retail Group implemented special remuneration arrangements in the last two financial years and reporting on these complicates some aspects of the remuneration report. The remuneration should return to a more normal practice in FY23.
- The STI hurdles include weighted measures covering financial performance, business improvement, customer and people / risk considerations. Most of these were reach either at the target or stretch level with the exception of working capital efficiency which was between threshold and target. This resulted in a CEO performance score of 130.5 where target is 100 and stretch is 150.
- The STI target for Net Profit Before Tax (NPBT) for FY22 was set at $295M which was 32% **less** than FY21. Giving the CEO a goal of reducing profit by a third seems counterproductive until you consider that FY21's NPBT of $437M was an anomaly due to the elevated levels of retail spending during this phase of the pandemic. When compared with FY20, the target was an increase of 35% which is more sensible.
- Two LTI grants were approved in FY22. The performance hurdles for the FY20 grant related to normalised EPS and ROC for the three financial years ending 2 July 2022. These were 96.7% met.
- Target CEO remuneration in FY22 was close to 65% cash and 35% equity. For FY23, this will move to approximately 55% cash and 45% equity. At face value, this seems like a step in the right direction however it is achieved by growing the pie as well as slicing it differently. The biggest change seems to be a larger LTI which will make the increased cash components appear smaller in comparison.

- The cash vs equity split that the CEO actually received in FY22 was 72% cash and 28% equity.
- Target CEO remuneration in FY22 was approximately $3.2m although the amount he actually received was $3.45m. The target will increase by almost $750k or 21% to $4.2m in FY23.
- Board remuneration has increased. Chair’s base fee rose by 15% to $360K while other Directors received a 3% increase to $145K. Membership of committees results in additional fees.
- ASA has access to market research from Godfrey Remuneration Group which analyses board remuneration from similarly sized companies. This shows the SUL chairperson is paid about $100K more than the market average. The directors pay, while not excessive, is in the top percentile for similar companies.
- Minimum securities holding policy requires NEDs to hold shares equivalent to their annual base fees. The time period for reaching this level was reduced from five years to three. No change to the period for Executive KMP.
- Of the directors, Pitkin, Everingham, Mowlem and Rowe all met the minimum securities requirement. Swales only joined the board in November 2021 and already acquired 5,925 shares by the EOFY. Chaplain has acquired about 5,000 shares each year since 2020 and is on track to reach the threshold.
- The minimum securities holding policy for key executives was also tweaked. The time period was left at five years and the multiple was unchanged at 150% base salary for CEO and 100% for other KMP. The change was to allow unvested equity (such as unvested performance rights) to be counted towards the target as long as it is no longer subject to performance hurdles.
- The CEO (Heraghty) and CFO (Burns) have both reached the threshold. The other KMP have not been with the company for five years yet so are not required to have a minimum shareholding. Having said that, all but one of them have accumulated enough shares to be compliant. The Macpac MD (Cathy Seaholme) only joined the Group in November 2021 and held no shares at the end of FY.