

Kmart's Anco products a drawcard

Company/ASX Code	Wesfarmers Limited (WES)
AGM time and date	1pm AWST Thursday, 31 October 2024 Products and service exhibition opens prior to the AGM from 11am
Location	Perth Convention Centre, Mounts Bay Road, Perth WA
Registry	Computershare
Type of meeting	Hybrid
Monitor	Geoff Read with Ian Berry
Pre-AGM Meeting	Yes, with the chairman Michael Chaney, rem. chair Michael Roche, company secretary and investor relations.

Monitor Shareholding: The persons who prepared this report have an interest in this company.

1. How we intend to vote

No.	Resolution description	
2a	Re-election of a director Alison Watkins.	For
2b	Election of a director Kathryn Munnings	For
2c	Election of a director Friedrich (Tom) von Oertzen.	For
3	Increase in the remuneration pool for non-executive directors.	For
4	Adoption of the remuneration report.	For
5	Grant of KEEPP shares to the Group Managing Director.	For

2. Summary of Issues and Voting Intentions for AGM.

- Kmart has a home brand product line named ANCO. The company is pursuing expansion of this product range into chains of stores in Asia and North America. Initial efforts have received positive results.
- Sales of lithium and spodumene have continued although there is considerable volatility in price. Wesfarmers anticipates that the Kwinana refinery will be operational towards the end of 2025 and that the first sales of refined Lithium Hydroxide will be in the early months of 2026.
- Wesfarmers has traditionally paid its dividend in early October each year. We will ask the company if the dividend can be paid in September.

3. Matters Considered

Accounts and reports

In 2024 Wesfarmers produced a profit of \$2.6 billion on turnover of \$44.2 billion, up 3.7% on the previous year. This equated to a return on equity of 31.3%.

Dividends for the year totalled \$1.98 per share being 3.7% above the prior year.

Bunnings was impacted by a downturn in building activity which restrained its normal strong growth. It actually improved its return on capital employed from 65.4% to 69.2%. Activity is increasing in the first quarter of the 2025 financial year.

Kmart was the star performer over 2024. Margin increased from 47% to 65.7%. Kmart has repositioned itself in the market and is seen as offering value for money. This is extremely useful in the context of current cost of living pressures. Rationalisation of overheads in the context of back-office costs with Target have contributed as well. The development of new product under the ANCO brand is also showing potential and may result in global utilisation of these products by other entities with profit flowing to the group.

The chemical, energy and fertiliser (CEF) division reported lower revenue and profits as a result of lower ammonia prices. ROCE fell from 21.6% to 13.4%. This division is absorbing major capital expenditure on the production of the lithium hydroxide plant. The present low price of lithium, if continued, will impact on the return from this plant when production commences in 2026. However, the alternative products in the lithium value chain will offset this to a degree.

Officeworks results were steady with slight improved returns.

The industrial and safety division was fairly steady in terms of revenue and improved profitability by about 9%. In a pre-AGM meeting the chairman told us that there was a 5-year performance improvement plan in place for this division.

Health is a new division with revenue of \$5.6 billion and EBIT of \$50 million. The division contains retail and wholesale pharmaceutical sales and aesthetics. There are strong competitors in this segment but Wesfarmers believes it can build its business and take advantage of good margins especially in health and beauty lines. With an ageing population there are good prospects going forward. In a pre-AGM meeting the chairman told us that there was a 5-year plan in place for this division.

Wesfarmers faces some challenges but in overall terms the future looks bright. Its diversification over several industries is advantageous in increasing and maintaining profitability.

See the table below for the divisional returns and capital components. ROCE is return on capital employed.

Division	Revenue \$ Billion	EBIT \$ Billion	Funds Employed \$ Billion	ROCE %	Cash CAPEX \$ Million
Bunnings	11.968	2.251	3.254	69.2	268
Kmart	11.107	0.958	1.458	65.7	136
CEF	2.747	0.440	3.292	13.4	447
Officeworks	3.434	0.208	1.114	18.7	64
Industrial and Safety	2.022	109	1.308	8.3	79
Health	5.624	0.050	1.547	3.2	38
One Digital	0.524	-0.096	-	-	5
Total Group	44.2	3.753	-	31.3	1044

Summary financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	2557	2465	2352	2380	1697
UPAT (\$m)	2557	2465	2352	2421	2083
Share price (\$)	65.18	49.34	41.91	59.10	44.83
Dividend (cents)	1.94	191	180	178	170
Simple TSR (%)	36	22.3	-22.8*	35.8	28.4
EPS (cents)	225.7	217.8	207.8	210.4	150
CEO total remuneration, actual (\$m)	7.117	8.175	7.951	6.934	7.763

*Simple TSR adjusted for 2022 to include the return of capital.

Director Changes

Two directors will retire at the AGM. Ms Vanessa Wallace has been on the board since 2010 and is the longest serving current director. Mr Anil Sabharwal has only been on the board since 2021.

Governance

Wesfarmers is a well governed company and we have no issues with this company. The board members have a balance of all the skills necessary, and gender balance at the board and executive level is satisfactory.

Structural changes

In May 2024 Wesfarmers announced that it had agreed to sell its LPG and LNG distribution business. The transaction is expected to conclude in early 2025. The Kleenheat retail business is not included in the sale.

4. Rationale for Voting Intentions

Resolution 2a Re-election of a director Ms Alison Watkins FOR

Ms Watkins is an independent director who joined the board of WES in September 2021. She had an extensive executive career with Coca Cola, Graincorp and ANZ bank. She is currently a director of CSL and is a member of the Reserve Bank board. The ASA supports her re-election.

Resolution 2b Election of a director Ms Kathryn Munnings FOR

Ms Munnings joined the board of WES 3 months ago. Her recent executive experience was with Virtus health, Ramsay health, and Transfield (now Vertia). She holds dual qualifications in nursing and law. We look forward to her contribution to the health division and WES generally. We support her election. She is an independent director.

Resolution 2c Election of a director Mr Friedrich (Tom) von Oertzen FOR

Mr von Oertzen is an independent director who joined the board in October 2024. He has an extensive background in business consulting, specifically with the Boston Consulting Group where he specialised in corporate and digital innovation, including in the retail sector. We look forward to seeing his contribution to the board of WES. We support his election.

Resolution 3 Increase in the remuneration pool for non-executive directors. FOR

The board is seeking approval to increase the maximum aggregate amount which may be paid to the non-executive directors from \$3.6M to \$4.0M pa. This is known as the board fee pool. It was last increased nine years ago in 2015. In the current financial year the aggregate amount paid to the directors was \$3.056M. The board may increase by one or two members and it is sensible to have some headroom in the fee pool. The proposed amount seems sensible for a company and board of this size and complexity. The board proposes to conduct a review of board fees during the 2025 year. Board fees did not change in the 2024 year.

We will vote undirected proxies in FOR this resolution.

Resolution 4 Adoption of the remuneration report. FOR

The remuneration report is clear and comprehensive. It is also complicated due to the nature of the KEEPP executive remuneration plan. ASA has requested Wesfarmers to provide a table showing the actual take home pay of the key executives. Wesfarmers has declined our request many times stating that there is no accounting standard for this information and that the long-term nature of this remuneration scheme makes this unrepresentative. We have noted that there is an ATO standard for this information and that other complex companies manage to publish this information.

With some searching and analysis, it is possible to make a good estimate of the take home pay for the CEO. \$2.64M was paid in cash and benefits, plus he will receive \$3.08M in deferred shares subject to shareholder approval, plus he received 24,580 KEEPP performance shares from FY2020.

If we assume a value of \$51 per share at the time of vesting this means his total take home pay for 30 June 2024 was approximately \$6.97M.

Using the same method his take home pay for 2023 was estimated at \$9.7M.

We note that there are no general pay rises for directors and executives this year. The CEO's fixed base pay increased from \$2.5M to \$2.6M on 1 October 2023.

There is a performance scorecard which is used to assess the performance of each member of the executive key management personnel and feeds into the remuneration outcomes. This year the safety performance below target. Senior executives received performance score between 62% and 68%, CEO 63%.

Overall, the KEEPP performance shares are designed to reward executives for achieving strategic outcomes which result in long term shareholder returns.

This year we will vote open proxies FOR the remuneration report.

Resolution 5 Grant of KEEPP deferred shares and KEEPP performance shares to the Group Managing Director. FOR

It is proposed to allocate the CEO a share-based award valued at \$6.16M (from a potential maximum of \$7.8M) comprising \$3.08M for deferred shares and \$3.08M for performance shares. The number of shares allocated will be decided by dividing the dollar amount by the VWAP price of the shares on the ASX during the period from 3 September 2024 to 16 September 2024. The CEO does not receive a cash incentive for the annual performance results.

The deferred shares will vest over 4, 5 and 6-year periods and cannot be sold under normal conditions.

The performance shares have financial and strategic performance conditions. The number of performance shares that vest for the CEO will depend on the total shareholder returns for the four-year period ending on 30 June 2028 (80% weighting) and performance against a portfolio management and investment outcomes condition (20% weighting).

We will vote open proxies in favour of the resolution.

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Appendix 1

Remuneration framework detail for the Group Managing Director

CEO rem. Framework for FY2024	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.6	33.3%	2.6	25%
STI - Cash	0	0%	0	0%
Deferred Shares	2.6	33.3%	3.9	37.5%
Performance Shares	2.6	33.3%	3.9	37.5%
Total	7.8	100.0%	10.4	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 remuneration framework set a maximum opportunity amount, but not all.