Challenging environment for WOW

Company/ASX Code	Woolworths Group Limited/WOW
AGM time and date	10 am AEDT Thursday, 31 October 2024
Location	Woolworths Support Office, 1 Woolworths Way, Bella Vista, NSW
Registry	Link Market Services Limited
Type of meeting	Hybrid https://web.lumiconnect.com/#/381341731
Monitor	Julieanne Mills and Don Adams
Pre-AGM Meeting	Yes, with Chairman: Scott Perkins, NEDs: Maxine Brenner, Holly Kramer, Investor Relations: Paul Van Meurs and Company Secretary: Dom Millgate.

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	To adopt the remuneration report	For
3 a	To re-elect Mr Maxine Brenner as a director	For
3 b	To re-elect Mr Phillip Chronican as a director	For
4	Managing Director/CEO F25 Long Term Incentive Grant	For
5	Conditional Spill Resolution	Against
6 a	Constitutional change	Against
6 b	Farmed seafood reporting	Against
6 c	Farmed seafood sourcing	Against

2. Summary of Issues and Voting Intentions for AGM

It has been a challenging centenary year for Woolworths (WOW) with the cost of living and food inflation impacting sales and consumer behaviour. While inflation has been moderating from the December 2022 peak, consumers are increasingly feeling pressured, largely due to the increase in rents and mortgages. This in turn has led to increased media and political focus on the grocery business with 10 Government inquiries into WOW. Polarisation in community expectations on the role of business in social issues are also playing out, which in turn had some impact on Q3 sales and an increase in abusive behaviour towards team members.

WOW has quickly reset the price mechanics in Q4 to focus on everyday low prices but is also being squeezed by its increased operating costs with wages up 17% since 2020, raw material, freight, lease, fuel and energy increases, along with higher interest and tax. There have also been 205 days of weather-related disruptions to the supply chain emphasising the impact of climate resilience on the business. Q4 has seen a recovery from a disappointing Q3.

Alongside this are increasing expectations attached to WOWs commitment to climate and nature, with reductions in their scope 1, 2 & 3 emissions and modern slavery expectations.

Considering this operating environment, the results have been reasonably good largely due to the success of the adjacent businesses with e-commerce (Woolies X), the retail media business (Cartology), and data analysis platform (wiq), all performing well.

It is pleasing to see the adjustments to remuneration safety measures that now include a fatality gateway, and the reintroduction of total recordable injury frequency rate (TRIFR) into the scoreboard, after last year's first strike against the remuneration report. The results of investigations into the two fatalities last year are not due until 2025 but in the meanwhile, improvements have been made to safety measures and training. We expect that there will be remuneration consequences if any responsibility is found for the company or executives. The board has discretion to withhold or adjust the deferred F23 STI if appropriate.

Issues discussed with WOW:

- Safety and Death inquiry results, remuneration implications, changes to safety practices, rise in customer aggression.
- Reputation and Trust: the numerous govt inquiries, cost of living, divestment, inflationary pressures, refocus on value.
- NZ progress.
- Sustainability issues: soft plastics recycling, salmon farming, increased scrutiny, TNFD reporting and biodiversity.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT ($m)	108*	1618	1547	1606	938
UPAT ($m)	1711	1721	1514	1504	1249
Share price ($)	33.79	39.73	35.60	38.13	37.28
Dividend (cents)	144	104	92	108	94
Simple TSR (%)	(12.3)	14.4	(4.2)	21.9	15.3
EPS (cents)	8.9	133	127	128	na
CEO total remuneration, actual ($m)	3.97	8.65	7.39	10.82	9.45

*impacted by NZ impairment ($1,505m) and EDV sale and loss of significant influence ($209m) as reported at the half year.

The NPAT, UPAT, 2021 share price, and EPS have been adjusted from the originally reported values to eliminate the effect of the Endeavour spin-off. 2022 TSR was calculated on a continuing basis, ignoring the substantial value to shareholders of the Endeavour spin-off.

For the 2024 year the CEOs actual remuneration was 39 times the Australian Fulltime Adult Average Weekly Total Earnings (based on May 2024 data from the Australian Bureau of Statistics)

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Financial Performance

Group Sales increased 3.7% (adjusted for the 53-week year) to $67.9bn with a slowing in the 2H. Group underlying profit (before significant items) was flat at $1,711m.

Australian food, by far largest part of the business, revenue increased by 3.7% normalised to $50.7bn. A large part of the growth was due to Woolies X contributing normalised growth of 19.8%, half of Australian food sales growth and ¾ of EBIT growth. E-com X sales of $6,226m increased 20.2 % with 13.4% penetration driven by same day and on demand delivery.
New stores, upgrades to address stock loss, and staff security saw improvements and digital shelf labels reduced time and materials in labelling.

B2B sales grew 6% to $4,589m with PFD performing well with overall growth of 9%. AGW has now exited the unprofitable meat sales that were impacting these results.

Big W had a decline of 3.9% in Sales to $4.7bn with EBIT at $14m, a substantial drop of 90% due to reduced discretionary spending, transformation costs and slower sales in pets and baby. A clothing reset will see a new reduced range, lower prices and focus on fit and a new Health and Beauty shop in shop are part of a transformation plan. We will see if this improves performance. Big W has been a challenge for WOW for several years now, with the exception of the COVID period.

NZ supermarkets EBIT decreased 57% to $108m due to higher wages, increased competition, and value focus of customers. Wages are still under pressure with further increases still on the table. Christchurch Fresh DC opened in Feb 24 and this is expected to yield cost improvements going forward. The Woolworths NZ rebranding of 72 stores, introduction of Everyday Rewards program, renewals and store closures are showing some green shoots, but it has some way to go.

Everyday Rewards continues to grow and has now reached 9.8 million members and is driving customers to personalised rewards and more loyalty.

Governance and culture

WOW has seen and experienced the polarisation of community expectations on the role of business in societal issues. Balancing the expectations of all stakeholders is getting increasingly challenging. The cost of living has seen accusations of "price gouging" from both sides of politics and numerous inquiries. (See below). It has also seen increased attacks on employees. WOW is addressing the safety of staff by investing $35m in wearable cameras, CCTV and personal alarms. They will also vigorously address the inquiries. This is reflected in the significant fall in voice of customer and net promoter scores to 45, and a lower RepTrak result of 74.8.

WOW has calculated a $580m net benefit to the community in F24. It is working to reduce waste with 80% diverted from landfill. Partnering with Oz Harvest, Good 360, Salvos and Landcare, they donated 36 million meals in FY24.

Safety has been an issue with TRIFR increasing 11%, mostly due to manual handling slips and trips, while LTIFR remained stable. There have been investments in analysis of tasks with new initiatives that make tasks easier and lower safety risks.

A lot has improved over the past 100 years at WOW, especially in regard to gender with 67% KMP, 41% Senior leadership roles and 56% of the board female. They should be applauded for these results. Platinum status for AWEI for LGBTQ+ inclusion is also significant. WOW gender pay gap of 5.7% while not at the target of parity, is significantly below the Australian median.

Currently 2.4% of employees identify as indigenous, a fall from F23 of 2.6%, and 11.2% of employees in NZ are indigenous. A First Nations employment roadmap has been developed to target recruitment, leadership and cultural safety.

Key events

A 5% sale of EDV shares in May saw the release of $500m in franking credits through a special dividend of 40c per share to shareholders.

WOW announced in September 2024 the block sale of the final 4.1% of Endeavour shareholding for $5.23 per share with proceeds of $383m going to the acquisition of the remaining 35% of PFD foods.

January purchase of 55% equity in Petstock Group with the forced sale of some stores to comply with ACCC requirements.

The Moorebank DC and Moorebank CDC are due for completion in 2025.

Key board or senior management changes

Brad Banducci retired on 1 September after 8.5 years as CEO having seen Woolworths through a major cultural transformation, COVID, implementation of digital transformation, and the build of distribution centres. This is a well-run company and one that reflects progressive management and governance culture. It is not perfect, but it is trying to do its best by all stakeholders and Brad has had a lot to do with that. The recent inquiries, consequential reputational damage and media performance aside he has been a remarkable CEO.

Amanda Bardwell was selected as the new CEO after an external international search. As an internal appointment she has led the Woolies X transformation and built it into a $7bn business. She has spent 30 years at WOW and is well versed in many areas of the business. The company says that she will be well supported by the board in facing the difficult inquiries to which the company has become subject.

New group company secretary Dom Milgate has replaced Kate Eastoe.

Natalie Davis MD WOW supermarkets resigned in June and will leave in September 24. A search for her replacement is underway, in the interim Paul Harker and Jeanette Fenske will report to Amanda Bardwell.

Sustainability/ESG

WOW is making good progress with sustainability. It has updated and increased its Scope 1,2 & 3 targets for a 1.5 pathway with Science Based Target initiative (SBTi) validation. It now has a scope 1 & 2 target of 80% reduction in greenhouse gas (GHG) emissions by 2030 and 90% by 2045 from a new F23 baseline (reflecting changes to WOW including sale of EDV and Quantium purchase).

It will have 100% renewable energy by 2025 with renewable power purchase agreements in place. $77m has been spent on energy efficient initiatives including EV home delivery with 73 vehicles in F24 up from 22 in F23, installation of 278 solar systems and low carbon refrigerants in 100 stores.

Scope 3 emissions, which make up 95% of emissions, will rely on collaborations with its suppliers. WOW has set targets of 55% emissions for energy and industrial, and 40% emissions for forestry, land and agriculture (FLAG) by 2033.

A value chain emissions program was trialled in F24 with 78 suppliers, representing 25% of their group supply, to help educate and collaborate on an integrated data system. They are investing in technology to support net zero outcomes through their venture capital fund W23 global.

WOW are actively supporting sustainable and regenerative agricultural practices and are developing awareness of the impact on nature through Taskforce Nature Financial Disclosures (TNFD). In F24 coffee, tea and cocoa own brand products are now 100% sustainably sourced. Deforestation goals have been set for agriculture.

An Internal Shadow Carbon Price is now used for investment decisions.

Plastics and packaging issues are still ongoing with soft plastics recycling unresolved, other issues include the sustainability of farmed salmon suppliers, and agriculture and beef deforestation. WOW is aware of these issues and working on them.

WOW is prepared for the Australian Sustainability Reporting Standards (ASRS) which come into effect from January 2025.

ASA focus issues

Reputation and trust are indicators of business success and directly impact profit. The impact on the business of the successive ongoing inquiries is taking its toll on sales. At our meeting the chair reported that WOW was the most trusted brand, we doubt that given a quick google search found a Roy Morgan June survey indicated it had dropped from one of the top 5 trusted brands to one of the top 5 distrusted brands. This is a focus for the business going forward but it will be difficult in the current economic and political environment.

Government Inquiries

FY24 has seen significantly increased regulatory oversight with 11 government inquiries impacting WOW. The main ones are listed below:

- An inquiry into the voluntary supermarkets code of conduct which was concluded in August with a mandatory code currently before the parliament with recommendations for significant increases in penalties. This will have limited effect on WOW since they signed up to the code some years ago, it is now just mandatory to comply.

- In September 2024 the ACCC launched a federal court proceeding against WOW for allegedly breaching the Australian Consumer Law by misleading consumers through discount pricing claims on hundreds of common supermarket products. This applies to WOW "Prices dropped" promotions and concerns 266 products across 20 months between Sept 2021 and May 2023. The company points out that 266 is a small number over 18 months compared with the more than 6,000 promotional prices they have each week. They have also told us "*In each case, the supplier of the product increased the cost price to Woolworths during the period - with an impact on Woolworths' retail price. This was then followed by the supplier providing promotional funding to reduce the retail price on the "Prices Dropped" program, after a reasonable price establishment period (consistently with ACCC guidance on price establishment published in 2021)."*

  According to WOW *"There has been no intention by Woolworths or any of its team members to mislead customers or "profit from the inflationary environment".*

- The ongoing ACCC supermarkets inquiry is extensive and has released its interim report. There will be submissions from WOW in October/November. It is taking an interest in the following areas:
  - Restrictive practices- land banking, restrictive leases, contracts with developers
  - Potential M&A and market share.
  - ACCC approvals prior M&A to prevent anti-competitive behaviour
  - Customer profiling and data collection
  - Supplier relationships and unfair trade practices,

On land banking, WOW said "*Woolworths acquires property for its own business. However, the long periods of time taken in buying land, seeking approvals, construction and opening a store or a distribution centre, mean that we own land which is currently undeveloped, at any point in time*."

WOW has published its responses to these inquiries on their website.

The government has also funded quarterly reviews of shopping baskets by CHOICE to be reported for 4 years. This will keep a focus on competitive pricing.

Remuneration

Actual remuneration outcomes for remuneration in FY24 were relatively low. The STI was paid at 34.2% of maximum and there was a zero vesting for the FY22-24 LTI since none of the three factors (rTSR, ROFE, Reputation) reached the entry level. For example, Brad Banducci's $3.97m payout was less than half of what he had averaged over the previous four years. This year's outcome seems appropriate given shareholder returns and reputational damage and reflects a more measured approach from the board.

The new CEO, Amanda Bardswell, has been granted an increase in total fixed remuneration (TFR) to $2.15m, somewhat less than the $2.6m that the outgoing CEO, Brad Banducci, enjoyed. We were advised that this represents the fact that Ms Bardswell is a less experienced CEO than Mr Banducci. As a point of reference, the new CEO of Coles has TFR of $1.97m. For FY25 Ms Bardwell's STI and LTI opportunities are the same proportion of her TFR as the FY24 ones reported in the table in the appendix. The quantum of potential remuneration is still significant, we rely on the board to make appropriate judgements around this.

Mr Harrison, CFO, was the only other KMP who saw an increase to his FR.

4. Rationale for Voting Intentions

Item 2. Remuneration Report (For)

Since the remuneration structure is essentially the same as before, with improvements in the safety measures, we will vote in favour. More details of remuneration are in Appendix 1.

Item 3a. Re-election of Maxine Brenner as a director (For)

Maxine Brenner was appointed to the WOW board in December 2020. She is Chair of the People committee, and a member of the Audit, Risk and Nominations Committees. She has corporate advisory, strategic and legal expertise. She is currently a director of Origin energy and Telstra and until February 2024 was a director of Qantas. We had some concerns about Maxine's prior board position at Qantas, given the remuneration outcomes for Mr Joyce in 2023. The board and Chair defended her re-election citing that Maxine makes a significant contribution to the board. Given this response and the appropriate changes to this year's remuneration the ASA supports her re-election.

She holds 6,740 shares.

Item 3b. Re-election of Phillip Chronican as a director (For)

Phillip Chronican was elected to the board in October 2021. He is chair of the Risk committee and a member of Audit and Nominations committees. He is currently Chair of NAB and has extensive executive experience in banking including CFO of Westpac, and KMP positions at ANZ, and NAB.

He has strategic, financial and management expertise along with M&A and post-merger integration experience. The ASA supports his re-election.

He holds 12,000 shares.

Item 4. Managing Director and CEO F25 Long Term Incentive Grant (For)

Ms Bardwells 99,182 performance share rights represents the maximum number that will be granted for the LTI component of her FY25 remuneration. The LTI incentives are subject to measures against the relative total shareholder return (rTSR) (40%), Return on Funds Employed (ROFE) (40%) and reputation (20%) and will be awarded commensurate with her performance in these areas. Please see appendix for further details of remuneration.

The ASA are supporting the remuneration report and therefore will vote in favour.

Item 5. Conditional Spill Motion (Against).

A conditional spill motion is called when a vote of 25% or more has been received at the prior year's AGM against the remuneration report, as happened in 2023. If there is a second vote against the remuneration report this year the spill motion will go to a vote.

The ASA supports the remuneration report and therefore we do **not** support this motion.

Resolution 6a Constitutional change (Against)

The ASA does **not** support constitutional change of this nature believing that operational matters are best addressed by the board rather than in a general meeting.

6b Farmed seafood reporting (Against)

Because we do not support resolution 5a this motion is **not** supported.

WOW has informed us that they will take into account the recommendations of the inquiry by the Federal Department of Climate Change, Energy, the Environment and Water as well as other advice they receive.

6c Farmed seafood sourcing (Against)

Because we do not support resolution 5a this is **not** supported. WOW will also take account of advice and recommendations in this matter.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.6	33%	2.6	24%
STI - Cash	1.3	16.5%	1.95	18%
STI - Equity	1.3	16.5%	1.95	18%
LTI	2.6	33%	4.42	40%
Total	7.8	100.0%	10.92	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.

WOW remuneration structure is well described in the Annual Report from page 80.

The only change for FY25 is to strengthen the safety component of STI with a fatality gateway introduced and the reintroduction of TRIFR along with a severity measure. As noted above there may be further changes if safety results do not improve.

The new CEO Amanda Bardwell's FY25 remuneration framework is set out below.

CEO rem. Framework for FY25	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.15	33%	2.15	24%
STI - Cash	1.075	16.5%	1.61	18%
STI - Equity	1.075	16.5%	1.61	18%
LTI	2.15	33%	3.65	40%
Total	6.45	100.0%	9.02	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.