



Voting Intentions – Carsales 2021 AGM

ASX Code	CAR
Meeting Time/Date	11am, Friday 29 October 2021
Type of Meeting	Hybrid
Monitor	Henry Stephens assisted by Hans Ha
Pre AGM Meeting?	Yes, Zoom meeting with Chair Patrick O’Sullivan, Kim Anderson, Edwina Gilbert and Nicole Birman

Proposed Voting Summary

2	Adoption of FY2021 Remuneration Report	For
3a	Re-election of Director - Mr Kee Wong	For
3b	Re-election of Director - Ms Edwina Gilbert	For
4a	Grant of rights to the CEO in respect of the FY2021 STI	For
4b	Grant of performance rights to the CEO in respect of the FY22-24 LTI	For
5	Approval of an increase in the fee pool for the Non-Executive Directors to \$2 million	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT (\$m)	130.7	119.9	85.3	184.6	109.5
Underlying NPAT (\$m)	152.8	138.2	131.3	127.8	119.1
Statutory EPS (cents)	52.6	48.9	54.2	0.527	0.454
Dividend per Share (cents)	0.475	0.47	0.455	0.420	0.382
Share Price at End of FY (\$)	21.83	17.74	13.53	15.12	11.52
Statutory CEO Remuneration (\$)	3.7	2.32	2.11	2.58	na
Total Shareholder Return (%)	25.8	34.5	-7.5	37.9	-3.4

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the Company

At the 2019 AGM the company received a “first strike” against the remuneration report. The board proposed to reduce the financial performance conditions attached to the short-term incentives (STI) and long-term incentives (LTI) from 70% financial to 60% and increased the company-wide strategic, personal and cultural objectives (non-financial) to 40%. The ASA voted against the remuneration report on the basis that the STI was the place to adopt a higher ratio of “softer”

measures and not the long term LTI. The voting against the remuneration report was very high with 32% of votes cast against and 52% against the LTI award to the CEO. As a result of the first strike, the company made the following changes to the FY2018-2020 LTI plan and the FY2020 STI:

1. To revert back, as in prior years, to 70% financial performance and 30% strategic performance for the LTI plan and to adjust the STI plan performance measures to 30% strategic and 70% financial performance.
2. Threshold gateway restored and a non-linear vesting schedule introduced to reflect the difficulty in achieving higher growth stretch targets for key management personnel.
3. Improved transparency on strategic performance achievements within the STI and LTI plans.

Overall the ASA was happy with this outcome and we voted in favour of the 2020 Remuneration Report.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The board has an independent non-executive Chair and majority of independent directors (6 out of 7 directors).
- The board has two female directors which is in line with the ASA's preferred minimum of at least 30% female directors.
- The board has at least 30% male directors with diversity of geography, age, and ethnic background.
- Directors and other key management personnel (KMP) have/are investing at least one year's worth of base cash fees in company shares, within 3 to 5 years.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company discloses a skills matrix which is disclosed in the Corporate Governance Statement. The matrix does not identify individual director's skills which would be more preferable.
- The company has published their first Modern Slavery statement. Part of Carsales values is respecting others and holding employees to a high standard and these are consistent with seeking to abolish modern slavery in all its forms.
- In May 2021 the company announced a major acquisition to acquire a 49.0% interest in Trader Interactive, a leading platform of branded marketplaces in the United States for US\$624 million. Trader Interactive provides digital marketing solutions and services across the commercial truck, recreational vehicle, power sports and equipment industries. Carsales raised capital fairly using a pro-rata renounceable entitlement/rights offer. Shareholders were able to participate in the Retail Entitlement Offer at the same offer price and offer ratio as under the Institutional Entitlement Offer and retail shareholders could sell their rights during the rights trading period. The ASA is very supportive of and congratulates the board on raising capital in this manner.

Items for Voting

Item 2	Adoption of FY2021 Remuneration Report
ASA Vote	For

CEO rem. framework	Target*	% of Total	Max. Opportunity (\$m)	% of Total
Fixed Remuneration	1.5	60%	1.5	33%
STI - Cash	-.**	12%	1.2	28%
STI - Equity	-.**	8%	0.4	9%
LTI	-.**	20%	1.3	30%
Total	1.5	100%	4.5	100%

*The amounts in the table above are the statutory 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. **The company does not disclose or provide any guidance or forecast on the budgeted STI and LTI for the CEO.*

Positives

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package is in line with the Godfrey Group report benchmarks.
- The quantum of board fees is in line with the Godfrey Group report benchmarks.
- At least 50% of CEO's pay is genuinely at risk, with STIs, if any, less than fixed remuneration.
- Majority of STIs are based on quantifiable and disclosed performance metrics and, where non-financial hurdles are used, no STIs are paid unless a financial gateway is met. The board made a number of changes to this year's remuneration report which the ASA considers to be fair and reasonable. First, the STI hurdle was changed from adjusted net profit after tax to look through earnings before interest, tax, depreciation and amortisation (EBITDA) to encourage management to more sharply focus on cash flow generation during these difficult Covid times. Second, the board decided to simplify the LTI plan and now 100% of the LTI opportunity will be paid in performance rights and no options will be granted. The ASA has long advocated that companies no longer issue options because of their complexity and opaqueness. Third, the company introduced Relative Total Shareholder Return as a new LTI performance measure to enhance alignment of executive remuneration outcomes with that of shareholders. The ASA supports these changes.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are based on at least two hurdles, one of which is total shareholder return (TSR), with no payment if absolute TSR is negative. For the 2021-23 plan period, the Board has retained adjusted earnings per share (EPS) as a performance measure and has introduced relative TSR to replace the look-through revenue measure. The ASA is in favour of this change as it will enhance alignment of executive remuneration outcomes with that of shareholders.
- Comparator groups are from similar industries and include key competitors and any relevant foreign companies.
- No LTI awards based on comparator groups vest unless performance is >50th percentile.

- All share grants are allocated at face value not fair value.
- Share grants are satisfied by equity purchased on-market.
- Hurdles are reasonable.
- No retention payment on any awards are subject only to continuing service.
- No full vesting in a takeover or “change of control” events.
- Overall, the remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- The ASA prefers that at least 50% of the STI is paid in equity whereas Carsales pays 75% of the STI in cash and 25% in equity (with a 12 month lock).
- LTI performance is measured over a three-year period, not the minimum of four years preferred by ASA.

Conclusion on Remuneration

There is always room for improvement in the remuneration report but on balance the ASA considers the company’s remuneration report is fair and reasonable. The remuneration structure features a high at-risk component of total remuneration, paid mainly in equity with reasonable performance hurdles. Although the LTI performance period is shorter than ASA prefers and the STI pays 75% in cash, the company continues to implement improvements to its remuneration arrangements. We note that it is not an easy task for the KMP to meet their STI and LTI incentives. Over the last five years the LTI vesting outcome has ranged from 0% to 72.9% with an average of only 45.6% and the STI has ranged from 28% to 100% (only once) with an average of 60%. Therefore, on balance, the ASA will support the remuneration report.

Item 3a	Re-election of Mr Kee Wong as a Director
ASA Vote	For

Mr Wong has been on the board of Carsales for only three years and is regarded as an independent director.

He is an entrepreneur with a background and qualifications in engineering, information technology and business. He has started several companies including e-Centric Innovations, an IT/management consulting firm operating in Australia, Malaysia and Singapore. Currently he is Adjunct Professor of Engineering and IT at Latrobe University. Mr Wong brings to the board knowledge of technology and products as well as providing insights into markets outside Australia. He is not a director of any other companies and has a shareholding in the company greater than 105% of his board fees. The ASA supports his re-election.

Item 3b	Re-election of Ms Edwina Gilbert as a Director
ASA Vote	For

Ms Edwin Gilbert joined the board in April 2016 and is Chair of the Risk Management Committee and on two other company committees. Ms Gilbert has worked in the automotive industry since 2003 as Managing Director until 2020 and is currently Executive Chair of the Phil Gilbert Motor Group, overseeing the strategic direction of three dealerships in Sydney (who employ 185 staff) as well as overseeing the entities property portfolio. She brings to the board valuable skills and executive experience in operating dealerships with a digital first marketing approach. She has

adequate skin in the game (a shareholding equivalent to 105% of her total remuneration) and is independent. For these reasons, the ASA proposes to support her election.

Item 4a	Grant of rights to the CEO Cameron McIntyre in respect of the FY2021 STI
ASA Vote	For

This item seeks approval for the grant of 21,164 Rights to the CEO in respect of the deferred portion of his FY2021 STI. Readers will recall that 75% of his STI is paid in cash and 25% is deferred for 12 months and paid in the form of Rights to shares which are, under the rules of the ASX, subject to approval by the shareholders. The full terms and conditions of the rights are disclosed in the Notice of Meeting. The ASA will vote in favour of this motion because the STI scheme broadly complies with our principles although we would prefer that 50% of the STI is deferred not 25% but this is a relatively minor difference. The important aspect of the STI is that performance hurdles are clearly defined and measurable, the number of rights granted is reasonable and the scheme is transparent and understandable. In our discussions with the board, they have indicated that the CEO's STI is below market and they are focused on ensuring that the CEO's remuneration broadly comprises 1/3rd fixed remuneration, 1/3rd STI and 1/3rd LTI.

Item 4b	Grant of performance rights to the CEO Cameron McIntyre in respect of the FY2022-24 LTI
ASA Vote	For

This item seeks approval to grant the CEO 93,095 performance rights under the terms of the FY2022-24 LTI. The FY22 LTI is unchanged from the previous LTI and the grant will be tested at the end of three years against two financial performance measures (adjusted EPS and relative total shareholder return ("RTSR") measures) and various non-financial strategic measures. For detailed information on weightings and calculation methods of the grant please refer to the Notice of Meeting.

Broadly speaking the company's LTI fits in with ASA principles although there are a couple of exceptions. The weightings at 35% for the financial measures and 30% for non-financial are fair and the companies in the TSR peer group are all reasonable and include a mixture of domestic and international companies. The ASA notes that vesting of the performance rights occurs at the 50th percentile which is contrary to the ASA's position. The ASA has long maintained that LTI awards based on relative TSR hurdle should not commence unless performance is above the 50th percentile of the peer group over a minimum four year period (Carsales has a three year period). Our preferred position is 30% vesting at the 51st percentile, rising with a sliding scale of 2% vesting for each additional percentile such that only CEO's who exceed the 85th percentile will receive 100% of the potential award.

Item 5	Approval of an increase in the fee pool for the Non-Executive Directors to \$2 million
ASA Vote	For

The board is seeking a \$500,000 increase in the fee pool for the non-executive directors to \$2 million. The current remuneration has not changed since 2015 when the maximum fee pool was approved by shareholders. The total remuneration for NED's in FY2021 was \$1.26 million. The

Notice of Meeting outlines the reasons for the increase as follows: 1. The Company's operations have grown strongly and international now represents 24% of revenues, up from 10% in 2015, 2. The Company has undertaken a number of large, complex acquisitions which require more time from the board, 3. Flexibility to appoint new directors and 4. Continue to pay market competitive fees to directors in compensation for their time and responsibilities. The ASA accepts these reasons and in our conversations with the Chair, he highlighted that Kim Anderson will not stand for re-election in 2022 and, depending on whether the company exercises the option over the remaining 51% of Trader Interactive, the board may appoint a director based in the United States. For these reasons the ASA supports this motion.

Monitor Shareholding

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

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