



## Profits fall to earth not sure when they will rise

<b>Company/ASX Code</b>	Qantas/QAN
<b>AGM date</b>	Friday 25 October 2019
<b>Time and location</b>	11am ACDT, Adelaide Entertainment Centre
<b>Registry</b>	Link Market Services
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Allan Goldin assisted by David Jackson, Bob Ritchie at AGM
<b>Pre AGM Meeting?</b>	Yes with Chair Richard Goyder and Head of Investor Relations Fran van Reyk.

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

### Summary of ASA Position

Qantas didn't have a good year, with profit down across the board with one notable exception:

	Revenue		EBIT	
	\$m	%	\$m	%
<b>QANTAS Domestic</b>	<b>6,106</b>	<b>2.7</b>	<b>740</b>	<b>-3.3</b>
<b>QANTAS International</b>	<b>7,425</b>	<b>7.2</b>	<b>285</b>	<b>-39.6</b>
<b>JETSTAR</b>	<b>3,961</b>	<b>4.3</b>	<b>370</b>	<b>- 23.5</b>
<b>QANTAS Loyalty</b>	<b>1,654</b>	<b>8.9</b>	<b>374</b>	<b>8.4</b>

Profit is down thanks to the usual airline bugbear, fuel increases even though fuel is progressively hedged over a 24-month period, the company still took an extra \$614m hit. Added to this is the impact of the lower Australian dollar. Importantly, although there is higher per seat fares, demand is softer meaning less seats are being filled.

The lift in the loyalty revenue and earnings before interest and tax (EBIT) increase is good. It will build this year and next, as additional products are added, but more importantly there is increased merchant participation in the every day spend category. Despite Loyalty surpassing Jetstar's profit, Rewards is an adjunct to the main business, and isn't earning revenue on the huge capital cost that is an airline.

Airlines have been in difficult access negotiations with Airports during the period. Recently there has been the unusual spectacle of the Qantas and Virgin CEO arriving together in Canberra to lobby for some relief from increasing Airport charges. The main reasons behind the concern is the future impact. Currently, Qantas and Perth Airport are in court arguing over fees, and which terminal to use, which, in addition to mounting legal costs, has had the flow on effect of fewer

nonstop flight than there would have been otherwise. Plus Jetstar Asia blames the increase on landing charges at Changi airport for much of its financial difficulties. What the airlines are looking for is a process where if negotiation does not result in an agreement, there is an arbitration process to reach a binding commercial agreement.

Qantas' much heralded Project Sunrise flying from the East Coast to New York and London is still scheduled for a go, no-go decision at the end of December, although we note talks are still ongoing with the pilots.

It is good to see an employer rewarding staff as Qantas did by giving 25,000 employees a \$1,250 travel bonus. On the other hand, it is unfortunate that an airline that has such high operational safety standards is still not up to the level that the board would like with minor workplace safety measures.

Qantas CEO and the Company in for a great deal of comment about their stand on marriage equality. The board felt that there are times when a company on behalf of the majority of its stakeholders (customers, employees, shareholders and the broader community) takes a stand on social issues, that matter to them. In relation to the case of transporting refugees which is discussed under resolution 5, Qantas has investigated the situation closely, as well as meeting with the Australian Centre for Corporate Responsibility, before coming to its position.

The CEO Alan Joyce by anyone's yardstick has done a very good job for which he has been well rewarded, but after 11 years the question must be asked how much longer is he realistically going to be in the role. Then there are questions to be asked about board's planning for the future, with three directors having tenure of 11 years, two of them up for re-election this year and one stepping down, with no new appointments since October 2018. It appears that board renewal has been on the backburner for a while, which is further demonstrated by the fact the Chair, although very competent, had to be recruited from outside.

Qantas fails one of ASA Focus Issues badly namely: *At election or re-election of a director, the notice of meeting should include the detailed skills the director brings to the board of the company at that time, and how those skills meet the requirements of the board in the coming years.* Anyone reading the Notice of Meeting or indeed the Annual Report would have difficulty finding out much about their expertise.

KPMG has been the Auditor since Qantas listed and as far as anyone can remember the company has never put the audit out to competitive tender. Hopefully when buying new planes Qantas surveys the marketplace, but doesn't seem to put the same focus on the all important audit.

We applaud the 5-year comparative chart at the beginning of the Annual Report but think as fuel prices is such a critical determiner of profitability what Qantas paid each year for fuel should be shown in the chart.

## Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	891	953	853	1,029	560
UPAT (\$m)	1,302	1,565	1,401	1,532	975
Share price (\$)	5.40	6.16	5.72	2.82	3.16
Dividend (cents)	25	17	4	7	0
TSR (%)	(8.2)	10.6	111	(5.6)	151
EPS (cents)	55	54	46	49	25
CEO total remuneration, actual (\$m)	11.1	10.87	24.6	13.0	11.9

For 2019, the CEO's total actual remuneration was **125.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<b>Item 2.1</b>	<b>Re-election of Richard Goyder as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Mr Richard Goyder is currently Chair of Qantas. He was with Wesfarmers for 17 years originally as Chief Finance Officer then the last 12 as CEO.

Mr Goyder is also Chair of Woodside Petroleum Limited, and the Australian Football League Commission. Which seems like a heavy workload, but as he points out as a 59 year old recently retired CEO of a major company, where he had a punishing workload he has plenty of capacity for his current responsibilities.

Richard Goyder has been on the Qantas board since November 2017 and holds 130,000 shares.

ASA will vote its undirected proxies in favour of Mr Goyder.

<b>Item 2.2</b>	<b>Re-election of Paul Rayner as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Paul Rayner worked for 17 years in various finance and project roles and then spent the next 17 years with Rothmans Holdings Ltd culminating in being the Finance Director for the last six years.

Mr Rayner is Chair of Treasury Wine Estates Limited, a Director of Boral Limited and a Director of the Murdoch Children's Research Institute.

Mr Rayner has been on the Qantas board since 2008 and holds 287,909 shares in the Company.

ASA believes that board renewal is vital to continue bringing new insights to a company. In addition after 12 years a Director can no longer be considered independent although we will reluctantly vote for Mr Rayner this time we will not do so in the future.

<b>Item 2.3</b>	<b>Re-election of Todd Sampson as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

### Summary of ASA Position

Mr Todd Sampson has more than 20 years' experience across marketing, communication, new media and digital transformation, primarily with Leo Burnett Group where he was for more than half of that time, the last two years as Executive Chair.

ASA believes it is very desirable to reach beyond the traditional large listed corporations and professions to find new Directors particularly those with understanding of new technologies. However, directors must share alignment with shareholders.

To demonstrate some alignment directors should at a minimum have purchased shares equivalent to one year's pay with within three years. In his 3 years Mr Sampson has only bought a mere 7,095 shares. The board belatedly introduced a requirement for Non-Executive Directors to own shares, and ASA wonders why a director would wait until compelled to buy shares?

We will hear from Mr Sampson when he intends to buy more shares to align with shareholders before we decide how we will vote our undirected proxies.

<b>Item 2.4</b>	<b>Re-election of Barbara Ward as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms Ward was Chief Executive Officer of Ansett Worldwide Aviation Services from 1993 to 1998. Before that, Ms Ward held various positions at TNT Limited, including General Manager Finance, and also served as a Senior Ministerial Advisor to The Hon PJ Keating

Currently Ms Ward is a Director of Caltex Australia Limited and a number of Brookfield Multiplex Group companies.

Barbara Ward has been a director of Qantas since 2008 and holds 44,694 shares.

ASA believes that board renewal is vital to continue bringing new insights to a company. In addition after 12 years a Director can no longer be considered independent although we will reluctantly vote for Ms Ward this time will not do so in the future.

<b>Item 3</b>	<b>Approval of LTI grant to CEO Alan Joyce</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

This resolution is for the granting of 743,000 performance rights which is calculated on 185% of Mr Joyce base salary. This is a high ratio but not totally unusual for a large ASX listed corporation.

The Performance Rights will vest, converting to no charge shares depending on Qantas' 3-year Total Shareholders Return (TSR) measured against both the ASX 100 and a basket of global listed airlines, which are both very reasonable indicators. What is not reasonable, is that if Qantas is only average, 50% of each of the bonuses is awarded. Would have thought you should be better than average to get extra reward.

Even worse, these bonuses are called long-term but they are only measured over 3 years. Qantas is a company that should understand long-term being 100 years old, with planes in service for up to 20 years and Directors holding their roles on the board for 11 + years.

There has been no change to the remuneration plan since last year, hence we will vote our undirected proxies against this bonus, again.

<b>Item 4</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

An average year but above average pay out. However, we are not voting against the Remuneration Report because the quantum is too high - the total amount has more to do with the large increase in the share price which shareholders also enjoyed.

It is more a case that defects that we stated in the previous resolution combined with the fact that 2/3 of the Short Term bonus (STIP) is paid in cash and that bonuses can be paid even when shareholders suffer negative TSR which tipped our hand to vote our undirected proxies against the Remuneration report.

This decision was made on balance, despite the positives of an easy to read Remuneration Report, with matters clearly spelt out. The balanced scorecard for the STIP appears to be good and you can clearly see the weighting of each item. And changes have been made.

The CEO, executive management and the non-executive directors all have to have a minimum shareholding, albeit under a slightly longer time frame than ASA likes.

Although the measurement term for so-called long-term bonuses is still 3 years, there is a one year holding lock on them and any shares under the STIP and there has been some strengthening of the clawback provision.

Most importantly, a feature that retail shareholders find particularly distasteful that TSR can be negative and bonuses still awarded, can be comforted by the Chair's assurance the board would definitely look at using its discretion in a downward direction in this situation.

## CEO Remuneration Framework

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.170	25.9%	2.170	20.6%
STI – Cash	1.446	17.4%	2.890	27.4%
STI – Equity	.724	8.7%	1.450	13.7%
LTI	4.014	48%	4.014	38.3%
Total	8.354	100.0%	10.524	100%

<b>Item 5.1</b>	<b>Special resolution to amend Constitution</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

The change to the constitution is that;

*The shareholders in general meeting may by ordinary resolution express an opinion, ask for information, or make a request, about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised.*

The ASA does not consider it appropriate to use a resolution to amend the constitution to give shareholders new voting rights or to impose reporting obligations. The ASA is of the view that any new shareholder voting rights should be a matter dealt with under the Corporations Act and applicable to all companies.

<b>Item 5.2</b>	<b>Contingent Resolution – Human Rights Risk</b>
<b>ASA Vote</b>	<b>Against</b>

This motion will only be put if 5.1 has passed with a 75% vote.

*“Shareholders request that the Board commission a review of our company’s policies and processes relating to involuntary transportation (Review) undertaken as a service provider to the Department of Home Affairs. Given our company’s commitment to aligning its business with UN Guiding Principles on Business and Human Rights (UNGPs), shareholders recommend that the UNGPs be used as a basis for the Review. A report describing the completed Review should be prepared at reasonable cost and omitting confidential information, and made available to shareholders on the company website by 30 June 2020.”*

We suggest that you look at the [Transport section under Enhancing Human Rights](#) to gain a fuller understanding of what Qantas has been doing through the year.

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention have no shareholding in this company.

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