

## Acquisitions + Growth = Huge Year for Carsales!

<b>Company/ASX Code</b>	Carsales.com Ltd / CAR
<b>AGM time and date</b>	11am 27 October 2023
<b>Location</b>	449 Punt Rd, Richmond
<b>Registry</b>	Computershare Ltd
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Henry Stephens (and Mike Robey)
<b>Pre-AGM Meeting</b>	Yes, with Pat O’Sullivan (Chairman), Kim Anderson (Chair Remuneration Committee), Nicole Birman (Company Secretary)

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

### 1. How we intend to vote

No.	Resolution description	
2	Adoption of FY23 Remuneration Report	For
3a	Re-election of Patrick O’Sullivan	For
3b	Re-election of Walter Pisciotta	For
3c	Election of Susan Massasso	For
4a	Grant of Rights to the MD and CEO in respect of the FY23 STI	For
4b	Grant of Performance Rights to the MD and CEO in respect of the FY24-26 LTI	For
5	Change of Company Name to CAR Group Limited	For

### 2. Summary of Issues and Voting Intentions for AGM

- Carsales is a well governed company and we do not have any major issues.
- The current Chair, Patrick O’Sullivan, and Director Wal Pisciotta are up for re-election. Both these directors have been on the board for in excess of 12 years. Under the ASA Guidelines, we do not regard Patrick O’Sullivan as independent because he has been a director of the company for 16 years which exceeds our recommended tenure limit of 12 years and if his re-election is successful, he will have been on the Board for 19 years! The ASX Corporate Governance Council Recommendation 2.3 principle gives as an example of an issue relating to assessing the independence of directors include: “has been a director for the entity for such a period that their independence from management and substantial

holders may have been compromised.” ASA’s preferred position is for the Board to have an independent Chair. Pisciotta is not independent as he was one of the founders of the business, he has a large shareholding in the Company and has supplied computer services to the Company in the past. Despite their lack of independence under ASA rules, ASA will vote in favour of these directors for the reasons discussed below.

- ASA considers that the current board comprises 4 independent directors and 4 non independent directors. It will move to a majority independent early next year when Ms Philippa Marlow joins the Board as an independent director (5 out of 9 independent directors).

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

### 3. Matters Considered

#### Accounts and reports

Carsales is a very well-run global Australian company. The financial results for FY23 are very good (see discussion below). Management objectives are clearly stated and are in alignment with shareholders’ interests.

In September 2022 the Company purchased the remaining 51% of Trader Interactive and in April 2023 the Company increased their ownership interest in Webmotors from 30% to 70%. This has complicated the presentation of the financial results and ASA has focused on the adjusted earnings rather than on the proforma presentation or the statutory approach.

Revenues increased 53% to \$781 million, adjusted EBITDA increased 57% to \$424.9 million and adjusted net profit after tax increased 43% to \$278.2 million which reflects strong underlying double-digit growth and the consolidation of Trader Interactive and Webmotors in FY23. The board declared a final dividend of 32.5 cents (50% franked) bringing total dividends to 61 cents for the year and a steady payout ratio of 80%.

#### Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	645.6	160.8	130.7	119.9	85.3
UPAT (\$m)	278.2	194.8	152.8	138.2	131.3
Share price (\$)	23.82	18.39	21.83	17.74	13.53
Dividend (cents)	61.00	50.00	0.475	0.47	0.455
Simple TSR (%)	32.8	-13.5	25.8	34.5	-7.5
EPS (cents)	181.3*	54.9*	52.6	48.9	54.2
CEO total remuneration, actual (\$m)	5.4	4.7	3.7	2.32	2.11

\* Restated 2022 EPS to reflect recent capital raisings to purchase Trader Interactive and Webmotors. 2023 EPS is based on statutory and includes a substantial gain on acquisition. Stripping out the gain on acquisition, the EPS is 78.1 cents per share.

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.

### **Governance and culture**

Given the increasing global expansion of the Company, the Board has created subsidiary boards with independent directors in the key regions of Australia, the US, South Korea and Brazil. This subsidiary governance framework allows the Company to focus more on local country risks in Carsales major markets.

Diversity and inclusion are very important to Carsales and the Company is passionate about giving people equal access to opportunities and the underrepresentation of women in technology. The company is a Workplace Gender Equality Agency Employer of Choice.

In 2023 the Company published their first Reflect Reconciliation Action Plan (RAP) endorsed by Reconciliation Australia. The RAP lays the foundation for implementing meaningful, long-term reconciliation initiatives throughout the business and strengthening relationships with Aboriginal peoples.

### **Key events**

As mentioned above, the Company now owns 100% of the US based Trader Interactive and 70% of Webmotors. Webmotors is a growth opportunity for Carsales as Brazil is one of the largest and fastest growing automotive markets in the world and there are considerable business opportunities through customer acquisition, national expansion, new product development and increasing finance penetration. The Company funded the Webmotors acquisition with a \$500 million renounceable rights issue and the Trader Interactive acquisition with a \$1.2 billion non-renounceable entitlement offer in July 2022. The Company wanted to have a renounceable offer at the time but was advised by their financial advisors that it was too risky and they may not be able to raise all the capital they required in time.

### **Key board or senior management changes**

In March 2023 the Executive Leadership Team was restructured to include the CEO's of each of the international businesses to better reflect the important contribution these businesses make to the overall business.

As part of the Board's renewal plan, Susan Massasso joined the Board in June 2023 (see details below) and Philippa Marlow has accepted the Company's offer to join the Board in early 2024 which will bring the number of Directors to nine of which four are women. Ms Marlow is highly skilled in global technology. She was CEO of Salesforce for the Australian/NZ and Asian operations. Previously she was CEO Customer Marketplace at Suncorp and prior to that she had a 21-year career at Microsoft culminating in her appointment as Managing Director of Microsoft Australia for 6 years.

## Sustainability/ESG

Last year Carsales Australian business achieved carbon neutral status and the international business is expected to achieve this in 12 months' time. The Company reported for the first time on the Task Force on Climate Related Financial Disclosures (TCFD) which is a leading framework under which companies assess their climate related risks and opportunities.

In 2023 the Company was ranked number 24 in the top 100 companies globally for gender equality by Equileap, a leading provider of gender equality data and insights. Equileap reviewed 3,787 companies that are listed on a major index or in one of 23 developed markets, representing 102 million employees globally. Their Gender Equality Scorecard consists of 19 criteria including gender balance across the workforce, the gender pay gap, paid parental leave and anti-sexual harassment policies.

## 4. Rationale for Voting Intentions

### Resolution 2 Adoption of FY23 Remuneration Report

Summary of Key points:

- The CEO's fixed remuneration for FY23 increased 10% to \$1.65 million to align his role with market benchmarks; to reflect the larger size of the Company; the CEO's strong performance and the fact that the CEO has not had an increase for the last two years.
- FY23 STI: The proforma revenue and EBITDA targets were exceeded resulting in a 105% achievement against the 70% weighting allocated to the financial objectives. The strategic objectives (30% plan weighting) were all met resulting in a 30% achievement. A total outcome of 135% for the STI (\$2,234,790) was achieved compared to the FY22 outcome of 103%.
- FY21-23 LTI: The team ranked in the 73<sup>rd</sup> percentile for relative TSR over 3 years which resulted in a 25.6% vesting outcome. The adjusted EPS objective was also met (9% growth after adjustments) and this resulted in a 33.3% vesting outcome. All of the three strategic objectives (30% weighting) were met resulting in an overall vesting outcome of 88.9% compared to 75.7% in FY22.
- A review of non-executive director fees was undertaken during the year and as a result director fees were increased 2.5% effective 1 January 2023. This means the Chair is now paid \$379,250. According to the Godfrey Remuneration Group remuneration guide, this fee (and base fees as well) sits at the 25<sup>th</sup> percentile which is very low for a company capitalised at in excess of \$10 billion.
- The Company requires all Board members to hold one year's base director's fees in shares after 24 months' board membership. This requirement has been met.
- 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 (both target and max opportunity) is reasonably within the Godfrey Remuneration Group report benchmarks.
- More than 50% of CEO's pay is genuinely at risk [69% at target-see Appendix below]
- STIs are not more than fixed remuneration (equal at target).
- The majority of STIs are based on quantifiable and disclosed performance metrics.

- 25% of STIs is paid in equity or cash (at the discretion of the CEO depending on whether he holds shares equal to the value of two years fixed remuneration at the testing date) with a 1 year holding lock.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- All directors have hold shares in the Company in line with ASA requirements.
- No retesting of performance hurdles is allowed.
- LTI hurdles are measured three years after issue.
- LTI hurdles are based on two hurdles, Relative TSR and Adjusted EPS.
- The peer group chosen for the Relative TSR is a bespoke group in the media and entertainment, retailing and information technology sectors of the ASX200 plus eight international companies (which reflects Carsales global footprint).
- A minimum performance threshold at the 50<sup>th</sup> percentile for the LTI must be achieved in the performance period for any award vesting.
- All share grants are allocated at face value not fair value.

### **Resolution 3a Re-election of Patrick O’Sullivan as a Director of the Company**

The Notice of Meeting clearly describes the renewal program for the Board. The current Chair and Walter Pisciotta are the two remaining non-executive directors who have been on the Board for 16 and 27 years respectively. These two Directors and Kim Anderson (13 years on the Board who we have been told will retire at the end of her term) provide the important historical corporate memory which is particularly helpful when acquiring companies in international markets. The Board’s current composition features 5 directors with tenure of less than 10 years and 3 directors with tenure over 10 years, which ASA considers to be appropriate.

Mr. O’Sullivan has very strong financial, commercial and regulatory experience including insights into the operations of global companies. He has held a number of senior management roles including COO and Finance Director of Nine Entertainment Co and CFO of Optus. He is a member of the Institute of Chartered Accountants and a graduate of the Harvard Business School’s Advanced Management Program. ASA supports his re-election because he has successfully managed the Board and guided the Company to great success as Chair since 2019.

### **Resolution 3b Re-election of Walter Pisciotta as a Director of the Company**

Walter Pisciotta brings to the Board extensive knowledge of the IT needs of the automotive industry as well as considerable knowledge of the business, which he helped to found. He has been on the Board since 1996 and was Chair of the Board from inception to 2015. He is a major shareholder in the Company with almost 9 million shares and is considered by the Company to be non-independent. ASA supports his re-election.

### **Resolution 3c Election of Susan Massasso as a Director of the Company**

Susan Massasso has over 25 years of experience focused on both strategy and operations for brand led businesses. More recently she was the Chief Growth and Brand Officer for The A2 Milk Company where she was responsible for all aspects of customer experience, brand development and innovation, co-led the Company’s ASX listing, and had shared responsibility for the Company’s P&L statement and risk management programs. ASA supports her election as an independent director.

#### **Resolution 4a Grant of Rights to the MD and CEO in respect of the FY23 STI**

This resolution seeks to give the CEO Cameron McIntyre a grant of 23,465 rights in respect of the deferred portion of his FY23 STI. The total FY23 STI payment is \$2,234,790 which is paid 75% in cash and 25% is deferred for 12 months. The number of rights is calculated by dividing the deferred portion of the CEO's FY23 STI outcome (\$558,698) by the average price of the Company's shares of \$23.81. The CEO can opt to take the deferred shares as equity or cash depending on whether the CEO holds shares equal to the value of two years' fixed remuneration at the testing date. ASA supports this resolution.

#### **Resolution 4b Grant of Performance Rights to the MD and CEO in respect of the FY24-26 LTI**

This resolution seeks approval for the grant of up to 124,737 Performance Rights to Mr. Cameron McIntyre as part of LTI component of his FY24 remuneration package. The number of rights is determined by dividing the CEO's maximum opportunity (being 165% of fixed remuneration) by the average share price of \$23.81 (see the annual report for more detail).

Each Performance Right is an entitlement to receive one share (no dividends) after the performance period of three years subject to certain vesting rules. 35% of the Performance Rights are subject to an Adjusted EPS performance measure, 35% subject to a Relative Total Shareholder Return (TSR) measure and 30% subject to various strategic measures.

The Rights subject to the Adjusted EPS measure have no value if CAGR is less than 5%; at 5% then 50% of the Rights can vest and if greater than 5% there is a vesting table in the Notice of Meeting that clearly sets out the conversion ratios. This year the EPS gate has been lifted from 3% to 5% and an accelerator has been introduced to further align management and shareholder outcomes. The Relative TSR measure compares the Company's TSR performance against the return shareholders would earn if they held 12 ASX 200 companies and 8 international companies in a bespoke portfolio over the three-year performance period. If the TSR rank in the bespoke peer group is less than the 50<sup>th</sup> percentile, then zero Rights will vest and if the TSR rank is the 75<sup>th</sup> percentile then 100% of the Rights will vest (see Notice of Meeting for more detail). The Strategic measures (30% weighting) consist of three objectives which are not defined for competitive reasons but will be disclosed at the end of the performance period. The objectives relate to delivery of new growth initiatives, developing a global employer brand strategy and reviewing the Company's carbon reduction strategy. ASA considers the FY24-26 LTI well structured, clearly defined and fair.

#### **Resolution 5 Change of Company name**

This item seeks approval for the Company to change its name to CAR Group Limited. Item 5 is a Special Resolution and requires 75% of votes cast by shareholders present and eligible to vote at the AGM in favour of the resolution. The reason for the change is that more than 50% of revenue is being generated internationally and it is appropriate to differentiate the listed entity from the various marketplace brands the Company owns around the world.

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## Appendix 1 Remuneration framework detail

CEO rem. Framework for FY24	Target* \$	% of Total	Max. Opportunity \$	% of Total
Fixed Remuneration	1,800,000	31%	1,800,000	25%
STI - Cash	1,350,000	23%	1,822,500	25%
STI - Equity	450,000	8%	607,500	9%
LTI	2,200,000	38%	2,970,000	41%
Total	\$5,800,000	100.0%	\$7,200,000	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.