Australian Shareholders' Association
Australian Shareholders' Association Limited
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Has Qantas failed to rise like a phoenix as governance looms?

Company/ASX Code	Qantas Airways Limited/QAN
AGM time and date	11am Friday 3 November 2023
Location	Melbourne Convention and Exhibition Centre (MCEC) 1 Convention Centre Pl, South Wharf VIC 3006
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Sue Howes and Miles Wu
Pre-AGM Meeting	Yes with Chair- Richard Goyder, Jacqueline Hey – INED, Chair of Remuneration Committee Filip Kidon – Head of Investor Relations Adam Luc – Senior Manager Investor Relations

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

1. How we intend to vote

No.	Resolution description	
1	Consideration of Reports	No vote required
2a	Election of Vanessa Hudson as a Director	Against
2b	Election of Doug Parker as a Director	For
2c	Election of Dr Heather Smith PSM as a Director	Against
2d	Re-election of Belinda Hutchinson AC as a Director	For
2e	Re- election of Todd Sampson as a Director	Against
3	Participation of the CEO, Vanessa Hudson in the long term incentive plan	Against
4	Remuneration Report	Against
5	On-Market Share Buy-Back	Against

2. Summary of Issues and Voting Intentions for AGM/EGM

- Qantas has seemingly risen from the pandemic year like a phoenix, at least from a financial point of view. But over the past year the flying Kangaroo has been hit with a torrent of criticism over a series of matters such as letting customers down, lost bags, cancellations, blockage of Qatar's access to landing rights, ACCC's allegations and overly clunky frequent flyer redemption system.

- In the aftermath of the negative sentiment, CEO Alan Joyce resigned earlier than his planned exit. Less than one week after ASA's pre-AGM meeting with the board, Richard Goyder announced he would retire as Chairman at the FY24 AGM and that Jacqueline Hey and Maxine Brenner will retire at the Qantas half-year results in February 2024.
- In addition to questioning the board on accountability, we asked questions on:
    - the board's decision to let Alan Joyce sell 90% of his stock on 1 June 2023, which did not seem to comply with the with the company's employee share trading policy given the ACCC proceedings.
    - the possibility of the Chair bringing forward his re-election by one year despite his claimed support from major shareholders.
    - the wisdom of undertaking a buyback given the need for cash in coming years to renew the fleet, pay fines and compensation and pay the additional costs to regain reputation and improve customer experience.
    - Mr Sampson's involvement in decisions that affected the Company's reputation so adversely given his expertise in PR and marketing.
    - Dealing with remuneration going forward and the issues around Mr Joyce's recent grants.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	1,744	(860)	(1,692)	(1,964)	840
UPAT ($m)	2,465	(1,859)	(1,774)	124	1,326
Share price ($)	6.20	4.47	4.66	3.78	5.4
Dividend (cents)	0	0	0	25	17
Simple TSR (%)	38.7	(4.1)	23.2	(11)	(8.2)
EPS (cents)	96.0	(45.6)	(89.9)	(129.6)	51.5
CEO total remuneration, actual ($m)	21.44	2.272	2.43	2.63	11.1

Simple total shareholder return (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.

CEO remuneration for 2018-21 includes deferred vesting of previous short-term incentives (STI) awards.

In FY20 the Company had net cash from operations of $1b, $3.5b in cash while posting net profit after tax (NPAT) of -$2b, largely as a result of writing off assets to the value of $1.5b, most of which was airplanes ($1b) whilst accepting government support of $0.5b.

In FY21 net cash from operations was -$.4b, cash was $2.2b, NPAT was -$1.7b, of which $.3b was an impairment (again aircraft) whilst accepting government support of $1b.

FY22 saw a return to positive net cash from operations of $2.6b, a small impairment and loss of $0.9b, cash of $3.3b and government support of $0.7b.

This year has seen a spectacular return to profit, but it is likely to be short lived. Achieving this has come at the expense of:

- Fines and compensation for illegally sacking workers ($200m penalty, with no estimate yet of compensation cost) – the company believed they had a financial imperative.
- Potential fines and a court case with the ACCC over treatment of customers (potential fines $250m) – the Company indicated that while they were aware the ACCC were investigating some complaints they were taken by surprise when the ACCC issued its writ on 31 August. The Company indicated they are frequently complained about by competitors and frequently investigated by the ACCC but this did not register as a key risk.
- Customer furore over flight credits ($570m) - the Company has indicated they always intended to allow customers to use these credits or fully refund them. This does not seem to be what customers had been led to understand. While Qantas has made the above statement to us, it has been widely reported that there were $570m of credits due to be written off. This policy has now been reversed, but the financial implication for FY24 of this policy change is significant.
- Fleet renewal (A$6.8b over next 3 financial years) – the average age has been increasing year on year from 7.7 years in 2015 to 14.4 years in FY22 and has not been reported in this year's annual report.
- Reputation with staff and customers that will now involve minimum (so far announced) $150m spend on "winning back trust".
- Reputation with the general public – making a submission to the government to restrict a minor competitor (Qatar Airways has 2% allocation of landing rights) on the basis of national interest while not seeing fit to provide a requested submission to the Senate on the basis of corporate confidentiality.

The interesting aspect to all of this is the timing. Mr Joyce had considerable remuneration outcomes riding on the results achieved in FY23 for STI and LTI as well as achievement of Recovery Retention Plan (RRP) outcomes. The confluence of results in the current year benefitted Mr Joyce and other senior executives. It has been said that shareholders also benefit, but we think this is incorrect. As a result of the issues mentioned above, shareholders have seen the share price drop by 28% from the $6.79 all-time high when Mr Joyce sold 90% of his holding to $4.90 at the time of writing. Further pain will likely ensue as the company works through all the issues above and the cash starts leaving the company.

Governance and culture

Central among the things directors must do are:

- Ensure the good reputation of the company.
- Ensure staff and customers are treated equitably and fairly.
- Ask difficult and perceptive questions of management to ensure the Board is across the dealings of the company, risk is identified and managed and the law is not broken.
- Represent the interests of the owners of the company (shareholders).
- Do the right thing.

It is not good enough to allow the CEO to sell 90% of his holding while a major lawsuit is impending. Directors needed to ask sufficient questions about the ACCC investigation, that they were aware was happening. Particularly when the ACCC has indicated Qantas is one of the most complained about companies by its customers in Australia.

Nor is it good enough to reverse the decision to write off flight credits only after customers and the press have been decrying this policy for months.

We acknowledge the Board has scrambled to ensure they have some discretion over retrieving LTI and RRP payments but discretion should have been applied at that time, not later, given what should have been known by the Board at the time of determining the remuneration for FY23.

The governance failures have been staggering in their breadth and depth. Enough said.

Key events

Many and varied, see financial analysis above.

Key board or senior management changes

The CEO has retired, the date brought forward following market backlash over the issues identified above. Long-term employee and CFO Vanessa Hudson has moved into the CEO role and been charged with being humble and fixing all the issues instigated by her previous boss and mentor.

On 16 October 2023, Ms Wirth, Loyalty program manager, has announced her resignation and a new Chief People Officer has been appointed with the unenviable task of making things right with employees and unions.

Sustainability/ESG

ACSI rate Qantas ESG reporting as comprehensive, and it is. It covers a lot of ground. The issue we find is that it starts to fall down at page 7 with statements around foundation, strategy and behaviours. Most of these appear not to have been adhered to, which unfortunately drives scepticism for the remainder of the report. The report is big on discussion, big on targets and projects but has little in the way of reporting against targets to date. The table on greenhouse gas emissions indicates that these are almost back at FY19 levels, so not much progress and this is understandable when the fleet has been left to age.

Regarding sustainability, the issues above mostly relate to governance which contributes to long-term performance and needs to improve.

4. Rationale for Voting Intentions

Resolution 2a Election of Vanessa Hudson as a Director (against)

There is no compelling need for the CEO to also be a director. Given Vanessa Hudson has been a member of the executive while the issues above have been allowed to occur, we think this resolution should be voted against until she has proven herself in the role. We are likely to be far more amenable if it were listed for the FY24 AGM.

Resolution 2b Election of Doug Parker as a Director (For)

Mr Parker is the former long time CEO and Chairman of American Airlines. While some of the actions taken by American Airlines under his stewardship have attracted questions (mega mergers that reduced competition while affecting the financial situation of the Company), he has the skills and ability to run a large airline in a competitive market with good customer focus. Skills that are sorely needed at Qantas. Given his background we also hope he comes with the backbone to question and disagree with management. We will therefore be voting all undirected proxies for this resolution.

Resolution 2c Election of Dr Heather Smith PSM as a Director (Against)

Dr Smith seems to be a direct public service replacement for Mr L'Estrange. It is our opinion that this Board desperately needs people with good business, customer experience, industry, financial and governance experience. While Qantas seem to like having senior ex-public servants on the Board, we are suspicious, given recent events, that this is more to maintain access to government rather than to bring governance skills to the Board.

Accordingly, we will be voting any undirected proxies against this resolution.

Resolution 2d Re-election of Belinda Hutchinson AC as a Director (For)

Ms Hutchinson has been on the Board since 2018, the period when most of the current issues have arisen. However, as an orderly transition and external search for a new Chair has been announced, we will be voting undirected proxies for this resolution on the basis that Ms Hutchinson will be able to draw on her Company knowledge and experience to assist the board to lift performance as new directors are inducted.

Resolution 2e Re-election of Todd Sampson as a Director (Against)

Mr Sampson is supposed to have brought to the Board marketing, PR, communication and media management skills, and yet Qantas has disappointed on all these fronts.

We will be voting all undirected proxies against this resolution.

Resolution 3 Participation of the CEO, Vanessa Hudson in the long term incentive plan (Against)

We have been in two minds about this resolution. This resolution relates to the 2023 Grant of rights for the 2024 to 2026 LTIP. On the one hand Ms Hudson had been CFO, not CEO during the performance period to which these rights relate and as such has been acting on the instructions of the CEO and Board. On the other hand, the CFO is intimately involved in all major decisions taken at the executive level and bears some of the collective management responsibility for the current situation.

On balance we will be voting any undirected proxies against this resolution.

Resolution 4 Remuneration Report (Against)

We found the commentary in the remuneration report surrounding discretion and clawback confusing and needed to discuss this with the company to understand accurately what has been undertaken.

The Board has used its discretion to reduce the STIP this year. The Board also has instigated further discretion over LTIP awards on foot this year – not subject only to Malus, which would require proving misconduct on the part of the CEO.

With the deferral of LTIP over several years and the vesting of the RRP Mr Joyce had a significant payout riding on the company having one very good year financially and this was achieved. But at what cost to the company and shareholders?

Our issues with the remuneration framework are as follows:

STIP:

- Allowing STIP at maximum to be 200% of fixed rem (FR), particularly when the majority of the STIP is paid with no deferral period, can drive short term behaviour in management that can result in meeting the STIP objectives whilst causing other problems for later on. In short it can drive short-termism over long term strategic and considered thinking, which would better align management with shareholders.
- While the strategic objectives seem balanced, there is little detail on what the actual objectives are, and the metrics required to be met are not disclosed.
- There is an individual performance factor that can range from 0 to 150% of FR, the workings of which are also not disclosed.

RRP:

- Details of how these performance measures have been arrived at are also not well disclosed.
- The $1billion recovery program has been achieved in full, but rank and file staff are unhappy (or have been sacked), pilots are calling for the Chair to resign, customer service is the subject of numerous complaints, fines, penalties and compensation has been racked up and the company has had to do a backflip on a policy that would have moved $570m from liabilities to cash.

- Achieving a net debt target can be helped along by restricting the company's investment in infrastructure, such as aircraft, resulting in a considerable payout to staff while future shareholders foot the bill for the fleet regeneration.
- Profitability has been fully achieved. When a significant portion of your customer base is trapped in flight credits and you can use your market position to restrict supply and drive up prices to sometimes 3 times the cost of the flight originally booked, it is not surprising that you can push the profit up in the key year required to hit the target.

LTIP

- Is currently payable based on two different measures of TSR. The Board have announced this will move to three equal measures and include a customer satisfaction measure.
- So, how could you manipulate TSR? If you release significantly improved guidance to the market around one month prior to the end of the year whilst not mentioning how a major court case is progressing or an ACCC investigation that could result in significant penalties, the share price shoots up and the TSR hits target.

We would like Qantas to consider the following adjustments to their remuneration plan going forward:

- Reduce maximum STIP to 100% of FR and target to a figure below this.
- Reset the STIP objectives to accommodate this, but be transparent and communicative about the metrics used to measure this performance and the results achieved.
- Remove the discretionary individual weighting that can currently be used to ramp maximum STIP up to 300% of Fixed.
- Increase the proportion of STIP deferred to at least 50% of FR (at present, if the maximum 300% of FR is achieved, 2/3 of this is paid in cash- a 200% of FR paid as a cash bonus).
- Change the second LTIP measure to be something other than TSR. While the current has two different measures, they are both measures of TSR.
- Keep the customer related LTIP measure, but be transparent about how this will be calculated and where the baseline is – i.e. letting shareholders know that the system is unable to be gamed.
- Expand the clawback and malus clauses so that the Company is not completely reliant on proving misconduct should management decisions cause risk or loss.

We will be voting all undirected proxies against the remuneration report.

Resolution 5 On-market Share Buy-Back (Against)

The company is looking at buying back up to 200m shares ($980m at date of writing).

The company has indicated this is to reward loyal shareholders who contributed $1.4b to support the company through COVID. The points we would make are:

- Net assets of the Company at the end of FY24 were $10m, albeit some of this is due to the write off of aircraft. However, Current Assets are $5.1b while Current Liabilities are $12.1b.

$6.67b of Current Liabilities are revenue received in advance and cash is $3b. While the Board have stated that they have a strong balance sheet, we are not sure we would agree. The Company may have the ability to ramp up debt (following an RRP scheme that had reducing net debt as a key objective), but at what cost given the current environment?

- The Company has estimated $6.8b of fleet replacement over the next three years.
- There is also a total of $450m in potential fines, an unknown amount of compensation for sacked workers and a starting cost of $150m to win back trust.
- Conducting a buy-back when a company has excess capital, particularly when the share price is relatively low, makes good sense. This is not the situation Qantas is in at present.

For these reasons we will be voting any undirected proxies against this resolution.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.7	29%	1.7	25%
STI – Cash *	1.1	19%	1.8	26%
STI – Equity *	0.5	8%	0.8	12%
LTI	2.6	44%	2.6	37%
Total	5.9	100.0%	6.9	100%

* There is an "Individual Performance Factor" that operates completely at Board discretion that is multiplicatively applied to the STI awards. This factor can range from zero to 1.5, meaning that the target STI could be as high as $1.65m Cash and $0.75m equity and the maximum STI opportunity could be as high as $2.56m Cash and $1.28m. This is difficult to manage in the table above, so has been added here.