

## The COVID-19 era is over - Now the focus turns to health and beauty

<b>Company/ASX Code</b>	Wesfarmers Limited (WES)
<b>AGM time and date</b>	1.00 pm AWST, Thursday, 26 October 2023
<b>Location</b>	Perth Convention and Exhibition Centre, 21 Mounts Bay Road Perth.
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Geoff Read with Ian Berry
<b>Pre-AGM Meeting</b>	Yes, with the chairman, remuneration chairman, company secretary and investor relations.

Monitor Shareholding: the monitors who prepared this document have a shareholding in this company.

## How we intend to vote open proxies

No.	Resolution description	
2a	Re-election of Michael Chaney AO as a director	For
2b	Re-election of Sir Bill English KNZM as a director	For
2c	Re-election of Alan Cransberg as a director.	For
3	Adoption of the remuneration report.	For
4	Grant of KEEPP deferred shares and KEEPP performance shares to the Group Managing Director	For

## Summary of Issues

Wesfarmers produced earnings before interest and tax (EBIT) of \$3.64B with net profit after tax of \$2.5B, an increase of 4.5% on the prior year. Group revenue increased by 18.3% to \$43.5B. Dividends per share were \$1.91 fully franked. The overall return on equity was 31.4% although some divisions underperformed.

Bunnings achieved a great result, return on capital employed (ROCE) was 65.4%. Kmart lifted performance to ROCE of 47%, the chemicals, energy and fertiliser division did well with ROCE of 39.7% (excluding lithium) despite a downturn in ammonia prices. Officeworks was satisfactory at 18%. Industrial and safety is a perennial poor performer with ROCE of only 8%. The new health division achieved a tiny profit in its first full year of Wesfarmers ownership. The Catch division made a loss and sales fell sharply. It is clearly in need of attention. The Chairman told ASA that there are comprehensive plans in place to improve the returns from both the industrial and health division.

The investment in Mount Holland lithium continued and first production of spodumene concentrate is expected in the first half of financial year 2024, with the first earnings from the sale of spodumene expected in the second half of financial year 2024. Construction of the Covalent lithium refinery continued, and first lithium hydroxide output is expected in calendar year 2025.

There were no significant changes to the board or the executive this year. The company secretary will retire at the conclusion of the 2023 AGM. She has always been very respectful towards ASA and we thanked her for her co-operation over many years in the presence of the Chairman.

The only changes in investments were minor additions to the Bunnings and Health Divisions. The last remaining 2.8% stake in Coles was sold.

Wesfarmers is well governed, and we have no issues with this company. The board members have a balance of all the skills necessary, and gender balance at the board and executive level is satisfactory.

#### Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	2465	2352	2380	1697	5510
UPAT (\$m)	2465	2352	2421	2083	1940
Share price (\$)	49.34	41.91	59.10	44.83	36.10
Dividend (cents)	191	180	178	170	278
Simple TSR (%)	22.3	-22.8*	35.8	28.4	12.2
EPS (cents)	217.8	207.8	210.4	150	487.2
CEO total remuneration, statutory (\$m)	8.175	7.951	6.934	7.763	6.749

\*Simple TSR adjusted for 2022 to include the return of capital.

## Rationale for Voting Intentions

### Resolution 2a - Re-election of Michael Chaney AO as a director. FOR

Mr Chaney was elected as a Director of Wesfarmers in June 2015 and became Chairman in November 2015. He was previously the CEO of Wesfarmers from 1992 until his retirement in 2005.

He is an independent director and he owns a substantial number of WES shares.

He has been the chairman of Northern Star (a gold Miner) since 2021.

### **Resolution 2b - Re-election of Sir Bill English KNZM as a director. FOR**

Sir Bill English has been a director of Wesfarmers since 2018. Previously his background was in New Zealand politics where he rose through various portfolios to become Prime Minister. He does not hold any other ASX directorships. He is Chairman of a NZ salmon company. He is an independent director. He owns an appropriate number of WES shares.

### **Resolution 2c - Re-election of Alan Cransberg as a director. FOR**

Mr Cransberg has been a director of Wesfarmers since 2021. He has a background in the mining and resources sector. He does not hold any other ASX directorships. He is an independent director. He has the smallest shareholding of all the directors, which is slightly less than 1 year's remuneration. Wesfarmers board policy requires him to achieve that objective in less than 5 years of tenure.

### **Resolution 3 - Adoption of the remuneration report. FOR**

The remuneration report is clear and comprehensive. It is also complicated due the nature of the KEEPP executive remuneration plan. ASA has requested Wesfarmers to provide a table showing the actual take home pay of the key executives. Wesfarmers has declined our request many times stating that there is no accounting standard for this information and that the long-term nature of this remuneration scheme makes this unrepresentative. We have noted that there is an ATO standard for this information and that other complex companies manage to publish this information.

With some searching and analysis it is possible to make a good estimate of the take home pay for the CEO. \$2.59M was paid in cash and benefits, plus he will receive \$2.4M in deferred shares subject to shareholder approval, plus he received 69,595 KEEPP performance shares from FY2019 and 25,774 K-mart performance shares. If we assume a value of \$49.50 per share at the time of vesting this means his total take home pay for 30 June 2023 was approximately \$9.7M.

Using the same method his take home pay for 2022 was estimated at \$10.0M.

We note that there are no general pay rises for directors and executives this year. The CEO's fixed base pay will increase from \$2.5M to \$2.6M on 1 October.

There is a performance scorecard which is used to assess the performance of each member of the executive key management personnel and feeds into the remuneration outcomes. This year the safety performance for Bunnings was poor, which also impacted overall Group safety performance. It represented a decline from last year and that was not a good year either.

Overall, the KEEPP performance shares are designed to reward executives for achieving strategic outcomes which result in long term shareholder returns.

This year we will vote open proxies FOR the remuneration report.

#### **Resolution 4 - Grant of KEEPP deferred shares and KEEPP performance shares to the Group Managing Director. FOR**

It is proposed to allocate the CEO a share-based award valued at \$4.9M (from a potential maximum of \$7.5M) comprising \$2.4M for deferred shares and \$2.5M for performance shares. The number of shares allocated will be decided by dividing the dollar amount by the VWAP price of the shares on the ASX during the period from 30 August 2023 to 12 September 2023. The CEO does not receive a cash incentive for the annual performance results.

The deferred shares will vest over 4-, 5- and 6-year periods and cannot be sold under normal conditions.

The performance shares have financial and strategic performance conditions. The number of performance shares that vest for the CEO will depend on the total shareholder returns for the four-year period ending on 30 June 2027 (80% weighting) and performance against a portfolio management and investment outcomes condition (20% weighting).

We will vote open proxies in favour of the resolution.

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## Appendix 1

### Remuneration framework detail for the Group Managing Director

CEO rem. Framework for FY2023	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.5*	33.3%	2.5	25%
STI - Cash	0	0%	0	0%
Deferred Shares	2.5	33.3%	3.75	37.5%
Performance Shares	2.5	33.3%	3.75	37.5%
Total	7.5	100.0%	10.0	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*The fixed remuneration for the CEO will increase to \$2.6M from 1 October 2023.