

PICK N PAY STORES LIMITED

<https://www.picknpayinvestor.co.za/governance.php>

Annual General Meeting

26th July 2022

Financial Year End: 31st March 2022

Proxies voted
Labour Research Services
The Ditikeni Trust

The Integrated Annual Report (Report) states *Our strong and unique family values have guided the business for 55 years*, there is no doubt that the Ackerman Family will always be synonymous with Pick n Pay. However, the company is a listed public company and has not yet achieved an appropriate balance between the family's interests and experience and the interests of public shareholders. We do appreciate the changes to the board with the appointment of 3 new directors over the past 3 years and that the board's independence will be enhanced with the retirement of former executive, long serving director (46 years), and Lead Independent Director, Hugh Herman, at this AGM. Appointing the former CFO as chair of the Audit Committee as is the intention is most inappropriate. The board should take note of the fact that no fewer than 5 resolutions at the last AGM received 25% or less of the free float shares.

The company does present an ESG report but as noted below reporting would be greatly improved by showing achievements against targets. We commend the company for including the Social and Ethics Committee Report on the Agenda after we requested this last year. However, we would prefer this to be a separate agenda item rather than included with the Annual Financial Statements and subsidiary reports thereto.

The remuneration advisory resolutions were not approved last year and a detailed look at the voting figures indicate that only 17% and 6% of shares other than those controlled by management or family voted for these resolutions last year. Given that, we expect a more determined effort to consult shareholders and address concerns, in particular the repeated use of discretion by the Remuneration Committee – the chair of that committee does note that one of the concerns raised by shareholders is *the level of discretion used by the remuneration committee in the implementation*, and specifically the *repeated use of discretion*. There does not seem to be any change in the level of discretion used.

There has been an improvement in the Report with some hyperlinks, however it continues to be designed as a printed report with two pages alongside one another. This is impossible to read easily on a large laptop screen and is clearly designed to be printed –on my 15-inch screen it must be reduced to 46.2% to view a full page. Some pages need to be rotated to be viewed which may work in the printed report but does not work on a screen. This does not fit with the company's often stated commitment to the environment.

	Resolution	Rationale	Vote	Outcome of AGM
	Presentation of the audited Annual Financial Statements, the directors' report, and the reports of the audit, risk and compliance committee and the social and ethics committee	<p>The company is only required to present the Annual Financial Statements (AFSs) and the Social and Ethics Committee Report to the shareholders. We would prefer the AFSs and the Social and Ethics Committee (SEC) Report to be presented as separate agenda items to ensure that they are both given appropriate time and consideration at the AGM.</p> <p>We do appreciate that the (SEC) report is included on the agenda this year as this was not the case in previous years although the minutes do show that this was presented.</p> <p>A vote of acceptance is not required on either the AFSs or the SEC report but we consider it best practice to put the AFSs to the shareholders for acceptance.</p> <p><i>ESG is deeply embedded in our values of business efficiency, doing good is good business, and consumer sovereignty</i> so says the Chairman.</p> <p>The SEC report included in the governance report is excessively brief but a determined shareholder will find the ESG PERFORMANCE SUMMARY AND DATABOOK 2022 which provides detailed information.</p> <p>The information in the booklet is excellent, however although the booklet provides various targets for such as total carbon reduction, renewable energy, water reduction, packaging etc., the report does not clearly show the progress towards achieving those targets. It does report 3-year figures of the various measures but it would be great to see these against the targets set.</p> <p>Governance is dealt with in this report as well but we remain concerned about independence of the board.</p>		
	Ordinary Resolution			
1	Appointment of external auditors and designated audit partner	<p>The resolution clearly states the date of appointment of the audit firm and the designated auditor. Excellent disclosure for which we commend Pick n Pay.</p> <p>Ernst & Young are one of the big four firms of auditors and are suitably skilled to carry out the audit.</p>	FOR	FOR 100%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>They have been auditors for 7 years and as such are not required to be rotated. The designated auditor will serve her 3rd year in that position and therefore does not yet require to be rotated.</p>		
2	Re-appointment of directors	<p>In the introduction we do deal with the difficulty in attaining an appropriate balance between the family interests and those of a listed company. The Report does state that 4 directors are members of the Ackerman family which directors are not considered independent, it goes on to say <i>[t]o guard against a perception that a conflict of interest could arise between the controlling shareholder and other shareholders, the Board annually elects an independent non-executive director to act as lead independent director (LID).</i> However, the LID appointed until now has been Mr Hugh Herman who previously served as an executive and later as joint Managing Director alongside Mr Raymond Ackerman, and who has served as a director for 46 years. Mr Herman has undoubtedly been a most loyal director and no doubt has a wealth of experience, but he can hardly be considered as independent and to appoint him as LID is most inappropriate.</p> <p>We are pleased to note that Mr Herman steps down from the board this year but Mr van Rooyen who takes his place as LID has 15 years' service on the board. We would like to see a LID whose independence is unquestionable.</p> <p>The board has made some moves to become more independent with the appointment of 3 new directors in the past 3 years and now with the overdue retirement of Mr Herman. However, independence remains our major concern with average tenure of close to 13 years and only the 3 new directors having less than 9 years' service as directors. The Report states all <i>independent non-executive directors who have served on the Board for more than nine years retire by rotation at the end of every year, instead of the standard three-year term of office.</i> This is commendable, but the issue of course is that a large percentage of directors are not independent.</p> <p>To add to our concerns regarding independence, the board proposes to appoint a long-serving employee and previous CFO as the chair of the audit committee (3 below). Given our concern regarding</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>independence of this board, we take a strict view of individual directors and audit committee members independence.</p> <p>Despite the appointment of a new CEO, continuity is not a concern given the number of family (4) who serve on the board and the length of service of other directors. However, there is a serious concern that insufficient has been done to build a board for the future with many of the directors having very long service. Succession planning at management and board level is a concern.</p> <p>The diversity of the board in terms of age, gender and race has improved with the changes outlined above. However, the targets of 25% female and 25% black are far too low and the board only has 1 black African director, and the management team remains far too white and male.</p> <p>Skills are acceptable but we would like to see more skills in IT and ESG experience being introduced.</p>		
2.1	Re-election of David Friedland as director	<p>Mr Friedland, 68, has been a director for 9 years. He is suitably skilled and experienced and his attendance record was impeccable during the last financial year.</p> <p>He is a director of the Investec group and TFG (The Foschini Group) so we do not have any specific concerns regarding his level of commitment.</p> <p>He has long service but we have no other concerns regarding his independence so support his reappointment.</p>	FOR	FOR 99.7%
2.2	Re-election of Aboubakar Jakoet as director	<p>Mr Jakoet served as an employee for 36 years of which 11 were as a director. We commend his long and loyal service but do not consider him sufficiently independent to serve on the board.</p>	AGAINST	FOR 93.3%
2.3	Re-election of Annamarie van der Merwe as director	<p>Ms van der Merwe, 58, has been a director for 1 year. Her attendance at board meetings was impeccable and she does not appear to be a director of any other listed companies.</p> <p>We are told that as a former member of the King Committee she was involved in the writing of the King codes; as such we hope she will bring a greater level of independence to the board.</p>	FOR	FOR 99.8%

	Resolution	Rationale	Vote	Outcome of AGM
2.4	Re-election of Jeff van Rooyen as director	<p>We wrote to the company in 2021 and raised a number of issues including the poor level of independence of the board. In the reply to our letter https://activeshareholder.co.za/2021-pnp-rem-reply/ PnP stated <i>The Board has taken note of shareholder concerns raised in respect of the tenure of long-standing directors, and as such, Hugh Herman retired as Chairman of the Remuneration Committee this year. Furthermore, both Hugh Herman and Jeff van Rooyen will retire from the Board at the AGM in 2022 and will not offer themselves for re-election.</i></p> <p>Mr van Rooyen is again being presented for election as a director and more worryingly as a member of the audit committee (3.2 below). Mr van Rooyen has served as a director on this board for 15 years and given our overall concerns regarding the lack of independence of this board, we again oppose his reappointment to the board.</p> <p>At the 2021 AGM only 25.9% of free float shares supported his appointment to the board and we urge the family and Mr van Rooyen to heed this.</p>	AGAINST	FOR 90.7%
2.5	Appointment of Suzanne Ackerman-Berman as director	<p>Ms Ackerman-Berman, 59, has been a director for 12 years and is one of 4 family members serving on the board.</p> <p>We do consider the family's representation on the board to be too high – 4 family members represents 36% of the board. Consequently, we oppose her reappointment.</p>	AGAINST	FOR 97.4%
3	Appointment of audit, risk and compliance committee members	<p>The Chairman states in his address that <i>Jeff van Rooyen will be staying on as a director for another year to assist Bakar Jakoet take over as Chair of the audit, risk and compliance committee.</i> Mr Jakoet served as an employee for 36 years, and on the board for 11 years. He is the former CFO and as such the current CFO must have served under him. It is most inappropriate that Mr Jakoet serve as the chairman of the audit committee, this committee has oversight over the department which Mr Jakoet ran.</p> <p>We are told that the company wishes to introduce a new independent director with financial skills to bolster this committee – as noted above, we do have a concern regarding succession planning at board level.</p>		

	Resolution	Rationale	Vote	Outcome of AGM
3.1	Appointment of Aboubakar Jakoet	As outlined above, Mr Jakoet was the former CFO and as such we oppose his serving on this committee and strongly question the decision to appoint him chairman of this committee.	AGAINST	FOR 90.8%
3.2	Appointment of Jeff van Rooyen	We oppose Mr van Rooyen's appointment to the board given his very long service and the possible loss of independence after such a long period. Independence of the audit committee is of even greater importance given our concerns regarding the independence of the board.	AGAINST	FOR 90.2%
3.3	Appointment of Audrey Mothupi	Ms Mothupi, 52, has served on the board for 9 years and given our concerns regarding the independence of the board and this committee, we oppose her reappointment to the committee.	AGAINST	FOR 97.4%
3.4	Appointment of David Friedland	Mr Friedland, 68, has served on the board for 9 years and given our concerns regarding the independence of the board and this committee, we oppose his reappointment to the committee.	AGAINST	FOR 98.8%
3.5	Appointment of Mariam Cassim	Ms Cassim, 40, has served on the board for 2 years. Her attendance record was good and she has no other listed directorships although she has a full-time position with Vodacom.	FOR	FOR 99.9%
4	Directors' authority to implement special and ordinary resolutions	This is an administrative matter.	FOR	FOR 100%
	Advisory Resolutions			
1	Endorsement of the remuneration policy	The Remuneration Committee (Remco) comprises 5 directors and we are told are <i>only non-executive directors</i> serve on this committee. GARETH ACKERMAN (the chairman) does serve on Remco and elsewhere in the report we are told that his high fee is in recognition of <i>the active role the Chair plays</i> . Confusing. The external advisors are named and their brief in terms of benchmarking is clear. The Report acknowledges that shareholder support for both the remuneration advisory votes did not meet the required 75% level. What is not as obvious is that shares excluding family and management (free float shares) largely voted against both the resolutions at the 2021	AGAINST	FOR 75.8%

	Resolution	Rationale	Vote	Outcome of AGM
		<p>AGM with only 17% and 6% of those shareholders voting for the policy and implementation respectively.</p> <p>The Report states that it did engage with shareholders before the 2021 AGM and subsequent to the AGM <i>the Board invited further engagement with shareholders</i> and that only 2 shareholders requested the opportunity to engage with the company.</p> <p>In fact, what the company did say was that, given the failure to get the necessary support the company <i>is therefore requesting that shareholders submit all questions and concerns to our company secretary</i>. This is not quite what the Report states – ie an invitation for further engagement.</p> <p>Active shareholder did make a submission: https://activeshareholder.co.za/2021-pnp-remuneration/ And received a response: https://activeshareholder.co.za/2021-pnp-rem-reply/</p> <p>One of the concerns raised by shareholders per the Report is <i>the level of discretion used by the remuneration committee in the implementation</i>, and specifically <i>repeated use of discretion</i> we will look carefully at this under the implementation report below.</p> <p>A detailed list of concerns is provided and the Remco responses to each concern.</p> <p>We are told that an independent review was undertaken of remuneration was undertaken and a list of issues is provided together with Remco responses. Good disclosure.</p> <p>The Report does list all companies used in benchmarking management remuneration this year and clearly states that the benchmarking was externally carried out; we are pleased with this improvement in disclosure.</p> <p>Executive remuneration consists of Guaranteed Pay (GP) (being salary and benefits), Short-Term Incentives (STIs) and Long-Term Incentives (LTIs). STIs and LTIs are linked to GP.</p> <p>GP is benchmarked as outlined above which is best practice.</p> <p>STIs metrics and weighting are:</p>		

	Resolution	Rationale	Vote	Outcome of AGM
		<p>Financial Performance – 60%, split 60% on PBTAE (Profit Before Tax and Exceptional Items) and 40% Sales Growth. Individual Performance – 40%, split 40% on each of 2 KPIs and 20% on ESG targets. The KPIs for executives are provided. The company strategy does provide ambitious targets for key indicators including sales growth, new stores opened, on-line sales growth, NPS (Net Promoter Score – a measure of customer satisfaction), however actual individual targets are set by the remuneration committee.</p> <p>The Report provides an understandable link to the company strategy and we like the gatekeeper requirement of PBTAE, the requirement for customer satisfaction as a measure, and the Report is clear and understandable. On the negative side we find that 8% (20% of 40%) for ESG a low weighting particularly as this includes customer satisfaction which is perhaps a business imperative rather than an element of ESG. ESG measures are light on information on reducing carbon emissions, but targets are commendably clear.</p> <p>The company operates 2 LTI schemes in addition to certain legacy schemes. The schemes are:</p> <p>Cash Retention Incentive (CRI) which has no performance conditions other than remaining in the employ of the group apply as the sole objective of the scheme is to retain scarce skills in a competitive environment. The cash is retained for a period of 3 years and thus eligible employees receive cash every year on a rolling basis. Staff eligible for this plan are middle to senior management.</p> <p>Restricted Share Plan (RSP) is awarded to senior and executive management in the form of shares to the maximum value of 100% of annual cash salary (this excludes benefits) in the case of the CEO and CFO and between 50% and 100% for senior managers. The shares are subject to vesting conditions which are not outlined in the report which only states that the primary measure is compound annual growth in HEPS (Headline Earnings Per Share) linked to CPI. In addition, a gatekeeper requirement is that ROCE (Return On Capital Employed)</p>		

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		<p>must be greater than WACC (Weighted Average Cost of Capital). The vesting period is <i>normally three years</i>. Participants have voting rights over the period and <i>Dividend rights are at the discretion of the remuneration committee, and are currently deferred until vesting date, and paid in direct proportion to the number of shares which vest.</i></p> <p>The Report is insufficiently clear on vesting conditions for the LTI and we do not favour HEPS as a measure, we would prefer to see a relative measure as this takes into account market conditions and reduces the need for discretionary interventions. Again, we do favour the gatekeeper clause but would like to see the existing practice of paying dividends set as a policy and not left to the discretion of Remco. We were confused about the maximum amount payable to the CEO as it is stated as 200% elsewhere in the Report but 100% in this section.</p> <p>Malus and Clawback conditions apply and the CEO has a minimum shareholding of 50% of shares awarded under the scheme.</p> <p>We do not have any single major objection to the policy, rather there are a number of issues which are of concern.</p> <p>We do like the concept of a financial gatekeeper to both the STI and LTI.</p> <p>The policy is clearly aligned to the strategy although this is more a list of objectives than a strategy to achieve the objectives.</p> <p>We appreciate that customer satisfaction and ESG are included in the policy but find this very light at a combined 8% and need to see greater emphasis on both of these particularly given the importance of customers loyalty to the success of the business and the fact that social factors (riots) and climate change (floods) have already disrupted the business.</p> <p>The series of events which have disrupted company operations – Covid, Social Unrest and riots, and the KZN floods required Remco to use its discretion. This suggests that the policy is insufficiently robust to deal with extreme events. Such events are</p>		

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		likely to recur and, in addition to seeing greater emphasis on ESG, we would like to see more emphasis on comparator metrics such as market share and relative TSR which take into account industry wide disruptions.		
2	Endorsement of the remuneration implementation	<p>Guaranteed Pay for the CEO did not increase as he only joined the company in April 2021. The CFO's salary increased by 20.2% from R 4.856m to R 5.885m, this is a significant increase and we are told that the increase was as a result of a benchmarking exercise in which the CFO was found to be significantly underpaid. We are puzzled how the CFO could be found to be underpaid by such a high margin in this year's benchmarking exercise when this was not the case in last year's benchmarking.</p> <p>Any increase in an executive's remuneration of this magnitude needs a proper explanation which is not supplied.</p> <p>Other executive increases were 0.2% for Ms Ackerman-Berman and 2% for Mr J Ackerman. No reasons are given for these low increases. Ms Ackerman-Berman resigns as an executive director at the AGM.</p> <p>Other managers increases were 4% for top management to 5.5% for junior staff. We do appreciate the attempt to close the pay gap regardless of the fact that it is a very small amount.</p> <p>The company does talk of the internal Gini Co-efficient but this is not disclosed. Given the troubling inequality in South Africa we would like more information on the pay gap.</p> <p>The STI awards do appear to be extremely discretionary which is problematic. The CEO was awarded a STI of 49%, the CFO 70% and Ms Ackerman-Berman and Mr J Ackerman 50% of their annual salary.</p> <p>Shareholders raised their concern at the level of discretion used by Remco but the payment of the STI appears to be largely discretionary which we do not favour.</p> <p>The LTI award only reached the threshold target for a 30% award but Remco states that if it were not for the riots, then the full stretch award of 100% would have been reached and they therefore used their</p>	AGAINST	FOR 78.1%

	Resolution	Rationale	Vote	Outcome of AGM
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		<p>discretion to award 50% which will see 846 750 shares awarded which at the share price on 31 March of R 53.76 equates to R 45.5m.</p> <p>We do understand that the riots had a negative impact on the company, shareholders, customers and indeed the whole of South Africa. However, we do not favour the repeated use of discretion by Remco. The remuneration policy should be robust enough to take into account unexpected events by using measures relative to PnP's competitors for example.</p> <p>Single Figure Remuneration for executives was (R 000s) (Guaranteed Pay; Short Term Incentive; Long Term Incentive; Gratuity on retirement; S A-B = Suzanne Ackerman-Berman; J A = Jonathan Ackerman):</p> <table border="1" data-bbox="813 659 1693 847"> <thead> <tr> <th></th> <th>GP</th> <th>STI</th> <th>LTI</th> <th>Gratuity</th> <th></th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>CEO</td> <td>14 927</td> <td>10 493</td> <td>5 799</td> <td></td> <td></td> <td>31 219</td> </tr> <tr> <td>CFO</td> <td>5 885</td> <td>3 612</td> <td>5 578</td> <td></td> <td></td> <td>15 075</td> </tr> <tr> <td>S A-B</td> <td>3 597</td> <td>1 008</td> <td>2 153</td> <td>3 024</td> <td></td> <td>9 782</td> </tr> <tr> <td>J A</td> <td>2 104</td> <td>504</td> <td>633</td> <td></td> <td></td> <td>3 241</td> </tr> </tbody> </table> <p>The CEO was awarded two tranches each of 500 000 PnP shares as a sign on bonus. It is not clear how this is accounted for in the single figure remuneration. The CEO's GP in Report does not agree with that in the AFSs.</p> <p>Both the STIs and LTIs awarded were based on the use of discretion by Remco. We do not support the implementation report due to the repeated use of discretion by Remco, particularly in light of the Remco chairs statement that Remco is cognisant of the concern expressed by shareholders around the level of discretion it has used in the past.</p>		GP	STI	LTI	Gratuity		TOTAL	CEO	14 927	10 493	5 799			31 219	CFO	5 885	3 612	5 578			15 075	S A-B	3 597	1 008	2 153	3 024		9 782	J A	2 104	504	633			3 241		
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	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolutions			
1	Directors' fees for the 2023 and 2024 annual financial periods	<p>The chairman's fee remains unchanged and other fees increase by 2.8%. Fees are in line with industry although the chairman's fee is high at R 4.893m. We are told that this is as a result of his active role in the company.</p> <p>We are told in the report that directors fees are approved by shareholders annually but this resolution is for fees for 2 years. This is confusing.</p> <p>No attendance fee is paid and directors are paid a flat fee plus committee fees. We consider the payment of an attendance fee as a minimum requirement in the absence of any other performance measure, and consequently oppose the fees.</p>	AGAINST	FOR 82.0%
2	Provision of financial assistance to related or inter-related companies and others			
2.1	Provision of financial assistance to related or interrelated companies	<p>This resolution is <i>to provide inter-group loans ... the purpose of funding the day-to-day operational decisions of the Group.</i></p> <p>A clear resolution for provision of financial assistance for business purposes and as such we support the resolution.</p> <p>We commend Pick n Pay for avoiding the trap that many companies fall into of making the grounds for and recipients of such loans so broad that readers do not understand what the purpose of the loans is.</p>	FOR	FOR 99.6%
2.2	Provision of financial assistance to persons	<p>This resolution is <i>to provide any direct or indirect financial assistance ... to an employee of the Company or its subsidiaries ... within the Company's existing housing loan policy.</i></p> <p>Again, a commendably clear resolution.</p>	FOR	FOR 87.8%
3	Replacement of the Company's Memorandum of Incorporation	<p>This resolution clearly sets out the changes made in the new memorandum and articles and provides a link to a marked-up copy of the new resolution.</p> <p>Commendable disclosure and we have no issues with the proposed changes.</p>	FOR	FOR 100%

	Resolution	Rationale	Vote	Outcome of AGM
4	General approval to repurchase Company shares	We do not support general authorities to acquire shares in the company. Thus we do not support this resolution.	AGAINST	FOR 98.3%