



Blackmores finally gets an independent new board, or does it?

Company/ASX Code	Blackmores/BKL
AGM date	Wednesday 27 October 2021
Time and location	11am AEDT Virtual www.web.lumiagm.com/326650576
Registry	Computershare
Webcast	Yes www.web.lumiagm.com/3266505
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills and Karin Hickman
Pre AGM Meetings	Yes, with Chair Anne Templeman-Jones and Chair remuneration committee David Ansell and Wendy Stops, CEO Alastair Symington

An individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting.

This year has seen a number of ASA meetings with the directors of Blackmores prior to the AGM. Concerns over director resignations, a potential change in culture, and the need for appropriate health industry skills and experience at the board level have been discussed. ASA also spoke to Marcus Blackmore and George Tambassis.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

No one can deny Marcus Blackmore is a passionate advocate for the company he built, a company that went beyond many in building a supportive family culture. This culture is highly valued by many retail shareholders in Blackmores.

Now shareholders are being asked to choose between voting to elect Marcus' appointee to the board, and following the voting recommendations of the current directors and board.

ASA feels that the board and CEO Alastair Symington have made significant progress in the transformation strategy, and the proposed additional director is a distraction and may not be in the best interests of the company.

Blackmores is now a vertically integrated business with Braeside having seen its first full year of production. This has seen considerable benefits and controls over production along with a significant rationalisation of products from 1400 down to 900, with more to come. Stock keeping units (SKUs) were down 40% by the end of 2021.

100% of the production line is now taken up with Blackmores product, which means productivity improvements, more responsiveness to consumer demand and a secure supply chain. 65% of

Blackmores products are now own-sourced, made and packed. Braeside had a 24% production increase across FY21 and has produced 2.6bn tablets and capsules in its first full year of operation.

Blackmores has maintained its leadership in the VDS market in Australia, Indonesia and Thailand and has significantly increased its sales to China, despite a very competitive environment and price discounting. Bioceuticals is still the leading practitioner brand in pharmacy.

The business improvement plan has seen \$28m in cost savings through simplifying the business and efficiency savings. Digital automation and digital systems have produced cost reductions to manufacture and supply. Blackmores has also consolidated its warehousing from two down to one.

Blackmores is aiming for 1 billion consumers by 2025. To achieve this, they are investing in e-commerce and digital capabilities, developing brand awareness in international and cross border e-commerce channels, and reinvesting in new products to accelerating growth in Asia. Braeside has now achieved Halal certification and will be capitalising on this with sales to Indonesia in FY22. Shipments to India started in August.

A global innovation centre has been set up in Shanghai China to develop new products specifically for that market. The focus is on a premium product and the Chinese “Modern Woman” with products for women’s health, fertility, and kids.

Innovation is important to this business and Blackmores leads in this area with the Blackmores Institute and current research into vision improvement, memory, pre-diabetes and birth defects.

In March 2021 they launched B(more) a new online personalised naturopath and vitamin service delivered to your door in convenient daily packages. 27% of sales were online in 2021 with Blackmores aiming for 40% by 2024.

Digital education is now 100% online, with complementary medicine education for 27,000 pharmacists across Australia, Malaysia and Thailand.

Governance and culture

The addition of Chairman, Anne Templeman-Jones has finally provided Blackmores with the board stability and governance that has been lacking in the last 2 years. With her appointment came the addition of two experienced ASX 50 listed company directors and following on from this the appointment two further directors that enhanced the board composition with broader knowledge and global experience. While we had concerns about the need for complementary medicine and pharmacy experience on the board prior to these appointments, we now feel that this area has been well covered.

The role of the Chair is one that includes managing the relationships with all shareholders and in this case the relationship between the Chair and the major shareholder appears to have broken down. It does need to be resolved so that Blackmores can get on with the task at hand without further disruption and potential brand damage.

The resignation of NED Christine Holman came out of the blue and the new chairman was proactive in engaging with us, at this point we raised our concerns about a perceived shift in culture and values within the organisation and a lack of natural medicine experience. The Chair reinforced the boards commitment to supporting the existing Blackmores culture.

The board skills matrix reflects the areas that need more expertise and health was definitely one of those areas. There is a high level of leadership, strategy, people and culture and reasonable expertise in most areas except health. The new board appointments, that had not occurred prior to the release of the annual report, have now been addressed.

The board is now made up of 57% women and has a female Chairman. There is a 40:40:20 gender policy or a minimum of 40% male and female directors.

The audit and risk committees have now been separated.

There is a minimum shareholding requirement (MSR) for the CEO of 100% of fixed remuneration (FR) in 5 years and 50% of FR for the CFO. Directors are now required to hold 100% base fees within 3 years calculated on the share price at the time of purchase. CEO Alastair Symington has 18,536 shares in Blackmores and at FYE closing price complies. David Ansell has 1,413 shares having been with the company since 2013 his base fee is \$143k at FYE closing price his shares are worth \$104k however they are now worth considerably more. All other directors are in their first year and have restrictions around when they can trade. ASA would like to see more skin in the game for all directors.

ESG

The new Sustainability Report is comprehensive and there are ambitious goals in place. There is a net zero by 2030 goal which, given that Braeside has significantly increased carbon emissions due to energy use, waste and water use, will not be that easy to achieve. The company have increased their renewable supply contracts from 8% to 25% total, they also increased their hybrid fleet to 86% and there is a plan to move to electrification, although transport costs between the plant and warehouse show that this is an area that needs to be addressed. The company has removed 3.5 tonnes of cardboard and 780kg of plastic and 98% of packaging is now recyclable and labelled appropriately but there is still a lot of waste going to landfill and water use increased significantly.

There is a new safety management system and energy management system in place to reflect the increased risks attached to Braeside.

A significant amount of work has been done on their audits of supply chain to improve human rights, health and safety, environment and business ethics and they have published their first Modern slavery statement.

The wage gap has closed and cultural diversity has improved.

Financial performance

Blackmores revenue for FY21 was \$575.9m up 3% driven by continuing strong growth in International revenue up 27% at \$163.7m, and a return to China revenue growth of 28% to \$131.6m. NPAT (excluding JobKeeper) was \$25.4m

ANZ was down 14% with revenue at \$280.6m impacted by the loss of Daigou trade. The cold and flu season was mild with a reduction in retail foot traffic due to a lack of international student and visitor shopping, COVID-19 retail shopping changes, and price and promotional competition. Bioceticals was impacted by a lack of cold and flu season and pantry stacking from 2020. Blackmores intends to re-focus its sales platforms from retail to e-commerce and health practitioners.

There was also an impact from out of stocks which has now been resolved with a plan for a 6-9 months planning horizon, and eventually moving to 2 years.

Blackmores has embraced cross border E-commerce to replace the Daigou shopper in Australia and increase sales in China.

The balance sheet has been strengthened by the FY20 \$139m capital raising, debt has been paid down and there is \$70.1m in net cash. Just over 2 million shares were issued over FY 20-21 with WANOS at 19,327,760.

With improved earnings and strong cash flow a full year dividend was returned, of 71c per share fully franked, representing a pay-out ratio of 48%, however still well below 2019 levels.

Key events

The sale of non-essential assets continued, with an October 2020 sale of Global Therapeutics to McPhersons for \$27m and \$2.2m of assets and inventory. In August 2020, the ISO Whey/Wheyless brand was sold for \$1.1m and \$1.3m for the stock at cost. A property at Warriewood was sold for \$6.2m in November 2020 and completed in May 21.

Key board or senior management changes

Blackmores has seen considerable change since the appointment of CEO and Executive Director, Alastair Symington in 2019 including the resignation of Marcus Blackmore and Chairman Brent Wallace (October 2020) and non-executive directors John Armstrong (Sept 2020) and Christine Holman (July 2021). It had been operating with a skeleton board until the appointment of Anne Templeman-Jones in October 2020, that has all now changed and we are seeing an experienced highly skilled board with a broader range of expertise, in line with the transformation strategy of the company and to support the CEO.

Wendy Stops and Sharon Warburton were added to the board in April 2021, and Erica Mann and Stephen Roche join the board on the 20 September 2021. The five new independent non-executive directors are all up for election at this AGM including the Chair. (See Item 5 for more details).

David Ansell has been a director at Blackmores since 2013 and as the longest standing director he provides business continuity on the board.

The directors fee pool of \$1.3m allows for 6 Directors.

John Rosiar was appointed MD Blackmores ANZ and Global pet in September. Replacing Ayumi Uneda who left in June. John was previously MD Beam Suntory Australia and has been there for 6 years. Prior to this he was VP Arnotts Campbells Asia Pacific. This position has had three changes over the last 2 years.

ASA focus issue (not discussed under remuneration report or re-election of directors)

George Tambassis

It is unusual for a director to self-nominate for a position on the board and while George may have good contacts in the pharmacy industry, a good understanding of the regulatory environment and health care industry in Australia, he does not have the CEO experience or global and governance experience that the board requires. He also does not have support of the board. George has had two interviews for the position, with more than one director, and was not successful.

There has been a long history of disruption and instability on the Blackmores Board and we hope this can now be behind Blackmores.

COVID-19

Blackmores received JobKeeper payments in the first 1H FY21 of \$10.1m of which \$2.4m was paid back, they also received \$0.5m in FY20 and \$0.5m in FY21 from the Singapore Job Support Scheme.

There has been no production down time, as Blackmores was deemed an essential service, however there have been supply chain and transportation issues and delays.

Blackmores have provided support to their team including mental health first aid, with exercise programs, meditation, and employee assistance programs, onsite physio and exercise physiologist. Donations worth \$3m in product were made to Westmead and Foodbank, along with immunity products to frontline workers.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	28.6	15.1*	53.4	70	59
UPAT (\$m)	25.4	NA	55.0	N/A	N/A
Share price (\$)	73.47	77.95	78.95	142.5	95.84
Dividend (cents)	71	--	220	305	270
Simple TSR (%)	(4.8%)	(13%)	(35%)	52%	(25%)
EPS (cents)	148.1	86.4	309.2	406.4	342.6
CEO total remuneration, actual (\$m)	1.38	1.35	0.79	2.09	4.32

*Restated due to SaaS accounting, no other years have been restated

For 2021 the CEO's total actual remuneration was **14 times** the Australian Full time Adult Average Weekly Total Earnings of \$92,034.80pa (based on November 2020 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

There is a clear and concise remuneration report that describes the boards consideration of discretion and outlines the reasons and breakdowns of the fee pools and how they came to what they considered a fair and equitable outcome for all stakeholders. Actual remuneration has been disclosed. For FY21 The CEO received 20% of his target short term incentives (STI), the 3 year FY19 long term incentives (LTI) did not vest due to the performance hurdle not being met.

The board used discretion to exclude the COVID-19 payments from EBIT for STI and profit share calculations.

Discretion was also used to set a STI fee pool at \$2.7m. The gateway had not quite been met, but the board felt that it was important to recognise the strong performance of International and China, the integration of Braeside, and in recognition of the team in supply chain who responded to the increased demand and the impact of COVID-19. ASA felt that in this case the change in gateway was possibly justified and STI was distributed to those KMP that had out performed.

The CEO awarded recognition grants to 12 non-executive team members to the value \$695k, distributed as a % of their fixed remuneration (FR).

Non-executive director fees remained the same, except for the Chair who received a 9% increase to \$305k as the result of an FY20 independent review.

There were no other increases to FR to the executive team and CEO in FY21.

Under the FY21 STI plan, there is a gateway threshold of 90% of budget Group EBIT before any STI is awarded. The KPI's are then measured against three key financial measures Group EBIT 50%, Group Net Sales 25%, Group Net working capital as a % of Net Sales 25%. The discretion adjusted STI pool of 40% of maximum targeted STI of \$2.7m was then allocated across the different groups to reflect performance in those areas. STI for the CEO is 50% Cash and 50% Equity deferred for two years.

The LTI is paid 100% in performance rights, measured 50% subject to 3 year CAGR, and 50% subject to 3 year ROIC. It has a three year performance period, ASA prefers a longer time frame.

FY 22 remuneration

There have been no increases to executives FR and the increase in super from 9.5% to 10% has been absorbed in existing remuneration in FY22.

An external review undertaken in FY21 to benchmark executive remuneration has seen the gateway threshold increased to 95% of reported EBIT and must be met before the plan activates. Performance measures will now be made up of 70% financial: EBIT 50%, net sales 25%, net working capital 25%, and 30% non-financial measures aligned to the Blackmores 5 strategic pillars.

The LTI is similar to FY21 but the maximum for the CEO has been reduced from 200% of FR to 150% of FR. The CFO has had his LTI increased to 50% of FR (from 10%) for threshold, 60% of FR (from 20%) at target and 100% (from 80%) at maximum. This is better aligned to market benchmarking. A clawback policy applies to KMP across STI and LTI.

There is a new Employee and Director Share Plan that is replacing the existing Staff Share Plan, and the Staff Acquisition Plan. Commencing in November 2021, directors, executives and Australian employees will be able to salary sacrifice a portion of their remuneration to purchase share rights, providing them with an opportunity to purchase shares in a tax effective manner and further aligning them with shareholders. A similar scheme is being considered for international employees. This is designed to simplify the two share plans and make them more equitable.

The long standing Blackmores Profit Share Plan whereby up to 10% of NPAT is paid to all full time employees has been maintained. In FY21 the amount was \$0.8m, the equivalent to three days' pay was paid out. It is paid in cash and can be used to buy shares in the share acquisition scheme. The CEO chose not to receive his profit share plan in FY21.

Remuneration Framework for 2022

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.3	38%	1.3	27%
STI – Cash	0.39	11.5%	0.78	16%
STI – Equity	0.39	11.5%	0.78	16%
Profit Share*	TBD		TBD	
LTI	1.3	39%	1.95	41%
Total	3.38	100.0%	4.81	100%

*Profit share plan cannot be predicted as it is dependent on forecast NPAT. It applies to all full-time employees.

ASA will be voting FOR the remuneration report.

Item 3	Approval of STI grant to CEO/Managing Director Alastair Symington
ASA Vote	For

For the FY22 STI Mr Symington will be awarded cash and share rights of up to 60% of his total fixed remuneration. The maximum number of rights will be determined by the average weighted average share price 14 days prior and after the August 2022 financial results. The amount will be subject to group and individual performance as measured by the board. Share rights will be deferred for 2 years. (See remuneration above for further details)

ASA will be voting FOR the approval of STI grant to the CEO.

Item 4	Approval of LTI grant to CEO/Managing Director Alastair Symington
ASA Vote	For

Summary of ASA Position

For the FY22 LTI Mr Symington will be granted up to 22,056 rights the equivalent to 150% of his total fixed remuneration divided by \$88.41, the average weighted average share price 14 days prior and after the August results. The rights are pursuant to two performance hurdles measured 50% by EPS growth, and 50% by ROIC growth, it will be tested and vests at the end of 3 years. There is a threshold of 10% growth for EPS and a maximum is achieved at 30% or more, the ROIC threshold is 12% with maximum reached at 16% or more. Board discretion and clawback apply.

ASA feels these measures are aligned to shareholders interest and therefore will vote FOR the resolution.

Item 5a	Election of Anne Templeman-Jones as a Director
ASA Vote	For

Summary of ASA Position

Anne Templeman-Jones was appointed Chairman and Independent Non-Executive Director (NED) on 28 October 2020. She is a member of Audit, People and Remuneration, and Risk and Technology Committees. She is a member of the Institute of Chartered Accountants ANZ, has a master's in risk management, and experience in strategy, financial, corporate governance, risk management, and operations, with a focus on ESG and Cyber security.

Anne's current directorships include, the Commonwealth Bank of Australia, she is also Chair of its Audit Committee and a member of its Risk Committee, Worley Ltd where she is Chair of its Audit and Risk Committee, New South Wales Treasury Corporation (TCorp), and the Cyber Security Research Centre Ltd. Her former directorships include Chair of Commonwealth Bank's financial subsidiaries, GUD Holdings Limited, The Citadel Group Ltd, Cuscal Ltd, HT&E Limited, Pioneer Credit Ltd, Notre Dame University, TAL Superannuation Fund and HBF Limited.

Anne's extensive ASX listed board experience includes governance, audit and risk and remuneration, along with executive experience in strategic, operational, financial, and risk management.

Anne Templeman-Jones has been instrumental in putting this current board together and we welcome the new board stability and strength. While her relationship with Marcus Blackmore has been difficult, and she has been tested by it, her strength in holding the line goes to why she needs to stay.

ASA will vote FOR her election.

Anne has 652 shares in Blackmores. We expect this to be increased over time in line with the MSR.

Item 5b	Election of Wendy Stops as a Director
ASA Vote	For

Summary of ASA Position

Wendy Stops was appointed an Independent Non-Executive Director on 28 April 2021. She is Chair of the Risk & Technology Committee and a member of the Audit, and the People & Remuneration Committee.

Wendy is currently a Non-Executive Director of Coles Group and Fitted for Work, a Council Member of the University of Melbourne, Chair of the Industry Advisory Board for the Melbourne Business School's Centre for Business Analytics, a member of the Digital Experts Advisory Panel for the Department of Prime Minister and Cabinet's Digital Taskforce and a member of the AICD's Governance of Technology and Innovation Panel.

She was previously a Non-Executive Director of the Commonwealth Bank of Australia (2015-2020) and Altium Ltd (2018-2019).

Wendy brings to the board deep global information technology, and operational and risk management experience with leadership roles in Asia Pacific.

ASA will vote FOR her appointment.

Wendy has 2,500 shares in Blackmores.

Item 5c	Election of Sharon Warburton as a Director
ASA Vote	For

Summary of ASA Position

Sharon Warburton was appointed an Independent Non-Executive Director in April 2021. She is Chair of the Audit Committee and a member of the People & Remuneration, and Risk & Technology Committee.

Sharon is a Fellow of the Institute Chartered Accountants (ANZ). Her experience includes governance and remuneration, she has worked with new and existing businesses in China, India, Indonesia and other South-East Asian countries.

She is currently a Non-Executive Director of Wesfarmers Limited and Chair of the Audit and Risk Committee, Worley Ltd, Northern Star Resources, Karlka Nyiyaparli Aboriginal Corporation, Thies Group Holdings Pty Ltd and the Perth Children's Hospital Foundation.

Sharon has also been a part-time member of the Takeovers Panel since 2015 and is an Adjunct Professor in Leadership and Strategy at Curtin University's Faculty of Business and Law.

Sharon's extensive ASX listed experience and executive experience in corporate strategy, business operations, finance, accounting and risk management along with audit and remuneration will add significant skills to the board. ASA raised our concerns about Sharon's workload. Sharon has successfully held 5 listed company board roles before and she has carefully considered the demands, and responsibilities, and is confident she can manage the additional board role. ASA will vote FOR her election.

Sharon has 0 shares we expect this to be improved on over time.

Item 5d	Election of Stephen Roche as a Director
ASA Vote	For

Summary of ASA Position

Stephen Roche was appointed to the Board as an Independent Non-Executive Director on the 20 September 2021 and is a member of the Nominations Committee.

Stephen was Managing Director and CEO at ASX listed API, Australian Pharmaceutical Industries Limited for 11 years. Prior to this he held senior executive roles at Mayne and Faulding across health and primary care services, distribution and business development. His ASX board and senior executive/CEO experience in healthcare, retail and consumer markets, including over 20 years'

experience in Australian and New Zealand pharmacy markets, and as Deputy Chairman of the National Pharmaceutical Services Association.

Stephen is a Non-Executive Director of Myer Family Investments Pty Ltd, Baby Bunting Limited and the Adelaide Football Club.

Stephen is currently Managing Director of Bridgestone (ANZ), this full-time commitment along with his other directorships, raises concerns as to his ability to devote the necessary time to Blackmores.

Stephen is confident that he has the time and capacity to commit to the role as a Blackmores Director. He has the support of Bridgestone and has carefully considered his commitments to ensure he can meet the demands of both.

Stephen 20 years' experience in pharmacy manufacturing, operations, complex supply chains and distribution channels will make a significant contribution to the board ASA will vote FOR Stephen Roche's election.

Stephen has 0 shares in Blackmores we expect this to be improved on over time.

Item 5e	Election of Erica Mann as a Director
ASA Vote	For

Summary of ASA Position

Erica Mann was appointed to the board as an Independent Non-Executive Director on the 20 September 2021, and is a member of the Nominations Committee.

Erica has over 30 years of experience in roles of increasing responsibility across the healthcare industry and more than 25 years of active P&L management. Erica most recently served as President & Head of Bayer's Global Consumer Health Division where she directed every aspect of one of the world's leading global consumer selfcare companies. Prior to joining Bayer, Erica was the Global President and General Manager of Pfizer (Wyeth) Nutrition.

Based in Sydney, Erica has a strong understanding of complementary medicines and naturopathic principles and experience in over-the-counter therapeutic goods. She chaired the board of the World Self-Medication Industry, a body that sets standards and guidelines for the design and labelling of non-prescription medicines and dietary supplements and held executive positions on the boards of South African Pharmaceutical Manufacturers' Association, Medicines Australia and International Association of Infant Food Manufacturers.

Erica is currently a Non-Executive Director of Kellogg Company (NYSE: K), Perrigo Company PLC (NYSE: PRGO) and Supervisory Board Member at Koninklijke (Royal) DSM N.V (AMS: DSM). Royal DSM is a Dutch company focused on health nutrition and bioscience with over 28,000 employees and \$10bn in sales.

Based on Erica's extensive executive experience in complementary medicines, pharmacy and health and her roles in highly regulated, complex, multi-channel and multi-product environments globally ASA will vote FOR the election of Erica Mann.

Erica has 0 shares in Blackmores we expect this to be improved on over time.

Item 6	Election of George Tambassis as a director
ASA Vote	Against

Summary of ASA Position

George has lobbied on his own behalf for this position with the support of Marcus Blackmore. He does not have the support of the board. He has been interviewed twice for the position on the board and was not accepted. The chairman and other directors confirmed with ASA their reasons for not taking him on board and to our mind they were justified. ASA feels that the campaign by Marcus to have George elected as an independent director is spurious. If Marcus wants him to be appointed to the board, he should nominate him as a nominee director and then there will be accountability for Marcus's role as a shadow director and George will be treated as a nominee. Whereas if George is elected there is significant ambiguity around George's independence.

While we can see that George has direct pharmacy experience and contacts that may benefit Blackmores we ultimately feel that the board needs to choose their own candidates as directors. The recent addition of Erica and Stephen cover many of the attributes that George would bring to the board and adds further skills that he doesn't have, in particular C-suite experience. Further a board needs to be able to work collaboratively for the benefit of the company. George's approach and recent publicity has done nothing to make us feel confident that he can work alongside the board. The additional cost of adding another director would also require an increase to the fee pool.

Therefore, ASA is voting AGAINST the election of George Tambassis.

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