



Blackmores moving in the right direction.

Company/ASX Code	Blackmores/BKL
AGM date	Thursday 20 October 2022
Time and location	2pm AEDT Blackmores Campus, 20 Jubilee Ave, Warriewood NSW
Registry	Computershare
Type of meeting	Physical with live webcast (no voting or questions online)
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills and Tony Soffer
Pre AGM Meeting?	Yes, with Chair Anne Templeman-Jones, NED and Chair of Remuneration Stephen Roche, Investor Relations Martin Cole

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

ASA will be attending the meeting. Proxy forms are due by 2pm on the 18 October. Please refer to the notice of meeting.

Summary of issues for meeting

In general Blackmores (BKL) is a well-run company and we don't have too many concerns with its board and management, but we challenged them on the following issues.

Changes to executive team

Changes to executive team have occurred during the year. These changes were raised with the chairman Anne Templeman-Jones she explained that the new members had enhanced and strengthened the executive team with deeper management skills. See key management changes below.

AGM meeting format

The board was determined to return to normal as soon as possible and have an in person meeting especially as many shareholders live in NSW. Given all the changes in board and management over the last 3 years we agree that it will be good to return to Warriewood. They felt that the additional costs of a hybrid meeting were not justified, however at our request they will review this after the AGM.

Remuneration report omissions

We felt the Remuneration report needs disclosure of actual remuneration and sign on payments, and a clearer summary at the beginning (better in 2021). Stephen Roche had felt the need to reduce the amount of information but will take on board our comments.

Capacity of existing facilities

Braeside constraints were discussed with the raw material supply and demand being the constraints for FY22. Improvements in automation, technology and systems will improve capacity and co-manufacturing is still part of the strategy.

Concern around the different sales channels in Australia & New Zealand (ANZ) and whether those channels competed was discussed. The chair and Stephen Roche commented on the structural change that is happening in ANZ. Since 2018, 38% of diagou sales have disappeared in ANZ and discounting has been occurring. For the first time in three years, they are seeing growth in ANZ and more profitable sales. Market share has been maintained. Anne commented that BioCeuticals were not discounted and channels competing were consumer led. Discounting online was related more to flow of stock and inventory

Whistle blower complaint

We discussed how the board had dealt with the recent whistle-blower complaint and were satisfied that it had been appropriately managed. The Chair was not unhappy about the Guardian article and felt that it had been dealt with fairly. The products are still on sale, the improvements have been made and the Therapeutic Goods Association and BKL feel the matter is now closed. The chair also confirmed that complaints and quality assurance matters are raised to board level on a regular basis.

How is BKL tracking on net zero by 2030

BKL has invested a lot of time and effort in ESG it recognises that its business is directly impacted by climate and biodiversity and is determined to take a leadership role in addressing its impact. They feel that the controllable elements are on track for 2030, but the non-controllables especially in supply chain, where there are many different suppliers across broad geographies and where data can be unreliable, is more difficult to predict. Modern slavery compliance checks and external assurance have a considerable cost and difficulty attached.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3	Election of Director Erica Mann	For
4	Grant of FY23 STI award to CEO/Managing Director Alastair Symington	For
5	Grant of FY23 LTI award to CEO/ Managing Director Alastair Symington	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

BKL has had a reasonably good year with improving sales and revenue in yet another difficult environment where COVID-19 restrictions in China and Australia along with global supply chain issues and freight have presented challenges. The transformation plan put in place by the CEO has been implemented well and is showing signs of success under these difficult circumstances. While BKL may benefit in some regards from COVID-19 and a renewed focus on health it is hard to tell, to

what extent. The benefits of a more severe cold and flu season can be seen in 2H sales in Australia but immunity products have not done so well this year.

Governance and culture

BKL has a refreshed board with significant board, governance, industry and C-Suite experience along with an understanding of naturopathic and complementary medicine and regulatory compliance. There is a new corporate governance statement. There are 5 independent non-executive directors and one executive, the CEO /MD Alastair Symington. There are annual board reviews, and an external review is planned for next year.

The situation between the board and Marcus Blackmore seems to have settled down.

Gender diversity policy of 40:40:20, with an impressive 67% women on the board and a female chair, 50% at senior executive level and 59% at management level.

BKL employees are well looked after with equal parental leave, flexible working, pay parity a Diversity Equity Inclusivity and Belonging policy and a RISE wellbeing program. BKL is recognised as the #1 industry employer and has been recognised by the AFR best place to work.

There is a minimum shareholding requirement (MSR) in place for Directors and KMP. The minimum shareholding requirement for directors is 100% of base fees in 3 years, based on the purchase price. All new directors now have some skin in the game and are continuing to purchase shares. We hope BKL will include a table of compliance in next years' annual report.

The CEO has the equivalent of his total fixed remuneration in shares as at the 30 June 22.

Financial performance

Group revenue \$649.5 is up 12.8%, underlying earnings before interest and tax (EBIT) of \$56.6m up 19%, underlying net profit after tax (NPAT) \$31.1m 22.6% Gross margin has improved to 53.4% up 1.1% on FY22.

Fully franked total dividend of 95c has increased from 71c in FY21. The payout ratio is 60%. Maintained DRP with 2.5% discount.

Group net cash was at \$82.2m an increase of 17.2%.

International continues to do extremely well with \$215.7m revenue up 31.8% on prior year with standout performances from Thailand and Indonesia and seeing benefits of the Halal products along with an expansion in products and distributors. India is now included in e-commerce channels. China produced \$145.6m of revenue up 10.6% and EBIT was up 11.2% to \$16m. China was impacted in the 2H by COVID lockdowns. It is still focused on cross border e-commerce.

ANZ revenue of \$288.2 was up 2.7% and EBIT improved by 7% to \$43.1m.

BKL is tracking well towards its 2025 goals of 60% sales from International and China and 40% of total group sales from e-commerce. Sales in Asia are now 55.6% of sales. E-commerce is now at 29%. All regions and sectors have improved over the year for the first time in 3 years. Diagou has now been reduced to 10% of sales.

The \$55m in cost savings across operating expenses (OPEX) and cost of goods sold (COGS) is on track with \$17m in cost savings in FY22.

Operating cash flow was lower than FY21 at \$51m due to increased Inventory to support the international growth, supply chain and transport issues, COVID surges and to reduce "out of

stocks". Increased investment in technology and the cloud means a greater line of sight across stock and customer demand. There have launched three new brand campaigns.

CAPEX \$10.7m was focused on Braeside automation and production efficiencies.

Key events

The transformation strategy is heading into its third year. Good progress has been made to simplify the operations, target growth opportunities, product innovation, expansion of distribution Asia and new advertising campaigns and promotions.

New 3 year strategy to be presented at the AGM.

April FY22 first Sustainability Linked Loan is linked to ESG outcomes and now represents 50% of BKL's banking facility

Key Board or senior management changes

Directors Christine Holman retired 28 July 2021, and David Ansell retired 30 June 2022. Erica Mann and Stephen Roche were elected at the last AGM and commenced in September 2021.

Cecile Cooper resigned as Company Secretary July 2021 and is now Chief Governance Officer.

Helen Mediati was appointed Group General Council in April 22 and became Company Secretary in Aug 22. A succession of company secretaries have been in place over the year. The chair now feels that the appropriate international legal experience is in place for the complex jurisdictions and regulatory environments.

Gunther Burghardt resigned as CFO in December with a hand over to Patrick Gibson in February 2022. Patrick has a 30 year diverse global career in finance most recently as CFO at GWA and prior to this at Goldman Fielder.

Jeremy Cowan retired as Chief Operating Officer, giving 6 months' notice, he was replaced with Andrew Fuery in June 2022. Chief Information Officer Kris Ellis is now included in the executive team.

ASA focus issues

COVID

BKL has managed the COVID situation well with no work related COVID cases, due to good workplace safety. The difficulties that it has presented with workforce participation, supply chain and freight have been managed well.

ESG/Sustainability

From BKL early beginnings, under Maurice Blackmore, the purpose, values and culture he created, have been aligned to ESG concerns. This is being further addressed as BKL faces the impact of climate change and loss of biodiversity on the company, and attempts to address its own impact on these areas.

BKL have produced an impressive sustainability report with well described goals and pathways for their 2030 Net Zero Goal. Taskforce for Climate Related Financial Disclosures (TCFD) reporting describes concrete actions, targets and partnerships to achieve goals. A direct connection to biodiversity with a new pilot using the Taskforce for Nature Related Financial Disclosures (TNFD) risk assessments was applied to three BKL sites and an important ingredient. External consultants

have been engaged to help and leadership roles in place with Alastair Symington joining the Climate Leaders Coalition in FY22.

Targets for: ANZ 100% recyclable packaging by 2025, 80% waste diverted from landfill by 2025, water efficiency target for 2024, zero exploitation in supply chain. Modern slavery is an area that the board acknowledges is difficult and very complex with suppliers of various raw materials spread globally.

Group Carbon emissions are down 4.1%. This a challenging area as Braeside manufacturing has increased emissions significantly since 2019. The purchase of renewable energy and a feasibility study into hydrogen as a replacement source of energy could be a game changer. Warriewood has increased its renewable energy to 50% and has a target of 100% in 2 years. They now have 95% of their fleet as hybrid vehicles and 5% EV, 64% waste was diverted from landfill, up from 48% in FY21. BKL is reporting scope 1, 2 & some scope 3 emissions and will continue to improve as more data becomes available.

BKL can also see opportunities for offsetting some of its emissions with the low emission sustainable farming methods of its suppliers.

We recommend shareholders read the Sustainability Report for further details. A great deal of work has gone into BKL efforts here and they are to be commended for taking on the challenge.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	30.622	28.619	15.108	53.469	70.005
Underlying NPAT (\$m)	31.075	25.384	15.702	52.120	70.005
Share price (\$)	70.40	73.47	77.95	89.91	142.50
Dividend (cents)	95	71	-	220	305
Simple TSR (%)	(2.8%)	(4.8%)	(13%)	(35%)	52%
EPS (cents)	157.9	148.1	86.4	309.2	406.4
CEO total remuneration, actual (\$m)	1.59	1.38	1.35	0.79	2.09

Item 2 Adoption of Remuneration Report

A lot of work has been done on the remuneration report over the past couple of years and it does seem to be aligned to shareholders interests. ASA would like to see the length of time of the long-term incentive (LTI) extended from 3 years to 4 years.

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. An actual remuneration table has not been included this year.

There are no changes to remuneration for FY23.

Total fixed remuneration (TFR) for the CEO and CFO remained the same. Non-executive director fees remained the same with increased super being absorbed into existing remuneration.

The new Employee and Director Share Plan commenced in November 2021, replacing the existing Staff Share Plan, and the Staff Acquisition Plan. Directors, executives and Australian eligible employees can salary sacrifice a portion of their remuneration for share rights, providing them with a tax effective opportunity to purchase shares. There is a restricted trading period attached. There is no BKL matching contribution to this plan. The take up has been disappointing so far. We questioned the chairman about the removal BKL's contribution, and she felt that it was not equitable with all employees, as many may not be in the position to salary sacrifice. They felt that the BKL Profit Share opportunity was a fair and reasonable contribution from BKL.

BKL has a Profit Share for eligible employees. It is paid twice a year in cash and is determined by up to 10% of Group NPAT. It is calculated based on the individual's salary and this year was equivalent to 7.5 days' pay and totalled around \$2.8m.

The CEO is also eligible for BKL Profit Share based on a pro-rata daily rate. The profit share amount paid to the CEO for 2022 was \$36,929.

In FY22 the gateway of 95% of Group budgeted EBIT was met. An FY22 STI pool of \$5.5m was determined with board discretion. The CEO received an STI equal to 39% of FTR or \$507,000, 50% in cash and 50% deferred equity over two years. This reflected 65% of his Target STI and was based on 70% financial and 30% non-financial measures.

Financial measures are: 50% of group underlying EBIT, 25% Group Net sales, 25% Group net working capital. Non-financial measures included growth in targeted markets and segments, simplified operations and reduced costs, people and planet.

No FY20 LTI was awarded to the KMP as EPS and ROIC targets were not met.

More details of the remuneration are available in the appendix.

ASA feels that in general the remuneration measures are aligned to shareholders interests and therefore will vote FOR the resolution.

Item 3. Re-election of director Erica Mann

Erica Mann was appointed to the board in Sept 2021. Erica is highly regarded with significant expertise and industry experience in complimentary medicine, naturopathic principles and over the counter goods. She brings a global perspective to the board with leadership roles in health, technology, and multi-channel and product environments.

Her current non-executive directorships include Kellogg Company, Perrigo Company and she sits on the Supervisory board of Koninklijke DSM. She recently completed a Berkeley Law School ESG certificate course.

She lives in Sydney.

ASA has no concerns about Erica Mann's re-election and will be voting all open proxies FOR her re-election.

Item 4 Approval of STI equity grants to Managing Director/CEO

The approval of a grants for STI and LTI performance rights for CEO/MD Alastair Symington is for the 2023 financial year. Grants are issued under the Executive Share Plan (ESP).

The maximum number of rights for the STI will be determined by dividing 60% of \$1.3m in TFR (\$780,000), by the VWAP 14 days prior and after the August 2023 results. The actual number will depend on performance targets achieved during FY23. The 50% equity component is subject to a 2 year deferral period, the other 50% is settled in cash at year end.

The amount is determined based on performance against 70% financial and 30% non-financial measures, and a gateway of 95% of budgeted group EBIT must be met.

Financial measures are: 50% of group underlying EBIT, 25% Group Net sales, 25% Group net working capital. Non-financial measures included growth in targeted markets and segments, simplified operations and reduced costs, people and planet

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

Item 5 Approval of LTI equity grants to Managing Director/CEO

The LTI performance period is 3 years from July 2022 to June 2025

The LTI award of 26,855 shares rights represents 150% of TFR divided by the face value of \$72.61, which is the VWAP of shares 14 days before and after the August 2022 results. These will be granted if performance conditions are met. Performance is measured 50% against an earnings per share (EPS) hurdle and 50% against a return on invested capital (ROIC). These will be tested against the 3 year performance period.

He will be awarded 50% of TFR at threshold, 100% of TFR at target, and 150% of TFR at stretch.

EPS will have a threshold of 15% compound annual growth rate (CAGR) and a stretch target of 35% and ROIC will be measured over the 3 year average with a threshold of 16% and 20% stretch target. Both measured have increased from FY22.

The ESP allows for board discretion including clawback and malus to be applied.

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

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Appendix 1 Remuneration framework detail

Remuneration Framework 2023

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.3	38%	1.3	27%
STI – Cash 50%	.39	12%	.78	16%
STI – Equity 50% deferred to Year 3	.39	12%	.78	16%
LTI- performance rights	1.3	38%	1.95	41%
Total	3.38	100.0%	4.81	100%

The CEO is also eligible for BKL Profit Share based on a pro-rata daily rate it is in paid in twice a year in cash and is determined by up to 10% of Group NPAT the amount for 2022 was \$36,929

- New “working together agreement” Enterprise Agreement has 89% approval