



Voting Intentions – Bluescope Ltd 2022 AGM

ASX Code	BSL
Meeting Time/Date	10am, Thursday 22 November 2022
Type of Meeting	Hybrid
Monitor	Mike Muntisov assisted by Meena Wahi
Pre AGM Meeting?	Yes, with Chair John Bevan, Investor Relations Don Watters and Sustainability Manager Tim Rodstedt

Summary of issues for meeting

The company is well governed and in a phase of board transition. After a record year with two US acquisitions, contracting steel margins will put more pressure on the business.

Proposed Voting Summary

2	Adoption of Remuneration Report	For
3a	Re-election of Mr Ewen Crouch as a Director	For
3b	Election of Ms K'Lynne Johnson as a Director	For
3c	Election of Mr ZhiQiang Zhang as a Director	For
3d	Election of Ms Jane McAloon as a Director	For
3c	Election of Mr Peter Alexander as a Director	For
4	Approval of STI grant to CEO/Managing Director Mark Vassella	For
5	Approval of LTI grant to CEO/Managing Director Mark Vassella	For
6	Approval of an increase to the Non-Executive Fee pool	For

Key Financials

The company experienced a bumper year in FY22 as demand for steel and margins ballooned producing record profits. This result was clearly built into the share price at the end of last year, and, with the market anticipating a fall in demand and margins, has resulted in a negative total shareholder return for FY22. This expectation is consistent with the company's guidance for the first half FY23 which is for a profit comparable to the FY21 performance, which is about 60% below FY22 performance.

	2022	2021	2020	2019	2018
Statutory NPAT (\$m)	2,810	1,193	97	1,016	1,569
Underlying NPAT (\$m)	2,701	1,166	353	966	826
Statutory EPS (cents)	571	237	19	190	282
Dividend per Share (cents)	50	50*	14	14	14
Share Price at End of FY (\$)	15.90	21.96	11.69	12.32	17.26
Statutory CEO Remuneration (\$)	\$4.9m	\$5.5m	\$4.6m	\$3.7m	\$5.9m
Actual CEO Remuneration (\$)	\$5.0m	\$6.2m	\$3.9m		
Total Shareholder Return (%)	-25%	92%	-4%	-29%	32%

*Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company. * includes 19c special dividend*

Key Events

Bluescope made two acquisitions during FY22. In December 2021 it acquired a ferrous metal recycling business with two sites in the USA for US\$220m and a third site was added in August 2022. This business is now called Bluescope Recycling and Materials. In June 2022, the Coils Coating business of Cornerstone Building Brands was acquired for US\$717m. Now named BlueScope Coated Products, it is the second largest metal coil painter in the USA with a capacity larger than the Australian business coating capacity.

The North Star mini-mill expansion in the USA was completed and the 18-month ramp up commenced.

ESG

Bluescope's Sustainability Report and Climate Report are comprehensive and informative, and appear to be well integrated into the overall company strategy.

Key Board and management changes

Four new directors were appointed to the board during the year at the beginning of a board transition phase.

Governance, Transparency, and Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair and majority of independent directors.
- As at the date of the AGM the Board (of ten directors) has at least 30% female and at least 30% male directors (actual 50%:50%) with diversity of age, skills and geography.
- Non-Executive directors are expected to own the equivalent of 100% of base fee in equity, the Managing Director 200% of fixed pay and other KMPs 100% within a 'reasonable' time. The existing directors and management easily meet this expectation.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company discloses a skills matrix of the board accessible by shareholders in the company's governance statement.

- The company has a policy limiting directors to a maximum tenure of nine years (from the date of first election by shareholders).

Summary

The company is generally well governed.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

The remuneration structure has many features which ASA supports. However there are areas which do not meet ASA guidance, and we have discussed these with the company and received reasonable explanations as described in Appendix 1.

We have also reviewed the rationale of BSL's current remuneration structure when it was first implemented in 2017/18, and ASA's previous voting which consistently supported it.

Our conclusion is that the remuneration plan is well thought out and tailored to the nature of the unique Bluescope business. The quantum of remuneration falls within benchmarks. Now that the company has stabilised and diversified, we question whether some of the hurdles need to be revisited. We shared this view with the company at our pre-AGM meeting.

On balance, we believe the remuneration plan continues to drive long-term decision making by the Executive team and so the ASA proposes to support the remuneration report. We will continue to challenge the company to ensure the remuneration plan remains fit for purpose as the company evolves.

Election or re-election of directors

Mr Ewen Crouch has qualifications in economics and law. He has adequate 'skin-in-the-game' shareholding in the company. His director workload is not excessive. He is currently chair of the Risk and Sustainability Committee. He was appointed to the Board in 2013, and has served the maximum three terms under the company's tenure policy. The Board has exercised its discretion under the policy by requesting Mr Crouch stand for re-election for part of another term, possibly around a year. The rationale provided is that Mr Crouch is only one of three directors with corporate knowledge of the difficult market period (2013-2015) for Bluescope. Further, a transition period of overlap with new directors is sought. It is further argued that Mr Crouch has valuable M&A expertise (from his days as partner at Allens) and that this is important with the current acquisitions that have been made.

Some of the above case for Mr Crouch was obtained at our pre-AGM meeting with the company. It highlights the importance of having a transparent and informative skills matrix which is easily accessible to shareholders. If a shareholder wanted to assess the importance of Mr Crouch's skill set in legal, risk, and governance or other areas they would find that they appear to be already well covered by the board scoring 8 out of 8 directors in the company's skill matrix on most criteria. Finding the skills matrix is also a chore as it is not in the Annual Report but rather the drier Governance Statement. It should also be noted that Mr Crouch was chair of Westpac's risk committee during the damaging money-laundering scandal for which he must carry some accountability irrespective of the circumstances.

On balance we can see a net benefit for the company of retaining Mr Crouch provided it is for a short period and therefore the ASA will support his election.

Ms K'Lynne Johnson has qualifications in psychology and organisational behaviour. She lives in North America. She was appointed to the board in January 2022. Her global experience in the chemicals industry is relevant for the board. Her workload is extensive with several US-company

board roles. However, some of these are smaller companies or roles, so we are satisfied that she has the capacity to undertake the BSL director role. For these reasons, the ASA proposes to support her election.

Mr ZhiQiang Zhang has qualifications in electrical engineering and business. He lives in Beijing. He was appointed to the board in January 2022. He is currently the operating partner of CITIC Capital and does not have any other board roles. His experience in working for large multi-national companies, running businesses in China/Asia and in automation and manufacturing is relevant for the board. For these reasons, the ASA proposes to support his election.

Ms Jane McAloon has qualifications in economics and law. She was appointed to the board in September 2022. She has regulatory and government experience. She was company secretary for BHP Billiton and AGL Energy amongst other career roles. This experience is relevant for the board. Her director workload is extensive with positions at Energy Australia, Newcrest, United Malt and others. We understand that she will be stepping away from some of these responsibilities in the next six months. On this basis we are satisfied she has the capacity to undertake the BSL director role. For these reasons, the ASA proposes to support her election.

Mr Peter Alexander has qualifications in business. He lives in North America. He was appointed to the board in September 2022. He has extensive executive experience in the US building materials and services, which is relevant for the board. He was previously a director of Boral Ltd. He has adequate capacity to undertake the BSL director role. For these reasons, the ASA proposes to support his election.

Approval of an increase to the Non-Executive Fee pool

Due to the anticipated period of board renewal there will be a temporary increase in the number of directors during the transition phase. This, as well as increased international travel requirements mean that the current approved director fee cap may be breached. This resolution seeks to increase the fee cap by around 10%.

This request is contrary to advice provided by the company at last year's AGM when approval was sought to temporarily increase the number of directors on the board from ten to twelve. At that time shareholders were told that *"the Board is of the view that there is no need to increase the maximum Non-executive Directors' fee pool"*.

Notwithstanding that this flip-flopping does nothing to enhance the credibility of the board, the underlying purpose is reasonable and so the ASA proposes to support this resolution.

Monitor Shareholding

The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

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Appendix 1

Remuneration framework detail

CEO rem. framework	Target (\$m)	% of Total	Max. Opportunity (\$m)	% of Total
Fixed Remuneration	1.89	41%	1.89	37%
STI – Cash*	0	0%	0	0%
STI – Equity*	0.84	18%	1.26	25%
LTI	1.89	41%	1.89	37%
Total	4.62	100%	5.04	100%

*KMP may elect (at the beginning of the year) to take none, 50 per cent or 100 per cent of their potential STI payment in equity, with the remainder in cash. The equity, if selected, is in the form of rights. In FY22 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.

FY22 Outcome

The CEO actual remuneration was \$5.0m. This represented achieving 82% of maximum opportunity for STI, and 100% vesting of LTI. Share price appreciation since award/grant resulted in a net \$370k increase in actual realised pay as at 30 June.

Remuneration Framework Positives

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package is within the Godfrey Remuneration Group report benchmarks.
- The quantum of Board fees are within the Godfrey Remuneration Group report benchmarks.
- At least 50% (59% at target) of CEO's pay is genuinely at risk, with STIs less than fixed remuneration.
- The majority of STIs are based on quantifiable and disclosed performance metrics (50% on financial parameters, ROIC and cash flow)
- At least 50% of STIs was paid in equity. This year the CEO has elected to receive 100% of STI in equity.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI (Alignment Rights) hurdles are based on two hurdles, ROIC and leverage ratio

Bluescope's LTI hurdles and criteria are as follows (both criteria have to be met for any LTI to be awarded):

LTI Performance Criteria	Contribution % of total LTI award	Threshold performance	Vesting at threshold performance	Target performance for 100% vesting
Leverage (Debt/EBITDA)	*	<1.3	100%*	<1.3*
ROIC (3-year ave)	*	>10%	100%*	10%*

* both criteria must be met for any vesting to occur and then 100% of award vests. There is no sliding scale.

- All share grants are allocated at face value not fair value.
- Share grants are satisfied by equity purchased on-market.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- Board discretion on vesting in a takeover or “change of control” events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- There is no minimum 12 month holding lock on STI share grants. The company justifies this because of “the conservative STI opportunity relative to market peers (67% of fixed vs 100%+ for peers)”. This is because when the current plan was implemented in 2018, some of the STI reward was shifted to the LTI (3-year).
- KMPs can elect to receive all of their STI in cash. Nevertheless, recent practice of the MD is to receive all of their STI in equity.
- LTI (Alignment Rights) hurdles are measured over three years rather than ASA’s preferred four years after issue.
- TSR is not used as a LTI hurdle. The Chair has previously explained that total shareholder return (TSR) is not used because for a cyclical industry stock such as BlueScope which can experience 10% price changes in a day they feel TSR is an unreliable incentive for management. He also pointed out that as BlueScope would probably outperform all other listed steel companies, a relative TSR measure against peers would always be met. BlueScope believes that in such a market this is all handled better by their KMP shareholding policy (minimum holding value of 200% of fixed pay for CEO, 100% of fixed pay for other KMP)
- The leverage performance measure acts more as a ‘gateway’ as it is generally easily achieved. The company’s remuneration philosophy is to set relatively low threshold targets to account for the cyclical nature of the industry but with a low opportunity relative to peers, recognising the increased likelihood that the LTI will be awarded.
- The all-or-none nature of the LTI award is not aligned with the shareholder experience and makes the underlying ROIC performance measure potentially susceptible to manipulation if it is close to the measure threshold.
- The LTI ROIC hurdle is set at 10% which was above the 10-year performance average when it was first introduced. However the current 10-year average ROIC is more than 15%, so one could argue the hurdle is not sufficiently challenging.
- Underlying earnings are used for both STIs and LTIs share grants. However the adjustments seem highly transparent and reasonable given the cyclical nature of the business and the significant one-off gains from accounting adjustments which are excluded from incentive calculations.