Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

A turbulent year has shareholders questioning Blackmores' long-term health

Company/ASX Code	Blackmores Group / BKL
AGM date	Thursday 31 October 2019
Time and location	11am Blackmores Campus, 20 Jubilee Avenue, Warriewood NSW
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll
Monitor	Lisa Dunphy assisted by Julieanne Mills
Pre AGM Meeting?	Yes, with Chair Brent Wallace, Director Christine Holman, CFO Aaron Canning, Chief People Officer Jane Franks & Company Secretary Cecile Cooper

Consideration of Accounts & Reports

This was a terrible year for shareholders who saw the share price decline 37% from $142.50 (FY18) to $89.91 as FY19 ended. Dividends decreased 28% from the previous year. Blackmores increased total revenue by 1% however due to the large increase in operating costs, especially the increased cost of raw materials, employee expenses and increased spend on selling & marketing expenses its NPAT (net profit after tax) declined by 21% from 2018 results to $53m.

Demand in China slowed, and it is expected that challenging trading conditions will persist, at least for 1HFY20 (the first half of financial year 2020), before improvement. On a brighter note, the segment Other Asia performed very well growing revenue by 30%. Other Asia Revenue was approximately 18% of the total group revenue (China 20%, Australia New Zealand 44%, BioCeuticals 18%). BioCeuticals Group increased earnings before interest and taxes (EBIT) by 10%.

Blackmores management have begun implementation of a $60m business improvement plan that aims to restructure and streamline business processes and increase organisational efficiency over a three-year period.

Blackmores have acquired an established tablet and soft-gel manufacturing facility in Braeside, Victoria as a move to increase vertical integration. It will be taking ownership of the facility on 25 October 2019. They took the opportunity at the end of BioCeuticals' lease on premises at Alexandria to move the operations to new Blackmores premises at Surry Hills. Its administration was taken into the group after remaining a separate segment since they acquired the business 6 years ago. This additional campus at Surry Hills now also houses some of the administration of Blackmores Group.

The gearing ratio rose to 31%, but this is still relatively conservative. Borrowings were used for working capital and for the acquisition of weight management brand Impromy. Impromy has not yet lived up to expectations. Blackmores feel this is a distribution issue.

The question of research expenses not appearing on the profit and loss statement was raised. The monitors were assured research was still very important to Blackmores and the total spend for the year was $10-$12m, for which there is some tax incentive benefit. The Blackmores Institute is where the research is carried out. It is fully owned and funded by Blackmores. This item was included in Note 2.2.2 to the accounts as “Corporate Costs”. It is hoped that next year’s Annual Report will make Blackmore’s research expenditure clearer.

Significant Board and senior management changes

The former Chair, Stephen Chapman, retired after 25 years on the Board and Brent Wallace was appointed Chair in October 2018. Brent has previously served on the Blackmores board between 2005 and 2017 and was Chair of the Audit and Risk Committee from 2015 until being appointed board Chair in 2018. The former CEO, Richard Henfrey, resigned from his role in March 2019 and Marcus Blackmore acted as Interim CEO. Current CEO Alastair Symington commenced his role in September 2019.

A new Non-Executive Director (NED), Christine Holman, joined the Board in March 2019 and in August 2019 two of the seven directors suddenly resigned; namely Helen Nash (Chairman of the People & Remuneration Committee) and Jackie McArthur. It seems there was a difference of opinion on the Board regarding the transformation strategy which commenced in February 2019, but the Chair did not elaborate. The Board says that replacing the two directors who resigned in August 2019 provides the company with the ability to pick and choose skills that will be an asset to the company as it goes forward with its transformation. A search is to be undertaken to find suitably skilled new directors and they hope at least one will be female as they have a gender equity target of 50% by 2025. In addition, the Managing Director for Australia New Zealand segment resigned on 30 June 2019 to take up a position with another company.

Other comments & ASA focus issue

Brent Wallace, current board chair, has been a director for more than 12 years and consequently is not considered to be independent as per ASA’s guidelines. However, in view of the recent executive and management changes to the board and the company, his length of experience at Blackmores might be considered a positive in a period of transition.

The Board also advised they will review each director’s equity in the company, in line with share price movements. ASA encourages NEDs to have invested one year’s fees in company shares after 3 years on a board. The new director Christine Holman is to be commended for her investment in the company.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	53	70	59	100	46.6
Share price ($)	89.91	142.50	95.84	131.39	75.27
Dividend (cents)	220	305	270	410	203
TSR (%)	-35%	52%	-25%	80%	184%
EPS (cents)	309.2	406.4	342.6	580.6	270.7
CEO total remuneration, actual ($m)	0.75	2.09	4.32	1.95	1.2

For 2019, the CEO's total actual remuneration was approximately **9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0)

Item 1	**Adoption of Remuneration Report**
ASA Vote	**For**

CEO rem. framework	Target $M	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.76	55	0.76	27
STI – Cash	0.25	18	0.9	32
STI – Equity	0.0	0	0	0
LTI	0.372	27	1.15	41
Total	1.38	100.0%	2.81	100%

The above table is based on the remuneration mix and statutory framework amounts awarded to the CEO in FY19. These facts and figures have not been verified with the Company prior to the AGM.

For the CEO & KMP (key management personnel), the remuneration structure has five components to the framework:

1 - Fixed Annual Remuneration (FAR): ASA believes that the CEO's remuneration is within reasonable limits given the size and complexity of the business. The FAR includes base salary and non-monetary benefits including fringe benefits tax and superannuation.

2 - Short Term Incentives (STIs) are judged against measured targets set at the beginning of the performance period. The targets measure performance and decide rewards against year-on-year NPAT growth, group net sales growth, China net sales, and a stock cover measure. The company has also introduced a Culture Gateway related to value-driven behaviours. This enables the company to remove any executive from the STI program for the year if they are judged to not have displayed appropriate behaviour. STIs can also be restricted in the instance of the lowest personal performance assessment. Neither term, i.e. "culture gateway" and "lowest personal performance assessment", are explained in any more significant detail throughout the FY19 Annual Report. While ASA understands the relevance of non-financial measures serving as a gateway to prevent executives from indulging in misconduct behaviours, we would prefer more clarity on how these gateways operate and the ways in which they affect specific executives.

In terms of structure, the maximum potential opportunity for executive STIs is 100% of FAR. Awards are paid in cash. For 2020, the Executive Share Plan has been altered so that the first $50,000 of any STI will be paid in cash. Any other amount awarded will be paid 50/50 in cash & deferred equity (one year). This change is welcomed by ASA.

3 - Long Term Incentives (LTIs) based on 3-year compound annual growth rate (CAGR) in EPS (earnings per share). The performance measurement period is 3 years. The LTIs are calculated on a market value basis. The minimum LTI is awarded at 5% 3-year CAGR in EPS, then on a sliding scale to 25%, subject to clawback. Maximum LTI opportunity is 150% of FAR. For 2020, the Executive Share Plan has been altered so that LTIs will be awarded based 50/50 on EPS CAGR & ROIC (return on invested capital). ASA would prefer at least a 4-year performance period.

4 - Profit Share Scheme (PSS) - All eligible employees including the CEO & KMPs can participate & up to 10% of Group NPAT is shared. The maximum amount an employee can receive as part of this scheme is 17% of FAR. In 2019, the equivalent of 15 days of incremental salary was paid under this scheme.

5 - Staff Share Plan (SSP) - All eligible employees including the CEO & KMPs can elect to contribute between $1,000 to $10,000 of their salary to purchase company shares. At the end of the financial year, the company provides a benefit by applying a matching ratio to the shares bought by each participant for that financial year. In 2019, the company matched 1:3 shares. The matching is subject to capping & varies year to year. For FY19, the Board capped cost to the company for matched shares at $500,000.

The company provides relatively easy to read information and disclose actual as well as statutory remuneration. Overall the CEO has enough at risk remuneration to align with shareholder interests. ASA would prefer a clearer definition of targets and maximum opportunity for the CEO and KMP. However, having clear breakdowns of the remuneration mix at on target and maximum reward does help define amounts and understand the overall target and maximum opportunity. The company undertook a major review during the year utilising the services of external consultants. In FY19 additional measures for STI awards were introduced - based on China growth and delivery performance. Generally, there is good shareholder alignment and the remuneration policy is consistent with ASA guidelines. ASA will vote in favour of the remuneration report.

Summary of ASA Position

CEO Richard Henfrey resigned on29 March 2019. He was replaced by Marcus Blackmore acting as Interim CEO. A new CEO Alastair Symington commenced 16 September 2019. He has a new salary package. The table summary below indicates the previous structure for remuneration. For 2020 it is significantly changed. In 2019 no short- or long-term Incentives were awarded as hurdles were not met. An actual remuneration table is shown in the Annual Report - see Directors Report Item 2.

Item 2	**Election of Ms Christine Holman as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Christine Holman was appointed to the board in March 2019. Christine is a professional director and comes to the board with a broad range of experience in Mergers and Acquisitions, Finance, Sales, Technology, Digital transformations and Marketing. She is an ex-CFO and Commercial director of Telstra Broadcast Services. ASA feels that her skills and experience in strategy around growing businesses, corporate development and digital transformations will add to the board, along with a fresh perspective and gender diversity.

She is currently on the ASX listed boards of CSR and on the board of the Government owned Moorebank Intermodal Company. She was previously on the Board of Wisetech, Vocus and HT&E.

Christine has purchased 1500 shares in Blackmores.

Item 3	**Approval of the STI Plan**
ASA Vote	**For**

Summary of ASA Position

No incentives were awarded in 2019 as hurdles were not met. The plan required year on year NPAT growth & was payable in cash.

Item 4	Approval of the LTI Plan
ASA Vote	For

Summary of ASA Position

A company is not permitted by law to issue more than 15% of its capital in a year without the approval of shareholders (listing rule 7.1). Listing Rule 7.2 provides an exception for an issue of securities under an employee incentive scheme if the scheme has been approved by shareholders within three years prior to the issue of securities. This resolution is to allow shares awarded under the Executive Share Plan in the current year, and potentially being issued in three years' time (which is the performance period), to be excluded from forming part of this restriction. It is hoped that the company will purchase shares on market in preference to issuing new shares. Nevertheless, the ASA will vote its undirected proxies in favour of this resolution.

Item 5	Approval of the grant of shares to CEO Alastair Symington under the Executive Share Plan
ASA Vote	For

Summary of ASA Position

Mr Symington is awarded $1m value of shares being 13,650 - as a sign-on incentive (based on market value at the time of commencement) which will not vest until 3 years after the date of approval (presumably at the 2019 AGM). This is justified by the board as compensation for foregone awards from his previous employer. For the same reason he is also to be paid $300,000 cash. He is relocating from overseas.

Item 6	Approval of the grant of STI award to CEO Alastair Symington under the Executive Share Plan
ASA Vote	For

Summary of ASA Position

For 2020, the Executive Share Plan has been altered so that the first $50,000 of any STI will be paid in cash. Any other amount awarded will be paid 50/50 in cash and deferred equity (one year). This change is welcomed by the ASA. The main measure is NPAT growth, after board determined standards regarding brand reputation, safety and quality have been met. The maximum that could be granted under the STI is 8,707 performance rights.

Item 7	Approval of the grant of LTI award to CEO Alastair Symington under the Executive Share Plan
ASA Vote	**For**

For 2020 the Executive Share Plan has been altered so that LTIs will be awarded based 50/50 on EPS CAGR (Earning per share compound average growth rate) & ROIC (return on invested capital). The ASA appreciates the addition of the second measure of ROIC. We would also prefer the LTIs to be measured over a 4- or 5-year performance period instead of the 3-year measure used currently. The maximum that could be granted to Mr Symington under the LTI is 35,622 performance rights. The valuation method will be based on market value.

The monitor (or their associates) involved in the preparation of this voting intention has a shareholding in this company.