



New CEO and large writedowns at Boral

Company/ASX Code	Boral/BLD
AGM date	Tuesday 27 October 2020
Time and location	10.30 AM AEDT Virtual
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Anderson assisted by Estelle Renard
Pre AGM Meeting?	Yes with Chair Kathryn Fagg, Chair of Remuneration Committee John Marlay, Dominic Millgate company Secretary and Kylie FitzGerald Investor Relations Director

An individual (or their associates) involved in the preparation of this voting intention has shareholding in this company.

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

Financial Results

After a series of profit warnings over the last two years, early loss of the CEO and facing three shareholder class actions, Boral has completed an annus horribilis reporting a \$1.139B statutory loss, driven by a \$1.346B impairment charge largely relating to assets in its more recently acquired North American division. Adding to the loss were financial irregularities discovered in the accounts of its North American windows business which resulted in a \$24.4 M overstatement of its pre-tax earnings, necessitating restatement of the previous year's accounts and sparking the shareholder class actions.

Overall revenue reduced marginally but EBITDA was down 29% on the previous year and net profit after tax (NPAT) was 55% lower at \$177M excluding significant items. In Australia, the Group's biggest market, a 19% decline in housing starts together with bushfire and flood disruptions contributed to reduced earnings whilst in North America lower sales volumes and Covid-19 related issues were significant. USG Boral was also affected by housing downturns in Australia and Korea and Covid-19 related plant closures. The board determined not to pay a final dividend on the grounds that the interim dividend of 9.5 cents represented a payout ratio of 63% which was within their target range of 50 -70% of earnings before significant items.

The board acknowledges that the company's performance both in Australia and North America has been unsatisfactory and has initiated revenue and margin improvement programs across all three divisions. A review of Boral's business portfolio is being undertaken with results expected to be announced at the AGM.

Key Events

It has been a year of both internal and external challenges for Boral. In addition to the financial irregularities in North America and the consequent shareholder class actions mentioned above, the bushfires and Covid-19 events necessitated activation of Boral's Crisis Management Team to focus on health and safety issues and ameliorating production curtailments to preserve customer deliveries whilst the board dealt with liquidity, cash preservation and debt facilities including re-activation of the dividend re-investment plan.

In April, Boral announced that its view was that the ACCC was unlikely to approve the call option in relation to its joint venture with Knauff and it was therefore examining other options for the transaction with the objective being to target a cash neutral transaction rather than one with a significant funding requirement for Boral.

Key Board and Senior Management Changes

Following the irregularities exposed in the North American business, the previously flagged retirement of CEO Mike Kane was brought forward to the end of the financial year and new CEO, Zlatko Todorcevski commenced on 1st July 2020. The president and CEO of Boral North America stepped down from his role in May and is yet to be replaced on a permanent basis.

Subsequent to the close of the financial year, Seven Group Holdings (SGH) acquired a 19.984% holding of Boral shares and has negotiated two non-independent board positions for Messrs Stokes and Richards who also hold executive positions in SGH. Serving directors John Marlay and Eileen Doyle have indicated that they will retire at the conclusion of this year's AGM and Paul Rayner will seek re-election to ensure a smooth transfer of chairmanship of the Audit and Risk committee but is expected to retire before the end of his new term.

ASA Focus Issues

Boral comply with all ASA focus issues. Even with the expanded board of nine directors (after projected retirements) there will still be more than 30% female directors although new directors will have to increase their shareholding to reach a holding at least equivalent to one year's fees. The report provides good disclosure of a well structured REM arrangement which includes LTI based two thirds on relative TSR and one third on ROFE.

Summary

(As at FYE)	2020	2020 ¹	2019 ²	2018	2017	2016
NPAT (\$m)	-1,139	-1,135	251	441	297	256
UPAT (\$m)	177	181	419	473	343	268
Share price (\$)	3.79	3.79	5.12	6.53	6.95	6.22
Dividend (cents)	9.5	9.5	26.5	26.5	24	22.5
TSR (%)	-25.2	-25.2	-13.4	6.7	23.4	11.7
EPS (cents)	14.8	15.2	35.7	40.4	33.7	33.3
CEO total remuneration, actual (\$m) ^{3,4}	2.585	2.585	2.68	6.59	9.78	7.79

1. Pre- AASB 16 accounting standard for comparison to 2019.
2. Restated results due to irregularities in North American Windows accounting.
3. For FY2020, the CEO's total actual remuneration was **28.1 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).
4. Includes components of prior year's STI awards but excludes contractual separation payments.

Item 2.1	Re-election of Kathryn Fagg as a Director
ASA Vote	For

Summary of ASA Position

Kathryn Fagg has been a director of Boral since September 2014 and became chairman in July 2018. She is currently a director of the National Australia Bank and Djerriwarrh Investments Ltd and is a board member and deputy chairperson of the CSIRO. She also has a number of other interests including as a director of the Myer Foundation, chair of the Breast Cancer Network Australia and a board member of the Grattan Institute and of Male Champions of Change.

Ms Fagg has a chemical engineering degree and wide industry experience. ASA had some concerns about her workload in these trying times for Boral but she has strong board support and has assured us that she can devote adequate attention to the company.

ASA will vote undirected proxies in favour of Ms Fagg.

Item 2.2	Re-election of Paul Rayner as a Director
ASA Vote	For

Summary of ASA Position

Mr Rayner joined the Boral board in 2008 and is currently chairman of the Audit and Risk committee. He is also chairman of Treasury Wine Estates and a director of Qantas Airways and the Murdoch Children's Research Institute. He has worked in the fields of finance, corporate transactions and general management in consumer goods, manufacturing and resource industries and brings to the board extensive experience in markets relevant to Boral.

We note that Mr Rayner has now exceeded twelve years on the board and thus has exceeded the period after which ASA no longer classifies directors as independent. Mr. Rayner is expected to retire his directorship of Boral in the current term but is seeking re-election in order to facilitate a smooth transition of the chairmanship of the Audit and Risk committee.

On this basis, ASA will support the re-election of Paul Rayner.

Item 2.3	Election of Rob Sindel as a Director
ASA Vote	For

Rob Sindel was appointed to the Boral board in September 2020 and is also chairman of Orora Ltd and a director of Mirvac Group. He was formerly managing director and CEO of CSR Ltd. With an engineering degree and an MBA, together with his background in the construction materials and building products industries, ASA believes Mr Sindel has the potential to provide valuable input to Boral decision making in current business environment and will vote undirected proxies in his favour.

Item 2.4	Election of Deborah O’Toole as a Director
ASA Vote	For

Deborah O’Toole joined the Boral board in September 2020 and is currently also a director of Asciano Rail Group of Companies where she chairs the audit, risk, or audit and risk committees of four Group companies. This appears to be a heavy work load and Ms O’Toole has stated she intends to reduce her commitments in order to devote sufficient time to her new role.

Ms O’Toole has a law degree and a background in managerial, operational and financial roles in ASX listed companies including mining, transport and logistics. She has served as CFO in three ASX listed companies.

With the retirement of the chairman of the Audit and Risk committee pending, it appears Ms O’Toole’s skills will allow a useful contribution to the board and ASA will vote undirected proxies in her favour.

Item 2.5	Election of Ryan Stokes as a Director
ASA Vote	For

Ryan Stokes was appointed to the Boral board as a non-independent director in September 2020 following the acquisition by Seven Group Holdings Ltd (SGH) of 19.984% of Boral shares as at 11 September 2020. Boral has entered into an agreement with SGH to agree protocols and other arrangements to protect confidential information and address any potential conflicts of interest. It has also agreed that, unless Boral requests otherwise, SGH must procure the resignation of Mr Stokes should SGH shareholding in Boral fall below 15%. ASA understands that Mr Stokes will be remunerated as an ordinary director of Boral and expects him to be subject to the standard minimum shareholding requirement equivalent to one year’s director’s fees.

Mr Stokes is managing director and CEO of SGH and is chairman of Coates Hire and a director of WesTrac, Beach Energy and Seven West Media. He is also chairman of the National Gallery of Australia and a member of the International Olympic Education Commission. Whilst this is a heavy work load he appears well qualified to act as a director of Boral and has the support of the board.

ASA will vote undirected proxies in favour of Mr Stokes.

Item 2.6	Election of Richard Richards as a Director
ASA Vote	Against

Richard Richards was appointed to the Boral board as a non-independent director in September 2020 under similar circumstances and conditions to Mr Stokes.

Mr Richards is CFO of SGH and a director of Beach Energy. He is also a director of the following 100% owned subsidiaries of SGH: WesTrac, AllightSykes, SGH Energy and Coates Hire. He also chairs the Audit and Risk committee of Coates Hire and is a member of the Audit and Risk committee of Beach Energy. He holds qualifications in law, accounting and applied finance.

Whilst Mr Richards is well qualified to act as a director of Boral and has the support of the board, he appears to have a heavy workload as both a fulltime executive and as a director of two other listed companies. In addition, following the projected retirement of Paul Rayner, Boral will have a board of seven in which two SHG nominees would amount to approximately 29% representation, well in excess of SGH's current approx. 20% shareholding in the company.

Accordingly, ASA will vote undirected proxies against the election of Mr Richards.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

As a result of the generally poor performance of the company in the year under review there were no Short Term Incentive (STI) or Long Term Incentive (LTI) awards in FY20 due to hurdles not being reached. In addition, the board exercised its discretion to lapse the retiring CEO's remaining LTI awards from previous years in full. A salary freeze has been instituted for FY21 and the STI plan has been suspended (but may be reviewed if business conditions improve). Non-Executive director fees have also been frozen for FY21.

With the appointment of a new CEO, the board has taken the opportunity to refresh the remuneration system, setting the CEO's Fixed Annual Remuneration (FAR) at \$1.9M of which \$1.75M will be paid in cash and \$0.15M paid in the form of Boral equity, the latter being subject to a holding lock until such time as the CEO exceeds the minimum equity holding requirement of 100% of FAR. There is no STI but LTI opportunity is set at 230% of FAR subject to two hurdles, relative Total Shareholder Return (rTSR) and Return on Funds Employed (ROFE) and subject to a single performance test after three years.

The rTSR component will form two thirds of the LTI award and will vest 50% at the 50th percentile compared to the TSRs of the S&P/ASX 100 with straight line vesting to 100% vesting at the 75th percentile. The ROFE hurdle is compared to the Weighted Average Cost of Capital (WACC) with nil vesting if ROFE is at or below WACC, then straight line vesting to 75% at WACC plus 1%, then straight line vesting to 100% at WACC plus 2%. The system framework is summarised below.

CEO FY21 REM	Target \$m	% of Total	Max. Opportunity \$m	% of Total
FAR - Cash	1.75	27.9%	1.75	27.9%
FAR- Equity	0.15	2.4%	0.15	2.4%
STI - Cash	Nil	0%	Nil	0%
STI - Equity	Nil	0%	Nil	0%
LTI	4.37	69.7%	4.37	69.7%
Total	6.27	100.0%	6.27	100%

Whilst we consider the new plan to be an improvement over the previous with the maximum opportunity significantly reduced, there are still variances from ASA guidelines. LTIs measured against relative TSR can vest when actual TSR is negative and the rTSR vesting hurdles are too low with 50% vesting at the 50th percentile and 100% at 75th percentile (51st and 85th percentiles are preferred). LTIs vest over a relatively short period of three years.

However, in principle the remuneration structure based on quantified measures is sound and ASA will vote undirected proxies in favour of the report.

Item 4	Award of LTI rights to Zlatko Todorcevski, CEO & Managing Director
ASA Vote	For

Summary of ASA Position

This resolution is for the issue of 1,149,698 performance rights that if the TSR and ROFE hurdles are all met will vest as no cost shares. The rights do not carry any voting rights but Mr Todorcevski will receive additional shares equivalent to any dividends accrued and notionally reinvested during the period. Any shares delivered to Mr Todorcevski may be bought on market or issued by the company.

As we have agreed with the methodology as set out in the REM report above and the valuation is based on market VWAP over the twelve month trading period up to 30th June 2020, we will vote in favour.

Item 5	Award of Fixed Equity Rights to Zlatko Todorcevski, CEO & Managing Director
ASA Vote	For

This resolution is for the issue of 39,464 fixed equity rights to receive fully paid ordinary shares as his fixed equity grant for FY2021 relating to the equity component of his FAR. The rights will vest on a pro rata monthly basis over FY21. Any shares delivered to Mr Todorcevski may be bought on market or issued by the company.

As this is part of Mr Todorcevski's agreed REM package and the valuation is based on market VWAP over the twelve month trading period up to 30th June 2020, we will vote in favour.

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