



Boral Refocussing to Australia

Company/ASX Code	Boral (BLD)
AGM date	Thursday October 28,2021
Time and location	Virtual (https://agmlive.link/BLD21)
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Anderson
Pre AGM Meeting?	Yes with Lead Independent Director, Rob Sindel, 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 the disastrous results of the previous year, Boral have refocused the company's operations to Australia through divestment of major North American brick and building products businesses and the sale of their 50% interest in USG Boral. Comparison of results is somewhat complicated as a result of the reduced nature of the company's continuing operations with EBITDA improving about 9% on a group basis but being nearly 7% lower on a continuing operations basis. Overall statutory profit was \$640M (including \$359M significant items, mainly profit on sale of USG Boral and Meridian Brick) on revenue of \$5,346M, compared to the previous year loss of \$1,145M on revenue of \$5,728M.

On the basis that significant capital has already been returned to shareholders through a 10% share buy-back completed in July 2021, the company declared no final dividend meaning that no dividends were returned to shareholders during the financial year. However the company expects proceeds of \$3.2B due on completion of the sale of their timber and North American Building Product businesses, will allow them to undertake a further capital return to shareholders during calendar 2022, approval of which is being sought at the AGM.

As a result of the SGH take-over offer being on foot at the end of FY2021, the share price was \$7.35 at year end but has since settled back to around \$6.20 and may well drop further if the capital return is implemented.

Summary of Financial Performance

(As at FYE)	2021	2020 ¹	2019	2018	2017
NPAT (\$m)	640	-1,145	251	437	297
UPAT (\$m)	251	174	419	469	343
Share price (\$)	7.35	3.79	5.12	6.53	6.95
Dividend (cents)	0	9.5	26.5	26.5	24
Simple TSR (%) ²	93.9%	-24.1	-11.6	-2.2	15.6
EPS (cents)	20.6	14.5	35.7	40.0	33.7
CEO total remuneration, actual (\$m) ³	1.968	2.585 ⁴	2.68	6.59	9.78

1. Restated results for comparison purposes due to change in accounting policies. Prior years not restated.
2. Simple TSR is calculated by dividing change in share price plus dividend paid during the year (excluding franking) by the share price at the start of the year.
3. For FY2021, the CEO's total actual remuneration was **21.1 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).
4. Includes vesting of STI earned in 2017.
5. Includes vesting of STI earned in 2016.
6. Includes vesting of STI earned in 2015 & vesting of 2010 & 2014 LTI grants.
7. Includes vesting of STI earned in 2014 & vesting of 2011 & 2013 LTI grants.

Key Events

The company has had a disrupted year facing both internal and external challenges. In addition to mixed market conditions both in Australia and elsewhere as result of Covid and other factors, the company has had to deal with a new CEO, a new CFO and major board changes as well as with a substantial divestment programme and a takeover offer from one of its major shareholders, Southern Group Holdings (SGH). During this period Boral also undertook an on market buy-back of up to 10% of its shares, which was completed in July 2021.

SGH eventually announced they had achieved a 69.6% shareholding on 30th July 2021 at which time Kathryn Fagg retired as chairman and as a board member and Ryan Stokes (an SGH nominee) was appointed chairman. At the same time, Richard Richards was appointed a director as a further SGH nominee.

SGH has announced that it is committed to maintaining a governance framework consistent with maintaining the best interests of all shareholders and that it intends to maintain a majority of independent directors on the board. To this end they have established a standing Independent Directors' Committee which is chaired by independent director Rob Sindel.

Key Board and Senior Management Changes

In addition to the board changes noted above and as foreshadowed at the last AGM, long serving board members John Marlay and Eileen Doyle retired in October 2020 and Peter Alexander and Deborah O’Toole have announced their intention to step down following the 2021 AGM.

In October 2020 Tino La Spina was appointed Chief Finance & Strategy Officer to replace Rosaline Ng who then left the company after working through a transition period.

ASA Focus Issues

With the recent and proposed retirements noted above the board will consist of five men and one woman with only 50% being independent directors. This clearly does not comply with ASA guidelines and the board is in the process of identifying and recruiting additional directors to redress this imbalance.

In other areas, the annual report provides good disclosure and clarity although ASA has questioned the lack of extension of the director skills matrix to show the assessment for each director. The company has undertaken to look at this in future years.

Item 2.1	Re-election of Richard Richards as a Director
ASA Vote	For

Richard Richards was first appointed to the Boral board as a non-independent director in September 2020 following the acquisition by SGH of nearly 20% of Boral shares but his nomination for election at the 2020 AGM was withdrawn by agreement with the company following protests from, among others, ASA, on the grounds of over-representation of SGH interests. He was subsequently re-appointed to the board on 30 July 2021 following SGH’s acquisition of 69.9% of Boral’s shares.

Mr Richards is CFO of SGH and a director of WesTrac, AllightSykes, SGH Energy, Coates Hire and Beach Energy. 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, he appears to have a heavy workload as both a fulltime executive and as a director of five other companies. However, in view of SGH’s now near 70% shareholding in the company, an additional nominee director appears justified and ASA will vote undirected proxies in favour of the election of Mr Richards.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

In view of the general uncertainty surrounding business conditions during the year under review there were no salary increases and the CEO's Fixed Annual Remuneration (FAR) was \$1.9M of which \$1.75M was 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 was no STI but LTI opportunity was 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. Adjustments were made to prior year's (2018 and 2019) Long Term Incentive (LTI) awards to account for the effects of the impairment charges in 2020 and all LTI awards lapsed.

Non-Executive director fees remain at current levels (although some committee fees will increase in FY22 to align with market) and the nominee directors, Ryan Stokes and Richard Richards, have elected not to receive fees for their board roles post 30 July 2021.

For FY22, the CEO's REM is to be as summarised in the table below. STI has been re-instituted with a target of 90% of FAR and a maximum opportunity of 120% measured against hurdles as yet undisclosed due to commercial-in-confidence reasons, although executives have been advised. Target and maximum LTI will both be 120% of FAR measured against a single hurdle of rTSR measured over a period of three years and then subject to a further trading restriction of twelve months (with some special circumstances exceptions). Rights 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.

CEO FY22 REM	Target \$m	% of Total	Max. Opportunity \$m	% of Total
FAR - Cash	1.90	32.6%	1.90	29.4%
STI - Cash	0.855	14.5%	1.14	17.7%
STI - Equity	0.885	14.5%	1.14	17.7%
LTI	2.28	38.7%	2.28	35.3%
Total	5.89	100.0%	6.46	100%

Whilst the new plan results in a lower target REM than previously (but slightly higher max opportunity), there are still variances from ASA guidelines. LTIs vest over a relatively short period of three years 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 measured against relative TSR can vest when actual TSR is negative. ASA raised this latter issue at the pre- AGM and Mr Sindel undertook to consider non-vesting of LTI if actual TSR is negative.

However, in principle the remuneration structure appears sound and we are assured the board will apply rigorous hurdles to the STI so 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 377,553 performance rights based on the methodology described in item 3 above, that provided the rTSR hurdle is met, will vest as no cost shares around September 2024. 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 thirty day trading period up to 10th May 2021 (the last full trading day prior to receipt of SGH's takeover offer), we will vote in favour.

Item 5	Potential Return of Capital to Shareholders
ASA Vote	For

Following the divestment of major assets noted in Item 1 above, Boral expects to have up to \$3B of surplus capital which, subject to prevailing conditions and other reinvestment opportunities, will be available for distribution to shareholders. Given that the company has very few franking credits available, Boral intends to return the surplus capital to shareholders by way of an equal capital reduction, subject to the Australian Taxation Office confirming that any such payment will not be treated as dividend for Australian income tax purposes.

The equal capital reduction relates only to fully paid ordinary shares in proportion to the number of shares held by each holder and under the same terms for each holder. No shares will be cancelled but the shares may subsequently trade at a lower price due to the reduction of shareholders' funds held by the company. For capital gains tax purposes, the cost base of the shares will be reduced by the amount of the proposed capital return, giving rise to an immediate capital gain for those shareholders where the cost base of a share is less than the amount of the capital return.

As the potential return of capital applies equally to all ordinary shareholders, ASA will vote undirected proxies in favour of the resolution.

Item 6	Change of Auditor
ASA Vote	For

Following a competitive tender process, Boral propose to appoint Deloitte Touche Tohmatsu as auditors in place of their current auditors KPMG. KPMG have been in place for over twenty years, a matter which has been raised by ASA for the past several years.

This is a procedural issue and ASA sees no reason not to vote in favour.

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