



Orica booming? Share price moves positively and net profit increases

Company/ASX Code	Orica/ORI
AGM date	Tuesday 17 December 2019
Time and location	10.30 am, Park Hyatt Melbourne, 1 Parliament Square, East Melbourne
Registry	Link Market Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Adam Raymond assisted by Belinda White
Pre AGM Meeting?	Yes, with Chair Malcolm Broomhead

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

Summary of ASA Position

Governance and culture

The positive movement in the share price and a distinct increase in net profit after tax (NPAT) offer a distinct hope that CEO Alberto Calderon's vision for Orica is starting to bite. A solid performance in the high-tech offerings from Orica, particularly wireless blasting, seem to be gaining significant attention in the press. It is early days yet, but the key components highlighted by Mr Calderon are showing positive movement.

There have been no fatal accidents at Orica this year. An achievement worth noting in a dangerous business, but this is counter balanced with an increase in lost time due to injury in comparison to the previous corresponding period (pcp).

Financial performance

The increase in NPAT after extraordinary items was modest. Dividend had an increase, reversing the trend of a number of years. The dividend was also franked at a rate of 9.1%, an improvement on the pcp of 0%, but will be capped in the future due to a higher percentage of earnings that are non-Australian based.

Key events

WebGen, GroundProbe and BlastIQ all started to make contributions to the bottom line. Modest at this time, but on an upward trajectory. Minova also achieved its highest contribution to profit since its purchase. Burrup is still being completed but hopes to be finalised by 2H 2020.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	250.5	(34.5)	386.2	342.8	(1247.4)
UPAT (\$m)	372	324.2	386.2	389.1	424.2
Share price (\$)	22.54	17.03	19.77	15.20	15.04
Dividend (cents)	55.0	51.5	51.5	49.5	96.0
TSR (%)	34.8	(11.5)	0.3	(31.5)	(20.3)
EPS (cents)	64.2	(12.7)	102.7	92.0	(342.3)
CEO total remuneration, actual (\$m)	4.672	2.850	4.652	3.413	1.389 (partial year)

For 2019, the CEO's total actual remuneration was **53 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>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2.1	Re-election of Maxine Brenner as a Director
ASA Vote	For

Summary of ASA Position

Appointed in 2013, Ms Brenner is now equal with Gene Tilbrook as the longest serving member of the Orica Board and has seen the business through significant change. Her involvement on the board is significant, being a head of the Human Resources and Compensation Committee and a member of both the Audit and Risk Committee and the Nominations Committee. She has a wide range of experience on any boards of major Australian companies, including currently holding directorships on Origin Energy and Qantas Airways, but not such a huge workload that ASA feels uncomfortable supporting her re-election.

Item 2.2	Re-election of Gene Tilbrook as a Director
ASA Vote	For

Summary of ASA Position

Also having joined the board in 2013, Gene Tilbrook, like Ms Brenner, can help maintain continuity for the board. He is the Chair of the Board Audit and Risk Committee and member of the Safety, Health, Environment, Community & Security Committee and the Nominations Committee. Like Ms Brenner, he is highly active in the board's processes. He also holds a number of directorships, GPT Group and Woodside Petroleum. ASA supports his re-election.

Item 2.3	Re-election of Karen Moses as a Director
ASA Vote	For

Summary of ASA Position

While there have been some concerns raised in some quarters about previous performance while CFO of Origin, there is no doubting that Karen Moses has a wide experience within both high levels of large organisations and a diversity of boards. ASA feels that she will continue to add a diversity of experience into composition of the board and will support her re-election.

Item 2.4	Election of Boon Swan Foo as a Director
ASA Vote	For

Summary of ASA Position

It is clear from his history that Mr Boon has an international experience that few can match. With directorships and experience that span East Asia and now Australia, Mr Boon manages to stand out amongst the already highly diverse experience and skills that exist on the Orica board. As a highly international company, this experience should likely be valuable to Orica. ASA supports Mr Boon's re-election.

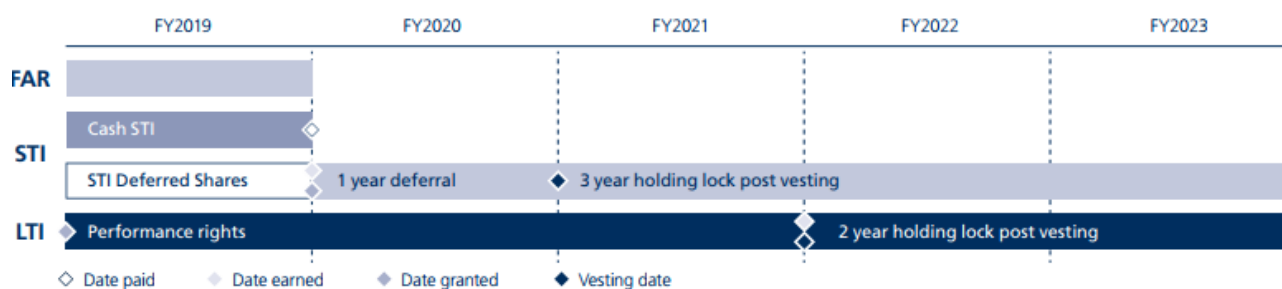
Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO rem. Framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.8	24%	1.8	19%
STI – Cash	0.9	12%	1.8	19%
STI – Equity	0.9	12%	1.8	19%
LTI*	3.9	52%	3.9	42%
Total	7.5	100.0%	9.3	100%

* LTI is based on return on net assets (RONA) on a rolling 3-year block. As a result, this grant is for the performance from Financial Years 2016-18.

The remuneration at Orica continues to be slowly altered. For example, the face value calculated equity awards are now based on a quite long term basis, with rolling RONA over three years being the sole LTI determinant, vesting of STI equity held for a 1 year deferral and 3 year holding lock and a two year holding lock on LTI awards. This is diagram of the awards for this year:



While this does make it somewhat difficult to see the exact what the CEO is being paid, especially for LTI, it cannot be denied that the long-term share price is key to the amount that the CEO is eventually awarded.

The LTI award is based on a value that rises very steeply, going from no award to 100% award within a narrow band of performance:

Average RONA over 3 years	% of Rights vesting
Below 13.7%	No vesting
At 13.7%	30% of rights vest
Between 13.7% and 14.0%	Straight line vesting between 30% and 60% of rights vest
At 14.0%	60% of rights vest
Between 14.0% and 14.7%	Straight line vesting between 60% and 100% of rights vest
At or above 14.7%	100% of rights vest

With improving market conditions and the industry coming out of an oversupply slump it is likely that there will be significant rewards in store for the Key Management Personnel as a result of this incentive structure, but it will also signal significant returns to shareholders, so it will be difficult to dispute.

There was an increase to the Board aggregate pool fee from \$2.5 to \$2.75 million proposed at this AGM (see proposal 5 for more detail).

The end assessment of this is that, while no system is perfect, the current remuneration scheme encourages a focus that is beneficial to shareholders, so the ASA supports this resolution.

Item 4	Grant of performance rights to the Managing Director and Chief Executive Officer (CEO) under the Long Term Incentive Plan
ASA Vote	For

Summary of ASA Position

As per the comments for Item 5 the ASA feels that this award is warranted under the system currently established.

Item 5	Increase in Non-executive Director Fee Pool
ASA Vote	For

Summary of ASA Position

This is the first increase in the director aggregate fee pool since 2010, moving from \$2.5 to \$2.75 million. It should be noted that the group NPAT in Financial Year 2010 (FY10) roughly twice what it is (partly due to sales of businesses) what it is in FY19. Still, the task to running a large multinational corporation doesn't become any easier, and the increase is triggered by the inclusion of an additional board committee, the Innovation and Technology Committee. As this is the aspect that the executive has targeted as the key driver for growth in the business, ASA accepts that this increase has a valid justification.

Item 6	Renewal of proportional takeover provisions
ASA Vote	For

Summary of ASA Position

As per ASA guidelines which require any change of control is via full takeover bid rather a partial bid, we support this resolution.

The individuals or their associates involved in the preparation of this voting intention have a shareholding in this company.

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