



BlueScope weathers the COVID storm and looks ahead

Company/ASX Code	BlueScope Steel Ltd (BSL)
AGM date	19 November 2020
Time and location	10am AEDT, Online virtual
Registry	LINK
Webcast	online
Poll or show of hands	Poll on all items
Monitor	Mike Muntisov assisted by John Whittington
Pre AGM Meeting?	Yes with Chair - John Bevan, Treasurer and Head of Investor Relations - Don Watters, Sustainability Manager - Tim Rodsted.

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

Item 1	Annual Report
ASA Vote	No vote required

Summary of ASA Position

Financial performance

BlueScope is the largest global producer of metal coated and painted steel building products, best known in Australia for its COLORBOND steel. It is Australia's largest steel manufacturer, and New Zealand's only steel manufacturer. The Group has an extensive footprint of joint venture operations in China, India, Indonesia, Thailand, Vietnam, Malaysia and North America. It owns and operates the North Star mill, a low-cost regional supplier of hot rolled coil, based in Ohio, USA.

In FY20, BlueScope suffered its first revenue decline since 2013, being a 10% drop to \$11,324m. Reported net profit after tax (NPAT) for the year was \$97m (down from \$1,016m), principally due to COVID lockdown impacts and reduced spreads on steel prices.

Despite the poorer financial performance, dividends remained steady at 14 cents per share.

The company slowed down its expansion of the North Star mill to preserve cash flow, but expected it to be completed by FY22.

On 23 October 2020, the company provided the market with updated guidance. It expected to achieve an underlying Earnings before Interest and Tax (EBIT) for 1H FY21 of \$340m (this compares with \$302m in 1H FY20). They reported that *"Benchmark steel spreads have improved and demand in most of our markets is robust"*.

Key events

The COVID pandemic dominated the year, but apart from some imposed shutdowns (New Zealand) and prudent health measures, the company's businesses have continued to operate normally. BlueScope put its share buyback scheme on hold to preserve capital, given the uncertain environment.

Key Board or senior management changes

BlueScope announced the appointment of Kathleen Conlon as a new director in February 2020, and the departure of Charlie Elias, Chief Executive of North Star in July 2020.

ASA focus issue

The Board is diversified and compliant with ASA guidelines. Remuneration is consistent with benchmarks and includes a high equity component. More on remuneration under Item 2.

Summary

(As at FYE)	2020	2019	2018	2017	2016	2015
NPAT (\$m)	97	1,016	1,569	716	354	136
UPAT (\$m)	353	966	826	652	307	161
Share price (\$)	11.69	12.32	17.26	13.21	6.37	3.00
Dividend (cents)	14	14	14	9	6	6
TSR (%)	-4%	-29%	32%	109%	114%	-44%
EPS (cents)	19	190	282	125	62	24
CEO total remuneration, actual (\$m)	3.876	3.734	3.849	6.863	7.529	4.371

For FY20, the CEO's total actual remuneration was **43 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	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	41%	1.8	37%
STI - Cash [†]	0	0%	0	0%
STI - Equity [†]	0.792	18%	1.206	25%
LTI	1.8	41%	1.8	37%
Total	4.392	100%	4.806	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 FY20 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.

The STI can range from 0% of fixed remuneration to 44% at target and 67% at maximum for the CEO (35 to 52.5% for other executives), measured 50% on company financial metrics (underlying return on invested capital and free cash flow from operations), 5% on safety, and the remaining 45% on personal achievement of “strategic objectives”.

Long term incentives (LTI) maximum opportunity is 100% of fixed remuneration for the CEO (65% for other executives). The LTI is fully paid based on achievement of at least 10% rolling three year average underlying Return on Invested Capital (RoIC) and leverage (average net debt to EBITDA) ratio of less than 1.0 over three years. If both of these is not achieved, 0% is paid. The company’s remuneration philosophy is to set relatively low threshold targets to account for the cyclicity of the industry but with a low opportunity relative to peers, recognising the increased likelihood that the LTI will be awarded.

We note that BlueScope use underlying metrics for both STIs and LTIs. 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.

Item 3 (a)	Re-election of John Bevan as a Director
ASA Vote	For

Summary of ASA Position

Mr Bevan has been a director of BlueScope since 2014.

He is also chairman of Ansell Ltd and a director of Alumina Ltd, which puts him within ASA’s workload limit.

Mr Bevan is an experienced executive and director of industrial/manufacturing companies. As per the company's tenure policy, this will be his last term on the Board if re-elected.

The ASA supports his election.

Item 3 (b)	Re-election of Penny Bingham-Hall as a Director
ASA Vote	For

Summary of ASA Position

Ms Bingham-Hall has a background in building and construction. She was appointed to the board in 2011. In accordance with BlueScope's tenure policy, she is due to retire this year.

However, the board has exercised its discretion and has requested that Ms Bingham-Hall stand for re-election as it considers that it would benefit the Company for Ms Bingham-Hall to remain on the Board whilst it progresses Board renewal, which has been delayed as a consequence of the restrictions put in place in response to COVID-19.

She has agreed to stand for re-election but intends to serve no longer than 12 months following the AGM, should she be re-elected.

In our pre-AGM meeting with the company, the Chair outlined the difficulties in seeking and appointing a director in the current environment.

Under the circumstances, we believe that it is in shareholders' best interest to support Ms Bingham-Hall's re-election.

Item 3 (c)	Re-election of Rebecca Dee-Bradbury as a Director
ASA Vote	For

Summary of ASA Position

Ms Dee-Bradbury was appointed to the board in 2014.

She has a background in marketing and also serves on the boards of GrainCorp, Energy Australia and Australian Foundation Investment Company.

The ASA supports her re-election.

Item 3 (d)	Re-election of Jennifer Lambert as a Director
ASA Vote	For

Summary of ASA Position

Ms Lambert was appointed to the board in 2017. Her executive career was at PWC and as CFO at Valad Property Group.

She is currently also a director of NEXTDC Ltd.

The ASA supports her re-election.

Item 3 (e)	Election of Kathleen Conlon as a Director
ASA Vote	For

Summary of ASA Position

Ms Conlon was appointed to the board in February 2020.

She is an American/Australian dual national. Her executive career was in management consulting.

She is currently on the boards of Lynas Corporation (chair), REA Group, and Aristocrat Leisure. She is a former board member of the Australian Institute of Company Directors.

With her election at BlueScope she would remain within the ASA director workload guideline.

The ASA supports her election.

Item 4	Approval of grant of Share Rights to Mark Vassella under the Company's Short-Term Incentive Plan
ASA Vote	For

Summary of ASA Position

This is for the issue of a maximum of 101,172 share rights worth \$1.2m (at valuation date August 2020) as part of the Short Term Incentive (STI) plan. This amount is equivalent to 67% of base salary and has been calculated based on face value.

The specific measures have not been disclosed yet, but the FY20 measures were safety, cash flow, underlying RoIC, and personal achievement of strategic objectives. Disclosure of actual FY19 outcomes in the remuneration report was good.

The company has also disclosed that the FY21 financial targets have been set for the first half only given the current global uncertainties surrounding the pandemic. They will set the second half targets in February 2021. We believe this is a reasonable approach compared to some companies which have dropped financial targets altogether this year.

If performance is below the threshold targets then no rights will vest, if performance is between the threshold and the maximum then a linear scale will apply from 33% vesting at the threshold to 100% vesting at the maximum. If performance is above the maximum, then all rights will vest.

On balance we believe the awards are not excessive, are aligned with shareholder value and are highly transparent and well explained, so we intend to support the resolution.

Item 5	Approval of grant of Alignment Rights to Mark Vassella under the Company's Long-Term Incentive Plan
ASA Vote	For

Summary of ASA Position

This is for the issue of a maximum of 151,759 alignment rights worth about \$1.8m (at valuation date August 2020) as part of the Long Term Incentive (LTI) plan. This is equivalent to 100% of base salary and has been calculated based on face value.

The rights will vest fully if two criteria are achieved. These criteria are underlying RoIC over the period 1 July 2020 to 30 June 2023 to be greater than 10%, and the ratio of the average annual leverage to be less than 1.3 (changed from 1.0 previously to reflect changes in the accounting treatment of leases).

If one or both of the performance criteria is not satisfied, then all the alignment rights will lapse.

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).

On balance we believe the awards are not excessive, are aligned with shareholder value and are highly transparent and well explained, so we intend to support the resolution.

Item 6	Renewal of proportional takeover provisions
ASA Vote	For

Summary of ASA Position

This is a routine 3-year renewal of company constitutional provisions.

A proportional takeover bid may result in control of the company changing without shareholders having the opportunity to dispose of all their shares. Shareholders are exposed to the risk of being left as a minority in the company and the risk of the bidder being able to acquire control of the company without payment of an adequate control premium.

The constitutional provisions allow shareholders to decide whether a proportional takeover bid is acceptable in principle and to assist in ensuring that any partial bid is appropriately priced.

The ASA proposes to support this resolution.

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