



Continued shareholder love-in?

Company/ASX Code	CSL Ltd/CSL
AGM date	Wednesday 17 October 2018
Time and location	1.00 pm Clarendon Auditorium, Melbourne Convention Centre (Note change of venue from previous CSL AGMs)
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll
Monitor	Don Hyatt assisted by Mike Muntisov
Pre AGM Meeting?	Yes, two meetings with Chair of the Rem Committee Megan Clark with incoming Chair Brian McNamee, Head of Investor Relations Mark Dehring and Company Secretary Fiona Mead.

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

Summary of ASA Position

Note: CSL is a truly global company with less than 10% of revenue from Australia. CSL reports in US\$, therefore a number of figures are quoted in US\$ and will be indicated as such. Assume all other figures are in \$A. 'CC' indicates constant currency which removes currency fluctuations during the year.

Governance and culture

CSL has had only two CEO/MDs since listing in 1994. It has continued its growth as a global powerhouse. The board comprises members bringing a wealth of industry knowledge and experience and there is a strong culture of professionalism and succession planning. For several years CSL has published its environment social governance (ESG) statement. CSL has always been willing to meet with the ASA.

Financial performance including dividends and shareholder returns

CSL has had another good year with revenue up 11% to US\$7.92 billion, net profit after tax (NPAT) up 28% to US\$1.73 billion and return on invested capital (ROIC) a very healthy 25.9% (up from 24.5%). Earnings per share were up 29% to US\$3.82 (\$2.94).

The share price grew from \$138.03 to \$194.46 in the past financial year; adding dividends of \$1.92 CSL shareholders saw a total shareholder return (TSR) of a very impressive 42.3%. This was aided by currency tailwinds with the \$A falling about 4% against the US\$. We note the conclusion of the buy back with the final \$150m of CSL bought back on market during the year. In total this has reduced share capital by around 30% over about 10 years. The company is investing more in R&D (11% of revenue) and is comfortable with the current level of debt, targeting around 1.5X EBITDA. Interest bearing debt has risen from US\$2,853m to US\$4,161m but the Debt/Equity has dropped from 99% to 88% due to a significant rise in Total Equity from US\$3,163m to US\$4,079.9. The long term debt profile is in excellent shape and CSL has secured debt at low rates as outlined on page 101 of the annual report.

Of the five CSL operational areas, all grew revenue: Immunoglobulins 11%, Specialty Products 24%, Sequiris 30%, Albumin 7% and Haemophilia 5%. The plasma collection business continues to grow with 206 collection centres of which 27 opened this year. The establishment of Sequiris (flu vaccines) following the purchase of the Novartis flu business has met, and slightly exceeded, expectations.

Key events such as restructures, acquisitions, buy backs and capital raisings

Capital spending and intangibles have risen due to continued expansion. CSL has purchased the Chinese plasma products company Ruide in two tranches for total consideration of US\$351.8m and the gene therapy company Calimmune for US\$82m. Intangibles have grown significantly from US\$1.1 billion to US\$1.8 billion largely due to the above purchases and the IP that accompanied them.

Key Board or senior management changes

The Chair Professor John Shine AC has announced his retirement at the conclusion of the AGM. Dr Brian McNamee, long term and founding MD of CSL will assume the role as Chair after a 5 year break from the company.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (US\$m)	1,729	1,337	1,242	1,379
UPAT (US\$m)	1,713	1,427	1,242	1,379
Share price (A\$)	194.46	138.03	112.20	86.47
Dividend (A cents per share)	192	172	171	163
TSR (%)	42.3	24.6	31.7	32.0
EPS (US cents per share)	3.82	2.94	2.69	2.92
CEO total remuneration, actual (US\$m)	7.39	7.41	5.50	5.81*
CEO total remuneration, actual in A\$m	10.2	9.4		

*Statutory

For 2017-2018 year, the CEO's total actual remuneration was 119 times the Australian Full Time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 2a	Election of Dr Brian McNamee, AO
ASA Vote	For

Summary of ASA Position

Brian McNamee was the CEO/MD for 19 years from listing in 1994. Over that time the share price increased 100 fold. Dr McNamee was appointed to the board in February 2018. Subject to his election as a Director, it is intended that Dr McNamee become Chair of the CSL Board at the conclusion of this year's AGM. He holds \$40m in CSL shares.

Item 2b	Election of Mr Abbas Hussain
ASA Vote	For

Summary of ASA Position

Mr Hussain was appointed to the board in Feb. 2018. He brings a wealth of international experience and expertise to the Board. He has previously been Global President, Pharmaceutical at GlaxoSmithKline and a Director of ViiV Healthcare Limited, as well as previously serving on the Board of Aspen Healthcare and the Duke/National University of Singapore Medical School. He holds about \$3,500 value in CSL shares in his first year on the Board.

Item 2	Election of Prof Andrew Cuthbertson, AO
ASA Vote	For

Summary of ASA Position

Professor Cuthbertson has been CSL's Chief Scientific Officer and R&D Director since 2000. He is highly regarded in the industry. He will be the second executive director alongside the Managing Director, and while ASA guidelines generally oppose boards having more than one executive director, in the case of CSL we consider this appointment reflects the critical importance of R&D to the company. It has been announced that he will continue to be part of the CSL Global Leadership Group should he receive shareholder support. Prof Cuthbertson holds about \$25m in CSL shares.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The ASA has had several meetings with the Chair of the Remuneration Committee Dr Megan Clark over the past two year to discuss the new remuneration structure introduced in 2017 following the 26% 'First Strike' in 2016. The structure varies significantly from the more common separation of the short term incentive (STI ie 1 year) and long-term incentive (LTI ie 3 or 4 years). Each year CSL rewards the executives for achieving short and long term goals.

The positive features of the remuneration report include reward allocation of equity being based on the actual share price (face value), rather than the statutory valuation (fair value), inclusion of a table of the MD's actual salary in the annual report; and a totally restructured bonus reward system after the first strike.

While ASA prefers two measures to be used as performance metrics, the LTI performance share units (PSUs) hurdle is based on a single measure of a rolling seven year average return on invested capital (ROIC). The STI is paid 100% in cash and the LTIs vest over 1, 2, 3 and 4 years with no additional hurdle – however it is considered the rolling 7 year ROIC is a sufficiently demanding long-term target, which is also difficult to manipulate with short-term actions. The PSU ROIC performance hurdle, set by the board with reference to the budget and expectations, ranges from a lowest value of 24% to full vesting at 27%. The ROIC over the past two years have been 25.9% and 24. 5%.

The significant equity component in the remuneration structure aligns executives and shareholder interests. Mr Perreault was awarded 52,052 PSUs this year. The fixed annual remuneration (FAR) has remained unchanged this year with a small increase in the 'at risk' remuneration component.

The CEO holds around \$11.5m in CSL shares and, like all key executives, has significant skin-in-the-game.

SPECIAL BUSINESS

Item 4	Grant of Performance Share Units to the CEO and MD, Mr Paul Perreault
ASA Vote	For

Summary of ASA Position

A grant value of US\$6,128,500 (3.5X FAR) to be converted to PSUs. Mr Perreault's FAR is US\$1,751,000. As described above these are calculated on the single measure of ROIC and the terms clearly laid out on pp19 and 20 of the Notice of Meeting (NOM). An illustrative example is given on p21 of the NOM.

Whilst clearly a large sum it must be considered in the context of the success of CSL over the past four years with TSRs of 42.3%, 24.6%, 31.7% and 32.0%. CSL is competing in a highly technical global environment. It is important to ensure that the best people are in the job.

Item 5	Re-approval of the Global Employee Share Plan (GESP)
ASA Vote	For

Summary of ASA Position

The GESP is made available to key employees with a view to encouraging them to take up shares at up to a 15% discount. Limits are applied to personal applications and also the total shares held under the GESP. See p.23 of notice of meeting. The ASA supports the alignment of shareholder and executive interest by the issue of shares.

After the final share buyback of \$150m in 2017-2018 the ASA has asked that future issued shares be bought back on market in order to mitigate against share dilution.

Item 6	Re-approval of the Performance Rights Plan (PRP)
ASA Vote	For

Summary of ASA Position

The PRP are offered to strategically important staff (approx. 1,033) in order to encourage the take up of CSL shares. The rights are issued at no cost. Like the CEO's ROIC calculation they are based on 7 years average ROIC. They vest over 4 years and an early leaver will forfeit the rights. This has the effect of staff retention and potential intellectual property (IP) loss.

Item 7	Renewal of proportional takeover approval provisions in Constitution
ASA Vote	For

Summary of ASA Position

The ASA opposes proportional takeover; or takeovers by stealth. They are not in the best interests of shareholders.

The individual involved in the preparation of this voting intention has a shareholding in this company.

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