Working through the cycle

Company/ASX Code	Bluescope Ltd/BSL
Meeting Time/Date	10am, Tuesday, 21 November 2023
Location	Novotel Northbeach Hotel, North Wollongong, NSW
Registry	Link Market Services
Type of Meeting	Hybrid
Monitor	Mike Muntisov assisted by Lionel Werbeloff
Pre AGM Meeting?	Yes, with Chair John Bevan, Chair-elect Jane McAloon, Investor Relations Chris Gibbs and Sustainability Manager Tim Rodstedt

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

1. How we intend to vote

No.	Resolution description	
2a	Re-election of Ms Rebecca Dee-Bradbury as a Director	For
2b	Re-election of Ms Jennifer Lambert as a Director	For
2c	Election of Ms Kathleen Conlon as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of STI grant to CEO/Managing Director Mark Vassella	For
5	Approval of LTI grant to CEO/Managing Director Mark Vassella	For
6	Renewal of Proportional Takeover provisions	For

2. Summary of Issues and Voting Intentions for AGM

- The board transition continues.
- Reduced steel spreads have impacted profitability.
- The board approved the $1.15B Port Kembla Blast Furnace relining and upgrade project.

3. Matters Considered

Key Financials

It was always going to impossible to replicate the bumper year of FY22. The results in FY23 saw Net Profit after Tax (NPAT) drop from $2.8B to $1.0B even though revenue was down by only 4%. Nevertheless, the net cash on the balance sheet increased by $100m. The company's updated guidance for the first half FY24 is for an Earnings before Interest and Tax (EBIT) result around 20% lower than FY23.

	2023	**2022**	**2021**	**2020**	**2019**
Statutory NPAT ($m)	1,009	2,810	1,193	97	1,016
Underlying NPAT ($m)	1,098	2,701	1,166	353	966
Statutory EPS (cents)	217	571	237	19	190
Dividend per Share (cents)	50	50	50*	14	14
Share Price at End of FY ($)	20.55	15.90	21.96	11.69	12.32
Statutory CEO Remuneration ($)	$5.4m	$4.9m	$5.5m	$4.6m	$3.7m
Actual CEO Remuneration ($)	$6.6m	$5.0m	$6.2m	$3.9m	
Total Shareholder Return (%)	32%	-25%	92%	-4%	-29%

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company. includes 19c special dividend*

Key Events

The company approved the Port Kembla blast furnace No 6 reline and upgrade project, expected to cost $1.15B and be completed in 2026.

FY23 was the first full year of operation of its acquired ferrous metal recycling business, now called Bluescope Recycling and Materials, and a Coils Coating business now named BlueScope Coated Products, the second largest metal coil painter in the USA.

The North Star mini-mill expansion in the USA continued its 18-month ramp up.

Environmental, Social and Corporate Governance (ESG)

Bluescope's Sustainability Report is comprehensive and informative and appears to be well integrated into the overall company strategy.

The company announced an accelerated feasibility study for a new Electric Arc Furnace at its New Zealand operation which could reduce emissions by 45%.

The company is meeting its main climate and sustainability targets.

Key Board and management changes

The board has been transitioning over the last couple of years. As part of the transition, long-time chairman John Bevan will be retiring at the forthcoming AGM and will be replaced by chair-elect Ms Jane McAloon who joined the board in September 2022.

In July 2023 the company announced the appointment of a new director in Mr Alastair Field, former CEO of recycled metals business Sims Ltd.

Kristie Keast was appointed Chief Executive, North America taking over from Pat Finan.

Tania Archibald was appointed Chief Executive, Australian Steel Products taking over from John Nowlan.

David Fallu was appointed CFO starting in September 2023.

Governance, Transparency, and Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair and majority of independent directors.
- The Board (of ten directors) has at least 40% female and at least 40% male directors (actual 50%:50%) with diversity of age, skills and geography.
- Non-Executive directors are expected to own the equivalent of 100% of base fee in equity, the Managing Director 200% of fixed pay and other KMPs 100% within a 'reasonable' time. Except for recent appointees, the existing directors and management meet this expectation.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company has a policy limiting directors to a maximum tenure of nine years (from the date of first election by shareholders).

Areas for improvement

- The company does not publish a meaningful director skills matrix in the company's annual report.
- The company made political donations to the value of $131,000 in FY23 but these were not disclosed in the either the Annual Report or Governance Statement. The ASA advocates for no political donations, but, in the event they are made, that they be disclosed in the Annual Report.

Summary

The company is generally well governed.

4. Rationale for Voting Intentions

Resolution 2a: Re-election of Ms Rebecca Dee-Bradbury as a Director (For)

Ms Dee-Bradbury has a business degree and was appointed to the board in April 2014. She will have completed her third term and therefore reach the maximum director tenure under the company's policy. However, the board is exercising its discretion for Ms Bradbury to continue beyond this AGM for *part* of a fourth term in order to assist with board transition.

Her previous corporate experience was as CEO of Kraft/Cadbury ANZ. Her director workload is acceptable and she has adequate 'skin-in-the-game' shareholding.

On balance we can see a net benefit for the company of retaining Ms Dee-Bradbury provided it is for a short period. Therefore the ASA will support her re-election.

Resolution 2b: Re-election of Ms Jennifer Lambert as a Director (For)

Ms Lambert has business, economics and accounting qualifications. She was appointed to the board in September 2017. She is a director at two other ASX-listed companies, so her workload is acceptable. Her most recent corporate experience was as a CFO at a property company. She has adequate 'skin-in-the-game' shareholding.

The ASA proposes to support her re-election.

Resolution 2c: Re-election of Ms Kathleen Conlon as a Director (For)

Ms Conlon has qualifications in economics. She was appointed to the board in February 2020. She is chair of Lynas Rare Earths and a director at Aristocrat Leisure, so her workload is acceptable. She is an American/Australian dual national. Her previous corporate experience was at Boston Consulting Group. She has acceptable 'skin-in-the-game' shareholding.

The ASA proposes to support her re-election.

Resolutions 3, 4 and 5: Adoption of Remuneration Report and approval of equity grants to Managing Director (MD)/CEO (For)

The remuneration structure has many features which ASA supports. However there are areas which do not meet ASA guidance, and we have discussed these with the company and received reasonable explanations as described in Appendix 1.

We have also reviewed the rationale of BSL's current remuneration structure when it was first implemented in 2017/18, and ASA's previous voting which consistently supported it.

Our conclusion is that the remuneration plan is well thought out and tailored to the nature of the unique Bluescope business. The quantum of remuneration falls within benchmarks. Now that the company has stabilised and diversified, we question whether some of the hurdles need to be revisited. We shared this view with the company at our pre-AGM meeting.

On balance, we believe the remuneration plan continues to drive long-term decision making by the Executive team and so the ASA proposes to support the remuneration report. We will continue to challenge the company to ensure the remuneration plan remains fit-for-purpose as the company evolves.

Resolution 6: Renewal of Proportional Takeover provisions (For)

This is a standard recurring resolution which the ASA routinely supports.

Appendix 1
Remuneration framework detail

CEO rem. framework	Target ($m)	% of Total	Max. Opportunity ($m)	% of Total
Fixed Remuneration	1.95	41%	1.95	37%
STI – Cash*	0	0%	0	0%
STI – Equity*	0.86	18%	1.30	25%
LTI	1.95	41%	1.95	37%
Total	4.76	100%	5.20	100%

**Key Management Personnel (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 FY23 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.*

FY23 Outcome

The CEO actual remuneration was $6.6m. This represented achieving 89% of maximum opportunity for the Short Term Incentive (STI), and 100% vesting of the Long Term Incentive Plan (LTI). Share price appreciation since STI/LTI award/grant resulted in a net $1.60m increase in actual realised pay as at 30 June, which is why actual exceeds the maximum opportunity in the table above.

Remuneration Framework Positives

- CEO’s actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package is within the Godfrey Remuneration Group report benchmarks.
- The quantum of Board fees are within the Godfrey Remuneration Group report benchmarks.
- At least 50% (59% at target) of CEO’s pay is genuinely at risk, with STIs less than fixed remuneration.
- The majority of STIs are based on quantifiable and disclosed performance metrics (50% on financial parameters, Return on Invested capital (ROIC) and free cash flow)
- At least 50% of STIs was paid in equity. This year the CEO has elected to receive 100% of STI in equity.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI (Alignment Rights) hurdles are based on two hurdles, ROIC and leverage ratio

Bluescope's LTI hurdles and criteria are as follows (both criteria have to be met for any LTI to be awarded):

LTI Performance Criteria	**Contribution % of total LTI award**	**Threshold performance**	**Vesting at threshold performance**	**Target performance for 100% vesting**
Leverage (Debt/EBITDA)	*	<1.3	100%*	<1.3*
ROIC (3-year ave)	*	>10%	100%*	10%*

* both criteria must be met for any vesting to occur and then 100% of award vests. There is no sliding scale.

- All share grants are allocated at face value not fair value.
- Share grants are satisfied by equity purchased on-market.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- Board discretion on vesting in a takeover or "change of control" events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- There is no minimum 12 month holding lock on STI share grants. The company justifies this because of "the conservative STI opportunity relative to market peers (67% of fixed vs 100%+ for peers)". This is because when the current plan was implemented in 2018, some of the STI reward was shifted to the LTI (3-year).
- Key Management Personnel (KMP) can elect to receive all of their STI in cash. Nevertheless, recent practice of at least the MD is to receive all of his STI in equity.
- LTI (Alignment Rights) hurdles are measured over three years rather than ASA's preferred four years after issue.
- Total Shareholder Return (TSR) is not used as a LTI hurdle. The Chair has previously explained that 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)
- The debt leverage performance measure acts more as a 'gateway' as it is generally easily achieved. The company's remuneration philosophy is to set relatively low threshold targets to account for the cyclicality of the industry but with a low opportunity relative to peers, recognising the increased likelihood that the LTI will be awarded. Nevertheless we question whether the low threshold is relevant to management action given that the board has ultimate say on expansion of debt.

- The all-or-none nature of the LTI award is not aligned with the shareholder experience and makes the ‘underlying’ ROIC performance measure potentially susceptible to manipulation if it is close to the measure threshold.
- The LTI ROIC hurdle is set at 10% which was above the 10-year performance average when it was first introduced. However the current 10-year average ROIC is more than 15%, so one could argue the hurdle is not sufficiently challenging.
- Underlying earnings are used for both STIs and LTIs share grants. 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.

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