



Bapcor Limited

(ASX: BAP)

ASX Release

17 October 2016

Further information re 2016 Remuneration Report and AGM Resolutions

Bapcor Limited is providing further information in relation to the 2016 Annual Report and AGM Resolutions to assist shareholders to make an informed decision regarding voting at the AGM. The information is provided to respond to some concerns raised by a Proxy Adviser to the Institutional Investors and to correct some inaccuracies in their report.

Executive and Directors Remuneration

In 2015 and again in 2016 Godfrey Remuneration Group, who are independent specialists in remuneration policy and market competitiveness and benchmarking, undertook, at the request of the Board, a market benchmarking review of the remuneration of Bapcor Directors and the senior executives. On each occasion this involved benchmarking against a peer group of companies of similar size listed on the ASX. The information provided by Godfrey was then used by the Board to determine remuneration for each Senior Executive and Director. For senior executives the remuneration benchmarking was for total remuneration including fixed remuneration, short term incentive (STI) and long term incentive (LTI). For non-executive directors the remuneration comprised base fees plus committee fees (including superannuation). Remuneration for Directors and senior executives were increased in line with the Godfrey benchmarking.

Bapcor considers it appropriate that executives and directors should be remunerated in line with market benchmarks to ensure it retains and attracts appropriately experienced and qualified personnel.

Bapcor has delivered significant shareholder value since its IPO in April 2014.

Short Term Incentives (STI)

As part of their remuneration senior executives participate in a STI plan.

-) For group executives including the CEO and CFO, the STI is the same as was specified in the IPO Prospectus which comprises a financial component (70%) and non-financial objectives (30%). For the financial component, this is based on Bapcor's budgeted net profit after tax (NPAT), which is set by the Board in June each year, before the beginning of the financial year.
-) For executives responsible for the operation of business segments, their STI financial component comprises 40% for their business segment budgeted earnings before interest and tax (EBIT) and 30% on Bapcor group budgeted EBIT and there is 30% attributed to non-financial objectives.

Budgets are set each year by the Board that are considered to be appropriate based on the prior year actual results and expectations on performance for the relevant year. For example the FY2016 budget was in line with market expectations and the FY2017 budget is in line with the guidance provided to the market of a 25% to 30% increase over FY2016 in NPAT and earnings per share.

In the financial metrics, to achieve target STI, the budget financial metrics must be achieved, and to achieve maximum STI the financial budget plus 10% must be achieved. In all cases the financial targets must be achieved after expensing any estimated STI - so in essence the payments of STI are self-funding.

The personal objectives (30% of remuneration) are approved by the Board each year and comprise specific items relevant to the individual (not generic) that are considered to be of importance for the individual to achieve to advance the group's objectives in the relevant year. The non-financial objectives may include such areas as occupational health and safety, strategic development, corporate governance, employee engagement, succession planning, people development and group optimisation projects.

Above target achievement of STI's are deferred for a period of 12 months and are subject to a claw back for any financial misstatements, as detailed in the IPO prospectus and the 2016 Annual Report.

Long Term Incentives (LTI)

Bapcor's LTI structure has not changed since the IPO in April 2014 and as was detailed in the Prospectus and subsequent documentation, including the 2016 Annual Report.

As part of the senior executive's remuneration (including the CEO), each 1 July, senior executives are granted performance rights for the following **three** years. The performance rights are in two tranches, the first tranche is measured on **twenty-four months** (2 years), which represents approx. 35% of the rights, and the second tranche is measured on **thirty-six months** (3 years). The **grant date** is the date the rights were actually issued to the executives due to the necessity to obtain independent valuations of the rights as outlined below. The grant date is not the measurement period.

The period of the LTI tranches as shown in the 2016 ISS Proxy Analysis & Benchmark Policy Voting Recommendation are not correct.

The financial targets for the vesting of the rights is determined as detailed in the Directors Report in Bapcor's 2016 Annual Report. These targets are aligned with shareholder interests and have very specific hurdles for both EPS (minimum 7.5% EPS growth) and TSR (minimum 50th percentile). The targets are the same for all executives, including the CEO.

The actual quantity of LTI rights to be issued to each executive can only be calculated after the start of each financial year. The calculation of the value of each right is performed by an independent firm. In 2015 this was performed by Egan Associates and in 2016 it has been undertaken by KPMG. The rights calculation can only be done after the beginning of the financial year as they are based on:

-) the VWAP of the Bapcor share price in the ten days to 30 June prior to the first year of the rights.
-) The Bapcor EPS as of the year prior to the first year of the rights
-) The rights subject to market conditions are calculated based on the Monte Carlo simulation (using the Black-Scholes framework) to model Bapcor's future security price and TSR performance against the comparator group at vesting date.
-) Once the value of each right is determined, the number of rights applicable to each executive (including the CEO) is calculated based on the remuneration of the executive. This calculation can only be done after the independent adviser has calculated the value of each right. Hence it is not possible to specify the exact number of rights that will be available each year to the CEO, or any executive.

Only senior executives, including the CEO, participate in the LTI plan. Non-Executive directors do not participate in the LTI plan.

The value of rights proposed to be issued in 2016 to the CEO represent 65% of the CEO's fixed remuneration. To other senior executives the value of rights proposed to be issued in 2016 range from 40% to 50% of fixed remuneration. The value of the LTI is part of the annual remuneration advice received from independent remuneration advisers as detailed above.

Where rights vest, (i.e. the hurdles are met), the rights are satisfied by the issue of shares to the executives at no cost to the executive.

No rights will vest unless the specified performance conditions are satisfied.

The LTI plan is designed to align the senior executives focus with the interests of shareholders.

Other Specific one off bonus payments

As a result of Bapcor's acquisition of Metcash Automotive in August 2015, four former Metcash executives (now Bapcor executives) were paid once off bonuses as agreed between the executives and Metcash. Bapcor was not a party to these arrangements, but were aware of them as part of the due diligence process. The final payments were included in the Metcash financial accounts and **not** Bapcor's financial accounts. The amounts were paid to the Executives via the Bapcor payroll after the completion of the transaction, as they were accrued in the balance sheet that Bapcor acquired from Metcash. Any additional disclosure of the details of these payments is appropriately the responsibility of Metcash.

Loans to CEO and key management personnel re the Company's entitlement offer in relation to the acquisition of Metcash Automotive

As disclosed in Bapcor's 2015 Annual Report, Bapcor provided loans to the CEO and key management personnel to enable them to participate in the Company's Entitlement Offer in 2015 in relation to the acquisition of Metcash Automotive acquisition. The objective of the loans was to enable the executives to maintain their same percentage shareholding in the company and not to be diluted. Without this assistance the executives would not have been able to participate to the same degree. The terms and conditions of the loans, as detailed in the Bapcor 2015 Annual Report, are being fully complied with and are regularly monitored by the Board.

The initial loans to key management personnel totaled \$3.050m. The balance of the loans as at 1st October 2016 are as follows;

)	CEO	nil
)	All other executives	\$1.354m

The Bapcor Board is very aware of its obligations to keep shareholders informed and its disclosure obligations.

The Board did not have an appropriate opportunity to provide comments on the matters raised by ISS in its report and has requested a meeting to review the matters with ISS, which cannot be held until after the Bapcor AGM due to ISS's policy.

The Chairman of the Board (Robert McEniry) and Chair of the Nomination and Remuneration Committee (Therese Ryan) are happy to discuss any remuneration matters with shareholders.

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