### Overview

Boohoo group Plc (boohoo) is an online clothing retailer based in the United Kingdom.

BlackRock Investment Stewardship (BIS) has engaged with the company to discuss multiple corporate governance and sustainability issues. The most high profile of these issues is allegations made in July 2020 of worker exploitation in the company’s UK supply chain. Employees of the company’s suppliers were found to be working in poor conditions (including with no protective equipment or social distancing during the COVID-19 pandemic) and on wages lower than the national minimum wage. The allegations led to a drop in the company’s share price by about a half, and almost a year later it lies more than 15% below its peak in late-June 2020. In response, the Board commissioned an independent third-party review of the company’s practices, which confirmed that the allegations about poor working conditions were substantially true and found that the company’s monitoring of its supply chain was inadequate. The review also concluded that directors knew that serious issues existed and did not take swift or sufficient action to remedy the situation.

The company has since taken steps to address these supply chain issues under the banner “Agenda for Change” and appointed Sir Brian Leveson, a former judge, to oversee the implementation of this program. In May 2021, the company also published its first sustainability report. However, the findings of the independent

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1 Boohoo group, “Notice of annual general meeting 2021”.
2 “Independent Review into the boohoo Group PLC’s Leicester supply chain”.
4 Boohoo group, “boohoo group’s sustainability plan”.

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review raise fundamental questions about the appropriateness of re-electing existing company directors to the board.

**Rationale for BlackRock’s Vote**

**Item 6: Re-elect Carol Kane as Director (AGAINST)**

BIS voted against the re-election of this executive director to signal our concerns about governance and board oversight related to the findings of the independent review.

Ordinarily, when assessing our voting decisions regarding the (re)election of directors, we would limit our considerations to non-executive directors whom we consider the primary actors accountable to shareholders (including for the appointment/removal of executives). In this case, however, the company is listed on the AIM segment of the London Stock Exchange and has chosen not to comply voluntarily with the UK Corporate Governance Code. As a result, it does not put all directors up for re-election annually. In our recent engagements with the Board, we encouraged the company to move to fully adhere with the UK Corporate Governance Code, but the result this year was that the only non-executive directors on the ballot were those appointed after the supply chain issues came to light.

In the absence of a vote on the re-election of non-executive directors, and given the severity of the lapses in business practice confirmed in the independent review, we voted against Carol Kane, the co-founder and former co-CEO who serves on the Board as an executive director. This vote reflected our view that there needed to be accountability at the board level for the poor oversight and practices that resulted in the recent controversies and related value destruction. We also consider this consistent with the demonstrable governance change necessary to support the company’s remediation actions as set forth in the Agenda for Change program.

We note the extent to which the company’s longer-serving leaders were implicated by the independent review in the company’s failure to manage the issues in its supply chain. We also note that they should have moved more quickly to address these issues. Even though Ms. Kane is a co-founder of the company, given this history it does not seem appropriate for her to remain on the board, or necessary for her to be an effective executive. Her stepping down and being succeeded by a fully independent newly appointed director would facilitate a meaningful change that will assist with a renewed approach to board oversight. We recognize the implications this would have for diversity on the company’s board, given Ms. Kane is the only female director, and believe the board should enhance its diversity through its next appointments. We also believe governance would be improved by having annual elections for all directors to provide shareholders the ability to hold relevant directors accountable and have urged the company to review its approach.

We did not vote against the other two executive directors also up for re-election, John Lyttle (CEO since 2019) and Neil Catto (CFO since 2013), because we believe their input is important to the functioning of the board and it is important to have some leadership stability to address the controversies and ensure the company delivers on its commitments.

**Item 7: Elect Shaun McCabe as a Director (AGAINST)**

BIS voted against this director as we consider him to be overcommitted per our proxy voting guidelines.

BIS has a longstanding focus on board commitments. Given the role of director is increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. As we explain in our proxy voting guidelines, we have concerns when a full-time executive has a more than one non-executive

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5 London Stock Exchange, “London Stock Exchange’s market for small and medium size growth companies”.
6 Boohoo group, “An agenda for change in UK garment manufacturing”.
director role at unrelated companies, as there is a risk that the director may not be able to fully contribute in their roles, particularly in the event of unforeseen circumstances.

Shaun McCabe currently serves as the CFO of another UK-listed company (Trainline Plc), while also serving as a non-executive director at a third (AO World Plc). We acknowledge his appointment at booohoo was an important signal that the company was committed to developing the skills and experience of its board. However, we believe that this appointment is undermined by the risk that the individual appointed has insufficient capacity to fulfil his role on the board. As a result, we voted against Mr. McCabe’s election.

**Item 2: Approve Remuneration Report (AGAINST)**

BIS voted against the approval of booohoo’s remuneration report given poor discretion used by the Remuneration Committee.

Soon after booohoo’s 2020 annual meeting, the company announced the implementation of a Management Incentive Plan (MIP) for the executive directors (except the CEO, for whom a separate incentive plan had been implemented in 2019). The MIP had not been notified previously to shareholders, nor had consultation on any new plan been undertaken.

The MIP entitles the executives to a significant share award if in 2023 the company’s market capitalization exceeds £6.295 billion (it is currently at just under £4 billion). The size of the award depends on the extent to which the market capitalization exceeds this threshold, with 100% of the award due if the market capitalization exceeds £7.554 billion – at which point Mahmud Kamani (as Executive Chair) and Ms. Kane (as an executive director) will each be entitled to a £50 million award, and Mr. Catto (as CFO) to a £10 million award.

BIS has concerns about the use of this performance measure, notably because of its dependence on share price alone, which we consider inappropriate for the executives in question, particularly Mr. Kamani (who is the company’s largest shareholder with a holding of around 12.5%) and Ms. Kane (who holds 2.6% of the share capital).

Although we recognize the introduction of some positive changes to the executive remuneration arrangements in recent months – including an amendment to the MIP to make vesting also dependent on the successful implementation of the Agenda for Change – we continue to have reservations about the operation of the MIP and the overall approach taken by the company to its implementation. As a result, we voted against the remuneration report.
About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients’ assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company’s approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company’s shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock’s ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a “best-efforts” basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company’s sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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