Investment Stewardship Group

Voting Bulletin: Ocado Group Plc

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**Ocado Group Plc**
Market	United Kingdom
Meeting Date	6th May 2020
Key Resolutions	**Item 2:** Approve Remuneration Report **Item 10:** Re-elect Andrew Harrison as Director **Item 12:** Re-elect Julie Southern as Director **Item 14:** Elect Claudia Arney as Director
Board Recommendation	The company recommended shareholders vote FOR these resolutions.
BlackRock Vote	We voted AGAINST the above agenda items given our concerns about executive pay.

Overview

Ocado Group Plc (Ocado) is a UK online grocery retailer that specializes in developing and supplying online retailing technology (including distribution logistics) to other grocers. The company's CEO is one of the founders, who also owns more than 3% of its share capital.

BIS regularly reviews Ocado's governance structure and risk profile. We engage with members of the board on material issues driving long-term shareholder value, including with the Board Chair and the Chair of the Remuneration Committee.

We engaged with the Board Chair and the Chair of the Remuneration Committee as part of their shareholder consultation ahead of the company's 2019 annual general meeting (AGM) to discuss the board's plans for renewing the company's executive remuneration policy. At that time, BIS expressed concerns about the proposed introduction of a new long-term executive pay plan that was based on share price growth (the Value Creation Plan, or VCP). BIS questioned whether it was appropriate to assess management's performance solely by reference to shareholder returns, which can be subject to numerous factors outside of management's control. The company nonetheless proceeded to put the VCP to a shareholder vote at the 2019 AGM, which BIS did not support. In aggregate, around 24% of the company's shareholders opposed the introduction of the VCP.

Part of the concern with the VCP was its similarity to an expiring long-term executive pay plan (the Growth Incentive Plan, or GIP) which was originally introduced in 2014. The GIP awards (originally granted to three executives, including the CEO) were dependent on Ocado's share price growth over the next five years, to May 2019, exceeding the growth of the FTSE 100 index. This meant that the GIP was, like the VCP, subject to a single performance metric that only measured management's performance indirectly. It was also designed to target an outcome that the executives – as significant shareholders themselves – were already incentivized to achieve.

Rationale for BlackRock Vote

Based on our analysis and engagement with the company, BlackRock voted against the following agenda items:

Item 2: Approve Remuneration Report (AGAINST)

Under this item, the company sought shareholders' approval of the executives' 2019 remuneration, which includes the awards resulting from the GIP. Given our concerns about the suitability of these awards, taking into account both their structure and their size, we did not approve the remuneration report.

Structurally, the awards run contrary to shareholders' expectations that long-term variable pay motivates management to deliver superior sustainable long-term results. Considering the executives' sizeable shareholdings (particularly that of the CEO), the participants already had a very strong incentive to grow the share price – which, as noted above, was the sole objective of the GIP. For this reason, it is difficult to see how the GIP awards will have played an appreciably motivating role for the participants.

Moreover, while the awards do reflect significant share price growth over the 2014-2019 period, the amounts awarded are out of line with usual levels of variable pay for executives within the UK market, even for exceptional performance. The CEO's award contributed to his total pay in 2019 being more than 15 times higher than the median 2019 pay for CEOs across the FTSE 100[1].

Items 10, 12 and 14: Re-elect Andrew Harrison and Julie Southern and elect Claudia Arney as Directors (AGAINST)

Mr. Harrison, Ms. Southern and Ms. Arney are the members of Ocado's Remuneration Committee. Although this current composition of the committee had no hand in, or control over, the mathematical outcome of the GIP, it

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[1] According to figures cited by the UK Chartered Institute for Personnel and Development, https://www.cipd.co.uk/knowledge/strategy/reward/executive-pay-ftse-100-2019

concluded in the remuneration report that the outcome was appropriate as it reflected the original purpose of the plan to "deliver above-market pay-outs…for outstanding results"[2].

As we make clear in our voting guidelines, we will typically hold members of the remuneration committee accountable when we determine that remuneration is excessive relative to peers, without appropriate rationale, or explanation[3]. We will also look to do so when we observe a lack of board responsiveness to significant investor concern. The committee took the decision, in addition to approving the GIP awards, to raise executive directors' base salaries by more (in percentage terms) than the increase awarded on average to the company's wider workforce. The committee's explanation that it considered these increases necessary to ensure management is commensurately rewarded for leading a FTSE 100 company shows little recognition, in our view, of the concerns brought to light by the significant opposition to the VCP (and the remuneration policy it formed part of) in 2019.

[2] The remuneration report can be found from page 98 onwards of the company's Annual Report for 2019, https://www.ocadogroup.com/sites/ocado-corp-v2/files/documents/Ocado--Annual-Report-2019.pdf

[3] Please see our Regional Proxy Voting Guidelines for European, Middle Easte m, and African Securities, https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-emea.pdf