



Aalst (Belgium)
May 11, 2020

Dear Ontex Shareholders,

We write to you to address certain criticisms about our Remuneration Report, explain the decision to increase the CEO's salary in 2019, explain the demanding nature of the bonus' performance criteria, provide more colour about the Transform2Grow incentive plan and emphasize our commitment to evolve the structure of our remuneration during 2020 with a view to submitting changes, as appropriate, to a binding vote on the remuneration policy at the AGM of 2021.

We must emphasize that the subject of remuneration is taken very seriously by the Remuneration and Nomination Committee and the Board of Directors. Our remuneration policy is challenging and linked to the long-term and robust development of the group for the good of shareholders and stakeholders. We have been preoccupied about the lack of support of our non-binding remuneration report resolutions. We have taken several steps to improve remuneration structure and the transparency associated with performance related to our remuneration criteria and this has been recognized by the proxy advisory community.

The Board is disappointed that, despite this recognition, the proxy advisory community does not yet perceive our genuine concern and clear efforts sufficiently to recommend voting in favour of our remuneration report for 2019. We are also disappointed that ISS refused our request to meet to better understand their policies and explain our efforts to improve our remuneration policy and report.

The proxy advisors appear to apply a great deal of zeal in criticizing the remuneration report of a young Belgian mid-cap growth company where local practices are different than those used internationally and where remuneration report resolutions are not yet binding.

Given this context, we are writing to provide our perspective, encourage you to take your own decision and to ask you to support Items 5 and 9 at our AGM on May 25, 2020.

Remuneration: we are listening to you

For the avoidance of doubt, the members of the Remuneration and Nomination Committee and the Board of Directors have been disappointed by the poor vote results on remuneration resolutions in the past. While never a binding vote, we have tried to improve the transparency and the nature of our remuneration policy to make it easier for shareholders to understand how remuneration works at Ontex and why it is demanding. We are striving to improve the situation and have made further strides this past year with greater transparency ex post on performance criteria and improved plan design of our LTIs.

In several places in the presentation of our Remuneration Policy and Report in the Annual Report we have underscored our concern about past results and described our efforts to improve remuneration. You will notice that the explanations about short-term and long-term variable remuneration are far more detailed than in the past. A concerted effort was made to provide 2019 targets and results for all our KPIs.

While ISS refused our invitation to discuss our draft resolutions in March, a corporate governance roadshow was led by us, in our respective capacity of Chairman of the Board and Chairman of the Remuneration and Nomination Committee. In 18 meetings with shareholders representing more than 25% of our capital, we explained our corporate governance, our remuneration policy and report and sought direct investor



feedback about our CG and where they wanted to see our remuneration evolve as the implementation of the EU Shareholder Rights Directive in Belgium will require a binding shareholder vote on the remuneration policy in 2021. The feedback we received was encouraging and investors appeared to understand our progress, appreciated the strides made in providing greater ex post transparency related to performance criteria and were focused on helping us improve our policy going forward.

These leading international investors appreciated our efforts to be an early Belgian adopter of corporate governance roadshows, provided valuable feedback on ways to improve our remuneration structure and where we need to emphasize our efforts. Some of these changes we have been able to make for 2020 such as greater transparency and explanation around our remuneration. However, others will need to be implemented next year. Indeed, one of the key conclusions from the views shared with us by our investors was the need to develop a new remuneration policy for 2021. We intend to start that process this Summer, including a new round of 1:1 discussions with our investors. A key theme of this review will be to further increase the pay-performance correlation.

Rationale for CEO's base salary increase

After careful analysis, deliberation and benchmarking by the Remuneration and Nomination Committee, the Board decided to increase the CEO's base salary by 10% last year. This increase was exceptional and was linked to the reallocation of responsibilities at the top of the company which took place early 2019. At that time, the CEO took personal charge of all commercial and operational activities through direct reporting lines to the 4 executives responsible for these domains. These functions reported to the COO previously, and with the COO position disappearing, the CEO took over the direct oversight of those functions. Moreover, the Remuneration and Nomination Committee considered that an increase for the CEO was warranted because his remuneration was below the benchmark for executive remuneration applied by the company. The CEO's remuneration is benchmarked against a representative sample of European-based FMCG companies. The Remuneration and Nomination Committee was assisted in its analysis by an internationally renowned remuneration firm, WillisTowersWatson. Finally, the Board wanted to ensure continuity at the top of the organization by keeping the CEO motivated to steer the company through turbulent times.

Our short-term and long-term incentives are demanding and reflect local Belgian practices

Our remuneration policy is composed of short-term and long-term incentive structures to support the development of the company in a long-term sustainable manner. As a Belgian practice, this policy covers the entire executive management team. These structures are aligned with the interests of our shareholders and stakeholders.

We disagree with the assessment of the proxy advisory community about our 2019 Remuneration Report.

Our CEO's **bonus performance criteria** are composed of three financial ones weighted at 80% of total potential grant (net sales (25%), EBITDA (50%) and operating free cash flow (25%)), as well as a series of quantifiable and qualitative non-financial criteria weighted at 20%. The potential gain is capped at 150% of base salary. As seen in 2019, the bonus pay-out factor of 85% was caused by the demanding pay-out requirements associated with the EBITDA targets. While the CEO achieved 95% of the goal, he was awarded only 50% of the potential pay-out for the bonus' most important criteria. While he surpassed the maximum result for Operating Free Cash Flow at 159%, the pay-out was capped at 150%. Even a 99% result vs. target on revenue resulted in only a 90% pay-out. The Board of Directors believes that the short-term criteria are stringent and fair. Over the last 4 years, the EBITDA target was on average 9% higher, year-on-year, than the actual EBITDA result of the previous year.



As is noted by the proxy advisory community and investors, Ontex made vast improvements in the presentation of the individual performance criteria targets and the actual outcomes. The pay-out factor is crystal-clear.

Our **LTIP structure** was improved in 2019 as a direct response to feedback that we had received after the 2018 vote. We modified it so that there was a performance share plan for the first time to go along with the existing stock-option plan and restricted stock unit plan. The performance share plan includes Net Sales, EBITDA and EPS and is weighted 1/3 of the total LTI. While the stock-option plan's exercise is only triggered by presence and a strike price, it is important to remember that in Belgium, the option recipient must pay taxes upfront at the time of grant with no means of recouping the taxes if the options are never in the money. In the case of the current CEO, he has had to pay more than 375,000€ in taxes to receive his grants over the last 5 years. Isn't that proof that the LTIP is demanding and that the CEO is aligned with your interests in the long-term?

Transform2Grow ("T2G")

As a reminder, Transform2Grow is a program designed to make Ontex a stronger, more profitable company. Its objective is to drive commercial excellence and boost operational efficiency so as to accelerate value creation. T2G is designed to retain and incentivize a broad group of employees, more than 120, across manufacturing, purchasing, supply chain and commercial roles worldwide.

The initial payment in 2019 recognized the considerable additional work and effort needed to devise, mobilize and federate the company around the T2G program.

As a performance metric, EBITDA captures top-line as well as operation improvements. Moreover, the targeted growth of between +125bp and +175bp vs. 2018 is a stretch target well above the 2018 EBITDA result of 234m€ which resulted in an EBITDA margin of 10.2%. The Board believes that this stretch target which is double market expectations for this metric for 2021 is sufficiently challenging versus the market consensus when devised. If achieved, the Board estimates that the one-time payment would equate to 8% of the recurring incremental EBITDA. The T2G Incentive was benchmarked against similar transformation programmes in other companies and was also strongly supported by the external programme partner.

T2G is succeeding and we are already reporting concrete improvements in our operating results. Indeed, Q4 2019 profitability marked an inflection point supported by T2G, and the Q1 2020 trading update showed further momentum again mainly thanks to an increasing contribution from T2G initiatives.

RemCo Engagement Going forward:

One of the key outcomes of our March corporate governance roadshow was the commitment by the Remuneration and Nomination Committee to revamp Ontex' remuneration policy. Our goals are to create a new remuneration policy that:

- Is simpler
- Continues the improvements in the design of variable remuneration incentives, further increasing the "pay-performance" correlation
- Includes shareholder input

Along with seeking out expert remuneration advice, we will be meeting with our largest investors to discuss in detail what structures, disclosures and performance measures they would suggest we implement into our revised remuneration policy for 2021.



We do not believe that there exists merit to reject our remuneration report this year in light of the improvements that we have made and the candid conversations that we had with shareholders during our corporate governance roadshow this past March. We also feel that it would be inappropriate for any investor to follow Glass Lewis recommendation to vote against item 5 on the discharge of directors due to their opinion of our remuneration report (item 9). In effect there has been no “fault” by the directors from which they wouldn’t deserve to be granted discharge: as explained in detail above, the Board has made a genuine and significant effort to address the various concerns in relation to the remuneration report and a vote against the discharge would negate such effort.

For the reasons described above we encourage you to make your own voting decisions and we humbly recommend that you support your company by voting FOR all of this year’s resolutions at the May 25th AGM. If you have any questions or want to share your views, we are available for a short call to discuss.

We thank you in advance for your time and consideration.

Sincerely,

Luc Missorten
Chairman of the Board of Directors

Gunnar Johansson
Chairman of the Remuneration and
Nomination Committee