

Investment Stewardship

Vote Bulletin: Warrior Met Coal, Inc.

Company	Warrior Met Coal, Inc. (NYSE: HCC)
Market and Sector	United States, Materials
Meeting Date	26 April 2022
Key Resolutions ¹	<p>Item 1.1: Elect Director Stephen D. Williams</p> <p>Item 1.3: Elect Director J. Brett Harvey</p> <p>Item 2: Advisory Vote to Ratify Named Executive Officers' Compensation</p> <p>Item 6: Shareholder Proposal Regarding Majority Voting in Uncontested Director Elections</p>
Key Topics	Climate risk, human capital management, board quality, executive compensation
Board Recommendation	The board recommends shareholders to vote FOR Items 1.1, 1.3, 2, and AGAINST Item 6
BlackRock Vote	BlackRock voted AGAINST management on Items 1.1, 1.3, and 2 and FOR the shareholder proposal on Item 6

Overview

Warrior Met Coal, Inc. (HCC) is a U.S.-based producer and exporter of metallurgical (met) coal used for steel production. The company operates two underground mines in Alabama.²

BlackRock Investment Stewardship (BIS) has engaged with management representatives over the past several years to discuss a range of environmental, social, and governance (ESG) issues that we believe have material impacts on the company's financial performance and can help drive long-term shareholder value creation. This has included issues related to board composition, corporate strategy, executive compensation, climate risk, human capital management, and sustainability reporting.

At last year's shareholder meeting in April 2021, we did not support the election of Directors Stephen Williams and J. Brett Harvey due to concerns that the company provided limited disclosures on how it is managing climate-related risks and opportunities and made minimal progress enhancing board diversity. We also did not support Director Alan Schumacher for serving on more public company boards than we believe is compatible with his capacity to effectively serve on Warrior Met Coal's board.

¹ Warrior Met Coal, "[2022 Proxy Statement](#)"

² Warrior Met Coal, "[2021 Form 10-K](#)" page 6.

Since April 2021, approximately 1,000 miners represented by the United Mine Workers Association (UMWA) have been on strike at Warrior Met Coal in pursuit of a new collective-bargaining agreement. The original agreement was negotiated as Warrior Met Coal emerged from the bankruptcy proceedings of the former Walter Energy, which declared bankruptcy in 2016.³

Over the past several months, BIS has closely monitored developments related to the ongoing labor dispute. We have engaged several times with both Warrior Met Coal management and UMWA representatives to evaluate the situation, understand how management is working to achieve the appropriate resolution for both the company and the miners, and assess how the dispute and related shortfall in production impact our clients' investments. We have also engaged with the relevant board director to understand the board's role in overseeing the material business risks related to the labor dispute, how the ongoing strike is being factored into compensation decisions, and progress on bringing new directors onto the board.

Our [Global Principles](#) and [Engagement Priorities](#) underscore our belief that in order to deliver long-term value for shareholders such as BlackRock's clients, companies should consider the interests of their key stakeholders, including their employees, customers, and communities. This is why we find it useful when companies publicly report on how they consider the interests of their stakeholders, including employees, in business decision-making.

Prolonged operational disruptions, such as labor disputes, can have a negative impact on a company's financial performance and business resilience. We believe it is in the best economic interests of our clients for Warrior Met Coal and the UMWA to reach a resolution.

Rationale for BlackRock's vote

Item 2: Advisory Vote to Ratify Named Executive Officers' Compensation (AGAINST)

BIS voted AGAINST this proposal due to concerns about the misalignment between executive pay outcomes and company performance, in part stemming from the compensation committee's use of discretion in light of the ongoing labor dispute.

As discussed in our commentary, "[Incentives aligned with value creation](#)," we believe companies benefit from disclosing how their compensation policies and outcomes are consistent with the economic interests of long-term shareholders. Any situation where there may be perceived or actual misalignment should be explained in detail and justified in terms of how it serves the interests of long-term shareholders.

Following our analysis and engagement with Warrior Met Coal, it remains unclear how the compensation committee's decisions are aligned with long-term value creation. Specifically, the committee increased pay, lowered performance goals, and modified in-flight awards for executives during a time of decreased production. In 2021, CEO Walter Scheller III's total disclosed pay increased more than 30 percent compared to his 2020 pay, while the production and adjusted EBITDA targets were significantly reduced.⁴ The committee also amended a performance-based grant to COO Jack Richardson to discretionarily pay out one-half of the target award while extending the performance period to earn the remaining half.⁵

The structure of the company's long-term incentive program is also concerning as the performance units measure the performance of financial metrics over a series of three one-year periods with goals set annually, undermining the long-term alignment with shareholders. Furthermore, the compensation committee approved a discretionary upward adjustment in the payout of the long-term compensation plan because "the

³ More information is available on the UMWA's website, "[United We Stand With Warrior Met Miners](#)."

⁴ Warrior Met Coal, "[2022 Proxy Statement](#)," pages 49-50; Warrior Met Coal, "[2021 Proxy Statement](#)," pages 34-35.

⁵ Warrior Met Coal, "[2022 Proxy Statement](#)," page 53.

performance goals for 2021 assumed that the strike would be resolved sooner and the Company would be able to resume normal operations.”⁶

We don't believe key executives should be rewarded when the company has been impacted negatively by the ongoing labor dispute and related fall in production, which has meant it has not been able to take advantage of favorable market conditions and maximize long-term value.⁷

In light of these decisions, we are concerned that the board did not act in long-term shareholders' interests to align executive pay with company performance and resilience. Consequently, BIS voted against the Advisory Vote to Ratify Named Executive Officers' Compensation (Item 2), and against Compensation Committee Chair J. Brett Harvey (Item 1.3, see below).

Item 1.1: Elect Director Stephen Williams (AGAINST)

Item 1.3: Elect Director J. Brett Harvey (AGAINST)

Item 6: Shareholder Proposal Regarding Majority Voting in Uncontested Director Elections (FOR)

BIS voted AGAINST the board's leadership and voted FOR the shareholder proposal "Regarding Majority Voting in Uncontested Director Elections" because we believe the board could have taken more significant action to advance long-term shareholders' interests and improve its approach to corporate governance.

At last year's shareholder meeting, BIS withheld support from Director Stephen Williams – who is the Chair of the Board – and Director J. Brett Harvey – who is the Lead Independent Director, Chair of the Nominating and Governance Committee, and Chair of the Compensation Committee – due to limited disclosures on how the company is managing climate-related risks and opportunities and minimal progress enhancing board diversity, respectively. These issues have not been addressed since last year's shareholder meeting and have also been exacerbated by the events that occurred in 2021 surrounding the labor dispute.

As explained in our commentary, "[Climate risk and the global energy transition](#)", shareholders are better able to understand a company's approach when they disclose the material climate risks and opportunities that might impact their business, and stress test how their business model performs through different transition scenarios of a global economy that limits temperature rise to well below 2°C, moving toward net zero emissions by 2050. Specifically, we look to company leadership to provide disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We also believe that companies that critically evaluate their emissions baseline, set rigorous reduction targets, and act on an accelerated timeline are those most likely to avoid operational and strategic disruptions in the future as the global economy decarbonizes.

To date, Warrior Met Coal has not aligned its climate-related disclosures to the TCFD framework, reported scope 1 and 2 greenhouse gas (GHG) emissions, or set emissions reduction targets. While we appreciate Warrior Met Coal's aspiration to be a responsible partner in the global steel supply chain,⁸ we do not have enough information to assess how the company is positioning its strategy in the transition to a lower-carbon economy. We acknowledge that the company publicly stated its intention to publish a comprehensive ESG strategy and accompanying emissions reduction targets during 2022.⁹ However, in our view, Warrior Met Coal should be much further along in developing its plans to navigate the energy transition and reporting on climate-related risks and opportunities, given how material these are to the company's business model and ability to generate long-term shareholder value.

⁶ Warrior Met Coal, "[2022 Proxy Statement](#)," page 39.

⁷ Warrior Met Coal, "[Warrior Met Coal Reports Fourth Quarter and Full Year 2021 Results](#)."

⁸ Warrior Met Coal, "[2021 Corporate Responsibility Report](#)," page 3.

⁹ Warrior Met Coal, "[2022 Proxy Statement](#)," page 36.

Additionally, BIS [believes](#) the board should review its approach to director succession planning and board diversity. In our view, greater diversity in the board room would contribute to more robust discussions and more innovative and resilient decisions, leading to better long-term economic outcomes for the company. To date, the board of Warrior Met Coal has not made progress bringing on new directors and has demonstrated poor succession planning. Over the past year, Director Gareth Turner stepped down because “he [did] not anticipate being able to devote sufficient time to serving as a director going forward”¹⁰ and the board waived its mandatory director retirement age policy for Director Alan Schumacher to retain institutional knowledge of financial reporting and internal controls and ensure the board could continue to function.¹¹ As a result, the board has reduced in size to its current five members.

Given these concerns, as well as the issues highlighted above related to compensation and the ongoing labor dispute, BIS did not support Directors Stephen Williams (Item 1.1) and J. Brett Harvey (Item 1.3) for the second consecutive year.

Furthermore, BIS supported the shareholder proposal “Regarding Majority Voting in Uncontested Director Elections” (Item 6), in line with our [U.S. proxy voting guidelines](#). Generally, we believe that directors should be elected by a majority of the shares voted. While we recognize that the board adopted a director resignation policy¹² following the outcome of last year’s director election results,¹³ a majority vote standard would provide shareholders with the opportunity to clearly affirm their support for proposed director candidates or reflect concerns about the board’s actions.

¹⁰ United States Securities and Exchange Commission, [Form 8-K](#), November 26, 2021.

¹¹ Warrior Met Coal, “[2022 Proxy Statement](#),” page 9.

¹² Warrior Met Coal, “[2022 Proxy Statement](#),” page 27.

¹³ In 2021, Director Alan Schumacher received less than majority support from shareholders to be re-elected to the board. However, he was re-elected because the board has a plurality vote standard.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹⁴

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

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¹⁴ 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.