

Profit and dividend up for 2022

Company/ASX Code	Altium / ALU
AGM date	Thursday 17 November 2022
Time and location	9:30 am Sydney Masonic Centre, 66 Goulburn Street, Sydney NSW 2000
Registry	Computershare
Type of meeting	Physical only
Poll or show of hands	Poll on all items
Monitor	Helen Manning assisted by Norman Windell
Pre AGM Meeting?	Yes with chair Sam Weiss, company secretary Natasha Davidson. Dray Andrea from Company Matters.

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

Altium is performing well in terms of exceeding guidance for 2022 revenue and profits. We have some questions around board changes. There will be a roadshow.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	Against
3	Re-election of Mr Simon Kelly as a Director	Undecided
4	Ratification of Appointment of Auditor	For

Summary of ASA Position

The annual report states that 'During the financial year, the principal activities of the Group consisted of the development and sales of software for the design of electronic products and an online collaboration platform to facilitate the manufacturing of them.'

Altium is a company with clear targets to dominance in the development of software for the design of printed circuit boards. By FY26 it aims to have revenue of US\$500m annually and 100,000 subscribers. It aims to achieve 95% in recurring revenue (ex China and developing countries.) For FY22, revenue got to US\$220.8m. Interestingly, it also looks regularly, at what it calls its 'strategic and operational risk' or 'the business risk of too much focus on immediate outcomes at the expense of strategic goals' and in doing so, keeps an eye on both. ASA supports the incorporation of longer term goals into the company focus.

Governance and culture

As required by the ASX Listing Rules, Altium has an up to date and comprehensive Corporate Governance Statement and Corporate Governance Principles and Recommendations (ASX CGC) of the website <https://www.altium.com/corporate-governance>.

Samuel Weiss is the Non-Executive Chairman of Altium and has held this position since October 2007. This length of tenure rules him out of being considered truly independent by ASA guidelines.

The Board does not consider the fact that Mr Weiss has served on the Board for a substantial period or retains a shareholding of 1.9m shares (1.4% of all shares on issue) to mean that he is not considered to be independent. In line with the commentary in the ASX CGC's Recommendations, the Board has reviewed the independence of Mr Weiss and believes that he was independent in FY22, and remains independent, as he continues to perform the role of Chair with autonomy from management and brings independent judgement to bear on issues before the Board."

The Company has a small Board but in line with its objectives last year to increase the Board from 5 to 7, Simon Kelly was appointed as a new NED in March 2022 and seeks shareholder election as per the resolution below. However, since Raelene Murphy will be resigning at this AGM the board will remain at 5 members. In terms of gender diversity, only 1 of the 5 (20%) directors is female. There are two executive directors on the board.

The Board identifies and recognises the importance of having directors who possess a broad range of skills, knowledge, experience and diversity and identifies the capabilities it has or is seeking in its Governance Statement but does not divulge a detailed Skills Matrix. It has advised that it is prepared to consider publishing a more detailed Skills Matrix in future.

The minimum shareholding for NED's 200% and the CEO and President at 500% are well above ASA guidelines.

Altium has a comprehensive ESG report which can be found on the following link.

https://www.altium.com/sites/default/files/2022-08/esg_report.pdf

Financial performance

- Revenue growth of 22.5% to US\$220.8 million comprising recurring revenue growth from 65.0% to 75.4% of the total.
- EBITDA at US\$79.8m and the reported EBITDA margin was 36.2%
- Underlying EBITDA margin (excluding costs of US\$1.3m of costs relating to Altium's support of its employees in Ukraine) is 36.7% compared to 34.3% of prior year.
- Declared dividend for FY22 was 47 cents.

Key company points

- Altium Designer: is the most widespread professional PCB design tool used by over 100,000 engineers worldwide.
- Altium 365: world's first digital platform for design and realisation of electronics companies. Adoption has accelerated with almost 24,700 monthly active users (up from 19,700 since February 2022) and over 9,300 monthly active accounts up from 7,700 in February 2022. A total of 234% of Altium seats on subscription have moved to the cloud with a further 30% in transition. This adoption has created strong interest in the Nexar platform, the Altium ecosystem for industry partners to access Altium 365.
- Altium is the fastest growing exploratory data analysis (EDA) group in the world. Revenue has increased at a compound annual growth rate of 15.3% since fiscal year 2014, with double-digit revenue increases in every year except fiscal year 2021.

Key Board or senior management changes

Non-executive director, Raelene Murphy, leaves the board after the 2022 AGM.

Simon Kelly joined the board as a non-executive director in March 2022.

Natasha Davidson became group general counsel and company secretary in June 2021 replacing Alison Raffin.

ASA focus issues

We had a short conversation around risk at our pre-AGM meeting with Altium.

CYBER-SECURITY

With the recent public attacks on Optus and Medibank cyber-security is a huge risk for most companies. Altium achieved a SOC2 type 1 certification in 2022. SOC2 is a voluntary compliance standard for service organizations, developed by the American Institute of CPAs (AICPA), which specifies how organizations should manage customer data. The standard is based on the following Trust Services Criteria: security, availability, processing integrity, confidentiality, privacy. A phrase that Altium uses as its approach to cyber-security: to play war games.

NEW PRODUCT ADOPTION

The risk report identifies the adoption rates of Altium 365 as critical to the group's success and sees this as a risk. It was interesting to hear that this had been built over 3 months in the northern summer of 2020 and that it had involved a new way of thinking about the business.

CHINA

Altium pointed out that it has been in China for over 20 years

Summary

(As at FYE 2022)	2022	2021	2020	2019	2018
NPAT (\$m) USD	55.5	35.3	19.7	52.9	37.5
UPAT (\$m) USD	na	107*	53.08	42.45	30.58
Share price (\$) AUD	26.91**	36.69	32.48	34.2	22.51
Dividend (cents) AUD (declared)	47	40	39	34	27
Simple TSR (%) (with declared dividends)	(25.37)	14.19	(3.89)	53.44	165.80
EPS (cents)	42.23	26.89	23.6	40.57	28.86
CEO total remuneration, actual (\$m) USD	0.994	1.008	1.70	3.054	1.894

* The UPAT figure for 2021 included the sales proceeds from TASKING. **Share price recovered to \$36.61 by November 2022.

Adoption of Remuneration Report

The Altium Remuneration Report in the 2022 Annual Report is easy to understand.

It has a logical relationship between rewards and financial performance and corporate governance but it is not in keeping with ASA guidelines with hurdles measured at 12 months only and awards paid in cash with year two and three vesting relying on retention only. The framework for remuneration is laid out in Appendix 1.

Outcomes

Fixed annual remuneration (FAR)

The base amount of US\$500,000 for the CEO didn't change but the executive director Sergiy Kostynsky, went from US\$387,500 to US\$500,000.

LTI outcomes

The following table extracted from the Annual Report shows the 2022 LTI Incentive outcomes.

2022 financial year incentive outcomes

For the year ended 30 June 2022, LTI performance for Executive KMP was assessed on Revenue, Underlying EBITDA Margin and Altium Subscriber Adoption goals.

PERFORMANCE METRIC	WEIGHTING	ENTRY (75% FOR REVENUE, 80% FOR EBITDA MARGIN, ALTUM 365 ADOPTION AND SUBSCRIBER ADOPTION)	TARGET (100%)	30 JUNE 2022 ACHIEVEMENT	30 JUNE 2022 WEIGHTED ACHIEVEMENT
Revenue	33.3%	US\$209 million	US\$217 million	100%	33.3%
Underlying EBITDA Margin	33.3%	34.0%	36.0%	100%	33.3%
Subscriber Adoption	16.5%	60,000	61,000	0%	0%
Altium 365 Adoption	16.5%	4,000	5,000	80%	13.3%

The 5-year trend for achievement of the LTI and including the previous STI performance targets was as follows:

	2022	2021	2020	2019	2018
Achievement	80.0%	43.2%	0%	100%	100%

The Altium CEO is based in the USD so we have compared with the Godfrey Remuneration Group statistics for Australia is for guidance only. The outcome is Altium pays around median for companies with a similar capitalisation to Altium at \$4.5 billion.

The following are the major differences from ASA guidelines:

- Both the CEO and President receive their LTI incentive as cash, on the basis that their shareholding is well above the 500% of base pay level limit.
- A TSR hurdle is not included in the LTI plan, with achievement of a combination of revenue, underlying EBITDA margin, subscriber and Altium 365 adoption targets measured at 12 months only. Upon the performance conditions being satisfied the award will be paid in three approximately equal tranches following the end of the financial year subject only to employment testing after the first year.

Election or re-election of directors

The board at Altium has 6 directors and this will drop to 5 at the AGM. With the successful election of Simon Kelly there will be 2 executive directors and 3 non-executive directors, although there is scope to appoint additional non-executive directors to enhance the breadth of experience and skills on the Board as well as independent representation and diversity.

Election of Simon Kelly

Simon Kelly's experience, expertise, current directorships, former directorships and special responsibilities laid out in the annual report and in the notice of meeting.

He is the chair of Altium's audit and risk committee (8 months) and a non-executive director at MA Financial Group, Chair audit and risk committee (1 year, 7 month) which is stated in the annual report and notice of meeting.

He had a short stint as Managing Director and Chief Executive Officer of Ardent Leisure for both the Manager and Company in July 2017 and resigned 8 November 2017. He commenced at Ardent after the tragic losses of life in the Dreamworld ride failure.

Simon's previous roles include Chief Operating Officer and Chief Financial Officer of Nine Entertainment Co. Holdings Limited, Chief Financial Officer and Director of Aristocrat Leisure Limited and a number of senior executive roles at Goldman Fielder Limited.

In the notice of meeting it is stated:

The Board has benefited significantly from the contribution of Simon, especially in terms of his international, strategic and operational finance, business transformation and technology experience.

It's not particularly easy to see how the skill set of Mr Kelly contributes to the board composition. The numbers of the board aren't increasing, which seems to have been an aim, and we're not sure of the mix. We will ask Mr Kelly to address the meeting and for Mr Weiss to give some more explanation before determining how we vote our open proxies.

Ratification of Appointment of Auditor

Altium appointed KPMG as auditors for the company in December 2021. This motion is to approve their appointment. The previous auditors had been PwC.

ASA believes good corporate governance mandates that audit firms should be changed periodically. There should be a competitive tender for the external audit every 10 years or sooner where audited accounts have been shown to be deficient, inaccurate and in breach of the accounting standards. The date of the most recent tender should be disclosed in the annual report.

We asked Altium for the process of appointing the auditor and had the following response:

- i. PwC proposed a cost basis to continue as our auditor.*
- ii. We asked EY and KPMG to prepare quotations to become our auditor.*
- iii. EY & KPMG conducted diligence, submitted written proposals and were interviewed by the Board and management of Altium.*
- iv. EY & KPMG both had strong proposals but on balance we decided that KPMG had more experience with audits of technology companies and that the partner in particular had deeper tech experience. KPMG was awarded the contract.*

We support the motion to ratify the appointment of the auditor.

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Appendix 1

Remuneration framework detail

The Altium REM Plan for the CEO, President and Executive consists of two elements, a fixed annual remuneration (FAR) and a long-term incentive (LTI). Short-term incentives were eliminated in 2020.

Fixed Annual Remuneration

Base salary plus benefits and statutory entitlements, Reviewed regularly, with reference to the relevant market benchmark

Long Term Incentive Plan

Long-term performance-based plan delivered as cash or performance rights, subject to Board discretion, which vest in future years subject to continued employment and achievement of performance targets. The weighting is one third revenue, one third underlying EBITDA margin and one third adoption. The adoption metric this year was split equally into subscription adoption for PCB subscribers and Altium 365 account adoption.

The LTI is paid in 3 annual tranches following the Financial Year end subject to ongoing employment. The Board has positive and negative discretion and malus rights.

There are minimal shareholding requirements within 5 years for the CEO and President of 500% of base remuneration and for the NEDs of 200%.

CEO rem. Framework for FY23	Target* US\$K Entry Level	% of Total	Max. Opportunity \$K(US)	% of Total
Fixed Remuneration (incl. non-monetary benefits)	500	56.3	500	50
STI - Cash	0	0	0	0
STI - Equity	0	0	0	0
LTI	388	43.7	500	50
Total	888	100	1,000	100

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

*Target remuneration is calculated on achieving the minimum entry level on all four performance metrics. As the CEO and President are already such large holders of shares in the company their LTI is paid in cash only.