Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Counterintuition

Company/ASX Code	Credit Corp/CCP
AGM date	Thursday 4 November 2021
Time and location	Virtual
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Sue Howes assisted by Patricia Beal
Pre AGM Meeting?	Yes with Chair Eric Dodd and CFO Michael Eadie

Please note any potential conflict as follows: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

While there are no major concerns for the AGM, the biggest issues for the company are, finding opportunities in markets awash with government stimulus, managing their books profitably and maintaining and enhancing their competitive position relative to their peers.

CCP has managed the first by keeping its powder dry until the large well-priced Collection House Australia acquisition presented itself, then funding this from cash reserves leaving it debt free at the end of FY21.

Profitability of the company is dependent on being able to efficiently run off the purchased ledgers (blocks of overdue debt purchased from credit providers) as well as being able to compete for profitable business. The company manages both of these aspects by a combination of analytics and culture, encouraging repayment rather than relying on stand over tactics or litigation.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

CCP has performed well in an environment that could have been extremely damaging, thanks to government intervention in its main markets of operation, fortuitous timing on an acquisition opportunity and conservative capital management.

Governance and culture

Of the six directors on the Board, three, including the Chair have been on the Board for 12 years or more. Mr Dodd has moved into the Chair role within the last year and is standing for re-election at this AGM. Mr Dodd was open and frank in discussions around this point and indicated that the company should have commenced action on Board renewal earlier than it has done, but is now well into the process of adding fresh talent to the Board, which will require short term expansion to allow the transition process to occur, hence the increase in Board fee pool.

The Board currently has a 33% gender proportion and is looking to at least maintain this. We quizzed the company on the gender ratio on their management team and they agreed that this is an issue, it is an issue for many similar organisations and causes issues in providing candidates to move further into directorships. However, there is no immediate solution for the company given that the executive team is made up of long-term employees.

The company confirmed that director workload under COVID had increased. In their Board search they are looking for candidates of suitable calibre who bring fresh insight to the Board and are not already loaded with multiple other Board roles.

Financial performance

The share price took a dive following the advent of COVID in anticipation that the company would suffer in the economic environment. However, the stimulus (including super withdrawals) provided by governments in the main countries of operation has resulted in good collection experience.

There have been consequences, though. The Australian debt market has contracted to around 1/3 its previous size and the US to around ½.

This makes the Collection House acquisition very important, as the market scenario is unlikely to change for some time and the company will be relying on the runoff of collections from this large acquisition.

In the US, the company, while only a small newcomer, is managing to expand rapidly due to the approach it applies to collections and the analytics it uses for pricing.

The company took a write down in FY20, being conservative, which affected NPAT. FY21 shows an improved result over FY19. One dividend was cancelled in FY20. In FY21 the company is back to the same dividend payments as FY19 and the share price has recovered to pre-COVID levels.

Key Board or senior management changes

During the year the previous Chair, Don McLay, resigned and was replaced by Eric Dodd.

ASA focus issue

Directors and Boards

The Board has a range of skills and backgrounds suitable to the business and a skills matrix is provided. All directors have workloads that are suitable to being able to provide the time and attention required to the company.

Government support

The company accessed government job-keeper style support in a number of jurisdictions to support staff in the early stages of the pandemic when the economic situation was far from certain. The quantum of these payments was relatively small and they were accessed for a short period of time when revenue was affected, then not accessed when the picture became clearer. The company has not repaid any of these amounts as they were deemed small and necessary for the time they were paid. No staff have been made redundant.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	88.1	15.5	70.3	64.3	55.2
UPAT ($m)	88.1	15.5	70.3	64.3	55.2
Share price ($)	29.73	15.58	26.520	18.070	17.710
Dividend (cents)	36.0	72.0	72.0	62.0	54.0
Simple TSR (%)	93.13	(38.54)	50.75	5.53	51.96
EPS (cents)	130.9	25.5	141.9	135.1	116.8
# deferred shares vested to CEO	0.0	0.0	148,342 (Nov-18)	146,266 (Nov-17)	64.102 (Sep-16)
CEO total remuneration, actual (AUD$m)	1.3	0.6	4.3*	4.3	2.5

For FY21, the CEO's total actual remuneration was **14.77 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised, original) was $93,444 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Simple TSR is calculated by dividing change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year.

Item 2(a)	**Re-election of Eric Dodd as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Dodd joined the Board on 1 July 2009 and was appointed Chair in February 2021. Mr Dodd's 12-year tenure on the Board means that the ASA will no longer classify him as independent, and ideally would wish the Chair to be independent. However, with the departure of Mr McLay (another long-serving Board member and Chairman), the Board contains six members, 3 of whom have 12 or more years of service.

The Board is aware that this is not ideal and is well into the process of Board renewal and possibly growth, which will take some time. The company has come through a difficult period and is not without ongoing issues given the instability in the markets in which it operates. Mr

Dodd would seem to be a steady pair of hands on the reigns whilst being committed to renewal. Mr Dodd has indicated that this is likely to be his final term.

As such, the ASA will be voting all undirected proxies for this resolution.

Item 2(b)	**Re-election of Richard Thomas as a Director**
ASA Vote	**For**

Mr Thomas joined the Board on 22 September 2006. Due to his tenure the ASA does not view Mr Thomas as independent. While having more than half the directors on he Board with over 12 years of tenure is not ideal, our conversation with the Chair indicates that Board renewal is underway in a structured manner. Mr Thomas has suitable skills and experience to add value to the Board and so the ASA will be voting all undirected proxies for Mr Thomas.

Item 2(c)	**Election of Phillip Aris as a Director**
ASA Vote	**For**

Mr Aris was appointed to the Board in 15 July 2021. He has had a career across Australia, Asia and the UK in a range of financial services roles including CEO of CountPlus Ltd. Mr Aris has also had exposure to strategy and business development roles, which we think will be of benefit to Credit Corp.

ASA considers Mr Aris to be suitable as a director of the company and as such will be voting all undirected proxies for Mr Aris.

Item 3	**Increase Non-Executive Directors' maximum fee pool**
ASA Vote	**For**

The company is requesting shareholder approval to increase the pool from $1.1m to $1.5m. The company currently paid a total of just over $800 in total in director fees in FY21. Director fees were last increased in FY16 and have now been increased by between 12% and 15% as the result of a benchmarking exercise. The current pool does not leave much headroom given the company has a stated goal to increase Board size as part of its restructuring and renewal work. Consequently, the ASA will be voting for this resolution.

Item 4	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

In FY20 the Board and senior management took a 50% fixed remuneration (FR) and Board fee cut of 50%. In addition to this, senior staff had no STI paid and no LTI vested in FY20 or FY21, while the company performed well overall. Consequently, in FY20 the Board changed the remuneration plan for senior staff to increase the LTI available by 50% for the FY21 and FY22 years.

For the CEO, the full STI was paid this year and 74% of the LTI was awarded.

The structure of the remuneration plan remains the same with STI paid out in cash annually and the STI measures split between NPAT and a number of operational KPI's, for which actual target measurements and results against measures are not provided.

The LTI it is based over a 3-year performance cycle and the performance rights are allocated and converted into deferred vesting shares at the end of the first 3 years and then continue to be paid out during the following 2 years. The number of shares issued are calculated based on a 90 day VWAP. The LTI hurdles are split 50% between a target CAGR of NPAT, which remains at 8% - 11% for FY21, and 50% TSR relative to the ASX 200 (excluding energy and metals shares).

We are happy with the STI including performance targets and the LTI being paid out over 5 years. However, the remuneration plan still falls short of ASA recommendations, primarily because the remuneration structure is too short term focussed with STI being 100% cash and LTI performance period being only three years. We believe that STI should be 50% cash and 50% deferred equity and that the LTI period be at least four, preferably five years.

For this reason ASA will be voting all undirected proxies against the remuneration plan again.

Group CEO Remuneration Framework	Target $'m	% of Total	Max. Opportunity $'m	% of Total
Fixed Remuneration	0.70	24%	0.70	24%
STI - Cash	0.70	24%	0.70	24%
STI - Equity	0.00	0%	0.00	0%
LTI*	1.50	52%	1.50	52%
Total	2.90	100%	2.90	100%

* As a result of the LTI not vesting in 2020 the opportunity has been increased by 50% for this and next year

Appendix 1
Remuneration framework detail

CEO rem. Framework for FYXX	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.209	29%	2.209	17%
STI - Cash	1.360	18%	2.040	16%
STI - Equity	1.360	18%	2.040	16%
LTI	2.788	36%	6.800	52%
Total	7.717	100.0%	13.089	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.
*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.