Australian Shareholders' Association

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A tale of two countries

Company/ASX Code	Credit Corp Group/CCP
AGM date	Thursday 5 November 2020
Time and location	11am virtual
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Sue Howes assisted by Patricia Beal
Pre AGM Meeting?	Meeting with Don McLay (Chair) and Michael Eadie (CFO)

Please note any potential conflict as follows: One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

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

Summary of ASA Position

<u>Governance and culture</u>

Credit Corp have had a full governance review during the year, which they have found beneficial.

The company has responded well to their particular challenges to COVID-19, given the degree to which the company may have been affected without the government support that has been provided in various jurisdictions. The CEO and Board took a 50% fixed remuneration cut for the four months commencing April and have managed lockdown in the US and Australia.

Supervision of employees with client facing roles has been affected by having staggered supervisors physically attending the workplace. The organisation has sufficient protocols, privacy and security arrangements in place to protect client interests while staff are working remotely.

<u>Financial performance</u>

Due to the nature of its business Credit Corp assets and returns are highly sensitive to changes in economic conditions. The potential effect on results has been tempered by economic stimulus in all markets in which they operate. In FY20 the company took write downs on a number of assets representing both anticipated delay in payments being made as well as potential default.

While revenue increased and pre-COVID-19 adjusted Net Profit After Tax (NPAT) was a record $79.6m, the result of write downs resulted in statutory NPAT of $15.5m. As a result, the company did not declare a final dividend, resulting in total dividends for the financial year of $0.36 per share.

CCP's competitors in the Australian market have been undergoing their own problems and as a result the market has not been as competitive, allowing CCP to purchase more loan books at reasonable prices. In the US the company has been expanding (having established a good initial position for several years) and could reasonably have been able to cope with the extra expense of opening the second base for USA, in Washington state when COVID-19 hit. Fortunately, the company had not hired a full complement of staff, as prices of loan books were too high for CCP to consider reasonable.

Management is proceeding cautiously regarding debt purchasing, particularly in the US where there seems to be significant capital availability to competitors resulting in prices higher than CCP think reasonable. The parameter adjustments to debt book pricing seem to be playing out in line with expectations, which were for measures to underwrite collections in the first quarter and then see a softening. Australian and US experience is similar with the US slightly ahead. In the US banks seem to be taking up large provisions against loan books, which should indicate greater medium term default, however this hasn't yet occurred in practice.

Loan applications are reduced but are starting to stabilise.

Share price was at an all-time high of $37.99 pre-COVID-19, ending the financial year at $15.58 post COVID-19 cliff and a substantial capital raise.

Key events

On 5th June, in response to COVID-19, the company completed a capital raise totalling $155m, encompassing a $120m Institutional Placement and an over-subscribed and scaled up SPP of $35m. The issue price was $12.50. While the company realises that the dilution at this price was unpalatable, the uncertainty regarding bank credit availability at the time made it necessary. On a more positive note, the company has used these funds to pay down debt and enters the new year with existing debt facilities in place and around $400m in cash ready to take advantage of opportunities as they arise.

Key Board or senior management changes

None.

ASA focus issue (not discussed under remuneration report or re-election of directors

While the capital raise was not conducted on the ASA preferred PAITREO basis, the SPP was increased to allow full allocation to retail investors.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	15.5	70.3	64.3	55.2	45.9
UPAT ($m)	15.5	70.3	64.3	55.2	45.9
Share price ($)	15.58	26.520	18.070	17.710	12.010
Dividend (cents)	36.0	72.0	67.0	58.0	50.0
TSR (%)	(39.89)	45.30	5.80	48.00	2.80
EPS (cents)	25.5	141.9	135.1	116.8	98.4
# deferred shares vested to CEO (issued date)	0	148,342 (Nov-18)	146,266 (Nov-17)	64.102 (Sep-16)	66.412 (Sep-15)
CEO total remuneration, actual ($m)	4.43**	4.3*	4.3	2.5	2.3

*For 2019 the shares vested during the year were worth appx '$2.83m' being 146265 shares vesting in the month of November at a value of $19.37. Fixed Annual Remuneration of $679,469, Cash STI of $700,000 and other cash of $20,223. (The earlier reference a higher amount used current value on the day rather on day of vesting).

** This figure includes an estimate for the value of deferred vested shares issued Nov 18 that were issued to the CEO Nov 19. The calculation has been made based on a 90 day closing price VWAP dated 23 August 2019 of $25.85 per share, giving a total worth of $3.8m. WE have asked the company to check our calculations.

For FY20, the CEO's total actual remuneration was **49.4 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For November 2019, the Full-time adult average weekly total earnings (annualised) was $89,585.60 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

Item 2 (a)	**Re-election of Leslie Martin as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Martin has served on the Board for 6.5 years and moved from the Remuneration and HR committee to the Audit and Risk committee in November 2019. The ASA considers her workload to be reasonable given her other board roles and is pleased to see the level of commitment to the organisation indicated by the level of shares held (11,063).

Ms Martin's skills, background and experience are considered suitable for this position.

Item 2 (b)	Re-election of Donald McLay as a Director
ASA Vote	For

Summary of ASA Position

The ASA's position is that directors cease to be independent after serving 12 years on a Board. We would generally oppose a non-independent director occupying the Chair and also generally oppose a Chair that has served more than 10 years in the role.

However, our meeting would indicate that Mr McLay has been heavily involved in guiding the organisation through recent events and these are at present unstable times to which the company is susceptible given its nature. The Board has a majority of independent directors.

Mr McLay has served as Chair for a number of years whilst also serving on the Remuneration and HR and the Audit and Risk committees. Having a non-independent Chair also serving on these committees is not seen as ideal.

Mr McLay's roles on other boards are within generally accepted workload requirements and his skin in the game, with 773,552 shares, indicates he has ample commitment to the organisation.

While we are voting for Mr McLay at this time, we do request the company take steps to reduce the potential for conflict of interest in Mr McLay's committee roles.

Item 3	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.70	29%	0.70	29%
STI - Cash	0.70	29%	0.70	29%
STI - Equity	0.00	0%	0.00	0%
LTI	1.00	42%	1.00	42%
Total	2.40	100%	2.40	100%

Whilst the Annual Report has a remuneration table showing the remuneration paid to each of the key management personnel (KMP) during the year and the breakdown of those payments, it is a statutory remuneration table and doesn’t show the take home pay of the KMPs. The remuneration report is detailed and clearly laid out, however it still lacks important information. The ASA would prefer a clear table identifying the total reward to KMP from each of the three key areas or remuneration, as many other companies provide.

The STI is paid out in cash annually and the STI is 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 2020 having been lowered in 2019, and 50% TSR relative to the ASX 200 (excluding energy and metals shares). The NPAT CAGR hurdle has been lowered to 8% -11% for 2019 (2018, 9% - 13%). There are clawback clauses in place for underperformance.

As a result of the LTI not vesting and the STI not being payable for FY20 the opportunity size for the next two annual grant LTI schemes has been increased by 50%.

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. Our primary areas of concern are

- 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.
- The reason for having remuneration at risk for highly paid executives is specifically to align benefits to management with returns to shareholders. As a result of poor performance (albeit not of the company or its staff's making) STI and LTI are not available for the current year. By then adjusting for this by increasing the benefits available in future years does not align with the potential experience of shareholders, who are at the mercy of the market and economic forces with no guarantee of an increase in share price in the near term.