



## Codan detects its way to another record year

<b>Company/ASX Code</b>	Codan CDA
<b>AGM date</b>	Wednesday 30 <sup>th</sup> October 2019
<b>Time and location</b>	Codan, Mawson Lakes
<b>Registry</b>	Computershare
<b>Webcast</b>	No
<b>Poll or show of hands</b>	Show of Hands
<b>Monitor</b>	Brad Martin assisted by Malcolm Keynes
<b>Pre AGM Meeting?</b>	Yes, with CEO Donald McGurk & Michael Barton CFO and Company Secretary

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Financial performance

Financial Year 2019 (FY19) saw record financial performance in the company's 60<sup>th</sup> year. An outline of sustainability of future plans was presented in the annual report.

### Key events

- New product for coin and treasure detection: "Vanquish".
- New Land Mobile Radio (LMR) infrastructure platform: "Cascade"
- Tactical Communications business developing from the supply to complete communications solutions.

### Key Board or senior management changes

- Searching for a replacement director for Jim McDowell.

### ASA focus issues

#### **Board Composition**

- The board has an independent chair and a majority of independent directors (4-1); although two non-executive directors (NEDs) including the chair will soon be no longer regarded as independent by ASA due to exceeding 10 years tenure. There is one female director (20%) which is 10% lower than ASA's recommended minimum. Regarding other aspects of diversity, we note a suitable spread of backgrounds appropriate to this company, although ASA feels information regarding the detailed skills of individual directors and how these skills meet the requirements of the board needs improvement.

## Remuneration disclosure

- See Item 2, vote on Remuneration report

## Skin in the game

- One director does not meet the ASA requirement of shares to the value of one year's fees after three years service. Codan has a similar policy but for five years of service which ASA believes is too long.

## Shareholder participation

- The company releases data of the proxy voting results of AGM resolutions as required by law. Following updates to ASX listing rules the company will need to provide the percentage of votes for and against, rather than the simple numbers of shares voted for, against or abstaining from voting. There was no capital raising during the year.

## Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	45.7	41.6	43.5	15.5	12.4
UPAT (\$m)	45.7	39.8	44.7	21.1	12.7
Share price (\$)	3.48	2.98	2.34	1.18	1.15
Dividend (cents)	14	12.5	13.0	6.0	3.5
TSR (%)	21	33	109	10	60
EPS (cents)	25.3	22.1	24.9	11.9	7.1
CEO total remuneration, actual (\$m)	1.76	1.15	1.42	0.96	0.68

For 2019, the CEO's total actual remuneration was **21 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<b>Item 2, resolution 1</b>	<b>Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

## Summary of ASA Position

(a) **The fixed remuneration** of directors and executives is conservatively in line with similar companies.

(b) **The short-term incentive (STI)** is that executives receive a 50% bonus for achieving specified performance hurdles, mainly financial measures, and the bonus can go higher for exceeding the performance hurdles. The maximum opportunity for a key management personnel (KMP) is subject to a 200% cap of their fixed salaries inclusive of superannuation. This year all executive key management personnel received an STI bonus reflecting the company's good performance. Overall, the total executive bonuses were nearly 60% of their total fixed remuneration. The bonus is paid as a mix of cash and equity.

(c) **The long-term incentive (LTI)** scheme is a performance rights plan based on growth in earnings per share over a three-year period. Up to 50% of an executive's fixed salary is converted to share performance rights (using market price) but these rights vest in full only if the 'baseline' earnings per share (as mentioned in item 1 above) grow by 15% per annum (compounded) over the next three years. The threshold for vesting is a growth rate of 5% per annum (compounded). If the growth rate is between 5% and 15% per annum, a pro-rata vesting will occur. Although scheme's three-year performance period does not meet the ASA guideline of four years, the shares are not issued until the financial year after vesting occurs and there are significant escrow conditions. Furthermore, the hurdles are quite challenging, and the scheme has been applied consistently over the years. For example, the performance rights granted in December 2013 lapsed in June 2016 because the three-year aggregate performance target was not reached.

(d) **Overall**, the Codan remuneration structure is aligned with shareholder interests and we support the resolution.

However, we again suggest two improvements to meet ASA guidelines:

- (1) Include a table of actual "take-home" pay for senior executives; **(ASA 2019 Focus Issue)**
- (2) Increase the LTI vesting period from three years to four years.

CEO rem. framework	Target* \$000	% of Total	Max. Opportunity \$000	% of Total
Fixed Remuneration	597	50%	597	29%
STI	298	25%	1,194	57.2%
LTI	298	25%	298	13.8%
Total	1,193	100.0%	2,089	100%

While it has been indicated that the STI bonus is paid as a mix of equity and cash, no specific percentages have been defined in terms of how much of the amount is deferred and how much of it is paid in cash.

ASA would prefer a clearer remuneration report that clearly provides this information.

<b>Item 3, resolution 2</b>	<b>Re-election of Director – Ms Kathryn Joy Gramp</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

This candidate's unique capability derives from her experience in international markets and she has governance experience in digital technology application in business. Although her shareholding in the company is underweight in our opinion, she provides diversity as noted already and by gender.

ASA hopes she will address our concerns about adequate shareholding in the coming year.

<b>Item 4, resolution 3</b>	<b>Re-election of director – Lt Gen Peter Francis Leahy</b>
<b>ASA Vote</b>	<b>For</b>

**Summary of ASA Position**

Given the company’s commitment to supply and service to military and other first responders, this candidate provides a particularly strong capability to the board. While he will soon be no longer regarded by ASA as independent, the value he brings to the board outweighs such consideration.

<b>Item 5, resolution 4</b>	<b>Approval of performance rights for MD, Donald McGurk</b>
<b>ASA Vote</b>	<b>For</b>

**Summary of ASA Position**

As it is based on a maximum of 50% of fixed income and have a zero entitlement at threshold, LTI incentive is modest. Threshold is testing, as is the maximum. We would prefer a four-year horizon.

An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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