Australian Shareholders' Association

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IRESS – A new Chairman, new strategy & new 5-year target

Company/ASX Code	**Iress Ltd/IRE**
AGM date	Thursday 5 May 2022
Time and location	11.30am King & Wood Mallesons, level 17, 447 Collins St. Melbourne
Registry	Computershare Investor Services P/L
Webcast	Yes (Hybrid meeting Vic Gov't COVID-19 regulations permitting)
Poll or show of hands	Poll
Monitor	Eric Pascoe Assisted by Norm West
Pre AGM-Meeting?	Yes, with Chairman Roger Sharp and CEO Andrew Walsh

The individual involved in the preparation of this voting intention has no shareholding in this company.

Summary of issues for meeting

Iress' AGM is likely to be a brief affair with only one director, Michael Dwyer, up for re-election and the Remuneration Report with its associated Equity and Performance Rights to be voted on.

Investors will be expecting an update on how the company is tracking against its bold new strategy and 5-year targets announced in August 2021 after the company underwent a strategic review.

Iress is aiming to create a new Single Product Technology Platform onto which all clients would be transferred utilising cloud technology by 2025. They are targeting a doubling in EPS and ROIC in the 5 years 2020 to 2025. It is new for the company to lay out its future strategy so clearly and provide clear measures against which it will be judged.

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

Summary of ASA Position

In 2021 Iress' performance has been positive. Their headline growth figures, Revenue up 9.8% and Net Profit up 24.8%, look good however they are coming off a, COVID-19 induced, low base in 2020. Their two-year growth figures are more modest. Earnings per share over 2 years has risen just 2.4% but that was partially because the company conducted a rights issue at the peak of COVID-19.

Iress' Achilles heel is their failure to contain costs which grew 15% in 2021. Both the revenue and cost uplift were mainly due to Iress' takeover and subsequential merging of OneVue into Iress' suite of products.

Governance and culture

There is evidence that Roger Sharpe who was parachuted in as Chairman at the last AGM is having an affect on the culture of Iress. There are signs that the company has become more aggressive under his leadership in both its ambitions and in selling itself. After a strategic review of the business a bold new strategy was announced in August 2021.

Financial performance

Despite a good lift in Net Profit and EPS the board chose to keep the dividend steady at 46c per share (June 16c & December 30c) for the fourth year in a row. Total Shareholder Return was healthy at 22.9% after going backwards in 2020.

Key events

In 2020 Iress undertook a substantial capital raising in order to pay for the important purchase of OneVue. It was at the height of COVID-19 and the company was concerned about its financial position. Subsequently Iress found itself in a positive Equity situation and decided in the interest of capital efficiency to conduct a $100m buy-back. At the end of 2021 Iress had bought back approximately $47m of its own stock and announced the continuation of the program into 2022.

Iress also put their UK Mortgage business up for sale but it has subsequently been withdrawn.

Key Board or senior management changes

Roger Sharp taking over as Chairman was the most major change at Iress for the year. Former Chairman Tony D'Aloisio and two other NED's, John Hayes and Geoff Tomlinson resigned from the board in what has been part of a renewal process. Long-time NED John Cameron has also flagged his resignation in 2022.

Kelly Fisk was appointed Chief Communications & Marketing Officer and Simon New was appointed Chief Commercial Officer in October 2021.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT ($m)	73.8	59.1	65.1	64.1	59.8
UPAT ($m)	N/A	N/A	N/A	N/A	N/A
Share price ($)	12.68	10.69	13.10	11.12	11.58
Dividend (cents)	46	46	46	46	44
Simple TSR (%)	22.9	(15.2)	21.9	(0.1)	1.3
EPS (cents)	38.8	32.3	37.9	37.6	35.4
CEO total remuneration, actual ($m)	3.373	2.416	3.076	1.797	2.645

For 2021, the CEO's total actual remuneration was **36 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Item 2, Resolution 1	**Re-election of Mr. Michael Dwyer as a director**
ASA Vote	**Undecided**

Summary of ASA Position

Mr Dwyer has 35 years of experience in the investment and superannuation fields. Most notably he was the CEO of State Super for 14 years and was appointed Chairman of NSW Treasury Corp in 2020 after joining the board in 2019.

He was first appointed to the Iress board as an independent director in February 2020 and he had a perfect record of attendance at all board and committee meetings in 2021

However, he holds no shares in Iress, despite being on the board for 2 years. His not buying any shares in the company is surely a vote of no confidence in Iress' new growth strategy, is hypocritical in that he has advocated staff increasingly get paid in equity and demonstrates no shareholder alignment. We will question Mr Dwyer at the meeting before deciding how to vote.

Item 3, Resolution 2	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

The Iress board is proposing major changes to the salaries of Key Management Personnel (KMPs) in 2022.

The fixed pay component, in the form of cash and Equity Rights, will remain the same as 2021. For the CEO the figures are $1,000,000 cash and $1,008,889 in Equity Rights which have a two-year measurement period and a further two-year holding lock. The total quantum for the fixed component is well above the benchmark for a financial services company of comparable market capitalisation, which is about $2.2b. The main test for Equity Rights is "acceptable individual performance" which gives the board a large degree of discretion. Last year the ASA criticised the fact that neither of these two components are really at risk.

In a radical move from the past the board is proposing an 8-fold increase in the value of Performance Rights (to $8,124,052) being offered to the CEO but they undertake to not issue any Performance Rights next year (effectively halving the quantum of the offer). They claim they have introduced new hurdles which will likely reduce the overall dimension of what is realised but they achieve sound shareholder alignment. Grant 1 with a face value of $4,062,016 will be subject to an absolute total shareholder return (ATSR) of at least 10% p.a. between 2022 & 2025. Grant 2 also of $4,062,016 will vest over 4 years, will also be subject to the 10% ATSR but then will be split into 3 equal tranches each with a single additional hurdle: EPS growth (required to double for full vesting), ROIC improvement (required to double for full vesting) and completion and performance of the proposed, cloud based, Single Product Platform. These variable components of the CEO pay are also well beyond comparable company benchmarks.

The new Performance Rights are designed, the board says, to bring executive incentive in line with the company's bold new strategy to organically (i.e., not including acquisitions) double profit and double EPS between 2020 & 2025 formulated under Chairman Roger Sharp.

The ASA believes the hurdles are in the main very achievable and could be effectively lowered by other corporate actions in the short term such as buy backs, changes to write down policies and increasing dividends. But the main objection is the sheer quantum of what is on offer. The new Performance Rights offer is almost guaranteeing the CEO and his Executive team a massive uplift in their total salary unnecessarily.

Item 4, Resolution 3A & 3B	**Approval of Equity Rights and Performance Rights grants to CEO/Managing Director Andrew Walsh**
ASA Vote	**Against**

Summary of ASA Position

In many ways the ASA agrees with the board's intentions. They have decided upon a bold new strategy and growth targets for the company and are trying to align the CEO's long-term incentives with their vision. However, in our mind they have not justified the massive 4-fold uplift in the value of the Rights being offered to the CEO. To say that this is compensation for the more stringent hurdles being put in place is an inadequate justification.

The ASA believes the hurdles are appropriate, not unachievable and if fully achieved would result in the CEO approximately doubling his total salary from around $3m to about $6m. This level of opportunity is excessive and unnecessary.

Appendix 1
Remuneration framework detail

CEO Rem Framework	Target*	% Of Total	Max. Opportunity $m	% Of Total
Fixed Remuneration	$1.0 Mil. Cash	20%	$1 Mil.	16.7%
STI (Not Applicable)	N/A	N/A	N/A	N/A
Equity Rights (2-year vest + 2 year hold back)	$1.008 Mil	20%	$1.008 Mil.	16.8%
LTI (Performance Rights:3-4year vest)	$3.0 Mil	60%	$4.0 Mil.	66.5%
Total	$5.008 Mil (An increase of approx. $2m on 2021)	100%	$6.008 Mil (An increase of approx. $3m on 2021)	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.