



Iress Ltd 2021 AGM Voting Intentions

Company/ASX Code	Iress Ltd (IRE)
AGM date	Thursday 6 May 2021
Time and location	11.30am AEST, RACV Club 501 Bourke St. Melbourne
Registry	Computershare Investor Services P/L
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Eric Pascoe assisted by Norm West & Paul Fanning
Pre AGM Meeting?	Scheduled for 30-4-21 with CEO & CFO

The individual involved in the preparation of this voting intention does not have a shareholding in this company.

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

Summary of ASA Position

Iress Ltd.'s performance in 2020 was lacklustre and its share price has responded accordingly. Group revenue was up 7% to \$542.6 M but Segment Profit was up just 0.5% to \$152.9 M and Statutory Net Profit was down 9.2% to \$59.1 M.

Iress is proving to have a reliable income stream with 90% of its revenue being recurring and with very little customer churn. Most of its revenue growth came from acquisition but a substantial expansion in costs again eroded its profit and disappointed shareholders. The CEO said major investors were questioning Iress' ability to provide an adequate Return on Invested Capital.

The largest contributors to the expenses blowout were 'Share Based Payments' up 19% to \$21m and 'Product and Technology' costs up 8% to \$128.4m.

Governance and culture

There is nothing to suggest that governance at board level is anything but sound. Mr. Tony D'Aloisio, the retiring Chairman, is a former Commissioner and Chairman of ASIC.

The culture within the company is very much that of a tech company. Iress has a people focus, is casual and operates more often in innovative work groups than as a hierarchical structure. The company is very client and technology focussed. What the culture lacks is a business-like, disciplined, financial approach focusing on shareholder returns.

Financial performance

Iress' revenue performance over the last decade has been spectacularly good. Again in 2020 revenue rose by 7% but net profit fell by 9%. In fact, revenue has gone up by 161% in linear fashion over 10 years, but net profit has remained relatively flat. There appears to be insufficient corporate focus on being a low-cost operator, maintaining its operating margins, leveraging its existing market position and achieving a desirable return on equity.

Outstanding revenue growth has too often been achieved through acquisition, with insufficient focus on achieving an adequate return. Earnings per share has plummeted 14.7% in the last 12 months. This figure was exacerbated by the recent capital raising, required to fund the latest acquisition.

Key events

In January 2020 Iress announced the purchase of blockchain platform BC Gateways. In March they purchased O&M Systems in the UK, an investment and pension research software provider and in June they announced the Scheme of Arrangement to take over OneVue in Australia. Simultaneously with the OneVue acquisition Iress announced a \$170m equity raising and a \$105m extension of their debt facility. The capital raising commenced in June 2020 and was completed in early July. It comprised an \$150m institutional component and a non-renounceable SPP of \$20m at a 2% discount to market price. Whilst not the preferred PAITREO model, this has been the norm during the Covid period.

Key Board or senior management changes

The Iress board is going through considerable change. At the beginning of 2020 NED's Michael Dwyer and Trudy Vanhoff were added to the board. Long serving directors John Hayes and Geoff Tomlinson will not be seeking re-election at the upcoming AGM and the Chairman Tony D'Aloisio will be retiring from both his chairman and director roles. Roger Sharp is up for election to the board and has been designated Chairman elect should he be successful.

Executive Management ranks were swelled with two additional appointments during the year: Joydip Das was appointed Chief Product Officer in September and Michael Blomfield was appointed Chief Commercial Officer in October.

Summary

(As at Calendar/FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	\$59.1	\$65.1	\$64.1	\$59.8	\$59.45
UPAT (\$m)	N/A	N/A	N/A	N/A	N/A
Share price (\$)	\$10.69	\$13.10	\$11.12	\$11.58	\$11.87
Dividend (cents)	46c	46c	46c	44c	44c
TSR (%)	(15.2%)	21.9%	(0.1%)	1.3%	22.97%
EPS (cents)	32.3c	37.9c	37.6c	35.4c	37c
CEO total remuneration, actual (\$m)	\$2.416	\$3.076	\$1.797	\$2.645	\$2.471

For 2020, the CEO's total actual remuneration was **28 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

Item 2-Resolution 1	Election of Mr. Roger Sharp as a Director
ASA Vote	Undecided

Summary of ASA Position

Mr. Sharp is currently Chairman of Webjet, the Lotteries Commission of New Zealand and NZ public company Geo Ltd. He is also deputy Chair of Tourism New Zealand.

His executive experience has spanned 35 years and he has worked for ABN AMRO Bank. He founded regional technology investment bank North Ridge Partners where he is still a partner. The Iress board has determined that Mr Sharp is independent and qualifies for election.

He will be parachuted into the Iress chairman's role if elected.

According to ASA guidelines Mr Sharp has too many existing commitments to properly fulfil the Chairman's role and he has not spent the last 12 months on the Iress board as recommended by the ASA. In addition, the ASA voted against the Webjet remuneration structure both report and approval of Managing Director participation in Long Term Incentive Plan. The latter received a 32.6% against vote since this was far too generous, although the Remuneration Report was supported. We will seek further information from Mr Sharp before deciding how to vote.

Item 3-Resolution 2	Re-election of Ms Niki Beattie as a Director
ASA Vote	For

Summary of ASA Position

Ms Beattie is a non-executive director of the company and has been a director since 1 February 2015. She is considered an independent director.

Ms Beattie has 30 years' experience in financial technology and capital markets. She is the CEO of her own company and holds two chairmanships. She is also a non-executive director of another company. Ms Beattie is based in Europe and often joins the board via video link.

The ASA has previously queried Ms Beattie's work load and remoteness. She maintains that she is a strong contributor to the board and an effective director.

Item 4-Resolution 3	Re-election of Ms Julie Fahey as a Director
ASA Vote	For

Summary of ASA Position

Ms Fahey has been an independent director at Iress since October 2017 and is currently Chair of the People and Performance Committee.

Her experience is in technology with many leading firms including stints with Western Mining, Exxon and General Motors. She was 10 years a partner at KPMG leading their telecommunications, media and technology operations.

Item 5-Resolution 4	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

Iress introduced a new framework for the remuneration of its executive team including the CEO in 2019 and endorsed the new structure in 2020 after a review. An important feature of the current remuneration plan is that it does not have a short-term incentive component. The board maintains that its structure worked very well in 2020 in that Andrew Walsh saw a reduction in the value of his equity in line with shareholder experience.

The CEO's pay structure is made up of 32% Base salary (cash \$1,000,000), 33% Equity Rights and 35% Performance Rights. The Equity Rights are granted immediately and vest over 2 years but are subject to a holding lock for a further 2 years. They are based on a set amount of money being divided by a VWAP share price calculated over the same period annually (20days to 31st December). The only effective tests are longevity, acceptable performance (individual and corporate) and appropriate behaviour.

The Performance Rights are priced by the same VWAP method. They vest after 3 years based on Absolute Total Shareholder Return (ATSR) commencing at 50% for 6.5% ATSR (Compound Annual Growth Rate over 3 years) scaled through to 100% for 10% ATSR.

Senior executives have a similar pay structure to the CEO and all executives are required to hold sizeable amounts of shares after 5 years (MSR: Minimum Shareholding Requirement). For the CEO the MSR is 400% of his base salary and for other executives it is 225%.

The board retains a very large degree of discretion over the pay structure of all executives including the ability to put a holding lock on shares issued, redefine Performance Rights targets, withhold payments and even claw back payments in certain circumstances in the event of poor behaviour on the part of the executive.

We have two concerns with this novel remuneration structure. The first is that the fixed component, which comprises cash and equity rights, amounts to 65% of the package and that the equity rights vest after two years. There is therefore only 35% at risk, comprising performance rights, for which the only hurdle is an absolute TSR, with a three year vesting period and a gimme commencement hurdle of 6.5% growth and maxxing out at 10%, which in the current ASX200 is an easy 3 year target. There is no hard financial hurdle to complement the absolute TSR, which the ASA requires as a minimum.

In summary, we think the remuneration package, while not excessive in quantum, leaves too little at risk and has inadequate hurdles.

CEO Rem Framework	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration (FR) Cash	1.0	32%	1.0	32%
STI (Not Applicable)	N/A	N/A	N/A	N/A
FR Equity Rights (2-year vest + 2 year hold back)	1.008	33%	1.008	33%
LTI (Performance Rights)	1.070	35%	1.070	35%
Total	3.078	100%	3.078	100%

Item 6-Resolutions 5A & 5B	Approval of Grant of Equity Rights and Performance Rights to the CEO/Managing Director Mr Andrew Walsh
ASA Vote	Against

Summary of ASA Position

The granting of 97,089 Equity Rights and 102,863 Performance Rights are allocated under the 2019 remuneration framework described above. They represent 32% and 35% of the CEO's Total salary respectively and have been determined by dividing the dollar value of the Grants by the VWAP share price for the 20 days to 31 December 2020.

The Equity Rights have a 2-year vesting period followed by a 2-year holding lock.

The Performance Rights have Absolute Total Shareholder Return (as described above) as their only hurdle and will vest after 3 years. For the reasons given under the remuneration resolution we cannot support this.

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