



Software as a Service continues to grow

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| Company/ASX Code | Technology One/TNE |
| AGM date | Tuesday 23 February 2021 |
| Time and location | 10.30am (AEST); Brisbane Convention & Exhibition Centre, Merivale St |
| Registry | Link |
| Webcast | No |
| Poll or show of hands | Poll on all items |
| Monitor | Steven Mabb and assisted by Sophie Plumridge |
| Pre AGM Meeting? | Yes with CFO and Company Secretary |

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

Summary of ASA Position

Technology One (TNE) describes itself as “the only vendor that develops, sells, implements, supports and runs a fully integrated suite of enterprise software solutions”. It focuses on serving not-for-profit organisations such as Federal and Local Government, Higher Education and Health & Community Services in Australia and the Pacific. Efforts continue to be made to establish a foothold in the large UK market where TNE has reported a break-even result at the end of 2020 financial year (FY20).

Current Executive Chairman Adrian Di Marco, aged 63, founded the company in 1987. In January 2021 he held 6.38% of the 321 million issued shares. Current director and fellow company founder, John Mactaggart had an 14.06% shareholding in the company in January 2021. ASA acknowledges that TNE continues to be a remarkably successful company to date. Presently only four of the nine current directors are considered to be independent by ASA. ASA considers two of the six directors listed by TNE as independent to be non-independent by virtue of long tenure having served on the board since 2004 and 2005. However the Board has been addressing self-renewal, adding new and suitable independent Directors in recent years.

ASA welcomes these recent moves towards board renewal, particularly the inclusion of two well qualified women in recent years. However, female representation on the Board is still under the 30% guideline ASA encourages.

To its credit TNE continues to invest significantly in Research & Development on new and emerging technologies, including cloud-based technologies, artificial intelligence and machine learning. R&D in 2020 amounted to \$68.1 million, equivalent to 22% of revenue.

By many standards TNE has been a consistently high performing company over the past 15 years. Total revenue, net profit before tax (NPBT) and Earnings per Share have all increased 12%

compound annually in that period. Annually recurring revenue has been growing strongly and now comprises 74.2% of total revenue and grew by 10% in 2020. Total shareholder returns have reflected this performance, such that TNE continues to be one of the best performing ASX companies over the past decade.

Summary

| (As at FYE) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-------|-------|-------|-------|------|
| NPAT (\$m) | 62.9 | 58.5 | 47.7 | 44.5 | 41.3 |
| UPAT (\$m) | 62.9 | 58.5 | 47.7 | 44.5 | 41.3 |
| Share price (\$) | 7.94 | 7.18 | 5.58 | 5.02 | 5.94 |
| Dividend (cents) | 12.88 | 11.93 | 11.02 | 10.20 | 9.45 |
| TSR (%) | 11 | 30.9 | 13.6 | -14.1 | 57.8 |
| EPS (cents) | 19.61 | 18.4 | 15.1 | 14.2 | 13.3 |
| CEO total remuneration, statutory (\$m) | 1.77 | 1.61 | 1.40 | 1.15 | 1.47 |

For 2020, the CEO's total actual remuneration was 20 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

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| Resolution 1 | Election of Peter Ball as a Non-Executive Director |
| ASA Vote | Against |

Summary of ASA Position

Peter Ball was appointed to the Board 2 March 2020. Mr Ball has valuable experience and qualifications in Accounting that assist in his position as Chair of the Audit and Risk committee with TNE. He has been a long-term partner with KPMG and has worked across many industries both domestically and internationally and has involved himself in the community/not-for-profit sector. He has served as Director of Alzheimer's Queensland for 10 years. In his first year he has acquired a TNE shareholding equivalent to 1.9 times his annual director fees.

However, we are unable to support his election given the Board does not currently have at least 30% female representation and this was an ideal opportunity to correct that imbalance. Whilst his skills look appropriate he would not add the desired diversity that at least 30% male or female Board members represent.

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| Resolution 2 | Re-election of John Mactaggart as a Non-Executive Director |
| ASA Vote | For |

Summary of ASA Position

John Mactaggart has had a long and integral association with TNE. Mr Mactaggart has served a critical role in the creation, funding, and development of TNE. He possesses the largest share in TNE out of all the Board members in FY2020. He first joined the Board in 1999 as a Non-Executive Director. So whilst he is not independent and the Board currently does not have a majority of independent Board members, we will support his re-election as a long serving founder.

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| Resolution 3 | Adoption of the Remuneration Report |
| ASA Vote | For |

Summary of ASA Position

| CEO rem. framework | Target* \$m | % of Total |
|--------------------|-------------|------------|
| Fixed Remuneration | 0.533 | 30% |
| STI - Cash | 0.675 | 38% |
| STI - Equity | 0 | 0% |
| LTI | 0.564 | 32% |
| Total | 1.771 | 100.0% |

There is no maximum opportunity calculated as the maximum STI is uncapped.

Statutory executive remuneration is clearly disclosed in the Annual Report, whereas actual or teak-home pay is not disclosed and is difficult to calculate.

The primary objective of TNE's executive remuneration is said to be to align rewards with shareholder interests and business strategy, while ensuring that high calibre executives are attracted and retained. KMP fixed remuneration is relatively modest in quantum and at 32% of the total. Total remuneration grew at 5% in FY20, compared with NPBT growth of 8% and TSR of 11%, a comparison that overstates the growth in remuneration due to CFO Paul Jobbins commencing the role partway through FY19 compared to a full twelve months in FY20.

The short-term incentive (STI) plan is exclusively based on reported NPBT. The value of the STI is calculated on a percentage of NPBT determined at the outset of an executive's contract. It is uncapped to encourage over-achievement. The STI is calculated and paid monthly through the

year, with 20% withheld and paid after the figures have been audited. An additional payment, equivalent to 25% of the STI and forming part of the LTI, is deferred for 2 years requiring executive to remain employed by the company for the deferral period as a retention bonus. This deferral also facilitates clawback in the unexpected case that NPBT is subject to late subsequent adjustment.

TNE's business model, with a large and increasing revenue share accruing on an annually-recurring basis, gives rise to strong linkage between current performance and long-term revenue flows – hence the company's focus on the STI component of salary.

Over the past 5 years total STI payments have grown at 10% which is slower than the corresponding 12% growth in NPBT.

The long-term incentive (LTI) plan is made up of share options and the above mentioned deferred retention bonus. In FY20, TNE introduced a shift in weighting for the measures of LTI. There is now a 75% weighting on EPS growth and a 25% weighting on relative TSR. The heavier weighting on EPS growth is designed so targets are more directly aligned with increase in shareholder returns.

The company was targeting EPS growth of 5% to 15% and the original measure of NPAT growth of 10%. They achieved EPS growth of 7.53%, NPAT growth of 8% and TSR of 11% for FY20.

The Board has cited COVID-19 as an unexpected challenge, which slowed sales of new SaaS conversions, due to restricted sales visits and budget restraint from potential customers. However despite these difficulties they were able to deliver a turnaround in the UK business, strong SaaS growth of 32%, UPAT of 13% and 11% total shareholder return year over year.

The Board carefully considered these results and decided to use discretion to grant the Executives with 100% of the NPAT and EPS growth LTI's for all option tranches, which include an FY20 annual test. ASA generally discourages using discretion in Executive remunerations; however, the global pandemic has had realisable impacts on the business and we understand the altitude of setbacks it may have caused. TNE has recorded outstanding total shareholder returns over many years including FY20 and does not have a track record of using discretion or paying excessive remuneration. We are willing to support this year's remuneration report with the once-off use of discretion.

TNE continue to assess LTI performance over a three-year period, compared with the four years plus which some other companies have adopted and ASA prefers. TNE's CEO has a shareholding of \$2.9 million in January 2020. The whole Board has a shareholding of over 20% of the company and all Directors have at least one year's fees in shares, which is more than satisfactory skin in the game.

The individuals involved in the preparation of this voting intention do not have shareholdings in this company.

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