Australian Shareholders' Association Limited
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Minority shareholders are still treated as if they are mere onlookers

Company/ASX Code	Harvey Norman/HVN
AGM time and date	11am AEDT Wednesday, 27 November 2024
Location	Novotel Sydney Olympic Park, 11A Olympic Boulevard, Sydney Olympic Park, New South Wales 2127
Registry	Boardroom
Type of meeting	Physical AGM with listen only by Telephone
Monitor	Allan Goldin
Pre-AGM Meeting	Ken Gunderson-Briggs Chair Audit & Risk, Remuneration and Nomination Committees and Christopher Brown non–independent director

Monitor Shareholding: An individual or their associates involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	Adoption of Remuneration Report	**Against**
3	Re-Election of Director - Michael John Harvey	**Against**
4	Re-Election of Director - Christopher Herbert Brown	**For**
5	Re- Election of Director - John Evyn Slack-Smith	**Against**
6	Grant of Performance Rights to John Evyn Slack-Smith and permit John Evyn Slack-Smith to acquire Shares in the Company	**Against**
7	Grant of Performance Rights to Chris Mentis and permit Chris Mentis to acquire Shares in the Company	**Against**
8	Contingent holding a Spill Meeting	**Against**

2. Summary of Issues and Voting Intentions for AGM/EGM

- The majority of Directors are non–independent and it shows.
- Financially a bad year, but bonuses are bigger than last year, while dividends continue to fall.
- Exposes the sham of the 2-strike rule's ultimate sanction where KMP have majority control of the company and will simply re-elect the spilled directors.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

Thank you to Harvey Norman Directors for changing their previous policy and meeting with ASA to provide some colour and greater clarity on their public statements.

It is unfortunate, in this day of good digital platforms, that HVN is having a physical AGM with only listen by telephone, which means that those who can't attend have no opportunity for real-time interaction.

On a positive note, Harvey Norman survived a very difficult year, with its share price somewhat intact, despite the results.

Total System sales of $8.86b was down $330.1m from 2023, with NPAT down 34.7% to $352m. Even HVN preferred the measurement "Profit before Tax" PBT (excluding AASB16 net impact and net property revaluation), which was down 21% to $540m. The saving grace was the second half was stronger than the first.

HVN was not alone, the often compared with rival, JB Hi-FI sales were down 0.4% to $9.59b and NPAT fell 16.4% to $438m.

JBH has announced strongly improved sales for the first quarter of this year, which hopefully HVN will follow or better when their sales are announced.

The major difference, and why comparison is somewhat difficult between Harvey Norman and JB Hi Fi, is physical assets. HVN owns $4.54b of net assets. The Harvey Norman philosophy is not just based on the belief that buying properties that house their business (and others) is a good use of capital, but, very importantly, HVN is opposed to being a tenant, with their business exposed to the whims of the landlord. They believe that ownership of your property is a key factor in the success or otherwise of large-scale multi-product retailers such as themselves.

Harvey Norman made the decision some years ago that, even though Australian operations were profitable, because of our small population, growth prospects in Australia were limited and so it was important to expand Overseas (OS). When overseas expansion of big store space retailers is mentioned, thoughts immediately surface of the financial disaster that occurred to Bunnings when they launched overseas with a name unknown in the United Kingdom.

One of the crucial differences is Bunning did the move in one big hit, whereas Harvey Norman has been doing it over time. To date the OS move has not been a gigantic success, but it appears to be ticking over. As the economies of the seven (now 8) overseas countries are very different and stores are constantly being added, comparative sale are difficult. However, in 2019 the 90 Harvey Norman OS stores averaged sales of about $22.6m each and generated a retail PBT of about $1.44m average per store. In 2024, the 117 OS stores averaged revenue of approximately $22.5m each with a PBT of $1.35m each.

The total profitability of each store is only part of the story. Remember, Harvey Norman's secret sauce is owning the properties that their franchise operations are based in, and this has been the case overseas. $639m of freehold property, or just under 15.5% by value of the HVN property portfolio is based on OS property housing their business (and others). So, the OS expansion is also as much a decision to utilise capital by investing in OS property as it is expanding their brand.

In Australia, the Federal court recently ruled in favour of ASIC that Latitude Finance and Harvey Norman Holdings Ltd engaged in misleading conduct and made false or misleading representations in relation to a widespread advertising campaign for a 60-month interest free and no deposit payment method.

This ruling is open to be appealed by HVN and, if not appealed, the financial penalty will be imposed in May 2025. On the announcement of the ruling, HVN shares fell but quickly recovered. The question remains if there will be any long-term reputational risk.

For all their criticism of Harvey Norman's governance, it must be acknowledged that HVN's massive advertising is indirectly a significant factor in the continuing employment of many print journalists. More directly, HVN's ground-breaking support of Western Sydney University and Auburn high school, in their multimillion-dollar program focused on learning and mentorship for young women, is a very positive step.

Like all sports-minded Australians, Harvey Norman's sponsorship is happily prominently seen in many top-level sporting codes, topped off by the Australian Olympic Committee and Paralympics Australia.

At the same time, Harvey Norman Holdings remains in a corporate governance dilemma for many investors as long as they have a majority non-independent board and only award performance incentives to Directors.

Shareholders will not be asked to vote on awarding Performance Rights to the Executive Chair and the CEO at this AGM. But don't worry, they still will get their bonus, it will just be in cash. By awarding cash instead of equity, the Company does not legally have to receive shareholder approval for issuing shares to directors as incentives. However, there is a difference between following the legal rules and being transparent and open with all shareholders.

This decision to change from Equity to cash does not appear to be set out in the Annual Report and is only found in one paragraph on page 19 of the Notice of Meeting. The question is: will this be the last time ordinary shareholders will vote on bonuses? The other two Directors, for whom we will vote on Performance Rights this time, are also substantial shareholders, so, in the future, will the Company just give all the executive Directors cash bonuses and not bother asking shareholders?

Financial performance

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	352.45	539.52	811.53	841.41	480.54
Share price ($)	4.17	3.48	3.71	5.48	3.54
Dividend (cents)	22	25	37.5	35	24
Simple TSR (%)	26.1	0.5	-25.4	64.7	-7.1
EPS (cents)	28.29	43.30	65.13	67.53	39.19
CEO Take home remuneration, actual ($m)	3.65	3.82	3.66	3.31	2.98

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

Harvey Norman is unquestionably the Company in the ASX 200 with the least number of Independent Directors and, although they carefully don't break the ASX listing rules, are considered a leader in poor corporate governance, which resulted last year in their receiving a massive 81.8% vote against their remuneration report.

Normally after a strike, a company makes a few changes to their remuneration structure and everyone goes away happy. HVN only made small changes, very unusually and to their credit they went on the attack. Page 57 of the Annual Report listed the deficiencies in the proxy advisors reports and at the end detailed the approach that two of the advisory groups made to help them, for a fee, to get their corporate governance in order.

It should be noted that ASA was not similarly criticised, not because they agree with what we say, but because we are not a proxy advisor, and we have been consistent for many years in voting against their remuneration report.

In September, two separate class actions brought proceedings against the retail giant, alleging it sold extended warranties that had no real value to its customers. The extended warranties, called "Product Care", were sold by Harvey Norman and its related stores Domayne and Joyce Mayne, it will take some time for these two actions to play out.

Key events

Key board or senior management changes

The long-serving Executive Director David Ackery resigned at the end of April. It is hoped that the Board will find a suitable independent Director to replace him.

Emmanuel Hohlastos resigned as GM home appliances in September. Richard Beaini ceased to be a KMP from July 2023.

Haydon Myers was appointed GM Electrical in Match, 2024. Christoper Coen was appointed GM – Home Appliances in August, also in that month Benjamin Kelada was appointed GM Audio visual.

Sustainability/ESG

Although it is not reflected in their KMP's, where only 18.75% are female, there is a high representation at the next level with 40% of senior managers being women.

As the Company operates in a variety of countries with a wide mix of diversity among its employees there is an attempt to recognise major cultural occasions important to this diverse group.

Some examples of actions designed to reduce waste and power recycling around the world:

- New Zealand sites have achieved a 26% waste diversion from landfill, with recycling streams including cardboard, soft plastics, polystyrene, comingled recycling and organics.
- Singapore sites have achieved a 36% diversion of waste from landfill, with wood, plastics and paper/cardboard being the most prolific recycling streams. Participation in the E-waste Extended Producer Responsibility scheme has continued and has extended to retrieving

end-of-life products from customers' homes when new appliances are delivered and sending them onto the recycling programs.

- Malaysian sites have maintained a diversion from landfill rate of 45%, continuing to count cardboard, plastic and polystyrene as the most represented recycled products.
- Ireland and Northern Ireland sites have diverted 47% of its waste from landfill, with the most frequently recycled materials being cardboard packaging, polystyrene, paper, wood and soft plastics. The Irish business continued its participation in the Waste Electrical and Electronic Equipment (WEEE) scheme, collecting more than 1.6 tonnes of electrical waste this year. Company-operated stores in Ireland have continued their participation in the Bounce Back Recycling of mattresses, with one in every three mattresses sold in Ireland recycled under that program.
- Croatian Sites have diverted more than 80% of their waste from landfill. Company-operated stores in Croatia collect and recycle items such as paper, cardboard, wood, damaged goods and construction waste. Municipal waste collections in Croatia cater for other waste streams such as e-waste and plastics.
- Slovenian Company-operated stores in Slovenia have maintained their participation in the national program which includes recycling products such as electrical and electronic equipment, batteries and product packaging.
- In Australia, non-franchised retail operations divert, on average, approximately 16% of their waste from landfill. One such non-franchised retail operation has implemented a program to extend its previous landfill diversion percentage of 36%, seeking to make it 64% of their waste stream by 2025. This includes working with suppliers to review their approach to packaging of products, to make packaging reusable, recyclable and made from recycled materials. From April 2024, another non-franchised retail operation has been working with Textile Recyclers Australia (TRA) to have pre & post-consumer apparel products recycled. All pre-consumer apparel stock that is not saleable will be sent to TRA for destruction and will be recycled. All post-consumer apparel stock collected from stores will be shipped to TRA for offshore processing and recycling into new fibres. This will mean 100% of apparel waste will be diverted from landfill and recycled. We estimate 2-3 pallets or approx. 500kg of waste will be recycled each year.

4. Rationale for Voting Intentions

Resolution 2 Remuneration Report - Against

After receiving one of the highest first strikes in Australia corporate history it is not surprising that the Board have made some changes, however, are they sufficient?

First, the Chair still has the word Executive in front of his name to justify earning a bonus but has lowered his Fixed Annual Remuneration (FAR) from $739,308 to $ 587,201, which is good, but still high compared to Chairs of similar companies (GPT $470k, Dexus $490k JB Hi Fi $331k)

Ken Gunderson-Briggs has moved down from being the highest paid non-executive Director in the ASX 200 to being just very well paid at $373,432.

The biggest change is that STI hurdles moved from 70% financial to 50% financial. The non-financial hurdles are good, designed to assist in future growth and development. The success or not in meeting those hurdles are clearly defined.

What was the result of the changes?

The gateway to receive a STI is 80% of budgeted annual profit after tax (APAT). This gateway in 2024 was again reduced, to not just considerably less than the actual 2023 APAT but substantially less than the 2023 minimum. This reduction in target is not uncommon in the current environment, particularly with REITs, who are finding it difficult to maintain past profit levels. HVN used a number of financial analyst predictions to set their target levels, however the question must be asked is, is having a gateway of 60% of last year's actual just too low? Is Harvey Norman's STI just a mechanism to give the Executive Directors more cash?

The total amount of STI paid out was lower than last year but this was only because there was one less participant. Long-term Executive Director David Ackery left the Company at the end of April, as it was agreed that his last year was substantially spent setting up and handing over to others, he did not receive an STI.

The result of the new STI formula was that, despite sales and profit being lower than any year since 2019, each of the continuing Directors STI incentive was 12.5% higher than last year. Unusually the STI is paid in cash, but all executive Directors who get an STI have considerable shareholding.

For LTI the only measurement is RONA (return on net assets). This incentive starts when there is a 3-year aggregate return of a minimum of 15%. Although 2024 was only 12.2%, the last two years higher results meant that 62% of the total bonus was awarded.

HVN LTI hasn't changed, in that LTI has only one measurement and it is calculated over 3 years as opposed to ASA's preferred 4 years.

In most, actually virtually all, ASX200 companies, the Directors get fixed remuneration and the executive KMP get incentives. In the Harvey Norman universe this is reversed. None of the 7 KMP receive any incentives or bonuses. Instead, the only people who are incentivised are 4 executive directors. Does this mean that their actions alone determine the profitability or otherwise of the Company?

Increasing the non-financial measurements in STI is good, and positive, but that is it. Having a poor financial year but increasing the bonus shows the flaws in the remuneration structure. Add in no incentives for anyone but executive directors, plus the blatant lack of transparency in paying cash incentives to the Exec Chair and CEO.

To top it all off, the Remuneration Committee that created it cannot in all fairness be considered independent. The Chair, Mr. Ken Gunderson–Briggs, has been a Director of Harvey Norman for 21 years, which, only by the Company's view, is independent. Of the other two committee members only Ms Catanzaro is independent, as the third member, Mr. Christopher Brown has been a Director of the Company for 37 years and votes 16.5% of HVN shares.

ASA will vote its open proxies against this resolution.

Resolution 3 Re-Election Michael John Harvey - against

Mr. Michael Harvey has been a director since 1993 and we are told that his contributions toward the property side of the business are particularly valued.

As this Board has a majority of non-independent Directors, ASA has great difficulty in voting to continue this practice so will vote its open proxies against this resolution.

Resolution 4 Re-Election Christopher Herbert Brown - for

As Harvey Norman has a majority of non-independent Directors, we would normally not vote in favour of continuing this trend, however an exception is made for founders. As Mr. Brown is the sole director of the Company holding the Norman family shares it can be argued that it is appropriate to consider his Directorship as that of a founder. For this reason, ASA will vote its open proxies in favour of this resolution.

Resolution 5 Re-Election John Evyn Slack-Smith - against

Mr. Slack-Smith became a Director of the Company in 2001. As he is an executive Director, and the Company has a majority of non-independent Directors. ASA has great difficulty in assisting in the continuation of this practise. ASA will be voting its open proxies against this resolution.

Resolution 6 Grant of Performance Rights to John Evyn Slack-Smith and permit John Evyn Slack-Smith to acquire Shares in the Company - against

ASA believes that all people in a company who have the ability to take actions that improve shareholders returns and strengthen the Company should have some form of at-risk incentive in their remuneration package.

The actual condition of the Long-Term incentive seems to be reasonable, but the fact that there is only one test, that the test is only over 3 years rather than 4 does not align with shareholder expectations. Combine this with the serious governance problems with the Remuneration committee, the lack of transparency in giving incentives to two of the executive directors, plus, the fact that Mr. Slack- Smith received an increased STI bonus after a poor result, means that ASA will vote all undirected proxies against this resolution.

Resolution 7 Grant of Performance Rights to Chris Mentis and permit Chris Mentis to acquire Shares in the Company - against

ASA believes that all people in a company who have the ability to take actions that improve shareholders returns and strengthen the Company should have some form of at-risk incentive in their remuneration package.

The actual condition of the Long-Term incentive seems to be reasonable, but the fact that there is only one test, that the test is only over 3 years rather than 4 does not align with shareholder expectations. Combine this with the serious governance problems with the Remuneration committee, the lack of transparency in giving incentives to two of the executive directors, plus, the fact that Mr. Mentis received an increased STI bonus after a poor result means that ASA will vote all undirected proxies against this resolution.

Resolution 8 Holding a Spill Meeting - against

The statements in the Notice of Meeting demonstrates the major problem with the two-strike rule.

Most companies, after receiving a strike, make some changes to the Remuneration structure to avoid receiving a second strike, even though they are confident this will not happen. The reason for this confidence is that if they receive a second strike it will result in a call for a board spill. This is such a draconian action that the Board knows that shareholders will not take this action except in extreme cases. Harvey Norman is an example of such an extreme case with its non–independent Board.

For this reason, the Notice of Meeting clearly sets out if there is a spill motion there will need to be a meeting to elect a new Board. The KMPs have already indicated that they will use their majority control to re-elect all Directors, so a spill meeting will be nothing but a costly waste of time.

Until the government changes legislation to introduce something more suitable than a spill (perhaps after a second strike all Directors remuneration could be reduced by 30% until the issue is fixed), this will be a continuing problem.

That is why, even although ASA believes under current legislation a spill is justified, we will spare the Company the needless expense of having another meeting and will vote our open proxies against this resolution.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.17	43.5%	2.17	39.5%
STI - Cash	0.80	16.0%	1.30	23.7%
STI - Equity	0	0%	0	0%
LTI	2.02	40.5%	2.02	36.8%
Total	4.99	100.0%	5.49	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. Some remuneration framework set a maximum opportunity amount, but not all.