



Buying two companies in two years, is acquisition the name of Hansen's game?

Company/ASX Code	Hansen Technologies / HSN
AGM date	21 November 2019
Time and location	11am Manningham Civic Centre, 699 Doncaster Road, Doncaster, VIC
Registry	Link Market Services
Webcast	No
Poll or show of hands	Show of Hands
Monitor	Hans Ha assisted by John Whittington
Pre AGM Meeting?	Yes, with Chair David Trude

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

Summary of ASA Position

Financial performance including dividends and shareholder returns

Operating revenue increased by 0.2% from \$230.8m in Financial Year 2018 (FY18) to \$231.3m in FY19. Earnings Before Interest Taxes Depreciation and Amortisation (EBITDA) was down by 10.6% from \$59.3m in FY18 to \$53m in FY19. Net Profit After Tax (NPAT) was down 25.6% from \$28.9m to \$21.5m and Earnings per Share (EPS) fell from 14.8 cents in FY18 to 10.9 cents in FY19, a drop of 26.4%.

This somewhat disappointing performance was mainly due to lower non-recurrent revenue, on both lower one-off license fees and reduced project work as a result of "Power of Choice Australia" being implemented. Hansen noted the Australian market was exceptionally strong last year and expectation of decreases were factored in this year.

Dividends were declared at 6 cents per share, 87% franked (at 5.6 cents per share).

Total shareholder returns (TSR) has increased by 26.67% at 30 June 2019 with most of the gain due to increased share price.

Key events such as restructures, acquisitions, buy backs and capital raisings

Hansen Technologies has acquired Sigma Systems at \$163.8m via debt financing, with strong support from local and international banks.

Key Board or senior management changes

Mr David Howell has been appointed Chair of the Remuneration Committee

ASA focus issues:

In relation to the Sigma acquisition, ASA will be asking Hansen to consider how future acquisitions are funded in relation to the various capital raisings that may occur. ASA advocates for fair capital raisings that don't dilute retail shareholders.

Also, the company is looking to use adjusted figures to evaluate its performance hurdles in relation to remuneration plans. While ASA understands the company's motives, we are against the use of adjustments without sufficient disclosure and will be pushing for as much transparency as possible.

The company has two directors who have been in the role for over 12 years. ASA guidelines are clear that these directors are no longer considered independent. ASA encourages companies to maintain a majority of independent directors.

Hansen does not include a Table of an actual remuneration on their annual report and ASA encourages the company to do so.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	21.5	28.9	23.9	26.1	16.9
UPAT (\$m)	24	29.5	23.9	26.1	16.9
Share price (\$)	3.93	3.15	4.04	3.39	2.62
Dividend (cents)	6	7	6	7	6
TSR (%)	26.7	-20	21	32	114
EPS (cents)	10.9	14.8	13	14.4	10.3
CEO total remuneration, actual (\$m)	1.60	1.66	1.58	1.36	1.09

For 2019, the CEO's total actual remuneration was **18.19 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

There were very few changes were made in this year's Remuneration Report other than the use of market value instead of fair value in awarding Performance Rights. This has been the focus of ASA for some time and it is gratifying to see that Hansen has taken note.

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.962	54.01%	0.962	43.91%
STI - Cash	0.364	20.44%	0.546	24.92%
LTI – Performance Rights	0.455	25.55%	0.683	31.17%
Total	1.781	100.0%	2.191	100%

The amounts in the table above are the statutory 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.

Key Characteristics of the Remuneration Report:

- Target short-term incentive (STI) is 40% of Total Fixed Remuneration (TFR) and long-term incentive (LTI) at 50% of TFR with both having a maximum opportunity of 150%
- A 3-year LTI period with 2 performance hurdles; Relative Total Shareholder Return (rTSR) and Adjusted EPS Compounded Earnings per Share Growth (EPSa CAGR)
- Redefining the earnings calculation used to calculate EPS to be based on net profit after tax, adjusted for non-cash tax effected amortisation of intangibles (NPATA) for one of its LTI hurdles

While the Directors Skill Set Matrix is not in the Annual Report, it is in the company's corporate governance website at <https://www.hansencx.com/about/investor-relations> under "Skills Matrix". It depicts the aggregate skills represented on the board.

The areas of the Remuneration Report that the ASA favours:

- 70% of STIs linked to financial metrics, 30% linked to non-financial metrics
- STIs have a performance gateway applied to the financial metrics
- Where TSR must be positive during the performance period before Rights vest
- Performance Rights being awarded in market value over fair value

The areas of the remuneration the ASA is pressing Hansen to improve on:

- LTIs are measured after a 3-years. The ASA prefers longer periods (4~5 years or longer) or a holding lock in the LTI to make up for the duration of the performance period
- Cash only for STIs. The ASA prefers equity to be added with a deferral period in the STIs
- Publishing an actual remuneration table for Key management personnel (KMPs)

- Gradual vesting of LTIs over cliff vesting, where awards do not suddenly vest all at once when the KMP reaches the award threshold

Hansen has mentioned some changes it will potentially implement in its future remuneration plan (page 16 in the Annual Report for details). Some of the highlights include:

- Introducing an equity component in its STI, where 25% is awarded in equity with a 2 year deferral period
- An introduction of Committee Membership fees for Non-Executive Directors (NEDs)

While there are some areas the ASA would like to see improvements on, awarding Performance Rights at market value this year for example is positive progress. If Hansen also adds the equity component in the STI as they say they would, that is further improvement. On balance we will support this resolution for this year.

Item 3	Re-election of Bruce Adams as a Director
ASA Vote	For

Summary of ASA Position

Mr Bruce Adams was appointed as a NED in 2000 and is a member of the remuneration committee. ASA does not consider Mr Adams to be Independent due to his long tenure.

There are 7 Directors in the company this year and 2 are not considered independent by ASA.

Mr Adams has over 30 years experience as a commercial lawyer, mainly in the fields of Information Technology Law and Mergers and Acquisitions (M&A) and has considerable experience advising listed public companies.

Mr Adams does not hold any other NED positions.

Mr Adams brings considerable experience to the Board due to his long involvement as a director. He has a significant shareholding (152,304 shares) in the company and appears to be genuinely aligned with the growth of the company.

Although Mr Adams is not considered independent by ASA, he has valuable experience, significant skin in the game and sits on a Board consisting of a majority of independent Directors, so on balance ASA will support his re-election.

Item 4	Re-election of Jennifer Douglas as a Director
ASA Vote	For

Summary of ASA Position

Ms Jennifer Douglas was appointed as a non-executive Director in 2017. She is the Chair of the Remuneration Committee and a member of the Audit and Risk Committee.

Ms Douglas is an experienced executive who has worked in the technology and media industries for over 20 years. She is also a NED of Essential Energy, OptiComm Limited, the St Kilda Football club and the Peter MacCallum Cancer Foundation.

There are 2 female Directors out of the 7 in total so there is a 29% female board representation in the company, which is close to our guideline.

Ms Douglas has a total of 16,000 shares in the company and has built her share ownership at a rate which meets our guideline for “skin in the game”. ASA will support her re-election.

Item 5	Approval of LTI grant to CEO/Managing Director Andrew Hansen
ASA Vote	For

Summary of ASA Position

This resolution seeks Shareholder Approval to grant CEO/MD Mr Andrew Hansen 179,954 (119,969 rights granted at target, 59,985 additional rights at maximum) performance rights for financial year ending 30 June 2019 at market value.

Performance Rights are measured in a 3-year period before vesting with 2 equally weighed performance hurdles, Relative TSR (rTSR) and Adjusted EPS Compound Annual Growth Rate (EPSa CAGR). Adjustments for the latter have been made to exclude non-cash tax effected amortisation of acquired intangibles to normalise and exclude one-off amounts to better reflect the actual performance of the Executive.

For rTSR, no awards will vest unless the rTSR is above the 50th percentile where 100% of the LTI will vest (59,985 rights) and a maximum of 150% will vest (an additional 29,992 rights) if rTSR is above the 75th percentile among its peers. Awards will vest on a linear basis up to the maximum (total rights of 89,977 rights will vest if Mr Hansen achieves the maximum opportunity).

The same arrangements are made with EPSa CAGR where a target of at least 6% much be achieved for awards to vest where the maximum opportunity is awarded at achieving over 10% of the hurdle.

If Shareholder approval is not obtained for this resolution, the Board intends to grant Mr Andrew Hansen additional cash remuneration in lieu of the Performance Rights, subject to the same vesting conditions being achieved.

While ASA would have preferred a longer performance period, the ASA supports this resolution as the Performance Rights are valued using market value (VWAP), TSR must be positive during the performance period for rights to vest and the awards look conservative in relations to Mr Hansen’s TFR.

Item 6	Non-Executive Directors Remuneration
ASA Vote	For

Summary of ASA Position

This resolution requires shareholders to approve the increase of the NED fee pool from \$520,000 per annum to \$630,000 per annum.

This is to ensure that it reflects market remuneration and inflation for NEDs and possibly allow for an appointment of an additional Director. The fee pool remains in bottom quartile for companies with market capitalisation \$500m to \$1 bn according to Godfrey Remuneration Group 2019 All Industries KMP Remuneration Guide.

In addition, the company will be introducing Committee membership fees for NEDs in future remuneration, so ASA sees this resolution as a reasonable request.

The individuals or their associates involved in the preparation of this voting intention have no shareholdings in this company.

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