



Great result but does Gerry need to build a new board to keep the profits flowing in the changing retail world?

Company/ASX Code	Harvey Norman Holdings Ltd /HVN
AGM date	Wednesday 24 November 2021
Time and location	11am (AEDT) as a virtual meeting online at https://web.lumiagm.com/316079350 .
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll
Monitor	John Cowling assisted by Antoinette Lawrence
Pre AGM-Meeting	No

Introduction

Retail shareholders of Harvey Norman continues to trust in Gerry Harvey's 34 years of expertise within the Australian consumer market and his proven success in delivering shareholders good returns. The FY21 dividend pay-out, achieving a 75% increase in NPAT from the previous financial year as examples.

The current board is comprised of long serving directors, averaging 11.7 years tenure, and are closely associated with the chairman. ASA recognises the success of the board's contribution in adapting to the transitions of the retail landscape during the pandemic despite the concurrent issues that the board are faced with regarding governance and lack of independence.

ASA holds alternative views on how to address matters pertaining to reputation management in handling business disputes that have occurred with Harvey Norman. The twitter outburst during June 2021, as netizens campaigned for the boycott of Harvey Norman. ASA understands that a company's social reputation can have legal and financial ramifications, which calls for adjustments in Harvey Norman's code of conduct in meeting the expectations of their employees, customers, and communities.

During early September Mr Harvey paid back \$6 million in JobKeeper subsidies to the federal government which represents the amount received by company-controlled entities, but there was no disclosure for the decision to repay. Although Federal Labour MP Andrew Leigh suggests that the 'huge public pressure' incentivised Mr Harvey to take responsibility, the ASA questions the lack of transparency that has been provided by the board.

The lack of meaningful investment in HVN by institutional investors due to questions over governance, appears to have an ongoing adverse impact on the market value of the stock when compared to peers.

Board Composition

The board is comprised of 11 members with extensive experience and knowledge to bring value and growth for Harvey Norman. As mentioned during previous voting intentions, board renewal has not been a top priority for HVN and we question the value of directors staying on the board for longer than 12 years, except in exceptional circumstances. This is not to decry the evident skills and knowledge of long serving directors, it is in expectation of diminishing contributions from directors with extended tenure.

The ASA concurs with the APRA's view that boards should balance between ensuring continuity of experience and appropriate review and renewal of skills and capabilities, particularly as the retail industry evolves. Subsequently, the ASA considers that directors should limit their tenure to a maximum of 12 years to encourage new expertise and innovation within Harvey Norman's business model.

The concerns about the board's lack of independence and extended director tenure are highlighted by Chris Mentis who has been an executive director of Harvey Norman since 2007 and has held the role as the CFO for 15 years. At the 2020 AGM, finance director Chris Mentis received a protest vote of 29.5%. ASA acknowledges Mr Mentis' contribution and long tenure but with five directors (from eleven) being executives, including the Chair and CEO, this means the board cannot be truly independent from management when assessing strategy and performance. This is a significant departure from normal governance practise which ASA cannot support.

Mr. Gunderson-Briggs was appointed Chairman of the Remuneration Committee on 16 December 2015 and was appointed Chairman of the Audit & Risk Committee and Nomination Committee on 25 November 2020. It is highly unusual for an ASX 200 company that one director Chairs the four-member Audit & Risk Committee, the three-member Nominations Committee while also serving on the three-member Remuneration Committee. This limited range of opinions and input across a wide range of governance issues is a concern.

HVN commitment towards gender diversity among executive roles has progressed with women representing 40% of HVN senior executive roles. ASA acknowledges the boards efforts towards greater gender balance and female representation among their senior executives.

Risk Management

The non-financial performance conditions that apply to the Executive Directors' bonuses align the executives' incentives to managing risk in accordance with the risk management framework and risk appetite of the Company.

Specific reference is made in the Annual Report in managing financial risks including foreign exchange, interest, equity, liquidity, and capital risks.

The ASA acknowledges HVN's risk management policy and in creating long-term sustainable value for its shareholders.

On 31 August 2021, HVN announced a \$0.15 fully franked dividend with an ex-date of 15 October 2021 and a record date of 18 October 2021. Reflecting a 16.7% reduction from the previous FY20 fully franked dividend of \$0.18. Mr Harvey indicating 'this was done to preserve cash at the retailer given the highly uncertain trading environment.'

The ASA acknowledges this cautious approach.

Ordinary Business

Statements and Reports

Item 1	To receive the Company's Financial Statements, the Directors' Declaration and the Directors' Report and Independent Audit Report for the year ended 30 June 2021.
ASA Vote	No vote required

Financial Summary FY 2021

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	841.41	480.54	402.32	375.38	452.9
Share price (\$)	4.95*	3.54	3.78	3.26	3.85
Dividend (cents)	35	24	33	30	26
Simple TSR (%)	49.7	(2.76)	26	(9.0)	(11.49)
EPS (cents)	67.53	39.19	34.7	33.71	40.35
CEO total remuneration, actual (\$m)	3.863	3.32	3.03	3.13	3.41

* As of 12/10/2021

CEO actual remuneration in FY2021 was **42 times** (\$3,863,116/[\$1737.10 x 52]) the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Remuneration Report

Item 2	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

This is a very difficult remuneration report to comprehend and would be difficult for average retail shareholders to understand. Details of the Chair's and the other 3 executive directors' remuneration are contained in the Notice of Meeting.

CEO rem. Framework for FY21	Actual* \$000	% of Total	Max. Opportunity \$000	% of Total	% Achieved
Fixed Remuneration	2,055	54%	2,055	53%	100%
STI - Cash	1,093	29%	1,160	30%	94%
STI - Equity	Nil	0%	Nil	0%	na
LTI	670	17%	695	17%	96%
Total	3,818	100.0%	3,910	100%	98%

* "Take home pay" totalled \$3,310,748 due to STI and LTI received during the year related to different timing of receiving STI (\$998k relates to FY 2020) and LTI (\$213k relates to FY 2016). In addition, the CEO received \$45k in non-monetary benefits and superannuation.

The FY 2022 LTI award for the CEO (and others) will be voted on at the AGM (see below) and has a market value of \$2.055 million. This is deferred and subject to performance hurdles over the 4 years to June 2026.

This year's appraisal was focused on ensuring that the executive remuneration was fair and reasonable in respect of the financial results for 2021 and was well-aligned with performance and strategy.

The appraisal took into consideration the following factors during the COVID-19 period:

- Performance across all countries both in and out of lockdown
- Protection of the business
- Management of risks including employee and stakeholder welfare
- TSR of 66% compared to ASX 200 and 46% against Consumer Discretionary index
- Comparable peers as assessed by independent remuneration experts
- The JobKeeper subsidy was excluded from the evaluation.

An outcome of an independent review of the remuneration plan was that although the Fixed remuneration and STI for the CEO and Chair were reasonable, the LTI was underdone and could have included further long-term incentives. In addition, the STI conditions were modified to place more emphasis on financial performance (up to 80% from 50%) and stricter malus conditions.

At risk proportions of the remuneration packages are reasonable.

As expected from the results for 2021 all executive directors received the maximum STI award for financial measures (80% of STI awarded in full) and 87.5% for non-financial measures (20% target: award 17.5%).

Malus reductions of 15.47% of maximum malus (30%) were applied reducing the STI award by 4.64% for all executive directors. This resulted in STI awards of 94.2% of maximum (2020 award 96.7%).

Vesting of LTI performance rights is conditional upon achievement, in aggregate, of minimum RONA over three years of 16% (for 20% vesting) rising to full vesting (i.e., 100%) achieved at 20% RONA (Return on Net Assets).

RONA is calculated as the annual net profit (excluding property revaluations, the net impact of AASB 16 Leases and any COVID-19 support, and assistance received) divided by Net Assets (excluding non-controlling interests).

The Rem committee eliminates from the assessment of RONA any unforeseen windfall gains impacting the results and the Job Keeper receipts have been excluded from the calculations.

The outcomes for the LTI Plan are subject to achievement **over a 3-year period**, and not specifically weighted in respect of the year under review. (ASA prefers a four-year assessment period),

LTI awards included in the 2021 remuneration report relate to the three-year period 2018- 2020 and are calculated as the average of the 56.6% of the target being achieved in 2018 and 100% achieved for years 2019 and 2020.

The achievement of RONA was – FY 2018 – 17.83% (thereby vesting 56.6%); FY2019 – 22.47% (>20% thereby vesting 100%) and FY 2020 – 24.73% (vesting 100%).

RONA for FY 2021 is 30.09% and represents year 3 of the next three-year assessment period FY 2019 – 2021 awarded next year.

Level of achievement of LTI Plan is monitored by the Remuneration Committee, with assistance from Internal Audit, each year, with the vesting outcomes ultimately determined **at the end** of the three-year performance period.

In general, the Executive Directors have a target LTI opportunity of 34% of fixed remuneration.

Conclusion

Although the amounts involved appear reasonable for this size of company producing the results achieved, ASA will vote against this resolution as the STI was paid in cash whereas ASA policy requires at least 50% be awarded in Equity.

In addition, the move to 80% financial targets for financial measures and just 20% to non-financial targets is bucking the generally accepted trend among ASX 200 companies to recognise the importance on non-financial measures.

Lastly, the remuneration report layout is too difficult for the average retail shareholders to follow and understand.

Election of Directors

Item 3	Re-election of Director Michael John Harvey
ASA Vote	Against

Summary of ASA Position

ASA will vote proxies against this resolution as the director lacks independence due to board tenure exceeding 20 years and his close association with the Chairman and CEO.

Item 4	Re-election of Director Christopher Herbert Brown
ASA Vote	Against

Summary of ASA Position

ASA will vote proxies against this resolution as the director lacks independence due to board tenure exceeding 30 years and his long association with the Chairman.

Item 5	Re-election of Director John Eryn Slack-Smith
ASA Vote	Against

Summary of ASA Position

ASA will vote proxies against this resolution as the director lacks independence due to his executive position and his board tenure exceeding 20 years and his long association with the Chairman.

Special Business

Grants of Performance rights to Executive Directors

Executive	Tranche FY22 Performance Rights 000s	Market Value (At \$5.00) \$000	FY2021 Fixed Salary \$000	Performance Rights/Fixed Rem %
Gerald Harvey	145	725	718	101%
Kay Lesley Page	406	2030	2055	99%
John Ewyn Slack-Smith	121	605	1228	49%
David Matthew Ackery	121	605	1210	50%
Chris Mentis	121	605	886	68%

Grants of Performance Rights under Harvey Norman 2016 Long Term Incentive Plan Grant of Performance Rights to Gerald Harvey

Item 6	Grant of Performance Rights to Gerald Harvey
ASA Vote	For

Summary of ASA Position

The Chairman's remuneration is evolving from 75% fixed, 25% at-risk to 50%/50%. In addition, the salary is relatively modest for a "hands on" executive chairman.

Grant of Performance Rights to Kay Lesley Page

Item 7	Grant of Performance Rights to Ms Kay Lesley Page
ASA Vote	For

The CEO's remuneration is evolving from 56% fixed, 44% at risk to around 33% fixed and 67% at risk. In addition, the additional at-risk remuneration is paid in deferred equity.

Grant of Performance Rights to David Matthew Ackery and permit David Matthew Ackery to acquire shares in the Company

Item 8	Grant of Performance Rights to Mr David Matthew Ackery
ASA Vote	For

Summary of ASA Position

This executive director's remuneration is evolving from around 50% fixed, 50% at risk to around 45% fixed and 55% at risk. In addition, the additional at-risk remuneration is paid in deferred equity.

Grant of Performance Rights to John Evyn Slack-Smith

Item 9	Grant of Performance Rights to John Evyn Slack-Smith
ASA Vote	For

Summary of ASA Position

This executive director's remuneration is evolving from around 50% fixed, 50% at risk to around 45% fixed and 55% at risk. In addition, the additional at-risk remuneration is paid in deferred equity.

Grant of Performance Rights to Chris Mentis

Item 10	Grant of Performance Rights to Chris Mentis
ASA Vote	For

Summary of ASA Position

This executive director's remuneration is evolving from around 46% fixed, 54% at risk to around 40% fixed and 60% at risk. In addition, the additional at-risk remuneration is paid in deferred equity.

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