

Communications – the Pathway to Growth

Company/ASX Code	Codan Limited (CDA)
AGM time and date	11am (ACDT) Wednesday, 25 October 2023
Location	Ian McLachlan Room, Adelaide Oval, War Memorial Drive North Adelaide
Registry	Computershare
Type of meeting	Hybrid
Monitor	Stephen Howie, assisted by Malcolm Keynes and Bob Ritchie
Pre-AGM Meeting	Yes. Meeting with CEO and CFO, and a separate meeting with the Chairman.

Monitor Shareholding: Some of the individuals (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	
1	Adoption of Remuneration Report	For
2	Re-election of Director Mr Graeme Barclay	For
3	Election of Director Ms Sarah Adam-Gedge	Undecided
4	Election of Director Mt Heith Mackay-Cruise	For
5	Approval of the grant of Performance Rights to Mr Alfonzo Ianniello (STI)	For
6	Approval of the grant of Performance Rights to Mr Alfonzo Ianniello (LTI)	For

2. Summary of Issues and Voting Intentions for AGM

- Profit Result
- Composition of the Board
- Oversight of business overseas business activities
- Remuneration

3. Matters Considered

Accounts and reports

Net Profit after Tax for the year ending 30 June 2023 of \$67.7m down 33% from FY 2022, as the Company faced headwinds with the continued disruption of Minelab's African Market. Sales revenue from the Metal Detection Segment down 33% from FY22 however there has been some partial recovery with revenues up 38% in 2H FY2023 compared to first half.

Meanwhile, Communications Division has performed well with sales increasing 13.5% and segment contribution to profit increasing 35.5%.

The strategic shift to a Communications focus is evidenced by the revenue growth, with the Communications Segment now representing 60% of revenue, compared to 29% in 2018.

Fully franked dividends of 18.5 cents down 36% from prior year in line with policy to pay ~ 50% of Profit in dividends.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	67.7	100.5	90.2	64.0	45.7
UPAT (\$m)	65.5	100.5	97.3	64	45.7
Share price (\$)	8.03	6.96	18.03	7.09	3.48
Dividend (cents)	18.5	28.0	27.0	18.5	9.0
Simple TSR (%) ⁽¹⁾	18	-60	158	109	21
EPS (cents)	36.3	55.6	49.8	35.3	25.3
CEO total remuneration, actual (\$m)	1.07	1.82 ⁽²⁾	1.51	1.45	1.22

Notes

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

(2) 2022 CEO remuneration comprises \$0.72m for current CEO for part year and \$1.1m for retired former CEO for part year.

Governance and culture

The Board comprises 4 Non-Executive Directors and the CEO as an Executive Director.

With the retirement of two directors during 2023, half of the Non-Executive Directors have less than 12 months experience with the company.

In relation to Board oversight of overseas operations, we are advised that:

- There is a subsidiary Board in the United States comprising three US citizens with Military background, along with two Australian Directors.
- Codan Limited holds a full board meeting each year in the United States.
- The Chairman of Codan Limited visits overseas operations twice a year, the CEO makes regular visits during the year.
- KMP of the overseas operations visit Adelaide twice a year.

Remuneration

No STI performance awards were made during 2023, as EBIT hurdle was not met.

LTI performance rights granted in FY21 fully vested with aggregate EPS of 142 cents exceeding target of 101 cents.

The Board has conducted an extensive review of Remuneration which takes effect from 1 July 2023.

The results of this review are well documented in the Remuneration Report, and the Explanatory Notes for Notice of Annual General Meeting.

Key points arising from this review are:

- More emphasis given to “at risk” reward to the CEO.
- CEO STI reduced to 25% of fixed remuneration, LTI increased to 50% at target level, with limits at maximum increased to 50% for STI, and 75% (increasing to 100% from FY25) for LTI, giving increased focus on long term performance.
- STI comprises at least 50% equity, with the remainder in cash, or equity at the CEO’s discretion.
- Increase of the performance hurdle for EPS growth from 2%-8% to 8%-13% for LTI with 67% weighting applied to this hurdle, and the target to be met at the end of measurement period as opposed to the previous aggregate growth over measurement period.
- Introduction of a second measure for LTI on a Relative Total Shareholder Return metric with 33% weighting. Performance is assessed at the 50th percentile to 75th percentile pro-rata in comparison to a select peer group.
- LTI performance hurdles remain at 3 years compared to ASA guidelines at 4 years. It is however noted that a 2 year holding restriction applies after vesting.

Key events

Acquisition of Geoconex for \$6.5m with further earn out payments of up to \$14.4m. Geoconex has been a business partner of Zetron, and the acquisition adds to Zetron's Computer Aided Despatch capabilities.

Subsequent to year, Codan acquired Eagle for \$22m, adding further to Zetron's communications capabilities in the Emergency Services, Public Safety and Control Room markets.

Minelab launched several new metal detection products during the year.

Key Board or Senior Management changes

Mr Graeme Barclay was appointed Chairman in February following the retirement of Mr David Simmonds. Mr Barclay was previously appointed Non-Executive Director in February 2015

Lt-Gen Peter Leahy retired October 2022.

Ms Sarah Adam-Gedge appointed Non-Executive Director in February 2023.

Mr Heith Mackay-Cruise appointed Non Executive Director in March 2023.

Ms Marjolijn Woods joins the Leadership Team as Chief Human Resources Officer.

Sustainability/ESG

A very comprehensive ESG report. Areas for improvement are:

- While Codan's Scope 1 & 2 emissions are relatively low (1.45%), this metric does not yet include emissions from overseas operations.
- The Corporate Governance Statement contains a table of skill sets, with the number of directors possessing each skill noted. We would like to see this included in the Annual Report, with the skills that each Director possesses disclosed.

4. Rationale for Voting Intentions

Resolution 1: Adoption of the Remuneration Report (for)

Remuneration outcomes for with no STI award to KMP for FY23 is noted. Disclosed remuneration for KMP for FY23 is 37% lower than FY22 compared to the 33% fall in profit.

The extensive overhaul of remuneration to take effect from 1 July 2023 is regarded as positive. LTI awards for earnings per share growth (at higher targets) in future are referenced to EPS target being met at the end of the performance period, rather than in aggregate over three years. This removes the anomaly of 2 exceptional years carrying a year when profit has significantly declined.

We support the adoption of the Remuneration Report.

Resolution 2: Re-election of Director Mr Graeme Barclay (for)

Mr Barclay was appointed to the Board of Directors in February 2015, and became Chairman in February 2023. He has extensive experience in the Communications industry at Chairman and Group CEO roles.

We support Mr Barclay's Re-election

Resolution 3: Election of Director Ms Sarah Adam-Gedge (undecided)

Ms Adam-Gedge was appointed to the Board in February 2023. She has extensive experience at executive level in digital and technology business. In addition to her Non-Executive Director role at Codan, is currently Deputy Chair, Chair of the Audit and Risk Management Committee, and member of the Nomination and Remuneration Committee of Austal Limited, has recently joined the board of Bravura Solutions Ltd, and is a Director of an unlisted IT Services Provider Company, and holds Directorship or Committee roles with other unlisted organisations as outlined in the Notice of Annual General Meeting.

Ms Adam-Gedge has recently been appointed as a Non-Executive Director of another listed company, Emeco Limited.

Ms Adam-Gedge is well qualified, has requisite and relevant experience, however in view of ASA guidelines regarding Director workload, we will be seeking further information at the Annual General Meeting.

Resolution 4: Election of Director Mr Heith Mackay-Cruise (for)

Mr Mackay-Cruise was elected to the Board in March 2023. He has experience in media, education and technology sectors. Mr Mackay-Cruise is current Chairman of Straker Translations limited, a Non-Executive Director of Southern Cross Media Limited and is a Non-Executive National Director of the Australian Institute of Company Directors (AICD).

Mr Mackay-Cruise's workload (including Codan) is the equivalent of 4 Non-Executive Director roles with listed companies. His role with AICD is regarded as positive in terms of networking with the broader Director community.

We support Mr Mackay-Cruise's election.

Resolution 5: Approval of the grant of Performance Rights to Mr Alfonzo Ianniello – (STI) (for)

Changes to the Remuneration framework include an equity component for STI. Performance Objectives are set for Revenue, Profitability, Cashflow, Order Book and Sustainability & Safety. Targets are commercially sensitive, and not disclosed, however performance against targets will be disclosed retrospectively.

The CEO's STI represents 25% of fixed remuneration at target performance level with 12.5% at Threshold and 50% at Maximum. The STI is comprised at least 50% equity, with the remainder in cash or equity (at the CEO's discretion).

The number of Performance Rights issued will depend on meeting Performance Objectives, and if the CEO exercises discretion, are estimated below:

	Threshold	Target	Maximum
STI as a % of fixed remuneration	12.5%	25.0%	50.0%
	Number of Performance Rights		
Minimum (50% of STI taken as Equity)	8,317	16,635	33,270
Maximum (100% of STI taken as Equity)	16,635	33,270	66,539

The face value of STI Performance Rights ranges from \$63k at Threshold if 50% is taken as equity through to \$505k at Maximum if all is taken as equity.

Considering the rationale for changes to remuneration which are well explained in the Remuneration Report and the Explanatory Notes to the Notice of Annual General Meeting, we support the resolution.

Resolution 6: Approval of the grant of Performance Rights to Mr Alfonso Ianniello – (LTI) (for)

LTI awards are framed in the context of the extensive review of Remuneration with Target set at 50% of Fixed Remuneration and maximum capped at 75%.

Two performance hurdles are set:

- Earnings per share growth (67% weighting) with a range of Target (8% growth) through to Maximum (13% growth)
- Relative Total Shareholder Return (33% weighting) with performance assessed against a peer group with Target at the 50th percentile and Maximum at the 75th percentile.

The number of Performance Rights that will vest will depend on meeting Performance Objectives, and are estimated as follows:

	Target	Maximum
LTI as a % of fixed Remuneration	50%	75%
Performance Hurdle	Number of Performance Rights	
• Earnings per share	44,581	66,872
• Relative Total Shareholder Return	21,958	32,937
Total	66,539	99,809

Face value of these performance rights ranges from \$505k to \$757k.

We support this resolution.

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Appendix 1 Remuneration framework detail

CEO Remuneration Framework for FY24	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	\$1.00	57%	\$1.00	45%
STI – Cash ⁽¹⁾	\$0.13	7%	\$0.25	11%
STI - Equity	\$0.13	7%	\$0.25	11%
LTI	\$0.5	29%	\$0.76	33%
Total	\$1.76	100.0%	\$2.26	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.

Note (1) STI Cash can at the CEO's discretion can be taken as equity.