Australian Shareholders' Association Limited
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Is Harvey Norman still a publicly listed company who acts like a private concern?

Company/ASX Code	Harvey Norman Holdings Ltd (HVN)
AGM time and date	11 am ADST on Wednesday November 29, 2023
Location	Novotel Sydney Olympic Park
Registry	Boardroom
Type of meeting	Physical with audiocast by phone
Monitor	Allan Goldin
Pre-AGM Meeting	Requested but not held

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	To adopt the Remuneration Report	Against
3	Re-Election of Mr. Gerald Harvey as a Director	For
4	Re- Election of Mr.Chris Mentis as a Director	Against
5	Re-Election of Ms. Luisa Catanzaro as a Director	For
6	To Grant 191,000 Performance Rights to Mr. Gerald Harvey	Against
7	To Grant 535,000 Performance Rights to Ms. Kay Lesley Page	Against
8	To Grant 163,200 Performance Rights to David Matthew Ackery	Against
9	To Grant 163,200 Performance Rights John Evyn Slack-Smith	Against
10	To Grant 163,200 Performance Rights to Chris Mentis	Against
11	To Grant a security interest secure indemnity obligation	Undecided

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

- **Lack of independence of the Board and sub committees**
- **The Remuneration of a Non – Executive Director**
- **No incentives for management KMPs**

See ASA Voting guidelines and Investment Glossary for definitions.

The first question is why in this age of hybrid meetings are Shareholders who listen to the AGM live not able to ask questions, make comments or cast live votes. This is especially puzzling for a Company that spends two pages discussing its digital expertise and states "*Harvey Norman® was an early adopter of LiveChat and Messaging in Australia to address online customer inquiries*"

It is a difficult environment for major retailers. Harvey Norman (HVN), however is optimistic that November and December are going to be strong months and are preparing to back that up with plans to buy back up to 10% of their shares. But they are the first to say that the first quarter has been tough based on its preliminary unaudited accounts. Profit before tax and non-controlling interests is estimated to be 49.1% lower to $86.23 Million compared with $169.45 Million a year ago, excluding the impact of property revaluations.

This result is following on a poor 2023 compared to 2022 with revenue $9.1Billion($9.5B), NPAT $539.5Million ($811.5 million) and EBITDA $1.1Billion ($1.4Billion) all down on 2022 results. We also noticed in the cashflow statements it appears that recovery from Insurance increased from $2 million to $9 million this year, why was this? The silver lining is that the 2023 results are all well up on 2019, the world before Covid.

Harvey Norman is by no means alone in taking this sort of hit, with their closest comparable competitor JB Hi-Fi, who have similar total sales revenue, albeit increasing, showing significantly lower NPAT and EBITDA in 2023 compared to 2022.Their the first quarter results are also down but not as much.

HVN big boost and difference which makes comparing the two competitors difficult , comes when you move away from the trading result and look at HVN's extensive property portfolio, which though its revenue is also down, is now valued at more the $4 Billion.

Harvey Norman is strongly focused on their overseas expansion, with approximately 115 stores in New Zealand, Ireland/Northern Ireland, Slovenia & Croatia and Singapore/Malaysia. In the last territory there are significant expansion plans. Being in such varied locations, the individual territory results can vary quite a bit, however, overall in Australian dollar term there is significant revenue growth but also corresponding increased costs

One of the intriguing questions for a Company with $9 Billion turnover is where in the accounts are the stock required to make these sales. We presume that the $557 Million for inventories relates to the overseas company owned outlets. We understand that in Australia the inventory is owned by the individual franchises, so it is not shown in the HVN accounts.

We understand that the financial accommodation to franchisees is primarily requests from them to fund their inventory purchases. The question is what happens when a major franchisee, like Alan Stephenson's ($300Million+ sales) association with HVN ends? Did he pay HVN for any outstanding financial accommodation? Did Mr. Stephenson pay all the money owed to suppliers? Did HVN or any entity owned or associated with them pay any money that Alan Stephenson may have owed to tradespeople, suppliers, staff, short fall in superannuation, ATO etc?

Harvey Norman Holdings has a unique perspective on Corporate Governance. On the one hand, unlike virtually everyone else, they don't want to meet with ASA because that would be providing clarity or colour on an issue that is not available to the entire market. Likewise, they are the only

ASX 200 company that in the past that answers ASA questions with a release to the ASX so the market is fully informed.

Their Annual Report and Notice of meeting continually makes reference to how in various issues they comply with The Corporations ACT and ASX guidelines. Yet unquestionably the HVN board is the least independent one in the ASX 200 with 5 executive Directors, 2 actual independent Directors and, by ASA definition and most other observers, 3 non- independent Directors.

This has led to the truly ludicrous situation where Ken Gunderson–Briggs is surely the highest paid non-Chair, non-executive Director in the ASX 300. Mr Briggs last year received $641,448. Harvey Norman market capitalization is under $5 Billion which means it is a similar size to Domino Pizza and JB Hi-Fi, two other multi outlet companies, yet Mr. Gunderson–Briggs 'remuneration is more than either that of the Chairs of these two companies. His pay in relation to workload is even more difficult to understand when you consider the Chair of one of Australia's largest retailers the $21 Billion Coles earns less than 7% more than Mr. Gunderson-Briggs.

This absurd pay disparity arises because, by HVN definition ,Mr. Gunderson-Briggs, who has been on the Board for 20 years, is deemed an independent, and as there aren't many of them on this Board he is Chair of the Audit and Risk Committee and the Remuneration Committee plus the Nomination Committee. It is not like Mr. Gunderson–Briggs is aligned with shareholders, as in his 20 years he has only accumulated shares that at their highest point this year were worth $45,000 or7% of his current remuneration.

We then come to the situation of Gerald Harvey, who is HVN Executive Chair. The Company is outwardly well managed by the CEO Kay Page, whose Fixed Annual Remuneration (FAR) of 2.1 Million is in line with CEO of similar sized companies, as is her total remuneration of $3.8 Million. What one may ask is "What does an Executive Chair in these circumstances do that is different than a normal Chair of a Company?". So either Kay Page is not really in charge and therefore is over compensated, which would surprise us, or Mr. Harvey's role is really the equivalent of any normal Chair of a listed Company with the "Executive "added because of his founder status and the fact that he is often quoted in the media. However, as Chair his pay is way out of line for an operation of the size of HVN, not to mention that as an "Executive "Director he is entitled to long term bonuses even although he directly owns a 1/3 of the company. The joys of a private company that masquerades as a public one.

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	539.52	811.53	841.41	480.54	402.32
Share price ($)	3.48	3.71	5.48	3.54	3.97
Dividend (cents)	25	37	38	27	30
Simple TSR* (%)	-0.5	-25.6	65	-4.0	34
EPS (cents)	43.30	65.13	67.53	39.19	33.94
CEO total remuneration, actual ($m)	3.82	3.66	3.31	2.98	3.033

*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.

In its Sustainability report, Harvey Norman, both in Australia and overseas appears to be well aware of their responsibilities of being a good corporate citizen. The Company has established a number of committees to deal with a range of sustainability, work culture areas and has provided a few examples of where these endeavours have resulted in environmental improvement.

In addition to be a leading print and TV advertiser, Harvey Norman is well known as one of the main sponsors of Australian sporting teams and individuals. They have been a leader in supporting and helping the development of a variety of women sports as well as a strong supporter of the Paralympics.

In addition HVN has created nearly 100 scholarships at Western Sydney University, which have provided considerable support to refugee women and those from lower socio- economic backgrounds, offering them the opportunity to make life changing choices.

Rationale for Voting Intentions

Resolution 2 To adopt the Remuneration Report AGAINST

Having a Short Term Incentive (STI) that awards 30% of this bonus for non-financial conditions is a good part of the structure. Spelling out specific actions or inaction that would reduce the size of the incentive is also a very good procedure.

The fact that that all Executive Directors Bonuses are based on the group achievements in both financial and non-financial areas helps reinforce the idea of a team effort. However, it could be argued that it is unfortunate that there is no recognition for individuals meeting personal targets.

The financial component of the STI is Annual Net Profit After Tax (APAT) excluding property revaluations and the net impact of AASB leases. This seems to be a reasonable measurement. What is not reasonable is that the minimum target to achieve 50% of the award is $415 Million, which i**s below** last year's minimum of $429 Million. With overachievement bonus being reached at $518 Million although 2022 APAT was $668.79 Million.

In other words, it was thought before the commencement of the 2023 year that there was going to be underperformance on the prior year, but to make sure that the Executive Directors still got a bonus in a poor year they just lowered the entry target. So, in what the Company describes as a difficult year, the 4 Executive Directors (Gerry Harvey doesn't receive an STI) received a total of $2,327,532 as a short term incentive.

The Long-term Incentive (LTI) is RONA which means that over three years the aggregate annual net profit before tax (APBT) is divided by the 3-year aggregate Net Assets. The manner in which the RONA measurement operates, and has operated in the past, is spelled out in great detail in both the Annual Report and the Notice of Meeting. The measurement by itself is fine although ASA believes it should be over 4 years rather than 3.

It is unfortunate that there is only one long term measurement as it would be much preferable to have at least two, one of which could be Total Shareholder Return (TSR) to see how HVN performs compared to its peers.

In addition to the above shortcomings in the STI and LTI. The Annual Report names six management Key Management Personal (KMP) and gives their Fixed Annual Remuneration (FAR), but there is no mention of any incentives. The concept that the only people in a company who receives bonuses are Directors is not a method for achieving better Companywide performance or good corporate practice.

ASA's major problem with this report is that the Remuneration Committee who created it cannot in all fairness be considered independent. The Chair Mr. Ken Gunderson–Briggs has been a Director of Harvey Norman for 20 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 for36 years and votes 16.5% of HVN shares.

Resolution 3 Re-election of Mr. Gerald Harvey FOR

Mr. Gerald Harvey is one of the founders of Harvey Norman Holdings. He directly owns 1/3 of the Company's shares. ASA finds the idea of an Executive Chair role in a Company of this size and then paying this Billionaire a performance bonus a waste of shareholders' funds. However naturally if he wants to be on the Board of his Company he should be and therefore we will be voting all undirected proxies in his favour.

Resolution 4 Re-election of Mr. Chris Mentis AGAINST

It is rare to see a Company Secretary as a Director of a Company, although not recommended practices, a CFO is often a Director of a Company.

If HVN only had a couple of executive Directors and a really independent board we would probably support this nomination, however as that is not the case, we will vote our undirected proxies against his re-election.

Resolution 5 Re–election of Ms. Luisa Catanzaro FOR

Ms. Catanzaro was appointed a Non-Executive Director of Harvey Norman Holdings Limited on 25 November 2020. Ms Catanzaro has more than 30 years of professional experience in senior financial executive roles across a range of industries, including FMCG and agriculture sectors, and with ASX listed companies. Ms Catanzaro is currently a Non-Executive Director of ASX listed company, Ricegrowers Limited Ms Catanzaro is also a non – executive Director of Because Movement Foundation Limited and of the Museum of Contemporary Art Limited.

As one of the only two truly independent Directors ASA was always going to support Ms Catanzaro, our only hesitation was her failure to align with shareholders by not owning any shares, however after the end of the year she purchased 17,500 shares which hopefully is the start to her holding shares equal to one year's remuneration.

ASA will vote all undirected proxies in favour of Ms. Catanzaro's re-election.

Resolution 6 To Grant 191,000 Performance Rights to Mr. Gerald Harvey AGAINST

As we have said previously, the idea of an Executive Director for a company with a market capitalisation of $5 Billion when it has a competent CEO is not something that should be encouraged.

The concept of then awarding someone who directly controls a 1/3 of the shares a cash reward is not a sensible use of shareholder funds.

ASA will vote all of its undirected proxies against this resolution.

Resolution 7 To Grant 535,000 Performance Rights to Ms. Kay Lesley Page 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, combined with the serious governance problems with the committee and the overall board means that unfortunately we will vote all undirected proxies against this resolution.

Resolution 8 To Grant 163,200 Performance Rights to David Matthew Ackery 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 combined with the serious governance problems with the committee and the overall board means that unfortunately we will vote all undirected proxies against this resolution.

Resolution 9 To Grant 163,200 Performance Rights John Evyn Slack-Smith 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, combined with the serious governance problems with the committee and the overall board means that unfortunately we will vote all undirected proxies against this resolution.

Resolution 10 To Grant 163,200 Performance Rights to Chris Mentis 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, combined with the serious governance problems with the committee and the overall board means that unfortunately we will vote all undirected proxies against this resolution.

Resolution 11 To Grant a security Interest in favour of the Custodian Trustee UNDECIDED

This is a very interesting proposal. The Notice of Meeting has gone into considerable depth as to how this Trust would be structured and operated The fact that the third party insurance policy providing indemnity for Directors and Officers acting legitimately in good faith has increased from $257,000 to more than $2,100,000 per annum seems on the face of it outrageous.

However there are a number of areas that we don't understand. In the Notice of Meeting the $257,000 premium was for 1 November 2019 to 31 October 2020. It appears for the last 3 years the Company has been self insuring, why are they now changing? Is the risk of self insuring too big? What reason did the Insurance company give for this huge increase in premium?

At the AGM we will be asking the above questions and the answers that are provided will determine how we vote our undirected proxies.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY 2023	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.17	40.6%	2.17	38.8%
STI - Cash	1.05	19.6%	1.3	23.2%
STI - Equity		%		%
LTI	2.12	39.8%	2.12	38%
Total	5.34	100.0%	5.59	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.