

## Communications make a stronger result

<b>Company/ASX Code</b>	Codan Limited/CDA
<b>AGM time and date</b>	11.00am ACDT Wednesday, 23 October 2024
<b>Location</b>	The Courtside Room War Memorial Drive North Adelaide, SA
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid – Virtual link: <a href="https://meetnow.global/MWTF2WY">https://meetnow.global/MWTF2WY</a>
<b>Monitor</b>	Stephen Howie, assisted by Malcolm Keynes and Bob Ritchie
<b>Pre-AGM Meeting</b>	Yes. With CEO, CFO and Manager Shareholder Relations

Monitor Shareholding: Some 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 - Ms Kathryn Joy Gramp	For
3	Approval of the grant of Performance Rights to Mr. Alfonzo Ianniello - LTI	For
4	Approval of the grant of NED rights to Non-Executive Directors (salary sacrifice plan)	For
5	Remuneration of Non- Executive Directors	For

### 2. Summary of Issues and Voting Intentions for AGM

- Board Composition Size and Workload
- Audit Rotation
- LTI performance measurement period

### 3. Matters Considered

#### Accounts and reports

A pleasing result, with Revenue up 21% to \$550 million, Net Profit up 24% to \$81.3 million, Dividends per share up 25% to 22.5 cents per share.

## Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	81.3	67.7	100.5	90.2	64.0
UPAT (\$m)	81.3	65.5	100.5	97.3	64.0
Share price (\$)	12.03	8.03	6.96	18.03	7.90
Dividend (cents)	22.5	18	28	27	18.5
Simple TSR (%) <sup>(1)</sup>	53	18	-60	158	109
EPS (cents)	45	36.5	55.6	49.8	35.3
CEO total remuneration, actual (\$m)	1.49	1.07	1.82 <sup>(2)</sup>	1.51	1.45

## 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 start 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

All Non-Executive Directors have less than 12 years tenure on the Board and are regarded as Independent Directors under ASA guidelines.

There is one Director with experience in Defence/Law enforcement. ASA guidelines are boards should have more than one director with direct relevant industry experience. There is however requisite skill set in a US subsidiary with Directors from Defence background.

Codan's Board is small compared with some other companies of similar market capitalisation. We note that the proposed increase in the Director's Fee Pool (Resolution 5) provides some flexibility to accommodate additional appointments to the Board.

Workload of Directors was an issue raised last year. Codan is compliant with ASA guidelines.

ASA guidelines are that Audit firms should be changed periodically with competitive tender for audit services at 10 years. There is Audit partner rotation at 5 years as legally required (but not change of Audit Firm). Codan regularly benchmarks audit fees. Audit fees are within the bottom quartile for similar sized companies.

## Key events

Successful acquisition of Zetron UK and Wave Central during FY24.

## **Key board or senior management changes**

Mr Ben Harvey was appointed to the Role of President and Executive General Manager of Minelab on 1 October 2023.

Mr Daniel Hutchinson joins the Leadership Team as Executive General Manager – Strategy, Corporate Development and M&A

## **Sustainability/ESG**

A well-documented and comprehensive ESG report. There is extensive climate related disclosure, and while CO<sub>2</sub> emissions are up 2.6%, this is in the context of a significant increase in business activity.

Workplace Health and Safety statistics show near misses and incidents increasing by a factor of 3 compared to FY23. Codan has implemented improved reporting which places a strong emphasis on workplace safety. The apparent increase appears to be due to more comprehensive data capture of incidents that may not have been reported in prior years.

## **4. Rationale for Voting Intentions**

### **Resolution 1: Adoption of Remuneration Report (For)**

The Remuneration Report is comprehensive. Changes to the remuneration structure from FY23 were clearly signalled in the FY23 Remuneration Report, with increased emphasis on Longer term performance, and alignment of STI to aspects of company performance within the KMP's control.

Fixed remuneration for the CEO unchanged from FY23 (apart from the change to the superannuation guarantee charge rate). There was an increase to CFO's fixed remuneration of 7.5%, and Communications Executives' fixed remuneration of 3.5% to adjust to market benchmarks.

Following strong financial performance, STIs were awarded with performance generally exceeding target or maximum. Cash generation targets at Communications and Corporate level did not meet threshold due to timing of revenue transactions.

LTI performance rights fully vested during FY24 as aggregate EPS target was exceeded.

LTI performance hurdles are measured over a three year performance period, compared to ASA guidelines of 4 years. Shares granted to Codan's KMP are subject to disposal restrictions. 90% remains restricted for 2 years after vesting, with a further 10% restricted until 12 months after cessation of employment under Codan's "good leaver" policy.

Given that KMP are likely to participate in future years LTI plans, and the duration of the disposal restrictions, there is significant ongoing incentive to meet ongoing performance hurdles that extend well beyond the three year performance measurement period.

We support Resolution 1.

### **Resolution 2: Re-election of Director - Ms Kathryn Joy Gramp (For)**

Ms Gramp is a Chartered Accountant and was appointed to the Board of Codan in November 2015. Her tenure with Codan is approaching 9 years and is regarded as an Independent Director under

ASA guidelines. She has extensive experience in Executive and Director roles. She is chair of RAA Group, and Director and Chair of RAA affiliated entities. Ms Gramp's shareholding in Codan (at current share price) is approximately 3 times her FY25 directors fees.

We support the Re-election of Ms Gramp.

**Resolution 3: Approval of the grant of Performance Rights to Mr. Alfonzo Ianniello - (LTI) (For)**

Approval is sought for the issue of 134,385 performance rights to the CEO.

67,682 of those rights relate to LTI awards at maximum performance. Full vesting will occur if the following performance hurdles are met over a three year measurement period:

- Compound Annual Growth Rate (CAGR) in earnings per share of 13% per annum, giving a target EPS of 64.9 cents in FY27. A 67% weighting applies.
- Relative Total Shareholder Return at the 75<sup>th</sup> percentile compared to constituents of a peer group. A 33% weighting applies.

This element of the LTI award was clearly flagged in the 2023 Remuneration Report.

An additional 66,704 rights relate to a newly introduced Superior Performance Incentive (SPI). Rights issued will vest if CAGR in Earnings per share of between 14% and 21% per annum is achieved. The face value of these rights is \$1,000,000. If maximum performance level is achieved, EPS will have grown by 77% to 79.7 cents per share.

We support Resolution 3.

**Resolution 4: Approval of the grant of NED rights to Non-Executive Directors (salary sacrifice plan) (For)**

Resolution 4 (if approved) will allow NEDs to sacrifice Board fees in favour of rights to acquire shares.

The plan essentially converts current income that Directors would receive into a deferred benefit, being a shareholding which is subject to disposal restrictions which are lifted at the earlier of the Director's retirement, an 'Event' such as a takeover, or 15 years.

We view this as:

- An expression of confidence by the Board in the capability of the CEO, KMP and Codan's employees to execute Codan's Strategy for the benefit of shareholders over the long term and,
- A strengthening of the alignment of Directors interests with those of long-term shareholders.

ASA guidelines are a preference for shares to be purchased on market, rather than new shares being issued, however the plan to issue new shares does not appear to have any dilutory effect on Operating Cashflow per share after taking into account the number of new shares to be issued and the cash saving of Directors fees.

If the plan is not approved, Codan may exercise discretion and proceed with the grant of NED rights on terms that require shares to be purchased on market.

We support Resolution 4.

#### **Resolution 5: Remuneration of Non- Executive Directors (For)**

We support the increase of the aggregate amount of Directors remuneration to \$1,200,000. The current amount of \$850,000 was set in 2010.

The increase is in line with CPI movements over the intervening years.

Noting that the current fee pool has not been fully utilised, there is limited capacity under the current limit to absorb future increases in remuneration or allow for any additional Board appointments.

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## Appendix 1

### Remuneration framework detail for FY25

CEO rem. Framework for FY25	Target* \$m	% of Total	Max. Opportunity \$m	% of Total	Superior Performance \$m	% of Total
Fixed Remuneration	1.015	50.0%	1.015	40.0%	1.015	28.7%
STI - Cash	0.125	6.2%	0.253	10.0%	.253	7.2%
STI - Equity	0.125	6.2%	0.253	10.0%	.253	7.2%
LTI	.761	37.5%	1.015	40.0%	1.015	28.7%
Superior Performance	Nil		Nil		1.000	28.3%
Total	2.029	100.0%	2.537		3.537	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.