New Zealand Shareholders Association Inc.

NZSA®

Many Investors, One Voice

28 October 2022

Harmoney Corp Limited (HMY)

The company will hold its Annual Shareholders Meeting at **3.00pm Wednesday 16 November 2022.**

It will be a virtual meeting. You can join the meeting online here.

Company Overview

The company was founded in July 2013 by Neil Roberts, who remains a Director and holds 18% of the shares. As of today, Heartland Group Holdings is the fourth largest shareholder with 8.4%. It listed on the ASX with a secondary listing on NZX in November 2020, although it chose to de-list from the NZX in September 2022. It has a loan book of $685 million.

During the year, David Flacks retired from the Board and Monique Cairns and John Quirk were appointed.

Current Strategy

The strategy is to create financial products that are friendly, fair, and simple to use to help people achieve their goals.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	A	See below.
Director share ownership	G	Directors are required to own shares.
Executive Remuneration	R	See below.
Golden parachutes/handshakes	G	See below.
Director Independence	G	A majority of Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below. All Directors have served less than 9 years.
ASM Format	R	Virtual only. See below.
Independent Advice for the Board	A	See below.

Directors Fees: Somewhat unusually for a listed company, the Director Fee Pool is not disclosed (although total amounts paid to Directors are shown). It is also not disclosed if special exertion payments are made.

Discussions with HMY have indicated that the fee pool is the same as the actual fees paid to Directors, as disclosed in the Annual Report.

We note that Neil Roberts, the founder of the business and a 19.6% shareholder, is an Executive Director, and therefore does not receive fees for his role as a Director.

Executive Remuneration: There is no disclosure of the CEO's remuneration in the Annual Report which is somewhat unusual for a listed company. Last year, NZSA commented on the limited disclosures of executive remuneration within the product disclosure statement, stating an expectation that these (and more) should be included within future annual reports.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Golden parachutes/handshakes: There is no disclosure in the Annual Report however we note the following statements in the product disclosure statement: "*The term of David's employment is ongoing. Either party may terminate the employment agreement by giving six months' notice. Harmoney Services Limited may terminate David's employment for serious misconduct and in such circumstances is not required to provide any notice or make any payment in lieu of notice.*"

We would expect similar disclosure in the annual report in future.

Board Composition: The Annual Report does not include a skills matrix that attributes skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

While it is difficult to assess the skills of directors in the absence of any meaningful disclosure, directors appear to have appropriate functional experience and social, thought and opinion diversity relevant to Harmoney.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Harmoney directors have been appointed between 2014-2022.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

In the current climate we expect both physical and virtual meetings to be held.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities.

We note the Board Charter details the relationship between the Company Secretary and the Board and that Directors can seek independent external advice. There is no disclosure as to the extent to which other internal assurance staff have unfettered access to the Board. The Corporate Governance Statement notes that the company does not have an internal audit function.

We also look for evidence that Boards are across their risk management responsibilities. We note the Annual Report *"Harmoney plans to revise its enterprise-wide risk framework and focus on 'risk to people' as a mechanism for better analysing not just ESG risk but risk as a whole. The redesign of the framework will accommodate improved visibility of risks and opportunities in ESG."*

Currently, the company offers good disclosure of financial risks only. Given the nature of Harmoney's business, many of the financial risks disclosed are the same as core operational risks. There is limited disclosure of strategic risks and mitigations.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	See below.
Audit rotation	A	See below.

Audit Independence: We note non-audit work comprised 11% of the fees paid to PwC, within NZSA guidelines. This is a significant reduction on 51% last year (excluding IPO costs).

Audit Rotation: Not disclosed if the Lead Audit Partner is rotated at 5 years nor whether the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit

Partner and Audit Firm to improve transparency for investors. We note the Audit Firm was changed to PwC Australia prior on listing, with this being their second audit.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations were made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	No dividend was paid.
Capital Raise process	n/a	*n/a if no capital raised*
Takeover or Scheme	n/a	*n/a if no takeover*

Harmoney's share price fell from $2.00 to $0.74 (as of 18th October 2022) over the last 12 months – a 63% decline. This compares unfavourably with the NZX 50 which declined by 17% in the same period. The capitalisation of HMY is $75m placing it 92nd out of 130 companies on the NZX by size and makes it a mid-sized company.

Metric	2020	2021	2022	Change
Revenue	$37.5m	$39.1m	$77.7m	99%
Marketing Expense	$15.1m	$16.5m	$22.1m	34%
NPAT	-$15.4m	-$27.0m	-$20.2m	n/a
Cash NPAT[2]			$0.2m	n/a
EPS[1]	-$0.206	-$0.29	-$0.20	n/a
PE Ratio	n/a	n/a	n/a	
Current Ratio	2.35	1.19	1.06	-11%
Debt Equity	5.24	4.14	9.74	135%
Operating CF	$6.2m	-$1.6m	$5.4m	n/a
NTA Per Share[1]	$0.39	$0.77	$0.55	-28%
Dividend Per Share[1]	n/a	n/a	n/a	

[1] *per share figures based off actual shares at balance date (not weighted average)*
2 based off 'statutory' reporting

Harmoney (HMY) substantially increased its *revenues* by 99% to $77.7m for the year to June 2022. Unfortunately, total expenses increased by 43% to $97.9m leading to a reduced net loss after tax (*NLAT*) of $20.2m.

NZSA notes two significant discussion points in relation to HMY's accounts. The company's financial statements are relatively complex, a situation caused both by growth and changes in their business model.

Impairment provision

- In discussion with NZSA, HMY noted this loss is impacted by the Impairment Expense of $27.3m (up from $13m in FY21 – an increase of 109%). Of this $27.3m, only $11.4m ($4.9m) is due to actual impairment losses incurred – the remaining $16.0m ($8.3m) is due to movement in the expected loss provision, which is calculated according to GAAP requirements. As HMY grows its loan book, the provision therefore continues to increase, outpacing any 'write-back' of fully-recovered loans that can be removed from the provision.

  HMY's loan book more than doubled compared with FY21.

- The company has signalled it expects to keep recording statutory losses for some time as it maintains its growth rate. HMY also discloses a "Cash NPAT" figure that it prefers to use in understanding underlying performance.
- NZSA understands the requirement to understand underlying performance, but is somewhat cautious about this measure as it also adjusts for depreciation and share-based payments – both of which are ongoing underlying expenses.
- NZSA understand the company's logic in considering the 'impairment provision'. However, if HMY makes this assertion, we would expect greater disclosure to understand the relationship of actual loans written off compared with the original level of impairment provision.

Statutory vs pro-forma

- The move from peer-to-peer to 'warehouse'-funded loans has also had an influence on HMY's reporting. In FY22, 'warehouse' funded loans account for 94% of the company's loan book, representing a significant change in business model.
- HMY previously utilised pro forma accounts for shareholders to better understand underlying performance, with a move now towards 'statutory' reporting as it nears completion of this transition.
- NZSA noted this in last year's review of HMY. We are pleased the company has signalled that FY23 figures will be based on 'statutory' reporting (not 'pro-forma').

As can be expected with such a large rise in revenues, interest expenses were also up substantially, by 101%. We note in our metric table above, that marketing expenses increased to $22.1m. HMY are in a growth phase and as a result shareholders can expect higher-than-normal marketing expenses, and losses to continue while growth is being pursued.

Note 16 in the Annual Report relating to finance receivables does not differentiate between current and non-current, however digging further Note 20 in the AR states that: *"Receivables funding relates to borrowings specific to the Warehouse Trusts (note 25) and are secured by their assets. The maturity profile of the receivables funding borrowings is aligned with the receivables held in the relevant Warehouse Trusts, and therefore considered current".*

Thus, for the purposes of this report we have labelled both receivables funding and borrowings as current.

The *current ratio* is 1.06 and the *debt equity* ratio is 9.74. A debt equity ratio of 9.74 is high but lending firms by the nature of their balance sheets, have high debt-equity ratios.

NTA per share fell by 28% to $0.55 and HMY trade at a 34% premium to their NTA. This premium is low when juxtaposed with other listed companies.

On the 23rd September Harmony announced they would be delisting from the NZX and consolidating their listing on the ASX.

In a 1st quarter earnings update provided to market on the 18th October HMY reaffirmed their FY23 outlook, including growth in statutory Cash NPAT profitability.

Resolutions

1. To elect Monique Cairns as an Independent Director.

Monique Cairns was appointed to the Board 1 August 2022 and is therefore required to offer herself for election. She is currently the Deputy Chair of New Zealand Home Loans ("NZHL"), and the Chair of NZHL's People and Culture Committee. She is also a Director of DEC International, Unitec Institute of NZ, Manukau Institute of Technology, and a Trustee of the NZ Portrait Gallery. Monique owns Caribou, a consulting provider in New Zealand, providing business strategy, brand marketing and communication advice to clients from diverse industry sectors, including Fintech and personal lending. Prior to her governance roles, Monique was the Chief Marketing Officer at GE Capital New Zealand, and the Head of Retail Sales Development and Customer Experience at the Bank of New Zealand.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect John Quirk as an Independent Director.

John Quirk was appointed to the Board 1 August 2022 and is therefore required to offer himself for election. Currently, he is Chair of Portainer.io, Cumulo9, a Director of Aeroqual, and has recently been appointed to the New Zealand Government's 'Strong Public Media' Establishment Board. Previous roles have included Chair of Kordia Group, Clearpoint Group, SMX Limited, FrameCAD Group, merlot.aero, WhereScape Software, Farm-IQ Systems and Axon Computers.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. **That the Board is authorised to fix the auditor's remuneration for the coming year.**

   This is an administrative resolution.

We will vote undirected proxies IN FAVOUR of this resolution.

Proxies

You can vote online or appoint a proxy at https://www.linkmarketservices.com.au/

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **3.00pm Monday 14 November 2022.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA