



A Transformational Year for Codan

Company/ASX Code	Codan Limited / CDA
AGM date	26 October 2022
Time and location	11.00 am Technology Park, 2 Second Avenue, Mawson Lakes SA 5095
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Stephen Howie assisted by Brad Martin and Malcolm Keynes
Pre AGM Meeting?	Yes, with CEO - Alfonzo Ianniello, Company Secretary & CFO - Michael Barton, and Investor Manager - Kayi Li

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues

1. Board Composition & Diversity

The Chairman and one other Director (Mr Peter Leahy) have had long tenure, and therefore fall outside ASA independence guidelines, leaving a minority of Independent Directors.

Mr Leahy has recently announced his retirement, which presents an opportunity for Codan to address the issue of board independence.

2. Remuneration

Remuneration falls within benchmark ranges for comparable sized companies. We have discussed at the pre-AGM meeting several observations in relation to the grant of Performance rights:

- There is only one performance criterion (EPS growth), and whether there may be some benefit from a more balanced approach that incorporates other longer term corporate performance objectives.
- Threshold and target ranges for EPS Growth have been revised downwards in recent years; particularly for COVID. We asked whether threshold and upper range parameters will be reviewed and increased in coming years.

Codan's response was, that EPS growth was a measurable, controllable, objective measure. It aligns with shareholder interests, and the threshold and target range are reviewed regularly.

3. Capital Management

- With a large balance of franking credits, and undrawn credit facilities available could there be consideration of a share buyback or special dividend?
 - Not discussed in great detail at the pre AGM meeting, however it is noted that any substantial reduction in equity through a buy back or special dividend has the effect of increasing the proportion of shareholders funds represented by intangible assets.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Ms Kathryn Joy Gramp as a Director	For
3	Approval of the grant of pro-rata Performance Rights to Mr Alfonzo Ianniello for FY22	For
4	Approval of the grant of Performance Rights to Mr Alfonzo Ianniello for FY23	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

2022 has been a transformational year for Codan with the inclusion of DTC and Zetron results. Both subsidiaries have been successfully integrated and have exceed EBITDA targets. As a result, revenue for the Communications division is up 150% over FY21.

Detection division revenue however is down 20%, driven in part by loss of market access to Russia and Sudan.

- Revenue up 150% to \$506.1m
- Net Profit after Tax and EPS up 11% to \$100.5m and 55.6c per share respectively
- Total dividend payments during FY22 up 37% to \$53.3m

Debtor days have increased compared to FY21. This has been driven by significant sales volume growth to government agencies arising from the DTC and Zetron acquisitions, with typical payment terms of 45-60 days.

Inventory levels have increased compared to FY21. This arises from a conscious decision to boost inventory to mitigate supply chain interruptions, and a change of freight arrangements from air to sea. Whilst this gives rise to significant freight savings, the inventory remains on Codan's books for a longer period.

Total shareholder returns for the 12 months have been disappointing, with the substantial fall in Codan's share price. Codan is currently trading at a yield of 5%, and a P/E ratio of 10. The significant fall in Codan's share price is from a very high peak. The spike and fall of Codan's share price in recent years has coincided with its inclusion and subsequent exclusion from the ASX200 index.

Governance and culture

Codan's Sustainability report is an excellent report, and demonstrates Codan's commitment to address Environment, Social and Governance issues.

Some key issues are:

- Ongoing commitment to invest in innovation, with increased R&D up 50% to \$46m.
- Actively protecting the Company's Intellectual Property through market-place analysis, prosecution of patent infringement, and cyber security measures.
- Ongoing commitment to staff development and workplace health and safety.
- Codan has established ABAC Internal Audit, and Sanctions Compliance Programs.
- Pleasing progress on Environmental issues, with:
 - Reduction of energy consumption at Head Office of 35% through further solar panel installation.
 - Scope 1 & 2 emissions increased in total by 77%, due to inclusion of DTC and Zetron, however intensity per FTE has reduced marginally.
- Work force continues to be male dominated with a slight decrease in female participation from FY21. Codan has a high proportion of staff with an engineering background, and there is lower female participation in this area across the broader population. Codan is committed to investing in education and promotion of STEM career opportunities across all minorities.

Key events

Successful integration of the DTC and Zetron businesses that were acquired during May and April 2021.

Acquisition of Broadcast Wireless Systems in December 2021, for a net cost of \$8.5 inclusive of \$4.8m contingent consideration if gross margin targets are achieved over a three year period.

Key Board or Senior Management changes

Former CEO Mr Donald McGurk retired from Codan on 28 February 2022.

Mr A. Ianniello was appointed CEO on 4 January 2022. Mr Ianniello has extensive experience in the packaging, defence, and automotive industries.

Independent Director Ms K Gramp is required to retire in accordance with clause 9.3 of the Company's constitution and has offered herself for re-election.

5 Year Summary of Financial Performance

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	100.5	90.2	64.0	45.7	39.8
UPAT (\$m)	100.5	97.3	64.0	45.7	29.8
Share price (\$)	8.67	18.03	7.09	3.48	29.8
Dividend (cents)	28	27	18.5	9	8.5
Simple TSR (%)	-51	158	109	21	33
EPS (cents)	55.6	49.8	35.3	25.3	22.1
CEO total remuneration, actual (\$m)	1.82	1.51	1.45	1.22	1.15

CEO remuneration of \$1.8m is **20 times** national average earnings.

Adoption of Remuneration Report

Codan Remuneration has been compared against the Godfrey Remuneration Group's All Industries KMP Remuneration Guide for 2022

At the beginning of FY22, Codan had a market cap of \$3.2b, and at end of FY2022, market cap was \$1.2b.

Actual Remuneration has been compared to P50 benchmark data for Industrial and Service companies with market capitalisation of \$1.5b-\$3.5b and \$1.0b-\$2.0b and appear reasonable.

Remuneration FY2022	Market Cap		Average	Codan Actual
	\$1.5b-\$3.5b	\$1.0b-\$2.0b		
Chair	\$234,000	\$210,000	\$222,000	\$208,938
NEDs (actual amounts averaged)	\$135,000	\$125,000	\$130,000	\$107,630
CEO	\$2,453,000	\$1,844,000	\$2,148,500	\$1,818,439
CFO	\$1,012,000	\$750,000	\$881,000	\$894,374
EGMs (actual amounts averaged)	\$1,133,000	\$907,000	\$1,020,000	\$1,057,337

We intend to vote for the adoption of the remuneration report. See comments above

Re-election of Ms Kathryn Joy Gramp as a Director

Ms Gramp was appointed as an Independent Director in November 2015, and is Chair of the Board Audit, Risk and Compliance Committee. She has held senior corporate executive roles and with responsibilities in areas including business planning, capital and debt raisings, acquisitions, capital investment, corporate governance, risk management, financial management, accounting & tax.

Ms Gramp was a director of Uniti Group Limited, and is currently a Director of QANTM IP Limited, and a Council member of Flinders University, and chair of its Audit & Risk Committee. She holds a BA Accounting, is a Chartered Accountant and is a fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australian and New Zealand, and a member of Chief Executive Women.

We intend to vote in favour of the re-election of Ms Gramp.

Approval of the grant of pro-rata Performance Rights to Mr Alfonzo Ianniello for FY22

Mr Ianniello was appointed CEO in January 2022. His remuneration package for FY22 comprises annual fixed remuneration of \$1,000,000 (inclusive of superannuation), a short-term incentive and long-term incentive in the form of incentive rights.

The number of performance rights is calculated as:

$$0.3 \times \text{Fixed Pay} \times \text{pro-rata rate} \\ \$9.1993$$

The pro-rata rate is 0.5, reflecting six months tenure in the role.

\$9.1993 is the volume weighted average of market price at which Codan's shares traded for the 5 days following Mr Ianniello's appointment.

Subject to shareholder approval, 16,305 performance rights will be issued. We intend to vote open proxies in favour of the proposal.

Vesting will occur subject to achievement of eps performance hurdles:

- All of the performance rights will vest in 2024 if aggregate eps is equal to or exceeds the range eps set out in the table below.
- If the Company achieves aggregate eps greater than threshold, and less than range eps, pro-rata vesting occurs.
- If the company achieves less than or equal to threshold eps, no vesting occurs.

Year ended	Threshold eps	Range eps
30-Jun-21 (Base eps)	38.15	38.15
30-Jun-21	38.91	41.20
30-Jun-21	39.69	44.49
30-Jun-21	40.48	48.05
Aggregate - 3 Years to 30 June 2024	119.08	133.74

Approval of the grant of Performance Rights to Mr Alfonzo Ianniello for FY23

Mr Ianniello's remuneration package for FY23 comprises annual fixed remuneration of \$1,004,863 (inclusive of superannuation), a short-term incentive and long-term incentive in the form of incentive rights.

The number of performance rights is calculated as:

$$0.3 \times \frac{\text{Fixed Pay}}{\$7.4042}$$

\$7.4042 is the volume weighted average of market price at which Codan's shares traded for the 5 days following the release of the Company's FY22 results.

Subject to shareholder approval, 40,714 performance rights will be issued. We intend to vote open proxies in favour of the proposal.

Vesting will occur subject to achievement of eps performance hurdles:

- All of the performance rights will vest in 2025 if aggregate eps is equal to or exceeds the range eps set out in the table below.
- If the Company achieves aggregate eps greater than threshold, and less than range eps, pro-rata vesting occurs.
- If the company achieves less than or equal to threshold eps, no vesting occurs.

Year ended	Threshold eps	Range eps
30-Jun-22 (Base eps)	48.24	48.24
30-Jun-23	49.21	52.10
30-Jun-24	50.19	56.27
30-Jun-25	51.20	60.77
Aggregate - 3 Years to 30 June 2025	150.60	169.15

Base eps determined by the board based on average NPAT of \$87.3m (average of 3 prior years profit).

Threshold eps growth rate 2%

Range eps growth rate 8%

Appendix 1

Remuneration framework detail

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.0	62%	1.0	55%
STI – Cash	0.3	19%	0.3	16.7%
LTI	0.3*	19%	0.5*	29.3%
Total	1.6	100.0%	1.8	100%

- The LTI is based on a 50% maximum of fixed pay, however the 2022 resolution is based on 30% of 6 months employment with a value of \$30,000 as disclosed in the Annual Report.