Australian Shareholders' Association

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Opportunistic growth

Company/ASX Code	Credit Corp Group Ltd/CCP
AGM date	Monday 4 November 2019
Time and location	11 AM Boardroom, Grosvenor Place, Level 12, 225 George Street, Sydney
Registry	Boardroom
Webcast/teleconference	Yes
Poll or show of hands	Poll
Monitor	Sue Erbag and Patricia Beal
Pre AGM Meeting?	Meeting with Don McLay Chair and Michael Eadie (CFO)

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

<u>Governance and Culture</u>

This is the second year ASA is reporting on CCP and whilst the Chair and CFO overall are quite open and communicative about the operations of their business, as per last year they are still apprehensive to discuss the details of key management personnel (KMP), citing a need to guard their strategies for motivating KMP. When we inquired about their thoughts on providing a non statutory actual remuneration for the CEO, they still expressed reluctance to do so. The Chair was once a member of the ASA and has a good understanding of our objectives. We will continue to stress the importance and value of full transparency on KMP pay, which we believe is in the best interests of shareholders and Directors. Whilst we acknowledge CCP has put positive measures in place for areas of its remuneration structure, it has been elevated higher up the ranking of the ASX and still has no plans to more closely align itself with its new peers and is still falling short of ASA recommendations.

<u>Financial performance</u>

CCP is a debt purchasing and lending company, with operations across Australia, New Zealand and the U.S. For the 2019 financial year (FY19) CCP achieved revenue of $324m (up 8.3%), statutory net profit after tax of $70.28m (up 39%), earnings per share of 141.90 (up 5%), and dividends per share of 72 cents (up 7.5%). Total shareholder return was 45.35%.

CCPs increase in revenues was driven mostly by its growth of Australia and NZ (ANZ) consumer lending and US debt purchasing. Lending contributes to 36% of profits equating to $25m and growing strongly (group net profit $70.3m). Revenues generated from debt buying were ANZ $189m (2018 $195.7m) and US $41m ($23.9m). CCP entered the US market 6 years ago and achieved its first profit there of $5.5m in 2019. It entered the market at a time of US regulatory change, which opened the US market further to smaller lenders. CCP has been able to take advantage of its balance sheet strength and closure of some US debt purchasing competitors and sees strong earnings growth in its US business over the next few years.

In 2019, as expected the Royal Commission into Banking resulted in some banks reducing the size of their personal loan books and benefitted CCP as they picked up the customers which the Banks turned away. Return on capital (ROC) will continue to be targeted 16%-18% for both the US and ANZ.

Overall CCP had strong lending growth for FY19, consumer lending of $212m, up 16% ($183m), its group lending target is $230m over the next few years.

Car lending still makes up a smaller part of CCP's business but is desirable for CCP because of the longer termed revenue it generates in comparison to personal lending which is paid off over the shorter term.

Key Events

During 2019, CCP raised capital of $240m via an issue of shares ($15m through a SPP capped raising for retail investors). ASA favours the pro-rata accelerated institutional tradeable retail renounceable entitlement offer (PAITREO) method for capital raising; this was brought to CCPs attention during the Pre AGM meeting. CCPs response was they were operating in a tight timeline regards the share issue and a greater allocation of shares to retail shareholders would have been too time consuming to implement. CCP expressed that their tight timeline was due to one of their competitors (Pioneer) experiencing some negative media attention during the time CCP was to launch its share issue. CCP were thus afraid Pioneers problems would reflect poorly on them and affect their share issue uptake.

CCP also announced the acquisition of New Zealand's Baycorp shortly after their 2019 annual report was released. The purchase of Baycorp in NZ increases the expectations of PDL (Purchase Debt Ledger) investment between the range of $300-$320 million. CCP has subsequently lifted its 2020 profit guidance to between $81m to $83m, up from $75m to $77m. CCP has indicated it is open to further acquisitions, with debt headroom of $165 million after the acquisition.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	70.285	64.3	55.2	45.9	38.4
UPAT ($m)	70.285	64.3	55.2	45.9	38.4
Share price ($)	26.52	18.07	17.71	12.01	12.17
Dividend (cents)	72	67	58	50	44
TSR (%)	45.3	5.8	48	2.8	44.9
EPS (cents)	141.9	135.1	116.8	98.4	83.0
# deferred shares vested to CEO	148,342 (Nov-18)	146,266 (Nov-17)	64,102 (Sep-16)	66,412 (Sep-15)	63,942 (Sep-14)
CEO total remuneration, actual ($m)	4.3*	4.3	2.5	2.3	2.2

*CCP does not supply the actual remuneration however the CFO of CCP, Michael Eadie has filled in the above table showing actual take home pay. For 2019 the shares vested during the year were worth appx '$2.83m' being 146265 shares vesting in the month of November at a value of $19.37. Fixed Annual Remuneration of $679,469, Cash STI of $700,000 and other cash of $20,223.(The earlier reference a higher amount used current value on the day rather on day of vesting).

For 2019, the CEO's total actual remuneration was 38 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Election of Trudy Vonhoff**
ASA Vote	**For**

Summary of ASA Position

Trudy Vonhoff was appointed a non-executive director (NED) of CCP after the 2018 AGM and during the 2019 financial year (FY19). Ms Vonhoff is an experienced NED and her past Board roles include AMP Bank Limited, Cabcharge Australia (ASX: A2B) and Tennis NSW. Her current Board roles include Ruralco Holdings (ASX: RHL) and Cuscal Limited.

Past executive roles include General Manager, Operations and General Manager of Commercial and Agribusiness Banking of Westpac (ASX: WBC) and Chief Financial Officer of AMP Bank Limited., Ms Vonhoff is also currently Chair of the Nominations and Remuneration Committee and a member of the Audit and Risk Committee for Ruralco; Chair of the Audit Committee and member of the Risk Committee for Cuscal; and is the past Audit and Risk Committees' Chair of AMP Bank.

Ms Vonhoff has a Bachelor of Business (Hons) from the Queensland University of Technology, a Master of Business Administration from the University of Technology, Sydney and undertook Executive Development courses at Harvard Business School. She is a Graduate of the Australian Institute of Company Directors

Item 2	**Election of John Nesbitt**
ASA Vote	**For**

Summary of ASA Position

John Nesbitt was appointed a NED of CCP after the 2018 AGM and during FY2019. Mr Nesbitt's current Board roles include Non-Executive Chair of AMP Capital Holdings Limited and a NED of Members Equity Bank Limited (ME Bank), General Reinsurance Australia Group and Evolve Housing Limited (a Not For Profit in the Social and Affordable Housing sector).

Mr Nesbitt's past roles include Global Chief Financial Officer of Bovis Lend Lease and Asia Pacific Regional Chief Financial Officer of Lend Lease Corporation Limited (ASX: LLC). In addition, Mr Nesbitt was the Group Chief Financial Officer of both Perpetual Limited (ASX: PPT) and Suncorp Group Limited (ASX: SUN). His final Executive appointment was as the Chief Executive Officer of the Banking and Wealth Division of Suncorp Group.

Mr Nesbitt is currently Chair of the Board Audit Committee of General Reinsurance Australia Group, Chair of the Audit and Governance Committee and member of the Risk and Compliance Committee of ME Bank and Chair of the Finance, Risk and Audit Committee of Evolve Housing Limited. Mr Nesbitt is a Fellow of Chartered Accountants Australia and New Zealand and a graduate member of the Australian Institute of Company Directors.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.70	34%	0.72	30%
STI - Cash	0.35	17	0.70	29%
LTI – Options	1.00*	49%	1.00*	41%
Total	2.00	100%	2.42	100%

We sent the above table to the CFO and he will provide more accurate information in due course.
*To be confirmed

Whilst the Annual Report has a remuneration table showing the remuneration paid to each of the key management personnel (KMP) during the year and the breakdown of those payments, it is a statutory remuneration table and doesn't show the take home pay of the KMPs. The remuneration report is detailed and clearly laid out, however it still lacks important information. The STI has performance hurdles but it is paid out solely in cash, ASA advocates an STI split between cash and shares.

The statutory remuneration report is generally clearly expressed. The CEOs remuneration comprises of $700,000 fixed salary cash, benchmarked against the average salary of CEOs in the same industry of similar sized companies. The STI is paid out in cash annually and the STI target is split between the group achieving its target NPAT and is subject to a minimum return on equity (ROE) of 15 per cent being achieved. The maximum STI payable is 100% of the salary and minimum is 50% of the salary. There are also individual objectives/Key Performance Indicators (KPIs), including strategic KPIs aligned to milestones in the three-year Strategic Plan). The KPIs are split between targeted NPAT, new loans purchasing targets being met, maintaining the quality of the existing loans portfolio, US and Australian/NZ operational performance and other strategic expansion opportunities. Details of the exact targets for KPIs and the results achieved are not given.

The LTI it is based over a 3-year performance cycle and the performance rights are allocated and converted into deferred vesting shares at the end of the first 3 years and then continue to be paid out during the following 2 years.

The number of shares issued are calculated based on fair value therefore there is no transparency. The LTI hurdles are split 50% between a target CAGR of NPAT and 50% TSR relative to the ASX 200 (excluding energy and metals shares). The NPAT CAGR hurdle has been lowered to 8% -11% for 2019 (2018, 9% - 13%). There are clawback clauses in place for underperformance.

We are happy with the STI including performance targets and the LTI being paid out over 5 years. However, its remuneration plan still falls short of ASA recommendations. Our primary areas of concern are

- The remuneration structure is too short term focussed with short term incentives (100% cash) and LTIs performance period being only three years. We believe that short term incentives should be half in cash in year one and half in equity deferred by 1 year, and that the period for long term incentives should be at least four, preferably five years.
- We are opposed to how the number of shares issued as part of the long-term equity awards are calculated based on fair value, not face value. The use of fair value means the company is not clearly communicating the true value of these awards. As this company’s CEO, unlike virtually everyone else in the ASX 200, does not sit on the board, there is no requirement to vote on his bonus. If we did have to the opportunity to vote on the grant of equity to the CEO, we would be voting our open proxies against.

One of the individuals involved in the preparation of this voting intention does have shareholdings in this company.