



Will Harvey Norman avert a second strike?

Company/ASX Code	Harvey Norman Holdings Ltd/HVN
AGM date	Wednesday 27 November 2019
Time and location	Tattersalls Club, 181 Elizabeth Street, Sydney
Registry	Boardroom Pty Ltd
Webcast	No
Poll or show of hands	Poll
Monitor	Pamela Murray-Jones assisted by David Jackson
Pre AGM Meeting?	No

The Harvey Norman board has not responded to ASA's questions or a request for a meeting this year despite a number of attempts to contact them. Consequently, the following commentary is provided without the benefit of a discussion with the board.

Last year Harvey Norman notified the market of ASA's pre-AGM questions and the company's answers. This year they have been much coyer despite appearing to have had a very good year. The share price has risen, a higher dividend has been paid and total shareholder return is up. Surely shareholders of this iconic retailer whom Gerry Harvey has been exhorting for many years to sell their houses, their cars "and everything" to buy more shares should be pleased?

But maybe not.

Last year, Harvey Norman received a first strike on the remuneration report. This year, the October 2019 capital raising fell short despite being offered at discount of up to 40% on the share price. This seems to suggest a lack of enthusiasm for the company's plans and the decisions of its board. And herein lie the questions we would like to have discussed with the board had we had the opportunity.

Since poorly governed companies have a history of looking good until they serve up a nasty surprise, our main questions concerned governance and culture.

Despite its customers being predominantly women, Harvey Norman has only one woman director on the board, CEO and Mr Harvey's wife, Kay Page. The rest of the board is comprised of Harvey's son, Michael; Christopher Brown representing the Norman interest; Harvey Norman executives, and three independent directors, two of whom have been on the board since 2003 and 2005 respectively, so long they do not meet the standards of independence. The other is a new director, Maurice Craven, up for election.

Independence is sorely needed on the board and since Mr Harvey is not known for his tolerance of people who challenge him, ASA would liked to have explored Mr Craven's independence of mind and the skill sets he brings to the board. We were not given an opportunity at a pre-AGM meeting

and since it is not customary at Harvey Norman AGMs for directors to speak to their election, it is unlikely we will be able to do so there. This has influenced our vote (see below).

Culturally, Harvey Norman runs like a private family company dressed up to look like a public company. Gerry Harvey is the largest shareholder holding 31.42% of the equity with his family owning an additional significant parcel. His former wife Margaret Harvey is listed as having 58.5m shares; Kay Page, owns over 9m shares; Michael Harvey owns 2.5m shares; Graeme Harvey owns just over 1 million shares and Samantha Harvey owns almost 90,000. Combine that with Christopher Brown's 16.5% equity (he has held a seat on the Board since 1987 and represents the Norman interests in Harvey Norman) and you have a picture of a company whose self-interest is apparent and whose interest in small retail shareholders and their concerns is doubtful.

Window dressing is what this retail giant excels at. This is apparent in the images of young sportswomen on the cover of the Annual Report providing an image of a company interested in gender diversity that doesn't persist past the image; the capital raising at a tasty discount in October (the second in two years) partly used to pay an increased dividend and pay down debt that was already at acceptable levels according to their own benchmarks, as well as a "new" remuneration policy that contains nothing much new at all.

Now it is up to the shareholders to decide if all the glitter waved before their eyes, perhaps intended to avert a second strike, is indeed gold.

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

Financial Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	402.32	375.38	452.9	351.3	268.9
Share price (\$)	3.78	3.26	3.85	4.61	4.50
Dividend (cents)	33	30	26	30	20
TSR (%)	26	(9.0)	(11.49)	8.09	60.16
EPS (cents)	34.7	33.71	40.35	31.36	24.51
CEO total remuneration, actual (\$m)	3.032	3.13	3.41	3.08	2.93

Note: The company has declined to verify the accuracy of the above figures.

The CEO's actual remuneration is **38.34 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

It is significant to note that there was no mention in the Annual Report (AR) of any further deviation from core business in property investment as there has been in previous years. We

assume that the loss-making investments of 2018 have now been divested. We could find no details of the results in the AR.

Item 2	Adoption of Remuneration Report
ASA Vote	Against

HVN Remuneration 2019

CEO rem. framework	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.1	60%	2.1	46%
STI – Cash	0.8	23%	1.0	22%
STI – Equity	Nil	0%	Nil	0%
LTI	0.6	17%	1.5	33%
Total	3.5	100%	4.6	100%

Summary of ASA Position

Our understanding is that following the 50.63% against vote (1st strike) last year some changes were made to the remuneration:

- Short-term incentive (STI) Plan -Adjusted earnings per share (AEPS) replaced return on net assets (RON),
- Minimum financial achievements to be reached before non-financial hurdles can be activated.
- Financial and non-financial each attract 50% of total STI.
- All STI for the CEO is paid in cash with no deferral as she has more than one year's equivalent in shares.
- An additional two performance conditions have been added both of which one would expect to be part of keeping the job. See top p.32 of AR
- The long-term incentive (LTI) is assessed over three years and the grant of performance rights is calculated based upon fair value and consequently results in a grant of 23% more shares.
- The LTI cash performance paid in 2018 does not appear in 2019. The Target LTI is based on 30% of Fixed Remuneration.
- It would also appear from note 6E p.42 that the hurdles are subject to reassessment.

Our questions regarding this are:

1. The target % above do not seem to match those shown on p.35 of the AR remuneration mix.
2. It is remarkable that all the executives achieved the same level of achievement for STI Financial 86.9% and Non-Financial 94.3% (pp.39 & 40). Since each executive's role and responsibilities differ, how could this be possible?

Since the remuneration policy does not meet ASA guidelines, we will be casting our vote against it.

Item 3	Re-election of Kay Lesley Page as a Director
ASA Vote	For

Summary of ASA Position

ASA has no issue with one executive director on a board. In addition, Ms Page has done an excellent job in the retail sector and is the only woman on the board.

Item 4	Re-election of David Matthew Ackery as a Director
ASA Vote	Against

Summary of ASA Position

Mr Ackery is an executive of the company, appointed as a director in 2005. ASA Guidelines don't support more than one executive on the board, consequently we will vote against his election.

Item 5	Re-election of Mr Kenneth Gunderson-Briggs as a Director
ASA Vote	Against

Summary of ASA Position

Mr Gunderson-Briggs was first appointed to the board in 2003. As such he is no longer considered independent and, in addition, he has less than one year's fees in equity. His profile provides little indication of why he is a suitable director and he does not seem to fulfil the criteria for a directorship of the company as outlined in the company's notice of meeting.

Item 6	Election of Maurice Craven as a Director
ASA Vote	Against

Summary of ASA Position

Mr Craven's profile provides little indication as to his suitability as a director on the Harvey Norman board. Our request for more information on this has been ignored. Since his independence is unproven we will cast our vote against him.

Item 7	Election of Mr Stephen Mayne as a Director
ASA Vote	Abstain

Summary of ASA Position

It is unusual for ASA to vote for a candidate not endorsed by the board. However, this board is much in need of a courageous and independent voice who understands the concerns of small retail shareholders. On balance we will be abstaining from voting on this resolution.

Item 7	Spill Meeting
ASA Vote	For

Summary of ASA Position

The resolution is only considered if at least 25% of the votes cast on Resolution 2 are against the adoption of the Remuneration Report.

It is rare for any spill motion to succeed as it is extremely disruptive to the company to have all directors, except the managing director, be forced to retire. However, this board has not listened to shareholder concerns regarding the remuneration over a number of years and has made no significant changes to align it to good practice this year. We would hope that a vote to spill the board would lead them to taking shareholder concerns more seriously.

The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company nor do they have any affiliation with short sellers.

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