Australian Shareholders' Association

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First AGM without the company's founder, Adrian Di Marco.

Company/ASX Code	Technology One / TNE
AGM date	Wednesday 22 February 2023
Time and location	10:30am AEST Brisbane Convention and Exhibition Centre, Merivale St, South Brisbane
Registry	Link Market Services
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Paul Donohue assisted by David Loosemore
Pre AGM Meeting?	Yes, with ▪ Pat O'Sullivan, Board Chair ▪ Jane Andrews, Non-Executive Director / Chair of the Remuneration Committee. ▪ Paul Jobbins, Chief Financial Officer / Company Secretary. ▪ Stephen Kennedy, Company Secretary.

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

- Retention LTIs granted to key executives to prevent them being head hunted.
- Cliff Rosenberg's workload given his multiple director commitments.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	Against
2	Re-election of Director – Jane Andrews	For
3	Re-Election of Director – Cliff Rosenberg	Undecided
4	Approval for increase in Directors' Fee Pool	For
5	Adoption of Amended Omnibus Incentive Plan	For

Summary of ASA Position

Company overview

Technology One is a Brisbane based, enterprise software company focussed on a handful of sectors such as local government and higher education. They develop, market, sell, implement and support their own software without relying on any third parties which is rare among enterprise vendors.

The company has successfully transitioned to a "software as a service" (SaaS) model in which customers access the system over the Internet rather than having it installed on their own equipment. SaaS customers pay an annual fee rather than purchasing a perpetual license. This provides reliable, annually recurring revenue (ARR) rather than the lumpier cash flow from their previous "on premise" model.

Technology One spends 25% of their revenue on research & development which ensures their software is always well leading edge. In their 35 year history, they have rewritten the core platform four times with the latest incarnation, Connected Intelligence Anywhere (CiA), a 100% cloud based solution that can run on any device from a smart phone to a desktop computer.

Already, 800 of their 1,200 customers have adopted CiA and it is expected that 90% of customers will be using the new platform by October 2024.

Reporting Period Overview

This will be the first AGM since Technology One's founder, Adrian Di Marco, retired from the Board, handing over to an Independent Chair, Pat O'Sullivan. Some of the highlights of the year include:

- Released the fourth generation of their enterprise software platform.
- Exceeded targets for growing the SaaS business with ARR up 43% to $274m.
- Signed 20 new local government customers and 10 new higher education customers.
- 99.5% SaaS uptime, showing that the new platform is very stable.
- 99% customer retention, showing that customers are satisfied with the product.

Governance and culture

Governance

The company's transition from a founder led organisation began in 2017 and continues today. In that year, Adrian Di Marco handed over the CEO role to Edward Chung and became the Executive Chair. In 2022, Adrian announced his retirement and was replaced as Chair by Pat O'Sullivan, an Independent Director.

At our pre-AGM meeting, we were told the board had undertaken a detailed impact assessment of Mr Di Marco's departure which identified some skill gaps which have been addressed.

The board now has a majority of independent non-executive directors and all Board committees chaired by independent non-executive directors.

Culture

Technology One appears to have a well-engaged workforce. They perform employee surveys twice a year which show a positive year on year trend.

They were awarded Employer of Choice for 2022 in the Australian Business Awards. This is the seventh year in a row they have won that accolade.

The company donates 1% of time, product and profit to charitable causes and has an admirable record of assisting disadvantaged communities.

During COVID, they introduced a remote working model and, post-pandemic, this has been partially retained as a hybrid in which team members can work three days a week in the office and two days remotely.

Financial performance

The company announced a strong set of financials for the year ended 30 September 2022. Some highlights include:

- Profit Before Tax of $112.3m, up 15%, at the top end of guidance.
- Profit After Tax of $88.8m, up 22%.
- Total Revenue of $369.4m, up 18%.
- SaaS Annual Recurring Revenue (ARR) of $274.2m, up 43%.
- ARR on track to reach $500m by 2026.
- Expenses of $257.1m, up 20%.
- Total Dividend of 17.02cps, including a special dividend of 2.0 cps, up 22%.
- R&D investment of $92.2m before capitalisation, up 19.6%, which is 25% of revenue.
- Strong balance sheet with net assets of $239.1m, up 26% and no debt.
- No capital raisings.
- Total shareholder return for the year as -5% compared to last year's 45%.

Key events

10 Aug 2022. Lincoln University (UK) are the first UK customer to use the new student management product.

June 2022. Launched their sixteenth product, Digital Experience Platform for Local Government (DXP LG). This allows councils to easily develop online services for ratepayers.

Key Board or senior management changes

30 Jun 2022. Founder and Executive Chair, Adrian Di Marco retired.

30 Jun 2022. Pat O'Sullivan was appointed as independent non-executive Chair.

ASA focus issues (not discussed elsewhere in this report)

Sustainability

As a software company, Technology One does not have a large carbon footprint. Regardless, they take sustainability very seriously. In 2020 and 2021 they achieved Climate Active certification for their Australian operations and expanded this to include global operations in 2022. Since their baseline in FY20, they have reduced greenhouse gas emissions by 26%. They also purchase carbon offset credits, preferring projects that provide some community benefit.

They have implemented a Supplier Code of Conduct with a focus on human rights, labour standards, ethical standards and environmental management and will prioritise engagements with suppliers who have established ESG goals.

Diversity

Information technology is a male dominated industry, so the company's 37.4% gender equality rate is impressive. They are doing their bit to make the profession more attractive to females by supporting the Women in Technology organisation, sponsoring awards for female techies and encouraging girls to take an interest in STEM subjects.

The Board currently has two females out of eight directors and has a goal to raise this to at least 30% by 2025. It is possible this target might be achieved by reducing the size of the board as some of the older men retire.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	88.8	72.7	62.9	58.5	51.0
UPAT ($m)	88.8	72.7	62.9	58.5	51.0
Share price ($)	10.60*	11.36	7.94	7.18	5.58
Dividend (cents)	17.02	13.91	12.88	11.93	11.02
TSR (%)	-5%	45	12	31	13
EPS (cents)	27.51	22.64	19.75	18.43	16.14
CEO total remuneration, Statutory ($m)	2.30	1.95	1.77	1.61	1.40

***** We note that the share price has risen by about 40% between the reporting date and early February 2023.

Resolution 1 - Adoption of Remuneration Report

This year's remuneration report includes Retention LTIs which are effectively "golden handcuffs" in the form of long dated equity options. If the executive is still employed by the company on the vesting date of 30 November 2026, each option gives them the right to purchase one TNE share at the market price on the grant date which was $10.17.

We queried the rationale for these incentives at our pre-AGM meeting and were told that with Adrian Di Marco retiring, the UK division growing rapidly, the transition to SaaS underway, a new generation of the platform just launched and the IT labour market particularly tight after years of reduced migration, the Board recognised the risk of losing key people.

KMP resignations at this time would have been detrimental to the company and shareholder interests. In the circumstances, it is understandable that the Board introduced a retention mechanism.

However, the Retention LTIs do not have any performance hurdles which goes against this ASA voting guideline.

- *13.3. CEO Remuneration. No use of retention payments or incentive awards which are subject only to continuing service.*

The Retention LTIs do not vest for 4½ years and there is a further 5 years after vesting until they expire. The remuneration report mentions an "implicit" performance hurdle in that the options will be worthless unless the share price rises. While this is technically correct, Technology One's growth prospects and the timeline of the retention LTIs makes it highly likely they will end up "in the money".

ASA would have preferred the Retention LTIs had at least two performance hurdles, as with the normal LTIs. ASA will vote against this resolution as it clearly goes against our guidelines.

The Retention LTIs were the only significant change to the remuneration report. As with last year, net profit before tax went up more (15%) than KMP remuneration (14%). There is more detail in Appendix 1.

Resolution 2 - Re-election of Director – Jane Andrews

Dr Andrews joined the Board in 2016. Her background is a mixture of life sciences and finance and she has experience with strategy, entrepreneurship, commercialisation, innovation and R&D. She is Chair of the Remuneration Committee and a member of other committees.

Her shareholding in the company (at the end of the reporting period) was more than double the annual fee she received as a director.

In addition to her role at Technology One, Jane is a director at Infensa Bioscience, an unlisted biotech that makes minimal demands on her time.

As one of only two women on the board, Dr Andrews brings diversity to the Board.

ASA will support this resolution.

Resolution 3 - Re-election of Director – Cliff Rosenberg

Mr Rosenberg joined the Board in 2019. His background is in technology and media having previously held executive roles at LinkedIn and Yahoo! He is Chair of the Nomination and Governance Committee and a member of other committees.

His shareholding in the company (at the end of the reporting period) was double the annual fee he received as a director.

In addition to his role at Technology One, Cliff is a director at two other listed companies Bidcorp (South African food services) and A2B Australia (Digital payments). During the reporting period, he was also a director at NearMap which was taken over and delisted in December 2022. He is also a director at three unlisted companies: Prezzee (eGift cards), me&u (In-venue ordering) & Opteon (Property services).

After the delisting of NearMap, Mr Rosenberg retains six director roles. At the pre-AGM, we queried his workload and were told the unlisted companies do not require the same commitment as a listed company. The board has no concern about his ability to manage these commitments and believes his performance as a Technology One director speaks for itself.

ASA considers directors need to ensure they have sufficient time to carry out their roles especially at times of crisis. While his workload might be manageable when things are calm what will happen if two or more of those companies face issues at the same time?

We consider the workload is most likely manageable but would like to hear Mr Rosenberg address this topic and will remain undecided on this resolution until the AGM.

Resolution 4 - Approval for increase in Directors' Fee Pool

This resolution is to increase the Director's Fee Pool from $1.5m to $2.0m. The pool was last increased by $500K four years ago. The Notice of Meeting lists the following justifications for the proposed increase.

- To appropriately compensate Pat O'Sullivan for the additional workload as an Independent Non-Executive Chairman. Note that Adrian DiMarco was an Executive Chairman, and the fee pool does not cover any part of an executive director's remuneration.
- To accommodate an increased board size of seven in 2018 compared to eight in 2022.
- Increased workload of directors due to increased size and complexity of the company.
- Director's fees are below the market average.

Each of those points are justified. ASA has access to independent market research which analyses board and executive remuneration. This supports the assertion that the Technology One director fees and the size of the fee pool are both below average for a company of this size and complexity.

ASA will support this resolution.

Resolution 5 - Adoption of Amended Omnibus Incentive Plan

The original Omnibus Incentive Plan was approved by shareholders in 2019 with a 98.64% yes vote. This plan provided a range of long term incentives to senior employees and executives. This resolution seeks to amend the plan with the major changes being:

- Expand eligibility to more employees. It is currently restricted to senior people.
- Allow matching share rights such as one free share for every two purchased by an employee.
- Allow salary sacrifice for share purchases to make them more tax effective for employees.
- Qualify as an exemption from the "15% of capital" rule under ASX Listing Rules.
- Broaden the Board's discretion relating to employees who leave the organisation.
- Keep pace with regulatory changes.

We discussed the changes in our pre-AGM meeting. Such plans are common among technology companies so there is an element of catching up to the market, but the main driver was a genuine desire to reward loyal employees and encourage a sense of collective ownership.

ASA will support this resolution.

Appendix 1
Remuneration framework detail

The following table provides a summary of the CEO's remuneration.

CEO rem. Framework for FY22	Target* $k	% of Total	Framework	% of Total
Fixed Remuneration	540	24%	Fixed	n/a
STI - Cash	913	40%	Uncapped	n/a
STI – Cash (Deferred)	199	9%	25% of STI	n/a
STI - Equity	0	0%	NONE	n/a
LTI	490	21%	75% to 100% of FR	n/a
Retention LTI	153	7%	Once only grant	n/a
Total	2.296	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.

Executive remuneration for FY22

TNE's executive remuneration framework is primarily a profit share model that it is heavily biased towards variable remuneration. With the bulk of their reward at risk, executive performance is encouraged as under performance would have a significant negative impact on their remuneration.

The elements of the framework are as follows.

- **Fixed remuneration.** This is the base salary plus superannuation. This component is quite low compared to other ASX-listed technology companies.
- **Short Term Incentive (STI).** At the start of their employment contract, each KMP is allocated a percentage of the company's Net Profit Before Tax. Although the percentage is fixed, the NPBT grows over time so the STI will represent more of their total package.

  STI has a single hurdle, i.e. EPS Growth over one year. In other businesses, this might be a cause for concern as it could encourage short-term thinking or risk taking. However, with a Software as a Service (SaaS) model, with its relatively fixed cost base, today's sales turn into not just this year's earnings but also ongoing Annual Recurring Revenue (ARR) which provides long term shareholder value. STI is uncapped on both the upside and downside.
- **Deferred STI.** An additional amount equal to 25% of the STI is deferred for two years. If an executive resigns within this period, they forfeit any deferred STI.
- **Long Term Incentive (LTI).** These are share rights that vest if performance targets are met over three years. There are two hurdles Relative TSR (25%) and EPS growth (75%). Relative

TSR is measured against the ASX All Technology Index (XTX). LTI is typically 75% to 100% of fixed remuneration.

- **Retention LTI.** These are the "golden handcuffs" mentioned previously. They have no performance hurdle. These are a once only incentive that, the Board insists, will not be repeated in future years. The size of the grants and their fair value was CEO = 720k / $2,038k, COO = 475k / $1,154k & CFO = 205k / $582k. These amounts cover the 4 ½ year vesting period to November 2026. At fair value, this represents almost $500K of additional benefit per year for the CEO. If the share price rises higher than the assumptions used in the fair value calculation, the grants might potentially be worth much more. If the executive leaves the organisation the awards will lapse. The awards are subject to a Malus provision.

Board remuneration for FY22

In FY21, Board fees were $141k per Director, including statutory superannuation contributions. This was increased by CPI (3%) to $145k in FY22. No additional fees were paid for committee membership or attendance.

The proposed fees for FY23 are as follows.

- Board Chair = $300k (all inclusive).
- Non Executive Director = $175k (base fee)
- Committee Chair = $27.5k
- Committee Member = $0

There is a resolution at the AGM to increase the Director fee pool from $1.5m to $2.0m.

Board shareholdings

All Board members hold at least one year's fees in Technology One shares.