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Company/ASX Code	Technology One (TNE)
AGM date	Tuesday 26 February 2019
Time and location	10.30 am (AEST) Brisbane Convention & Exhibition Centre, Merivale St., South Brisbane
Registry	Link
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Mike Sackett assisted by Michael Waterhouse
Pre AGM Meeting?	Yes with CFO/COO and Company Secretary

	Consideration of accounts and reports
ASA Vote	No vote required

Technology One (TNE) describes itself as the “only company offering a true enterprise Software as a Service solution”. It is the largest such company in Australia and on the international front has competitors such as Oracle, SAP and Microsoft. TNE focuses on Local Government, Higher Education, Health & Community Services and Federal Government in Australia and the Pacific. For several years efforts have been made to establish a foothold in the large potential UK market.

Current Executive Chairman Adrian Di Marco, aged 61, founded the company and was first appointed to the Board in 1987. In 2018 he held 10.1% of the 317 million shares issued. John Mactaggart also joined the Board in 1987 and had a 12.2% shareholding. Until 2016 TNE had what could be described as a rather stale Board composition with the most recent appointment of its then all-male Board having been in 2008. The addition of independent directors Jane Andrews in 2016 and Sharon Doyle in 2018 has improved this situation. TNE’s Board renewal process includes provision for a total of four new independent directors being added.

As an innovative company TNE takes prides in its volume of Research & Development much of which takes place offshore. R&D expenditure in 2018 was \$54m equivalent to 18% of revenue. TNE say this compares with 12% of revenue for its competitors.

By any measure TNE has been a highly successful company over the past decade. Revenue has increased 143% in that time, almost exclusively through organic growth, while NPAT is up 225%. Dividends, excluding Special are up 141% over the past decade. Total Shareholder Returns have reflected this strong performance.

Recent share price history can be summarised in three phases. There was a long period of steady growth up to \$6.13 in October 2016. This was reversed until July 2018 by which time the share price had gradually fallen to \$4.12. By early February 2019 the share price had climbed to over \$7.

No single factor can account for these price movements, which for much of the period have been counter to the broader ASX. At the time of writing TNE was the 145th ranked company on the ASX by capitalisation.

TNE is not alone among Australian companies in finding the UK market a tougher nut to crack than anticipated. The 2018 Annual Report contains the sentence “We expect to return to growth in the UK in the 2019 financial year”. The past three Annual Reports have all expressed optimism about TNE’s operations in the UK. Clearly 2019 will be a year in which the market expects TNE to deliver on these aspirations, despite the challenges of the Brexit debacle.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	51.0	44.5	41.3	35.8
UPAT (\$m)	51.0	44.5	41.3	35.8
Share price (\$)	5.58	5.02	5.94	3.84
Dividend (cents per share)	11.02	10.20	7.00	9.00
TSR (%)	13.4	-13.8	56.5	24.0
EPS (cents)	16.14	14.18	13.26	11.57
CEO total remuneration, actual (\$m)	1.40	1.15	1.47	1.35

For 2018 the CEO’s total statutory remuneration was 16.5 times the Australian Full Time Adult Average Weekly Total Earnings (based on May 2018) data from the Australian Bureau of Statistics).

Resolution 1	Election of Sharon Doyle as a Director
ASA Vote	For

Sharon Doyle was appointed on 28 February 2018 as the second uncontested independent Director of the Company. She is suitably qualified and experienced.

Resolution 2	Re-election of Richard Anstey, Non-executive Director
ASA Vote	Against

Having been originally appointed in December 2005 Richard Anstey no longer meets the ASA definition of being an independent director. In fact of the seven current directors, only two were appointed less than the 12 years ago, a tenure beyond which ASA no longer classifies them as independent. By comparison in the TNE 2018 Annual Report (p 76) two directors are described as non-independent while the remaining five are listed as independent. This difference in view was discussed with some acrimony at the 2017 AGM. It is not proposed to dwell on this topic at the forthcoming AGM, but a vote Against is considered appropriate.

It is noted that Mr Anstey is Chair of the Nomination & Governance Committee and holds 25,500 shares, meeting ASA's skin-in-the-game criterion.

Resolution 3	Adoption of Omnibus Incentive Plan
ASA Vote	For

The background to this resolution is that in recent years proxy advisors have requested the company to offer performance rights as Long term Incentives to employees. The existing equity plan rules only allow for the granting of options. The proposed Omnibus Incentive Plan, if approved, would enable the company to have the flexibility to offer Performance Rights, Options, Shares and Share Appreciation Rights as possible instruments of any Long Term Incentive package. This is said to be attractive to staff and in line with current industry practice.

Resolution 4	Increase in Directors' Fee Pool
ASA Vote	For

It is noted that the Directors' Fee Pool is subject to review every three years. This increase is supported as it will facilitate the process of Board renewal. The current Board comprises seven members, of whom only two were appointed fewer than 13 years ago. TNE plans to appoint a further two independent directors who for some time are expected to be concurrent with long-term board members. An increase in the fee pool from the existing \$1 million (approved at the 2015 AGM when the Board size was only six) to \$1.5 million would permit this expansion, together with moderate increases in annual directors' fees. This amount is said to be consistent with practice in other ASX150 companies.

Resolution 5	Adoption of the Remuneration Report
ASA Vote	For

There are positives and negatives to the Remuneration Report. On the positive side the overall quantum of benefits received by TNE executive staff in 2018 seems to be restrained for a successful, growing company which has displayed a substantial improvement in TSR in 2018. The CEO remuneration for Total KMP remuneration in 2018 grew by 8% compared with the 15% growth in NPAT. The remuneration model incorporates a relatively small fixed component together with a larger at-risk element, the proportion of which tends to increase over time, subject to positive company performance. On appointment to a role, the fixed component of KMP remuneration is equivalent to only one-third of the anticipated total remuneration.

On the negative side, neither of ASA's monitors found this report easy to comprehend, despite the Chair of the Remuneration Committee's introductory comment that in 2018 it had been restructured so that information was presented in a more concise and meaningful manner. As for conciseness this year's Remuneration Report was still a wordy 19 pages in length. TNE's remuneration strategy provides for a Long Term Incentive testing period of three years, compared with ASA's preferred four to five year period. This was discussed in the pre-AGM meeting when examples of larger ASX companies moving to longer testing periods were cited. Long term targets tend to be opaque, at least in part because of what TNE claim to be reasons of commercial confidentiality. Further there is minimal deferral for the STI, the maximum STI opportunity is uncapped and there is no table of actual remuneration.

On balance due to the restrained quantum, ASA will vote in favour of the Remuneration Report at this time.

The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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