

Atlas Arteria's traffic flows continue to recover in Europe and America

Company/ASX Code	Atlas Arteria International Limited (ASX: ALX)
AGM date	Tuesday, 30 May 2023
Time and location	10.00am at RACV City Club, 501 Bourke Street, Melbourne, VIC
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Nick Bury and Elizabeth Fish
Pre AGM Meeting?	Yes, by telephone conference with Chair Debbie Goodin, Tess Palmer, ALX Director of Investor Relations and NED David Bartholomew, Chairman of Remuneration Committee

The two monitors involved in the preparation of this voting intention do not have any shareholding in this company.

Summary of issues for meeting

ALX's board needs directors with greater toll road acquisition experience to give confidence on the purchase and funding of significant assets in the face of a substantial shareholder (and competitor) comments.

Proposed Voting Summary – Atlas Arteria Limited (ATLAX)

No.	Resolution description	
2	Adoption of Remuneration Report	Against
3	Approval of grant of 2023 Performance Rights to Graeme Bevans under Atlas Arteria's Long Term Incentive Plan	Against
4	Approval of grant of Restricted Securities to Graeme Bevans under Atlas Arteria's Short Term Incentive Plan	Against
5	Approval of grant of Additional 2022 Performance Rights to Graeme Bevans under Atlas Arteria's Long Term Incentive Plan	Against
6	Approval of increase in the maximum number of directors	For
7	Approval of increase to the NED Fee Pool	For
8	Election and re-election of Directors of ATLAX a) Re-election of Debra Goodin b) Election of John Wigglesworth c) Election of Ken Daley (contingent on Res 6 being passed)	For For For
9	Renewal of proportional takeover provisions	For

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

Consideration of accounts and reports

The pandemic has passed, traffic flows are normalising at ALX's toll roads/tunnel in France, Germany and America, toll revenues increased from A\$99,530m to A\$116,728m for Dulles Greenway and Warnow Tunnel, and net profit after tax (NPAT) increased from A\$163,697m to A\$241,011m, mainly driven by ALX's main concession holding APRR.

Shareholders were paid distributions amounting to 40 cps in 2022, a more than 10% increase on the previous year. Profitability increased and there is the ongoing benefit of the internalising of the management in 2019 which ended the payment of management and performance fees to Macquarie Bank.

The great worry for ALX shareholders is whether the French Government will extend ALX's APRR concession beyond 2035 given it is the largest contributor to the group at this time. ALX identifies Government and regulatory policies as a risk to be managed in its pursuit of its long-term strategic objective. It works with various levels of the French Government on achieving their road development and ESG objectives in return for potential concession extensions and to build a strong ongoing relationship with the French Government, demonstrated by the approval of the Investment Plan in January 2023.

Though ADELAC, Warnow and Dulles Greenway have respective concession expiry dates of 2060, 2053 and 2056, their combined earning power for shareholders is comparatively miniscule to that of APRR. However, Dulles Greenway does have US\$62.5m locked up under a local agreement that ALX still seeks to unlock for distribution to its shareholders. Its traffic flows remain less than in 2019 due to COVID having altered many users work practices and frequency of use.

The new Chicago Skyway purchase for US\$2.9 billion on a remaining 81-year lease is another substantial asset in addition to APRR, its equity value being over US\$2 billion, and this 12.5km toll-way has been operational since 1958. However, its prospective income is much smaller than the revenue thrown off by APRR, and time will tell whether ALX overpaid for this concession. Certainly, one of ALX's substantial shareholders, IFM Global Infrastructure Fund (IFM), is reported as saying they think that they did, and IFM are keen buyers of bargain type infrastructure assets.

Chicago Skyway's EBITDA for the year under review was over \$104m, while APRR's EBITDA is stated as being more than \$2B, which puts their respective sizes into perspective. This Skyway purchase has been dilutionary, given extra shares issued to fund its purchase and the initial years of ownership including one month of its earnings to ALX for its 2022 financial year, less all ALX's accompanying acquisition costs, and, for 2023, traffic at the Chicago Skyway is expected to be negatively impacted by roadworks on the Indiana Toll Road.

ALX, as is common with listed infrastructure companies and toll-road concession holders, previously benefited when interest rates, and therefore interest expense, dropped, and toll revenues improved with economic activity recovering after the global financial crisis. And even though interest rates have now risen, the concession agreements struck with respective governments include increases to tolls in line with headline inflation, and these increases likewise drop to the bottom line.

Guidance on distributions provided with the release of the 2022 full year result is for 40 cps and said to be a sustainable level going forward. The guidance is subject to continued business performance, movements in foreign exchange rates, and other future events (including refinancing at Chicago Skyway.)

Incremental Improvements keep being made to ALX's toll road stable of operations to increase its revenue and distributions, and the company remains alert to prospective greenfield projects. Shareholders are encouraged to read the company's annual report, as opposed to the writers reciting its listed financial information given as part of this report.

Financial performance

Shareholders have been returned a total of about 7% in terms of aggregated capital gain and dividends received.

Key Board or senior management changes

The board has not replaced outgoing ATlix Bermuda based Chair Jeffrey Conyers, so has sensibly reduced that board's numbers from 5 to 4 and the NED fee pool. ATlix non-executive director (NED) Fiona Beck has replaced him as Chair. John Wigglesworth joined the ATlix Board on 1 January 2023 following the retirement of Ariane Barker, and Ken Daley joined ATlix board as an observer. David Bartholomew succeeds Ariane Barker as Chair of the ATlix People and Remuneration Committee. Another ATlix director addition is envisaged.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	241.01	163.69	(99.21)	(9.82)	59.85
EBIT (\$m)	244.2	259.1	165.4	251.3	151.4
Share price (\$)	7.01	6.92	6.50	7.83	6.19
Dividend (cents)	40	28.5	11	30	24
TSR (%)	7.08	11.4	(15.5)	32.2	3.4
Statutory EPS (cents)	22.2	17	(10.7)	(1.4)	8.84
CEO total remuneration, actual (\$m)	\$2.7	\$3.2	\$2.4	\$2.7	\$8.4

Resolutions 2 – 5 - Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO - Against

The Remuneration report is clear and easy to understand, yet we are unable to support it due to the use of positive discretion for the awarding of the STI beyond the results achieved, and the move of the LTI to one measure only.

The MD/CEO had an increase to his fixed remuneration of 7%, to align more effectively with the market.

The STI awarded is assessed against 9 performance areas, 60% of which are financial, the remaining performance areas are decided annually and consist of strategic, ESG and leadership targets. Short term incentives are paid 50% in cash and 50% in restricted securities.

The Board exercised its discretion, deciding that the CEO had done a magnificent job in the past year that wasn't recognised by the using the performance measures in the remuneration framework – we were satisfied with those measures and outcome prior to the use of discretion. This discretion increased the STI award to 120% of target an additional 15% above actual performance result. Other key management personnel STI outcomes range between 61% and 87% of maximum achievable.

Shareholders are also being asked to approve the award to the CEO of an additional 15,576 performance rights valued at approximately \$100,000 to account for the fact that his fixed remuneration increase was not known when the FY21 performance rights were calculated. However as we understand Mr Bevens salary increased in January 2022 and any additional payment would be considered retrospective, shareholders would be entitled to ask why?

The long-term incentive performance payment (LTIP) has a three-year performance period. There were 2 LTIP performance measures for FY22, a relative TSR measure and strategic goals (which included extending the average concession life of the ALX portfolio). The ASA believes there should be more than one LTI measure.

At the pre-AGM meeting, the monitors asked about the reduction in the number of LTI measures and were told that the Board was finding it difficult to find another LTI measure. David Bartholomew said he thought that free cashflow might be a useful measure (measurement against cashflow forecasts), but the monitors thought there could some difficulty with this option as cashflow forecasts are seldom published and shareholders would be unclear as to how well the measure had been met.

Further, cashflow can be positively or negatively affected by currency fluctuations and this is relevant as the company operates in Europe and the USA and reports in Australian currency.

We note from the FY23 Annual Report that 2020 and 2019 LTI awards were tested and as the performance was below threshold the rights were forfeit and no rights vested. When the strategic LTI measures introduced for FY22 were selected as fundamental to creating long-term value for shareholders, although we do note that no LTIP will be made unless the relative TSR target is achieved.

The CEO's take-home pay is not excessive, and the target remuneration is in line with peers. If not for the movement back to a single LTI measure, ASA would have been happy to vote in favour of the resolution to grant this equity.

FY23	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.4	33%	1.4	29%
STI - Cash	0.7	17%	1.05	21%
STI - Equity	0.7	17%	1.05	21%
LTI	1.4	33%	1.4	29%
Total	4.2	100%	4.9	100%

The ASA view is that ALX's board size does not need to grow, but that its ratio of hands on infrastructure experienced directors compared to its Chartered Accountant quota of the same needs to increase. Consequently the addition of IFM nominee and experienced infrastructure operator Ken Daley is supported at the expense of newly appointed NED, Chartered Accountant John Wigglesworth. Mr Daley will not be an independent director, as he is being nominated by IFM to protect its shareholder interest in ALX. He is probably much better placed to serve the needs of ALX unit holders during its future board meetings to be held given his known experience. ASA members are encouraged to google Mr Daley's known antecedents and apprise themselves of the skills that he would bring to ALX's board.

The reason cited for increasing the NED fee pool is to add another director to ATLAX's board, whereas The ASA view is that ALX's board size does not need to increase, but that its ratio of hands on infrastructure experienced directors compared to its Chartered Accountant quota of the same needs to increase.

As stated above, ALX investor IFM seeks to place Ken Daley on its board to protect its shareholder interest, after becoming concerned that ALX paid about \$1 billion too much for its new toll road Chicago Skyway. The ASA would welcome Mr Daley's appointment, as when protecting IFM's ALX investment, he would also be safeguarding the ALX shareholder interest.

Resolution 6 and 7 - Approval of increase in the maximum number of directors and the NED Fee Pool – For

The ASA view is that ALX's board size does not need to grow, but that its ratio of hands on infrastructure experienced directors needs to increase. Consequently, the addition of IFM nominee and experienced infrastructure operator Ken Daley is supported as noted below.

As Mr Daley's election will not be put to the shareholder vote unless there is an increase to the maximum number of directors, we feel compelled to vote undirected proxies in favour.

The increase to the ATLAX NED fee pool is the first since 2019. Total fees paid to ATLAX directors was at 86% of the pool for 2022, leaving insufficient headroom with one director being added.

The combined ATLAX and ATLIX fee pool is similar to peers, although we note the individual director and committee fees are lower than median for similarly sized companies and are likely to increase when reviewed in 2023 (though no adjustment is to occur before 1 January 2024.)

Resolution 8 - Election or re-election of directors - FOR

(a) Re-election of Debra Goodin

Debbie has been an APA director for almost the past 8 years, as APA has progressed from one strength to the next, she was a director of Senex Energy for 5 years, which has also been a successful entity, she was a director of oOh! Media for 5 years, which is currently struggling, and was a director of Australian Pacific Airports Corporation for 2 years.

She has assumedly gained infrastructure experience at APA, where she chairs their Audit and Risk Committee. Since starting her working career as an accountant in 1990 she has held about 10 directorships, including of Channel 10 (for less than a year prior to delisting after entering administration), and she is an experienced company director. She is not known to have had CEO

experience, but whilst working for a number of ASX listed companies she gained COO and CFO experience.

She appears to have performed adequately as ATLAX Chair to date, and her candidacy is not opposed, but she has presided over the Chicago Skyway purchase, for which ALX investor IFM considers that ALX paid about \$1 billion too much.

(b) Re-election of John Wigglesworth

He was appointed to the ATLAX Board on 1 January 2023 as an Independent Non-executive Director and as Chair of the Audit and Risk Committee. He is another Chartered Accountant on the board though, albeit with 37 years of experience. He is listed as having extensive experience working with ASX listed and leading global companies, with specific expertise in external and internal audit, financial reporting, accounting systems and controls, governance and risk management.

The question to be asked is whether ALX needs yet another Chartered Accountant on its board, although appropriate background for a Chair of the Audit and Risk Committee. ATLIX directors Caroline Foulger and Fiona Beck are Chartered Accountants.

(c) Election of Ken Daley

Mr Daley's appointment to ALX's board is strongly supported as is his election. He was the CEO and is now Chair of Aleatica in Spain, a listed international diverse transportation infrastructure operator, and was the President of International Development at Transurban between March 2005 and August 2012.

He will not be considered an independent by virtue of his role as special adviser to IFM, which is ALX's largest securityholder at 21.8%. Furthermore, given his role with IFM and its investee companies, and ALX being mindful of potential conflicts of interest, IFM and Mr Daley have agreed that while he is a Director of ATLAX he will not discuss any toll road M&A opportunities with IFM or its investee companies without first getting clearance from the Chair of ATLAX.

We note the unusual situation that his election will initially be for a period until the 2024 AGM, where he will retire by rotation and be eligible to stand for re-election.

He ran the Indiana, USA Toll Road concession during 1915-16, and has been a Melbourne director of KF & A Consultants since 2016. He presents as having the experience that ALX might sorely need on its board to either have the capacity to develop greenfield assets that would become a success, as did its predecessors, or else to develop the skill of becoming a tough buyer of distressed infrastructure assets that can be turned round to become profitable.

Proposed Voting Summary – Atlas Arteria International Limited (ATLIX)

No.	Resolution description	
2	Re-appointment of PricewaterhouseCoopers as Auditor	Undecided
3	Approval of reduction in the maximum number of Directors	For
4	Approval of reduction to the Non-executive Director Fee Pool	For
5	a) Re-election of Debra Goodin as a Director b) Re-election of Andrew Cook as a Director	For For

Resolution 2 - Re-appointment of PricewaterhouseCoopers as Auditor - Undecided

We can but re-state last year's premise on the re-appointment of PricewaterhouseCoopers as auditor, as is required each year by Bermuda Companies Act. An assurance will be sought at the AGM that PWC's applicable audit partner will continue to be rotated at least every 5 years, and that this role has been put out to tender periodically. Very close relationships between auditors and companies evolve over time, which can work against investors in instances where auditors, when seeking to retain their respective roles, might become reluctant to bring a given arising issue to attention.

Several of ALX's directors are chartered accountants including the new ATLIX Chair Fiona Beck, and Caroline Foulger who is previously a PWC partner, so these directors assumedly appreciate the ASA's stance adopted in these regards.

Resolutions 3 and 4 - Approval of decrease in the maximum number of directors and the NED Fee Pool – For

The ASA has long contended that the ATLIX board had a surplus of directors to discharge a seemingly limited workload, so will vote undirected proxies in favour of the reduction in the maximum number and the NED fee pool.

Re-election of directors

Debra Goodin is a very experienced director, her candidacy, is supported for the reasons mentioned above under ATLAX.

Andrew Cook is yet another Accountant whose business experience seems largely limited to that field. He either holds or has held a number of directorships of Bermudan companies and had a short tenure as a CEO of a Bermudan based Insurance Company. He has executive, financial, operational, capital market, CFO, M&A and IPO experience.

He was the CEO of GreyCastle Life Reinsurance, a Bermuda based entity that participated in the life reinsurance run-off space, and he served on the Boards of Blue Capital Reinsurance Holding Limited and GreyCastle Life Reinsurance (SAC) Ltd.

His GreyCastle tenure entailed managing the long term duration nature of its life and annuity obligations, which affords him experience in managing the lifecycle of Atlas Arteria's toll road concessions regarding to its corresponding debt held. His candidacy is not opposed.

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