



Traffic flows recover in Europe and America while 2035 expiry of APRR toll road concession looms

Company/ASX Code	Atlas Arteria Limited/ALX
AGM date	Tuesday, 10 May 2022
Time and location	10.00 a.m. AEST Online
Registry	Computershare Services Limited
Virtual Meeting	https://meetnow.global/MN9ARAY
Poll or show of hands	Poll
Monitors	Nick Bury and Mike Batchelor
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

Potential conflict: One monitor involved in the preparation of this voting intention has a shareholding in this company.

Note: ASA will be voting proxies and asking question at the AGM

ALX comprises 2 separate stapled entities being Atlas Arteria Limited (ATLAX) and Atlas Arteria International Limited (ATLIX), which will both hold their respective AGM’s consecutively on the day.

Meeting of Atlas Arteria Limited (ATLAX)

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

Summary of ASA Position

ALX is now finally rid of Macquarie Bank’s management and performance fees. The current cost structure levied by ALX in the form of directors’ fees, wages and staff incentive schemes collectively costs shareholders far less than the previous status quo, increasing proportion of cashflow available to the shareholders as distributions.

Traffic flows at ALX’s toll roads/tunnel in France, Germany and America continue to recover from COVID-19, so EBITDA collected from its 3 toll roads APRR, ADELAC and Dulles Greenway respectively went up 22.2%, 17.2% and 21.3% during the year under review.

However, the expiry year of its French APRR concession is 2035, which from a forward-looking long-term investor viewpoint is not so far away. So much incoming revenue has been used to both reduce its debt on and increase its percentage ownership of this asset, ALX having continuously increased its stake in the same, which now stands at 31.4%. Other potential buyers may have less appetite for APRR’s concession termination risks.

APRR has been a fabulous asset for ALX and its shareholders, successively increasing profits and dividends every year until COVID-19 hit, and now it has again started to resume its upward trajectory. The present problem is that the APRR concession is currently set to terminate, and as most of its increasing EBITDA derives from this one asset, should APRR be lost then there's little else percentage wise left of the company.

A small compensatory factor has been yet another increased total dividend of 36c paid out to shareholders during the year.

Whilst there's no guarantee of ALX being able to extend or renew APRR's concession, ADELAC, Warnow and Dulles Greenway luckily have respective concession expiry dates of 2060, 2053 and 2056, so are presently non problematic in that regard.

Dulles Greenway at 31 December 2021 reported USD221M cash reserves that can't be distributed to shareholders until it passes its lock-up tests as defined under its debt covenants. Management's task is to remediate this obstacle, then either distribute these proceeds to shareholders, invest in improving its current assets, or else put the monies toward a new EPS accretive greenfield project.

Interest rates are of course rising, but as most of ALX's debt is locked in at long term low interest rates, resultant inflation triggers toll increases that drop straight to its bottom line. So far ALX and its predecessor MQA have been the gifts that keep on giving, and to date ALX's new management have kept on course in these regards. The former entity MQA's shares were at one point selling for little over 10% of ALX's current share price not so long ago.

Ongoing incremental improvements being made to ALX's toll road stable keep increasing its revenue and resultant distributions. Shareholders are also encouraged to read the company's annual report, as opposed to the writers reciting its listed financial information given as part of this voting intention report.

ALX's AGM is again being run online this year, assumedly for the last time, as that process largely avoids the desirable scrutiny that accompanies a public gathering at a normally run AGM.

Financial performance

Shareholders have again fared well in terms of increased dividends received.

Key Board or senior management changes

ALX as a stapled security comprises of 2 boards, ATLAX and ATLI, the Bermuda based board, which desirably could be reduced by one member and still continue as a fully functional board.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	163.69	(99.21)	(9.82)	59.85	519.58
EBIT (\$m)	259.1	165.4	251.3	151.4	178.3
Share price (\$)	6.92	6.50	7.83	6.16	6.19
Dividend (cents)	28.5	11	30	24	20
TSR (%)	11.4	(15.5)	32.2	3.4	30.6
Statutory EPS (cents)	17	(10.7)	(1.4)	8.84	87.66
CEO total remuneration, actual (\$m)	3.252	2.368	2.747	0.840	Not disclosed

Item 2a	Election of David Bartholomew as a Non Executive Director (NED)
ASA Vote	For

Summary of ASA Position

Supporting information supportive of all ALX candidates for election/re-election to its board can be accessed online on its website and in its annual 2021 report.

Mr Bartholomew has been an ALX NED since October 2018, he's also Chair of the ATLAX Remuneration Committee, and a member of their Nomination and Governance Committee. His 30 years breadth of experience is in the energy utilities, and in transport and industry. His relevant management experience regarding his ALX NED duties was as CEO of DUET, and also in executive positions at Lend Lease and BHP.

He's currently both Chair and an NED of Iris Energy Limited and he serves on the Boards of Endeavour Energy (the NSW electricity distributor), Power & Water Corporation (Northern Territory), Keolis Downer and an External Independent Chair of the Executive Price Review Steering Committee of AusNet Services.

He is strongly credentialled for the position. No reason to oppose.

Item 2b	Election of Jean-Georges Malcor as a NED
ASA Vote	For

He's a member of the ATLAX Audit and Risk Committee, Nomination and Governance Committee, and People and Remuneration Committee. He is both an experienced executive and non-executive director and seemingly has a long track record in large international projects and developments.

His other directorships are as an NED of construction and engineering company ORTEC and Fives, and of Chair of ENSTA Bretagne School of Engineering. His executive experience includes eight years as CEO at CGG, a Euronext-listed French geoscience company in the global oil and gas industry. Previously, he spent 25 years at Thales Group (Euronext Paris: HO) in France and Australia, and significantly he was the first Managing Director of ADI (Australian Defence Industry).

His other expertise is in corporate governance, risk mitigation, strategy, technology, financing and restructuring. As ALX's main asset, as stated above, is located in France and he is a French national, his local knowledge is assumed to be highly helpful.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

None of the base salaries, or maximum Long Term Incentive (LTI) or Short Term Incentive (STI) awards proposed to be paid to ALX's KMP are excessive, though are assumed to be sufficient to deter staff from seeking alternative employment in a competing space. LTI's are again only to be measured over a 3 year period, rather than over a desired 4 or 5 year performance period.

ALX has added another 2 conditions to the meeting of its LTI's, being to progress the extension of its above averred to APRR concession past 2035, and to unlock those abovementioned monies held in escrow by Dulles Greenway's bankers, for re-deployment. The achievements of both of these goals, especially the concession extension, would help to assure ALX of a continued prosperous future, and greatly ameliorate investors current concerns.

One big negative of the Remuneration Report is that the ALX board, in the instance of it being satisfied that these conditions have been met, but not shareholders also being satisfied, can alternatively pay out these benefits in cash without further recourse to receiving shareholder assent.

ALX had proposed to only attach a 2 years duration span to this LTI hurdle, however after speaking to the ASA and other proxy holders agreed to extend this time period to 3 years. 3 years is arguably too short a span to set for an LTI, much less 2 years.

The separate STI and LTI set criteria for vesting have been discussed below as part of items 4 and 5, but opaqueness is the criticism.

LTI performance is again measured by Total Shareholder Return (TSR) as opposed to other criteria, such as growth in Earnings Per Share (EPS). ALX's TSR must better the average of 50% of its selected comparator group of companies, then all benefits vest on a straight line basis when its TSR reached 75% of its comparator group of companies.

ALX's proposals for remunerating its NEDs are likewise acceptable, but shareholders need to remain aware that the history of ASX listed companies is tilted to excess in these regards with regard to remunerating both KMPs and NEDs over time. Unwarranted 'bracket creep' remains a danger.

NEDs remain incentivised to perform their respective roles by having to buy ALX shares to the value of 3 years of their annual director's fees received. We note that Ariane Barker had commenced as a NED 1 March 2021 and was reported to have held shares to the value of \$94,112 versus a minimum holding requirement of \$140,000.

The maximum that its current CEO can earn is shown in the below table.

	Target \$	% of Total	Max. Opportunity \$	% of Total
Fixed Remuneration	1,277,369	33%	1,277,369	29%
STI - Cash	658,039	17%	924,991	21%
STI - Equity	658,039	17%	924,991	21%
LTI	1,277,369	33%	1,277,369	29%
Total	3,858,816	100.0%	4,404,720	100%

Item 4	Approval of grant of Performance Rights to Graeme Bevans under ALX's Long Term Incentive (LTI) Plan
ASA Vote	For

Summary of ASA Position

His maximum LTI opportunity is set at the value 100% of his \$1.3M fixed remuneration in the form of ALX shares. Should 100% of his LTI opportunity vest then the number of ALX shares that he would receive would be calculated by dividing this \$1.3M sum by the then current ALX share price. This quantum is not unreasonable, provided that reasonable vesting hurdles are attached.

His TSR hurdle works as follows. Should ALX's share price perform at less than 50% of the average of its comparator group, then no LTI's would vest. The hurdle is fully met when ALX's share price outperforms the average of 75% of its comparator group, and vests on a pro rata partial basis when it performs between 50-75%.

EPS would be an additional preferred hurdle, in that if all the TSR comparator entities perform badly and ALX's share price goes down, then all of the target LTI's can still vest, and the recipient has not shared at all in unitholders' pain. Alternatively, requiring a gateway of absolute TSR to be positive aligns with shareholder experience.

Two (2) significant hurdles have been added. Management must improve the average concession life of the current ALX portfolio of toll roads, and create a clear pathway to access those significant cash flows from its Dulles Greenway toll road that are currently being held in escrow by ALX's lenders under the terms and conditions of the loan advanced.

The criticality of ALX's APRR concession has been addressed above. Should APRR's concession life not be extended, then as APRR comprises the bulk of the company's assets, cash flows, and source of distributions paid to shareholders, there'd be little left of the company if the concession expired unrenewed.

The vesting LTI vesting time frame has been set at 3 years, as opposed to a preferred 4 or 5 year time span. Previously, the time frame set for vesting regarding these added 2 hurdles had been 2 years, which was of course unacceptable for an LTI plan, but ALX sensibly also extended this vesting period to 3 years, after being spoken to in this regard by the ASA and other proxy holders, as otherwise the item faced likely rejection by shareholders.

Item 5	Approval of grant of Performance Rights to Graeme Bevans under ALX's Short Term Incentive (STI) Plan
ASA Vote	For

Summary of ASA Position

The maximum that Mr Bevans can earn from his STI's, set under a one year performance period, again equates to his total salary for one year. 60% of his total maximum STI equates to financial performance, 30% to the accomplishment of strategic objectives, and the remaining 10% to meeting ESG measures. Half of his STI is payable in cash, and the other half is deferred.

Yet again the quantum is not excessive, but the above hurdles set are opaque, so it's hard for shareholders to determine whether or not Mr Bevans' performance will merit his receipt of his STI's in any given year. An ESG measure with a 10% weighting will be introduced to the Short Term Incentive Plan for 2022, with KPIs tied to corporate ESG objectives to be set annually reflecting the priorities for the year ahead. For 2022, the focus will be on Lost Time Injury Frequency Rates (LTIFR) targets of less than or equal to 3 for large business and less than or equal to one for small businesses, and milestones towards implementation of Task Force on Climate-Related Financial Disclosures (TCFD).

Whether or not set financial performance hurdles have been met is easier to determine, provided that these objectives and hurdles are set out in a manner that can be easily understood. The accomplishment or otherwise of set strategic objectives won't be known by shareholders either, unless they know what these objectives are.

The nature of and awarding or otherwise of these STI's does entail a lot of trust by shareholders of ALX management, so shareholders hope not to be let down over time by ALX management in these regards. More detailed disclosures will be requested on the next occasion.

Ensuing Meeting of Atlas Arteria International Limited (ATLIX)

Item 1	Audited Financial Statements
ASA Vote	No vote required

Summary of ASA Position

See Item 1 for the prior ALX meeting. The 2 companies are stapled together and operate jointly.

Item 2	Re-appointment of PricewaterhouseCoopers as Auditor
ASA Vote	To be advised

Summary of ASA Position

We seek further assurances at the AGM that the continuity of PWC as the audit firm has been regularly assessed and request the audit services be put out to tender. 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.

Those of ALX's directors who are chartered accountants should understand the ASA's stance taken in these regards. ALX can claim that PWC needs to carry on as its auditor for continuity purposes, and expound on the presenting difficulties arising when a new firm of auditors is appointed. Nonetheless the position should be put out to tender, as other listed entities seem to manage to negotiate that process without encountering major mishap.

Their total fees paid to the auditors increased from \$1,294,535 in 2019 to \$1,565,997 in 2020 and fell to \$1,353,512 in 2021.

Item 3a	Re-election of Jeffrey Conyers as a NED of ATLIX
ASA Vote	Against

Summary of ASA Position

He could not possibly be regarded as an independent director after being a Bermuda based NED of ALX and its Macquarie Bank controlled predecessors MQA and MIG for about the past 20 years. The ASA previously accepted the argument that he stay on for continuity purposes when MQA devolved into ALX, whilst as the latter it undertook the process of breaking away from Macquarie Bank control and established new management.

However, he has long outlived his ALX claimed independent NED status, and ALX has been remiss this time round not to move him on. There is also a seeming strong presenting argument to reduce the size of ATLIX's board, which comprises of ALX's Bermuda based directors. Consequently, his experience for the position applied for has not been addressed.

Item 3b	Election of Caroline Foulger as a NED of ATLIX
ASA Vote	For

Summary of ASA Position

She was appointed as a NED on 19 May 2020, and she is the Chair of the ATLIX Audit and Risk Committee, and a member of the ATLIX Nomination and Governance Committee.

Her board and executive experience in the financial services sector, and particularly in insurance, audit and advisory services. She is a Chartered Accountant, and spent 12 years as a PWC Bermuda partner leading its insurance practice.

Her other NED roles are as a NED and Chair of the Audit Committee on Hiscox Ltd, as a NED at Catalina Holdings, Oakley Capital Investments Limited and Ocean Wilsons Holdings Ltd. In 2017 she was a member of the Blue Ribbon Committee that vetted the feasibility and financing of a new Bermuda Airport, that was later built and is now operational.

As her experience is pertinent to ALX's ongoing operations regarding its financing of its infrastructure and any new proposed greenfield projects, her candidacy is not opposed.

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