



Goodman excels through difficult times

Company/ASX Code	Goodman Group (GMG)
AGM date	Thursday 19 November 2020
Time and location	10:00 am Virtual AGM
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Richard McDonald
Pre AGM Meeting	Yes, with Chair Ian Ferrier, incoming Chair Stephen Johns and Chair of the Remuneration and Nomination Committee Phillip Pryke

The individuals or their associates involved in the preparation of this Voting Intentions have security holdings in this company.

Item 1	Consideration of financial statements and reports
ASA Vote	No vote required

Summary of Achievements

Goodman Group (GMG) celebrated 25 years of operations this year with another stellar performance. From \$75.5 million of assets and 8 people in 1995, Goodman Group now has \$51.6 billion of assets under management and over 900 employees working across 30 cities worldwide. After a difficult few years during the Global Financial Crisis of 2007/08, GMG has reshaped its business model to a low geared, capital light partnership operation and has become a developer and manager of industrial infrastructure largely funded by superannuation funds and investment managers. Among its major clients are Amazon (7.2% of rental income) and Deutsche Post. It now derives approximately 70% of earnings from international markets.

Financial performance

Operating profit for FY20 was \$1.060 billion, up 12.5% on FY19 while statutory profit (including revaluations) was \$1.504 billion. Operating earnings per security (EPS) was 57.5 cents, up 11.4% on FY19 and the distribution per security was 30.0 cents. Gearing stood at 7.5%, down from 9.7% in FY19. GMG's total security return over the last 3 years has averaged 27% per annum and 21% over the last 10 years. At the close of FY20, GMG's security price was flat at \$14.85 (\$15.03 at end of FY19) but has since risen strongly to nearly \$19.00 (actual was \$18.89 on 10 Oct 20). Work in progress (defined as projects in the planning and delivery phase, yet to be income producing) increased substantially by 59% during FY20 to \$6.5 billion and is forecast to exceed \$7.0 billion by the end of calendar 2020.

Increased development activity is flowing through to external funds under management which were up 12% to \$48 billion on behalf of GMG's capital partners (out of the total assets of \$51.6 billion) with a total average annual return of 16.6% with strong income and capital growth. Guidance for FY21 is an operating profit of \$1.165 billion and operating EPS of 62.7 cents, up 9% on FY20.

Perhaps the only disappointment from a security holder perspective is that GMG has kept its distribution flat at the FY19 level of 30 cents and is forecasting the same again for FY21. The board's rationale for this constraint is the rapidly increasing level of work in progress which must be funded while maintaining a conservative level of gearing.

Governance and culture

GMG continues to have a strong focus on culture and behaviours lead by the CEO and supported by the board. The Goodman Foundation offers support to a range of charities with a focus on children, community, food rescue and environment. During 2020 Goodman pledged \$6.5 million to bushfire recovery as well as making numerous other donations to its preferred causes.

Board membership maintains a high degree of continuity with only occasional changes, some of which are being seen this year. Unusually, the GMG board has three executive directors, being Greg Goodman as CEO, Danny Peeters as Executive Director, Corporate and Anthony Rozic as Deputy Group CEO and CEO, North America. It is also notable that Greg Goodman, being the founder of the company, maintains a significant security holding in the group. The company has responded that the board structure has worked well and has contributed to the long term success of the business. The executive management team is also largely unchanged from past years, partly due to its business success and partly to the financial rewards that have flowed to these executives.

The board has two women out of a total ten directors but there are no women listed among the key executive team of six men. The ASA has raised this issue on several occasions and the company has responded that it is endeavouring to grow its female manager cohort but notes that the stability of the executive team has made it difficult to bring new members into it.

Key events

Goodman has responded well to the challenges of COVID-19. It has worked with vulnerable customers experiencing financial stress and with working-from-home arrangements for staff affected by government-imposed travel restrictions. On the positive side, many of GMG's customers have experienced considerable upsurges in business with new opportunities emerging, especially in on-line sales. The industrial property market globally remains strong with a weighted average capitalisation rate falling from 5.1% to 4.9%. GMG reports that the impacts of COVID-19 have not been material in the context of the company's operating profits and net assets.

GMG continues to monitor the situation in China and, in particular, Hong Kong as tensions in the region rise. There are no reported incidents affecting GMG personnel, but the company has contingency plans in place and is able to respond to any individual or family concerns that may arise.

Key board or senior management changes

Longstanding Chair Ian Ferrier will be retiring at the close of this year’s AGM and will be succeeded by Stephen Johns who joined the GMG board in 2017. Stephen has a long history of public company director and chairman roles and was, for many years, a senior executive in the Westfield Group. Mark G Johnson was appointed the board on 1 June 2020 and will be standing for election at the upcoming AGM. Mark spent 30 years at PwC where he was CEO from 2008 to 2012.

There have been no reported management changes at senior levels.

Financial Summary

(As at FYE)	2020	2019	2018	2017	2016
Statutory NPAT (\$m)	1,504	1,628	1,103	797	1,295
Operating NPAT (\$m)	1,060	942	846	776	715
Security price (\$)	14.85	15.03	9.62	7.87	7.11
Dividend (cents)	30.0	30.0	28.0	25.9	24.0
TSR (%)	(0.4)	59.4	26.0	14.2	17
Operating EPS (cents)	57.5	51.6	46.7	43.1	40.1
CEO total remuneration, actual (\$m)	26.8	14.9	10.2	8.4	6.6

For 2020, the CEO’s total actual remuneration was **289** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, “Full-time adult average weekly total earnings”)

Item 2	Re-election of Mr Stephen Johns as a Director
ASA Vote	For

Summary of ASA Position

Mr Johns was appointed to the board of Goodman on 1 January 2017 and will succeed Mr Ferrier as chairman if re-elected. Mr Johns retired as the chairman of Brambles in June 2020 and was previously chairman of Leighton Holdings Limited and of Spark Infrastructure Group. Mr Johns is a former executive and non-executive director of Westfield Group where he had a long executive career during which he held a number of senior positions including that of Finance Director.

The board considers that Mr Johns’ experience with Goodman Group and other major Australian listed companies and his background in finance and property has and will continue to be of great benefit to Goodman.

The ASA is of the view that Mr Johns is well experienced for the role of director and chairman of Goodman Group and appears to have few other commitments that would impact on his available time. The ASA will therefore vote in favour of his re-election.

Item 3	Election of Mr Mark Johnson as a Director
ASA Vote	Undecided

Summary of ASA Position

Mr Johnson is a trained accountant and spent 30 years at PwC where he was CEO from 2008 to 2012. He is currently Chairman of G8 Education Limited, HCF of Australia and engineering consultancy Aurecon Group Pty Ltd. He is also a director of Coca-Cola Amatil Limited, Corrs Chambers Westgarth, The Smith Family and is a Councillor at the University of NSW. He was also a director of Westfield Corporation from May 2013 to June 2018.

While the board considers Mr Johnson's experience in accounting and as a non-executive director will be of benefit to Goodman, the ASA has concerns about the number and nature of the roles he currently has and intends to ask about his time availability at the AGM.

Item 4	Adoption of 2020 Remuneration Report
ASA Vote	Against

Summary of ASA Position

During FY20 the CEO received a base salary of \$1.4 million plus \$25.4 million in securities that vested under the LTI Plan. By mutual agreement, the CEO received no STI award. The large LTI payment arose from the vesting of past generous grants of performance awards, particularly in FY16 and FY17, and the considerable appreciation in the value of those securities since the awards were made. The total value of the vested securities at the time of the awards was \$11.6 million. It should be noted that the \$25.4 million value of vested securities was based on a security price on 2 September 2019 of \$14.26. If held, those securities would have been worth \$33.65 million on 10 October 2020. Danny Peeters and Anthony Rozic received STI payments of EUR0.7 million and US\$1.05 million respectively while also receiving vested securities valued (at 2 September 2019) at \$7.3 million and \$8.7 million respectively. The STI payments are made in cash with 50% paid on finalisation of the accounts and the other 50% deferred for one year and subject to malus forfeiture.

By any measure, these remuneration levels are seen as quite excessive notwithstanding the good performance of the company. The company seeks to justify these high levels by noting that much of the value has come from a rising security price which benefits all security holders and from demanding gates in EPS growth over one year for the STI awards and over 3 years for the LTI

awards. For example, the EPS gate for STI in FY20 was a 9% increase in the FY19 EPS of 51.6 cents (being 56.3 cents) which was bettered by the actual achieved for FY20 of 57.5 cents. Similarly, the LTI EPS minimum compound annual growth rate (CAGR) over 3 years is 6% at which 25% of awards vest up to 9% at which 100% of awards vest. The LTI awards are split 75% to EPS growth and 25% to relative TSR against the ASX100 group of companies.

A summary of the CEO's remuneration plan for FY21 is presented in the following table. The fixed remuneration remains unchanged at \$1.4 million (it has been at this value since at least FY15) plus a maximum of 950,000 performance rights valued at \$14.85 each being the security price at 30 June 2020. The number of performance rights issued for FY20 was 900,000. The rights awarded in previous years was 1,600,000 in each of FY19 and FY18, 2,400,000 in FY17, 2,000,000 in FY16 and 995,476 in FY15.

CEO Remuneration – FY21

CEO Remuneration	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.40	9	1.40	9
STI - Cash	0	0	0	0
STI - Equity	0	0	0	0
LTI - Deferred	14.10	91	14.10	91
Total	15.50	100	15.50	100

While the annual grants of awards have significantly reduced from the very high levels of FY19 and FY18, the ASA's view is that the remuneration levels are still too generous and, notwithstanding the high EPS hurdles, will therefore vote against this resolution.

Item 5	Grant of securities to CEO, Gregory Goodman
ASA Vote	Against

Summary of ASA Position

As noted above, the proposed LTI grant in FY21 is 950,000 for the CEO to be tested against the EPS and TSR hurdles at the end of the three-year period to 30 June 2023. Of the allocated securities after testing, one third will vest on 1 September 2023, the second third on 1 September 2024 and the final third on 1 September 2025.

For the reasons set out under Item 4 above, the ASA believes this award is too generous and will therefore vote against this resolution.

Item 6	Grant of securities to Mr Danny Peeters
ASA Vote	Against

Summary of ASA Position

The FY21 grant to Danny Peeters for FY21 is 380,000 securities under the same conditions as for the CEO. This figure compares with 350,000 securities in FY20.

The ASA believes this award is too generous and will therefore vote against this resolution.

Item 7	Grant of securities to Mr Anthony Rozic
ASA Vote	Against

Summary of ASA Position

The FY21 grant to Anthony Rozic for FY21 is 400,000 securities under the same conditions as for the CEO. This figure compares with 380,000 securities in FY20.

The ASA believes this award is too generous and will therefore vote against this resolution.

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