Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235

# Goodman produces another stunning financial performance and finally takes some positive action on its remuneration framework

| | |
|---|---|
| **Company/ASX Code** | Goodman Group/GMG |
| **AGM time and date** | 10.00am Tuesday, 14 November 2023 |
| **Location** | Times on the Park Room, Sheraton Grand Sydney Hyde Park, 161 Elizabeth Street, Sydney |
| **Registry** | Computershare |
| **Type of meeting** | Hybrid meeting |
| **Monitor** | Lewis Gomes, Richard McDonald, and Jonathon Goh |
| **Pre-AGM Meeting** | Stephen Johns (Chairman) and John Inwood (Head of Group Stakeholder Relations) with Lewis Gomes, Richard McDonald and Jon Goh |

Monitor Shareholding: Several of the individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

## 1. How we intend to vote

| No. | Resolution description | Voting |
|---|---|---|
| 1 | To appoint the auditor of Goodman Logistics (HK) Limited | For |
| 2 | Re-election of Stephen Johns as a director of Goodman Limited and Goodman Logistics (HK) Limited | For |
| 3 | Re-election of Mark Johnson as a director of Goodman Limited | For |
| 4 | Election of Belinda Robson as a director of Goodman Limited | For |
| 5 | Election of George Zoghbi as a director of Goodman Limited | For |
| 6 | Election of Kitty Chung as a director of Goodman Logistics (HK) Limited | For |
| 7 | Adoption of the Remuneration Report | For |
| 8 | Issue of Performance Rights under the Long Term Incentive Plan to Greg Goodman | For |
| 9 | Issue of Performance Rights under the Long Term Incentive Plan to Danny Peeters | For |
| 10 | Issue of Performance Rights under the Long Term Incentive Plan to Anthony Rozic | For |

## 2. Summary of Issues and Voting Intentions for AGM

- ASA notes the very impressive financial outcomes achieved by Goodman in what was a very challenging year for most property companies given rapidly rising interest rates, the return of significant inflation and valuation writedowns, especially in the buildings sectors. While the Financial Report is not subject to a voting resolution, ASA will nevertheless congratulate Goodman on achieving the results that it has.
- ASA notes the second strike recorded at last year's AGM on the Remuneration Report and acknowledges the changes made by the Board for the FY23 year and beyond. After careful consideration and after many years of voting against the Remuneration Report, ASA this year will be voting undirected proxies for the Report as described later in this report.
- Goodman continues to have 3 executive directors on its main board, namely the CEO and its two regional leaders Danny Peters and Anthony Rozic). ASA does not support this arrangement from a governance perspective and notes that Goodman is the only major ASX listed company that has more executives that the CEO on its board. Goodman continues to emphasise the importance of this arrangement to its market success so we generally agree to disagree on this point. Neither of the two regional leaders are standing for re-election this year.
- Goodman is putting two directors up for re-election and three new directors for election to the board of Goodman Limited. ASA will support all of these resolutions.
- There are 3 resolutions concerning the issue of performance rights to the executive directors. Notwithstanding ASA's comments on the number of executive directors, ASA will support these nominations.
- ASA remains concerned that Goodman continues to support several ventures controlled by one of its directors, Chris Green, as described on Page 85 of the Annual Report. These arrangements were challenged by ASA at last year's AGM and we were given the response that these investments were immaterial to both Goodman and Mr Green and provided Goodman with valuable insights into several technology systems being developed by these ventures. Goodman also rejected any suggestion of conflicts of interest on the part of Mr Green. ASA is not suggesting that Mr Green or anyone in Goodman has acted inappropriately, but wonders why such small investments are worth the trouble and potential for a conflict to arise.

## 3. Matters Considered

**Financial performance**

While most property development and management companies in Australia had a tough year due to rapidly rising interest rates and negative property revaluations, Goodman Group (Goodman or GMG) put in another stellar year. Operating profit of $1,783 million was up 17% on FY22 while operating EPS of 94.3 cents was up 16% on FY22 and ahead of recent guidance. Statutory profit, which includes property revaluations, non-cash items and mark-to-mark movements, was $1,560 million, down 54% due to the previous year reflecting substantial upward revaluations which were not able to be repeated this year. Nevertheless, net property revaluations were positive for FY23 at $0.8 billion.

Development earnings were up significantly to an operating EBIT of $1.3 billion, an increase of 35% on FY22, while the EBIT contribution from Property investment and Management were collectively fairly steady at $1.0 billion. The strength of Development is also reflected in the release of some $6.9 billion of new product during FY23 with a similar amount expected for FY24.

Gearing remained very low at 8.3% while net tangible assets (NTA) per security rose 9% to $9.12. While most listed property companies traded during the year at significant discounts to NTA, Goodman has continued to comfortably trade at double its NTA, a remarkable endorsement by the market of GMG's performance.

Total assets under management (AUM) were up 11% to $81.0 billion while development work-in-progress (WIP) remained similar to last year at $13.0 billion across 81 projects with a forecast yield on cost of 6.6%.

Goodman's focus on large scale, complex industrial developments for international companies such as Amazon across Australia, the Americas, Asia and Europe sets the company apart from most of its competitors. The digital economy is driving customer requirements, particularly for near-city locations and more multi-storey developments at infill (brownfield) sites rather than the traditional large floorplan single storey developments in outer suburbs. In particular, Goodman has seen a significant increase in data centre developments which currently represent 30% of its $13.0 billion workbook with a secured or potential power allocation greater than 3GW.

Share-based compensation for executives continues to be excessive in the view of ASA at $286 million for FY23 up from $258 million in FY22. These amounts approximate 16% to 17 % of operating profit for the relevant year compared with $562 million and $557 million in dividends and distributions for the same years. That is, the group of executives who receive these awards are collectively receiving amounts equalling about half of the total returns to shareholders. As can be seen in the following table, the dividend per share has remained stationary at 30 cents, notwithstanding an almost doubling in EPS over these 5 years. Goodman maintains that the extra earnings are needed to fund the growing WIP and the business in general rather than being given to shareholders. It argues that the benefits of the growth in the business are reflected in the share price which indirectly benefits shareholders, noting that shares would have to be sold to realise these benefits.

It should be noted that share-based expense is an accounting treatment and does not reflect the cash cost of vested equity. New vested equity is created by the issue of new securities at no cost to participants and adds to the total pool of securities and hence lowers the EPS. Executives have to recover this EPS dilution before they can benefit from increases in EPS.

It is noted that the substantial increases in WIP have levelled off in the most recent year. At the end of FY19, WIP stood at $4.0 billion, then $6.5 billion in FY 20 then $10.6 billion in FY21 to $13.6 billion at the end of FY22. At the end of F23, as noted above, WIP has dropped slightly to $13.0 billion. In our Pre-AGM meeting with GMG, the Chairman advised that WIP is likely to reduce to about $11 billion over the next few years but that it needs to invest about $1.4 billion to support its capital investments in its partnerships in order to maintain its relative equity in these ventures. Hence the prospects for meaningful increases in distributions are limited.


The Voice of Retail Shareholders T (02) 9252 4244 | F (02) 9071 9877 share@asa.asn.au asa.asn.au

**Summary 5 Year Financial Table**

| (As at FYE) | **2023** | **2022** | **2021** | **2020** | **2019** |
|---|---|---|---|---|---|
| Statutory Profit ($m) | 1,560 | 3,414 | 2312 | 1504 | 1628 |
| Operating Profit ($m) | 1,783 | 1,528 | 1,219 | 1,060 | 942 |
| Share price ($) | 20.07 | 17.84 | 21.17 | 14.85 | 15.03 |
| Dividend (cents) | 30 | 30 | 30 | 30 | 30 |
| Simple TSR (%) | 14.2 | (14.3) | 43.3 | (0.4) | 59.4 |
| Operating EPS (cents) | 94.3 | 81.3 | 65.6 | 57.5 | 51.6 |
| CEO total remuneration, actual ($m) | 27.4 | 44.3 | 37.0 | 26.8 | 14.9 |

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

**Governance and culture**

Goodman Limited has a board of 11 directors, including the CEO and two other executive directors. Of this group, 3 are women. It is noted that Kitty Chung is standing for election to the board of Goodman Logistics (HK) Limited and not to the main board.

There are 5 nominated Key Management Personnel (KMP) including the 3 executive directors, all of whom are men.

Goodman has a board diversity target of 40/40/20 for non-executive directors (now 40% female) but gives little information on diversity within the broader workforce. Following recent elections of new directors, the geographic spread has improved with now 30% of directors based in the US, 20% in Hong Kong and the rest in Australia.

The percentage of females in senior roles remained at 30% in FY23. Goodman continues to work towards a target of 40% by 2030 and 50/50 overall by 2030.

In our meeting with Goodman, we asked about the selection and management of KMPG as auditors to the Group. We were advised that KMPG have been the auditors for many years and are able to provide the international experience and resources that the role requires. The lead partner is rotated every 5 years and the Chairman stated that GMG is very happy with the services provided by KPMG and sees no reason for changing arrangements that have worked very well over many years.

**Key events**

The most significant event this year was the receipt of a second strike over the remuneration resolution at last year's AGM in November 2022. The number of votes against was 29% of cast votes, exceeding the minimum for a strike of 25%. This outcome was somewhat better than that achieved at the FY21 AGM where the number of against votes was 42% of cast votes. The reasons were the usual ones for GMG, excessive security awards and the continuing use of so-called "fair" value rather than "face" value in determining the number of rights awarded. To its credit, the

Board took note of the concerns and made some significant changes to the remuneration for FY23 and beyond which are discussed later in the VI.

**Key board or senior management changes**

There have been a number of changes to the main board since the last AGM. Rebecca McGrath resigned as a director of Goodman Limited in February 2023. Longstanding (nearly 13 years) director and former chair of the Remuneration Committee, Phillip Pryke, has announced he will retire in the first half of 2024. As a result, the Remuneration and Nomination Committees have been combined into a single committee chaired by Stephen Johns.

New directors standing for election to the board of Goodman Limited are Belinda Robson and George Zoghi while Kitty Chung is standing for election the board of Goodman Logistics (HK) Limited. Stephen Johns and Mark Johnson are standing for re-election to the main board while Stephen Johns is also standing for re-election to the board of Goodman Logistics (HK) limited.

Amongst the KMP, Michael O'Sullivan retired as Chief Risk Officer (CRO) in March 2023 after nearly 21 years of services to Goodman Group. A replacement CRO had been appointed from within the Group but will not be made a KMP.

**Sustainability/ESG**

Goodman has for a long time taken sustainability and ESG into consideration in its projects and corporate activities. Apart from its own desire to meet community expectations, there is an obvious benefit to its business activities as more clients are demanding ever increasing attention to these matters.

Goodman is on track to achieve key sustainability targets including 306MW of solar PV installed or committed in FY23 which takes it to 75% of its 2025 target of 400MW.

Goodman has built an ESG hurdle into its remuneration framework, where up to 20% of awards could be forfeited if these targets are not met. Details are provided in the Annual Report.

The Goodman Foundation is active in philanthropic and community support activities with an annual spend of about $10 million excluding time spent by employees.

## 4. Rationale for Voting Intentions

**Resolution 1 - Appointment of auditor for Goodman Logistics (HK) Limited**

This is a standard resolution each financial year required under Hong Kong law. It is proposed to reappoint KPMG as the auditor. ASA has no reason to challenge this appointment and will vote all undirected proxies in favour of this resolution.

**Resolution 2 - Re-election of Stephen Johns as a director of Goodman Limited and Goodman Logistics (HK) Limited**

Stephen was appointed a director of Goodman Limited in 2017 and was appointed as chairman in November 2020. He had a long career with Westfield Group in various finance roles including Finance Director from 1985 to 2002. Further details on Stephen's career are available in the Annual Report and Notice of Meeting.


The Voice of Retail Shareholders T (02) 9252 4244 | F (02) 9071 9877 share@asa.asn.au asa.asn.au

ASA has found Mr Stephens to be particularly approachable for meetings and a willing listener to our views and suggestions. We have no reason to challenge his re-election and will be voting all undirected proxies in favour of this resolution.

**Resolution 3 - Re-election of Mark Johnson as a director of Goodman Limited**

Mark was appointed a director of Goodman Limited in 2020. He is an accountant by training and spent 30 years at PwC where he was CEO from 2008 to 2012. Further details on Mark's career are available in the Annual Report and Notice of Meeting.

ASA has no reason to challenge this re-election and will be voting all undirected proxies in favour of this resolution.

**Resolution 4 - Election of Belinda Robson as a director of Goodman Limited**

Belinda was appointed a director of Goodman Limited in March 2023. She has over 30 years' experience in the property industry with specific expertise in retail and commercial property funds management. She was an executive at Lend Lease Investment Management and manager of one its larger property funds. Further details on Belinda's career are available in the Annual Report and Notice of Meeting.

ASA has no reason to challenge this re-election and will be voting all undirected proxies in favour of this resolution.

**Resolution 5 - Election of George Zoghbi as a director of Goodman Limited**

George was appointed as a director of Goodman Limited in April 2023. He is currently the CEO of The Arnott's Group following its acquisition by KKR in 2020. He has extensive experience in international consumer packaged goods and supply chain management. Further details on George's career are available in the Annual Report and Notice of Meeting.

George is a director of Brambles Limited and has several other high profile commitments together with his CEO role with Arnott's. In our meeting with GMG, ASA questioned whether he has the time available to fulfil this role and what the relevance of his experience is to the Goodman Group. The Chairman spoke at some length in support of Mr Zoghbi pointing out that both his international experience and deep understanding of various consumer businesses are very relevant to Godman's operations. He also confirmed that KKR was very supportive of this additional role for Mr Zogbi. Consequently, ASA will be voting all undirected proxies in favour of this resolution.

**Resolution 6 - Election of Kitty Chung as a director of Goodman Logistics (HK) Limited**

Kitty was appointed a director of GLHK in July 2023. She has over 35 years of auditor and business advisory experience in Australia and Greater China. She was a partner at PwC Hong Kong prior to her retirement. Further details on Kitty's career are available in the Annual Report and Notice of Meeting.

ASA has no reason to challenge this re-election and will be voting all undirected proxies in favour of this resolution.

**Resolution 7 - Adoption of the Remuneration Report**

As noted earlier, Goodman received a second strike at last year's AGM. The vote against was 29%, a somewhat better result than the 42% against received the year before but nevertheless greater than the 25% required. The problem can be seen from the Remuneration Report (Page 80 of the Annual Report) which shows the number of performance rights awarded to the CEO over successive years. In FY18 and FY19, the CEO was awarded 1,600,000 rights each year. Goodman received a strike over these numbers and the following years a more reasonable path was chosen wherein the CEO was awarded 900,000 in FY20 was 950,000 in FY21. Then suddenly in FY22, the CEO was awarded 1,560,000 rights without any meaningful justification.

The situation was made worse by Goodman's use of so-called "fair" value to estimate the worth of these rights. The basis of fair value is a statistical approach which takes into account various possible outcomes and relies on methods such as Monte Carlo simulations to ascribe a value. No other major ASX listed company now uses fair value and it has been largely discredited as a meaningful measure when applied to assessments of actual remuneration. In Goodman's case, the calculated fair value was typically half the current market or "face" value which meant that the value of the rights as shown in the Goodman material was much less than the actual value. These differences can be seen by comparing the figures on Page 71 of the AR with those on Page 80. For example, in FY22, actual vested remuneration for the CEO was $44.3 million (including $1.4 million of Fixed Rem) while the value of the rights is shown as $31.4 million on Page 80. For FY21, the corresponding figures are $37.0 million and $15.3 million. Direct comparisons are difficult because the values of past awards are increased by simple share price appreciation over time.

At last, the Goodman Board has acted by essentially abandoning the fair value concept and using face value to measure the worth of awards. For FY23, the number of performance awards to the CEO was reduced to 1,000,000 and for FY24 has been further reduced to 900,000. Using the face value of shares at the reference date (end of the financial year) the value of these rights has been calculated at $17.8 million (based on face value of $17.84) and $18.1 million (based on face value of $20.07) for FY23 and FY24. These amounts are much more reasonable and reflect, as they should, the strong financial performance of the company.

For the current year, FY24, after a benchmarking exercise, the Board has set the CEO's total remuneration at $20 million, including FR, and has worked backwards to then calculate the number of rights to be awarded at face (market) value. This approach seems to be reasonable to ASA. It should be noted that the CEO has elected for many years to not receive any STI awards and his FR has remained unchanged for many years and is quite low compared with other large companies on the ASX.

For the executive cohort as a whole, both LTI and STI awards (by numbers of securities) have been reduced by 10% for FY24 to reflect the increase in share price over the past year. Also of note is that the stretch targets for annual EPS growth over the 4 year testing period have been maintained. Given the much higher starting point due to the strong EPS performance over the last few years, as can be seen in the 5 year table presented earlier, these targets are certainly challenging in the current economic environment. The EPS hurdles remain at a minimum of 6% pa to 11% pa for maximum vesting. Over 4 years, these hurdles require an EPS growth of a minimum of 26% to 52% for full vesting.

LTI is measured against two metrics, EPS growth at 75% and TSR at 25%. The Board favours EPS as the main metric as the business has a strong cash generation focus which is more under the control of executives than share price. Further details are provided in the Remuneration Report, including the metrics for assessing STI awards.

In summary, after many years of voting against the Remuneration Report, ASA this year will cast any undirected proxies in favour of this resolution.

**Resolutions 8, 9 and 10 - Issue of Performance Rights under the Long Term Incentive Plan (LTIP) to Greg Goodman, Danny Peeters and Anthony Rozic.**

Details of these performance rights are given in the Notice of Meeting including details of the LTIP performance hurdles and the sustainability condition that must be met to avoid up to 20% of the rights lapsing. In summary, the proposed LTI grant to the CEO is 900,000 securities with a face value of $20.07 giving a total potential value at the valuation date of $18.1 million plus the fixed remuneration (FR) of $1.4 million plus zero STI in accordance with the CEO's wishes.

For Peeters and Rozic, the grants are 455,000 and 500,000 securities respectively plus fixed remuneration plus maximum STI of 150% of FR. Peeters remuneration is shown in EUR while Rozic's remuneration is in USD.

For the reasons outlined above for Resolution 7, ASA believes these awards are now more realistic and justifiable, being based on face value and subject to significant hurdles for EPS growth and TSR performance.

In summary, after many years of voting against the issue of performance rights, ASA this year will cast any undirected proxies in favour of these resolutions.

## Appendix 1
## Remuneration framework detail for the CEO for FY24

| CEO rem. Framework for FY24 | Max. Opportunity $m | % of Total |
|---|---|---|
| Fixed Remuneration | 1.4 | 7.2 |
| STI - Cash | Nil | 0 |
| STI - Equity | Nil | 0 |
| LTI | 18.1 | 92.8 |
| Total | 19.5 | 100.0 |

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.