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

Large revenue. Slim margin, focusing on its expansion

Company/ASX Code	**Kelsian Group/KLS**
AGM time and date	**10:00AM (ACDT) Tuesday 24 October**
Location	Adelaide Convention Centre, Panorama Rooms, North Terrace
Registry	Boardroom
Type of meeting	Physical
Monitor	Bob Ritchie assisted by Ken Wakeman
Pre-AGM Meeting	Yes with Chair Jeff Ellison and Andrew Muir, Company Secretary

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

How we intend to vote

No.	Resolution description	
2	Adoption of Remuneration report	For
3	Re-election of director – Jeffrey Ellison	For
4	Re-election of director – Neil Smith	For
5	Re-Election of Director – Lance Hockridge	For
6	Ratification of issue of placement shares under ASX listing rule 7.1	For
7	Increase in non-executive directors' fee pool	For
8	Approval of grant of performance rights to the Managing Director and Group Chief Executive Officer	For
9	Approval of grant of restricted rights to the managing director and Group Chief Executive Officer	For

Summary of Issues and Voting Intentions for AGM

The key issues for Kelsian in FY 2024 are:

- The integration of the All Aboard American Holdings acquisition
- Bus sector to provide the solution to decarbonisation
- Winning new and renewal of existing contracts
- Finding staff in a tight labour market, particularly Singapore

Matters Considered

Accounts and reports

It was a year dominated by the acquisition of All Aboard American Holdings Inc (AAAHI) with an impressive underlying profit after tax (UPAT) of $84.5m. This included only one month's revenue from AAAHI.

Net profit after tax (NPAT) at $21m from revenue of $1.4b was only up 1.4%.

The marine and tourism business showed improvement as tourism returned after COVID-19.

The Australian Bus and International Bus divisions failed to meet set financial targets, largely due to the ongoing effects of the pandemic impact on labour supply.

Earnings per share (EPS) increased by 10% and there was a small increase in dividend. Total shareholder return (TSR) was 27.8% after last year's disappointing -36%; equalling a net decline of 18% over the two years.

The pay-out ratio was not specified in the 5-year summary but we calculated it to be around 60%. We requested that this figure be included in the summary in future.

Interest bearing debt increased to 40%

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	21	52.9	37.8	(13.5)	21.5
UPAT ($m)	84.5	45.5	43.0	16.4	23.4
Share price ($)	7.26	5.87	9.41	4.42	3.73
Dividend (cents)	17	16.5	16	11	15
Simple TSR (%)	27.8	-36	118.4	21.4	-10.6
EPS (cents)	21.4	19.3	19.7	5.3	23.1
CEO total remuneration, actual ($m)	1.98	2.03	1.57	1.85	0.64

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, Transparency, Fairness to Retail Shareholders

The Board has a non-independent non-executive Chair and a majority of independent directors.

The Board has 25% female directors.

Directors and other key management personnel (KMP) hold (or on target to hold) at least one year's worth of base cash fees in company shares, within 5 years.

Key events

Entered the USA market, through acquisition of All Aboard American Holdings Inc (AAAHI) an established, highly regarded, customer centric operator.

Successful capital raise of $278m to facilitate the AAAHI acquisition which was completed on 1 June 2023. It consisted of an institutional offer and a non-renounceable rights issue to retail shareholders at the same price. In addition, retail shareholders had the opportunity to purchase more than their entitlement for any shares that were not taken up by other shareholders.

Increase of Kelsian's multi-tranche debt and revolving credit facilities by A$227m (USD facilities) for the AAAHI acquisition.

Deployment of $100.2m (2022: $43.1m) of capital expenditure to replace bus fleet, advance vessel builds, improve infrastructure and acquire strategic property assets.

Collectively during FY23, Kelsian moved more than 274 million customers, operated approximately 4,800 buses, 113 vessels and 24 light rail vehicles and finished the period with more than 11,000 employees.

Signed two seven+ year metropolitan bus contracts in NSW, commencing services in August 2023 (Regions 3 & 13) and in October 2023 (Regions 2 & 15) - to become Sydney's largest urban bus operator. During a period of labour shortage in several regions, the Sydney region was understaffed by 150 drivers. Kelsian's decision to honour contracts as far as possible and accept the overtime cost (which was more expensive than the penalties) had a positive result when expiring contracts were renewed and other expired contracts were awarded to Kelsian.

Awarded two new 10-year contracts to provide marine services to ConocoPhillips, Santos and Shell in Gladstone

Purchase of several new vessels including Starship, Starship Aqua and Sydney Crystal in Sydney Harbour and Reef Quest for the Whitsundays/Hayman Island operations

Completion of several acquisitions including bus operations in the Channel Islands of Guernsey and Jersey (September 2022), North Stradbroke Island Buses (December 2022), Horizons West Bus and Coachlines (January 2023) and Grand Touring (NT) (February 2023.)

Key board or senior management changes

- Andrea Stains resigned from the board 26 October 2022
- Diane Grady appointed to the board 1 September 2022
- Clint Feuerherdt appointed managing director 3 July 2023
- G Legh Appointed as CEO of AAAHI from 1 September 2023
- D Gauci appointed as CEO of SeaLink marine & tourism from 3 July 2023
- R Carpenter appointed Group Chief People and Culture Officer from 3 July 2023
- Longest serving director, Chris Smerdon, will step down from the board at the AGM.

Sustainability/ESG

The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.

Rationale for Voting Intentions

Resolution 2: Adoption of Remuneration report

The remuneration report is clear and concise

The CEO's take-home pay for the year was $2million; comprising $875,701 fixed pay, $327,500 short term incentive bonus, $110,482 short term bonus deferred and $392,623 long term incentive bonus received as shares.

The disclosure of performance objective in the report has been significantly improved and the financial performance part of the STI is now 50% deferred equity which equates to 25% of the total STI. The board has indicated that it plans to continue to increase the percentage deferred across both financial and non-financial hurdles to 50% by FY26.

We sought additional information concerning discretionary special bonuses for three KMP executives for acquisition of AAAHI ($500,000 in total for FY23). We were of the opinion that a bonus on completion of acquisition would be more aligned with project management role rather than the most senior executives, roles. We thought waiting for confirmation of commercial soundness would be more appropriate for most senior executives. We were informed the KMP executives worked extraordinary long hours with motivation and diligence required in the circumstance and the board is confident of AAAHI performance in line with due diligence. Furthermore, a second half of this intended bonus is held over for another year, subject to meeting certain AAAHI financial outcomes. The Board can exercise discretion if commercial results are unsatisfactory.

With profit marginally higher than the previous year and dividends half a cent higher at a total of 17 cents per share, pay had a degree of alignment with results for shareholders. We intend to vote undirected proxies in favour of the remuneration report.

Resolution 3: Re-election of director – Jeffrey Ellison

Mr Ellison held the position of Chief Executive Officer of Kelsian Group Limited from 1997 to 16 January 2020 when he retired and became a director on 17 February 2020. He was subsequently appointed Acting Chair with effect from 1 July 2020 and Chair on 23 February 2021.

Mr Ellison is Deputy Chair of Tourism Australia and Chair of Hayborough Investment Partners Pty Ltd, a former Board member of the South Australian Tourism Commission, Tourism and Transport Forum Australia, the Adelaide Convention Centre and the South Australian Botanic Gardens and State Herbarium.

Due to his background of being CEO with minimal interval before joining the board as a non-executive director, ASA does not consider him independent, however his knowledge of the business is excellent and he has proved himself to be a good chair. He has informed us (and all shareholders in an announcement to the ASX on 5 September) that, if continuing after the AGM, he will be seeking a new chairman during his next term, preferably an independent director.

We will vote undirected proxies in favour of his re-election.

Resolution 4: Re-election of director – Neil Smith

Mr Smith was one of the founding shareholders and the former Chairman of the Transit Systems Group prior to the acquisition by Kelsian. He has over 30 years of commuter transport operations experience. He commenced his career within the Sydney bus industry, before acquiring a number of bus operations. He joined the Kelsian Board upon the formation of Kelsian.

Mr Smith holds 25 million shares in his own name which is approximately 9.5% of the shares on issue. He is based in London and oversees many of the international businesses. He lived in USA for months during due diligence, acquisition and integration of AAAHI.

We will vote undirected proxies in favour of his re-election.

Resolution 5: Re-Election of Director – Lance Hockridge

Mr Hockridge has extensive international experience in the transportation, manufacturing and logistics sectors with a focus on safety, operational and financial transformation of businesses.

Mr Hockridge was previously the Managing Director and CEO of Aurizon Holdings Limited company. Other notable accomplishments as an executive include the oversight of BHP's global transport business, together with key roles in financial and operational reform in the heavy industrial sector and leading a major turnaround for BlueScope Steel's North American operations.

He joined the board in July 2021 and is an independent director. He has Chairs a listed company, AVADA Group.

We will vote undirected proxies in favour of his re-election.

Resolution 6: Ratification of issue of placement shares under ASX listing rule 7.1

During the year the company issued 24,341,032 shares in an institutional placement to fund the acquisition of All Aboard American Holdings Inc (AAAHI).

ASX Listing Rule 7.1 limits the amount of equity securities that a listed company can issue without the approval of its shareholders over any 12-month period to 15% of the fully paid ordinary securities it had on issue at the start of that period.

The issue of the Institutional Placement shares uses up part of the 15% limit reducing the Company's capacity to issue further equity securities without shareholder approval for the 12-month period following the Issue Date.

The Company wishes to retain as much flexibility as possible to issue additional equity securities into the future without having to obtain shareholder approval.

This resolution seeks shareholder approval to the issue of the Institutional Placement shares so it will be excluded in calculating the Company's 15% limit.

If the resolution is passed it will give the company the opportunity of issuing more equity up to 15% should an appropriate need arise.

Resolution 7: Increase in non-executive directors' fee pool

This resolution seeks shareholder approval to increase the non-executive directors' fee pool $1,250,000 to $1,750,000 per financial year for the following reasons;

The Kelsian Board considers that it is reasonable and appropriate at this time to seek an increase in the remuneration pool for non-executive directors for the following reasons:

- the increased responsibilities for non-executive Directors, including in light of the recent acquisition of All Aboard America! Holdings, Inc;
- noting the need for orderly succession planning, the non-executive directors' fees may in the future need to be increased to attract and retain new directors of a calibre to effectively guide and monitor the business of the company;
- to allow the Board, should the need arise from time to time, to appoint additional non-executive directors and;
- to remunerate non-executive directors appropriately for the expectations placed on them both by the company and the regulatory environment in which it operates.

The maximum aggregate fees payable to non-executive directors was last increased in December 2019.

A rise of $500,000 represents a 28% rise since the last rise 4 years ago (approx. 7% per year) and the proposed total is more than nine percent of the FY23 net profit after tax. While the argument the board has presented has merit, we advanced our view that it seemed not to have been balanced against the small current profit We suggested it would be prudent for the resolution to be withdrawn and returned when a sounder level of profit has been achieved. This was discussed comprehensively. After adjusting NPAT for once-only costs and allowing for AAAHI contribution, the Board is confident of the next year's financial outcome and views the proposal as a declaration of its confidence in the future of the company. We were persuaded and will vote our open proxies in favour of the resolution.

Resolution 8: Approval of grant of performance rights to the Managing Director and Group Chief Executive Officer

The board intends to issue 104,162 performance rights to Mr Feuerherdt and has stated their value is $602,828. This equals $5.78 per unit, with performance rights granted after achievement of hurdles being convertible to shares, one-for-one. The $5.78 figure is the market value of shares at the end of the FY22. The number of rights at that price is calculated to be 76% of fixed remuneration.

One of two equally weighted performance hurdles, measured over three years, is compound annual growth rate of earnings per share: half for achieving 5% annualised compound annual growth rate (CAGR), ranging to 10% for full vesting. The other performance hurdle total shareholder return relative to ASX300 total return index: half for achieving the index, ranging to 10% above the index for full vesting. Positive TSR is a gate which must be passed for any award of rights to occur.

Approval is sought, should the shares be issued instead of on market purchase, they not be counted within the 15% allowance for issue of new shares.

We intend to vote undirected proxies in favour of the resolution.

Resolution 9: Approval of grant of restrictive rights to the Managing Director and Group Chief Executive Officer

The proposed grant of 18,031 Restricted Rights valued at $110,482 relates to the deferral component of FY23 STI award to the MD & Group CEO’s remuneration package. The deferral component is half the STI achieved for financial performance; the STI achieved for non-financial performance was fully paid in cash. There was an additional discretionary STI paid for successful completion of the AAAHI acquisition and half this was deferred restricted rights. This discretionary additional payment is understandably not covered in description of the remuneration framework (page 36). While the AAAHI acquisition is identified in STI outcomes (page 39), there is no mention of quantum in that section. Remuneration amounts are listed in Table 7.3 (page 44) but we could not identify the amount pertaining to the discretionary additional STI – this could be better explained by the company.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY2	Max. Opportunity $m	% of Total
Fixed Remuneration	0.992	40%
STI - Cash	0.651	26%
STI – Equity*	0.217	9%
LTI	0.603	25%
Total	2.463	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.
*Will increase to 50% in FY26.