

LLC declining profits as it reshapes its business

Company/ASX Code	Lendlease Group/LLC
AGM time and date	10.00am Friday, 17 November 2023
Location	Fitzroy Ballroom, Sofitel Hotel, 25 Collins Street, Melbourne
Registry	Computershare
Type of meeting	Hybrid
Monitor	Michael Batchelor, Peter Gregory
Pre-AGM Meeting	Yes with Chairman Michael Ulmer, Elizabeth Proust Chair Remuneration Committee, Wendy Lee Company Secretary

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

1. Summary of Issues

ASA intends to vote FOR all resolutions but raised questions with Lendlease regarding:

- Progress with LLC's business transition.
- Fit of LLC's businesses and low margins of Construction.
- Write-down due to UK retrospective increase in defects liability period.
- Fatality in the UK business.
- Progress meeting climate targets.
- Changes to remuneration structure for 2024.

2. How we intend to vote

No.	Resolution description	
2a	Election of Ann Soo Chan (Margaret Lui)	For
2b	Election of Barbara Knoflach	For
2c	Re-election of Philip Coffey	For
2d	Re-election of Elizabeth Proust	For
2e	Re-election of Robert Welanetz	For
3	Remuneration Report	For
4	Allocation of Performance Rights to Managing Director	For

3. Matters Considered

Accounts and reports

It has been a tough year for Lendlease. Underlying profit after tax was flat on FY22, but statutory net profit after tax (NPAT) was marred by a significant write-down due to provisioning for retrospective action taken by the UK government to extend the warranty period on completed residential buildings to 30 years. Among other things, this resulted in an NPAT of negative \$232M. Lendlease maintained a full year dividend of 16 cents per share.

Lendlease has provided an outlook of a return on equity of 8% -10% for FY24.

Lendlease is continuing to go through a significant transition from a “development-led” to an “investments-led” organisation. The Board is looking to divest its interests in Australian communities and retirement living businesses, and its China based retirement business. Parties have commenced second stage due diligence on its Australian divestments with indicative offers above book value. We suspect that the sale of the China business will be harder to execute. At the same time Lendlease is continuing to take costs out of its business as it shapes itself to the planned investments-led organisation.

Construction is a very low margin business due to competition. This is offset somewhat by the different risk profile of its US contracts where contract prices are not fixed until subcontractor prices and material costs are known. Lendlease has taken some steps to mitigate risks in this sector by stipulating that it will not take contracts under \$150M nor build apartments for sale by third parties. We believe that there are still considerable risks in the construction business but can see merit in the strategy to preserve some construction expertise in-house to support Lendlease’s development business.

Regarding ASA’s other questions:

- Workplace fatality. Lendlease advised that while the fatality in the 1 Java Street site in the UK was extremely concerning, the independent expert found that the work was the responsibility of the specialist contractor undertaking the work. Lendlease did feel however, that there were other things that could have been done to mitigate safety risks and subsequently STI awards were reduced by 5%.
- Progress on meeting climate targets. Lendlease advised it has an active sustainability committee and that it was pursuing multiple initiatives to achieve its 2025 sustainability targets. Some examples include the adoption no-diesel cranes including the use of biodiesel on remote sites. It was working with industry to develop low carbon cement.
- For FY24 the long-term incentive (LTI) funds under management (FUM) growth metric is being replaced with Invested Return on Invested Capital (IM ROIC). This is to encourage a disciplined growth profile and reinforce alignment with the Group’s Stated Portfolio Management Framework. In FY24, the STA Scorecard will increase the Financial KPI weighting from 65% to 70% and reduce the Non-Financial KPI weighting from 35% to 30%. This change reflects the importance of improving the financial performance of the business in FY24.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	-232	-99	222	-310	467
UPAT (\$m)	257	276	377	206	632
Share price (\$)	7.75	9.11	11.46	12.37	13.00
Dividend (cents)	0.16	0.16	0.27	0.33	0.42
Simple TSR (%)	-13.2	-19.1	-5.2	-2.3	-32.0
EPS (cents)	-0.337	-0.144	0.323	-0.514	0.824
CEO total remuneration, actual (\$m)	3.77	3.83	4.14*	3.61	6.55

*For 11 months as the CEO left on 31 May 2021 and includes termination payments of \$1.9 million
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.

4. Rationale for Voting Intentions

Resolution 2a) Election of Ann Soo Chan (Margaret Lui) (Independent Non-Executive Director) - For

Margaret has extensive property experience in Asia. She is currently the Chief Executive Officer and Executive Director of Azalea Asset Management, which she helped to found in 2015. At Azalea, Margaret leads an experienced team of investment managers, overseeing a portfolio valued at US\$10 billion. ASA will ask for Margaret to outline her suitability for the role and confirmation that she has sufficient time to fulfil her duties as a Director of Lendlease.

Resolution 2b) Election of Barbara Knoflach (Independent Non-Executive Director) - For

Based in Frankfurt, Barbara has extensive property experience in Europe including as Deputy Chief Executive and Global Head of Investment Management of BNP Paribas Real Estate between 2015 to 2019. ASA will ask for Barbara to outline her suitability for the role and confirmation that she has sufficient time to fulfil her duties as a Director of Lendlease.

Resolution 2c) Re-election of Philip Coffey (Independent Non-Executive Director) - For

Philip joined Lendlease Board in January 2017 and became Chairman of the Risk Committee on its formation in 2019. He served as the Deputy Chief Executive Officer (CEO) of Westpac Banking Corporation from April 2014 until his retirement in May 2017. As the Deputy CEO, Philip had the responsibility of overseeing and supporting relationships with key stakeholders of Westpac. ASA supports Philip Coffey's re-election.

Resolution 2d) Re-election of Elizabeth Proust (Independent Non-Executive Director) - For

Elizabeth Proust joined the Board in February 2018. Elizabeth spent eight years at ANZ Group including four years as Managing Director of Esanda, Managing Director of Metrobanking and Group General Manager, Human Resources, Corporate Affairs and Management Services. ASA supports Elizabeth Proust's re-election.

Resolution 2e) Re-election of Robert Welanetz (Independent Non-Executive Director) - For

Robert Welanetz joined the Board in March 2020. He is based in the US and has direct project experience in 47 countries. Until 2018, Robert served as Chief Executive Officer in the property division of Majid Al Futtaim (MAF), based in Dubai, where he had overall responsibility for managing MAF's operating property portfolio and development pipeline. ASA supports Robert Welanetz re-election.

Resolution 3 Remuneration Report - For

The specifics of the Remuneration Plan are described in the Appendix. It developed as an integral part of the overall Annual Group Planning process creating clear alignment of the reward structure for executives and the strategy and direction of the company. It is clearly written and easy to understand. It is consistent with ASA guidelines and is well aligned with shareholder interests.

Resolution 4 Approval of Allocation of Performance Rights to the Managing Director - For

Lendlease has continued to refine its Long-Term Incentive Plan to align with its Performance Management Framework as developed through the Group Annual Planning Process. The Plan is consistent with ASA guidelines and delivery alignment with shareholder interests.

This resolution is for security holder approval for the granting of 384,744 Performance Rights to the Managing Director. The number of Performance Rights proposed to be granted has been determined by dividing the face value of the Maximum long-term award (LTA) by the volume weighted average price (VWAP) of Lendlease securities traded on the ASX over the twenty trading days prior to the release of the full year results for the year ending 30 June 2023, being \$8.3174 and rounded up to the nearest whole security.

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Appendix 1

Remuneration framework detail

LendLease Remuneration Summary									
	FY23 CEO remuneration Plan						Actual FY23		
	Threshold		Target		Maximum				
CEO rem. Framework for FY23	\$m	% of Total	\$m	% of Total	\$m	% of Total	\$m	% of Total	
Fixed Remuneration	1.80		1.80	26%	1.80	24%	1.80	69%	
STI - Cash			0.90	13%	1.25	17%	0.405	16%	
STI - Equity			0.90	13%	1.25	17%	0.405	16%	
Total STI			1.80	26%	2.50	33%	0.81	31%	
LTI	0.43		3.20	47%	3.20	43%		0%	
Total	2.23		6.80	100%	7.50	100%	2.61	100%	
								STI achievement	
								% of target	% of maximum
								45%	32%

Lendlease have a clear explanation of the remuneration plan in their annual report linking it to the company purpose and strategy, describing the remuneration principles, followed by an outline of the framework and overall structure showing how each component (FR, STI and LTI) fit together.

A comprehensive description of each component provides confidence that it operates in shareholders' best interest and that it is clearly understood by executives what is expected of them and how they will be rewarded for their achievements.

Underlying the remuneration plan is a clearly defined set of targets and at the pre-AGM we asked how these are arrived at. Lendlease have a well-structured business planning process that commences in May each year. It starts with a top down and bottom-up perspective – each area of the business develops their view of the future for the next year and the next 3 years, and the management together with the board does the same for the whole business. Through a series of iterations agreement is reached for the company as a whole and each of the business units. This is put in place for the start of the financial year and the targets that are set through this process are used for both the STI and LTI.

The STI target is the company's annual target as agreed above and from this are set the threshold level – this is the level that must be achieved for each STI component for the executive to receive any STI payment for that component. The maximum is a reasonable stretch that is commensurate with the overachievement of company outcomes.

P 81 of the Annual Report shows the STI outcome for the CEO for FY23 together with downward adjustments that were applied. In the case of the Safety metric the CEO's STI scorecard was adjusted down by 5% due to a fatality during the year. And the board exercised its discretion to make a downward adjustment of 10% to reflect the overall financial result. Thus, the final adjusted CEO STI outcome was 32% of the maximum opportunity.

Note the FY23 ratio of financials to non-financial metrics was 65% to 35%. In FY24 this will adjust to 70% to 30% to give a stronger alignment with immediate shareholder outcomes.

The FY23 LTI comprises is the three metrics of Relative TSR (1/3), Operating ROE (1/3) and FUM growth (1/3). The TSR is based on the ASX 100 index. Operating ROE and FUM hurdles are set annually as part of the Annual Planning Process to establish maximum targets that are consistent with good returns for shareholders. Over the past 3 years LendLease has not delivered on required outcomes and so the CEO did not qualify for any LTA payment in FT23.

For FY24 the LTI FUM growth metric is being replaced with Invested Return on Invested Capital (IM ROIC). This is to encourage a disciplined growth profile and reinforce alignment with the Group's Stated Portfolio Management Framework.

The specific ROE and IM ROIC targets are considered commercially sensitive and are not published. In FY24 LendLease is introducing a new global employee equity plan to achieve broader employee alignment with the Group outcomes.