

## AI Changes Everything

<b>Company/ASX Code</b>	Next DC (NXT)
<b>AGM time and date</b>	11.00am (AEDT) Friday, 24 November 2023
<b>Location</b>	2 Broadcast Way, Artarmon, NSW 2064
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid: <a href="https://meetings.linkgroup.com/NXT23">https://meetings.linkgroup.com/NXT23</a>
<b>Monitor</b>	Mike Sackett assisted by Clive Hart and Jane Tagney
<b>Pre-AGM Meeting</b>	With NED Stuart Davis and Simon Guzowski, ESG & Investor Relations Manager on 23 October 2023.

Monitor Shareholding: 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	
1	Remuneration Report	For
2	Re-election of Mr Stuart Davis, as a Director	For
3	Re-election of Dr Eileen Doyle, as a Director	For
4	Election of Mrs Maria Leftakis, as a Director	For
5	Increase in the maximum aggregate annual remuneration of Non-Executive Directors	For
6	Approval of grant of rights to Mr Craig Scroggie (CEO)	For

### 2. Matters Considered

#### Accounts and reports

NXT is a data centre services company with an expanding set of operating data centres in Brisbane, Canberra, Melbourne, Perth, Sunshine Coast and Sydney. The data centre sector has been on a trajectory of high growth, which is likely to continue into the foreseeable future. NXT has new data centres currently under development in Adelaide, Darwin, Port Hedland and Newman (Pilbara, WA). In May 2023 the development of NXT's first offshore facilities in Kuala Lumpur and Auckland was announced.

#### Financial performance

NXT first listed on the ASX in late 2010. Through organic growth in the rapidly expanding data centre market the company grew to be included in the ASX200 Index in 2016 and the ASX100 Index in June 2020.

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	(25.6)	9.1	(23.6)	(45.0)	(9.8)
UPAT (\$m)	(30.2)	34.7	(24.4)	(45.1)	(5.0)
Share price (\$)	12.58	10.64	11.86	9.88	6.49
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	18	(10)	20	52	(16)
EPS (cents)	(4.7)	3.9	(4.5)	(12.6)	(0.9)
CEO total remuneration, actual (\$m)	4.5	5.7	4.7	3.2	4.2

The NXT share price increased by 18% over the course of FY23 and at the time of writing remained close to its FY23 year-end level.

Positive factors:

- Contracted customer utilisation, ie the total of all sold capacity in megawatts, increased by 47% in FY23 after two years of growth in the range of 8-10%. Such contract sales tend to be lumpy in nature, compared to the relatively smooth growth of NXT's data centre installed capacity in the range of 17-22% per annum over the past three years.
- Revenue increased by 24% to \$362 million in FY23 compared with \$291 million the previous year.
- Over the past 10 years to the time of writing NXT has achieved Total Shareholder Return of 19.5% per annum.

Negative factors:

- After achieving a small surplus in FY22, NXT made a loss of \$30 million in FY23.
- Long term debt increased to a record \$1.435 billion at 30 June 2023, an increase of 27% over the year, having grown 32% in the previous year. Data centre development is a massively capital-intensive business, both in absolute terms and relative to revenue.

### **Governance and culture**

The Board has comprised eight directors since August 2023 when Mrs Maria Leftakis was added. Seven directors are listed as independent in the company's Corporate Governance Statement and generally meet ASA criteria. The case of Mrs Leftakis is reviewed in the following discussion under Resolution 4.

Three (37%) directors are female. The company is committed to a goal of 40% male: 40% female: 20% flexible across employees, management and the Board by 2030.

NEDs are "encouraged to accumulate shares on their own behalf, over a three-year period, of equivalent value to their average annual director fees". All directors meet this expectation with the exception of US-based Stephen Smith who owns no NXT shares despite being on the Board since 2019.

## Key events

In May 2023 NXT announced their first offshore ventures with the establishment of data centres on recently acquired sites in Kuala Lumpur and Auckland, which are planned to become operational in 2026. A \$618 million capital raising was announced at the same time to fund the offshore ventures and also the accelerated fit-out of the S3 data centre in Sydney. Funds were sought from institutional and retail investors with take-up rates of 99% and 87% respectively. New shares were offered on a 1 for 8 pro-rata accelerated non-renounceable basis, which met ASA requirements except for being non-renounceable. This was questioned in our pre-AGM meeting with the response that renounceable offers are “much more costly”.

## Sustainability/ESG

The company appears to have a genuine commitment to sustainability and ESG issues with energy efficiency, water preservation and waste management having been given priority from its foundation. The FY23 Annual Report provides achievement data to support its claims.

## 4. Rationale for Voting Intentions

### Resolution 1: Remuneration Report – FOR

The Remuneration Report, while complex, is clear, logical and comprehensive. Aggregate levels of remuneration for senior executives appear to be at, or slightly below, the median for companies of NXT’s capitalisation. The incentive element of the remuneration structure for senior executives is generally appropriate being as follows:

- Fixed remuneration (28.6%) said to reference domestic and international industry benchmarks. A 15% increase in fixed remuneration has been approved by the Board for FY24.
- Short term incentives (28.6%) provide an at risk reward for performance against annual objectives, one half paid at year-end in cash with the other half being deferred for one year and payable in either cash or shares.
- Long term incentives (42.8%) provide an at risk securities-based reward for performance against indicators of long term shareholder value creation, in this instance solely Total Shareholder Return which NXT maintain is the most appropriate indicator at this early growth stage of the company’s development. This is contrary to the ASA requirement for there to be more than one LTI determinant.

The FY23 STI plan had gateway requirements that underlying EBITDA achieved be at least 95% of the midpoint initial guidance range given and fulfilment of the company’s uptime obligations to its customers. The weightings given to specific key performance indicators were:

- Underlying EBITDA – up to 40%;
- Total revenue – up to 35%;
- Major project delivery (eight specific projects being cited) – up to 15%;
- Operations – up to 10%.

The EBITDA indicator was only 73% achieved, while there was zero achievement on one of the specified projects (detailed design and approvals on time for the Darwin data centre). All other STI targets were met 100%.

The LTI stretch target was 100% achieved. This resulted from NXT's 18.9% per annum TSR growth achievement between August 2019 and August 2022, compared to the TSR of all ASX100 companies which was 5.9%.

The level of Board remuneration is discussed under Resolution 5.

#### **Resolution 2: Re-election of Mr Stuart Davis, as a Director - FOR**

A pre-AGM meeting was held with Mr Davis in the absence of Chairman Doug Flynn who was overseas for the month of October. Mr Davis is Chair of the four person Remuneration and Nomination Committee and a member of Audit and Risk Management Committee. ASA requested that the three directors standing for Re-election/Election each be asked to make a brief statement at the AGM indicating which of the eight Board skill sets listed in NXT's FY23 Corporate Governance Statement they particularly contributed to.

Mr Davis, who was first appointed to the Board in 2013 has a background in international banking. He was helpful and constructive in our pre-AGM meeting.

#### **Resolution 3: Re-election of Dr Eileen Doyle, as a Director – FOR**

Dr Doyle has a diverse business and industrial background which includes being CSIRO Deputy Chair from 2006-16. She was first appointed to the Board in 2020.

#### **Resolution 4: Election of Mrs Maria Leftakis, as a Director – FOR**

Mrs Leftakis was appointed by the Board in August 2023, increasing the size of the Board to eight including three women. Her expertise is in corporate governance and shareholder engagement in both Australia and the international arena. She is currently Chair of Morrow Sodali, Asia Pacific, said to be one of the largest independent shareholder and governance advisory firms in a region which NXT is venturing into for the first time in 2023. Her appointment as an independent director is potentially contentious as it apparently fails to meet the company's third principle of director independence as laid out in the Corporate Governance Statement which requires that *"within the last three years, has not been a principal of a material professional adviser or a material consultant to the company"*. This was raised at the pre-AGM meeting. ASA was assured that Mrs Leftakis was chair of Morrow Sodali APAC and does not directly provide any services to NXT, notwithstanding the \$149,900 paid by NXT to Morrow Sodali in FY23.

#### **Resolution 5: Increase in the maximum aggregate annual remuneration of Non-Executive Directors – FOR**

The current maximum aggregate fee limit for NEDs stands at \$1.6 million having been approved at the 2020 AGM. It is now proposed to increase this limit to \$2 million, which ASA supports. Since 2020 the board size has increased from six to eight members; the company's capitalisation has increased 44%; and the Australian CPI has increased 16.9%.

Total remuneration for Chairman Doug Flynn in FY23 was just over \$438,000, which is about 10% above the median for similar-sized companies in terms of capitalisation. Directors received between \$199,000 and \$221,000 which was close to the median.

## Resolution 6: Approval of grant of Rights to Mr Craig Scroggie – FOR

Under this resolution it is proposed to grant a further 173,640 Performance Rights to the CEO under his FY24 LTI award, which is equivalent of 150% of base salary. For the first time these comprise a mix of 50% Performance Rights and 50% Restricted Rights. The Performance Rights are based on NXT's TSR relative to the market as described above. Half will be tested over three years and half over four years (ASA prefers a minimum of four years). Restricted Rights are conditional and only vest if the CEO remains employed with NXT at the end of the performance period of each of the three equal tranches (tested after three, four and five years respectively) and the TSR criteria are met. A further underpinning condition is a positive behavioural assessment based on the Board's discretion. ASA considers the size and structure of this grant of Rights to be appropriate.

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## Appendix 1 Remuneration framework detail

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.264	39%	1.264	29%
STI - Cash	0.581	18%	0.632	14%
STI - Equity	0.581	18%	0.632	14%
LTI	0.780	24%	1.896	43%
Total	3.206	100%	4.424	100%

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

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.