

Atlas Arteria Voting Intentions Report 2024

Company/ASX Code	Atlas Arteria (ASX: ALX)
AGM date	Thursday, 16 May 2024
Location	10:00 am at RAVC City Club, 501 Bourke Street, Melbourne, Victoria
Registry	Computershare Investor Services Pty Limited
Type of meeting	Hybrid
Monitor	Nick Bury and Elizabeth Fish
Pre-AGM Meeting	Yes, with Debbie Goodwin (Chair ATLAX), Fiona Beck (Chair ATLIX), David Bartholomew (NED), Chloe Hazelwood (Investor Relations)

Monitor Shareholding: the individual(s) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2a	Re-election of Ken Daly	Yes
2b	Election of Laura Hendricks	Yes
3	Appointment of Auditor	Yes
4	Adoption of Remuneration Report	No
5	Approval of grants of performance rights to Graeme Bevans under Atlas Arteria's Long Term Incentive plan	No
6	Approval of grant of restricted securities to Grahem Bevans under the Atlas Arteria's Short Term Incentive Plan	No
7	Approval of increase in the maximum number of Directors	No
8	Approval on increase to the Non-Executive Director Fee Pool	No
	ATLIX Resolution Description	
2	Appointment of Auditor	Yes
3(a)	Re-election of Fiona Beck	Yes
3(b)	Election of Kiernan Bell	No
4	Adoption of new ATLIX byelaws	Yes

2. Summary of Issues

ASA members who hold this stock are advised to retain a watchful eye on its progress, as they should on all their different holdings.

3. Matters Considered

ALX's generally favourable fortunes enjoyed to date have been driven by ever increasing revenues derived from its APRR toll road concession in France. For some, while when interest rates were dropping ALX kept renegotiating its interest rate paid on its debt at ever lower rates, so these savings fell straight to the bottom line.

The assumption was also that should interest rates start to rise again, driven by inflation, then increased servicing charges would be ameliorated by resultant toll increases. However, late last year the French government hit ALX with a new tax on total revenue derived from their star performer, which is now being levied at a 4.6% rate on gross income above 120 million Euros per annum. ALX had formerly adopted a policy of paying distributions to unit holders from free cash flow, which has now been jettisoned.

Unit holders had become used to a steady increase in distributions over time, but ALX has now advised that no further increases in this regard can now be expected for some time. Unit holders had previously breathed a sigh of relief when Macquarie Bank relinquished its management of the company, as Macquarie had been gouging profits by imposing huge management and performance fees for many years. The assumption then was that when these fees became alternatively available for distribution to unit holders, that the company's ability to notably increase the same would finally be unshackled.

Problematically, the APRR concession terminates in 12 years' time, and even if ALX successfully negotiated a renewal of this lease they would assumedly have to pay an enormous price to the French government to do so. The worst-case scenario is that then ALX will lose most of its earnings and profitability, so the sovereign risk aspect of unit holders' investment will proportionately increase as that date approaches, and even if the concession was renewed, the renewal impost to be paid would greatly reduce ALX profit and capacity to pay distributions going forward.

ALX's eagerness to continually increase its shareholding in APRR over time certainly kept increasing its revenue and distributions, but perhaps the sellers were rather canny than the buyer, considering those long-term ownership problems averred to above that now loom ever larger.

We must consider what would be left of the company should the APRR concession be lost! There are the Chicago Skyway and Dulles Greenway concessions in America, the ADELAC and A79 toll roads in France, and Warnow Tunnel in Rostock, Germany, which are all long dated holdings, unlike APRR.

APRR's Net Profit After Tax (NPAT) was €1.116 billion in 2023, assumedly including the adjoining comparatively minimal contributions from the ADELAC and A79 toll roads. The German Warnow Tunnel contributed about €10 million, Dallas Greenway contributed about US\$57.7 million, and Chicago Skyway contributed about US\$104.9 million.

The bottom line is that apart from APRR, the aggregate of the other concessions only contributes about 15% of earnings to ALX, which outlines its dire predicament should APRR later fall over! ALX arguably did or didn't pay too much for Chicago Skyway, but it is a useful revenue contributor, and may yet justify its purchase price. The Chicago Skyway and Dulles Greenway tollways both face

regulatory hurdles from their respective local US jurisdictions, which are further risk type factors to consider, but then what investment is risk free?

ALX keeps adding to its overheads. Roscock, which yields comparatively little profit, is paying two managing directors to jointly manage the concession. The company understandably sought to add an extra American Director, which is sensible given that it now operates (2) two concessions in that jurisdiction, but ATLAX now has 7 directors, a seemingly top-heavy number and ATLIX has three Bermuda based Directors, begging the question as to precisely what all their roles encompass!

The more overheads the company imposes on its earnings the less profit there is for shareholders.

ALX's 2023 annual report told us much about its gender balances, sustainability, emissions reductions, and climate change policies. Whilst some of this reporting is now apparently mandatory, its contribution to earnings in that expanded descriptive form is opaque.

Financial performance

(As at FY23	2023	2022	2021	2020	2019
NPAT (\$m)	256.3	241.01	163.69	(99.21)	(9.82)
UPAT (\$m)	256.3	244.2	259.1	165.4	251.3
Share price (\$)	5.78	7.01	6.92	6.50	7.32
Dividend (cents)	40	40	28.5	11	30
Simple TSR (%)	(6.51)	7.08	11.4	(15.5)	32.2
EPS (cents)	17.7	22.2	17.0	(10.7)	(1.4)
CEO total remuneration, actual (\$m)	2.81	2.7	3.2	2.4	2.7

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). The ASA notes that past performance values shown in the FY23 AR table 6.2 vary from those shown in FY22. For consistency past values shown here are from the ASA's FY22 VI report.

4. Rationale for Voting Intentions

Resolution 2A - Re-Election of Ken Daily as a Non-Executive Director (NED)

He is a very experienced toll road operator and infrastructure leader having been both Elliot Tucker and The Indiana Toll Road, a development president at Transurban and a former Director of the Bridge, Tunnel and Turnpike Association. He is currently a director of the IFM GIF investor companies, but that directorship should not preclude him from being able to afford the requisite time to his NED ALX duties. He has spent several decades working in the industry. The ASA will vote undirected proxies in favour of this resolution.

Resolution 2B - Election of Laura Hendricks as a Non-Executive Director

Ms Hendricks is seemingly a worthy appointment to ALX's board, but the question must be asked as to whether she has the time to contribute as an ALX NED given that she is currently the CEO of Transdev, which is the largest operator and integrator of several modes of American transport in the US where she is domiciled. She has worked a lot with public utilities and governments in America during her lengthy and successful time spent working in the industry, which is a plus for a company like ALX, which confronts ongoing regulatory issues. The ASA will vote undirected proxies in favour of this resolution.

Before undertaking her current work duties, she has either been the CEO or president of several other companies. This experience has made her an operative of interest to the likes of ALX when considering the recruitment of experienced non-executive directors. The ASA will vote undirected proxies in favour of this resolution.

Resolution 3 - Appointment of Auditor

The proposal is that Price Waterhouse Cooper, ALX's current auditors, should be replaced by Touche Tohmatsu at the end of the ALX 2024 AGM. This motion is strongly supported. Generally, it is preferable for these duties to be regularly rotated, to obviate too much familiarity growing between the company and its gatekeeper, which has led to some previous corporate calamities due to serious misadventures/fraud being overlooked, which should have been detected and reported to shareholders.

The ASA will vote undirected proxies in favour of this resolution.

Resolution 4 - Adoption of Remuneration Report

The report started with an acknowledgement of shareholders disgust with the FY22 Remuneration report and in particular the use of "positive discretion" by the Board on the MD and CEO's remuneration outcomes (p56). Atlas Arteria received a first strike against that report. The FY23 report continues saying that due to feedback from shareholders ALX initiated a review of the existing remuneration processes and practices resulting in some changes to the remuneration framework. Some of the changes are shown in the FY24 Notice of Meeting. The ASA is aware that those changes will not impact remuneration until FY24. Some changes include increasing the LTI period to four years, and a new LTI measure based on Free Cash Flow per security with a 30% weighting. The Board has not altogether abandoned the use of discretion, some circumstances where positive and negative instances can be used are identified on page 62 of the AR. Further, the ASA notes that the Board has discretion to increase or decrease an STI award subject to an overall cap of 150% of target (P66).

50% of the STI outcome is paid as cash, the remaining 50% is deferred into restricted securities for a one-year period, with vesting subject to ongoing service and discretion of the Board. The STI scorecard contains financial (60%), strategic (30%), and ESG (10%) measures. For the financial measures the target is set at 100% of budget and stretch at 105%. The financial measures are adjusted EBITDA, free cash flow from operations, distributions (dividends) and operational expenditure. It is unclear why \$8m relating to the cost of LTI and STI should have been removed from the operational category of expenditure (p71). The strategic measures relate to an operational review, corporate development, and M&A activity, as well as team development and

Individual strategic. This final measure scored at 0 aims for an improved relationship with investors and the market generally.

The ESG measures are environmental, relating to electricity transition, meeting ESG objectives and safety. For safety, the result was below the level required for threshold performance, so it did not contribute to the ESG score. Later information shows that ALX achieved a LTIFR of only 3.36, which is less than target ≤ 3 . The CEO achieved 65% of his potential STI award.

The number of awards granted is based on the 10-day VWAP following the announcement of ALX's results. 50% of the LTI is measured against positive relative TSR. The measure is relative to the Global Listed Infrastructure Organisation (GLIO) index at the start of the performance period. The LTI to December 2023 was 11.35% and ranked 51% of the comparator group. ALX has used a slightly unusual method to calculate the share price movement for the TSR calculation, using VWAP over a 40-day period prior to the start of a performance period and a 40-day period to the end of the respective performance period, rather than the year end security price shown in Table 6.2 of the FY23 AR. The ASA's standard TSR measurement gives a score of 13.8% over the three-year period.

The remaining 50% of LTI is measured against several (2) strategic objectives based on "quantifiable improvements in security holder value from the successful delivery of key strategic objectives". The objectives were: creating a clear pathway to distributions from Dulles Greenway and improving the average concession life of the ALX portfolio. How well these objectives are met is assessed by the Board. No measurement criteria is included in the report and one would have to ask why there are only two strategic objectives given the capital value of the company. The objectives do not appear to be easily quantifiable so why use them? Regarding Dulles Greenway: why was such a problematic purchase made in the first place? It is also relevant to know if any company was omitted from the GLIO index and what are they as that is undisclosed. The CEO achieved 50.7% of his potential maximum LTI award. The CEO's 2020 LTI awards due to vest in FY23 lapsed.

In summary, the ASA will vote against the remuneration resolution for several reasons. In the STI, it is unclear why the cost of LTI and STI expenses should be excluded from the Corporate Operational Expenditure or the Board approved special project costs of \$1.7m when these costs flow down to the bottom line and shareholder distribution. Similarly, the adjustments to the Free Cash Flow of close to \$178m. We recognise the free cash flow per share is less than the dividend paid per share.

While for the LTI, Relative TSR is a reasonable measure; however, we are not aware if any companies have been removed from the GLIO index and we know that the Directors can do this. In addition, the term "quantifiable improvements in security holder value from the successful delivery of key strategic objectives" is too vague as neither of the two strategic objectives have been given values and the report does claim the objectives are quantifiable, it relies on the Board to make an assessment and that assessment is undisclosed. The ASA also notes that dividends are payable on the restricted securities. The ASA will vote undirected proxies against this resolution.

Resolution 5 - Proposal to grant of Long-Term Share Rights to The Chief Executive Officer, Mr Graeme Bevans.

Performance Rights to be granted will be 262,664. This quantity being determined by dividing \$1.4m by \$5.33 (being the VWAP of ALX securities traded on the ASX over a ten-day trading period immediately following the announcement of ALX's 2023 results). The performance period will run for four years from January 2024 to December 2027. Details of the performance conditions are shown in the notice of meeting. Due to issues covered in the Remuneration resolution the ASA will vote undirected proxies against this resolution.

Resolution 6 - Approval to grant restricted securities to the CEO Mr. Graeme Bevans under the ALX Short Term Incentive Plan.

The quantity of Restricted Securities to be granted is 128,705. The quantity was determined by dividing \$686,000 by \$5.33, as for the long-term share rights. These shares are restricted in terms of disposal or transfer for 1 year after the grant date but allow the holder to receive dividends and vote during the holding period. The ASA will vote undirected proxies against this resolution.

Resolution 7 - Approval of increase in the maximum number of Directors.

The ASA cannot support this resolution. This premise has been addressed earlier in the report. ATLAX already has 7 directors and is already quite top heavy with NEDs. The adage, "many hands make light work", might be borne in mind by shareholders when voting on this resolution. When a decision is put to add costs to a company, shareholders should consider their own interests, which is to take costs out of their jointly owned business that seemingly add nothing to the bottom line. The ASA will vote undirected proxies against this resolution.

Resolution 8 - Approval of increase to the Non-executive Director Fee Pool

This motion is opposed on the grounds that the current fee pool remains adequate to appropriately recompense the present board, whose proposal that its number of directors be increased seemingly lacks merit. The ASA will vote undirected proxies against this resolution.

ATLIX Resolutions

Resolution 2 - Appointment of Auditor

The proposal is that Price Waterhouse Cooper who are ALX's current auditors be replaced by Touche Tohmatsu at the end of the ALX 2024 AGM. This motion is strongly supported. Generally, it is preferable for these duties to be regularly rotated, to obviate too much familiarity growing between the company and its gatekeeper, which has led to some previous corporate calamities due to serious misadventures /fraud being overlooked, which should have been detected and reported to shareholders.

The ASA will vote undirected proxies in favour of this resolution.

Resolution 3a - Re-election of Fiona Beck

She is ATLIX's chair, and her candidacy has previously been supported at a prior ALX AGM. She is a chartered accountant who has had a lot of corporate experience in infrastructure and its management, but not necessarily in running tollways. She apparently has technology and cyber experience, which are useful attributes for a NED to have.

Generally, for a company like ALX, hands on experience gained by NEDs in running similar businesses to the type of company board that they are joining is more useful than employing NEDs whose sole work experience and expertise might be in the accountancy field, basically as a bean counter, but Fiona Beck's work experience encompasses both.

Most importantly, she has CEO experience, so she should know what is entailed in running a business. Her curriculum vitae is set out in the notice of meeting. The ASA will vote undirect proxies in favour of this resolution.

Resolution 3b - Election of Kiernan Bell

Her pertinent experience is apparently limited to law, commercial litigation, and mediation, and she is listed as having about 25 years of corporate experience. Given that ATLIX is domiciled in the Bermuda jurisdiction it seems sensible to utilise the skills of someone who is cognisant of relevant applicable legal requirements, but the question to be asked is whether that work could be more economically sourced out to a local legal firm. Nothing in her CV indicated that she professes to know much about the toll road and infrastructure business that ALX operates, and her experience gained in non-profit, philanthropy and social investing does not seemingly advance ALX interest at all. The ASA will vote undirected proxies against this resolution.

Resolution 4 - Adoption of new ALX's byelaw

The resolution requires support from 75% of ALX's shareholders to be enacted. The pertinent parts and *raison d'être* of this item are succinctly set out in detail in the ALX 2024 Notice of Meeting sent to shareholders and should be read. Two important points to note are that the motion needs to be passed so that ATLIX can comply with Bermudan law, and to avert current complications that could arise were ATLIX be forced to redeem any shareholders holdings for whatever reason. These holdings would desirably be redeemed at ALX's current market price, and not by having to apply an alternate complicated formula for ascertaining related value. The ASA will vote undirected proxies in favour of this resolution.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.4	34%	1.4	29%
STI – Cash	.679	16.5	1.0	21%
STI – Equity	.679	16.5	1.0	21%
LTI	1.359	33%	1.4	29%
Total	4.117	100%	4.8	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 frameworks set a maximum opportunity amount, but not all.