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## Goodman records another outstanding year

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| **Company/ASX Code** | Goodman Group (GMG) |
| **AGM date** | Thursday 18 November 2021 |
| **Time and location** | 10:00 am Virtual AGM |
| **Registry** | Computershare |
| **Webcast** | Yes |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | Lewis Gomes assisted by Richard McDonald |
| **Pre AGM Meeting** | Yes with Chairman Stephen Johns, Chairman of the Remuneration and Nomination Committee Phillip Pryke and Group Head of Stakeholder Relations James Inwood |

The individuals or their associates involved in the preparation of this Voting Intentions have security holdings in this company.

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| **Item A** | **Consideration of financial statements and reports** |
| **ASA Vote** | No vote required |

**Summary of Achievements**

Goodman Group (GMG) is a triple stapled entity comprised of the Australian company, Goodman Limited (GL), the Australian trust Goodman Industrial Trust (GIT) and the Hong Kong company Goodman Logistics (HK) limited. The Group operates an integrated business capabilities model based on an "own+develop+manage" platform with projects and assets across Australia and New Zealand (32%), UK and Continental Europe (34%), the Americas (10%) and Asia (24%). While Goodman fully owns some assets and projects, most of its business is done with capital partners for whom Goodman acts as manager and developer.

Goodman had another exceptional year with statutory profit for FY21 up 54% to $2.3 billion and operating profit, which excludes property revaluations and fair value adjustments, up 15% to $1.22 billion. Operating profit is the main measure of performance used for remuneration and other comparative purposes. Total assets under management were valued at $58 billion (of which $4 billion is fully owned by Goodman) while development work-in-progress (WIP) was $10.6 billion, up 63% on the previous year.

The strong WIP growth gives a good indication of the strength of the Goodman business and its pipeline of activities. It is also an indication of the significant funding it requires to handle its development workload and hence its reliance on capital partners to take much of the risk. It also explains the company's decision to keep its distribution relatively low at 30 cents for the last 3 years resulting in a yield as at 30 June 2021 of only 1.4% while gearing (defined as total interest bearing liabilities over total assets, both net of cash) is a very modest 6.8%. In the ASA's Pre-AGM meeting with the Chairman, he stated that Goodman intends to maintain the distribution at 30 cents per security until it drops to about 40% of EPS.

Operating earnings per security (EPS) for FY21 was 65.6 cents, up 14.1% on FY20 which was up 11.4% on the previous year. GMG's total security return over the last 5 years has averaged 27% per annum and 24% over the last 10 years. At the close of FY21, GMG's security price was up nearly 43% to $21.17 after a fairly flat 12 months during FY20. The Group is forecasting a further significant lift in earnings per security to 72.2 cents in FY22, up 10% on FY21. While not a forecast, it is worth noting that Goodman has comfortably exceeded its annual EPS forecasts each year for quite some years. Assuming the Chairman's distribution of 40% of EPS stands, that figure would be reached during FY22 which suggests that a slight increase in the FY22 distribution may be a possibility.

**Governance and culture**

GMG continues to have a strong focus on culture and behaviours lead by the CEO and supported by the board. The Goodman Foundation offers support to a range of charities with a focus on children, community, food rescue and environment. During FY21 Goodman pledged $6 million to a range of activities as well as making numerous other commitments through its staff.

Board membership maintains a high degree of continuity with only occasional changes, some of which are being seen this year. Unusually, the GMG board has three executive directors, being Greg Goodman as CEO, Danny Peeters as Executive Director, Corporate and Anthony Rozic as Deputy Group CEO and CEO, North America. It is also notable that Greg Goodman, being the founder of the company, maintains a security holding in the Group of about 2% of total securities while 3 other major security holders account for a combined 26.5% of securities.

On the matter of 3 executive directors, the company has responded to repeated ASA concerns that the board structure has worked well and has contributed to the long term success of the business. The executive management team is also largely unchanged from past years, partly due to its business success and partly to the financial rewards that have flowed to these executives.

With the retirement of long serving Chairman Ian Ferrier after the last AGM, the Goodman Board comprises 9 directors of whom only two are women. However, long serving director Penny Winn is retiring after the upcoming AGM and no replacement for her is yet available. The current Chairman has advised that an international search is now underway with a preference for a person with strong ecommerce experience and a good understanding of the Australian business and investment scene.

**Environment and sustainability**

Goodman has continued its concerted efforts to make ESG fundamental to its business and has achieved "carbon neutral" global operations well ahead of its 2025 target. In addition to the usual energy saving features now built into its developments, it is also looking at its use of steel, concrete and other materials and processes to reduce their environmental impacts. These measures “reflect our commitment to act decisively on climate change, to reduce the risk of obsolescence and ensure the future performance of our assets”.

**Financial Summary**

| (As at FYE) | **2021** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|---|
| Statutory NPAT ($m) | 2,312 | 1,504 | 1,628 | 1,103 | 797 |
| Operating NPAT ($m) | 1,219 | 1,060 | 942 | 846 | 776 |
| Security price ($) | 21.17 | 14.85 | 15.03 | 9.62 | 7.87 |
| Dividend (cents) | 30.0 | 30.0 | 30.0 | 28.0 | 25.9 |
| TSR (%) | 43.3 | (0.4) | 59.4 | 26.0 | 14.2 |
| Operating EPS (cents) | 65.6 | 57.5 | 51.6 | 46.7 | 43.1 |
| CEO total remuneration, actual ($m) | 37.0 | 26.8 | 14.9 | 10.2 | 8.4 |

For 2021, the CEO’s total actual remuneration was **396 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics.

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| **Resolution 1** | **Appointment of auditor of Goodman Logistics (HK) Limited** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

It is a requirement of Hong Kong law that the auditor of Goodman Logistics Limited be confirmed by security holders each year. Goodman has proposed re-appointing KMPG for that role for FY22. ASA has no objection to that proposal and will vote all undirected proxy securities in favour of the resolution.

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| **Resolution 2** | **Re-election of Ms Rebecca McGrath as a director of Goodman Limited** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Ms McGrath is regarded as an independent director of Goodman Limited and Goodman Funds Management Limited. She chairs the Risk and Compliance Committee and is a member of the Remuneration Committee and the Nomination Committee. She was first appointed to the Goodman Board in April 2012. Her re-election would bring her total service period to 12 years on completion of her next 3 years as a director which presumably would see her retire from the Board.

During her executive career at BP plc, Rebecca held numerous senior roles in finance, operations, corporate planning, project management and marketing in Australasia, the UK and Europe. Her last role as a senior executive was as Chief Financial Officer of BP Australia. She is Chairman of Oz Minerals Limited and a director of Macquarie Group Limited and Macquarie Bank Limited. She is also a director of Investra Wholesale Funds Management Limited and Chairman of Scania Australia Pty Limited.

The ASA is satisfied with the performance of Ms McGrath and will vote all undirected votes in favour of her re-election.

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| **Resolution 3** | **Re-election of Mr Danny Peeters as a director of Goodman Limited and as a director of Goodman Logistics (HK) Limited** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Mr Peeters is an Executive Director of Goodman Limited, Goodman Funds Management Limited and Goodman Logistics (HK) Limited. He has oversight of Goodman's European and Brazilian operations and strategy. He has been with Goodman since 2006 and has 19 years of experience in the property and logistics sectors.

The ASA is satisfied with the performance of Mr Peeters and as a key senior executive of Goodman will vote all undirected proxies in favour of his re-election notwithstanding the ASA's preference for only one executive director on the board.

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| **Resolution 4** | **Re-election of Mr David Collins as a Director of Goodman Logistics (HK) Limited** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Mr Collins is an independent director of Goodman Logistics (HK)Limited and was appointed to its board in February 2018. He is a former KPMG partner with substantial accounting and financial experience spanning more than 30 years in the UK and China. David is resident in Hong Kong and is not seeking election to any other Goodman board.

The ASA has little visibility of Mr Collins' performance but is supportive of the Board's recommendation and will vote all undirected proxies in favour of his re-election.

| Resolution 5 | Remuneration Report |
|---|---|
| ASA Vote | Against |

**Summary of ASA Position**

During FY21 the CEO received a base salary of $1.4 million plus $35.8 million in securities that vested under the LTI Plan on 1 September 2020 when the security price was $17.94. The base salary for the CEO has not changed for at least 5 years but the value of the vested securities has increased substantially due to a combination of the generosity of the Plan in terms of the number of securities awarded, the actual performance of the company in beating high hurdles and the significant increase in the security price since first awarded as rights. Of the securities vesting, the total value on grant date was $14.4 million and they were derived in 3 tranches awarded over 3 years from November 2015 to November 2017. As at 30 June 2021 the security price had risen to $21.17 and the value of the vested securities had increased to $42.0 million.

By comparison, the two executive directors, Danny Peeters and Anthony Rozic received vested securities valued at $9.50 million and $11.27 million respectively as at 1 September 2020 in addition to their base salaries of EU593,000 and USD697,211 and were awarded STI grants of EU700,000 and USD1,050,000 respectively. Of the awarded STI amounts, half was paid in cash on award in September 2020 and the other half to be paid in cash after a deferral period of 12 months. While the ASA would prefer the second 50% of STI to be in deferred securities, the company has argued that with low base salaries, the STI in cash simply brings the base salaries up to market levels. Given that Mr Peeters' cash payments are in Euros and Mr Rozic is paid in US Dollars, direct AUD comparisons with the CEO are somewhat meaningless.

A summary of the CEO's remuneration plan for FY22 is presented in the following table. The fixed remuneration remains at $1.4 million but the number of LTI performance rights has been increased substantially to 1,560,000 from 950,000 last year. Similar large LTI increases have been awarded to Mr Peeters and Mr Rozic of 625,000 and 690,000 respectively from last year's numbers of 380,000 and 400,000 respectively. Based on the security price at 30 June 2021 of $21.17, these LTI awards would be valued at $33.0 million (#), $13.23 million and $14.61 million respectively. The CEO has again foregone any STI while the two executive directors retain an STI award of up to 119% and 157% of base salary respectively for Mr Peeters and Mr Rozic.

**CEO Remuneration – FY22**

| CEO Remuneration | Amount $m | % of Total |
|---|---|---|
| Fixed Remuneration | 1.40 | 4 |
| STI - Cash | 0 | 0 |
| STI - Equity | 0 | 0 |
| LTI – Deferred # | 33.00 | 96 |
| Total | 34.40 | 100 |

The reasons for these large increases in LTI grants require some explanation as follows. The Goodman Board has recently introduced a new 10 year remuneration plan for the senior leadership team that will see testing and vesting periods extended to 4 years and 10 years respectively from 3 years and 5 years respectively. The 3 and 5 year periods will be retained for all other employees. The rationale for the 10 year horizon is that many of Goodman's projects are now taking place in urban areas that are subject to extended planning and approval periods.

These "infill" sites are typically multistorey developments of some complexity and may take up to 10 years to be finished from initial identification. These infill sites are becoming sought after by customers such as Amazon and by other developers because of the rapid increase in ecommerce transactions that require warehousing close to end-customers, the benefits of so-called "last mile delivery" being seen as highly advantageous. Goodman also sees these extended periods as being of benefit in attracting and retaining key staff who are expected to stay the course during these long development periods.

Goodman has also increased the difficulty of the testing and vesting thresholds for both the EPS and relative TSR components of the LTI Plan and has added environmental and sustainability hurdles as vesting conditions. The LTI testing is based 75% on EPS and 25% on rTSR measures which are explained in some detail in the Annual Report. The EPS component ranges from a threshold of 6% compound annual growth rate (CAGR) where 25% of rights vest to 10% CAGR at which and above 100% of rights vest. For the rTSR component, 25% vest at the 51$^{st}$ percentile to 100% at the 90$^{th}$ percentile and above. With regard to environmental and sustainability performance, the targets are to be set and tested annually by the Board and at the end of the 4$^{th}$ year of the testing period with a penalty of up to 20% of the awarded EPS rights in the event of material underperformance against targets.

This framework seems eminently suitable and challenging for a company like Goodman and is described in the Annual Report as "a market leading remuneration structure which will help to retain key people in a competitive labour market". The ASA's concern is that the number of performance rights awarded is based on a calculated "economic" value which for FY22 awards has been determined as $6.10 compared with the 30 June 2021 market price of $21.17. That is, the number of rights awarded is 3.47 times the number that would be if "face" value rather than "fair" value were adopted. For the CEO, the FY22 rights awarded of 1,560,000 would be reduce to 449,500 valued at $9.516 million which would be a much more reasonable incentive than $33.0 million. Similar reductions would apply to the two executive directors.

The calculation of economic value is based on a Black & Scholes approach which takes into account the probability of vesting and expectations with respect to the Group's security price (including growth and volatility) and distribution payments. Given the extended vesting period of 10 years, the Board adopted a discount rate of 12.5% per annum which, along with other inputs, gives the claimed economic value of $6.10. The ASA simply cannot accept the concept of economic or fair value using formulae that were originally developed for the pricing of options where risk and uncertainty were fairly priced into the current value of the option. The application of the Black & Scholes methodology to performance awards appears to diminish the element of risk to the executives which is contrary to what is expected by shareholders.

As a consequence, while the ASA is supportive of the framework, it cannot accept the concept of economic value and will therefore vote all undirected proxies against this resolution.

| Resolution 6 | Issue of Performance Rights under LTIP to Mr Greg Goodman |
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| ASA Vote | Against |

**Summary of ASA Position**

The FY22 LTIP grant to Greg Goodman for FY21 financial performance is 1,560,000 securities valued at $9,516,000 based on an economic value of $6.10 per right. This figure compares with 950,000 securities granted in FY21.

However, the ASA believes that the value of these awards should be based on the face value of the securities not economic value. As at 30 June 2021, the value of this award would be $33.0 million which the ASA believes is too generous and will therefore vote all undirected proxies against this resolution.

| Resolution 7 | Issue of Performance Rights under LTIP to Mr Danny Peters |
|---|---|
| ASA Vote | Against |

**Summary of ASA Position**

The FY22 LTIP grant to Danny Peeters for FY21 financial performance is 650,000 securities valued at $3,812,500 based on an economic value of $6.10 per right. This figure compares with 380,000 securities granted in FY21.

However, the ASA believes that the value of these awards should be based on the face value of the securities not economic value. As at 30 June 2021, the value of this award would be $13.7 million which the ASA believes is too generous and will therefore vote all undirected proxies against this resolution.

| Resolution 8 | Issue of Performance Rights under LTIP to Mr Anthony Rozic |
|---|---|
| ASA Vote | Against |

**Summary of ASA Position**

The FY22 LTIP grant to Anthony Rozic for FY21 financial performance is 690,000 securities valued at $4,209,000 based on an economic value of $6.10 per right. This figure compares with 400,000 securities granted in FY21.

However, the ASA believes that the value of these awards should be based on the face value of the securities not economic value. As at 30 June 2021, the value of this award would be $14.6 million which the ASA believes is too generous and will therefore vote all undirected proxies against this resolution.