



Expanding with acquisitions

Company/ASX Code	National Storage Holdings Ltd/NSR
AGM date	Wednesday, 13 November 2019
Time and location	10am, Allens, Level 26, 480 Queen Street, Brisbane
Registry	Computershare
Webcast	No
Poll or show of hands	Poll
Monitor	Sally Mellick and Mike Stalley
Pre AGM Meeting?	Yes, with Chair Laurence Brindle

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

National Storage Holdings runs a self-storage operation at numerous sites across Australia and New Zealand. The company offers a range of storage solutions beyond providing storage space, which can also meet specialised needs of customers including records management, wine storage and vehicle storage. The company adds value to customers through offerings such as insurance, hire and packaging services.

Following a successful float of the business in December 2013, National Storage Holdings has continued to evolve and make its presence felt with its eye catching black and yellow building colours. During the last financial year, the company has acquired a further 35 centres for a value of \$350 million (m) and 4 new development sites. The Board suggests the acquisition trail is unlikely to slow down for 2020. The company expects to grow returns through organic growth adding value to the customer experience as well as acquisitions.

This year the company undertook a successful capital raising to support their acquisition program. This was completed through placements to institutional shareholders and the opportunity to participate in a \$15,000 Share Acquisition Scheme for retail shareholders. The company raised \$183.5m (pre-costs) through this security purchase plan and issued over 7.9m new ordinary stapled securities.

Financial performance

NSR has had a successful 2019 financial year (FY19). Revenue is up 14% to \$159.2m and Net Profit After Tax (NPAT) down 1% to \$144.8m. Earnings per was down 18% to 22.1 cents per share based on NPAT.

NSR has consistently reported and compared underlying data and results for the period of this report. (There is a table on page 32 of the 2019 Annual Report that shows the movement from NPAT to the underlying earnings and underlying cps). Underlying earnings are up 21% to \$62.4m.

A distribution of 9.6 cps was paid to each security, the same as 2018.

NSR made two issues of stapled securities in 2019, with gross amount of \$345m and a net of \$296m after distributions and costs.

Net borrowing inflows were \$296m and these funds, along with the securities issued, funded \$413m of net property acquisitions. A comment was made at the pre-AGM meeting that there are opportunities to acquire smaller storage operations where the owners were exiting the industry. Such acquisitions are integrated into the NSR model.

NSR's closing cash position is strong with cash up from \$21.3m in FY18 to \$178m in FY19, an increase of \$157m. Most of this balance, \$126m approximately, is the unspent funding of the above property acquisitions. There is an intention to apply this balance to further acquisitions and debt reduction in FY20. ASA considers this an appropriate use of those funds.

Summary

NSR is in a sound position to continue to expand with a proven business model that has delivered very significant growth in recent years.

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	144.8	145.8	103.4	44.0	48.7
UPAT (\$m)	62.4	51.4	45.7	29.2	24.3
Share price (\$)	1.765	1.61	1.52	1.61	1.61
Dividend (cents)	9.6	9.6	9.2	8.7	8.2
TSR (%)	16.5	12.2	-2.3	7.2	38.4
EPS (cents)	22.1	26.82	20.7	13.1	16.6
CEO total remuneration, actual (\$m)	1.54	1.27	1.14	0.97	0.7

For 2019, the CEO's total actual remuneration was **17.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was \$88,145 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

There is an outline of the remuneration structure in the Annual Report. Payments and fees for non-executive directors are reviewed by an external consultant every two years.

Executive staff remuneration is reviewed by the Board and adjusted annually. Executive staff receive a base salary which can be boosted by incentive awards. All staff remuneration payments are made in cash.

Short-term incentive (STIs) is assessed on four factors: (1) company achievement of a Board determined underlying earnings per share (EPS) (70%) with a (2) financial out performance STI of 10% for exceeding targets, (3) 15% based on individual key performance indicators (KPIs) as determined by MD and Board and (4) 15% company strategic factors not clearly defined. Maximum total STI payment for all executive staff is \$750,000.

Long-term incentives (LTIs) are paid on achievement of two criteria over a three year period: (1) 70% based on total shareholder return (TSR) comparative performance of S&P/ASX200 A-REIT, payable once the 50th percentile is reached and then pro-rata until full payment once 75th percentile is reached; and (2) 30% on EPS growth of 5% per annum.

LTI payments are made in cash up to a total payment for all executive staff of \$750,000. The Managing Director is a significant shareholder having led the company through the initial public offer (IPO) to ASX listing. There is no doubt he is aware of the shareholder's experience. However executive staff receive their LTI payments in cash and there is no requirement for executive staff to own any company stapled securities.

There are a number of issues with the structure that do not accord with ASA remuneration guidelines:

- All incentives (LTIs and STIs) are paid in cash
- The period for measurement and payment of LTI is not greater than 3 years
- Lesser than 50% of CEO remuneration is at risk. ASA prefers more than 50% of total remuneration to be at risk, primarily through LTI payments
- The use of non- statutory figures for determining payments – eg underlying EPS for STI. Share price, dividends and shareholders can hurt when one-off losses occur
- Relative TSR performance. ASA prefer the payment does not commence unless performance is above 50th percentile: at 51st percentile, 30% vesting rising by 2% until 85th percentile.

CEO Remuneration Framework

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.075	55%	1.075	53.8%
STI - Cash	0.4	22.5%	0.484	24.2%
STI - Equity	0		0	0%
LTI	0.4	22.5%	0.44	22%
Total	1.955	100.0%	2	100%

Item 3	Re-election of Anthony Keane as a Director
ASA Vote	For

Summary of ASA Position

Anthony Keane was appointed to the National Storage Board in 2013 prior the successful float of the company in December 2013. He was a banker for over 30 years, most recently as head of Corporate Banking for Queensland for the National Australia Bank for over 12 years. As a banker, he has wide experience across the business banking sector. He is the Chair of the Audit and Risk Committees and a member of the Remuneration and Nomination Committees.

He holds one other ASX Directorship and two private company Directorships, one of which concerns the Queensland Symphony Orchestra. Mr Keane has a holding in National Storage in excess of a year's Director fees.

Item 4	Ratify the issue of Stapled Securities under the June 2019 Placement
ASA Vote	For

Summary of ASA Position

ASA is committed to capital raisings that treat all shareholders equitably. In 2019, National Storage undertook a capital raising by placement to institutional shareholders which was followed up by an SPP to the maximum of \$15,000 offered to retail shareholders. All stapled securities were offered at the price of \$1.71, which at the time was a discount of approx. 4.4% to share price at the time of the announcement.

Item 5	Adoption of amended constitution
ASA Vote	For

Summary of ASA Position

National Storage Financial Services Limited (the Responsible Entity of NSR REIT) proposes to amend the Constitution of NSPT to provide the RE with the express optionality to issue new units which carry: (i) an entitlement to a distribution referable to the distribution period in which the units are being issued; or (ii) no entitlement to a distribution referable to the distribution period in which the units are being issued.

This will allow the company flexibility in structuring new security issuances, should it be preferable to elect one entitlement option over another in the best interests of security holders in the prevailing market conditions and planned capital raising.

Item 6	Increase in Non-Executive Directors Remuneration
ASA Vote	For

Summary of ASA Position

The Board is requesting an increase in Non-executive Directors Remuneration cap from \$900,000 to \$1,200,000 to add an additional Director, increasing Board diversity to ensure the company can successfully pursue expansion and grapple with increasingly complex operations.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

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