



The going gets tougher for NextDC

Company/ASX Code	NextDC (NXT)
AGM date	Friday 18 November 2022 at 11.00am (AEDT)
Time and location	Warrane Theatre, Museum of Sydney, Cnr Phillip & Bridge St, Sydney
Registry	Link Market Services
Type of meeting	Hybrid https://meetings.linkgroup.com/NXT22
Poll or show of hands	Poll on all items
Monitor	Mike Sackett assisted by Clive Hart
Pre AGM Meeting?	Yes with Chair, Douglas Flynn, Stuart Davis (NED and Chair of the Remuneration & Nomination Committee, and Simon Guzowski (ESG and Investor Relations Manager).

The individuals involved in the preparation of this voting intention have shareholdings in NextDC.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Dr Gregory J Clark AC as a Director	For
3	Re-election of Ms Jennifer M Lambert as a Director	For
4	Re-election of Mr Stephen M Smith as a Director	For
5	Approval of grant of Performance Rights to Mr Craig Scroggie (CEO/Managing Director).	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

NXT is a data centre services company with an expanding series of operating data centres in Brisbane, Canberra, Melbourne, Perth, Sunshine Coast and Sydney. Expansion into Darwin and Adelaide is under way.

Governance and culture

The Board comprises seven directors, of whom six are judged independent by the company and meet ASA criteria. Two (29%) directors are female, and the Board is said to focus on increasing its female participation. A Board Skills Matrix was disclosed in the FY22 Corporate Governance Statement - it does not indicate the specific subject-matter expertise of each director.

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 Stephen Smith, who comes up for re-election at the AGM (further discussed below).

Financial performance

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

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	9.1	(23.6)	(45.0)	(9.8)	6.6
UPAT (\$m)	34.7	(24.4)	(45.1)	(5.0)	6.6
Share price (\$)	10.64	11.86	9.88	6.49	7.56
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	(10)	20	52	(16)	68
EPS (cents)	3.9	(4.5)	(12.7)	(0.7)	2.2
CEO total remuneration, actual (\$m)	5.7	4.7	3.2	4.2	2.6

FY22 and the following months have been a difficult period for the share prices of capital-intensive technology companies. NXT is no exception. At the time of writing its share price had fallen by 30% over the past year as a result of factors such as the global climb in interest rates, and supply chain constraints relating to both NXT and its customers who are affected by the global shortage of microprocessor chips.

Positive factors:

- Revenue increased by 18% to \$291 million in FY22 compared with \$246 million the previous year.
- A small profit of \$9 million was achieved in FY22 after three years of losses;
- Over the past 10 years NXT has achieved a 15.6% per annum Total Shareholder Return exclusively through share price growth.

Negative factors:

- Long term debt increased to a record \$1.129 billion at 30 June 2022, an increase of 32% over the year and 99% since June 2020.
- Contracted customer utilisation as a proportion of installed capacity has fallen in each of the past three years, declining from 90% in FY19 to 73% in FY22.
- Significant capital investment is still being undertaken at a time of rising interest rates.

Resolution 1 – Remuneration report - FOR

While complex, the Remuneration Report is clear, logical and comprehensive.

Base pay for the CEO was set at \$1.322 million. In addition, a special one-off bonus payment was made to the CEO, other KMPs and “critical senior executives and managers”. This was equivalent to 25% of base remuneration. It was said to recognise the company’s “strong business performance in FY22 in a highly competitive global talent market.” The notice periods for each of these executives has also been lengthened by 6 months.

The Short Term Incentive Plan is soundly constructed with the following features. There was a Gateway hurdle where underlying EBITDA must have been at least 95% of the midpoint value of the initial guidance range. In FY22 a further performance gate was fulfilling the company’s uptime obligations to its customers. Specific performance metrics related to:

- Underlying EBITDA (40% weighting);
- Data centre services revenue (35% weighting);
- Major project delivery (20% weighting);
- Operations (5% weighting).

Payment of the STIs is in two tranches, one in cash in the September 2022 with the balance deferred for 12 months. The latter aims to “promote sustainability of annual performance over the medium term”, act as a retention mechanism and facilitate the exercise of malus provisions.

At present NXT’s only long-term performance hurdle relates to TSR whereas ASA prefers a second hurdle to be included. When this was raised at the pre-AGM meeting the response was that the company was still at a stage of substantial capital investment for which the single hurdle was considered appropriate.

CEO rem. Framework for FY22	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.653*	46%	1.322	29%
STI - Cash	0.589	16.5%	0.661	14.5%
STI - Equity	0.589	16.5%	0.661	14.5%
LTI	0.741	21%	1.983	42%
Total	3.572	100.0%	4.627	100%

Note: *Including a Special Bonus of \$330,900 which has no hurdles

Godfrey Remuneration Group data for the 27 industrial and services category companies in the same market cap range as NXT (\$3.5-\$7.5 billion) have been examined. FY22 remuneration for the NXT Chair and NEDs was slightly less than the median that Godfrey forecast for comparable companies. For the CEO/MD median FY22 total remuneration is \$3.423 million. This is close to Mr Scroggie's FY22 total target remuneration \$3.57 million.

We have also reviewed the total remuneration for the Chief Operating Officer, Chief Finance Officer and Chief Customer & Commercial Officer. In FY22 this ranged from \$1.47-\$1.49 million for each of the three officers. The COO and CFO were respectively 5%, and 17% above the median for executives in similar roles in companies in the same size range according to Godfrey data, while the CCCO was 3% below the median.

Resolution 2 – Re-election of Dr Gregory J Clark AC as a Director – FOR

Resolution 3 – Re-election of Ms Jennifer M Lambert as a Director – FOR

Resolution 4 – Re-election of Mr Stephen M Smith as a Director – FOR

Skills & experience

Clark, Lambert and Smith have been on the NXT Board for 8, 3 and 3 years respectively. They bring diverse technological, business and financial skills to the Board. The experience which Smith contributes, having served as CEO and President of the US-based Equinox Inc for over a decade transforming it into the largest enterprise data centre platform in the world, is outstanding and of particular value.

Independence

All three directors are regarded as independent by NXT and meet ASA criteria for independence.

Work-load

The work-loads of the three directors do not appear to be excessive

Skin-in the-game

NEDs are encouraged by NXT to accumulate shares on their own behalf over a three-year period of equivalent value to their average annual directors' fees. The shareholdings of Clark and Lambert comfortably exceed that level of shareholding. However, US resident Smith owns no NXT shares. When this issue was raised at the pre-AGM meeting the Chair said that he had recently discussed the subject with Smith who was said to be unaware of the NXT position. This matter will be kept under review. In the meantime, ASA proposes to vote in favour of Smith in view of the outstanding experience he brings to the Board.

Resolution 5: Approval of grant of Performance Rights to Managing Director/CEO Mr Craig Scroggie – FOR

Under this resolution it is proposed to grant a further 196,768 Performance Rights to the CEO for FY23. This is an increase of 33% from the number of Rights granted in FY22. It is calculated from a maximum award value being 150% of net base salary divided by prevailing August 2022 share market price. Vesting of Performance Rights is subject to two conditions:

- A gateway hurdle of NXT achieving positive TSR over the performance period and;

- NXT's TSR exceeding the TSR of companies in the ASX100 Accumulation Index. If NXT's TSR outcome lies between the Index TSR and the Index TSR +5% per annum, pro rata vesting from 25% to 100% will apply. In the event that NXT TSR exceeds the Index TSR by 5% or more, then 100% of Rights will vest.

In a positive move NXT has changed the period over which the LTI hurdle will be tested "in response to shareholder feedback". Half of the total LTI award will be tested over three years and the remainder over four years.

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