



Wins from an Ever-expanding Cloud

Company/ASX Code	NextDC/NXT
AGM date	19 November 2021
Time and location	11.00am (AEDT); Virtual meeting < https://agmlive.link/NXT21 >
Registry	Link
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Sackett assisted by Ben Lee
Pre AGM Meeting?	With Chairman, Douglas Flynn and Stuart Davis, Chairman of the Remuneration and Nomination Committee.

An individual involved in the preparation of this voting intention has a shareholding in NextDC.

NXT joined the S&P/ASX200 Index in 2016 and S&P/ASX100 Index in June 2020. While ASA attended and represented proxy-givers at the 2019 and 2020 AGM, this is the first voting intention report for NextDC (NXT).

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

NXT has a board of seven well-qualified directors with an appropriate balance of longevity, independence and competing responsibilities. The two female members were appointed in 2019 and 2020. The NEDs of NXT “are encouraged to accumulate shares on their own behalf, over a three-year period, of equivalent value to their average annual Directors’ fees”. In practice all have done so with the exception of US-based Stephen Smith, who was appointed in July 2019 and currently owns no shares.

NXT is a data centre services company with currently nine data centres in Sydney, Brisbane, Canberra, Melbourne and Perth. NXT is among the top three Australian providers of cloud capacity and is the only publicly-listed pure-play cloud provider in the local market. The demand for data centre capacity is said to be increasing in Australia at around 20% per annum, with NXT gaining in market share due to its vigorous expansion. It now provides about 15% of Australian data centre capacity.

NXT first listed on the ASX in late 2010. It has grown steadily since then, generating Total Shareholder Return of 20% over FY21 and 22% per annum over the past 10 years. This is exclusively the result of share price appreciation. NXT has yet to pay a dividend, having had negative earnings per share for the past three years as it focused on expanding capacity through substantial capital investment.

The keys to successful data centre operation are 100% uptime in operation, absolute security of data housed, and efficiency of energy usage. Data centres are massive users of electrical power, both for computer operations, and for cooling/de-humidification systems. NXT has produced numbers showing energy efficiency well ahead of the Australian data centre industry average. It also has solar arrays on the roofs of two of its data centres.

At the end of FY21 NXT had installed data centre capacity of 95.8MW (a common measure of data centre capacity is electricity consumption, usually measured in megawatts), which represented an increase of 22% over the previous year. By contrast, contracted customer utilisation in FY21 stood at 75.5MW, having only increased by 7.9% over the previous year. This probably reflects the relative lumpiness of what is a highly capital-intensive business, and uncertainty as to when prospective clients become revenue-generating customers.

There were no events of particular significance in FY21. However, in July 2021 NXT announced that it had purchased the site for its fourth Sydney data centre at a cost of \$124 million. The company prefers to own its data centre sites as this helps to ensure the long-term security of the housed data. NXT currently has two operational data centres in Sydney, with a third under construction and due to become operational in early 2022. With planning under way for the fourth centre in Sydney, this is indicative of the growth in demand for data capacity, and of the company's ambitions for meeting that demand in Australia.

Key Financials

	2021	2020	2019	2018	2017
NPAT (\$m)	(20.7)	(45.2)	(9.8)	6.6	23.0
UPAT (\$m)	(20.7)	(45.4)	(2.4)	6.6	23.0
Share price (\$)	11.86	9.88	6.49	7.56	4.51
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	20	52	(16)	68	29
EPS (cents)	(4.5)	(12.7)	(0.7)	2.2	8.2
CEO total remuneration, actual (\$m)	4.7	3.2	4.2	2.6	2.3

For FY2021, the CEO's total actual remuneration was 50.3 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics). Note - For May 2021, the Full-time adult average weekly total earnings (annualised, original) was \$93,444 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

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).

Item 2	Resolution 1: Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

A comparison was made of NXT remuneration levels and Godfrey Remuneration Group (GRG) benchmarks for companies with similar market capitalisation levels. Notably, the total maximum opportunity FY21 CEO/Managing Director remuneration of \$3.96 million was amongst the very highest for companies the size of NXT. When this was queried in the pre-AGM meeting, it was stated that NXT faced increasing competition for management talent, particularly from private equity and other unlisted organisations. The CEO/MD has held these roles since 2012 and 2010 respectively. Mr Scroggie has been instrumental in overseeing the expansion of data company centre revenues from \$1.2 million in FY12 to \$246 million in FY21, with further substantial growth anticipated. His continuation in these roles is considered essential by the Board.

CEO Remuneration Framework for FY21	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.320	33.3%
STI – 50% Cash/50% Deferred Equity	1.320	33.3%
LTI	1.320	33.3%
Total	3.960	100.0%

A proposal will go before the upcoming AGM (see Item 4) to increase the maximum opportunity of the LTI component in FY22.

Compared with the maximum opportunity in FY21 of \$3.96 million, statutory remuneration was \$3.146 million. Areas of under-achievement included data centre revenue achieved being only midway between the lower and upper levels of guidance, the failure to complete one of the five major projects scheduled for delivery in FY21, and a workplace injury rate exceeding the set target.

The difference between statutory and actual remuneration is due to the value of the share grants awarded to the CEO having increased in value by \$2.2 million.

The remuneration for other NXT KMPs was, by contrast, comparable to the mid-range frequency for other similar-sized companies according to GRG benchmarks. Furthermore, the remuneration of the chairman, directors and the size of the aggregate directors' fee pool tended to be below those in comparators.

Positives

- KMP take-home remuneration, as well as target and maximum opportunity are clearly disclosed;
- Two-thirds of KMP pay is genuinely at risk;
- STIs are based on quantifiable and disclosed performance metrics;
- 50% of STIs awarded according to FY21 performance will be paid in cash in FY22 with the balance being deferred until FY23;
- Deferred STIs are payable in cash or equity at the discretion of the beneficiary;
- LTIs are based exclusively on company TSR in relation to the ASX200 TSR.
- LTI gateway requires a positive absolute TSR
- Share grants are allocated at “face value” ie market value.
- As at 30 June 2021 the CEO held shares in the company valued at about 18 times base salary. Other KMPs also had significant shareholdings.
- The Remuneration Report is comprehensive and, with some effort, understandable.

Areas for Improvement

- ASA prefers a second hurdle for LTI but acknowledges the company has considered and rejected adding another hurdle.
- The LTI performance rights measurement period is only three years, compared with ASA’s preferred standard of four years. Progress towards this standard will be proposed at the AGM (see item 4)

Item 3	Resolution 2: Re-election of Mr Douglas Flynn as a Director
ASA Vote	For

Mr Flynn was appointed to the Board as an independent NED in 2013 and as chairman in April 2014. He has a strong media and IT background. His other current responsibilities are limited to the chairmanship of ASX-listed medical imaging technology micro-cap IMEXHS. Mr Flynn has a shareholding in NXT equivalent to about five years’ worth of board fees. In the pre-AGM meeting with ASA he was open and constructive.

Item 4	Resolution 3: Approval of grant of Performance Rights to CEO/Managing Director Mr Craig Scroggie
ASA Vote	For

The company proposes to grant the CEO 147,860 performance rights for FY22 as part of its LTI plan. The number of rights has been calculated using market value of shares and is valued at \$1.98 million, which represents 150% of base salary, unlike in FY21 when the maximum LTI was based on 100% of base salary. This potentially moves the CEO remuneration to having a greater proportion at risk, which ASA welcomes.

Another positive change is that the LTI award be extended in FY22 to include tranches which vest after three (two thirds of total LTI) and four years (one third). The proportions set for FY22 represent a transition with awards in subsequent years being made on the basis that 50% of each LTI award be evaluated over three years and the other 50% over four years. While ASA prefers a four year measurement term for LTIs we regard this as a step in the right direction.

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