Goodman produces another stunning financial performance and rides the data centre boom

Company/ASX Code	Goodman Group/GMG
AGM time and date	10.00am Thursday, 14 November 2024
Location	Sheraton Grand Sydney Hyde Park, 161 Elizabeth Street Sydney
Registry	Computershare
Type of meeting	Hybrid meeting
Monitor	Lewis Gomes
Pre-AGM Meeting	Stephen Johns (Chairman) and John Inwood (Head of Group Stakeholder Relations) with Lewis Gomes, Richard McDonald and Mary Curran

Monitor Shareholding: Several of the individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	Voting
1	To appoint the auditor of Goodman Logistics (HK) Limited	For
2	Re-election of Danny Peeters as a) a director of Goodman Limited and b) Goodman Logistics (HK) Limited	Undecided
3	Re-election of David Collins as a director of Goodman Logistics (HK) Limited	For
4	Adoption of Remuneration Report	For
5	Issue of Performance Rights under the LTI Plan to Gregory Goodman	For
6	Issue of Performance Rights under the LTI Plan to Danny Peeters	For
7	Issue of Performance Rights under the LTI Plan to Anthony Rozic	For

2. Summary of Issues and Voting Intentions for AGM

- Strong financial performance in a challenging market
- Property devaluations due to rising cap rates (which follow interest rates)
- Strong outlook, particularly associated with increasing emphasis on data centres
- Very high remuneration levels driven partly by large increases in the security price
- Continued focus on ESG matters and reductions in carbon-based emissions
- Director elections and re-elections
- Performance awards for the CEO and KMP

3. Matters Considered

Financial performance

While most property development and management companies in Australia continued to experience challenging times due to rising interest rates and negative property revaluations, Goodman Group (Goodman or GMG) put in another stellar year. Operating profit of $2,049 million was up 15% on FY23 while operating EPS of 107.5 cents was up 14% on FY23 and ahead of initial guidance of 9.0%. Statutory profit, which includes property revaluations, non-cash items and mark-to-mark movements, was actually a loss $98.9 million, compared with a profit of $1,560 million for FY23 due to substantial downward revaluations arising from increased cap rates.

Development earnings continued to be strong with an operating EBIT of $1.28 billion ($1.3 billion in FY23) while the EBIT contribution from Property investment was $567 million ($531 million in FY23) and from Management was $776 million ($481 million in FY23). The strength of Development is also reflected in the completion of $4.2 billion of new projects while maintaining work-in-progress (WIP) at $13.0 billion across 80 projects.

Gearing remained very low at 8.4% while net tangible assets (NTA) per security was down by 3.5% to $8.80 due mainly to property devaluations While most listed property companies continued to trade during the year at significant discounts to NTA, Goodman has had a remarkable ride in its security price from around $20 last October to about $37 this October, an increase of 75% to 4 times its NTA, a very strong endorsement by the market of GMG’s performance. While the reasons for these security price rises cannot be fully explained, much of it is thought to be a combination of GMG’s financial performance and the strong attention now being given to its growing presence in the incorporation of data centres within its newer industrial developments, as discussed later.

Total assets under management (AUM) were down 3% to $78.7 billion while portfolio occupancy continued at a high 97.7%.

Security-based compensation for executives continues to be excessive in the view of the ASA at $501 million for FY24 up from $286 million in FY23. The FY24 amount represents almost 25 % of operating profit for the year compared with $567 million in dividends and distributions to security holders. That is, the group of executives who receive these awards are collectively receiving amounts almost the same as the total cash returns to shareholders. Having said that, security holders, as noted above, have seen an increase in the value of their holdings of about 75% or $17 per security over the last 12 months.

As can be seen in the following table, the dividend per share has remained stationary at 30 cents, notwithstanding the doubling in EPS over these 5 years. Goodman maintains that the extra earnings are needed to fund the WIP and the business in general rather than being given to shareholders. It argues that the benefits of the growth in the business are reflected in the security price which indirectly benefits shareholders. However, it is noted that securities would have to be sold to realise these benefits and only after the likely impost of considerable capital gains taxes for most security holders.

It should be noted that share-based expense is an accounting treatment and does not reflect the cash cost of vested equity. New vested equity is created by the issue of new securities at no cost to participants and adds to the total pool of securities and hence lowers the EPS. Executives have to recover this EPS dilution before they can benefit from increases in EPS.

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It is noted that the substantial increases in WIP have levelled off in the most recent year. At the end of FY19, WIP stood at $4.0 billion, then $6.5 billion for FY20 then $10.6 billion for FY21 to $13.6 billion at the end of FY22 and $13.0 billion at the end of FY23 and FY24. In our Pre-AGM meeting with GMG in October 2024, the Chairman advised that WIP is likely to remain at about $13 billion over the next few years as it progresses further opportunities in data centres and other near-city developments. He also noted that it needs to invest about $1.4 billion annually to support its capital investments in its partnerships in order to maintain its relative equity of around 25% to 30% in these ventures. Hence the prospects for meaningful increases in distributions are limited.

GMG has given guidance for FY25 of EPS growth of 9.0% which would result in EPS of 117 cents. Typically, GMG's guidance has been quite conservative and exceeded substantially in recent years (refer to Page 76 of AR). However, of course, no assurances can be given for a similar outcome this year.

Summary 5 Year Financial Table

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
Statutory Profit ($m)	(99)	1,560	3,414	2,312	1,504
Operating Profit ($m)	2,049	1,783	1,528	1,219	1,060
Share price ($)	34.75	20.07	17.84	21.17	14.85
Dividend (cents)	30	30	30	30	30
Simple TSR (%)	74.6	14.2	(14.3)	43.3	(0.4)
Operating EPS (cents)	107.5	94.3	81.3	65.6	57.5
CEO total remuneration, actual ($m)	26.7	27.4	44.3	37.0	26.8

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.

Governance and culture

Goodman Limited has a board of 10 directors, including the CEO and two other executive directors. Of this group, 3 are women. There are two additional directors of Goodman Logistics (HK) Limited who are not on the main board.

There are 5 nominated Key Management Personnel (KMP) including the 3 executive directors, all of whom are men.

Goodman has a board diversity target of 40/40/20 for non-executive directors (now 30% female) but gives little information on diversity within the broader workforce. Following recent elections of new directors, the geographic spread has improved with now 30% of directors based in the US, 20% in Hong Kong and the rest in Australia.

The percentage of females in senior roles remained at 30% in FY24. Goodman continues to work towards a target of 40% in senior roles by 2030 and 40/40/20 overall by 2030.

In our meeting with GMG in October 2024 we asked about the selection and management of KMPG as auditors to the Group. We were advised that Goodman continues to be pleased with the services provided by KPMG notwithstanding that they have been the auditors for many years and are able to provide the international experience and resources that the role requires. The lead partner is rotated every 5 years and the Chairman stated that he sees no reason for changing arrangements that have worked very well over many years.

Key events

Probably the most notable event this year has been the increasing focus on data centre developments by Goodman. Data centres now account for 40% of WIP and is expected to grow to over 50% in coming years. With a total global power bank of 5.0GW strategically located across 13 major global cities, it is seen as a source of competitive advantage as GMG repositions several of its industrial sites to higher value data centres. The 5.0GW power bank includes 2.5GW of secured power consisting of 0.5GW of completed facilities, 0.4GW of WIP and 1.6GW of secured power to sites that Goodman owns or controls. The remaining 2.5GW is in advanced stages of procurement.

The Chairman noted in our October 2024 meeting that to date GMG has acted as developer and builder of data centre “shells” which are subsequently leased, fitted out and operated by major IT companies such as Microsoft and Amazon. However, GMG is considering moving into these activities itself in the future which will require a considerable step-up in technology skills and capital sourcing and management.

Key board or senior management changes

The only change at board level has been the retirement after 13 years of Phillip Pryke who was the remuneration chair for many years. The Chairman, Stephen Johns, is now also the Chair of the Remuneration and Nomination Committee. Stephen has brought notable changes to the remuneration plans over the last two years including the removal of fair value in the determination of security awards and reducing the number of awards issued to more reasonable levels.

There have been no changes in the senior management ranks.

The AR lists four substantial securityholders being Vanguard Group (8.8%), Blackrock Group (8.6%), State Street Corporation (7.3%) and the China Investment Corporation (7.9%).

Sustainability/ESG

Goodman has for a long time taken sustainability and ESG into consideration in its projects and corporate activities. Apart from its own desire to meet community expectations, there is an obvious benefit to its business activities as more clients are demanding ever increasing attention to these matters. For the first time this year, Goodman has incorporated specific climate reporting and other sustainability initiatives into its annual report (refer Pages 40 to 59).

Among its achievements for FY24 are reductions in Scope 1 and 2 emissions of 11% since FY21, use of renewable electricity above 80% and added 24MW of solar PV installations to a total to date of 330MW. Goodman has recently reset its previous target of 400MW by 2025 target to 350MW to

370MW due to more of its developments being in multistorey buildings where the available roof space relative to floor space is lower. Details are presented in the AR of all GHG emissions and sources. One aspect that could be given further consideration by Goodman is the likely substantial increases in electricity usage as its data centre portfolio increases toward its 5GW target which is equivalent to 2 to 3 conventional coal fired powered stations.

It was noted that Goodman recorded a fatal accident on one of its projects in China. Independent investigations have since confirmed that the incident was not within the control of Goodman but rather was the responsibility of the builder. Nevertheless, Goodman has accepted ultimate ownership of the incident and is responding with improved oversight of its projects.

As noted elsewhere, Goodman has built an ESG hurdle into its remuneration framework, where up to 20% of awards could be forfeited if these targets are not met. Details are provided in the Annual Report.

The Goodman Foundation continues its philanthropic and community support activities with an annual spend of about $10 million excluding time spent by employees.

4. Rationale for Voting Intentions

Resolution 1 Appointment of auditor for Goodman Logistics (HK) Limited (GLHK)

This is a standard resolution each financial year required under Hong Kong law. It is proposed to reappoint KPMG as the auditor. The ASA has no reason to challenge this appointment and will vote all undirected proxies in favour of this resolution.

Resolution 2 Re-election of Danny Peeters as a a) director of Goodman Limited and b) Goodman Logistics (HK) Limited

Danny was appointed a director of Goodman Limited in 2013 and as a director of GLHK in 2018. He is an executive director with oversight of Goodman's Brazil operations and previously lead many of Goodman's European developments. Along with Greg Goodman as CEO and Anthony Rozic, he is the third executive director on the GMG board.

The board is supportive of Danny's re-election but the ASA does not generally support the addition of additional executives beyond the CEO to boards. In our October 2024 meeting with GMG, the Chairman stated that the reasons for the additional executive directors was largely historical and would not be repeated when these directors eventually retire from the Group. ASA will exercise its intention for undirected votes after hearing the case for his re-election at the AGM.

Resolution 3 Re-election of David Collins as a director of Goodman Logistics (HK) Limited

David was appointed a director of GLHK in July 2018. He is a former partner of KPMG with a career in accounting and financial matters spanning over 40 years in the UK and Greater China.

The ASA has no reason to challenge his re-election and will be voting all undirected proxies in favour of this resolution.

Resolution 4 Adoption of the Remuneration Report

GMG received against votes exceeding 25% at both the 2021 and 2022 AGM's leading to a second "strike". The problem can be seen in the various remuneration reports (eg Page 99 of the 2024 AR) which show the number of performance rights awarded to the CEO over successive years. In FY18 and FY19, the CEO was awarded 1,600,000 rights each year. Goodman received a strike over these numbers and the following years a more reasonable path was chosen wherein the CEO was awarded 900,000 in FY20 was 950,000 in FY21. Then suddenly in FY22, the CEO was awarded 1,560,000 rights without any meaningful justification other than the holding period on these awards being extended to 10 years.

The situation was made worse by Goodman's use of so-called "fair" value to estimate the worth of these rights. No other major ASX listed company now uses fair value and it has been largely discredited as a means of valuing security awards for the purposes of calculating the number allocated. In Goodman's case, the calculated fair value was typically half the current market or "face" value which meant that the value of the rights as shown in the Goodman material was much less than the actual value delivered to the executives on vesting.

In 2023 the Goodman board at last acted by essentially abandoning the fair value concept and using face value to measure the worth of awards. For FY23, the number of performance awards to the CEO was reduced to 1,000,000 and for FY24 was further reduced to 900,000. Using the face value of shares at the reference date (end of the financial year) the value of these rights has been calculated at $17.8 million (based on face value of $17.84) and $18.1 million (based on face value of $20.07) for FY23 and FY24. These amounts are much more reasonable and reflect, as they should, the strong financial performance of the company.

For FY24, all tested awards from previous years exceeded the hurdles for 100% vesting. The value of vested rights for FY24 at the vesting date was $25.3 million while the value when awarded (the grant dates) was $14.9 million (refer Page 87 of AR). Adding the CEO's fixed remuneration of $1.4 million (unchanged since 2014) and no STI for the CEO gives a total actual remuneration for FY24 of $26.7 million.

For the current year, FY25 the proposed number of rights to be awarded to the CEO has been further reduced to 630,000 but that takes into account the significant increase in the security price from $20.07 for FY23 to $34.75 in FY24. The award of 630,000 rights is, in relative value terms, greater than the previous year by about 21% (900,000x$20.07/34.75=520,000).

For the executive cohort as a whole, LTI awards (by numbers of securities) have been reduced by 30% for FY24 to reflect the increase in share price over the past year of 73%. Also of note is that the stretch targets for annual EPS growth over the 4 year testing period have been maintained at a minimum of 6% pa to 11% pa for maximum vesting. Over 4 years, these hurdles require an EPS growth of a minimum of 26% to 52% for full vesting. Given the much higher starting point due to the strong EPS performance over the last few years, as can be seen in the 5 year table presented earlier, these targets are certainly challenging in the current economic environment

LTI is measured against two metrics, EPS growth at 75% and TSR at 25%. The Board favours EPS as the main metric as the business has a strong cash generation focus which is more under the control of executives than security price. The awards are also subject to a gateway hurdle of EPS growth of 6% and a possible 20% reduction in LTI awards if a range of sustainability criteria are not met. Further details are provided in the Remuneration Report, including the metrics for assessing STI and LTI awards. Executives are expected to hold 100% of the value of their fixed remuneration in GMG securities, a requirement that is readily met.

In our October 2024 meeting with the Chairman, the question was asked as to whether a TSR hurdle metric could be put in place which would ensure that remuneration awards would only come into play if the TSR was positive. The Chairman rejected this suggestion quoting the FY22 example where the Group's financial performance was very strong but the security price fell because of interest rate rises after the Covid-related impacts on the property sector which were outside of the control of executives.

In summary, after many years of voting against the Remuneration Report up until the 2023 AGM, the ASA this year will again cast any undirected proxies in favour of this resolution.

Resolutions 5, 6 and 7 Issue of Performance Rights under the Long Term Incentive Plan (LTIP) to Greg Goodman, Danny Peeters and Anthony Rozic.

Details of these performance rights are given in the Notice of Meeting including details of the LTIP performance hurdles and the sustainability condition that must be met to avoid up to 20% of the rights lapsing. In summary, the proposed LTI grant to the CEO is 630,000 securities with an ASX face value of $34.75 as at 28 June2024 giving a total potential value at the valuation date of $21.9 million plus the fixed remuneration (FR) of $1.4 million plus zero STI in accordance with the CEO's wishes.

For Peeters and Rozic, the grants are 320,000 and 360,000 securities respectively plus fixed remuneration plus maximum STI of 150% of FR. For Peeters fixed remuneration is shown as EUR 670,000 while Rozic's fixed remuneration is USD 950,000.

For the reasons outlined above for Resolution 4, the ASA believes these awards are now more realistic and justifiable, being based on face value and subject to significant hurdles for EPS growth and TSR performance as well as a ten year holding period.

In summary, after many years of voting against the issue of performance rights, the ASA this year will cast any undirected proxies in favour of these resolutions.

Appendix 1
Remuneration framework detail for the CEO for FY24

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.4	9.3	1.4	6.0
STI - Cash	Nil	0	Nil	0
STI - Equity	Nil	0	Nil	0
LTI	13.7	90.7	21.9	94.0
Total	15.1	100.0	23.3	100.0

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 framework set a maximum opportunity amount, but not all.

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