

30th August 2022



Mercury NZ Limited (MCY)

The company will hold its Annual Shareholders Meeting at **10.00am Thursday 22 September 2022**.

The location is **Event Cinemas, Westfield Newmarket, Level 4/309 Broadway, Newmarket, Auckland**.

You can also join the meeting online [here](#).

Company Overview

The company is a generator and retailer of energy. It is listed on the NZX and ASX. It generates electricity from 100% renewable sources: hydro, geothermal and wind. Its electricity generation sites are located along the Waikato River (hydro), the nearby steamfields of the northern part of the Central Plateau (geothermal) and in the Manawatū, South Taranaki and Otago regions (wind). It is currently building the Turitea wind farm in the Tararua Ranges of the Manawatū region, which will be New Zealand's largest wind farm once complete. In May 2022 it completed the acquisition of Trustpowers retail business.

In August 2022 the company announced Andy Lark would retire from the Board after serving 8 years and Lorraine Witten will be appointed 1 September 2022.

Current Strategy

The company's strategy is to be New Zealand's leading energy brand generating energy from 100% renewable resources.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

| Colour | Meaning |
|--------|---|
| G | Strong adherence to NZSA policies |
| A | Part adherence or a lack of disclosure as to adherence with NZSA policies |
| R | A clear gap in expectations compared with NZSA policies |
| n/a | Not applicable for the company |

Governance

NZSA assessment against its key policy criteria is summarised below:

| Policy Theme | Assessment | Notes |
|------------------------------|------------|---|
| Directors Fees | A | See below. |
| Director share ownership | G | Directors are not required to own shares. |
| Executive Remuneration | G | See below. |
| Golden parachutes/handshakes | A | See below. |
| Director Independence | G | All Directors are independent. |
| Board Composition | G | See below. |

| Policy Theme | Assessment | Notes |
|----------------------------------|------------|--------------------|
| Director Tenure | G | See below. |
| ASM Format | G | Hybrid. See below. |
| Independent Advice for the Board | G | See below. |

Directors Fees: Whilst disclosure is generally good it is not disclosed if share options are offered or if special exertion payments are made. In the interests of transparency NZSA expects definitive statements around these matters.

Executive Remuneration: The CEO is paid a base salary, a short-term incentive (STI) and a long-term incentive (LTI). Full details are set out in the Annual Report. NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Golden parachutes/handshakes: Not disclosed if these or similar payments are offered. NZSA expects full disclosure of the terms of the CEO's remuneration and any other payments.

Board Composition: Good disclosures. The company is one of few that participates in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expects NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply. We note the Governance Report in the Annual Report comments that the longest serving Directors will retire in the next few years.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities. In both matters the Annual Report includes fulsome disclosures. We would recommend other companies take note as this is an area of some concern in that many Annual Reports are deficient in their disclosures.

Audit

NZSA assessment against its key policy criteria is summarised below:

| Policy Theme | Assessment | Notes |
|--------------------|------------|------------------|
| Audit independence | G | Good disclosure. |
| Audit rotation | A | See below. |

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

| Policy Theme | Assessment | Notes |
|---------------------|------------|-------------------------|
| Whistleblowing | G | Good disclosure. |
| Political donations | G | No donations were made. |

Financial & Performance

[summary of recent performance]

| Policy Theme | Assessment | Notes |
|--------------------------|------------|-----------------------------|
| Dividends and Imputation | G | Good disclosure. |
| Capital Raise process | n/a | There as no capital raising |
| Takeover or Scheme | n/a | |

Mercury's share price fell from \$6.72 to \$6.54 (as of 15th August 2022) over the last 12 months – a 3% decline. This compares favourably with the NZX 50 which declined by 7% in the same period. The capitalisation of MCY is \$9.2B placing it 5th out of 131 companies on the NZX by size and makes it a large company.

| Metric | 2022 | 2021 | Change |
|---------------------------------|----------|----------|--------|
| Revenue | \$2,188m | \$2,045m | 7% |
| EBITDAF | \$581m | \$463m | 25% |
| NPAT | \$469m | \$141m | 233% |
| EPS ¹ | \$0.335 | \$0.101 | 233% |
| PE Ratio | 20 | 68 | |
| Capitalisation | \$9.2B | \$9.4B | -3% |
| Current Ratio | 0.79 | 0.83 | -5% |
| Debt Equity | 1.03 | 0.91 | 14% |
| Operating CF | \$352m | \$338m | 4% |
| Operating CF (cps) | \$0.25 | \$0.24 | 4% |
| NTA Per Share ¹ | \$3.31 | \$2.91 | 13% |
| Dividend Per Share ¹ | \$0.20 | \$0.17 | 18% |

¹ per share figures based off actual shares at balance date (not weighted average)

Most metrics improved for Mercury during the year, and this was reflected by their share price outperforming the NZX. Revenue was up 7% to \$2.2b and EBITDAF was up 25% to \$581m. Last year we noted that operating expenses increased by 24% but this year the increase was restricted to 2%.

MCY improved NPAT by 233% to \$469m, but this result was flattered by a gain on disposal of \$366m. EPS were \$0.335 and this places MCY on a PE of 20. In the case of MCY the PE figure is meaningless as much of its income was derived by a gain on disposal of an asset.

When compared with other Gentailers a theme emerges that the market is more interested in Operating Cash Flow and dividends per share. Operating Cashflow increased by 4% to \$352m or in terms of cents per share came in at 25 cents. Dividends per share were up 18% to \$0.20 for FY 21. Dividends are fully imputed.

The company is in sound financial shape with the debt equity ratio at 1.03 a slight increase as MCY took on \$375m of additional interest-bearing debt. Total debt for MCY is \$1,395m. MCY also have a deferred tax liability of \$1,753. This arises as Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. MCY believes that the deferred tax liability on these revaluations is unlikely to crystallise in the foreseeable future under existing income tax legislation.

NTA per share was up by 13% to \$3.35. MCY trade at a 98% premium to its NTA.

Resolutions

1. To re-elect James Miller as an Independent Director.

James Miller was appointed to the Board in May 2012. He is Chair of NZX and a Director of Channel Infrastructure Limited and Vista Group International. His prior roles included Director and Head of NZ Wholesale Equities with Craigs Investment Partners, and Head of Equities and Head of Research at ABN AMRO. He is a Fellow of the Institute of Finance Professionals and the New Zealand Institute of Chartered Accountants. As indicated in the Annual Report we would expect this to be his last term of office.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To elect Lorraine Witten as an Independent Director.

Lorraine Witten was appointed to the Board in September 2021 and is therefore required to offer herself for election. She currently Chairs Move Logistics Group and Rakon and is an Independent Director of Pushpay Holdings. Her former roles include Director of Horizon Energy Group, Advisory Board Member and Audit Committee Chair of the Department of Corrections, Board member WREDA, and Director and Chair of Kordia Group.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To elect Susan Peterson as an Independent Director.

Susan Peterson was appointed to the Board in September 2021 and is therefore required to offer herself for election. She currently Chairs Vista Group, is an Independent Director of Xero, Arvida, Property for Industry and Craigs Investment Partners and is a Trustee on the Board of Global Women. She is a past director of Trustpower, ASB Bank, The New Zealand Merino Company, and Compaq Sorting. Susan has been a Tribunal member on the New Zealand Markets Disciplinary Tribunal, a Ministerial Appointee to the National Advisory Council for the Employment of Women, a member of the Board of IHC and was a finalist in the Women of Influence Awards in 2014.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Tuesday 20 September 2022.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA