

April 20th 2022



Ventia Services Group Limited (VNT)

The company will hold its Annual Shareholders Meeting at **10:00am AEST (12 noon NZT) on May 5th 2022.**

It will be a virtual meeting. You can join the meeting [here](#).

Company Overview

The company listed on the NZX and ASX in November 2021. It is one of the largest essential infrastructure services providers in Australia and New Zealand. The Group organises its operations into four sectors as follows:

- *Defence and Social Infrastructure* provides maintenance and support services to customers operating across Defence, Social Infrastructure (Education, Social Housing, Justice and Health), Local Government and Critical Infrastructure. The Group also provides property and consulting services to public and private clients.
- *Infrastructure Services* supports ongoing maintenance of infrastructure including utility infrastructure (including Water and Electricity & Gas), and resources & industrial assets (including mine operation facilities, Oil & Gas processing facilities, gas wells and industrial facilities). The Group also provides complex and large-scale environmental remediation services, and leverages technologies aimed at enhancing client productivity.
- *Telecommunications* provides end-to-end service capabilities that span design, supply, minor construction, installation, commissioning and maintenance of telecommunications networks and infrastructure.
- *Transport* provides maintenance, project delivery and technology solutions to owners and operators of road, motorway, tunnel and rail networks.

It has over 35,000 employees and contractors and over 400 project sites.

Its major shareholders are Apollo Group Management 32.88%, CIMIC Group 32.88% and The Capital Group Companies 7.66%. CIMIC appoint two Directors and Apollo appoints one Director to the Board.

Current Strategy

The company's strategy is to specialise in the long-term operation, maintenance, and management of critical public and private assets and infrastructure.

The company has adopted three strategic themes as part of a goal of *redefining service excellence*. Strategic-level goals are centred on **client focus**, **innovation** and **sustainability**.



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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	G	See below
Director share ownership	R	See below
Executive Remuneration	G	See below
Golden parachutes/handshakes	A	See below
Director Independence	G	See below
Board Composition	G	See below
Director Tenure	G	See below
ASM Format	G	See below
Company Sec independence	n/a	Policy not applicable

Directors Fees: Generally good disclosure. NZSA notes that the company has a provision in its Constitution (8.3g) to make “special exertion payments” to Directors over and above their usual Directors fees, with these payments **not** included in the Director Fee Pool.

NZSA policy is that the Director Fee Pool should include **all** potential payments to Directors, including any special exertion benefits. In general, NZSA believes that “special exertion payments” are only acceptable in certain specific situations, and should be included within the total director fee pool approved by shareholders (with the amount attributable for such potential payments identified). We note that no special exertion benefits were paid by Ventia during the financial year.

We note whilst the Constitution provides for retirement benefits, the annual report states that no retirement benefits are paid to Directors; a position supported by NZSA.

Director Share Ownership: The company requires Independent Directors to purchase the equivalent of annual base Directors fees in shares within 3 years of appointment. This is not a position supported by NZSA. While Directors have three years in which to meet the requirements, this still represents a third of their income (pre-tax) for each of those years. This requirement would preclude the appointment of Directors who lack the personal wealth to fulfil that requirement and may also affect their independence. There is no disclosure as to any discretion available relating to this requirement.

NZSA recognises the significant level of personal ownership may be appealing to some investors. We also note the annual report refers to the requirement as “*in line with ASX practice*”, referring to a recommendation within the ASX Corporate Governance Principles.

Executive Remuneration: The CEO is paid a base salary, a short-term incentive and a long-term incentive.

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.

We note Ventia’s excellent disclosure as to the measures and underlying metrics, their descriptions, weighting and the level of achievement in determining STI and LTI applicable to key executives. We

recognise that as an ASX-listed company, Ventia must comply with more detailed remuneration reporting requirements than those required on the NZX.

For FY21, the salary and short-term incentive are paid in cash, with the long-term incentive paid in shares. NZSA notes a move in FY22 towards paying a portion of the STI in shares. Share-based payments for STI are not generally supported by NZSA.

We note that the total potential incentives are significantly more than base salary, with a slight bias towards STI opportunity (NZSA prefers a weighting towards long-term performance).

Golden parachutes/handshakes: In addition to disclosure as to whether such payments are made, NZSA believes there should be disclosure around the severance terms associated with the CEO. Ventia discloses the notice periods associated with both its CEO (9 months) and CFO (6 months) and notes a provision for maximum termination payments. NZSA does not believe such payments are warranted.

Director Independence: The Board Charter states that it is intention of the company to have a majority of Independent Directors. At the time the annual report was released, there were four Independent and four Non-Independent Directors. NZSA policy and the NZX Code of Corporate Governance both recommend a majority of Independent Directors.

We note that recent announcements relating to the resignation of two non-independent directors (both from CIMIC) due to perceived conflict of interest concerns has now resulted in a majority of independent directors on the Board.

Board Composition: In general, good disclosure. However, it would be preferable for the skills matrix to reference individual Directors to demonstrate their individual contribution to the governance of the company.

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.

As part of Ventia’s IPO in November 2021, there were a number of Director changes. While the Board have all served less than 9 years, we will look for evidence of the Board considering ‘staggered’ future Director changes in a manner that reduces the risk associated with a sudden loss of corporate knowledge.

ASM Format: While NZSA prefers ‘hybrid’ ASM’s (ie, physical and virtual) as a way of promoting shareholder engagement while maximising participation, we understand the company’s approach in planning a virtual-only meeting given the current Covid-19 situation across New Zealand and Australia.

Company Secretary Independence: This policy is currently under review by NZSA, and cannot be assessed at this time.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	A	See below
Audit rotation	R	See below

Audit Independence: We note non-audit work comprised 62% of the Fees paid to the Auditor, although the disclosure in the annual report indicates that much of this non-audit fee was related to the IPO. NZSA policy is that non-audit work should comprise no more than 25% of the total Fees.

If non-audit is substantial on an ongoing basis, we recommend the appointment of another Audit Firm for this work.

Audit Rotation: NZSA expects disclosure as to the appointment dates of the Lead Audit Partner or the Audit Firm to improve transparency for investors. We note that the NZX Listing Rules require the Lead Audit Partner to be changed after a maximum of 5 years; we can find no reference in the annual report as to whether Ventia complies with this requirement.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	A	See below

Political Donations: There is no disclosure whether donations were made to a political party. NZSA expects disclosure of whether donations were made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	n/a	
Takeover or Scheme	n/a	

Ventia's share price rose from NZ\$1.77 to NZ\$2.76 (as of 5th April 2022) over the last 5 months – a 56% increase. This compares favourably with the NZX50 which declined by 5% in the same period. The capitalisation of VNT is \$2,361m placing it 22nd out of 138 companies on the NZX by size. We note that Ventia's primary listing is on the ASX.

Metric	2021 AUD	2020 AUD	Change
Revenue	\$4,557m	\$3,224m	41%

EBITDA	\$312m	\$266m	17%
NPAT	-\$5m	\$24m	n/a
EPS ¹	\$0.023	\$0.045	-50%
PE Ratio	121	39	
Current Ratio	0.81	1.02	-20%
Debt Equity	5.87	87.2	-93%
Operating CF	\$125m	\$83m	51%
NTA Per Share ¹	-\$0.97	-\$2.05	n/a
Dividend Per Share ¹	\$0.0147	n/a	

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

We note that all figures in the financial statements are disclosed in AU\$ - however, this was not specifically disclosed, and required follow-up with Ventia. We would hope that future annual reports offer more immediate clarity on the currency used for reporting.

Ventia listed during Q4 of 2021 and its share price has risen by 56% in the 5 months since listing. Revenues were up 41% on 2021 to \$4.6b and EBITDA was up 17% to \$312m. The disparity between rising revenue and EBITDA was due to higher operating expenses, up 44%.

This led to a loss after tax of \$5m, but discontinued operations provided a gain of \$24.6m giving total profit after tax of \$19m and EPS of \$0.023 placing VNT on a high PE ratio of 121. This indicates that the market expects VNT to further improve underlying performance in future.

The balance sheet has a large amount of interest-bearing debt (\$743.2m), although this is a 43% reduction on 2020. The debt equity ratio is high at 5.87 and the current ratio is low at 0.81. To offset this low current ratio, Operating cashflows are healthy at \$125m.

Of note, the NTA per share is *negative* \$0.97 cents. This means that if the company were liquidated and intangible assets did not realise anything, shareholders would receive nothing. VNT has a large intangible asset value; a total of \$1,220m, comprised of Goodwill(\$1,093m), Software and Systems (\$70.2m) and Customer Contracts (\$57.4m).

On 6th April [VNT announced](#) they had been awarded a 2 year contract extension with the Australian government expected to deliver \$270m of revenue.

Resolutions

1. To adopt the 2021 remuneration report for the financial year ended 31 December 2021.

Given the nature of remuneration disclosures discussed earlier in this document, NZSA has no further comment.

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

2. To elect David Moffatt as a Non-Independent Director.

David Moffatt was appointed to the Board in December 2014 and is the Chairman. His previous roles include Chairman of Asurion Asia Pacific and CEO of Lebara Group. He was Chief Financial Officer and Group MD Finance for Telstra Corporation Limited and Group MD Telstra Consumer, serving on the boards of the Telstra-affiliated businesses Foxtel, CSL (Hong Kong) and Reach (Hong Kong). He was also CEO of GE and GE Capital Australia & New Zealand. He was originally nominated to the Board by Apollo as Executive Chairman and subsequently held the position of Group CEO of Ventia on an interim basis (between November 2019 and January 2021). He is currently a senior professional adviser to Apollo Global Management.

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

3. To elect Kevin Crowe as a Non-Independent Director.

Kevin Crowe was appointed to the Board in December 2014. He is the nominee Director of a substantial Shareholder of the Company, AIF VIII Singapore Pte Ltd (Apollo). He is a Partner in the Private Equity group of Apollo Global Management, a global alternative asset manager. He joined Apollo Global Management in 2006 and is based in London. He currently holds directorships of Haydock Finance and Paratus AMC Limited. He has previously served on the Boards of Norwegian Cruise Line, Nine Entertainment Company, Prestige Cruise Holdings and Quality Distribution. Prior to joining Apollo Global Management, Kevin was a member of the Financial Sponsors group in the Global Banking department of Deutsche Bank Securities.

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

4. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

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 (AEST) on Tuesday 3rd May 2022.**

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

The Team at NZSA