New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

May 4th 2023

Ventia Services Group Limited (VNT)

The company will hold its Annual Shareholders Meeting at **10.00am (Sydney Time) Tuesday 23 May 2023**

It is a virtual only meeting. You can join the meeting online 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.

In March 2022 Robert Cotterill and Ignacio Segura appointees of CIMIC (who held 32.77% of the shares), resigned from the Board. NZSA notes that CIMIC currently holds 21.9%, with these shares under escrow.

In June, the CEO was appointed to the Board. Whilst this is popular in ASX companies it is a minority position in NZX companies. NZSA does not favour the CEO being a Director. The roles of governance and management should be separate with the CEO reporting to the Board not being a first amongst equals.

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	G	See below.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	See below.
Board Composition	A	See below.
Director Tenure	A	See below.
ASM Format	R	Virtual only. See below.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: 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.

In general, compulsion is not a position supported by NZSA although we do encourage Directors to own shares. 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. In mitigation, however, we note that statement that "*The Board retains discretion as to the approach taken where NEDs do not meet the MSR [minimum shareholding requirement] within the required period.*"

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 in cash, a short-term incentive (STI) 75% in cash and 25% by way of shares paid over 2 years and a long-term incentive (LTI) by way of Share Appreciation Rights paid over 5 years. There is good disclosure around the metrics and weightings of the incentives.

The maximum STI is 127.5% of the base salary and the maximum LTI is 100% of the base salary. The STI is 56% of the total incentives. NZSA's preference is that the total incentives are no more than the base salary and the STI is no more than 33% of the total incentives to ensure the CEO is also focused on the long-term performance of the company. We recognise, however, that the remuneration structure applicable to the CEO is in line with Australian expectations.

The CEO is required to hold a minimum of 2 years base salary in shares.

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. We note that any payments in excess of the termination cap on the Corporations Act would require shareholder approval.

Director Independence: Four of the seven Directors are independent. We note the Chair is non-independent. Both the ASX and NZX Codes of Corporate Governance recommend that the Chair is independent. This is also NZSA policy. We note the Board has appointed one of the Directors to the role of Lead Independent Directors.

Board Composition: We note the Annual Report includes a composite skills matrix. It does not attribute skills sets to individual Directors to demonstrate how they contribute 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: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. The company is holding a virtual only meeting – a situation that is unlikely to disadvantage most NZ shareholders, as VNT is an Australian company.

We note more Australian-based companies are holding virtual meetings.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities.

There is good disclosure in the Annual Report and Corporate Governance Statement. We note the ASX is more robust in its requirements compared to the NZX as to the extent to which Board members can seek external or internal advice to support decision-making and the extent to which internal assurance staff have unfettered access to the Board.

The company offers good disclosure of financial, non-financial and operation risks in the Annual Report and Corporate Governance Statement and how these are managed and governed.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	**Assessment**	**Notes**
Audit independence	G	Good disclosure.
Audit rotation	G	Good disclosure. See below.

Audit Rotation: Both the dates of appointment of the Lead Audit Partner and their rotation and the date of appointment of the Audit Firm are disclosed in the Annual Report.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	**Assessment**
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

Overall approach: Ventia has published their second sustainability report since listing on the ASX and NZX in November 2021. This reports outlines Ventia's performance in Environmental, Social and Governance matters has been prepared with reference to Global Reporting Initiative Standards.

While setting science-based targets is a priority for 2023, Ventia should be commended for already having a level of Limited Assurance provided for select environmental and social impacts by PwC. This is more than the majority of listed companies have been doing to date.

Sustainability Governance: While not part of their Annual or Sustainability reports, Ventia provides a detailed skills matrix of their Board in their corporate governance statement which shows the number of Board members at one of three levels of competency against 15 skills.

Strategy and Impact: Ventia clearly acknowledges the impact of climate-related risks on their strategy and has created a Sustainability Strategy to drive this. They also provide good evidence of financial decisions that have reduced and not just offset carbon emissions.

Risk and Opportunity: In their Sustainability report, Ventia groups their climate related risks and opportunities into three themes with good level of detail for each. There is a high level of disclosure of non-climate related risks and opportunities in their Annual Report.

Metrics and Targets: Ventia discloses their combined scope 1 and 2 emissions, which could be improved by disclosing them individually more clearly. Their target for 2023 is that they begin measuring their scope 3 emissions and to set metrics and targets in accordance with Science Based Targets Initiative.

Assurance: As mentioned above, Ventia is ahead of most companies by being able to disclose a Limited Assurance Report from PwC for selected metrics.

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

Policy Theme	Assessment	Notes
Capital Management	G	Good disclosure.
Takeover or Scheme	n/a	

Ventia's share price fell from $2.60 to $2.57 (as of 6th March 2023) over the last 12 months – a 1% decline. This compares unfavourably with the NZX 50 which remained flat in the same period. The capitalisation of VNT is $2,199m placing it 22nd out of 130 companies on the NZX by size and makes it a large company.

Metric	2020 AUD	2021 AUD	2022 AUD	Change
Revenue	$3,224m	$4,557m	$5,168m	13%
EBITDA	$266m	$312m	$414m	33%
NPAT	$24m	-$5m	$191.2m	n/a
EPS[1]	$0.045	$0.023	$0.22	881%
PE Ratio	39	121	11	
Capitalisation		$2,224m	$2,199m	-1%
Current Ratio	1.02	0.81	0.92	13%
Debt Equity	87.2	5.87	4.49	-23%
Operating CF	$83m	$125m	$289.9m	133%
NTA Per Share[1]	-$2.05	-$0.97	-$0.76	n/a
Dividend Per Share[1]	n/a	$0.077	$0.158	104%

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

Ventia had a good year after listing in 2021. *Revenues* were up 13% on 2021 to $5.2b and *EBITDA* was up 33% to $414m. Pleasingly, operating expenses were only up 12%, less than the rise in revenues.

This led to big increase in *NPAT*. NPAT came in at $191.2m and provided *EPS* of $0.22 placing VNT on a low *PE* ratio of 11.

The balance sheet has a large amount of interest-bearing debt, $744.9m in total. The *debt equity ratio* is high at 4.49, although down 23% on 2021. The company notes that it is in compliance with all debt covenants as at balance date, with performance of the two key covenant metrics (Interest cover and Leverage ratio) clearly disclosed in the annual report.

The *current ratio* is low at 0.92. To offset this low current ratio, *Operating cashflows* are extremely healthy at $289.9m representing $0.34 per share.

Of note, the *NTA* per share is negative $0.76 cents. This means that if the company were liquidated, and intangible assets did not realise anything, shareholders would receive nothing. VNT has a large amount of intangible asset: a total of $1,173m, comprised of Goodwill, Software and Systems and Customer Contracts.

In a brief outlook statement released on 24th February 2023 the company stated that:

"Ventia's Board and Management anticipate continued stable and considered growth. We expect revenue and earnings momentum will remain as the demand for essential services, underpinned by recent record infrastructure spend continues." The company also expects FY23 NPAT growth of between 7% and 10% on FY22 pro forma NPAT.

Resolutions

(Agenda item 1 relates to the adoption of the Annual Report. This is not subject to a shareholder vote.)

2. Adoption of the Remuneration Report.

The remuneration report provided by Ventia has a strong alignment with the disclosure requirements expressed by NZSA. NZSA appreciates the difference in remuneration structures between AU and NZ executives.

On this basis, we will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Sibylle Kreiger as an Independent Director.

Sibylle Krieger was appointed to the Board in October 2021. She is currently a Non-Executive Director of AEMO Services, Openpay Group and MyState Limited, and was previously Non-Executive Chair of Xenith IP Group Limited and a Non-Executive Director on the Boards of Vector Limited, AEMO and Sydney Ports Corporation. Sibylle has over 40 years' experience as a commercial lawyer, economic regulator, and Non-Executive Director of a broad range of companies across sectors including energy, water, professional services and fintech.

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

4. To re-elect Jeffery Forbes as an Independent Director.

Jeffrey Forbes was appointed to the Board in October 2021. He is the Non-Executive Chair of Herron Todd White Group, and Non-Executive Director of Cardno Limited, PWR Holdings Limited and Intega Group Limited. He was formerly CFO, Executive Director and Company Secretary at Cardno Limited, an engineering and environment consultancy company. Prior to Cardno, Jeffrey was the CFO, Company Secretary and Executive Director at Highlands Pacific Limited, a PNG-based mining and exploration company.

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

5. To Issue Securities to the Managing Director and Group Chief Executive Officer under Ventia's Long Term Incentive Plan.

The details are set out in the Notice of Meeting. We note the additional sale restriction periods in addition to the vesting date, the link to metrics that are likely to improve shareholder return and the threshold level of a 15% return on equity. We also note the provision of a clawback provision. All are positions supported by NZSA.

We note that the LTI award is set at 100% of the CEO's fixed remuneration. This is a level typical for many Australian companies.

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 (Sydney Time) Sunday 21 May 2023.**

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

The Team at NZSA