

Summary of Enersource's Financial Performance¹

Enersource Generates a Healthy Financial Return for Mississauga

- Over the past three fiscal years (2005 through 2007), Enersource earned a total of \$45 million in net income for its owners (90% to the City of Mississauga). That's an average annual profit of about \$15 million per year.²
- That represents a return on average equity of 7.25% for the City's investment in the company³ (which is now worth, on the books, just over \$190 million⁴). That's a good rate of return – especially these days.
- Over these three years, Enersource also paid over \$25 million in dividends to the City, or an average of \$8.4 million per year.⁵ That represents a dividend payout ratio (on average equity) of 4.5 percent.⁶ That is higher than the dividend payout rates of most commercial investments.
- Last year alone, Enersource paid a \$9.3 million dividend to the City.⁷
- On top of the dividend payout, the City also receives a 90% share of Enersource's retained earnings, and a 90% share of any increase in the company's equity.

The "2.3%" Return Estimate is Wrong

- A misleading argument has been made that the return to the City equals a supposed \$7 million annual dividend divided by \$300 million.⁸ Neither the numerator nor the denominator of this calculation is valid.
- The City's total return from its investment in Enersource is not limited to the annual dividend (which was \$9.3 million last year, not \$7 million). The owners of any company also profit from a company's retained earnings and any increase in its equity base. It is highly misleading to describe an investment return solely by the dividend payout.
- To take an extreme example, one of Canada's most successful private companies is Research in Motion. This company does not pay any dividend to shareholders. According to the above methodology, therefore, the return to RIM shareholders is precisely zero. But RIM shareholders (like the City of Mississauga and its investment in Enersource) also benefit from their investment in other ways. In fact, RIM shareholders have enjoyed a 168% appreciation in share prices over the last year – not zero!⁹
- And the City of Mississauga's investment in Enersource is not "approximately \$300 million," as indicated in Councillor Parrish's recent opinion article. The City's stake is valued (in both the City's own financial statements, and Enersource's financial

statements) at 90% of the company's total equity. This is presently equal to \$192 million.

- Dividing the total return (including a 90% share of retained earnings, as well as the dividend) by the true book value of the City's investment, gives an annual return over the past three fiscal years of 7.25% – three times as high as estimated in Councillor Parrish's article.

The Enersource Investment Pays a Higher Return Than Would be Paid for Debt

- The City of Mississauga currently has no debt, and a AAA bond rating. If it undertook new debt, it would pay an interest rate in the neighbourhood of 5% (or possibly even less).
- It is clear that the City is earning more from its continuing investment in Enersource, than it could save – either by selling the company and investing in other financial investments, or by foregoing new debt to pay for capital infrastructure.
- When a private company sees an opportunity to borrow money at a low interest rate, and invest it to earn a higher rate of profit (especially in a relatively risk-free investment), it does so. No corporate CEO would ever argue to sell off a money-making investment, in order to pay off debt that carries a lower rate of interest. That would reduce profits.
- Municipal financing decisions should be guided by similar cost-benefit comparisons.

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² Source: Enersource audited annual financial statements, 2005 through 2007, available at www.sedar.com.

³ Return on average equity equals the company's after-tax net income in a given year (from the company's income statement), divided by the average of the shareholder's equity (from the company's balance sheet) at the beginning of that year and at the end of that year.

⁴ The City of Mississauga reports the value of its investment in Enersource to equal 90% of Enersource's reported shareholder equity; see p.22 and p.26 of the 2006 City of Mississauga Financial Report, available at http://www.mississauga.ca/file/COM/2006_Financial_Statement.pdf.

⁵ Source: Enersource audited annual financial statements, 2005 through 2007, available at www.sedar.com.

⁶ The dividend payout ratio equals the annual dividend divided by the value of the investment (which in this case equals the City's equity in Enersource).

⁷ This equals 90% of the \$10.336 million in dividend payments reported by Enersource in its 2007 Consolidated Statement of Cash Flows, available at www.sedar.com.

⁸ For example, in "Enersource sale: What's at stake for Mississauga," Carolyn Parrish, *Toronto Star*, April 15 2008.

⁹ Information regarding the dividend payouts and total return of Research in Motion available at www.sedar.com.