



# Vocus Communications Limited Acquisition of FX Networks

2 July 2014



# Transaction highlights

## FX Networks acquisition

### Acquisition

- Strategic acquisition of FX Networks Limited (“FX Networks”) for an enterprise value of NZ\$115.8m (~A\$107.7m)<sup>1</sup> fully funded through a combination of cash, new bank debt and scrip
- Annualised EBITDA of NZ\$13.5m – 14.5m<sup>2</sup>

### FX Networks

- Modern inter-city fibre optic network, offering services to enterprise, government and wholesale customers
- Network covers over 4,000km and reaches all major population centres
- Strong annuity revenue with significant network capacity available

### Strategic rationale

- Creates the leading trans-Tasman carrier
- NZ fibre asset allows Vocus to mirror its successful AU business model providing fibre, internet and DC services
- Positive market dynamics, with strong economic growth, TNZ separation and UFB (NZ NBN) initiative
- Cross selling opportunities to the high quality wholesale and direct customer base of over 365 customers

### Process

- Shareholders comprising 77.1% of issued capital have already accepted the offer under lock-up arrangements
- Subject to Vocus shareholder approval, standard conditions precedent and procedural steps required under the New Zealand Takeovers Code
- Completion expected by October 2014

*Positions Vocus as the leading trans-Tasman network operator*

*Note: Assumes A\$/NZ\$ foreign exchange rate of 0.9299*

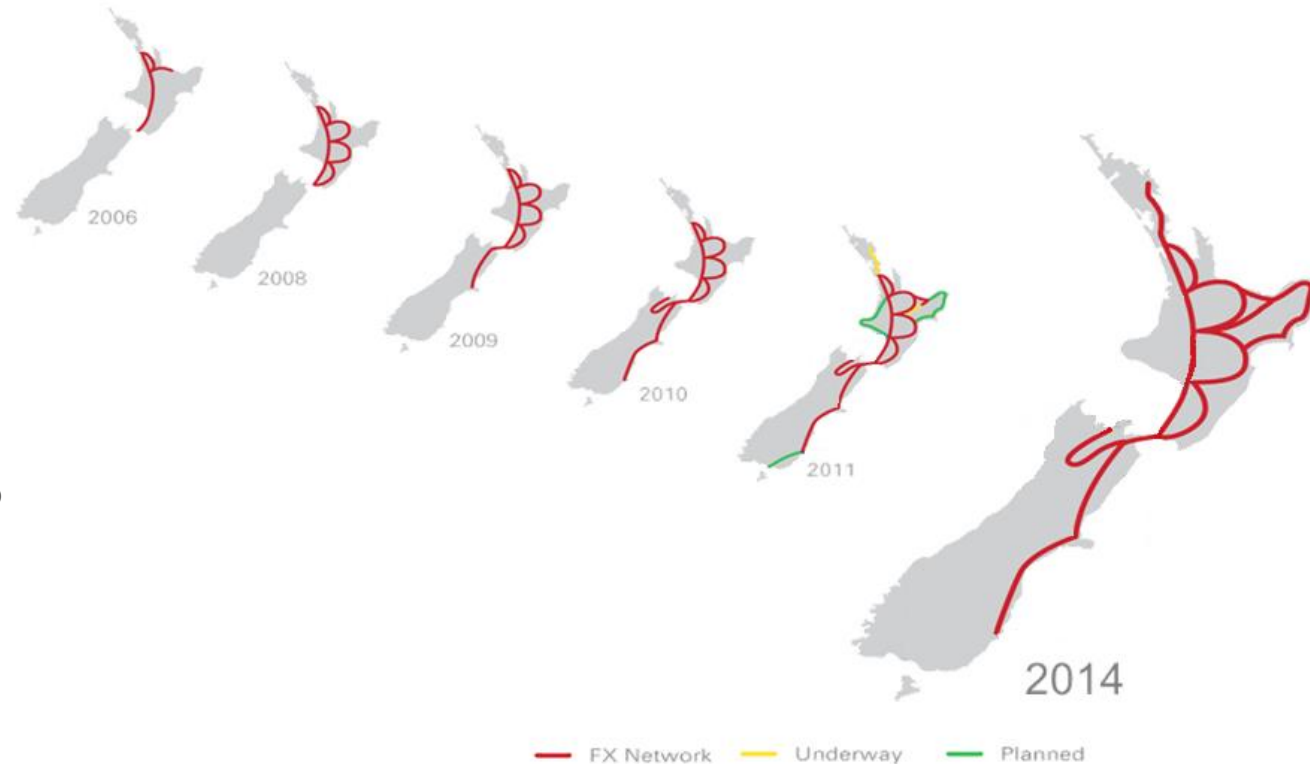
*1. Enterprise value being equity value plus bank debt, shareholder loans and finance leases*

*2. Expected results for the first 12 months post-acquisition, excluding acquisition and integration costs*

# FX Networks Market Dynamics

## High quality network asset in attractive telco market

- Established in 2003, FX Networks is New Zealand’s only ducted inter-city fibre optic network providing dark fibre and high-speed, high-capacity connectivity services
- One of only three inter-city network providers (others being Telecom NZ and Vodafone)
- Positive underlying fundamental market drivers
  - NZ economy moving from strength to strength and one of the stronger economies in the OECD
  - Government-backed FTTP ultra-fast broadband (“UFB”) (NZ NBN) program to drive demand for high-speed networking services, which is rolling out successfully
  - Data demand growing with Cisco forecasting New Zealand IP traffic to grow three-fold from 2013-2018
  - Strong market dynamics for fibre assets



# FX Networks Overview

## Fibre optic infrastructure carrier

### FX networks

- Owns and operates over 4,000 kilometres of fibre optic network throughout New Zealand
- Operations comprise of two discrete complementary businesses:
  - **Fibre and Internet Services**
    - Data backhaul / dark fibre for telecommunications providers
    - Networking and Internet for enterprise and government
  - **Project Services**
    - Design and construction of fibre infrastructure for third parties
- Strong customer network comprising large enterprises, central government agencies, major telecommunications carriers and channel partners
- Connected to 17 major data centres
- Connected to 26 of 33 UFB (NZ NBN) Candidate Areas and all major population centres

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Revenue<sup>1</sup>  
 NZ\$60.1m

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EBITDA<sup>1</sup>  
 NZ\$13.3m

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Staff  
 111

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# Financially attractive acquisition

## Balance sheet capacity and flexibility post-acquisition

### Synergies

- Ability to market an end-to-end solution across Australia and New Zealand
- Combined business will offer fibre, Internet and data centre services
- Focus shift towards metropolitan areas
- Cross-sell solutions to the combined customer base
- Efficiency gains through increased scale
- Identification and redeployment of resources where overlap exists

### EPS

- Double digit EPS accretion in FY16

### Funding

- Funded via current cash holdings, additional multicurrency senior debt facilities with the Commonwealth Bank of Australia<sup>1</sup> and Vocus scrip

### Balance sheet flexibility

- Pro forma net debt of ~A\$86m at completion
- Pro forma net debt / CY13 EBITDA<sup>2</sup> of 2.3x and gearing of ~31%<sup>3</sup> at completion
- ~A\$17m cash and ~A\$40m of available facilities on completion

Note:

Assumes A\$/NZ\$ foreign exchange rate of 0.9299

1. A detailed commitment letter subject to customary conditions has been executed with full documentation in progress

2. Based on FX Networks normalised CY13A EBITDA

3. Net debt / (Net debt + Equity). Assumes FX Networks shareholders accept the maximum available level of scrip as consideration under the offer

# Consideration

## Combination of Vocus cash and scrip

Purchase price	<ul style="list-style-type: none"> <li>NZ\$115.8m (~A\$107.7m)</li> </ul>
Debt assumed	<ul style="list-style-type: none"> <li>NZ\$53.7m (~A\$49.9m)</li> </ul>
Consideration	<ul style="list-style-type: none"> <li>NZ\$62.1m (~A\$57.8m)             <ul style="list-style-type: none"> <li>– Up to 33% paid in cash</li> <li>– Remainder in Vocus scrip</li> </ul> </li> </ul>
Cash component	<ul style="list-style-type: none"> <li>Shareholders can elect to receive cash under the offer, with total cash paid capped at 33% of equity value</li> <li>Funded from cash on hand and new debt facilities</li> </ul>
Scrip component	<ul style="list-style-type: none"> <li>Between 8.8m and 13.1m Vocus shares will be issued to FX Networks shareholders under the offer, at a price of A\$4.40 per share (NZ\$4.73 per share)             <ul style="list-style-type: none"> <li>– 5.0% discount to the 5 day VWAP prior to announcement</li> <li>– 1.3% premium to the 30 day VWAP prior to announcement</li> </ul> </li> <li>Total issuance dependent on elections by shareholders to receive cash under the offer</li> <li>Between 8.6% and 12.4% of the share register post-completion, dependent on cash elections by FX shareholders</li> </ul>

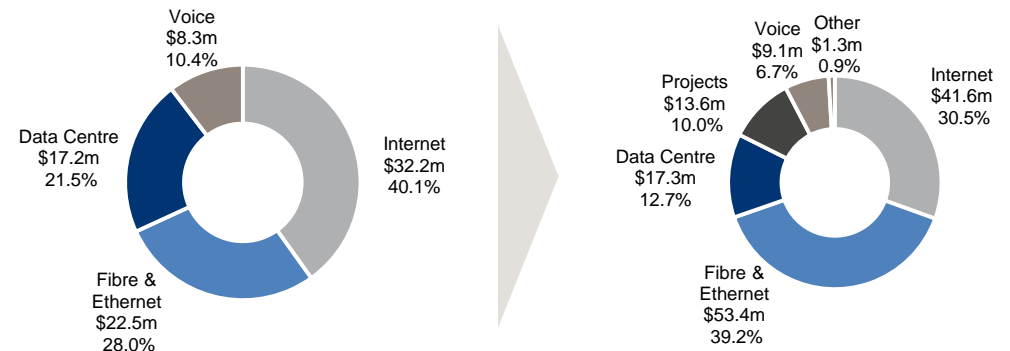
Note: Assumes A\$/NZ\$ foreign exchange rate of 0.9299

# Combined company overview

*FX Networks' operations are highly complementary to Vocus' current operations and will significantly strengthen its presence in New Zealand*

- Combined revenue base of ~A\$136m (CY13A)
- Delivers greater industry and geographic diversity
- Results in Fibre and Ethernet becoming the largest division at 40% of revenues, with additional earnings potential due to its largely fixed cost base
- Strong recurring revenue streams
- Asset ready to leverage
- Pro-forma net assets of ~A\$167m

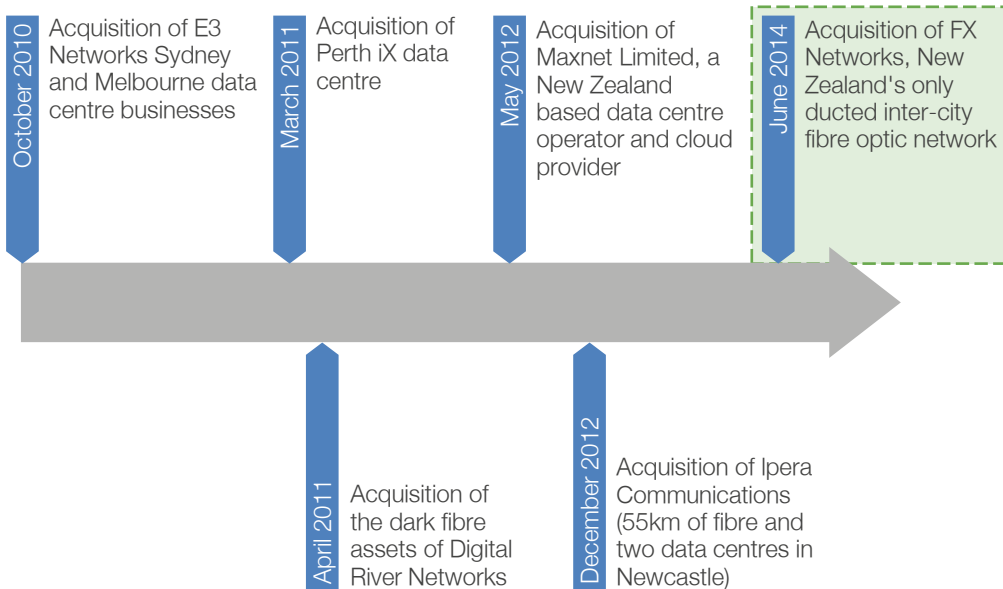
Pro forma CY13A revenue mix, by division



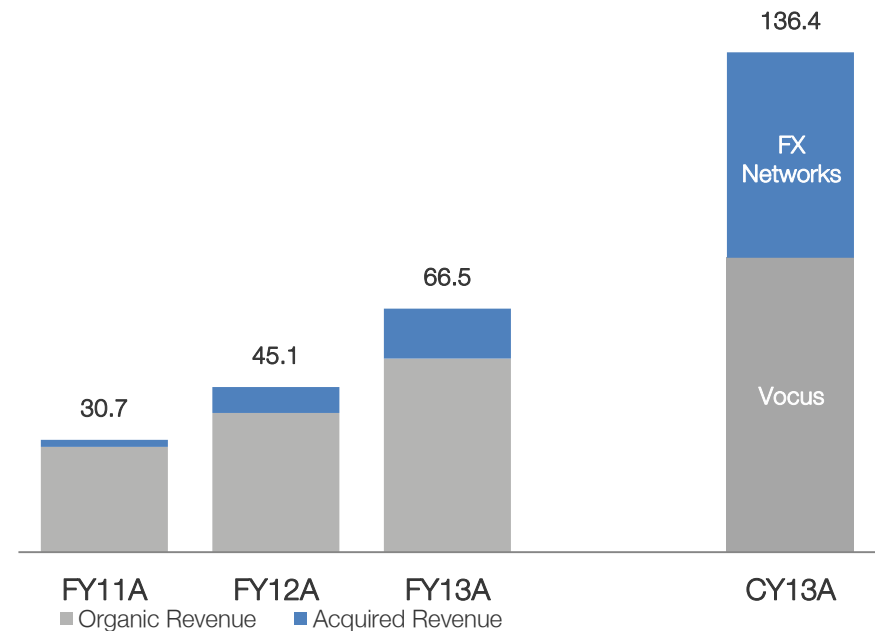
# Strong track record of successful acquisitive growth

- Continues the evolution from an IP Transit wholesaler in 2008 to a fully integrated trans-Tasman carrier
- Proven ability to integrate, expand and leverage acquired businesses

## Vocus acquisition timeline



## Vocus historical revenue (A\$m)





# Summary

## Transformational acquisition for Vocus

- ✓ **New phase of growth with increased scale, consistent with growth strategy and vision**
  - ~A\$136m pro forma revenue
  - Exciting opportunity to mirror Vocus' Australian success in New Zealand as a fully integrated data centre, internet and fibre operator
- ✓ **Leverages existing operational and financial strength and complements existing businesses**
  - Cross sell opportunities
- ✓ **High quality assets with significant growth capacity**
  - Long term value in network and is largely built, limiting future capex
  - Limited competing networks (being one of only three intercity networks in New Zealand)
  - Ducted nature of the network provides scope for further expansion if required compared to direct-buried nature of competitor fibre
- ✓ **Long term value accretive**
- ✓ **Strong cultural fit and organisational alignment**
  - Enhanced talent pool and opportunities for staff

# Process and indicative timetable

- Pre bid agreement and lock up arrangements with major shareholders have been executed
- The acquisition of FX Networks is governed by the New Zealand Takeovers Code:
  - Takeover notice to be dispatched to FX Networks shareholders in late July 2014
  - Offer Document, Target Company Statement and Independent Expert's Report released in mid to late August 2014
- Completion of the FX Networks acquisition will be subject to a number of conditions precedent including (but not limited to):
  - Vocus shareholder approval, to be obtained at an EGM which is scheduled to be held in mid to late August 2014, notice of meeting to be despatched in mid to late July 2014
  - Acceptances by more than 90% of FX Networks shareholders of the offer;
    - Commitments received from holders of 77.1% of the shares in FX Networks, with drag rights which ensure at least 90% of shareholders will accept
    - Acceptance by shareholders who hold at least 50% of the consideration shares of certain escrow arrangements post-completion
  - Receipt of change of control consents from certain key commercial counterparties
  - No event having occurred under Vocus' funding arrangements which would allow Commonwealth Bank of Australia to withdraw its funding commitment

# Combined P&L and Capital Structure

Summary P&L (CY13)	VOC (A\$m)	FX (A\$m)	Combined (A\$m)
Revenue	80.4m	56.0m	136.4m
EBITDA	27.5m	9.2m <sup>1</sup>	36.7m
NPBT	8.5m	(0.9m) <sup>2</sup>	7.6m

Capital Structure	0% Cash	33% Cash
Current Shares on Issue	92,934,834	92,934,834
<i>Shares Issued to FX Shareholders</i>	13,129,602	8,796,834
Total Shares on Issue post-Completion	106,064,436	101,173,668
FX Shareholder Interest in Vocus	12.4%	8.6%

Note: Assumes A\$/NZ\$ foreign exchange rate of 0.9299

1. Based on FX Networks normalised CY13 EBITDA, adjusted for one-off

2. Impacted by significant interest costs from related party debt at non-commercial rates

# Pro-forma Balance Sheet

Pro forma balance sheet based on 31 December 2013

	Note	PF VOC (A\$m)	FX (A\$m)	Note	+ Trans adj. (A\$m)	PF Combined - All Shares (A\$m)	Note	+ Cash adj. (A\$m)	PF Combined - 33% Cash (A\$m)
<b>Assets</b>									
Current and Other Assets	1	64.3	11.7	2	(1.6)	74.4	4	(19.1)	55.3
Fixed Assets (including IRU)		123.7	76.7		–	200.4		–	200.4
Intangibles (incl. Goodwill / Cust. Contracts)		20.2	–	3	38.4	58.6		–	58.6
<b>Total Assets</b>		<b>208.2</b>	<b>88.4</b>		<b>36.9</b>	<b>333.5</b>		<b>(19.1)</b>	<b>314.4</b>
<b>Liabilities</b>									
Current Liabilities		13.1	9.5	2	(4.4)	18.1		–	18.1
Net Debt and Other Liabilities	1	66.8	52.6	2	9.8	129.2		–	129.2
<b>Total Liabilities</b>		<b>79.8</b>	<b>62.1</b>		<b>5.4</b>	<b>147.4</b>		<b>–</b>	<b>147.4</b>
<b>Net Assets</b>		<b>128.3</b>	<b>26.3</b>		<b>31.5</b>	<b>186.1</b>		<b>(19.1)</b>	<b>167.0</b>
<b>Equity</b>									
Issued capital	1	97.5	39.0	2	18.8	155.2	4	(19.1)	136.1
Reserves		2.1	–		–	2.1		–	2.1
Retained earnings		28.7	(12.7)	2	12.7	28.7		–	28.7
<b>Total Equity</b>		<b>128.3</b>	<b>26.3</b>		<b>31.5</b>	<b>186.1</b>		<b>(19.1)</b>	<b>167.0</b>

## Notes

1. Includes pro-forma adjustment for Vocus capital raising in March 2014 and subsequent repayment of bank debt in April 2014
2. Transaction adjustments as part of completion of the transaction including refinance/assumption of net debt
3. Estimated combined goodwill / customer intangibles amount to be recognised in relation to the acquisition
4. Adjustment to equity issued and cash outflow should FX shareholders elect to receive cash up to the cash cap (33% of Equity Value)

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