



STOCK EXCHANGE LISTINGS: NZX (MCY) / ASX (MCY)

NEWS RELEASE

Mercury enters into binding agreements to acquire Trustpower's retail business

21 June 2021 – Mercury NZ Limited (Mercury) has announced that it has entered into binding agreements with Trustpower Limited (Trustpower, NZX:TPW) to acquire Trustpower's retail business for NZ\$441 million, payable in cash. The transaction is conditional on several matters, including Commerce Commission clearance, completion of the proposed restructure of Tauranga Energy Consumer Trust (TECT) and Trustpower shareholder approval.

Trustpower's retail business is a leading multi-product utilities retailer selling electricity, gas, fixed and wireless broadband and mobile phone services to approximately 231,000 customers nationwide.

The combined business will have approximately 780,000 connections across both energy and telco services.

Mercury Chief Executive Vince Hawksworth said the acquisition would accelerate Mercury's retail strategy, which is centred on delivering the right product mix and value for customers.

"Mercury and Trustpower are two highly complementary organisations, and this agreement would see the best of both being brought together for our customers," said Mr Hawksworth.

"We know customers value the convenience and ease of bundled services in their home and Trustpower has deep expertise in bundling products in a way that people clearly appreciate. We see this adding material value to our customers and Mercury."

"Bringing together the retail businesses of Mercury and Trustpower will also give us the scale to make meaningful investment in the underlying IT systems, driving greater innovation for our customers."

Mr Hawksworth said the strength of Trustpower's retail offering was underpinned by a highly skilled and motivated team, with approximately 500 staff focused on retail, based in Tauranga and Oamaru.

"We see a huge amount of talent and capability across both organisations, each with a strong focus on delivering the best possible outcomes for customers. We're excited for how we can continue to build on this together," said Mr Hawksworth.

"Customers will continue to enjoy all the great services and support they have today with Trustpower and with Mercury. And we're looking forward to unlocking even more benefits and products for them over time."



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Mr Hawksworth noted that deeper integration of the two businesses is not planned until the underlying IT systems will enable improved customer experience.

Mercury has secured a commitment for a new bank facility sufficient to finance the acquisition.

Mercury notes:

The transaction is conditional on Mercury obtaining Commerce Commission clearance for the purchase of Trustpower's retail business. Mercury will be working with the Commerce Commission to progress the application as efficiently as possible once filed.

In addition to requiring Trustpower shareholder approval, the transaction is also conditional on the proposed TECT restructure being completed. Independent of this transaction, the TECT trustees already have this restructure process underway, as they wish to ensure that all Trustpower's local retail customers (as at 28 January 2021) will remain beneficiaries of the Trust following any sale of Trustpower's retail business. Mercury's offer is conditional on the restructure occurring to ensure that those Trustpower retail customers could continue as beneficiaries of the Trust. Further details of the TECT restructure can be found on TECT's website.

The timing for regulatory approvals depends on several factors, including the current workload of the regulator. Mercury anticipates that these conditions will be fulfilled and completion of the transaction will occur within CY2021.

Further detail is provided in the accompanying presentation.

ENDS

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ABOUT MERCURY NZ LIMITED

Mercury's mission is energy freedom. Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways and our goal is to be New Zealand's leading energy brand. We focus on our customers, our people, our partners and our country; maintain a long-term view of sustainability; and promote wonderful choices. Mercury is energy made wonderful. Visit us at: www.mercury.co.nz



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TRANSACTION OVERVIEW

Mercury has agreed to acquire Trustpower retail for \$441m¹

- > The transaction price reflects:
 - > Trustpower's retail business – see slide 3
 - > 10-year electricity supply hedge agreement (CFD) with declining volume over time
 - > ISP network
 - > Restructured Tauranga Energy Consumer Trust (TECT) rebate arrangements
- > Settlement following Commerce Commission approval, implementation of the TECT Deed restructure and Trustpower shareholder approval
- > Represents stand-alone acquisition multiple of ~8.0x EBITDAF; ~5.2x EBITDAF including forecast future cost synergies²
 - > Forecast cost synergies of ~\$35m³ per annum after transition
 - > Expected transition costs of ~\$50m³ over 3 years
- > Mercury has secured a commitment for a new bank facility sufficient to finance the acquisition



¹ Including normalised working capital

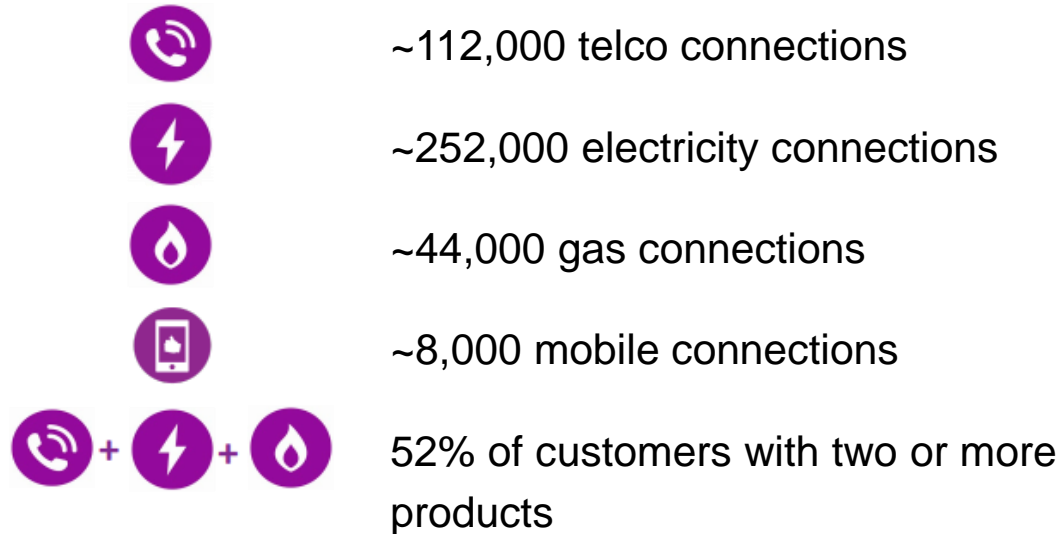
² Forecast synergies fully realised after ~3 year transition – see slide 6 for further details

³ Split between opex and capex – see slide 6 for further details



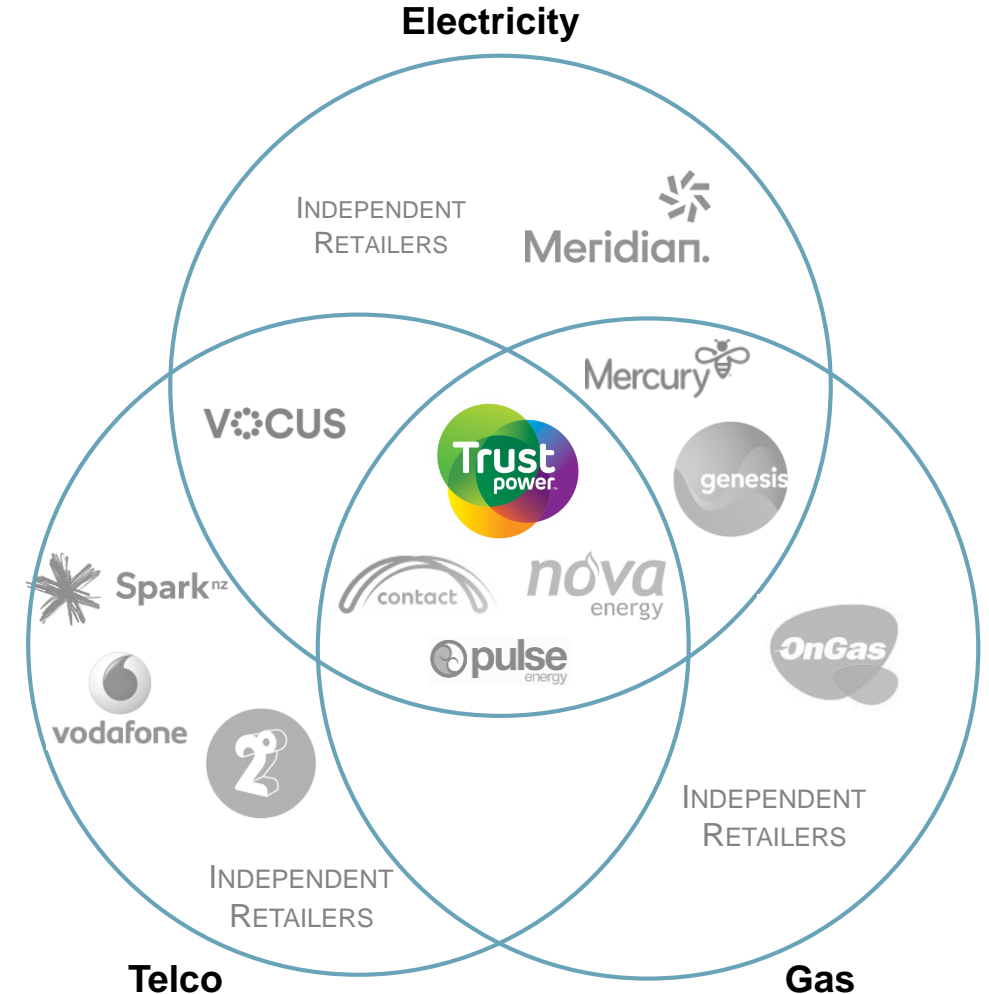
TRUSTPOWER RETAIL AT A GLANCE

> Tauranga-based retailer operating in the electricity, gas and telecommunications markets:







> Nation-wide carrier-grade ISP network and capability

> ~550 employees in Tauranga and Oamaru



NEW ZEALAND'S UTILITY MARKETS ARE CONVERGING

- > Consumers have responded positively in the New Zealand market to bundled utility product offerings, with perceived value of convenience, connectedness and control over household utilities
- > Utility providers have also seen value in delivering these offerings through:
 - > Increased share of wallet
 - > Increased customer tenure
 - > Ability to cross or up-sell through customer bases
 - > Increased scale, allowing lower costs per connection and improved economics for systems/capability investment

				Coverage and Retail Market Share (% Revenue) by Product (FY20)			
							
	Company	Ways to Play		Electricity	Gas	Broadband	Other Telco
New Zealand	Trustpower	Energy w/ Telco Bundle		12%	5%	5% (since 2007)	Not reported
	Contact	Energy w/ Telco Bundle		21%	12%	1% (since 2017)	
	Vocus	Telco w/ Energy Bundle		2% (Entered NZ energy market Dec 2016)		9%	1%
Australia	Telstra	Telco Entering Energy		Planning to enter Aus energy market		46%	46%
	Optus (incl. Amaysim)	Native Telco		Sold to AGL in 2020		13%	19%
	AGL	Energy w/ Telco Bundle		7%	11%	Not reported (acquired Southern Phone in 2020)	Not reported (launched MVNO via Optus in Feb 2021)
	Origin	Energy w/ Telco Bundle		7%	8%	Not reported (since 2018)	

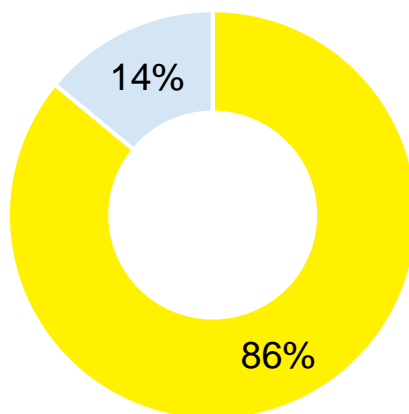


BRINGING TOGETHER TWO COMPLEMENTARY BUSINESSES

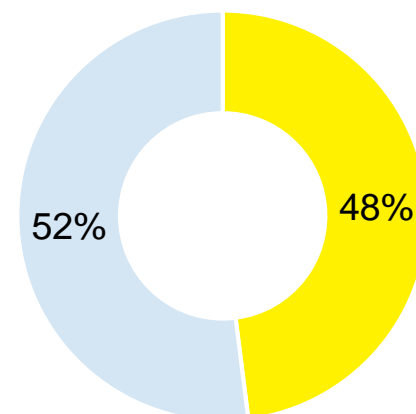
The merger will accelerate our retail strategy centred on delivering the right product mix and value propositions for our customers

- > Brings together New Zealand's largest multi-utility business
- > Accelerates our capability to deliver multiple products and services
- > Provides scale efficiency to allow us to leverage further investment in technology
- > Develops our focus on building high value propositions for customers

PROPORTION OF CUSTOMERS ON MULTIPLE PRODUCTS



MERCURY
(Electricity & gas only)



TRUSTPOWER
(Electricity, gas, telco & mobile)

■ Single Product
■ Multi Product



FINANCIAL METRICS AND CAPITAL STRUCTURE

KEY FINANCIAL INFORMATION

Purchase price / Enterprise Value (EV)	\$441m ¹
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EBITDAF – Stand-alone (year 1)	~\$55m ²
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EBITDAF – Year 1 + forecast synergies (run-rate)	~\$85m ²
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EV / EBITDAF – Stand-alone	~8.0x
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EV / EBITDAF – Including forecast synergies	~5.2x
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¹ Including normalised working capital

² On an accounting basis including IFRS15/16 adjustments of ~\$15m

³ Year 1 approximately \$5m

⁴ Year 1 approximately \$30m

⁵ Including Trustpower retail, Tilt and Turitea wind farm

Full realisation of integration of businesses will take time

- > Forecast cost synergies of \$35m per annum³ (~85% opex, ~15% capex) achieved over 3 year transition period
- > Expect transition costs of \$50m⁴ (~60% opex, ~40% capex)

Purchase price corresponds to \$1,060 per connection

- > ~\$640 per connection using purchase price excluding value of the ISP network, CFD and TECT construct

Increased FY22 gearing expected to decline with full contribution of recent investments⁵

- > Mercury has secured a commitment for a new bank facility sufficient to finance the acquisition
- > Mercury is committed to maintaining a BBB+ credit rating and has flexibility in our capital structure settings



