

M2 Group Ltd (ASX: MTU)

M2 CONFIRMS COMPETING PROPOSAL FOR IINET

- M2 confirms it has submitted an indicative and non-binding competing proposal to acquire 100% of iiNet via a Scheme of Arrangement
- Under M2's Competing Proposal, iiNet shareholders would receive 0.803 M2 shares plus a \$0.75 special dividend for each iiNet share
- M2 values its Competing Proposal at approximately \$11.37 per iiNet share (based on M2's closing price on 24 April 2015 of \$11.52), comprising:
 - o \$9.25 worth of M2 shares (based on 0.803 M2 shares for each iiNet share)
 - o \$0.75 cash in the form of a special dividend; and
 - o \$1.37 for the value of estimated synergies that would accrue to iiNet shareholders, who would own approximately 42% of the enlarged M2 Group
- M2 has also extended an offer to two iiNet directors to join the M2 board if the transaction is implemented
- M2 recognises the value of the iiNet brand and would continue to operate it as a standalone brand
- M2's Competing Proposal is subject to certain conditions and is currently being considered by the iiNet board

Monday, 27 April 2015: In response to media reports, M2 Group Ltd ("M2", ASX: MTU) confirms it has submitted to iiNet Limited ("iiNet") an indicative, non-binding, incomplete and confidential competing proposal to acquire 100% of the issued shares in iiNet via a scheme of arrangement ("Competing Proposal").

M2's Competing Proposal was not intended for public release. However, to ensure M2 remains in compliance with its disclosure obligations and trading in M2 shares occurs on a fully informed basis, M2 sets out below the key elements of its Competing Proposal.

M2's Competing Proposal is currently with the iiNet Board for consideration.

Overview of M2's Competing Proposal

Under M2's Competing Proposal, iiNet shareholders would receive 0.803 M2 shares per iiNet share, plus \$0.75 cash per iiNet share by way of a special dividend paid to iiNet shareholders just prior to implementation of the proposed scheme. The special dividend would be franked to the maximum extent possible and is subject to iiNet holding sufficient retained earnings. M2 is examining alternative ways for iiNet shareholders to be able to receive the full \$0.75 cash to the extent a special dividend of less than \$0.75 is ultimately paid.

Under these proposed transaction terms, iiNet shareholders would own approximately 42% of the share capital of the enlarged M2 Group, and would therefore benefit from approximately 42% of the value of synergies.

M2's Competing Proposal also provides for other potential benefits for iiNet shareholders including: (i) CGT rollover relief, which depending on each individual shareholder's circumstances, should enable iiNet shareholders to defer a CGT event as compared to selling their shares under the 100% cash offer from TPG; and (ii) other expected benefits as compared to their current holding in iiNet from the increased index weighting, trading liquidity and institutional following as a result of the significantly increased market capitalisation of the enlarged M2 Group.

M2 has also extended an offer to two iiNet directors to join the M2 board as non-executive directors of the enlarged M2 Group, upon implementation of the Competing Proposal. M2 believes this invitation is in the best interests of shareholders of the enlarged M2 Group as it: (i) helps provide additional governance continuity; (ii) helps ensure iiNet customers, suppliers and team members have a strong voice on the enlarged board; and (iii) helps provide additional experience and perspective to ensure the enlarged M2 Group's synergy targets and strategic plans are thoughtfully implemented and fully achieved. M2 would work with iiNet to mutually agree the two directors in the period between signing and closing of the proposed scheme.

Indicative Valuation of iiNet

M2 values its Competing Proposal for iiNet at \$11.37 per share by considering three elements of value, being: (i) the current value of the M2 shares being offered (\$9.25)¹; (ii) the cash value of the special dividend (\$0.75); and (iii) the value of the expected synergies (\$1.37) that would accrue to iiNet shareholders as shareholders in the enlarged M2 Group.

M2 has considered the potential synergies of combining M2 and iiNet, and M2 estimates it can achieve run-rate EBITDA synergies of approximately \$60.0 million per annum, representing approximately 3.5% of M2 and iiNet's combined cost of good sold (COGS) and sales, general and administrative (SG&A) expenses. Based on a discounted cash flow (DCF) valuation methodology, M2 values these synergies at approximately \$538m². This implies a value of \$1.37 per iiNet share (being 42% of \$538m, divided by 165m iiNet shares).

M2's valuation of its Competing Proposal for iiNet, including synergies, of approximately \$11.37 per share represents a 32.2% premium to the current \$8.60 cash offer from TPG. \$11.37 implies an enterprise value ("EV") for iiNet of approximately \$2.25 billion, and an EV / 2014 EBITDA multiple for iiNet of 11.4x³.

Excluding the value of synergies, M2 values its Competing Proposal for iiNet at approximately \$10.00 per share, which represents a 16.3% premium to the current \$8.60 cash offer from TPG.

In calculating the above valuations, M2 has used its latest closing price of \$11.52 on 24 April 2015, which, based on an exchange ratio of 0.803, implies a value of \$9.25 for each iiNet share, being \$11.52 x 0.803 exchange ratio. For the avoidance of doubt, M2 notes that the exchange ratio of 0.803 M2 shares for each iiNet share is a "fixed" exchange ratio, and therefore the implied value per iiNet share of M2's Competing Proposal will move up and down as the market value of M2 shares move up and down.

M2 notes its 10-day volume weighted average price (VWAP) up to and including 24 April 2015 (being the 10 trading days since M2 announced the acquisition of Call Plus) is \$11.34. Using an \$11.34 valuation per M2 share would reduce M2's valuation of its Competing Proposal from \$11.37 to \$11.23 per iiNet Share (including synergies), and from \$10.00 to \$9.86 per iiNet Share (excluding synergies).

Financial Implications for M2

If implemented, and assuming run-rate EBITDA synergies of \$60m, the transaction is expected to result in mid to high single digit underlying EPS accretion for existing M2 shareholders.

¹ Based on M2's closing price on 24 April 2015 of \$11.52.

² M2 estimates the \$60.0m of run-rate synergies would be realised in equal \$20.0m increments over three years, with estimated one-time costs to achieve of approximately \$30.0m, being \$20.0m in the first year and \$10.0m in the second year. M2's DCF valuation is based on a median broker nominal WACC of 10.0% and median broker terminal growth rate of 3.0%.

³ Based on iiNet net debt (including IRU liabilities) of \$383m, 165m fully diluted shares outstanding, and CY2014 EBITDA of \$197m.



Notwithstanding an expected reduction in reported Earning Per Share (EPS) as a result of an increase in non-cash customer contract amortisation from acquiring iiNet, M2 expects to have sufficient retained earnings to be able to continue paying dividends per share in future periods that are in line with current market expectations.

Including the acquisition of Call Plus Group and pro forma for the proposed acquisition of iiNet, M2 would have a Net Debt / FY16 EBITDA ratio of approximately 2.4x (including IRU liabilities and based on median FY16 broker consensus EBITDA estimates from Bloomberg for both iiNet and M2), which is expected to reduce materially over the next two to three years.

M2's Intentions for iiNet

M2 intends to operate iiNet as a standalone brand that would be nurtured and grown under the M2 umbrella. M2 fully recognises the value of different brand strategies and intends to leverage the strength of the iiNet brand and its customer ethos.

M2 has a strong track record of acquiring and integrating businesses including Commander, Primus and Dodo. In each of those cases, M2 has maintained the presence of each of those brands in their respective markets, has grown each brand's customer base and product offering, and has extracted meaningful synergies along the way. M2 expects to achieve a similar result with iiNet.

Conditions

M2's Competing Proposal remains indicative and non-binding. Entry into a binding Scheme Implementation Agreement ("SIA") is subject to; (i) finalisation and agreement of the terms of the SIA; (ii) execution of relevant financing documentation; (iii) the iiNet Board exercising its discretion to cause any performance rights issued under the 2014 iiNet Limited Performance Rights Plan to lapse; and (iv) no material adverse change to iiNet's business or future prospects. M2's Competing Proposal is not subject to further due diligence on iiNet.

M2's Competing Proposal was accompanied by a draft SIA. As compared to the terms of the TPG SIA, M2 has sought to improve the terms of the SIA for iiNet by allowing the iiNet Directors to qualify their recommendation to shareholders so that it is subject to the Independent Expert determining the proposed transaction is in the best interest of iiNet shareholders. M2's proposed SIA includes conditions precedent that are the same as, or no less favourable to iiNet, than those set out in iiNet's existing SIA with TPG (including no due diligence or financing related CP's). Otherwise, it is expected that any SIA would be subject to terms and conditions customary to a transaction of this nature.

Advisers

Goldman Sachs is acting as exclusive financial adviser to M2, and Allens is acting as legal adviser, in relation to the Competing Proposal.

Disclaimer

Forward looking statements: A forecast, estimate, projection or other prospective opinion in this document (Projection) may be based on information and assumptions supplied by a third party, reflect the author's judgment only at a specific date, is subject to change without notice, and is provided on the understanding that assumptions, on which Projections are based, may not be realised and that unanticipated events and circumstances may occur. Projections involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results or performance of M2 or the expanded M2 Group to be materially different from future results, performances or achievements expressed or implied by such Projections.

Therefore, any Projections should be construed in light of such risks and undue reliance should not be placed on them.

ENDS

Investors and Analyst Contacts

Geoff Horth, CEO
03 9674 6468 or ghorth@m2.com.au

Debra Mansfield, Corporate Communication Manager
03 9674 6569 or dmansfield@m2.com.au

Media Contact

Jim Kelly, Domestique Consulting
0412 549 083 or jim@domestiqueconsulting.com.au

M2 Group Ltd (ASX: MTU) | ABN 74 091 575 021
Level 10, 452 Flinders Street Melbourne VIC 3000
P +61 3 9674 6555 | **F** +61 3 9923 3333 | www.m2.com.au

COMMANDER

engin

dodo

iPRIMUS

