23 September 2015

Chevron New Zealand acquisition – transition planning update

Following the 2 June 2015 announcement of the proposed acquisition of Chevron New Zealand (CNZ), transition teams from both Z and Chevron South Asia Holdings Pte. Ltd (Chevron) have been working to reach cutover readiness in order to facilitate an orderly transition which maintains the mutual commitment to health and safety standards, customer service and supply chain integrity.

As a result of the transition preparation activities, Z now considers that it has more informed perspectives regarding the integration benefits which are anticipated following settlement of the transaction. Furthermore, with the passage of time Z has a better perspective regarding the recent performance of CNZ and accordingly it is appropriate to update the market in relation to progress since announcement of the acquisition.

Both Z and Chevron have assembled a large team of specialists to work on the transition, with a particular focus on risk mitigation in key areas. In particular, Z has made significant progress which includes:

- Standing up a transition team which has peaked at ~100 people
- Completing ERP modifications and build which are now undergoing testing
- Reaching agreement in respect of supply chain arrangements for day one, and
- Developing joint transition plans with Chevron which address matters where CNZ has historically relied on support from the corporate parent.

Z's transition planning has been assisted by the ongoing positive relationship with Chevron. "A big effort by both Z and Chevron teams means we expect to be ready for our target cutover date of 30 November," said Z Chief Executive Mike Bennetts.

Accordingly, Z is pleased to confirm that transition planning is on track and the timing of transaction settlement is now dependent on the regulatory approval process. The Commerce Commission process is proceeding as planned and Z has met all its commitments to date. Z remains both respectful of the process being followed and confident the transaction will not substantially lessen competition.

The Commerce Commission has previously indicated an 18 December decision date.

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Z had previously signalled $64 million of acquisition and transition costs including both capex and opex. Mike Bennetts said Z now expected acquisition and transition costs to be around $55 million, with any delay in cutover beyond 30 November being at a cost of approximately $2 million per month.

"Furthermore, in the course of our transition planning, Z has developed a better understanding regarding the synergy assumptions it had made at the time of acquisition. Z had previously estimated synergies in the range of $15 to $25 million on an annualised basis. Z now expects synergies to be in the range of $25 to $30 million, based primarily on additional cost synergies excluding people costs."

In addition to the improved transition and synergy outcomes now expected, Mike Bennetts said that "as a participant in the New Zealand industry, we have a perspective on the performance of others. It would appear to us that CNZ has benefited from a strengthened operating performance during calendar 2015.

"Accordingly, Z now expects that the financial performance of CNZ is stronger than our initial assessment at the time of announcing the proposed acquisition. In addition, the refining margin environment as publicly disclosed by NZ Refining (NZR) is currently favourable for both Z and CNZ," he said.

"Other things being equal, based on these factors we would expect CNZ's current earnings to be stronger than the $132 million estimate we had previously disclosed for the year ended December 2014 and in line with Z's year-on-year forecasted growth in earnings."

In respect of its own performance, Z has previously provided guidance for Replacement Cost (RC) Operating EBITDAF in a range of $245 - $265 million. Z noted that there remains a level of uncertainty associated with the previously disclosed Customs issue, as well as the timing of cutover with CNZ. Recognising these factors, as well as current trends in business performance, Z is effectively increasing its guidance by maintaining the current range for FY16 RC Operating EBITDAF which now includes the one-off of $24 million of additional Customs duties and penalties expense incurred to date in FY16.

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