

# TeamTalk Limited

## Proposed Sale of the Farmside Group

### Notice of Special Meeting

Notice is given that a special meeting of the shareholders of TeamTalk Limited ("TeamTalk") will be held at the James Cook Hotel Grand Chancellor, 147 The Terrace, Wellington, New Zealand, on Wednesday the 12<sup>th</sup> of April 2017 beginning at 11:00 am.

The business of the meeting is to consider and, if thought fit, to pass a shareholders' resolution to enable to TeamTalk to sell 70% of the shares in the capital of BayCity Communications Limited to Vodafone New Zealand Limited ("Vodafone") and related transactions including the granting of put and call options for the remaining 30% of the shares ("the Proposed Sale").

BayCity Communications Limited, together with its wholly owned subsidiaries, BayCity Dairy Limited, Farmside Limited, Farmside Technologies Limited and MyFarmside Limited constitute the "Farmside Group."

This Notice of Special Meeting includes all of the attached material including the Background Material which follows and the attached Explanatory Notes.

**FOR AN IN DEPTH EXPLANATION OF THE PROPOSED SALE, ITS EXPECTED BENEFITS AND ITS RELATION TO THE CURRENT TAKEOVER OFFER BY SPARK NEW ZEALAND TRADING LIMITED, PLEASE REFER TO THE BACKGROUND MATERIAL BEGINNING ON PAGE 3.**

### Resolution (Ordinary Resolution)

That for the purposes of clause 21.1(b) of the constitution of TeamTalk Limited ("Constitution"), Rule 9.1.1(b) of the NZX Listing Rules, and Rule 39(a) of the Takeovers Code, the shareholders of TeamTalk approve the sale by TeamTalk of 70% of the shares in the capital of BayCity Communications Limited ("BayCity Shares") to Vodafone New Zealand Limited on the terms described in this notice of meeting including the granting of put and call options for the remaining 30% of the BayCity Shares.

If the Resolution is not approved then the Proposed Sale will not proceed.



Roger Sowry,  
Chairman

### Important Dates

Wednesday 5 April 2017	Record Date for eligibility to vote at Special Meeting
11:00 am Monday 10 April 2017	Proxies due for Special Meeting
11:00 am Wednesday 12 April 2017	Special Meeting to be held at: The James Cook Hotel Grand Chancellor 147 The Terrace Wellington
31 May 2017	Indicative completion date for the Proposed Sale

## **Note 1 - Proxies**

Full details on how to appoint proxies for the Special Meeting are set out in the proxy form enclosed with this Notice of Special Meeting. A proxy form is enclosed and completed forms (or, if a corporate shareholder prefers, a completed appointment of representative) must be received by Link Market Services, no later than 48 hours before the time of holding the meeting i.e. before 11:00am on Monday 10 April 2017.

If you wish to mail the Proxy Form then please send it to our Share Registrar, Link Market Services Limited, using the reply-paid envelope provided. Alternatively shareholders may fax the form to (09) 375-5990 or scan and email the completed Proxy Form to [meetings@linkmarketservices.com](mailto:meetings@linkmarketservices.com).

Shareholders can elect to vote their proxies online. To appoint your proxy and vote online, please visit the Link Market Services Investor Centre at <http://investorcentre.linkmarketservices.co.nz/voting/TTK>. You will require your CSN/Holder number and FIN to securely access the website. Follow the prompts to complete your proxy appointment and vote.

## **Note 2 - Eligibility to Vote**

All TeamTalk shareholders who are shareholders as at 5 pm on the Record Date (10 April 2017) are eligible to attend and vote at the meeting or to appoint a proxy or representative (in the case of a corporate shareholder) to attend and vote on their behalf.

## **Note 3 - Constitution and NZX Listing Rule 9.1.1(b)**

Under both Clause 21.1(b) of the Constitution and NZX Listing Rule 9.1.1(b), TeamTalk, which is a listed issuer, must obtain approval by an ordinary resolution of shareholders for a disposition of assets under any transaction or series of transactions in respect of which the gross value exceeds 50% of TeamTalk's Average Market Capitalisation.

As at the date of the announcement of the Proposed Sale, TeamTalk's Average Market Capitalisation was \$22,127,815. The gross value of the assets which are the subject of the Proposed Sale (being 70% of the BayCity Shares) is \$10,000,000 (based on the sale price) which is less than half of TeamTalk's Average Market Capitalisation. However, as part of the transaction if certain events occur, Vodafone has an option to purchase the remaining 30% for \$3,000,000 ("the Call Option") and TeamTalk has the option to require Vodafone to purchase the remaining 30% at the same price at any time in the three years after the transaction is settled ("the Put Option") - the Put and Call Options are described in greater detail in Section 4.3.4 on page 7. As the Put and Call Options are linked to the sale, for the purposes of the Constitution and the NZX Listing Rules it is treated as a potential sale of all of the BayCity Shares the gross value of which is more than 50% of TeamTalk's Average Market Capitalisation.

## **Note 4 - Rule 39 of the Takeovers Code**

Shareholders have received a conditional Takeover Offer from Spark New Zealand Trading Limited ("Spark"), attempting to acquire all of the shares in TeamTalk for 80c per share, dated 9 March 2017 ("the Spark Offer" or "the Offer"). The Offer contains a number of conditions. These include:

- TeamTalk does not dispose of any shares having a value of more than \$500,000 except in the ordinary course of business (Offer Document, Clause 4.1(c)(i)(A)) - the BayCity Shares have a value in excess of \$500,000 and the Proposed Sale is not in the ordinary course of business;
- TeamTalk does not enter into any transaction to which NZX Listing Rule 9.1 applies (Offer Document, clause 4.1(h)) - NZX Listing Rule 9.1 applies to the Proposed Sale;
- That no shares owned by any member of the TeamTalk Group are subject to any option that could be adverse to Spark in the event of any member of the TeamTalk Group becoming a subsidiary or under the control of Spark (Offer Document, Clause 4.1(k)) - one of the circumstances in which the Vodafone may exercise the Call Option if the Proposed Sale is approved is if any competitor of Vodafone (which would include Spark) acquires 20% or more of the shares in TeamTalk; and
- No board resolution or shareholders resolution of TeamTalk is passed to authorise to do, or to authorise the doing of, any act, matter or circumstance referred to in clauses 4.1(a) to (n) of the Offer Document (Offer Document, Clause 4.1(o)(i)) - the passing of the Resolution set out in this Notice would authorise TeamTalk to do acts referred to in Clause 4.1(a) to (n).

If the Proposed Sale is approved, all of those conditions will be breached. **Unless Spark decides to waive the conditions, the Offer will not proceed and shareholders will not be able to sell their shares to Spark under the Offer.**

Under Rules 38 and 39 of the Takeovers Code, TeamTalk may not take any actions which could effectively result in the Offer being frustrated or the shareholders in TeamTalk being denied the opportunity to decide on the merits of the Offer unless that action has been approved by an ordinary resolution of TeamTalk's shareholders.

## **Note 5 - Ordinary Resolution**

An ordinary resolution is a resolution passed by a simple majority of the votes of those shareholders entitled to vote and voting on the question.

### **1.0 Background to the Special Meeting**

TeamTalk's Farmside business provides telecommunications services to the rural sector. The business is conducted through its wholly owned subsidiary, BayCity Communications Limited and that company's wholly owned subsidiaries: BayCity Dairy Limited, Farmside Limited, Farmside Technologies Limited and MyFarmside Limited which together constitute "the Farmside Group."

On 23 March 2017 TeamTalk entered into a conditional Share Sale Agreement ("the Share Sale Agreement") to sell 70% of the ordinary shares ("the Sale Shares") in the capital of BayCity Communications Limited (the parent company of the Farmside Group) to Vodafone for a cash consideration of \$10 Million (subject to adjustment for working capital).

On settlement of the Share Sale Agreement, the parties will enter into a Shareholders Agreement ("the Shareholders Agreement") and a Management Agreement ("the Management Agreement"). TeamTalk will continue to hold 30% of the ordinary shares ("the Remaining Shares") in the capital of BayCity Communications. The Remaining Shares comprise 30% of the issued capital of BayCity Communications.

The Shareholders Agreement will contain minority protection provisions for TeamTalk's minority interest including the right to appoint a director to the Board of BayCity Communications who will have a right of veto over certain transactions. It will also contain the Put and Call Options referred to in Notes 3 and 4.

The purpose of the Special Meeting is to seek approval from TeamTalk shareholders to proceed with the Proposed Sale.

This document contains important information in relation to the Proposed Sale. It forms part of the Notice of Special Meeting for the Special Meeting at which resolutions will be put to shareholders for approval in accordance with TeamTalk's constitution, the NZX Listing Rules and the Takeovers Code. The formal notice and resolutions are set out on page 1 (above).

### **Introduction**

TeamTalk's Farmside business provides telecommunications services to the rural sector. Rural households have historically had limited or poor access to broadband internet, and this service has to date been provided wirelessly via satellite, wireless broadband and more recently mobile cellular networks. Today, Farmside delivers connectivity through satellite, Digital Subscriber Lines (DSL), home line, digital voice and the Governments Rural Broadband Initiative (RBI). The RBI was launched in 2011 to improve broadband access for poorly connected premises, schools and hospitals, primarily in rural areas not covered by UFB (Ultra-Fast Broadband). The RBI is mainly being delivered by Vodafone and Chorus Limited. On completion more than 300,000 users will have improved broadband as a result of the RBI, through improved DSL and new fixed wireless broadband services. Vodafone provides fixed wireless broadband services which deliver peak downstream speeds of at least 5Mbps.

As at December 2016 the RBI was 94% complete with approximately 301,000 rural users able to connect. Uptake was just under 40% with approximately 120,000 connected users.

## Key Industry Trends

### Shift from satellite to rural broadband

As terrestrial communications networks have been expanded and improved there has been a shrinking market for satellite. RBI solutions offer faster speeds at a lower capital cost and as a result there has been a migration of customers from satellite to RBI solutions. This has been especially evident since TeamTalk's acquisition of the Farmside Group. Satellite still has a role to play in Disaster Recovery and Business Continuity Planning for enterprise and corporate customers.

### Increasing bandwidth demands

Growth in bandwidth demand is being driven by increasing network access and growing demand for content such as movies, games and sport. As volume content increases it is more expensive to deliver via satellite.

## Business Profile

TeamTalk acquired the Farmside Group in November 2012<sup>1</sup>. Based in Timaru and Christchurch, the Farmside Group is a niche telecommunications service provider to approximately 15,000 predominantly rural customers throughout New Zealand. Connectivity is primarily provided via RBI and satellite and associated VoIP (Voice over Internet Protocol) and home line voice packages. Farmside also provides ADSL (Asymmetric Digital Subscriber Line) which enables faster data transmission over copper telephone lines.

Farmside customers are primarily retail although corporate sales contribute 5% of revenue. Just over 60% of Farmside's sales go through four billing partners – Farmlands, Farm Source, PGG Wrightson and Ruralco, which are the main rural product suppliers in New Zealand. Farmside is able to leverage the billing partner's relationships and marketing without taking on the credit risk.

Farmside is exposed to the evolution of new technologies and greater competition. Farmside experienced a progressive drop in satellite customers between FY12 and FY16 primarily due to the rollout of RBI but also as a consequence of quality and service issues experienced by customers. To mitigate these issues TeamTalk negotiated an alternative satellite provider, Optus. The change in provider is already resulting in an improved service for customers and higher gross margins for Farmside.

There is demand for satellite services in the corporate market and possibly this should have been the priority sector to address when the decision to transfer the satellite service to Optus was commenced. There is a clear demand from companies and government for both Disaster Recovery and Business Continuity Planning services as well as specialist services which Farmside is able to supply for servicing remote luxury lodges and for agricultural technology processes and telemetry.

## 2.0 Reasons for the Proposed Transaction

In its interim half year results TeamTalk stated that it was addressing the issues within Farmside and that it was making savings which would result in a reduction of about \$3.2m in operational costs in Farmside in FY18 compared to FY17 budget.

In the Independent Adviser's Report which was released on 23 March 2017 and sent to all shareholders as part of TeamTalk's Target Company Statement in response to the Spark Takeover Offer, the independent adviser, Grant Samuel & Associates Limited ("Grant Samuel") valued Farmside on an ungeared basis (i.e., free of debt) in the range of NZ\$9.6 to NZ\$12.0 million (at paragraph 7.6 on page 31 of the Grant Samuel Report)<sup>2</sup>. The Proposed Sale effectively values Farmside on the same basis at \$13 million.

The biggest challenge that has been facing TeamTalk is the size of its debt. As at 31 December 2016 TeamTalk's debt was \$33.89 million. TeamTalk indicated in the interim half year results that it was targeting a

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<sup>1</sup> A copy of the announcement describing the acquisition of the Farmside Group by TeamTalk is included in Appendix B to the Independent Adviser's Report at the top of page 50.

<sup>2</sup> The financial performance of Farmside for FY14 to FY16, together with the forecasts for FY17 and FY18 are summarised at paragraph 6.3 on page 26 of the Independent Adviser's Report

33% reduction in debt from FY16 to FY18. If the Proposed Sale is approved, almost all of the \$10 million cash payment will be applied towards repayment of that debt which will come close to achieving the targeted reduction before the middle of this year. This will bring forward substantially lower financing costs even more quickly than anticipated.

The immediate reduction in financing costs and debt levels will provide TeamTalk with greater flexibility for the execution of its announced major capital projects including:

- Upgrading TeamTalk's Mobile Radio Network to Digital
- Transformation of the Wellington Fibre Network

Having Vodafone as a shareholder in the Farmside Group will allow the Group to leverage the different skillsets of two complementary companies to deliver better outcomes for the Group's customers whilst increasing its presence in the rural broadband market. If the Proposed Sale is approved it is expected to enable quicker revenue growth for the Farmside Group.

The proposed investment by Vodafone in the Farmside Group is a significant step in developing a deeper strategic relationship between the two companies which can extend beyond Farmside. TeamTalk and Vodafone have had a close commercial relationship for many years. Within the rural market, TeamTalk is one of Vodafone's largest wholesalers of RBI through Farmside. TeamTalk also provides last mile connectivity to Vodafone enabling it to provide a solution for a major corporate rural customer. In satellite, TeamTalk has spoken about the need to gain a larger presence in the small to medium enterprise market as well as servicing the requirements for remote connectivity in terms of telemetry and other services. Working together with Vodafone will allow TeamTalk to provide better cellular coverage to remote areas with TeamTalk providing the backhaul utilising satellite while Vodafone, who have the spectrum for cellular, can provide the connectivity at the end of the satellite connection. This type of service is in increasing demand with both the agricultural and tourism sectors requiring better cellular coverage.

Both Vodafone and CityLink have overhead fibre cables in the Wellington CBD which will need to come down. Both companies are already engaged in identifying where we can jointly engage on moving cables from the trolleybus infrastructure and going underground. Solutions being discussed are the sharing of both ducts and fibre assets along with sharing the costs on future maintenance and upgrades. Whilst the benefits to both companies have not yet been modelled, TeamTalk is of the opinion that this will result in substantial savings, thereby reducing the anticipated capex requirements within the CityLink budgets.

All these benefits will increase the likelihood of a resumption of dividends in 2018 as previously communicated.

Copies of TeamTalk's Target Company Statement (which includes the Independent Adviser's Report), TeamTalk's Annual Report and audited Accounts for the year ended 30 June 2016, TeamTalk's Unaudited Interim Results for the period ended 31 December 2016 and the New Release of 1 March 2017 containing TeamTalk's guidance for the 12 months to 30 June 2017 can all be found on TeamTalk's Investor Centre on its website at: <http://www.teamtalkinvestor.co.nz/>. Shareholders may also obtain copies of all or any of these documents by making a written request to Jo Thornton - Executive Assistant to the Chief Executive, ([JThornton@teamtalk.co.nz](mailto:JThornton@teamtalk.co.nz)), PO Box 9345, Marion Square, Wellington 6141 or by calling Jo at +64 4 802 1488. Shareholders should review these documents.

### 3.0 The Spark Takeover Offer

As noted above, the Proposed Sale will, if approved by shareholders, breach the conditions of the Spark Takeover Offer and, unless Spark waives those conditions, the Offer will not proceed and shareholders will not be able to sell their shares to Spark under the offer. Your directors have unanimously recommended that the Offer should be rejected by shareholders.

In its response to TeamTalk's Target Company Statement, Spark has stated that the Grant Samuel valuation "lacks real world credibility." The Proposed Sale provides clear evidence that this is not the case. The \$13,000,000 which Vodafone is prepared to pay for the Farmside Group together with the significantly earlier

than forecast reduction in TeamTalk's debt levels, not only supports the Grant Samuel valuation of TeamTalk's shares as being between \$1.52 to \$2.11 per share, but also supports your Directors' view that the value of TeamTalk's shares are at the higher end of that range.

## 4.0 Additional Particulars of the Proposed Acquisition

### 4.1 Purchase Price

The Purchase Price for the Sale Shares is \$10,000,000 payable in full in cash on completion. The Purchase Price is subject to a working capital adjustment. The parties have agreed a figure which represents the normal level of working capital of the Farmside Group. If working capital in the Farmside Group on completion is higher than that figure the Purchase Price will be increased by 70% of the excess (representing's Vodafone's share of the increase). Conversely, if working capital is lower the Purchase Price will be reduced by 70% of the deficit. It is anticipated that the adjustment will not have a material effect on the Purchase Price.

### 4.2 Other Agreements

At completion TeamTalk and Vodafone will enter into a Shareholders Agreement and a Management Agreement.

### 4.3 Other Material Terms of the Proposed Sale

The Share Sale Agreement contains a number of other key terms which are summarised below.

#### 4.3.1 Completion and Conditions

Completion is anticipated to occur on 31 May 2017. Certain conditions must be satisfied and if they are not satisfied or waived, then the transaction will not proceed. The conditions are:

That by 30 June 2017 (or such other date as may be agreed between the parties) TeamTalk must obtain the approval by ordinary resolution of its shareholders to the Proposed Sale of the Farmside Group.

That by 30 June 2017 (or such other date as may be agreed between the parties):

- (a) The Farmside Group will be free of all bank and intercompany debt;
- (b) TeamTalk's bankers (Westpac New Zealand Limited - "Westpac") agreeing to release the members of the Farmside Group from their guarantee obligations in respect of monies owed to Westpac by TeamTalk and its continuing subsidiaries; and
- (c) The Farmside Group obtains the consent of the counterparties to any material contracts to the change of control of the Farmside Group resulting from the Proposed Sale where such consent is required;
- (d) The Ministry of Business and Innovation (MBIE) providing confirmation that MBIE does not, in its capacity as provider of funding for the Chatham Islands Broadband Initiative between the TeamTalk and MBIE, object to, and will not impose unreasonable conditions on TeamTalk or BayCity Communications in relation to, the arrangement under which the Farmside Group provides certain services as a subcontractor to TeamTalk under an unwritten agreement which, as a further condition, must be recorded in writing; and

Vodafone also has a right to terminate the Agreement if there is material adverse event in relation to the business of the Farmside Group prior to completion.

The Farmside Group does not have any bank debt as it is funded by TeamTalk through borrowings from Westpac under its existing banking facilities. The level of inter-company debt is expected to be about \$8.7 Million. This will be repaid by BayCity Communications issuing additional shares to TeamTalk immediately before completion. TeamTalk will then use the proceeds of the sale of the BayCity Shares to pay down an equivalent portion of its outstanding debt to Westpac.

As the Proposed Sale will substantially reduce TeamTalk's outstanding debt to Westpac TeamTalk is confident that Westpac will agree to release the members of the Farmside Group from their guarantee obligations.

While the debt reduction will not have an immediate effect on interest rates paid by TeamTalk, the reduction in debt levels will mean a corresponding reduction in interest costs.

TeamTalk is confident all necessary consents, including of MBIE, will be able to be obtained.

There are no break fees in the Share Sale Agreement.

#### 4.3.2 Warranties and Indemnities

TeamTalk has given the usual commercial warranties in relation to the business of the Farmside Group and the information provided to Vodafone and which include tax warranties.

TeamTalk has given an indemnity in respect of any taxation or Holidays Act liability which relates to, or is attributable to, any event occurring or situation existing on or before completion.

#### 4.3.3 Key Provisions of Shareholders Agreement

The board of BayCity Communications will have a maximum of 4 directors. TeamTalk will be entitled to appoint one director so long as it continues to hold the Remaining Shares.

The Shareholders Agreement contains usual commercial minority protections requiring unanimous board approval for certain transactions. In addition, under the Companies Act 1993 TeamTalk, as the holder of 30% of the shares in BayCity Communications, will have the ability to block major transactions, any change in the company's constitution and the appointment of a liquidator.

There are limitations on the transfer of shares in BayCity Communications including rights of pre-emption and, once those have been exhausted, if Vodafone wishes to sell its shares: TeamTalk may require the purchaser to buy its shares at the same price (tag-along rights) and Vodafone may require TeamTalk to sell at the same price (drag-along rights).

The Shareholders Agreement will also contain the Put and Call Options referred to above. These provide that:

- **THE PUT OPTION:** At any time within three years after completion of the sale, TeamTalk will have the right to require Vodafone to purchase all of the Remaining Shares for a cash consideration of \$3 Million.
- **THE CALL OPTION:** At any time after completion of the Sale, Vodafone will have the right to purchase all of the Remaining Shares from TeamTalk for a cash consideration of \$3 Million if:
  - any competitor of Vodafone directly or indirectly acquires a relevant interest in aggregate in 20% or more of the ordinary shares in TeamTalk, acquires control of TeamTalk, or an employee or associate of any such competitor is appointed to the board of TeamTalk; or
  - TeamTalk is unwilling to give its approval to a "major transaction" (which requires shareholder approval by special resolution, i.e. 75% ) under the Companies Act 1993; or
  - the director appointed by TeamTalk to the BayCity Communications Board vetoes a matter pursuant to the minority protection provisions.

#### 4.3.4 Key Provisions of Management Agreement

TeamTalk will provide management services to the Farmside Group through its executive team for an agreed fee.

- The service fee is \$375,000 (plus GST) per annum.
- The level of services and the fee will be reviewed annually.
- The agreement is for 5 years but may be terminated by either party after any annual review or if TeamTalk ceases to hold the BayCity Shares.

## 5.0 Takeovers Code Disclosures

For the purposes of Rule 40 of the Takeovers Code:

- The full particulars of the Proposed Sale are set out in in Section 1 at page 3 and Section 4 at pages 6 and 7;
- The reasons for the Proposed Sale are set out in Section 2 at pages 4 and 5; and
- A statement explaining the significance of the Resolution under the Takeovers Code is set out in in Note 4 at page 2.

## 6.0 Directors' Recommendation

The directors of TeamTalk consider that the Proposed Sale of a 70% stake in the Farmside Group is in the best interests of TeamTalk and unanimously recommend that shareholders vote in favour of the Resolutions.