Friday, 21 June 2013

Improved Offer for Trust Company

Equity Trustees Limited (ASX: EQT, “Equity Trustees”) today announced it has formalised an Improved Offer to acquire The Trust Company (ASX: TRU, “Trust Company”).

Key features of the Improved Offer

- **37 EQT shares for every 100 TRU shares.**
- **Opportunity for TRU to pay 22 cents as a special dividend.**
- **Revised estimate of expected synergies – now $11m, with potential upside.**
- **Including synergies, represents a 19% to 29% increase from EQT’s original offer[i].**
- **Prospect of higher dividends for TRU shareholders on achievement of estimated benefits compared to the Perpetual proposal.**

Improved Offer

Mr Tony Killen, Chairman of Equity Trustees, said, “Our Improved Offer continues to be pitched to the long term shareholders in the trustee industry. Investors in this industry traditionally seek long term outcomes, reflected in capital growth and increased dividends over time. The EQT offer provides the prospect of materially better future returns with a lower risk profile than the Perpetual offer, which is more exposed to equity market movements through its large funds management business.”

Higher Synergies

Equity Trustees has undertaken an updated review of the potential synergies from a merger of TRU and EQT:

- Based on EQT’s internal estimates, revised expectations are that on full integration, cost savings in the order of $11 million per annum pre-tax are achievable.
- In addition, revenue and other synergies will be available from the mutual customer bases. Whilst we cannot place a firm value on these without detailed due diligence, it is possible that these may take total synergies to the same level as Perpetual’s base figure of $15m per annum pre-tax.
- Synergies to be generated progressively over two years after acquisition and expected to be at 100% run-rate by the end of the second year.
- One-off costs to achieve the synergies approximately equal to one year of cost savings, to be incurred progressively over two years after acquisition.

Mr Robin Burns, CEO and Managing Director of Equity Trustees, said “We are confident of achieving a high level of synergies. This will be done efficiently and without compromising the complementary business cultures and values of the two companies.

Trust Company has rejected our request to undertake due diligence, potentially denying their shareholders the opportunity of attracting a higher bid. Nonetheless we are now dropping this as a condition of improving our offer. This is because: firstly, we continue to see this as such an attractive opportunity to make material gains in profits and dividends for both sets of shareholders; and secondly we are reassured by Perpetual's informed view that at least $15m of synergy benefits are achievable."

Superior Value of EQT's Improved Offer

Mr Tony Killen, said "In terms of the superior value of the new EQT offer, the numbers in the following table speak for themselves."

Indicative comparison of the long-term value of the offers for TRU[ii]	**Equity Trustees**		*Perpetual*
Share price[iii]	$15.37		*$38.88*
Offer ratio	0.37 x		*0.1495 x*
Base value	$5.69		*$5.81*
Add special dividend – 22c per share	$0.22		*$0.22*
Add franking credits on above dividend[iv]	$0.09		$0.09
Current value	**$6.00**		*$6.13*
Add future value:	Base	Possible	
Synergies (p.a.)	$11 m	$15m	*$15 m*
TRU ownership of EQT (or PPT)[v]	62%	62%	*11%*
TRU share of synergies (p.a.)	$6.8 m	$9.3 m	*$1.6 m*
Multiple (post tax)[vi]	9 x	9x	*12 x*
Capitalised value for TRU shareholders	$61 m	$84m	*$20 m*
Future value of synergies per TRU share	**$1.79**	**$2.44**	*$0.57*
FUTURE VALUE TO TRU SHAREHOLDERS	**$7.79**	**$8.44**	*$6.70*

Mr Killen added, "Our Improved Offer is materially superior for Trust Company shareholders seeking growth in future shareholder returns rather than seeking to cash out now. In addition to the impact of the synergies on the merged company's share price, shareholders will be well positioned to receive higher dividends compared with the competing scenario." [vii]

Cash Component

Equity Trustees has assessed the possibility of including a cash component in the Improved Offer in addition to the opportunity for a 22 cent special dividend from TRU. Strong support has been received from several financial institutions to provide funding through the provision of debt and/or equity to Equity Trustees.

Notwithstanding this support, Mr Killen said "Given the higher expected synergies and material upsides available for all shareholders through the merger, the best option remains for Trust Company shareholders to have continuing majority ownership in the merged group. This remains the recommendation of the Equity Trustees Board. It also ensures that shareholders will not pay capital gains tax now, which would be triggered if shareholders were to receive cash as part of the Improved Offer.

We note that the higher turnover of Trust Company shares in recent periods, at the increased share price following the launch of our original offer, probably indicates that many shareholders who wanted to sell for cash have already done so.

When these issues are combined, we consider that the likely take-up of any cash component may be low. Accordingly, we have decided not to include any further cash in our Improved Offer above the 22 cent special dividend allowable."

Competition Concerns with Perpetual's proposal

Equity Trustees and various other market participants consider that the Australian Competition and Consumer Commission ("ACCC") should not approve Perpetual's application to acquire Trust Company as this would lead to a substantial lessening of competition in the market for Corporate Trustee Services.

Additionally, as Trust Company owns approximately 13% of Equity Trustees, if Perpetual were to be successful then it would acquire this valuable shareholding. Control of this strategic holding would further facilitate Perpetual's ability to dominate the trustee company sector.

Equity Trustees has made a formal submission to the ACCC on these issues and awaits its decision, which is currently anticipated by 11 July 2013.

Supplementary Bidder's Statement

Attached to this announcement is a supplementary bidder's statement that will be sent to all TRU shareholders, including the variations associated with the Improved Offer.

Timetable

Equity Trustees' Improved Offer is currently scheduled to close on 31 July 2013. Equity Trustees will give consideration to extending this deadline depending on the release of the ACCC findings and the provision of documentation associated with the proposed Trust Company shareholder meetings to consider the Perpetual proposal.

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Footnotes

[i] Based on the assumptions relating to the value of the future synergies and the valuation methodology outlined in this document, the value of EQT's Improved Offer would be $7.79 to $8.44 per TRU share. This is compared with the value of the Original Offer dated 21 February 2013, calculated using the same methodology. The Original Offer did not include any special dividend and assumed a lower amount of synergies (up to $8m p.a.). The value range for EQT's Improved Offer referred to above assumes values for EQT Shares after the offer. EQT's share price after the offer will depend on a range of factors including the market's view of the synergies achievable by EQT and the value to be placed on those synergies. The market may take a different view of these matters to that set out in this document. Accordingly, the synergy valuations included in this document should be regarded as indicative only. In addition, it should be noted that, while EQT considers that synergies will be available that will take the total synergies to more than $11m per annum, EQT is not in a position at this stage to give any assurance that total synergies of $15m per annum will be achievable.

[ii] The actual share price of each company will depend on the quantum and timing of synergies and implementation costs and the trading price-to-earnings multiple. Calculation based on 34.4m fully diluted TRU shares.

[iii] Share prices as at close of business on 20 June 2013.

[iv] Base value of 22 cents per share special dividend plus 9.4 cents per share of franking credits, grossed up at 30% corporate tax rate.

[v] Assuming no take up of Perpetual’s cash alternative.

[vi] Price to Earnings (PE) Multiples after 30% corporate tax, based on Capital IQ consensus pre-tax FY14 PE of 12.4x for EQT and 16.7x for Perpetual as at 20 June 2013.

[vii] EQT’s dividend yield is 5.7% based on current share prices and dividend payments for 2H12 and 1H13, materially higher than Perpetual’s dividend yield of 2.3% calculated on the same basis.