Thursday, 27 June 2013

EQUITY TRUSTEES LIMITED'S REVISED TAKEOVER OFFER

On 21 June 2013, Equity Trustees Limited ("Equity Trustees") increased its takeover offer for The Trust Company Limited ("The Trust Company") ("Revised Takeover Offer").

We note that the terms of the Revised Takeover Offer are consistent with the revised proposal announced by Equity Trustees on 14 May 2013, except the Revised Takeover Offer does not include the possibility of a cash alternative.

However, Equity Trustees has revised its estimate of expected cost synergies from $8m per annum to $11m per annum, with potential total synergies of $15m per annum (including revenue synergies). This increase in synergy estimate occurred without any new information on The Trust Company being provided to Equity Trustees and therefore The Trust Company would like to better understand the basis for Equity Trustees' revised synergy estimate as this is critical in determining the potential value of the Revised Takeover Offer.

The Board of The Trust Company has not made any decision about the Revised Takeover Offer from Equity Trustees.

The Board of The Trust Company has received written advice from its external legal advisers as required by the Scheme Implementation Agreement with Perpetual Limited ("Perpetual"), and has advised Perpetual of its decision to seek further information from Equity Trustees.

Process to assess the Revised Takeover Offer

The Board of The Trust Company has engaged Ernst & Young to assist it with this synergy assessment exercise, which it expects will consist of the following process:

- Equity Trustees management and advisers are scheduled to present to The Trust Company management and advisers early next week on how Equity Trustees calculated its original cost synergy figure of $8m per annum, the reasons for the subsequent increase in its cost synergy figure to $11m per annum and to explain the basis for the statement that total synergies of $15m per annum may be available
- If appropriate, Ernst & Young will be provided additional information by Equity Trustees and The Trust Company to assess the potential synergies, and the risks associated with realising those synergies, in combining Equity Trustees and The Trust Company

As a consequence of undertaking this exercise, the scheme process relating to the Perpetual offer will be delayed. However, the Board is committed to completing the synergy assessment exercise as quickly as possible.

We have also offered Perpetual the same opportunity to outline the basis for its synergy estimate.

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Statements made by Equity Trustees

We believe it is important to comment on some of the statements made by Equity Trustees in its 21 June 2013 announcement that The Trust Company believes are inaccurate or without sound basis. These have been summarised in the table below.

Statements from 21 June 2013 announcement by Equity Trustees	Comment
"The EQT offer provides the prospect of materially better future returns…"	▪ This statement cannot be substantiated as it will be dependent on the future performance of the respective businesses
"… with a lower risk profile than the Perpetual offer…"	▪ Perpetual and Equity Trustees have different risk profiles and business exposures, however the statement that Equity Trustees has a lower risk profile is speculative and cannot be substantiated ▪ Perpetual is a larger, more diversified business that has exposure to equity market movements, whereas Equity Trustees is a smaller business focused on corporate and personal trustee services
"Trust Company has rejected our request to undertake due diligence, potentially denying their shareholders the opportunity of attracting a higher bid"	▪ Following the announcement of the original takeover offer by Equity Trustees on 21 February 2013, The Trust Company was approached by a number of parties expressing interest in the company ▪ The Trust Company undertook a process whereby it provided the opportunity to undertake due diligence to those interested parties, including Perpetual and Equity Trustees, who tabled a bona fide indicative proposal which had the potential to be in the best interests of shareholders in The Trust Company. At the time, Equity Trustees indicated that it did not want to undertake due diligence on The Trust Company, as it was comfortable with the internal analysis it had undertaken ▪ Following the announcement of the recommended transaction with Perpetual on 7 May 2013, Equity Trustees sought due diligence access as part of the revised proposal it announced on 14 May 2013 ▪ Pursuant to its obligations under the Scheme Implementation Agreement with Perpetual, The Trust Company could only offer due diligence access to Equity Trustees in certain restricted circumstances ▪ After careful consideration, and after having taken advice from its financial and legal advisers, The Trust Company Board unanimously determined that the Perpetual scheme was superior to the revised Equity Trustees proposal and therefore did not provide Equity Trustees with due diligence access

"Superior value of EQT's improved offer" analysis	▪ This analysis is based on share prices as at 20 June 2013 (i.e. post announcement of the respective offers). These share prices are likely to include some value for synergies to the extent that the market is already factoring this in following the respective announcements. Therefore, simply adding the value of synergies per share to a post-announcement share price results in a potential double-counting of synergies. This double-counting of synergies benefits the Equity Trustees share price valuation more than the Perpetual share price valuation, given the relative contribution of synergy value to the overall equity of the combined business ▪ In arriving at the value of the synergies, a price to earnings multiple of 9.0x is used for Equity Trustees and 12.0x for Perpetual. As this multiple is calculated based on share prices as at 20 June 2013, it is likely to include some value for synergies (as noted above). This potentially results in further double-counting of synergies when determining the future value to shareholders in The Trust Company ▪ There is no accounting for implementation costs, which are significant under both the Equity Trustees offer and Perpetual scheme, but will have a larger impact on the per share valuation of the Equity Trustees offer ▪ There is no commentary regarding the greater reliance of Equity Trustees' offer on the realisation of synergies compared to the Perpetual offer. This clarification should be made as there are likely to be different levels of execution risk between the two parties ▪ It should also be noted that the payment of the special dividend has a much greater impact on the capital position of the combined Equity Trustees/The Trust Company compared to Perpetual
"…shareholders will be well positioned to receive higher dividends compared with the competing scenario"	▪ This statement is speculative and cannot be substantiated ▪ It is difficult to make any comments on the dividends that the companies may pay in the future. There are unknown risks, uncertainties and other important factors that could cause the actual dividend to be materially different from expected future dividends, including current market consensus for future dividends ▪ However, The Trust Company understands that Perpetual's current intention is to maintain its current dividend policy, which is to pay dividends within a range of 80-100% of statutory NPAT, and that Perpetual is in a strong capital position

The Board of The Trust Company will continue to keep you updated on developments as they occur. In the meantime, if you have any queries in relation to the Revised Takeover Offer or the Perpetual scheme, please contact The Trust

Company Shareholder Information Line on 1800 505 206 (within Australia) or +612 8256 3354 (outside Australia).

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