

Tuesday, 17 September 2013

Equity Trustees extends offer for Trust Company to provide real choice and greater long term value

Equity Trustees Limited (ASX: EQT) announces that it has decided to extend its offer for The Trust Company (ASX: TRU) to 29 November 2013. Formal documentation effecting this extension will be sent by EQT to TRU Shareholders later this week. This release also outlines EQT's comments in response to TRU's Third Target's Statement dated 13 September 2013.

In summary:

- 1. EQT confirms its estimated synergies of \$11-15m per year pre-tax.**
- 2. EQT's offer provides higher long-term value than Perpetual or IOOF.**
- 3. EQT's offer may result in higher dividends than Perpetual or IOOF.**
- 4. Any additional capital required for the combined group is unable to be estimated based on the information provided by TRU.**

Synergies estimate confirmed

EQT has now had the benefit of receiving agreed information on TRU's operations and financials during the recent mutual due diligence process. EQT also presented to the TRU Board and held meetings with TRU's executives and advisers. Following this, EQT confirms it is confident that:

- \$11-15 million of cost synergies are achievable (pre-tax per annum).
- These cost synergies to be generated progressively over two years after acquisition.
- Implementation costs remain approximately equal to one year of cost savings.
- Revenue synergies are likely to also be available, but have not been included in our estimates.

EQT notes that TRU has increased the higher end of its estimated range of synergies by one third to \$10m per annum. The reciprocal due diligence process and discussions with TRU were incomplete when it was terminated by TRU as a result of the revised proposal from Perpetual. In particular, discussions were incomplete regarding the combined organisational structure and IT integration strategy. As a result, EQT considers that the views expressed by TRU on these issues are based on incomplete information and analysis. EQT considers that its estimates of potential synergies remain supportable.

Mr Robin Burns, CEO and Managing Director of Equity Trustees, said, "EQT is still confident that the previously estimated level of cost synergies is achievable. Additionally, there are many opportunities for the combined company to grow revenue and market share. Overall, we believe that synergies are likely to be at the top end of our estimated range."

EQT RELEASE

“We believe that our proposal offers loyal TRU shareholders the only option that will enable them to remain invested in a business that is very similar to and consistent with TRU’s heritage, brand, focused strategic directions and customer-centric values. Under the competing proposals from Perpetual and IOOF those TRU shareholders will either have to cash out at lower long-term value than our offer or find themselves as small minority investors in a very different business, with different strategic directions, market leverage, profit drivers and exposures.”

“Equity Trustees would seek to maximise performance from business developments and initiatives that TRU shareholders and employees would recognise as based on their company’s existing strengths, competitive advantages, skilled personnel, geographic reach and client base.”

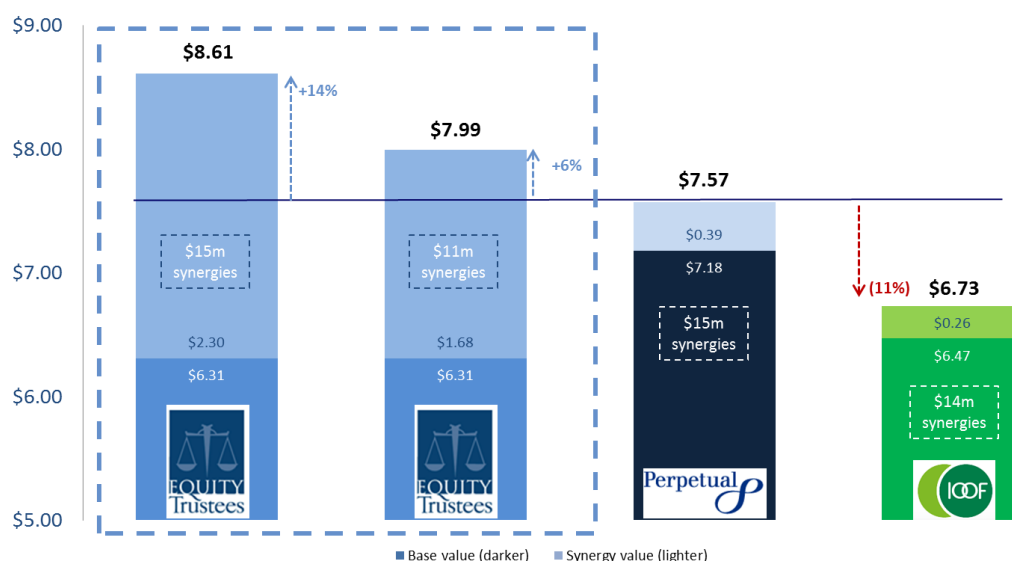
EQT’s offer provides higher long-term valueⁱ

TRU shareholders receive significantly higher long-term value from the EQT offer. This is because the level of synergies from the three competing offers is similarⁱⁱ but TRU receives significantly more of these synergies from EQT due to the 62% shareholding of former TRU shareholders in the combined group; compared with much lower levels in the competing proposalsⁱⁱⁱ:

- 5% to 10% of IOOF; or
- 7% to 13% of Perpetual.

The long-term value of EQT’s offer using either end of the range of EQT’s estimated synergies (\$11m to \$15m p.a. pre-tax) is superior to both proposals from PPT or IFL, and are estimated as:

- \$0.42-1.04 per TRU share higher than Perpetual’s proposal; and
- \$1.26-1.88 per TRU share higher than IOOF’s proposal.

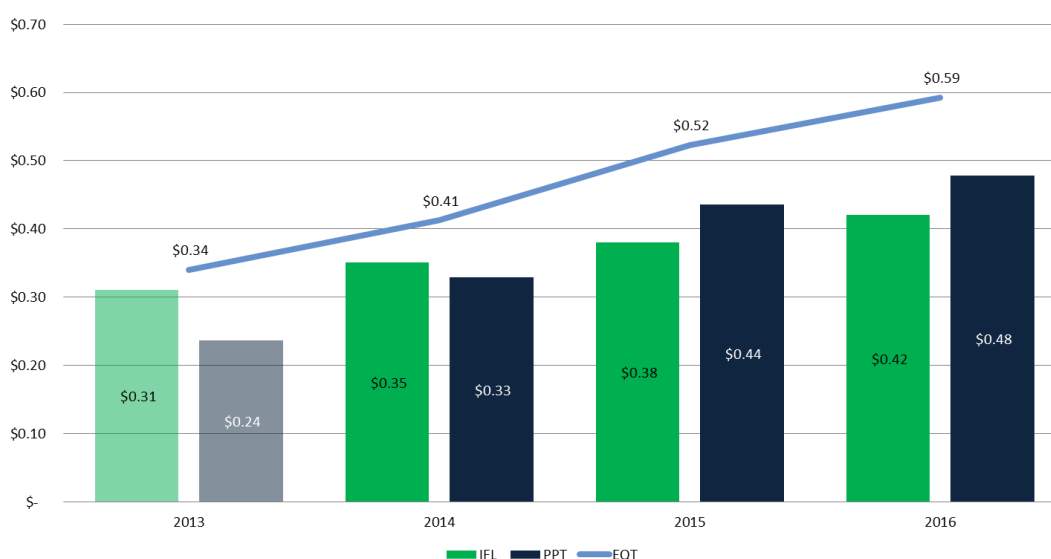


Note: Refer to the Disclaimer and Assumptions contained in this announcement.

Mr Tony Killen, Chairman of EQT said, “EQT’s offer is demonstrably superior in terms of longer term value to each of the competing offers. TRU continues to focus on the short-term value – based on current share prices – and ignores or discounts heavily the value of synergies to long-term shareholder wealth.”

EQT’s offer may result in higher dividends^{iv}

EQT has paid the highest dividends per share over recent years and may continue to do so into the future based on consensus forecasts of analysts (as set out in endnote (iii)). EQT’s dividends are estimated at 51 cents per TRU share on average over the next 3 years – significantly higher than IFL at 38cps and PPT at 42cps – based on consensus forecasts of analysts (as set out in endnote (iii)).



Note: Refer to the Disclaimer and Assumptions contained in this announcement.

Capital position

In conjunction with EQT’s FY13 results presentation, and in the context of the new minimum capital standards for responsible entities, EQT announced that “Based on current projections to 30 June 2014, and assuming that the 2013 final and 2014 interim dividends are fully underwritten, additional capital in the range of \$7 to \$9mil will be required. Initiatives to ensure we meet this requirement within the required timeframe are being pursued and we will keep the market informed. We are confident of maintaining a satisfactory return on capital.”

The reciprocal due diligence process and discussions with TRU were incomplete when this was terminated by TRU as a result of the revised proposal from Perpetual. In particular, TRU had not provided sufficient information to enable EQT to ascertain the optimal operating structure and associated regulatory capital for the combined group. As a result, EQT considers that the views expressed by TRU on these issues are based on incomplete information and analysis.

Mr Robin Burns, CEO and Managing Director of Equity Trustees, said, "Our stand-alone estimates for future regulatory capital include a prudent buffer for the anticipated growth of the business through to June 2014. During our discussions with TRU, EQT offered to work with TRU's management and advisers to develop a mutually agreed case for the combined group. This discussion was incomplete and consequently we were surprised to note that TRU released some qualified estimates to the market that had never been discussed with EQT. As a result, TRU's estimates have not been verified by or agreed with EQT and in EQT's opinion are based on incomplete information and analysis, and therefore could be potentially misleading."

Extension of the Offer

Mr Tony Killen, Chairman of EQT said, "The only offer that can currently be accepted by TRU shareholders is from EQT. We continue to believe that EQT offers better long-term value and dividends for TRU shareholders. We have extended EQT's offer to ensure that TRU shareholders have a real choice depending on the outcome of the ACCC investigation of Perpetual and any shareholder meetings to consider this or other proposals."

Trust Interim Dividend

Consistent with other competing offers, EQT supports TRU shareholders receiving an interim dividend of up to \$0.17 per share, expected to be fully franked, without any adjustment to EQT's offer consideration. EQT will not rely on the declaration and payment of this interim dividend to allow its Offer to lapse because of a breach of the Defeating Condition set out in section 9.8(l) of its Bidder's Statement. For the avoidance of doubt, EQT has not generally waived this Defeating Condition and it may rely on this Defeating Condition if it becomes aware of any other circumstances that breach it.

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IMPORTANT ASSUMPTIONS

ⁱ Estimated long-term value is based on the following assumptions:

- **Base value** being the “Value per Trust share (excluding franking credits) as outlined in PPT’s announcement dated 9 September 2013, including its assumptions as detailed in Endnote 1). EQT’s value per share has been calculated on the same basis, including the dividends allowed to be paid by TRU (\$0.22 special dividend and \$0.17 interim dividend) and excluding the \$0.50 final FY13 dividend payable by EQT.

	EQT	IFL	PPT
Share price (6 September 2013)	\$16.50	\$8.44	\$37.30
Less FY13 final dividend	-\$0.50	-\$0.23	\$0.00
Ex-dividend Date	12/9/13	18/9/13	6/9/13
Ex-div share price	\$16.00	\$8.22	\$37.30
Offer ratio	0.370x	0.74x	0.1820x
Share consideration	\$5.92	\$6.08	\$6.79
Special dividend	\$0.22	\$0.22	\$0.22
Value per share	\$6.14	\$6.30	\$7.01
Trust interim dividend	\$0.17	\$0.17	\$0.17
Base Value per share	\$6.31	\$6.47	\$7.18

- **Synergy value** being calculated as estimated synergies post 30% corporate tax, capitalised at the FY14 price-earnings ratio as dated by S&P Capital IQ for each company as at 6 September 2013 divided by the fully diluted share capital of TRU (post issue of performance rights).

	EQT	IFL	PPT
Synergies	\$15m	\$14m	\$15m
TRU % ownership (assumes full cash take-up)	62%	5.4%	7.4%
TRU share of synergies	\$9.28m	\$0.76m	\$1.10m
FY14E P/E multiple (S&P Capital IQ)	12.2x	16.7x	17.6x
FY14E P/E multiple (post-tax)	8.5x	11.7x	12.3x
Value of synergies	\$79.3m	\$8.9m	\$13.5m
Synergy Value per share	\$2.30	\$0.26	\$0.39
Total Value per share	\$8.61	\$6.73	\$7.57

ⁱⁱ EQT has estimated pre-tax synergies of \$15m p.a., PPT has estimated at least \$15m p.a. and IFL has estimated at least \$14m p.a.

ⁱⁱⁱ Level of ownership of former TRU shareholders in each of the bidders will depend on the cash take-up under the PPT proposal (of up to \$110m) and IFL proposal (up to \$100m).

^{iv} Estimated dividends for each TRU share have been calculated based on the following assumptions:

Key Assumptions	EQT	IFL	TRU
Offer Ratio	0.37x shares	0.74x shares	0.182x shares
Synergies per annum	\$15m	\$14m	\$15m
TRU share of synergies (maximum cash utilised)	62.1%	5.4%	7.4%
Synergies generated	FY14 = 25% FY15 = 75% FY15 = 100%	FY14 = 25% FY15 = 75% FY15 = 100%	FY14 = 25% FY15 = 75% FY15 = 100%
Tax	30%	30%	30%
Dividend payout	90%	90%	90%
EPS Forecasts	S&P Capital IQ Consensus forecasts +7% for FY16 (same as FY15)	S&P Capital IQ Consensus forecasts	S&P Capital IQ Consensus forecasts

The timetable for the realisation of synergies assumes that control of TRU passes by 31/12/13 and this is net of any implementation costs incurred.

IMPORTANT DISCLAIMER

This announcement contains certain statements which may constitute “forward-statements”. Such statements are only predictions and are subject to inherent risks and uncertainties which could cause actual values, results, performance or achievements to differ materially from those expressed, implied or project in any forward-looking statements.

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