

Acquisition of Telecom Rentals NZ

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Acquisition Highlights

Expands FlexiGroup to be #1 technology leasing business in NZ

Acquisition

- FXL has entered into binding agreement with Spark NZ to acquire 100% of TRL NZ including existing leasing receivables of NZ~\$97m
- Total Enterprise value of NZ~\$106m which includes Net Tangible Assets (NTAs) of ~NZ\$92m and NZ\$14.5m Goodwill¹
- Telecom Rentals is a leading provider of IT and telecommunications equipment leasing solutions across New Zealand
- The acquisition consolidates FlexiGroup's distribution footprint in New Zealand, making it the largest technology leasing provider in NZ

Strategic Rationale

- Provides scale for existing NZ business
- Enables FXL NZ business to provide full market coverage (Retail, SME, Education & Enterprise)
- Ability to further leverage established Equico brand in education sector
- Improves sales presence for FXL in government sector focussed in Wellington
- Offers opportunity to tender for All Of Government IT leasing contracts with a wide range of partners
- Significant upside to leverage Spark relationship through enhanced sales structure & alignment

Financial Impact

- Consideration represents ~5x FY16 Cash NPAT (TRL is forecast to deliver NZ ~\$3m NPAT in FY16) and 1.2x book value
- The acquisition to be funded by a combination of cash and senior portfolio debt as the book is currently 100% funded by the Spark NZ Group
- Transitional services agreement in place with majority of separation to occur over the first 6 months
- Acquisition will be Cash EPS accretive in FY16

Timing

- The transaction is expected to be completed by 30 April 2015
- Change of Control consent required from Ministry of Education as a condition precedent to the transaction

Outlook

- FlexiGroup FY15 Cash NPAT guidance reaffirmed at \$90-91million, considering timing of completion, transition and separation timeframes of TRL NZ from Spark Digital



Note 1: Under FXL accounting, Goodwill expected to be ~\$20m

Overview of Spark NZ and Telecom Rentals

Spark New Zealand

- Spark New Zealand Limited (formerly Telecom Corporation of New Zealand Limited) is the incumbent telecommunications service provider in New Zealand, providing fixed line telephone services, a mobile network, an internet service provider, and Spark Digital, a major ICT provider to NZ businesses
- It has operated as a publicly traded company since 1990 and is one of the top 2 largest companies by value on the New Zealand Exchange (NZX)
- Current market capitalisation is NZ ~\$6 billion

Spark Digital

- Spark Digital is the technology division of Spark NZ serving enterprises with 30+ employees
- Focuses on providing infrastructure and managed service solutions to clients focussed on the data centres, digital business, government and education sectors

Telecom Rentals

- Telecom Rentals (TRL) is a provider of IT and telecommunications equipment leasing solutions to the commercial and government sectors in New Zealand primarily through operating leases
- The business was established in 2006 as a wholly-owned subsidiary of Spark New Zealand to provide financing solutions to customers of Spark Digital
- TRL is being divested by Spark NZ following a strategic review which identified the business unit as non-core
- Approx 1,350 customers focussed on education, data centres, digital business and government
- TRL won the Ministry of Education TELA contract to supply and lease laptops to NZ schools in 2012



Strategic Rationale

Scale benefits

- Provides significant scale for existing Flexi NZ business to become #1 technology leasing business in NZ
- Significant upside to leverage Spark relationship through enhanced sales structure & alignment
- Flexi NZ is natural owner of TRL – Spark NZ deemed it non-core

Distribution

- Distribution will continue through Spark Digital with a First Right of Refusal that forms part of the Sales and Purchase Agreement
- Provides improved sales presence for FXL in Government sector focussed in Wellington
- Offers opportunity to tender for All Of Government IT leasing contracts with a wide range of partners

Education sector

- Ability to leverage established Equico brand in education sector
- Provides potential for significant upside with leasing revenue through Ministry of Education laptop contract
- Deal includes ongoing use of technology platform used to fulfil NZ Ministry of Education contract (TELA contract) valid until February 2016
- TSA (Transition Services Agreement) in place which includes migration of contracts to FXL systems
- TRL NZ has a proven model in New Zealand with extremely strong customer feedback and engagement

Synergies

- Enables FXL NZ business to provide full market coverage (Retail, SME, Education & Enterprise)
- Funding efficiency through optimised bank warehouses and potential securitisation going forward



Deal Structure and Pro Forma Financials

Deal structure

- Deal anticipated to be completed by 30th April 2015, with sunset date at 30 June 2015
- Enterprise Value NZ~\$106m (on a zero debt zero cash basis), comprised of: NZ~\$92m in Net Tangible Assets, and NZ~\$14.5m goodwill,
- Represents a P/E multiple ~5x earnings (~1.2x receivables)
- Normalised Pro Forma FY16 Cash NPAT earnings of NZ~\$3m
- Deal and integration costs NZ~\$1m incurred in FY15

Residual Value position

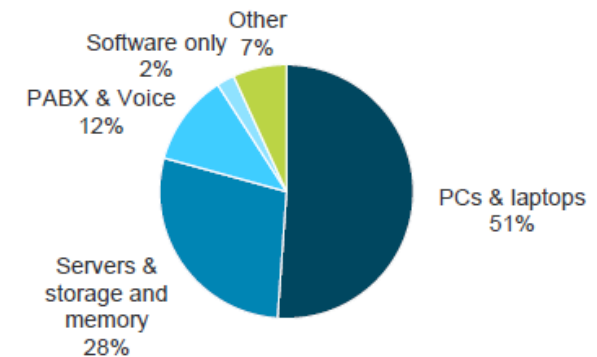
- Total RV position of ~\$11m with approximately 70% relating to Government sector.
- End of Term outcomes and computers resale values well understood through FXL owned Equico's extensive experience of operating this contract
- Largest residual value exposure excluding TELA is NZ \$1.2m (with Spark NZ Limited)

Funding

- The acquisition will be funded by a combination of cash and senior portfolio debt as the book was 100% funded by the Spark NZ Group
- Committed funding lines in New Zealand already in place with major trading bank

| (NZD) | FXL NZ 1H 15 | TRL | Combined (Pro Forma) |
|--------------------|-----------------|--------|----------------------------|
| Net Receivables | \$75m | ~\$97m | ~\$172m |

Lease book by product



Lease book by type of lease (commercial)

