

ASX RELEASE

29 June 2016

## VOCUS ANNOUNCES ACQUISITION OF NEXTGEN NETWORKS AND NWCS DEVELOPMENT PROJECT SUPPORTED BY ~A\$652 MILLION CAPITAL RAISING

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#### Key highlights

- Acquisition of 100% of Nextgen Networks and North West Cable System (“NWCS”) development project for total upfront consideration of ~A\$807 million in addition to acquisition of Australia Singapore Cable (“ASC”) development project for deferred consideration<sup>1</sup>
- Acquisition of Nextgen Networks at implied transaction multiple of approximately 10.7x FY16F EV / EBITDA on a normalised cash EBITDA<sup>2</sup> basis (before synergies) and 7.3x FY16F EV / EBITDA on a normalised cash EBITDA<sup>2</sup> basis including estimated synergies<sup>3</sup>
- Acquisition of Nextgen Networks’ domestic backhaul fibre network significantly enhances Vocus’ fibre infrastructure footprint in Australia
- Strong strategic fit for Vocus with ~A\$30 million<sup>3</sup> of expected cost synergies per annum
- Acquisition of Nextgen Networks expected to be high single digit EPS accretive on a pro-forma FY17F basis<sup>4</sup> (including synergies)
- Significant near-term upside potential from the NWCS development project
- The acquisitions will be funded via a fully underwritten, accelerated, renounceable entitlement offer with retail rights trading of approximately ~A\$452 million and a fully underwritten institutional placement of up to approximately ~A\$200 million, with the balance to be funded via existing syndicated debt facilities

#### Acquisition

Vocus Communications Limited (“Vocus”, ASX:VOC) has entered into a binding agreement to acquire Nextgen Networks from the Nextgen Group as well as two development projects, NWCS and ASC, for total upfront consideration of approximately A\$807 million (the “Acquisition”) and deferred consideration of up to A\$54 million. The Acquisition will be funded via a fully underwritten equity capital raising, comprising a pro-rata ~A\$452 million 1-for-8.90 accelerated, renounceable entitlement offer with retail rights trading; an institutional placement of up to ~26.5 million shares to raise ~A\$200 million; and the balance to be funded via existing committed debt facilities. The Acquisition is subject to ACCC clearance and other customary completion conditions and is expected to complete in approximately three months.

<sup>1</sup> Based on A\$700 million upfront consideration for Nextgen Networks and US\$80 million (~A\$107 million) upfront consideration for NWCS converted to AUD at FX rate of 0.7466. Additional amounts of up to US\$40 million (~A\$54 million) are payable for the two development projects, subject to certain conditions. Excludes transaction costs.

<sup>2</sup> Based on Nextgen Networks normalised cash EBITDA for its financial year ending 30 June 2016. The financial year is based on 10 months’ actual performance and 2 months’ management forecasts and prepared on the basis of management accounts.

<sup>3</sup> A\$30 million represents the midpoint of estimated annual cost synergy range of A\$28 – 31 million.

<sup>4</sup> Illustratively assumes twelve month impact of the transaction (including acquisition of Nextgen Networks / NWCS / ASC in addition to equity raising and debt financing) and includes a full year of earnings contributions from Nextgen Networks and NWCS. Anticipated accretion is based on an assumed depreciation and amortisation change of ~A\$32 million (encompassing Nextgen Networks and NWCS) based on the current book value of those assets and Vocus’ current accounting policies and prior to any amortisation adjustments relating to acquired related intangibles (including those related to M2, Nextgen Networks, NWCS and ASC) and excludes one-off costs. Pro-forma for estimated A\$30 million of annual synergies. Assumes Placement shares are issued at the underwritten floor price.

Level 12, 60 Miller Street  
North Sydney NSW 2060 Australia

T +61 8999 8999  
F +61 2 9959 4348  
E [vocus@vocus.com.au](mailto:vocus@vocus.com.au)

Nextgen Networks is one of Australia’s largest national fibre backhaul networks covering ~17,000km connecting capital cities to regional and remote areas. This includes an Indefeasible Right of Use (“IRU”) of Regional Backbone Blackspots Program (“RBBP”) fibre which Nextgen Networks currently operates and maintains on behalf of the Commonwealth. Nextgen Networks provides services such as transmission links, switched data services and high speed internet to corporate, wholesale, business and government customers. For the 12 months ended 31 December 2015, Nextgen Networks generated A\$193 million in revenue and A\$62 million in normalised cash EBITDA<sup>5</sup>.

NWCS is a development-stage project to build a ~2,000km submarine cable from Darwin to Port Hedland to service the mining and offshore oil and gas sectors in Western Australia. Commercial operations are expected to commence in late 2016, supported by foundation customers on long-term IRUs.

ASC is a project to build a ~4,600km submarine cable connecting Singapore, Jakarta and Perth. Vocus and Nextgen Group announced a non-binding term sheet in November 2015 to form a 50-50 joint venture to construct and operate the ASC. Vocus is now acquiring 100% of the project subject to IDA approval<sup>6</sup>.

Vocus’ CEO, Geoff Horth, said: *“The acquisition of Nextgen Networks, one of Australia’s largest national fibre backhaul networks, greatly enhances Vocus’ existing infrastructure network. Owning this critical infrastructure will allow Vocus to connect its metropolitan infrastructure to Nextgen Networks’ inter-capital fibre optic network, thereby connecting mainland capital cities to each other and to regional and remote areas on one owned network.*

*In addition, the acquisition of NWCS provides significant near-term upside to expand Vocus’ owned network offering.*

*These acquisitions represent a compelling opportunity for Vocus shareholders and strengthens our position as the 4<sup>th</sup> pillar in Australian telecommunications.”*

Vocus’ Executive Director, James Spenceley, said: *“The Nextgen Networks national fibre network is a world class asset that brings to Vocus fibre access to 70 data centres, fibre access to more than 1,100 buildings and requires only A\$11.5 million of additional capital expenditure to bring our combined points of interconnect (POIs) to 112 of 121.”*

#### Summary of consideration and financial impact

Asset	Consideration at transaction close <sup>7</sup>	Conditional payment
Nextgen Networks	A\$700 million	Nil
NWCS	US\$80 million (~A\$107 million)	US\$20 (~A\$27 million) million conditional on customer commitments - US\$8 million (~A\$11 million) currently forecast for March 2017 - US\$12 million (~A\$16 million) currently forecast for March 2018
ASC	Nil	US\$20 million (~A\$27 million) on commencement of construction

<sup>5</sup> Nextgen Networks generated A\$226 million in reported revenue and A\$92 million in reported EBITDA for the 12 months ended 31 December 2015.

<sup>6</sup> Infocomm Development Authority of Singapore.

<sup>7</sup> Based on USD conversion to AUD at FX rate of 0.7466.

The Acquisition is estimated to be high single digit EPS accretive on a FY17F pro-forma basis (including synergies)<sup>8</sup>. Following the transaction, Vocus will maintain its strong balance sheet flexibility with a net leverage ratio less than 2.3x<sup>9</sup> FY16F pro-forma EBITDA.

The Acquisition is expected to be highly complementary to Vocus' existing infrastructure and business. Estimated cost synergies of ~A\$30 million per annum are expected to be fully realised over three years with one-time costs to implement these savings estimated at A\$6 million. Estimated cost synergies include network synergies achieved through economies of scale and third party access tail spend and non-network related synergies such as the consolidation of premises, and the rationalisation of costs. Capital expenditure synergies are estimated at ~A\$8 million per annum. In addition, there are significant revenue synergies potentially available driven by an expanded product offering, including the potential to attract new customers, and cross-selling opportunities to existing clients. Integration is expected to benefit from conducting the network integration concurrently with the M2 network integration.

### Placement and Entitlement Offer

The ~A\$652 million fully underwritten equity capital raising comprises the following:

- ~A\$452 million, 1-for-8.90 accelerated, renounceable entitlement offer with retail rights trading ("**Entitlement Offer**")
- Institutional placement of up to ~26.5 million New Shares to raise ~A\$200 million (the "**Placement**")

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 new Vocus share for every 8.90 existing Vocus shares ("**Entitlement**") held as at 7:00pm (Sydney time) on Monday, 4 July 2016 ("**Record Date**").

The offer price under the Entitlement Offer is A\$7.55 per New Share, which represents a 10.4% discount to the theoretical ex-rights price<sup>10</sup> of A\$8.42 on Tuesday, 28 June 2016.

Approximately 59.9 million new Vocus shares will be issued under the Entitlement Offer. New Shares will rank equally with existing shares.

The Placement will be conducted at a variable price, subject to an underwritten floor price of A\$7.55 per share.

### Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the institutional component of the Entitlement Offer ("**Institutional Entitlement Offer**") which is being conducted from Wednesday, 29 June 2016 to Thursday, 30 June 2016.

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<sup>8</sup> Illustratively assumes twelve month impact of the transaction (including acquisition of Nextgen Networks / NWCS / ASC in addition to equity raising and debt financing) and includes a full year of earnings contributions from Nextgen Networks and NWCS. Anticipated accretion is based on an assumed depreciation and amortisation charge of ~A\$32 million (encompassing Nextgen Networks and NWCS) based on the current book value of those assets and Vocus's current accounting policies and prior to any amortisation adjustments relating to acquired related intangibles (including those related to M2, Nextgen Networks, NWCS and ASC) and excludes one-off costs. Pro-forma for estimated A\$30 million of annual synergies. Assumes Placement shares are issued at the underwritten floor price.

<sup>9</sup> Based on EBITDA for the twelve months ending 30 June 2016. Nextgen Networks' EBITDA based on 10 months' actual performance and 2 months' forecasts and prepared on the basis of management accounts. Vocus' EBITDA based on 11 months' actual performance and 1 months' forecasts and prepared on the basis of management accounts. Net debt is inclusive of finance leases and IRUs.

<sup>10</sup> The theoretical ex-rights price is the theoretical price at which Vocus shares should trade immediately after the ex-date for the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which Vocus shares trade immediately after the ex-date for the Entitlement Offer may vary from TERP. TERP is calculated by reference to Vocus' closing price of A\$8.52 per share on 28 June 2016, being the last trading day prior to the announcement of the Entitlement Offer. Excludes shares issued under the Placement.

Eligible institutional shareholders can choose to take up their Entitlement in whole, in part or not at all. Institutional Entitlements cannot be sold on ASX. As the Entitlement Offer is renounceable, Entitlements not taken up by eligible institutional shareholders by the close of the Institutional Entitlement Offer, and Entitlements of ineligible institutional shareholders, will be offered for sale through an institutional bookbuild to be conducted on Friday, 1 July 2016 (“**Institutional Bookbuild**”). Any proceeds from the sale of institutional Entitlements under the Institutional Bookbuild will be remitted proportionally to those institutional shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those institutional shareholders.

Vocus shares have been placed in trading halt while the Institutional Entitlement Offer and Institutional Bookbuild are undertaken.

### Retail Entitlement Offer

Eligible retail shareholders with a registered address in Australia or New Zealand on the Record Date will be invited to participate in the Retail Entitlement Offer. The Retail Entitlement Offer will open on Thursday, 7 July 2016 and close at 5.00pm (Sydney time) on Monday, 18 July 2016. Eligible retail shareholders will have the opportunity to participate at the same offer price and offer ratio as the Institutional Entitlement Offer.

Eligible retail shareholders will be allotted Entitlements (“**Retail Entitlements**”) which can be traded on ASX. If eligible retail shareholders do not wish to take up all or part of their Retail Entitlements they can seek to sell all or part of their Retail Entitlements on the ASX or by transferring them directly to another person to realise value for those Retail Entitlements ahead of the Retail Shortfall Bookbuild (referred to below). Retail Entitlements can be traded on the ASX by certain eligible shareholders from Monday, 4 July 2016 to Monday, 11 July 2016.

Entitlements not taken up by the close of the Retail Entitlement Offer, and Entitlements of ineligible retail shareholders, will be offered for sale through a retail shortfall bookbuild to be conducted on Tuesday, 21 July 2016 (“**Retail Shortfall Bookbuild**”). Any proceeds from the sale of Retail Entitlements under the Retail Shortfall Bookbuild will be remitted proportionally to those retail shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those retail shareholders.

Entitlements may only be exercised by eligible shareholders, being persons who have a registered address in Australia and New Zealand, and certain categories of institutional investors in Canada, France, Germany, Hong Kong, Japan, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, United Arab Emirates (excluding the Dubai International Finance Centre), the United Kingdom and the United States.

### Key dates

Event	Date
Trading halt and announcement of acquisition and Entitlement Offer and Placement	Wednesday, 29 June 2016
Institutional Offer opens	Wednesday, 29 June 2016
Institutional Offer closes	Thursday, 30 June 2016
Institutional Bookbuild	Friday, 1 July 2016
Vocus shares recommence trading	Monday, 4 July 2016
Retail rights commence trading	Monday, 4 July 2016
Entitlement Offer record date (7:00pm Sydney time)	Monday, 4 July 2016
Retail Entitlement Offer opens	Thursday, 7 July 2016
Retail Offer Booklet and Application and Entitlement Forms despatched to Eligible Retail Shareholders	Thursday, 7 July 2016
Settlement of New Shares issued under the Institutional Entitlement Offer and Placement	Friday, 8 July 2016

Allotment and commencement of trading of New Shares issued under the Institutional Entitlement Offer and Placement	Monday, 11 July 2016
Close of retail rights trading	Monday, 11 July 2016
Retail Entitlement Offer closes (5:00pm Sydney time)	Monday, 18 July 2016
Retail Shortfall Bookbuild	Thursday, 21 July 2016
Settlement of New Shares issued under the Retail Entitlement Offer	Wednesday, 27 July 2016
Allotment of New Shares issued under the Retail Entitlement Offer	Thursday, 28 July 2016
Holding statements sent to retail holders	Friday, 29 July 2016

The above timetable is indicative only and subject to change. All times represent Sydney time. The commencement and quotation of New Shares is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, Vocus, with the consent of the underwriter, reserves the right to amend this timetable at any time, including extending the period for the Retail Entitlement Offer or accepting late applications, either generally or in particular cases, without notice.

### Vocus FY16F trading update

Vocus has also provided a trading update on its FY16F results. The core business has experienced strong organic growth, while Q4'FY16 Underlying EBITDA is forecast to be in the range of A\$95 – A\$100 million. FY16F guidance is set out below:

- Revenue in the range of A\$820 – A\$835 million
- Underlying EBITDA in the range of A\$213 – A\$218 million

Additional detail on the trading update is included in the Investor Presentation pack provided to the ASX today.

### Additional details

Further details of the Acquisition, the Entitlement Offer and the Placement are set out in the Investor Presentation pack provided to the ASX today. The pack contains important information including key risks and foreign selling restrictions with respect to the Entitlement Offer and the Placement.

Credit Suisse acted as exclusive financial adviser and sole underwriter to Vocus, while Allens acted as legal adviser.

For more information, please contact:

### Media and investor contact details

Debra Mansfield  
 Corporate Communications Manager  
 +61 3 9674 9569  
 dmansfield@m2.com.au

### About Vocus

Vocus Communications Limited ("Vocus", ASX: VOC) is a provider of fibre, data centre, unified comms and cloud services to corporate and government entities. In February 2016, Vocus merged with M2 Group Ltd, to create the fourth largest telco in Australia and the third largest in New Zealand, with revenues of approximately A\$1.7 billion for FY15. The merger takes Vocus into supply of broadband, fixed voice, mobile and energy services to consumer and business segments through the well-recognised Commander, Dodo and iPrimus brands, in Australia and Slingshot, Orcon and Call Plus brands in New Zealand.

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### Forward looking statements

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward looking words such as “believe”, “expect”, “estimate”, “will”, “may”, “target” and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the expected outcome of the Acquisition. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Vocus and cannot be predicted by Vocus and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which Vocus operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

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