

# HKBN

## Investor Presentation on HKBN / WTT combination



August 2018



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## HKBN – WTT merger

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-  **Value accretive for shareholders**
-  **Highly complementary combination of residential + enterprise businesses**
-  **Better network and full suite of services**
-  **Skin-in-the-game Co-Ownership to be extended to WTT team**



# Transaction highlights



- **HKBN has agreed to an all-stock merger with WTT Holding Corp. (“WTT”) to strengthen its Enterprise Solutions business**
  - Implied valuation of WTT of HK\$10.5bn translating into implied LTM FV/EBITDA of 12.9x for WTT
  - Issue price of HKBN shares of HK\$11.60 per share, a 5.4% discount to last close and implied LTM FV/EBITDA of 13.2x
  - Twin Holding (an affiliate of MBK Partners, “MBK”) and TPG Wireman (an affiliate of TPG, “TPG”) to receive pro forma ownership of 11.66% each in HKBN plus HK\$970mm of Vendor Loan Notes each
- **The proposed merger will more than double HKBN’s Enterprise Solutions revenue and benefit the combined customer base**
  - Increase footprint (commercial buildings & residential homes passed) and enhanced capacity & redundancies for better quality of service
  - Expand service offerings to better serve combined customer base in a demanding cloud, 5G and system integration business
  - Highly complementary combination given WTT’s focus on larger corporate and wholesale clients and HKBN’s focus on small and medium-sized enterprises and residential customers
- **The proposed merger translates into value accretion opportunity for HKBN shareholders**
  - Highly visible run-rate synergies representing c.7-10% of the combined cash operating expenses<sup>1</sup> and c.HK\$60mm in Capex savings
- **Closing expected by 1Q2019**
  - Subject to HKBN shareholders’ approval and regulatory approval
  - CPPIB and GIC have provided irrevocable undertakings to vote in favor of the transaction

Note: Based on market data as of Aug 7, 2018; Based on LTM financials as of Feb 28, 2018 for HKBN and LTM financials as of Jun 30, 2018 for WTT; WTT’s normalized EBITDA takes into account one-off government rent, specific provisions related to disputes from a customer and certain rebranding costs; <sup>1</sup> Cash operating expenses defined as revenue – EBITDA

# HK telecom landscape – Major players

(HK\$bn unless otherwise stated)

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	HKT <sup>1</sup>	 WTT	SmarTone <sup>1</sup>	HGC	HTHK	 WTT	i-Cable	
<b>Service revenue</b>	29.0 <sup>2</sup>	5.5	5.0	4.2 <sup>3</sup>	3.8	3.4 <sup>4</sup>	2.1	1.3 <sup>5</sup>
<b>Latest twelve months</b>	Jun 2018	Feb 2018 (H) Jun 2018 (W)	Dec 2017	Jun 2017	Jun 2018	Feb 2018	Jun 2018	Dec 2017
<b>Services offered</b>	Integrated	Fixed + Mobile resale	Mobile + Fixed resale	Fixed	Mobile	Fixed + Mobile resale	Fixed	Fixed
<b>EBITDA</b>	11.3	2.0	1.8	1.3	1.3	1.2	0.8	(0.2)
<b>Market cap</b>	78.9	17.8	9.0	N/A	13.9	12.3	5.5 <sup>6</sup>	0.8
<b>Firm value</b>	116.5	26.4	10.1	14.5 <sup>7</sup>	4.4	15.9	10.5 <sup>6</sup>	0.7

Source: Company filings, Factset as of Aug 6, 2018

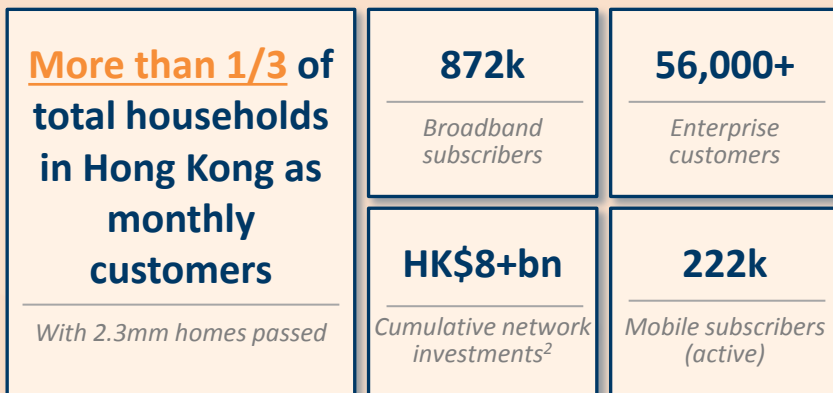
Note: <sup>1</sup> EBITDA estimates adjusted for customer acquisition cost; Firm value adjusted for spectrum license liabilities; <sup>2</sup> Calculated by subtracting mobile product sales from total revenue; <sup>3</sup> Based on the latest reports of Hutchison Telecom prior to its sale of the fixed-line business to Asia Cub Global Communications in July 17; <sup>4</sup> HKBN's HK\$3.4bn revenue is excluding product sales revenue; <sup>5</sup> Includes non-service revenue as well given no breakdown available; <sup>6</sup> Implied valuation from the proposed merger which is based on HKBN's reference price of HK\$11.60; <sup>7</sup> Total transaction value for sale of the fixed-line business of Hutchison Telecom

# Overview of HKBN

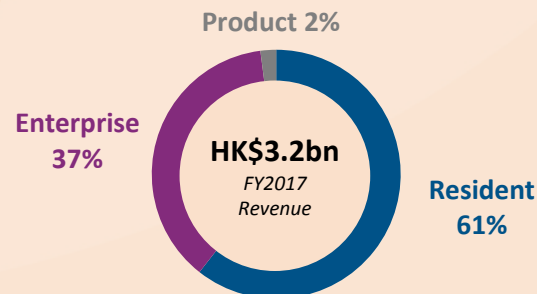
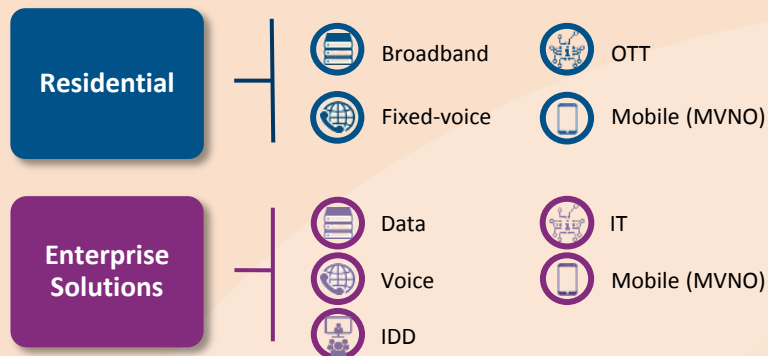
## Company overview

- Founded in 1999, HKBN is a fixed telecommunication network services provider based in Hong Kong
- Listed on HKEx in Mar 2015 and managed by Co-Owners
- Integrated Y5Zone in 2013, New World Telecom in 2016 and The I-Consulting Group in 2018

## Key highlights<sup>1</sup>



## Service offerings



Source: HKBN's company information, IPO prospectus (Mar 2015), NWT acquisition circular (Feb 2016)

Note: HKBN's FYE is as of Aug 31; <sup>1</sup> As of Feb 2018; <sup>2</sup> Represents accumulated cost of fixed assets in telecommunications, computer and office equipment, leasehold land and buildings and leasehold improvements, which primarily relate to HKBN's network; Includes NWT's cumulative investments

# Overview of WTT

## Company overview

- Incorporated in 1995, WTT is the only enterprise-focused fixed telecommunication services operator with significant fixed line infrastructure in Hong Kong
- TPG and MBK jointly acquired WTT from The Wharf (Holdings) in 2016

## Key highlights<sup>1</sup>

**100%** of financial institutions on the Hang Seng Index

*Extensive customer base particularly for large corporates*

**5,400+<sup>2</sup>**

*Commercial buildings covered*

**56,000+**

*Enterprise customers*

**HK\$7+bn**

*Cumulative network investments*

**5,000+km**

*Fibre-optic broadband network*

Source: WTT's company information  
Note: WTT's FYE is as of Dec 31; <sup>1</sup> As of May 2018; <sup>2</sup> As of Jun 2018

## Service offerings



**Data**

- Local Data
- International Data
- Business Broadband



**Voice**

- Legacy Voice
- Internet Protocol Voice
- Interconnect



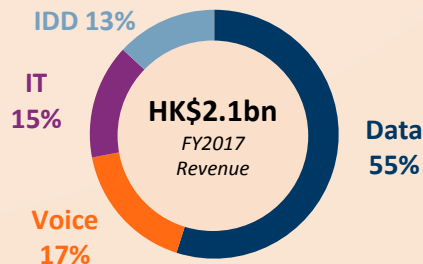
**IT**

- System Integration
- Professional services
- Data center
- Cloud



**IDD**

- Retail IDD
- Global conferencing
- Wholesale IDD



# Highly complementary combination

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## 1 Value creation

- Highly visible synergies enabling FCF accretion

## 2 Network

- Highly complementary combination of residential and enterprise networks, over HK\$15bn cumulative network investments since inception
- Unique “Tri-versity” of networks enabling more comprehensive platform to support larger enterprise requirements and provide foundations for upcoming ICT services

## 3 Customers

- Highly complementary combination given WTT’s focus on larger corporate and wholesale clients and HKBN’s focus on SMEs and residential customers
- Create a stronger provider for mobile backhaul fibre solutions as we move into 5G era

## 4 Services

- Add assets and capabilities to WTT’s existing Enterprise Solutions offerings
- Better positioned to capture opportunities in fast-growing cloud, 5G and system integration business

## 5 Plan to extend HKBN’s Co-Ownership culture to WTT as evidenced by the past 3 corporate integrations



# Significant value creation opportunities

## Synergy opportunities

### Cost synergy

- Network cost with greater scale
- Optimize IDD and IP traffic to lowest rates and scaled benefits from pooled procurement
- G&A expense from optimization of overhead costs from relocation and space management

### Revenue synergy

- Cross-selling of telecom products and mobile services to the combined customer base
- Upselling through better network diversity

### Capex synergy

- Utilization of fibre coverage owned by WTT to rationalize HKBN's spending

## Estimated run-rate synergy (per annum) from the 3rd year

**7-10%**  
*% of the combined cash operating expenses<sup>1</sup>*

**c.HK\$60mm**

### Value creation

*Superior scale  
Greater profitability*

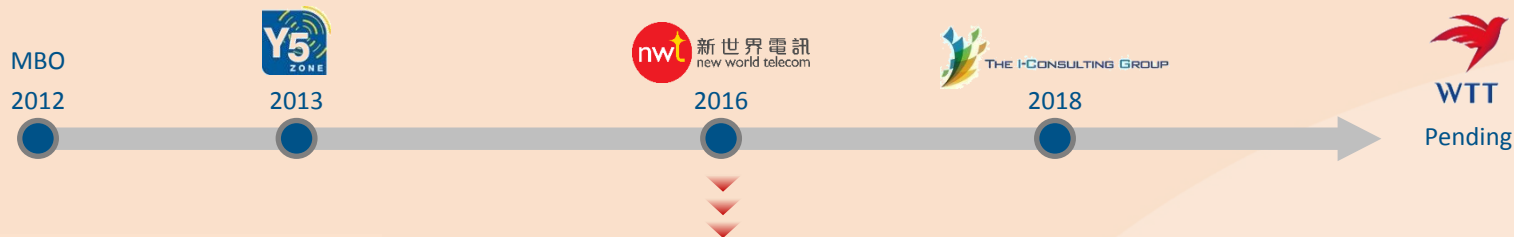
**High visibility in synergy opportunities through scale and HKBN's strong operational track record**

Source: HKBN's disclosure

Note: <sup>1</sup> Cash operating expenses is defined as revenue – EBITDA

# Proven track record of successful integration and synergy realization

## Our integration history



### Case in point: NWT (2016)

- ✓ Stronger bargaining power and relocation of offices
- ✓ Realized cash operating expenses synergies in 2 years post integration

Cost synergy

- ✓ Sold excess network hub site after network integration

Capex synergy

*In June 2016, HKBN extended its Co-Ownership plan, which was highly embraced by new joiners from the NWT acquisition*



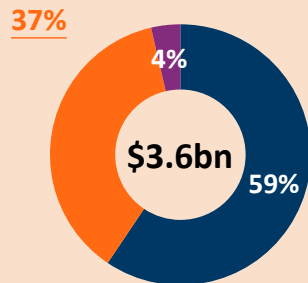
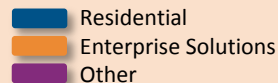
**Our LUCA<sup>1</sup>: “Skin in the game”**

Source: HKBN's announcement dated February 18, 2016

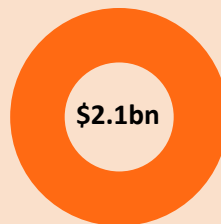
Note: <sup>1</sup> Legal Unfair Competitive Advantage

# Growth with a balanced portfolio serving all of Hong Kong

(Unit: HK\$bn)



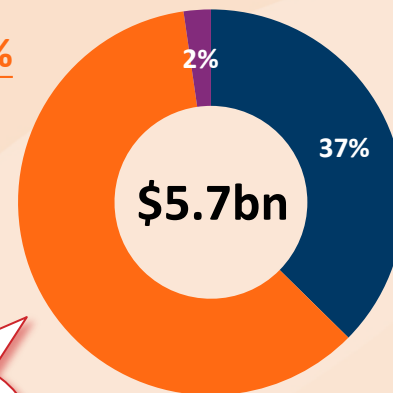
**HKBN**  
LTM Feb 2018<sup>1</sup> revenue



**WTT**  
LTM June 2018<sup>2</sup> revenue



**60%**



**HKBN**  
pro forma revenue

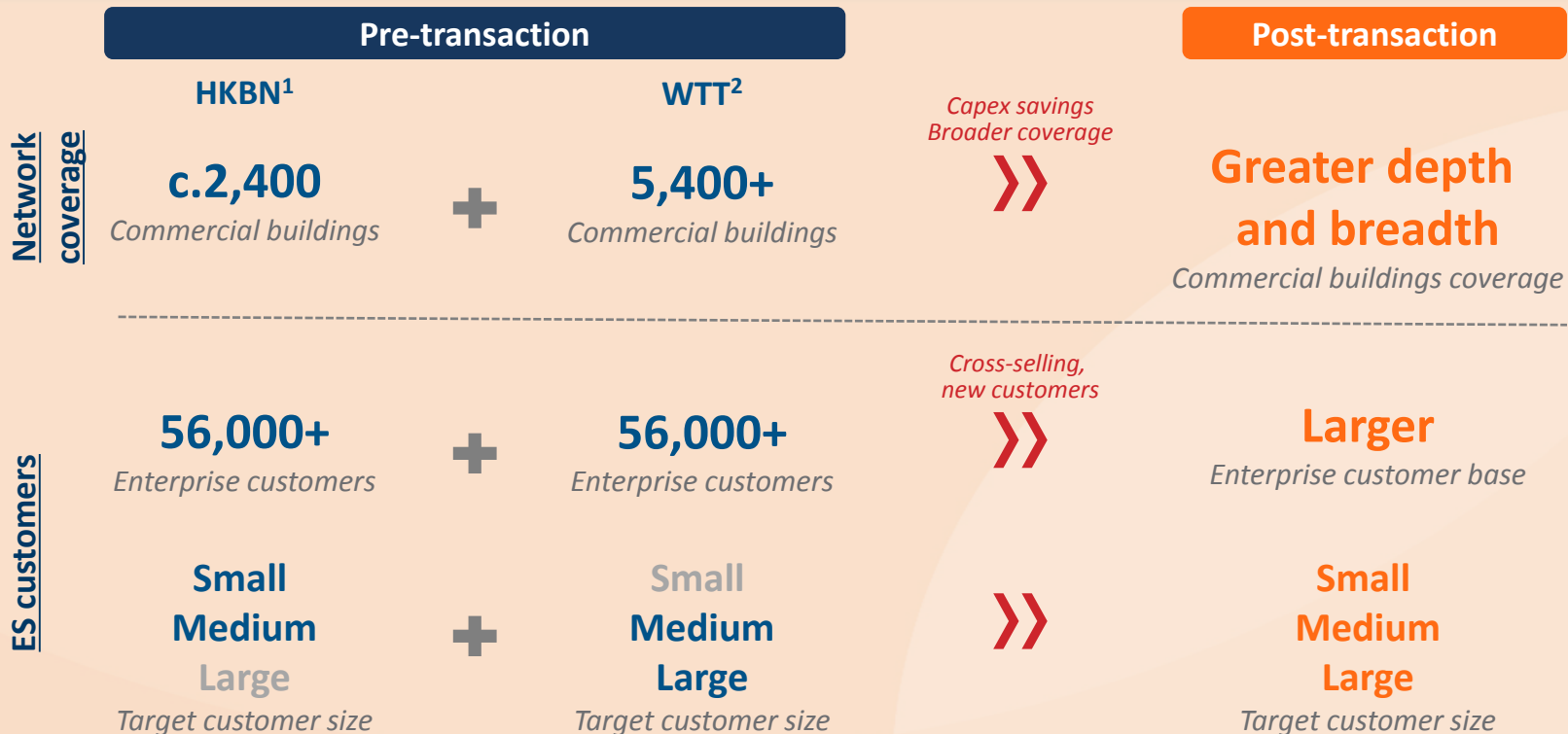
**2.6x**

Greater scale in  
Enterprise Solutions

Source: HKBN's disclosure

Note: <sup>1</sup> HKBN's FYE is as of Aug 31; <sup>2</sup> WTT's FYE is as of Dec 31

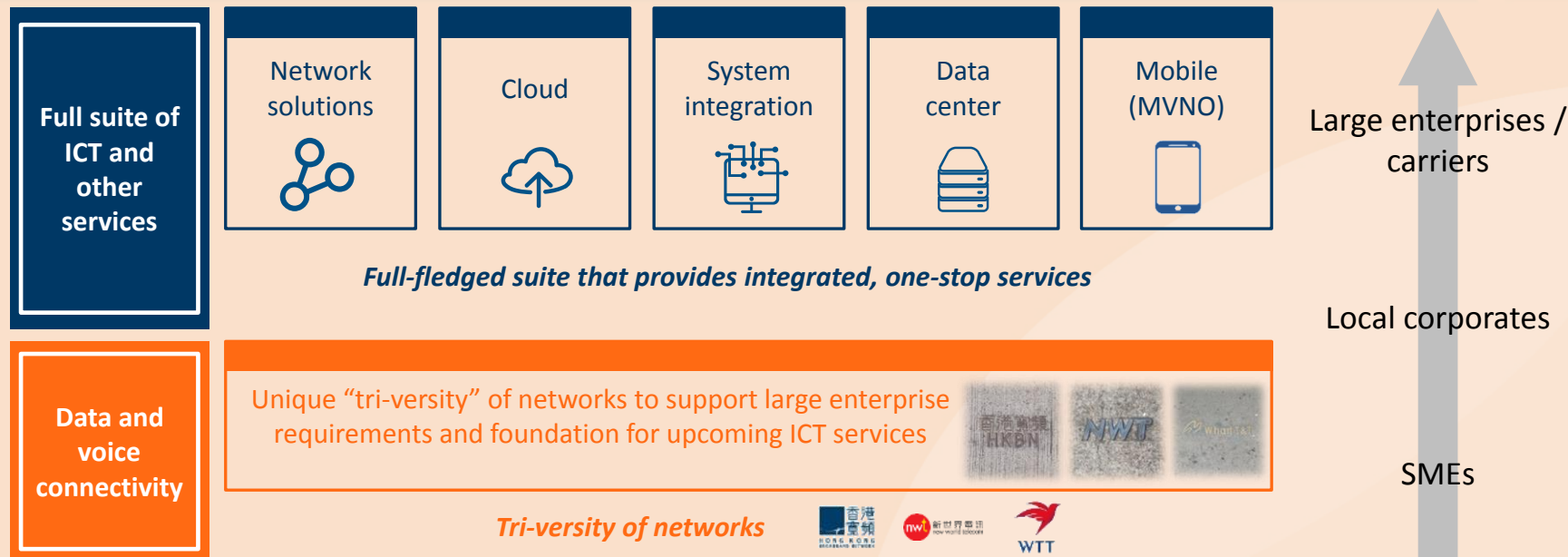
# Growth with larger network & larger customer base



Source: HKBN's disclosure, WTT company brochure (May 2018)

Note: <sup>1</sup> As of Feb 2018; <sup>2</sup> As of Jun 2018

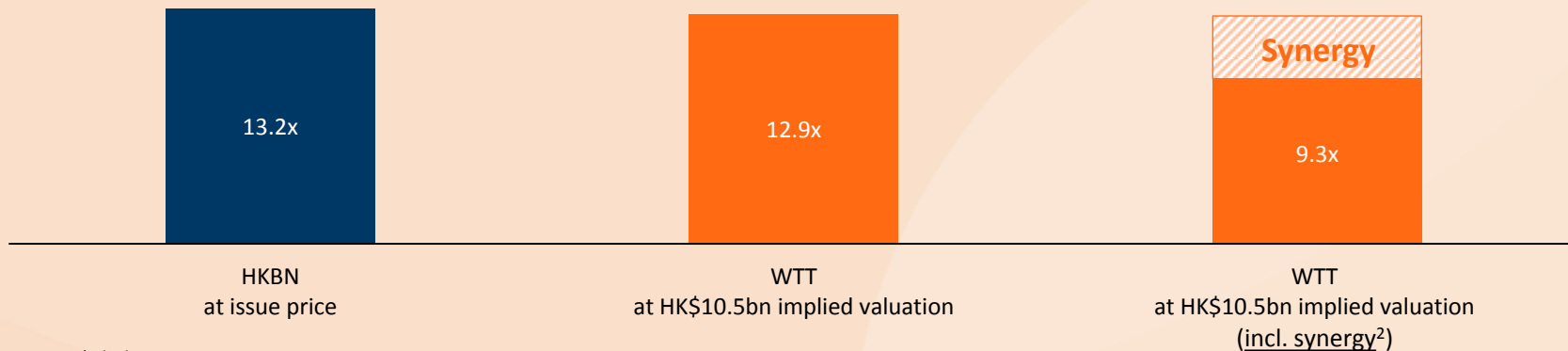
# Growth with full suite of services for enterprise customers



Differentiated connectivity and ICT service capabilities to cater to changing consumer demands

# Value considerations

- Issue of 153mm HKBN shares to TPG and MBK for each to hold 11.66% pro forma ownership at closing
- Remaining HK\$970mm paid to each of TPG and MBK in the form of Vendor Loan Notes
- Issue price based on agreed reference price of HK\$11.60 per share which represents 5.4% discount to closing price of HK\$12.26 on Aug 7, 2018
- Implied transaction value of HK\$10.5bn
- HKBN multiple of 13.2x LTM Feb 2018 EBITDA<sup>1</sup>



Source: HKBN's disclosure, VSA announcement, FactSet

Note: Based on market data as of Aug 7, 2018; <sup>1</sup> WTT's outstanding US\$670mm notes based on HKD/USD of 7.8492; Based on WTT LTM June 2018 normalized EBITDA taking into account one-off government rent, specific provisions related to disputes from a customer and certain rebranding costs; <sup>2</sup> Based on mid-point of 7-10% savings to combined cash operating expenses (revenue – EBITDA) of HK\$3,699mm (HK\$5,669mm – HK\$1,970mm)

# Other transaction terms

## Key terms of Vendor Loan Notes

- Equity-like terms, nil coupon, perpetual term
- No voting rights
- Convertible provided no MGO triggered by conversion
- Participation in dividends<sup>1</sup>, distributions and other share issuances on an as-converted basis

## Conditions precedent

- Regulatory approval
- HKBN shareholders' approval and HKEx approval to list consideration shares
- No breach of core warranties
- No mandatory general offer triggered by the transaction

## Break fee

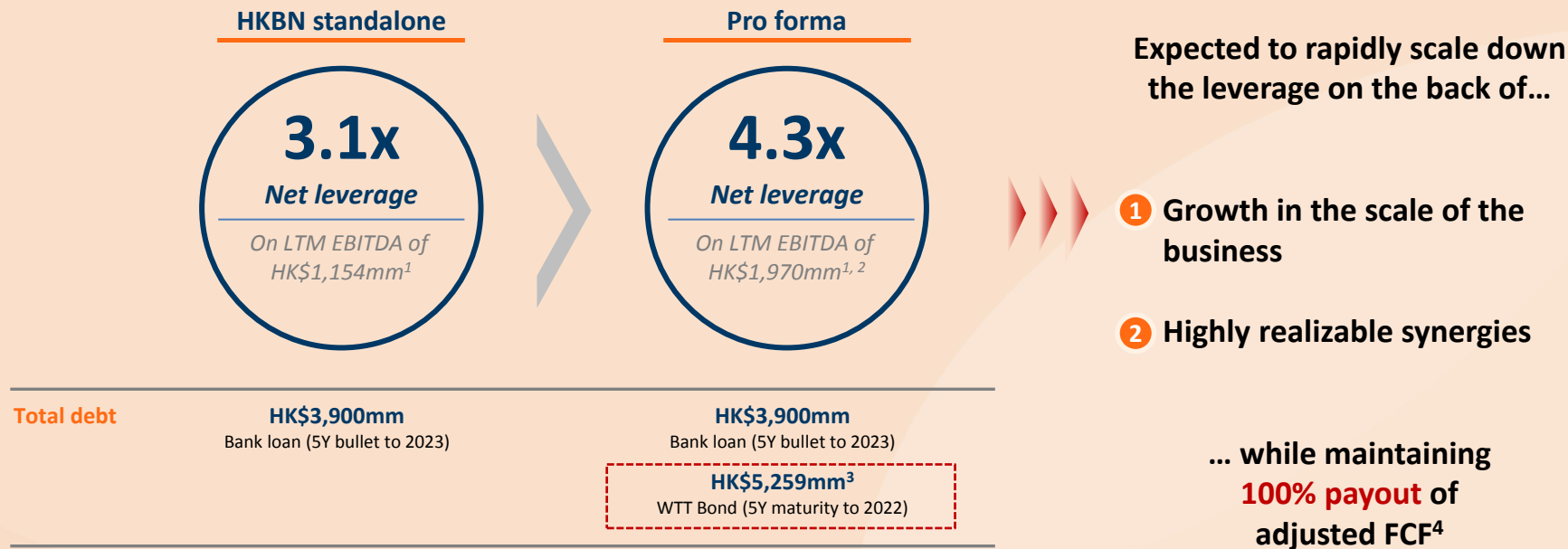
- Break fee for failure to obtain HKBN shareholders' approval of HK\$350mm

## Others

- One representative from each of MBK and TPG to be nominated to HKBN Board for appointment at closing, subject to shareholder approval
- Lock-up: 50% release in 12 months and 100% release in 18 months

Note: <sup>1</sup> Both of Vendor Loan Notes and the consideration shares are not qualified for FY2018 dividends

# Sustainable capital structure post-transaction while maintaining current dividend policy



Source: HKBN's disclosure; WTT's company information and bond prospectus (Nov 2017)

Note: Based on pro forma financials with HKBN as of Feb 2018 and WTT as of Jun 2018; Assuming Vendor Loan Notes of HK\$1,941mm being treated as equity; <sup>1</sup> HKBN's LTM Feb 2018 EBITDA; <sup>2</sup> Based on WTT LTM June 2018 normalized EBITDA taking into account one-off government rent, specific provisions related to disputes from a customer and certain rebranding costs; <sup>3</sup> WTT's outstanding US\$670mm notes based on HKD/USD of 7.8492;

<sup>4</sup> HKBN dividend policy is to pay dividends in an amount of not less than 90% of adjusted FCF with an intent to pay 100% of adjusted FCF in respect of the relevant year / period, after adjusting for potential debt repayment, if required; Please refer to annual reports for definition of adjusted FCF



# The enlarged HKBN will be led by the same management and board members who have continued to deliver success since IPO

## Management and Co-Owners

*HKBN management team with proven track record, further enhanced by WTT's Talents*



**William Yeung**  
CEO<sup>1</sup>



**Ni Quiaque (NiQ) Lai**  
COO<sup>2</sup>



**Billy Yeung**  
COO-Enterprise Solutions



**Eric Ho**  
CIO



**Gary McLaren**  
CTO



**Andrew Wong**  
CFO

## Existing Board

*Experienced board members to bring in expertise from diverse backgrounds*



**Bradley Jay Horwitz**  
Chairman & Independent Non-executive Director



**William Yeung**  
Executive Director



**Ni Quiaque (NiQ) Lai**  
Executive Director



**Deborah Keiko Orida**  
Non-executive Director



**Stanley Chow**  
Independent Non-executive Director



**Quinn Yee Kwan Law**  
Independent Non-executive Director

## New Directors

*New directors from TPG and MBK to help maximize shareholders' interest*



**New Director**  
From TPG



**New Director**  
From MBK

## Next steps

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**Shareholder  
approval**



**Regulatory  
approval**



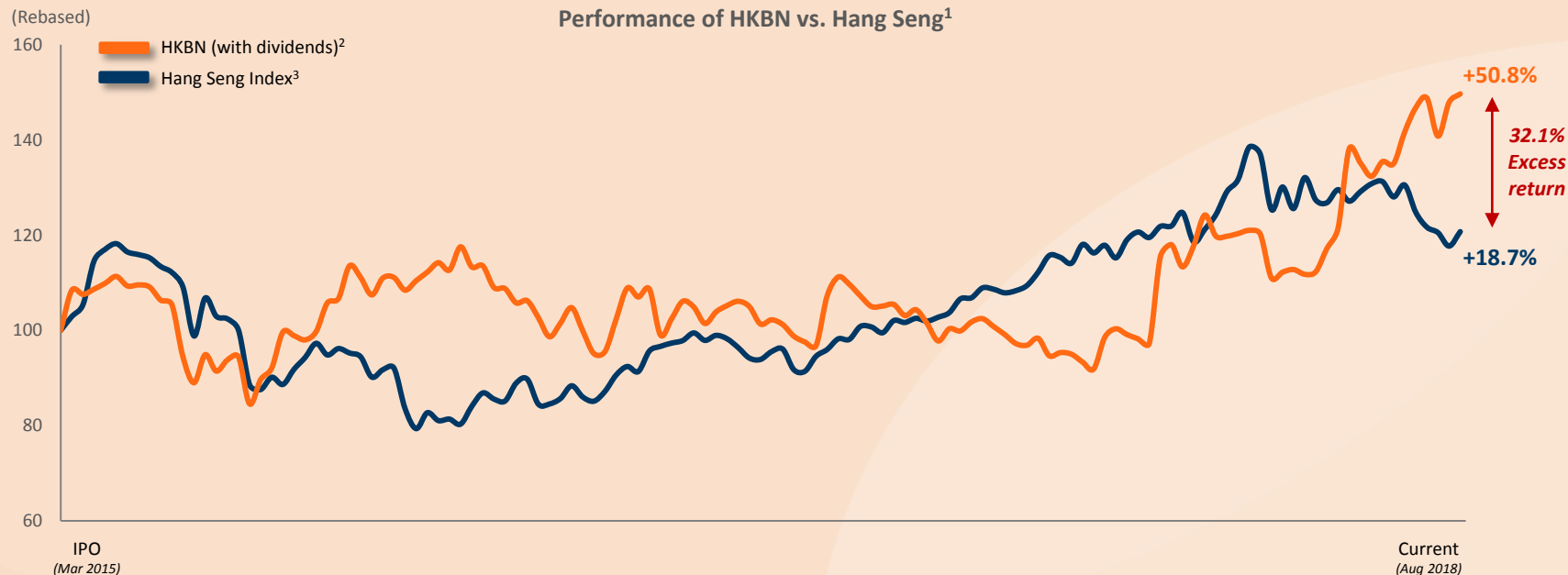
**Closing**

*Expected by 4Q2018*

*Expected by 4Q2018 / 1Q2019*

*Expected by 1Q2019*

# HKBN's outstanding total share price plus dividend returns



Source: HKBN's disclosure, FactSet

Note: Based on market data as of Aug 7, 2018; <sup>1</sup> Both of HKBN share price and Hang Seng Index were rebased to 100 on Mar 12, 2015; <sup>2</sup> Includes accumulated DPS based on actual timing of dividends payment; <sup>3</sup> Hang Seng Index reflects cash dividend or distribution in the total return index counterpart as reinvestment on the ex-date

# On our continued path to “Make our Hong Kong a better place to live”



*HKBN's entrepreneurial spirit to unlock the full potential of  
WTT's customer base and infrastructure*