

Aussie ISP buys ihug

Internet

Graeme Hunt

Ihug ended speculation about its future this week, announcing it had signed a sale and purchase agreement with ASX-listed Australian ISP, iiNet.

Under the agreement iiNet will buy ihug, the IP factory and the operating assets of the Internet Group, including the ihug brand name, for a total of \$A30.1 million in cash and 23.7 million shares in iiNet at an issue price of \$A1.75 per share.

Ihug said in a statement the companies had completed due diligence but the transaction was subject to regulatory and iiNet shareholder approval. A meeting of iiNet shareholders has been called for October 17 with a proposed completion date of October 21.

"Due to the relative size of the two businesses, we are treating this transaction as a merger," iiNet chairman Peter Harley said in the statement.

"It will make iiNet the fifth-largest ISP in Australia and ihug the third largest in New Zealand. This transaction will benefit iiNet shareholders in several ways.

"We expect it to improve iiNet's earnings per share before amortisation of goodwill, as ihug has an annualised proforma ebita of \$17.8 million."

Mr Harley said iiNet expected to further enhance the profitability of ihug's Australian operations by transferring subscribers to iiNet's infrastructure.

He said iiNet expected further benefits by applying ihug's profitable telephony business to iiNet's customer base.

"As a result of the associated capital raising, iiNet will have a strong balance sheet post transaction to pursue further growth and innovation."

Ihug chairman Keith Goodall, an Auckland chartered accountant and company director, will be appointed to the board of iiNet at the shareholder meeting.

Australian company buys Ihug for \$81m

Auckland: The price tag was well short of dotcom bubble excess, but Internet provider Ihug has achieved its founders' goal, selling for \$81 million to listed Australian company iiNet.

Brothers Nick and Tim Wood, who started the Auckland company nine years ago with an \$8000 loan, have been trying to cash up their investment since 1999 — a year before the "tech wreck".

But management of both companies refer to the sale as a merger, saying there will be no redundancies or sidelining of New Zealand management.

The cash component of the deal is worth \$A30.1 million (\$NZ34.52 million), the balance made up of the issue of 23.7 million iiNet shares at \$A1.75 a share to Ihug's shareholders, who include the Wood brothers, their father John Wood, Bart Kindt, Call-Plus owner Malcolm Dick and Deep Blue Corporation.

Shares in iiNet jumped A31c to close at \$A2.81 when trading on the Australian Stock Exchange resumed after a freeze last week.

Some of the new iiNet shareholders are understood to face restrictions on when they can sell their shares.

IiNet chief financial officer Clayton Hollingsworth said

the company would seek a listing on the New Zealand Stock Exchange once the merger had bedded in.

With news of the acquisition came the first clear confirmation of the size of Ihug's business.

It is generating annual revenue of \$A48 million from its 170,000 customers on both sides of the Tasman and had annualised ebitda (earnings before interest, tax, depreciation and amortisation) of \$A17.8 million.

Annualised net profit after tax was \$A10.8 million. IiNet's annual revenue is about \$A40 million.

Nick Wood, who stepped back from active management

at Ihug a year ago and now owns a hotel resort in Fiji, said the sale was essential to keep Ihug competitive.

Together, iiNet and Ihug will have more than 300,000 customers, revenue of more than \$A100 million a year and 330 staff.

IiNet will fund the cash component of the sale through a placement of 14.9 million shares at \$A2.05 a share.

Mr Hollingsworth said the underwritten share offer was fully subscribed.

IiNet's interest in Ihug appears to centre on the latter's successful telephone tolls business, which has 23,000 customers. — NZPA