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iiNET to buy Ihug

By Richard Wood

Perth ISP iiNet has bought New Zealand's third largest ISP, Ihug, for \$30.1 million in cash and \$41.5 million in shares valued at \$1.75 per share. iiNet shares traded at \$2.50 on 16 September.

As well as adding 90,000 New Zealand customers, the move will give iiNet a solid foothold of approximately 60,000 customers in Sydney, Melbourne and Adelaide.

It is expected to make iiNet the fifth-largest ISP in Australia with a total of more than 300,000 customers.

Initially, both brands will be retained. Ihug CEO Mark Wylie said the distinct geographic coverage of the two firms means the combined firm would have Australia covered and be one of the few ISPs with a complete trans-Tasman footprint.

Ihug brings experience in telephony to the table along with satellite Internet, while iiNet brings a balance sheet, public listing and an enviable profit performance, Wylie said.

iiNet managing director Michael Malone said IiNet initially approached Ihug 18 months ago to buy its Australian business but realised there was far more potential in combining the two. He said a major attraction is the Ihug voice offering, and the satellite service can be offered to the 20 to 30 percent of Australians that can't get DSL.

New Zealand is also poten-

tially a land of opportunity if its government unbundles the local loop, which would allow the firm to sell DSL in there as well. Currently ISPs in New Zealand can only resell a DSL service provided by Telecom NZ.

Ihug's annualised revenues are \$48 million, with 170,000 customers including about 70,000 in Australia. iiNet's revenue to year ending June 2003 was \$40 million when it reported a total of 132,000 active customers, of which 54 percent are in Western Australia. Ihug was founded in 1994, iiNet in 1993.

Funding for the transaction

will be achieved by iiNet issuing shares at \$2.05 each.

Ihug is owned by Tim Wood, Nick Wood, John Wood, Bart Kindt, Malcolm Dick and an investment company called Deep Blue Corporation.

The purchase is subject to approval from shareholders and authorities. It has been reported previously that iiNet will also seek to list on the NZX.

Details of this are unlikely before planned completion of the transaction on 21 October. A meeting of iiNet shareholders has been called for 17 October to approve the purchase. □