Tilt Renewables Takeover Offer

What should shareholders be thinking about?

On the 3rd of September, a joint venture (JV) between Infratil and Mercury Energy launched a cash takeover offer for Tilt Renewables (TLT). The other major TLT shareholder, local body organisation TECT had an agreement with Mercury to sell their 6.8% holding into the offer, meaning that the JV would hold about 77.8% of TLT. In effect, the offer was unconditional from the time it was launched. The offer is for 100% of TLT and if a 90% acceptance is achieved, the balance of shares can be compulsorily acquired. If the JV ends up with less than 90%, TLT will remain listed.

The TLT independent directors were quick to describe the offer as well below fair value. The independent report from Northington partners which shareholders will have received (also on the TLT website) came to the same conclusion. The JV suggested the price offered was a 24% premium (based on an 11 May comparator), but this was a low point. A more realistic August share price comparator gives a much lower 8% premium. The independent report contains data indicating that a premium of 23% is more typical. Arguing about price is of course not unusual. In this case, we think that is not the main issue.

Tilt's operations are mostly in Australia and consist of several wind farms. Importantly, they have a significant pipeline of development projects at various stages of approval. On 12 September, it was announced that the large and fully consented Dundonnell project had received a 37% "support for output" package from the Victoria State government meaning it is all but certain to proceed. This is a game-changer for TLT and will greatly increase its size and scale of operations. The JV bid made no specific allowance for this support package, but the independent report assesses it at 22c per share, nearly 10% of the JV offer price.

Funding of Dundonnell (and indeed most of TLT's future projects) will be by a combination of debt and significant equity raising. It is expected that a rights issue approaching 45% of the company's capital (prior to the takeover offer) may be required for Dundonnell.

NZSA has met with all the main participants including Infratil, Mercury, Tilt independent directors and Cameron Partners who also provided paid advice to the independent directors. We have also reviewed the documentation, particularly the independent report, the offer and the target company defence.

In our view, the choice is quite simple. It boils down to whether you want growth potential or income.

Tilt is a growth company that will require plenty of capital over time, but which expects to build a large portfolio of assets to support a rising share price. Growth investors who do not need income, can accept a degree of development risk, and who are prepared to tip in extra funds, are unlikely to want to forgo that growth potential for a modest premium up front.

On the other hand, if you want dividend income or are particularly risk-averse, then TLT may not be an appropriate choice, and the JV offer allows an easy and brokerage free exit. TLT was spun off from Trustpower on a share for share basis. Trustpower is generally held for its dividends and it is likely that there are many small investors who have not really considered the different direction that TLT is taking. Nor might they be able to contribute capital and could be severely diluted as a result. They may want to consider selling and reinvesting into a more income oriented company.

Shareholders should read all the documentation provided and consider their individual circumstances. In particular, they need to decide whether they want growth or income, and can they contribute funds to avoid dilution. It is worth noting that at the time of writing the JV offer had attracted only about 1% of the shares on issue.

If acceptances get close to, but do not achieve the 90% target where compulsory acquisition can occur, Tilt will remain listed. In this situation, ongoing trading liquidity is likely to be very low. Remaining shareholders may view that situation as problematic and in those circumstances, before the offer closes, may then wish to reconsider their position.

It is possible that the offer could be further extended. This will be notified several days prior to the new closing date if it occurs. There is no need to rush a decision. It is often better to wait and see what trends emerge.

Remember that once you have agreed to sell, it is binding, and you cannot withdraw.

The offer is open until midnight on October 29, 2018 (unless further extended).

- If you wish to hold your shares, you do not need to do anything.
- If you wish to sell to the JV, you must complete and either send the form provided to you in the offer documents or do this on-line at http://www.tilttakeover.co.nz/. Detailed instructions are on pages 13 and 14 of the offer document.

The Team at NZSA