

14 October 2014

Flughafen Wien (FLU AV) / IFM Investors Voluntary partial tender offer

Deal Terms

1 FLU AV = €80.00

Target: Flughafen Wien

Country	Austria
Bloomberg	FLU AV
Sector	Transport Sup. Serv.
Share price (€)	73.00
Market cap (€m)	1533.2
Free float %	50

Acquirer: IFM Investors

Country	Australia
Bloomberg	N.A.
Sector	Investment Manager
Share price (\$)	N.A.
Market cap (\$m)	N.A.
Free float (%)	N.A.

FLU AV Price Chart



Status

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IFM Investors approached Flughafen Wien (FLU) shareholders with an €80.00 tender offer.

- The offer is conditional on reaching at least 20%.
- The maximum amount of shares which will be accepted during the offer is 29.9% of the shares, as IFM wants to avoid a mandatory takeover offer.
- Free float is 50%, 50% is owned by City of Vienna, Province of Lower Austria and Employee Foundation.
- IFM indicated that they don't plan to nominate anyone to the Flughafen supervisory board.

Regulatory approval:

- IFM does not intend to gain control of the company, therefore we believe the Austrian Takeover Commission will not put any hurdles to the launch of the offer.

Timetable:

Deal Announcement	October 13, 2014
Offer document submitted to the Takeover Commission	October 24, 2014
TC approves the offer document (15 BD)	November 14, 2014
Launch of tender offer	November 14, 2014
Response by the Board if two weeks tender offer period	November 21, 2014
Response if tender offer period is longer than two weeks	November 28, 2014
Earliest expiration of tender offer (2 weeks)	November 28, 2014
Latest expiration of tender offer (10 weeks)	January 23, 2015
Publication of the result	January 23, 2015
Settlement (10 trading days)	T+10 trading days
Additional Acceptance Period	3 months upon publication of the result

IGR view:

There is optionality to FLU's share price. There are broadly 3 scenarios for a position long FLU.

- In the worst case scenario the tendered amount of shares do not reach 20%, the offer is unsuccessful which means there is 12.7% downside risk down to ~€62.00.
- In the best case scenario the amount of tendered shares are between 20% and 29.9%. In this case FLU shareholders who tendered all their shares will receive €80.00/FLU share.
- The third scenario is if the acceptance level is above 30%. Assuming that City of Vienna, Province of Lower Austria and Employee Foundation do not tender then the corner solution is 50% with a 2.5% upside potential up to €72.8, which we calculated by the weighted average of the standalone value and the offer price, €62.00 and €80.00 respectively.

On this basis we believe that a position long FLU and tendering the shares is a mid-risk-high return trade.

Part 1: Key terms of the merger

Transaction Details

Announcement Date	October 13, 2014
Offer terms	1 FLU AV = €80.00
% owned by current Target shareholders	N.A.
Deal Size (market value)	€336m-€502.32m
Offer structure	Voluntary partial tender offer
Target's Board Recommendation	N.A.
Voting Agreement	N.A.
FLU Incorporation	Austria

Capital Structure

■ FLU equity	21,000,000 common shares outstanding
	■ 50% free float
■ FLU debt	€609.8 million (LTM)
	■
■ FLU Credit rating	N.A.
■ FLU net leverage	Net Debt (€584.5m) Net Debt/FY'14 Ebitda = 2.3

Indicated Closing Date

Q1 2015

Dividends

- Dividends are paid May 8, 2015 (date of declaration February 26, 2015)
- Div forecast: €1.65

Financing

From the cash held by IFM Investor - domiciled in Australia – which is a long-term investment manager which is ultimately owned by 30 not-for-profit Australian pension funds.

Valuation Multiples

■ 1-day premium	17%
■ LTM EV/Sales (2013)	3.4x
■ FY1 EV/Sales (2014)	3.3x
■ FY2 EV/Sales (2015)	3.2x
■ LTM P/E (2013)	20.1x
■ FY1 P/E (2014)	17.8x
■ FY2 P/E (2015)	15.8x
■ FY1 EV/EBITDA (2014)	8.3x
■ FY2 EV/EBITDA (2015)	8.0x

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- **Additional Acceptance Period** 3 months upon publication of the result

Key conditions to the offer

- **Control thresholds in Austria**
 - A shareholding of voting stock exceeding 30% triggers the obligation to launch a mandatory offer
- **Shareholder approvals**
 - The offer is conditional on reaching at least 20%.
 - The maximum amount of shares which will be accepted during the offer is 29.9% of the shares, as IFM wants to avoid a mandatory takeover offer.
- **Regulatory Approvals** Austrian Takeover Commission has to approve the offer.
- **IFM comments on the offer**
 - IFM doesn't plan to name Flughafen Wien supervisory board, management members
 - IFM says doesn't see Flughafen Wien key shareholders changing,

Vienna Stock Exchange listing rules

- In case of a high acceptance of this Offer, the minimum free float / market capitalization required for a listing in the market segment "Prime Market" of the Vienna Stock Exchange may not exist any longer and the Shares might be relisted to another segment.
 - I.) in case of a free float of 25 %, the market capitalization of the free float must be at least EUR 15 million;
 - II.) in case of a free float of below 25% the market capitalization of the free float must be at least EUR 30 million (the Euro amounts have to be indexed according to the segment index Prime Market).

Governing Law

Austria

Key FLU shareholders

%

Shareholders	%
PROVINCE OF LOWER AUSTRIA	20
CITY OF VIENNA	20.0
EMPLOYEE FOUNDATION	10.0
SILCHESTER INTL INVESTORS LLP	9.9
LAZARD LTD	5.1
FRANKLIN RESOURCES	4.0
RINGTURM KAG	3.1
NORGES BANK INVESTMENT MANAGEMEN	1.6
DIMENSIONAL FUND ADVISORS LP	1.3
COHEN & STEERS CAPITAL MANAGEMEN	0.8
Others	24.3

Source: Bloomberg and Company press release.

Part 2: Company description

FLU Description

- **Company's business** Flughafen Wien AG is an Austria-based company that is engaged in the operation, development and building initiatives at the Vienna International Airport. The Company operates through four segments: Airport, Handling, Retail and Properties, and Other Segments. The Airport segment handles the operation of the movement areas, terminal facilities and equipment required for passenger and baggage handling. The Handling Segment offers services for the handling of aircraft and passengers on scheduled and charter flights, and also responsible for the handling of general aviation aircraft and passengers, as well as the operation of the General Aviation Center. The Retail and Properties segment covers the real estate and centre management business units of the Company, and provides a range of services to support airport operations, including shopping, gastronomy and parking. Other Segments is involved in technical services and construction management.
- **Segments** Flughafen Wien AG is an Austria-based company that is engaged in the operation, development and building initiatives at the Vienna International Airport. The Company operates through four segments:
 - Airport,
 - Handling,

- Retail and Properties, and
 - Other Segments.
- **The Airport segment** handles the operation of the movement areas, terminal facilities and equipment required for passenger and baggage handling. The Handling Segment offers services for the handling of aircraft and passengers on scheduled and charter flights, and also responsible for the handling of general aviation aircraft and passengers, as well as the operation of the General Aviation Center. The Retail and Properties segment covers the real estate and centre management business units of the Company, and provides a range of services to support airport operations, including shopping, gastronomy and parking. Other Segments is involved in technical services and construction management.
 - As a ground and cargo handling agent, the **Handling Segment** provides services for aircraft and passenger handling in scheduled, charter and general aviation traffic. General aviation covers civil aviation, with the exception of scheduled and charter flights. It includes private as well as commercial flights by operators such as business aviation companies, private persons, corporate jets and air rescue operators. In addition to general aviation, the services provided by Vienna Aircraft Handling Gesellschaft m.b.H. (VAH) include the operation of the VIP & Business Centers at Vienna Airport. The Handling Segment is also responsible for security controls, which are provided by the subsidiary Vienna International Airport Security Services Ges.m.b.H. (VIAS)
 - The **Retail & Properties Segment** covers shopping, gastronomy and parking as well as the development and marketing of real estate and advertising space.
 - The reportable segment "**Other Segments**" provides a wide range of services for the other operating segments and for external customers. Included here are technical services and repairs, energy supply and waste disposal, telecommunications and information technology, electromechanical and building services, the construction and maintenance of infrastructure facilities, construction management and consulting. this segment also includes the subsidiaries (and the services provided for these subsidiaries) that hold shares in associated companies and joint ventures and have no other operating activities.

\$m	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	% of total	4yr CAGR
Airport	226.469	259.997	294.629	317.754	331.431	53.3%	10.0%
Handling	169.788	165.224	160.495	153.796	151.857	24.4%	-2.8%
Non-Aviation	88.827	93.616	110.641	119.501	121.166	19.5%	8.1%
Other Segment	16.225	14.478	16.11	16.145	17.54	2.8%	2.0%
Unallocated	0.379	0.52	0.121	0.176	-	-	-
Total	\$502	\$534	\$582	\$607	\$622	100.0%	5.5%

Source: Company, IGR

Strength/Opportunities	<ul style="list-style-type: none"> ■ Winner market position as a west-east transfer hub ■ Advantageous geographic position to Eastern Europe and MENA region ■ A potential third runway and the new terminal can boost passenger growth
Weakness/Threats	<ul style="list-style-type: none"> ■ Austrian Airlines and NIKI has share of passengers carried 49.1% and 11% respectively, which makes FLU income sensitive on these carriers. ■ Restructure at Air Berlin may cause reduce of capacity ■ Handful of the strong growth market (Russia, Ukraine) may suffer in near futures ■ Investment in new terminal/third runway may hurdle cash generation ability

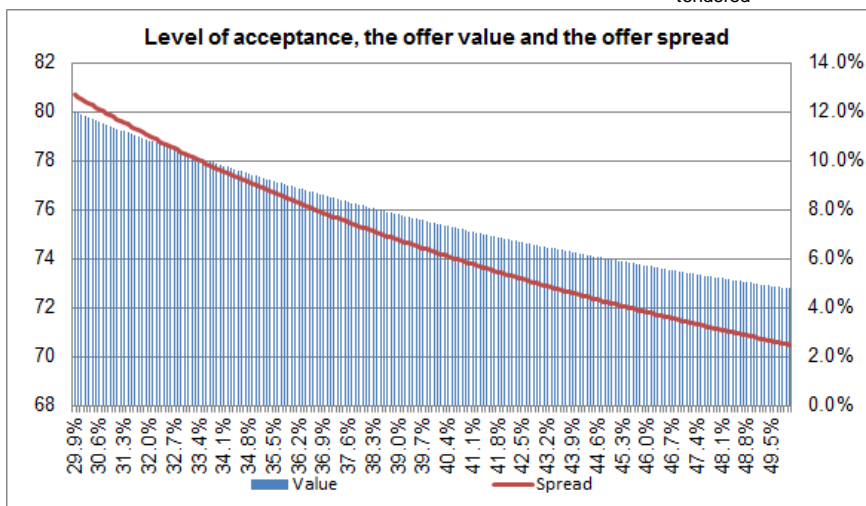
Part 3: Key risks

Key risks

Regulatory approval	<ul style="list-style-type: none"> ■ IFM does not intend to gain control of the company, therefore we believe the Austrian Takeover Commission will not put any hurdles to the launch of the offer.
Shareholder acceptance and deal spread	<ul style="list-style-type: none"> ■ There are two worst case scenarios/corner solution and one good case scenario/inferior solution:

Outcomes of IFM tender offer	Corner solution I	Inferior solution	Corner solution II*
Amount of shares tendered	<20%	20%=< <=29.9%	29.9%<
Value of long FLU	€62	€80	€72.8
Current share price	€71	€71	€71
Value FLU/Current share price (Discount)/Premium	-12.7%	12.7%	2.5%

*assuming that 50% of shares outstanding are tendered



Valuation

- Although there is lack off peers, the potential future growth rate is influential on valuation. By our comparable company analysis we believe that FLU is currently undervalued its fair EBITDA multiple of 9.5-10.5 would imply FLU's fair value between €84 and €97.
- We assumed:
 - €633.4 million net debt
 - €254.5 million EBITDA for 2014.gp

Part 4: Valuation

ROIC CALCULATION

By our ROIC calculations, we estimate that the deal is likely to be attractive to BN (not adjusting for business risks)

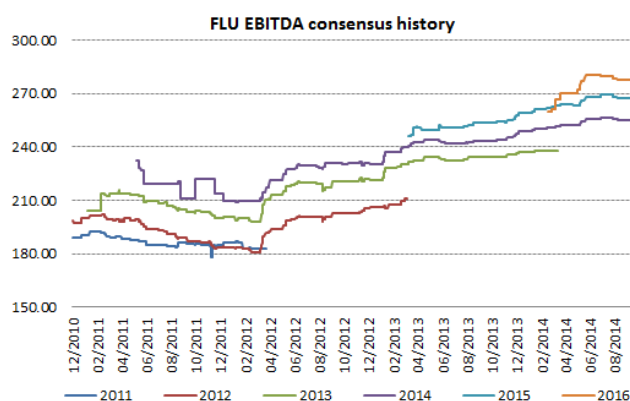
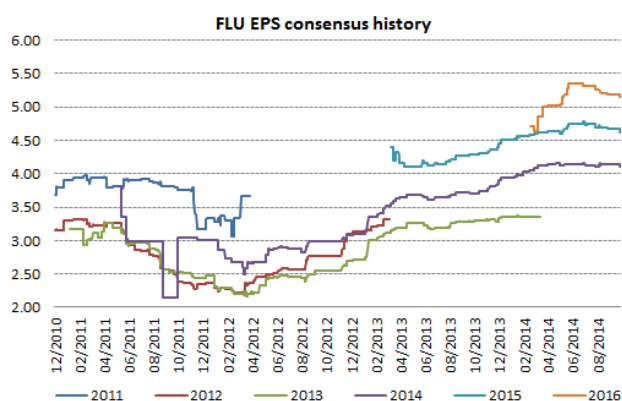
- We have assumed
 - no synergies
 - and a tax rate of 24%
- We note that analysts use 5-7% WACC at Flughafen Wien

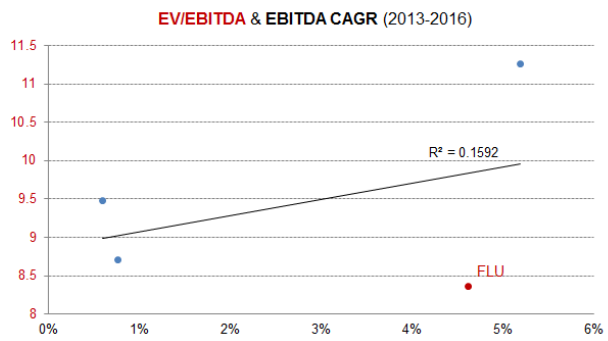
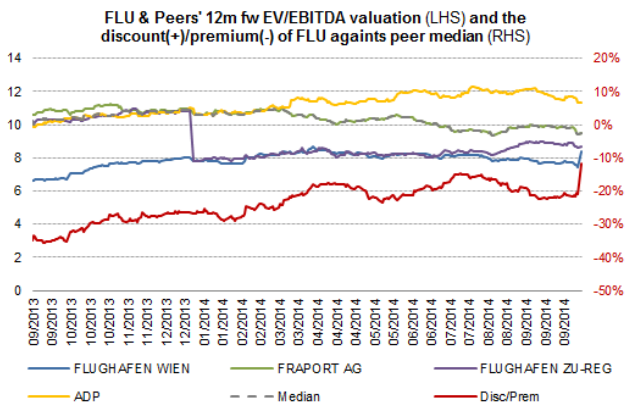
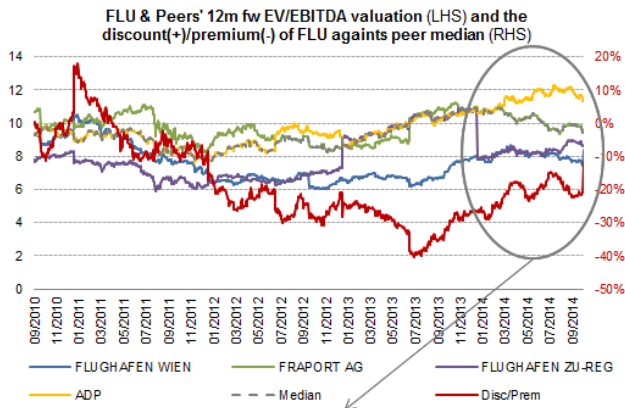
Deal value	2016
Bid price (€/sh.)	\$80.00
O/S (m)	21
Market value (€m)	\$1,680
Net Debt (€m)	\$586
Deal value (€m)	\$2,266
ROIC calculation	
BEST Operating Profit	\$152.3
Synergies	\$0
Adj. Operating Profit	\$152
Tax (24%)	\$37
NOPAT	\$116
ROIC	5.1%

		Bid price (\$/share)				
		€70.00	€75.00	€80.00	€84.00	€88.00
2016 Op. Profit (€m)	€120.0	4.4%	4.2%	4.0%	3.9%	3.7%
	€135.0	5.0%	4.7%	4.5%	4.4%	4.2%
	€152.3	5.6%	5.4%	5.1%	4.9%	4.8%
	€165.0	6.1%	5.8%	5.5%	5.3%	5.2%
	€180.0	6.7%	6.3%	6.0%	5.8%	5.6%

PEER VALUATION & CONSENSUS

- The company has modest and stable growth rate however one may believe that FLU is undervalued compared to its close peers.





Source: IGR

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