APAC MERGER REPORT

28 June 2018

Deal Terms

1 APO = A$6.70 in cash

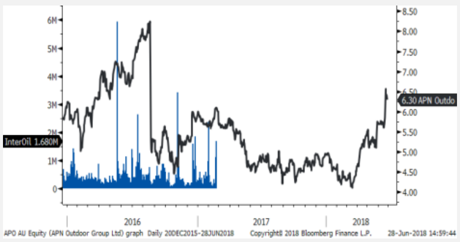
Target: APN Outdoor

Country	Australia
Bloomberg	APO AU
Sector	Advertising
Share price (A$)	6.30
Market cap (A$m)	1,052.1
Free float (%)	95.5

Acquirer: JCDecaux

Country	France
Bloomberg	DEC FP
Sector	Advertising
Share price (EUR)	28.74
Market cap (EURm)	6,114.9
Free float (%)	35.1

Relative share price chart (last 12 months)



Status

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Author

Tomas Stanay

Event Driven Analyst

t.stanay@chainbridgeresearch.com

+36 1 888 0533 (direct line)

Krisztian Szentessy
k.szentessy@chainbridgeresearch.com

Gabor Kokosy
g.kokosy@chainbridgeresearch.com

Tomas Stanay
t.stanay@chainbridgeresearch.com

Gabor Szabo, CFA
g.szabo@chainbridgeresearch.com

Muhammad Daniyal
d.shafiq@chainbridgeresearch.com

Chain Bridge Research

100 Wall Street, 20th Floor
New York, NY 10005

Tel (UK): +44 207 570 0322

Tel (New York): +1 212 796 5769

APN Outdoor (APO AU) / JCDecaux (DEC FP)

Scheme of Arrangement

Deal rationale

We note that the agreement comes as oOh!media has won a bidding war for Adshel, a division of no.4 player HT&E. Bidding for Adshel (by APO) might have served as a poison pill to JCDecaux's approaches.

- The proposed transaction enables DEC to extend its geographic reach and strengthen its position in ANZ.

As per precedent deals (e.g. APO/OML, 2016), we believe that antitrust regulators will mainly scrutinize the following markets:

- **Reduction in competition in the supply of out-of-home advertising services**:
    - OOH advertising opportunities are diverse, ranging from very large high impact banners and large-format billboards on the side of roads, to advertising on bus shelters, in stations, on trains, taxis and buses, at leisure centres, in public toilets and in shopping malls and supermarkets.
        - Different market participants divide OOH advertising into categories in different ways, but they are broadly consistent, meaning: i) roadside billboards, ii) roadside-other (incl. bus/tram shelters, phone booths, etc.), iii) transport/transit (incl. train externals, railway stations, bus interchanges, etc.), iv) retail/lifestyle/other (incl. shopping centres, mall, pubs and cafes).
    - ACCC's also viewed that other advertising services, such as television and online, are not sufficiently close substitutes for OOH advertising services to exert strong constraints on OOH providers.
- In terms of geographic market definition, the ACCC viewed in previous cases that the appropriate geographic market in which to consider the competitive effects of the proposed merger is a national market.

Market share

As per available data (2016), industry analysts estimate that APO's market share in outdoor advertising is at around 30% in Australia and 35% in New Zealand.

- It is estimated that OML has a similar market share as APO in both Australia and New Zealand.
    - In terms of JCDecaux' market share in ANZ, we find (as per 2016) that it had an estimated 10 per cent market share of OOH advertising services, while Adshel had an estimated 10 to 15 per cent market share.
        - However, we note that these competitors (incl. JCDecaux, and Adshel) usually focus only on one segment – specifically, JCDecaux (and also Adshel) is predominantly focused on the roadside-other category.

CBR view

As opposed to APO/OML (2016) deal, we believe that the proposed acquisition of APO by JCDecaux has a significantly higher probability of being approved (CBR est. at around 90%) given:

- We believe that companies might argue that smaller players (incl. JCDecaux, Adshel, and others) do not represent a competitive constraint to two big players given i) the smaller product portfolio of smaller players as compared to two large players, and ii) a narrower geographic scope of small players as compared to two large players (noting that the geographic market is likely to be viewed as national).
    - Also, we believe that it might be argued that the proposed transaction will enable for benefits and efficiencies as it will enlarge the product portfolio (and geographic reach) if combined entities.

We understand that companies usually lease sites for OOH advertising from landlords, they enter into contracts with OOH providers which grant OOH providers the right to use the sites in return for payment of rents to the site owners.

- Rental contracts are obtained either through bilateral negotiations (in case of smaller landlords), or through formal tender processes.
    - These landlords are entities that own the infrastructure assets (e.g. municipalities, road network operators, etc.)
        - These contracts are usually long-term, and might have a local or national scope.
    - Ultimately, we believe that companies might be required to divest some of the lease contracts (e.g. in some highly concentrated local areas).
        - We believe that both companies are willing to do so, and also we see other smaller players (and potentially some PE) as willing buyers.

At the current spread, we would start setting up a position long APO (while we would increase it into antitrust review process).

Key terms of the merger

Transaction Details

Announcement Date	26 June 2018
Offer terms	**1 APO = A$6.70** in cash ■ APO has entered into a Scheme Implementation Deed with JCDecaux, under which JCDecaux has agreed to acquire 100% of the issued share capital of APO for a cash price of A$6.70 per share.
Deal value	The Scheme consideration values APO at approximately $1,119 million, and at an EV of $1,217 million (implying an EV/FY18E multiple of 12.9x).
% owned by APO shareholders	0%
Offer structure	**Scheme of Arrangement**
Target's Board Recommendation	**Yes** ■ APO Board of Directors unanimously recommend that APO shareholders vote in favor of the Scheme, in the absence of a superior proposal and subject to an Independent Expect concluding that the Scheme is in the best interests of APO shareholders.
Voting Agreement	**N/A**
Target Incorporation	**Australia**
Merger Agreement	Click here for the Merger Agreement
Synergies	N/A

APO capitalization

■ **APO equity**	■ There are 167,005,841 outstanding common shares as of 26 June 2018.
■ **APO debt**	■ As at FY17, APO had net debt of ~A$97.9 million (Bloomberg data).

Indicated Closing Date

The Scheme is expected to be implemented in the 4Q 2018.

Deal premium

The Scheme Consideration of A$6.70 per share represents a:

- 18% premium to the undisturbed closing price on 19 June 2018 of $5.68;
- 26% premium to the 3-month VWAP to 19 June 2018 of $5.32; and
- 34% premium to the 6-month VWAP to 19 June 2018 of $5.01; and

Dividends

- Regardless of whether the Scheme is implemented, if declared, APO shareholders will be entitled to an interim dividend for 1H18 of up to $0.07 per share if they continue to hold their shares on the record date for that dividend, which is expected to be in September 2018.
- If the Scheme is implemented, APO also intends to declare a fully franked Special Dividend of up to A$0.30 per share. The Special Dividend would have up to $0.13 per share in franking credits attached. It remains at the discretion of the APO Board whether the dividend is ultimately declared and paid. If the Special Dividend is paid, the Scheme Consideration would be reduced by the cash amount per share of any such dividend.
    - APO will provide an update on the expected quantum of the Special Dividend at the 1H18 results announcement in August 2018.

Financing

N/A

Marketing period

None.

Timetable

■ **Merger Agreement**	26 June 2018
■ **Deal announcement**	26 June 2018
■ **Despatch of Scheme Booklet to OML shareholders**	by end of July 2018
■ **Regulatory filings**	by end of July 2018
■ **Scheme Meeting**	by end of August 2018
■ **Regulatory approvals in place**	by end of December 2018
■ **End Date**	31 December 2018

Non-solicitation clause

There is a non-solicitation clause prior to APO vote, subject to fiduciary duties.

- There is a 5-day matching period.

Superior Proposal means a bona fide Competing Proposal

- of the kind referred to in any of paragraphs 2, 3 or 4 of the definition of Competing Proposal, and
- not resulting from a breach by APO of any of its obligations under 11 of the deed,

that the Board, acting in good faith, and after receiving written legal advice from its

MAC definition

Material Adverse Change mean an event, change, condition, matter, circumstance or thing occurring before, on or after the date of the DMA, which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that have occurred or are reasonably likely to occur, has had or would be considered reasonably likely to have:

- i) a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the APO taken as a whole, or
- ii) the effect of a diminution in the value of the consolidated net assets of APO as at 31 December 2017, taken as a whole, by at least $20 million, or the effect of a diminution in the consolidated underlying earnings before interest, tax, depreciation, and amortization of the APO, taken as a whole, by at least $10 million (on an annualized basis) against what it would reasonably have been expected to have been but for such Specified Event, other than those events, changes, conditions, matters, circumstances or things:
  - required or permitted by the deed, the Scheme or the transactions contemplated by either;
  - that are Fairly Disclosed in the Disclosure Materials;
  - arising as a result of any generally applicable change in law or governmental policy, including changes to the accounting standards in Australia, New Zealand or France;
  - arising from changes in political, economic or business conditions that impact on APN and its competitors in a similar manner; or
  - that APO has Fairly Disclosed in an announcement made by APO to ASX in the 12 month period prior to the date of the deed or a publicly available document lodged by it with ASIC in the 12 month period prior to the date of the deed.

Key conditions to the merger

Shareholder approval	**Yes** APO: requisite majorities under subparagraph 411(4)(a)(ii) of the Corporations Act.
Independent Expert	**Yes**
Regulatory approvals	**Yes** **FIRB, ACCC, NZ OIO**
Court approval	**Yes**
No restraints	**Yes**
No APO Prescribed Occurrences	**Yes**
No APO Regulated Event	**Yes**
No APO MAC	**Yes**

Break fees

APO Break Fee	There is a **break fee of A$11.30 million payable by APO** in case of: i) one or more APN Board members withdraws, adversely revises or adversely qualifies his or her support of the Scheme or his or her recommendatino that APN Shareholders vote in favor of the Scheme, ii) one or more APN Board members recommends that APN Shareholders accept or vote in favor of, or otherwise supports or endorses a Competing Proposal, iii) a Competing Proposal of any kind is announced within 12 months, iv) break of APN Reps and Warranties .
JCDecaux Break Fee	None.

Antitrust related clauses

Jurisdictions	Australia, New Zealand
Divestiture obligation	No
Litigation obligation	No
Reverse break fee (regulatory)	No

Governing Law

Merger agreement is governed by Laws in force in **New South Wales.**

Key APO shareholders	%
Ellerston Capital ltd.	13.34%

■ Yarra Funds Management Ltd.	9.65%
■ Mawer Investment Management Ltd.	8.60%
■ Australian Super Pty Ltd.	7.98%
■ Hest Australia Ltd.	5.23%
■ HMI Capital LLC	5.07%
■ Norges Bank	4.92%
■ Manulife Financial Corp.	3.35%
■ Vanguard Group Inc./The	3.03%
■ **Others**	**38.83%**

Source: Bloomberg

Company description and deal rationale

APN OUTDOOR DESCRIPTION

APN Outdoor supplies Out-of-Home media and advertising services in Australia and New Zealand. Publicly listed on the Australian Securities Exchange (ASX), APN Outdoor is a member of the ASX 200.

APO business mix (by revenues)

FY17	A$m	%
Total	**342.9**	**100.00%**
Out-of-Home Adverstising	342.9	100.00%

Source: Chain Bridge Research, Bloomberg

APN Outdoor derives its income from the sale of advertising space primarily to advertising agencies and direct clients across its market leading asset base.

- APN Outdoor has a geographically diversified outdoor advertising network which operates in New South Wales, Victoria, Queensland, Western Australia, South Australia and New Zealand.

FY17 revenue

Format	Highlights	2017 revenue	Change YoY
Roadside Billboards	› Metro focus › Broad range including large & small format options › Focus on high quality displays › Iconic sites.	$176.7 million	▲ 10%
Transit	› Variety of differentiated panel options › Proven expertise in quality delivery of complex logistic operations › Internal and external rights.	$100.2 million	▲ 1%
Airport	› Highly desirable advertiser location › Multiple consumer contact points › Variety of digital and classic opportunities › External and internal rights.	$40.6 million	▼ (7%)
Rail	› Unique commuter audience › Long commuter dwell time › High demand network in Sydney, Melbourne, Brisbane, Adelaide and Perth.	$25.4 million	▼ (5%)
Total revenue		**$342.9 million**	▲ **4%**
	Classic	$214.3 million	▼ (1%)
	Digital	$128.6 million	▲ 13%
Total revenue		**$342.9 million**	

Source: Chain Bridge Research, APO Annual Report

JCDECAUX DESCRIPTION

JCDecaux is worldwide number one advertising company.

DEC business mix (by revenues)

FY17	EURm	%
Total	3,039.8	100.00%
Street Furniture	1,576.2	45.40%
Transport	1,398.1	40.30%
Billboard	497.6	14.30%

Source: Chain Bridge Research, Bloomberg

DEAL RATIONALE

JCDecaux already owns street furniture in Australia; the proposed transaction will enable JCDecaux to extend its geographic reach and to strengthen its position in Australia. We note that the agreement comes as oOh!media has won a bidding war for Adshel, a division of no.4 player HT&E.

- "This acquisition is a significant milestone in JCDecaux's history in Australia, which is the 7th largest advertising market worldwide, where we have been growing organically since 2000. APN Outdoor is very complementary to our existing street furniture assets and through this acquisition, JCDecaux will be attractively positioned to provide a compelling proposition to compete more effectively in the Australian media market where Out-of-Home accounts for 6% of advertising spend, of which almost 50% is digital. Finally, we are delighted to enter New Zealand, a fast-growing market."

Antitrust analysis

ANTITRUST REVIEW

As per precedent APN Outdoor Group / OohMedia! (2016) review by ACCC, the antitrust regulator listed the following as issues of concern:

- **i) Reduction in competition in the supply of out-of-home advertising services:**
    - ACCC argued that the proposed transaction would result in the consolidation of the number one and number two provider of OOH advertising services (OOH providers) in Australia and create a market leader with over 50 per cent share of the OOH advertising market and a substantial share in three of the four main OOH categories, as defined by the Outdoor Media Association: roadside billboards; roadside other; transport/transit; and retail/lifestyle/other.
        - As per ACCC's review, the APO-OML would be the only OOH provider with a presence in each of the OOH advertising categories. In connection to that, ACCC noted that this presence would enable a combined APO-OML to offer OOH advertising services across multiple categories, forming a "one-stop shop" for many advertisers/media agencies who buy advertising services in more than one category.
            - Consequently, ACCC argued that such bundling is likely to increase barriers to entry/expansion for other players.
- Reduction in competition for the leasing of OOH advertising sites:
    - ACCC argued that the proposed merger is likely to result in a substantial lessening of competition for OOH advertising sites as a result of the competitive tensions that existed between APO and OML in site negotiations and tender processes.

Product and geographic market definition

There are a variety of platforms available to advertisers to advertise their products, including television (free-to-air and 'pay TV'), print (such as newspapers and magazines) and online/digital.

- OOH advertising opportunities are diverse, ranging from very large high impact banners and large-format billboards on the side of roads, to advertising on bus shelters, in stations, on trains, taxis and buses, at leisure centres, in public toilets and in shopping malls and supermarkets.
    - Different market participants divide OOH advertising into categories in different ways, but they are broadly consistent, meaning: i) roadside billboards, ii) roadside-other (incl. bus/tram shelters, phone booths, etc.), iii) transport/transit (incl. train externals, railway stations, bus interchanges, etc.), iv) retail/lifestyle/other (incl. shopping centres, mall, pubs and cafes).
- OOH providers act as intermediaries between advertisers/media agencies and site owners.
    - Advertisers are businesses that buy advertising services to advertise their products/services; they are the ultimate customers of OOH providers.
        - Purchasers of OOH advertising vary widely in terms of size and experience. The largest buyers include Federal and State Governments and large national and international corporations
    - Media or advertising agencies are contracted by advertisers to research, plan and buy advertising space for advertising campaigns.
    - As per the ACCC review of APO/OML deal (2016), the ACCC noted that around 80 per cent of OOH advertising spend in Australia is channeled through the top five media agency groups – Dentsu Aegis, GroupM, Omnicom Media Group, Publicis Media and Universal McCann.

  - Site owners are the landlords that own sites used for OOH advertising. They enter into contracts (generally leases or licences) with OOH providers which grant OOH providers the right to use the sites in return for payment of rents to the site owners (either fixed rents, variable rents expressed as a percentage of advertising sales or a combination of both).
- Consistent with previous ACCC reviews, the ACCC's view in case of APO/OML deal (2016) was that the relevant markets for assessing the potential effects on competition of the proposed merger are national markets for:
  - the supply of OOH advertising services;
  - the leasing of OOH advertising sites from landlords.
    - ACCC's also viewed that other advertising services, such as television and online, are not sufficiently close substitutes for OOH advertising services to exert strong constraints on OOH providers.
      - The ACCC said that OOH advertising offers special characteristics that are not easily replicated by advertising in other media channels.
        - its 'high impact' nature: OOH achieves good 'cut-through' because it tends to stand by itself and not be cluttered or grouped together with other advertisements, as is the case with other advertising media
        - greater control over placement of advertising, which is important for branding
        - OOH advertising is particularly suitable for highly visual, limited information advertising, able both to broadcast widely and capture a large audience
        - OOH advertising can be locally targeted (for example, a billboard advertising a fast-food outlet 2 km ahead)
        - OOH advertising has dominant visibility for its audience in their immediate location and is involuntary, in the sense that it is 'inescapable' and cannot be 'switched off', unlike many alternative advertising channels, such as broadcast media (for example, television)
        - advertisers are able to use OOH advertising to tailor their campaigns more precisely, either to achieve greater scale (in terms of total audience reach) or to adopt a more selective approach to target customers in specific regions and/or demographics.
  - In terms of geographic market definition, the ACCC viewed in previous cases that the appropriate geographic market in which to consider the competitive effects of the proposed merger is a national market.
    - The ACCC argued that the major media agencies (which, as stated above, account for approximately 80 per cent of OOH advertising spend in Australia) generally seek a national package of OOH advertising services
      - ACCC also adds that OOH advertising campaigns are generally run on a national basis.

Market share

As per ACCC review of APO/OML (2016), ACCC found that APO had approximately 20 to 30 per cent of OOH advertising revenue in Australia. APO was viewed as:

- number-one in billboards in ANZ (by number of panels) in major cities and metropolitan regions;
- number-one in large-format digital billboards in ANZ (by number of panels);
- number-one provider of rail advertising on roadside location and cross track across ANZ (by number of panels);
- in a leading position in airports across ANZ.

As per available data (2016), industry analysts estimate that APO's market share in outdoor advertising is at around 30% in Australia and 35% in New Zealand.

- It is estimated that OML has a similar market share as APO in both Australia and New Zealand.
  - Other competitors include QMS, Adshel, JCDecaux .
    - We note that Adshel is currently being bought by OML.
  - In terms of JCDecaux' market share in ANZ, we find (as per 2016) that it had an estimated 10 per cent market share of OOH advertising services, while Adshel had an estimated 10 to 15 per cent market share.
    - However, we note that these competitors (incl. JCDecaux, and Adshel) usually focus only on one segment – specifically, JCDecaux (and also Adshel) is predominantly focused on the roadside-other category.
- **i) Reduction in competition in the supply of OOH advertising sites from landords:**
  - In case of APO/OML (2016), ACCC also considered that there is also a relevant market for the leasing of OOH advertising sites from landlords.
    - Site owners are the landlords that own sites used for OOH advertising. They enter into contracts (generally leases or licences) with OOH providers which grant OOH providers the right to use the sites in return for payment of rents to the site owners (either fixed rents, variable rents expressed as a percentage of advertising sales or a combination of both).
      - These rights are obtained either through bilateral negotiations (for smaller, single property site owners) or through formal tender processes (for site owners with multiple sites – such as shopping centre operators, rail networks and local authorities).
    - In general, site owners and advertisers/media agencies do not deal with each other directly, due mainly to the fact that advertisers and media agencies value a comprehensive, convenient national OOH provider, and dealing directly with individual site owners would greatly increase transaction costs. (A notable exception is the Scentre Group (Westfield), which operates its own in-house retail advertising services business, BrandSpace).

Divestitures

We understand that companies usually lease sites for OOH advertising from landlords, they enter into contracts with OOH providers which grant OOH providers the right to use the sites in return for payment of rents to the site owners.

- Rental contracts are obtained either through bilateral negotiations (in case of smaller landlords), or through formal tender processes.
    - These landlords are entities that own the infrastructure assets (e.g. municipalities, road network operators, etc.)
        - These contracts are usually long-term, and might have a local or national scope.
    - Ultimately, we believe that companies might be required to divest some of the lease contracts (e.g. in some highly concentrated local areas).
        - We believe that both companies are willing to do so, and also we see other smaller players (and potentially some PE) as willing buyers.
    - As per available data, we note that APN's Australian revenue (as at FY17) was approximately A$300 million, while we estimate JCDecaux's Australian revenue <A$100 million.

FIRB REVIEW

As we understand that proposed transaction is subject to FIRB review.

- JCDecaux is a highly reliable bidder, which already has presence in Australia.
    - Consequently, we do not see any significant issues in regards to FIRB review.

Valuation

APO ROIC

In our base case scenario, we assume the following:

- Bid price at A$6.70 per share;
- Outstanding shares: on fully diluted basis:
- Net debt: as per FY17;
- BEST Operating Profit for FY1, FY2, and FY3;
- Cost synergies of $15million (~5% of APO's cost base);
- Tax rate of 30%;
- WACC of 7.5%.

ROIC sensitivity tables

2020 Oprating Profit (AUDm)	Bid price (AUD/share)				
	$6.50	$6.60	$6.70	$6.80	$6.90
$70.0	5.0%	5.0%	4.9%	4.8%	4.8%
$80.0	5.6%	5.5%	5.5%	5.4%	5.3%
$91.8	6.3%	6.2%	6.1%	6.1%	6.0%
$100.0	6.8%	6.7%	6.6%	6.5%	6.4%
$110.0	7.4%	7.3%	7.2%	7.1%	7.0%

Ann. Cost Syn. (AUDm)	Bid price (AUD/share)				
	$6.50	$6.60	$6.70	$6.80	$6.90
$5.0	5.7%	5.6%	5.6%	5.5%	5.4%
$10.0	6.0%	5.9%	5.9%	5.8%	5.7%
$15.0	6.3%	6.2%	6.1%	6.1%	6.0%
$20.0	6.6%	6.5%	6.4%	6.3%	6.3%
$25.0	6.9%	6.8%	6.7%	6.6%	6.5%

Tax rate	Bid price (AUD/share)				
	$6.50	$6.60	$6.70	$6.80	$6.90
20%	7.2%	7.1%	7.0%	6.9%	6.8%
25%	6.8%	6.7%	6.6%	6.5%	6.4%
30%	6.3%	6.2%	6.1%	6.1%	6.0%
35%	5.9%	5.8%	5.7%	5.6%	5.6%
40%	5.4%	5.3%	5.3%	5.2%	5.1%

Source: Chain Bridge Research, Bloomberg

Based on our valuation, we believe that the offer price is full.

- Also, we believe that there is effectively very limited pool of potential bidders – OML is in process of acquiring Adshel (while it was previously rejected to acquire APO), and we do not see other players that could bid for APO.

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Chain Bridge Research

100 Wall Street, 20th Floor

New York, NY 10005

Tel (UK): 44 207 570 0322

Tel (New York): 212-796-5769

www.chainbridgeresearch.com

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