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## SP Telemedia bid for Pipe Networks gives Pipe founders a \$100 million payday

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James Thomson



Bevan Slattery and Stephen Baxter, the founders of junior telecommunications company Pipe Networks, will share in a \$101 million payday after agreeing to support a \$373 million takeover bid from telco SP Telemedia.

The deal, foreshadowed earlier this week, will see SP Telemedia pay \$6.30 a share for Pipe, which has been trading around the \$6-a-share level for most of the last three months.

Pipe, which owns the third largest metropolitan fibre optic network in Australia, has become an increasingly attractive acquisition target in the telco sector after completing the building of a submarine cable system linking Sydney with Guam, which provides fast international bandwidth from Australia to the US and Asia.

It's an asset that SP Telemedia chairman David Teoh clearly wants to get his hands on.

"[The submarine cable] PPC-1 gives us a competitive advantage with access to international bandwidth, allowing us to offer highly attractive products to both existing and new customers," Teoh said in a statement.

"We expect synergies to flow by bringing more SPT customers 'on-net', as well as enhancing our corporate offering and delivering exciting new products to our customers."

SP Telemedia will fund the deal through debt and complete the transaction via a scheme of arrangement, which will need to be approved by Pipe shareholders and approved by in court.

While neither Teoh or Pipe chief Bevan Slattery were available for comment this morning, Teoh has confirmed that he will remain as executive chairman of the merged entity, while Slattery will stay on as chief executive of the Pipe unit. Teoh said in a presentation to investors that Pipe will "continue to operate as a focused business".

Analyst Gary Tsang from communications research says it is a good deal for SPT, which has built a strong consumer business through its acquisition of TPG but has been struggling to win new business customers. Pipe Network's fibre optic network and data centres should help improve this.

"With Pipe networks infrastructure they will be able to have a large presence in the business market, where Pipe has traditionally been very strong."

Tsang has also praised Pipe's foresight in building the undersea cable, saying the Slattery did well to persevere when it looked like the project could be scuttled last year by funding issues.

"There were a lot of struggles at the start, especially around getting the funding to kick off that project. However, it has turned out very well for Pipe and they have done a lot for the international cable market in terms of driving prices down."

Tsang says access to international bandwidth is crucial for Australian internet service providers; he estimates up to 80% of content downloaded by Australian internet users comes from overseas.

Teoh is in the midst of an aggressive expansion program. Last year he bought the internet service provider TPG and the highly successful integration of this business has seen SPT's shares jump 10-fold in the last 12 months from 11c to around \$1.70. That values Teoh's stake at more than \$270 million.

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Bevan Slattery

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