

# How TPG's David Teoh snared his prey iiNet



Rob Homer



by [David Ramli](#)

It takes a special kind of businessman to stalk his prey for four long years.

But in a market where money lives quarter to quarter, that's exactly what the reclusive billionaire and TPG Telecom executive chairman, David Teoh, did in his patient hunt for internet service provider iiNet.

In February 2011, as Sydney's skies turned grey with summer rain, Teoh invited iiNet chair Michael Smith and founder Michael Malone to breakfast at the Bambini Wine Room in the city across from Hyde Park.

As they ate among the wood-grained panels beneath a wall of pinot noir, Teoh insisted he was merely an investor chasing a bargain.

## Inside the deal

### Key players in TPG – iiNet bid



**David Teoh**  
TPG Telecom executive chairman



**Michael Smith**  
iiNet chairman



**David Flynn**  
Azure Capital director



**Michael Malone**  
iiNet founder & former chief executive

SOURCE: FINANCIAL REVIEW

In March 2015, four silent years later, Smith's phone buzzed with a second invitation to breakfast. Teoh decided now was time to strike and offered an all-cash deal the chairman felt he couldn't refuse.

TPG's \$1.56 billion takeover of iiNet, which was finalised in the Federal Court late last month, has been a gruelling and controversial process amid claims the sale was bungled, and undervalued both the telco and the market – points the company strongly deny.

But what is indisputable is the quiet power skilfully amassed by TPG's Malaysian-born executive chairman in a relatively short time. Between the first fateful breakfast and September 3, TPG's market capitalisation has grown from \$1.1 billion to over \$7 billion.

One in four of Australia's fixed internet services are run out of his company.

### The rise of iiNet

Perth-based iiNet has long been one of corporate Australia's most compelling underdogs, carving a lucrative niche based on high-quality service.

But the national broadband network's structure means national providers must have scale to survive. By 2013 the market had shrunk, with 90 per cent of Australia's fixed-line internet supplied by just five players – Telstra, Singtel-Optus, iiNet, TPG and M2 Group.

There was room for one big merger.

It was July 2014 when M2 approached iiNet about a merger of equals. Over several weeks the boards and bankers of both sides met – Azure Capital for iiNet and Goldman Sachs for M2, which signed a 'standstill' agreement not to buy iiNet shares for 12 months. By August talks were dead. iiNet's board had decided that M2's shares were too high to sustain – something proven wrong by its stable rise since then. Both parties fell back to their Plan Bs.

### **The fall**

For iiNet this meant spending big on IT systems, mobile phones and 60 per cent of home installation provider Tech2 Group.

As a result, in February iiNet missed consensus expectations. Its share price dropped like a rock by 11.1 per cent to \$6.41 a share.

Meanwhile in Sydney, TPG stirred.

Little is known about the 60-year-old Teoh, who is rarely found in a suit despite being worth \$2.7 billion when combined with the wealth of his wife, Vicky Teoh. Three things are certain: he eschews publicity, is whip-smart across the details of his business, and runs an incredibly low-cost ship.

Teoh never uses bankers, thinking them a waste of money. But in a sign of how seriously he took checkmating iiNet, Teoh called in Macquarie Bank's Darren Keogh when his target's share price dived.

Within a month they had crunched the numbers and worked out a plan.

### **Moving in**

Smith was a mess when TPG rang to arrange a meeting on March 6 – chairman to chairman. Even rarer was Teoh's offer to fly west and meet iiNet in its Subiaco headquarters.

Smith was already in Sydney – coughing his guts out at other board meetings – so they met there instead. Sweating hard beneath the beating sun, he trudged through the cool cavern of Establishment Bar and into the leafy, brick-walled Gin Garden out the back.

But this conversation had a different tinge: Teoh firmly criticised iiNet's decision to buy wholesale services from a rival provider, insisting it was the wrong move. It soon became apparent why.

Teoh produced a three-page letter, passing it over half-eaten poached eggs with toast and coffee. The contents boiled down to a simple message: he wanted to buy iiNet for \$1.4 billion in cash, and Smith had a week to consider it before he walked away.

The offer was 30 per cent above the deflated price iiNet was trading at and Teoh emphasised that this was as good as it would get.

Smith thanked his host and walked unto the cacophony of George Street to his Sydney office and scanned the letter, calling Azure's David Flynn and Geoff Rasmussen along the way.

Flynn could barely hear the phone call as he led his son's school group through Perth's zoo. As they stepped between lions and gazelles he tried to work out a strategy – the clock was racing with a week to go.

Phone chatter among the iiNet directors on Friday afternoon was mixed. Some felt Teoh was taking advantage of a momentary lapse in share price and wanted more money.

But all of them eventually came around for two reasons, the first being that the offer was well above the current share price. The second was the implicit threat Teoh posed: he could buy 19.9 per cent of iiNet, which would act as a blocking stake stopping others making a bid.

It's a move most listed companies would avoid, but this was Teoh – a man whose 27 per cent stake in TPG meant just one other shareholder, Washington H Soul Pattinson's Robert Millner, would need to be convinced.

The iiNet board believed Teoh would let their company bleed out before picking up the remains. He was firmly in their heads; it was corporate hardball at its best.

They assembled at 10am at iiNet's Perth HQ. Rather than outing the deal in an effort to drive up the share price or shopping iiNet to rivals, they all agreed with Azure's advice to take the deal.

Azure began talks, trying to change the initial offer, which made it nearly impossible for any rivals to make a counter-bid.

At several points both sides threatened to walk away, but it was clear iiNet had more to lose. One thing iiNet had to insist on was the standstill agreement, which prevented TPG from buying its shares while the deal was backed by the board.

On deadline night both sides burned midnight oil. iiNet assembled its lawyers in Azure's 34th floor office in Perth's Exchange Tower, while TPG's team worked from Macquarie Bank's Sydney monolith.

Smith joined in towards the end, wearing a Hawaiian T-shirt having visited *Sculptures by the Sea*. Soon after midnight Perth time, and 3am in Sydney, all parties agreed.

### **Launch day**

Hours later Smith and his chief executive David Buckingham, announced the deal to the market. The reaction from shareholders was mixed and some stood aghast at the stringent conditions.

The lack of TPG shares meant investors wanting to stay in the telco sector would be cashed out of iiNet. The provisions prevented iiNet from hawking itself to other potential buyers, lowering the chances of rival bids.

TPG's market cap also flew up by \$1 billion after the announcement – a clear sign to some that it had extracted too sweet a bargain.

The biggest surprise for iiNet's board was its founder Malone. He backed it until speaking with customers, employees and other investors before changing his mind – declaring it "incomplete, unprofessional and ... poor due diligence".

### **The counter bidder**

M2 found out about TPG's offer through the alert to the ASX and an article in *The Australian Financial Review*.

Its senior leadership team were perplexed and displeased that they never received any warning that the company was open to a sale. The standstill agreement signed as part of earlier talks had limited its tactical options.

As the shareholder outcry grew to a storm, M2 grew bolder and in April offered an alternative all-scrip offer eventually worth \$1.57 billion: iiNet shareholders could keep investing in the telco sector.

But this was a quarry that Teoh had stalked for far too long. On May 5 TPG lodged a \$1.56 billion counter bid that was still largely cash with a smattering of its own shares as an olive branch to disgruntled iiNet shareholders.

And once again iiNet's board backed cash over scrip and decided TPG's counter offer was superior.

### **Race to the finish**

It was relatively smooth sailing through to Federal Court approval on August 21.

The economy has tanked thanks to Asian economic woes, proving cash was genuinely more stable – at least in the short term. Azure took the team out for drinks at Perth's Alex Hotel straight from the courts, largely out of relief.

But a glimpse of iiNet's future comes from the fate of its highly respected chief executive, David Buckingham.

On the Friday morning, less than nine days after the merger was finalised, Buckingham got a message that his services were no longer required.

And as for Teoh, the chances are that his next target has already been lined up with long-term plans in play. He's a special kind of businessman.

Read more: <http://www.afr.com/business/telecommunications/how-tpgs-david-teoh-snared-his-prey-iiNet-20150904-gjf51p?logout=true#ixzz4AreMrppw>

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