



11 September 2024

# Contact accelerates renewable generation strategy with the proposed acquisition of Manawa

## Summary

- Contact Energy Limited (Contact) has entered into a Scheme Implementation Agreement (SIA) to acquire 100% of Manawa Energy Limited (Manawa) under a court approved Scheme of Arrangement (Scheme).
- Contact will be well positioned to accelerate renewable development opportunities and support New Zealand's energy transition.
- The combination with Manawa is expected to create a more diversified, resilient and efficient Contact business with complementary hydro assets, able to offer larger volumes of fixed price electricity to the market.
- As consideration, eligible Manawa shareholders<sup>1</sup> are expected to receive<sup>2</sup>:
  - 0.5719x Contact shares for each Manawa share (equivalent to \$4.79 per Manawa share<sup>3</sup>); plus
  - cash consideration of \$1.16 per Manawa share.
- Manawa shareholders are expected to own ~18.5%<sup>2</sup> of Contact shares post completion of the Scheme.
- Major Manawa shareholders, Infratil and TECT Holdings (who between them hold or control approximately 77.9% of Manawa shares), have committed to vote in favour of the Scheme subject to certain conditions.
- The Scheme is subject to New Zealand Commerce Commission (NZCC) approval (amongst other conditions) and is targeted at implementation in the first half of 2025.

## Acquisition overview

Contact has entered into an SIA to acquire 100% of Manawa, a renewable electricity generator, owning and operating 25 hydro schemes around New Zealand. Manawa has ~500MW of generation capacity which is winter-weighted. Manawa has over 1,200MW of geographically diversified, secured development options in wind and solar.

"This acquisition will make Contact Energy a stronger, more resilient electricity company for New Zealand with a more diversified generation portfolio across the North and South Islands," said Contact Chief Executive, Mike Fuge.

"Our hydro assets are complementary, with different seasonal generation profiles, which will help Contact to better manage dry year risk and to sell larger volumes of fixed price electricity into the market than we could independently.

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<sup>1</sup> Shareholders who hold Manawa shares on the record date, as defined in the SIA. Contact shares will only be available to Manawa shareholders in New Zealand, Australia or other jurisdictions agreed by Contact and Manawa. Shares that would otherwise be issued to all other shareholders will be issued to a nominee and sold with the net proceeds paid to those shareholders.

<sup>2</sup> Based on the merger ratio and cash consideration at Scheme signing. Final cash consideration and the number of shares issued to Manawa shareholders are subject to adjustments for dividends declared and paid by Contact and Manawa between signing and implementation.

<sup>3</sup> Based on \$8.3755 5-day VWAP Contact share price calculated at market close Tuesday 10<sup>th</sup> September 2024.

“Access to this type of hedging adds resilience and support for New Zealand’s large energy users and independent retailers to reduce their exposure to spot market prices in dry years. This transaction makes a lot of sense given the strong alignment with the needs of our customers and the wider economy,” Mike Fuge added.

Contact Chair, Rob McDonald, said: “The combination with Manawa would result in a combined development pipeline of more than 10TWh and would further enhance Contact’s strong development capabilities, accelerating Contact’s strategy to grow renewable generation while decarbonising its portfolio.”

“The combination is an important step for the New Zealand energy market and energy transition, providing greater ability to invest in future generation capacity, enhancing market security and ultimately contributing to reducing wholesale prices long-term.”

For continuity and to support integration with the Manawa business and assets, and growth of the combined business, it is intended that Manawa’s Chairman, Deion Campbell, will join the Contact Board following implementation of the Scheme.

### **Financial impacts**

The transaction is financially compelling for Contact. Manawa is expected to contribute ~\$220m Normalised EBITDAF<sup>4</sup> post realisation of future embedded value, portfolio benefits and cost synergies. The transaction is accretive on a Normalised EBITDAF less ‘stay-in-business’ capex per share basis and is expected to deliver an internal rate of return exceeding Contact’s weighted average cost of capital.

Greater stability of generation and cash flow is expected to provide cost of capital benefits and support an uplift in Contact’s dividend per share profile by 1cps in FY26 (40cps) and by 2 - 3cps in FY27 (41 – 42cps)<sup>5</sup>.

### **Consideration and funding**

As consideration for the acquisition, eligible Manawa shareholders are expected to receive<sup>6</sup> 0.5719x Contact shares for each Manawa share (equivalent to \$4.79 per Manawa share<sup>7</sup>); plus cash consideration of \$1.16 per Manawa share.

Total consideration implies a value of \$5.95 per Manawa share which equates to a 47.6% premium to last close, 47.4% premium to the 30-day VWAP and implies a normalised EV / EBITDAF acquisition multiple of 10.7x.

The ultimate cash consideration and number of Contact shares issued to Manawa shareholders are subject to adjustments for dividends declared and paid by Contact and Manawa between Scheme signing and implementation.

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<sup>4</sup> Normalised EBITDAF represents Manawa’s FY24 Reported EBITDAF adjusted by Contact for expected future mean annual hydro generation, Contact’s view of expected long-run wholesale electricity prices and expected cost synergy and portfolio combination benefits. Please refer to the investor presentation for further detail on the Normalised EBITDAF, the expected integration costs and expected future embedded value, portfolio benefits and cost synergies.

<sup>5</sup> All dividend decisions are a matter for the Board. These align to the dividend policy and are dependent on business and market conditions when each dividend decision is made.

<sup>6</sup> Based on the merger ratio and cash consideration at Scheme signing. Final cash consideration and the number of shares issued to Manawa shareholders are subject to adjustments for dividends paid by Contact and Manawa between signing and implementation.

<sup>7</sup> Based on \$8.3755 5-day VWAP Contact share price calculated at market close Tuesday 10<sup>th</sup> September 2024.

The cash consideration and repayment of outstanding Manawa bank debt and bonds will be funded via new committed Contact bank debt facilities. The choice of transaction structure to include scrip enables capital options to be maintained to ensure Contact has sufficient funding flexibility to execute on the combined entity's identified development pipeline whilst maintaining a BBB S&P credit rating. Contact expects S&P to reaffirm Contact's BBB credit rating on a stable outlook.

### **Conditions & timetable**

Implementation of the Scheme is subject to several conditions, each as set out in detail in the SIA, including New Zealand Commerce Commission approval, the receipt of an independent adviser's report which concludes (and continues to conclude in any updated, replacement or supplementary report prior to the Manawa shareholder meeting to vote on the Scheme) the consideration is within or above the independent adviser's valuation range, approval of the High Court, approval by Manawa shareholders at a special meeting of shareholders and other customary conditions, including no material adverse changes and no 'prescribed occurrences' affecting Contact or Manawa.

Additional information about the Scheme, and a notice of the shareholder meeting, will be provided by Manawa to Manawa shareholders following receipt of Commerce Commission approval, expected to be in the first half of 2025.

The directors of Manawa have unanimously recommended that Manawa shareholders vote in favour of the Scheme in the absence of a superior proposal and subject to the independent adviser's report concluding in alignment with the statement in the first paragraph of this section.

Major shareholders of Manawa, Infratil and TECT Holdings (who between them hold or control approximately 77.9% of Manawa shares), have entered into voting agreements under which they have committed to vote all of their shares in favour of the Scheme (subject to certain conditions).

The conditions under the Scheme must be satisfied within nine months, subject to limited extensions in certain circumstances.

An investor presentation has today been released to the NZX and ASX with further detail on the acquisition, including the strategic rationale, expected synergies and the proposed process timetable. On the current indicative timetable, Contact is targeting the receipt of regulatory approvals and the Scheme taking effect in the first half of 2025.

### **Dividend reinvestment plan**

Due to the announcement of the acquisition of Manawa and to ensure fairness, the Board has resolved to modify the Contact Dividend Reinvestment Plan (DRP) for the final FY24 dividend that was announced on 19 August 2024.

Eligible shareholders that have already made an election to participate in the DRP on the final FY24 dividend will have the option to opt-out if they wish. Eligible shareholders that have not elected to participate in the final FY24 dividend will have the opportunity to opt-in if they wish.

Changes to participation in the DRP for the final FY24 dividend, either to opt-in or opt-out, must be submitted by 5.00pm on Tuesday 17 September 2024. This can be done online by

visiting <https://investorcentre.linkmarketservices.co.nz> for New Zealand register holders or <https://investorcentre.linkmarketservices.com.au> for Australian register holders.

Participation forms are also available from the Investor section of Contact's website at <https://contact.co.nz/aboutus/investor-centre> or, on request, by contacting the share registrar.

The DRP strike price for the final FY24 dividend will remain as \$8.2352 per share as announced on 3 September 2024.

## **Advisers**

Contact has engaged UBS New Zealand Limited and Cameron Partners Limited / Rothschild & Co as Joint Financial Advisers and Bell Gully as its Legal Adviser.

*IMPORTANT NOTICE: None of this announcement, the associated investor presentation and the scheme implementation agreement constitutes, either individually or together, an offer of financial products to any person in any jurisdiction. Further information, including the offer that is intended to be made by Contact of new Contact shares to eligible Manawa shareholders under the Scheme, will be provided in materials that will be sent by Manawa to its shareholders, expected to be in the first half of 2025. Any shares to be issued by Contact under the scheme of arrangement will be made to eligible Manawa shareholders in New Zealand pursuant to the exclusion in clause 19 of schedule 1 of the New Zealand Financial Markets Conduct Act 2013 and in Australia in reliance on ASIC Corporations (Compromises or Arrangements) Instrument 2015/358 and in certain other jurisdictions where the issue may be made under all applicable laws without the need for any registration, lodgement or other formality (other than a formality with which the Company is willing to comply). No product disclosure statement or prospectus or other offering document under New Zealand or Australian law or any other law will be prepared, filed with or approved by any regulatory authority in New Zealand, Australia or any other jurisdiction.*

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