



Isle of Man Steam Packet Summary Valuation 15 May 2018



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Why Acquire IOMSP Today?

Acquisition Rationale

- 1 The IOMSP is of vital national strategic importance to the people of the Isle of Man - acquiring the company would give the IoM Government strategic control
- 2 This is a one time opportunity to acquire the IOMSP at a fair / market price
 - If transaction not executed now, IOMSP shareholders highly unlikely to entertain an offer from IOMT in the future
- 3 Forecast IOMSP cash flows would provide an attractive return on IOMG funding if the company is acquired at fair value
- 4 If the company is not sold to the IOMT, the IOMSP will likely be “run for cash” by the shareholders with a reduction to current service levels and no investment in new vessels
 - Tynwald has already rejected the idea of extending the UA through the SSSA proposed by the IOMSP
- 5 If IOMSP is sold to another party, it will be on the basis of profit maximisation until the end of UA in Sep 2026
- 6 Costs and risks of setting up new company at end of UA are significant



Valuation Methodology



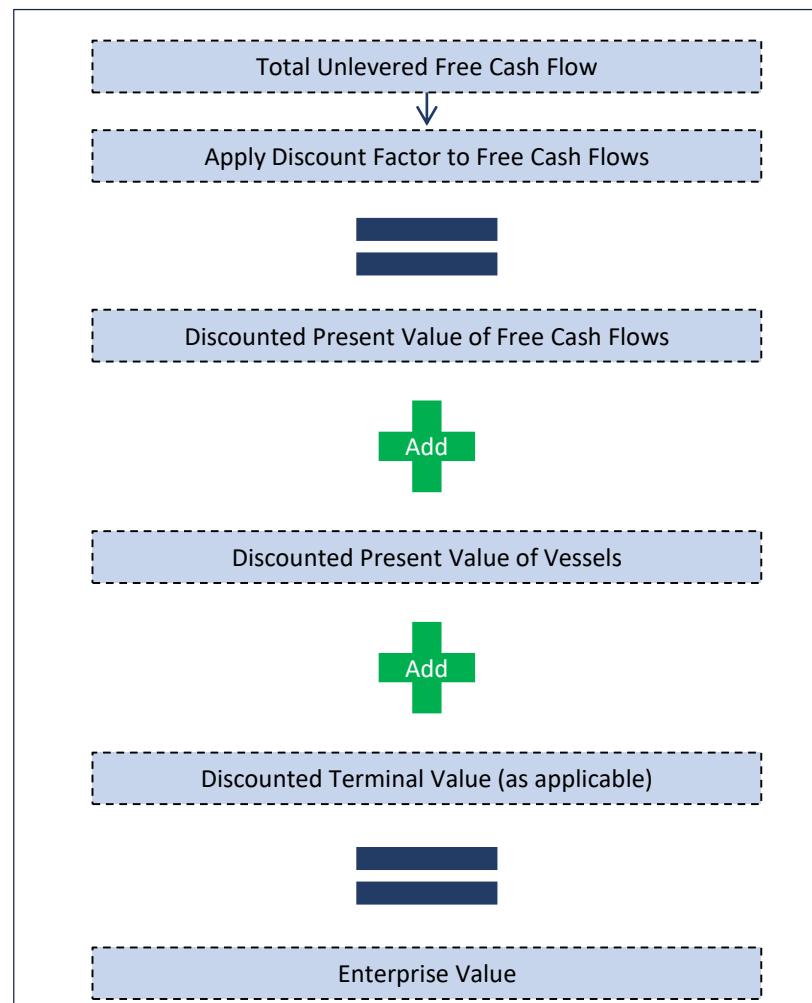
Valuation Methodology

Cash Flow Valuation

Free Cash Flow Calculation

Total revenue	X
Less Total costs (excl. depr.)	(X)
Underlying EBITDA	X
Less Arrow charter costs	(X)
Less Capex	(X)
Less Change in working capital	(X)
Unlevered Free Cash Flow	X

Valuation of Free Cash Flows





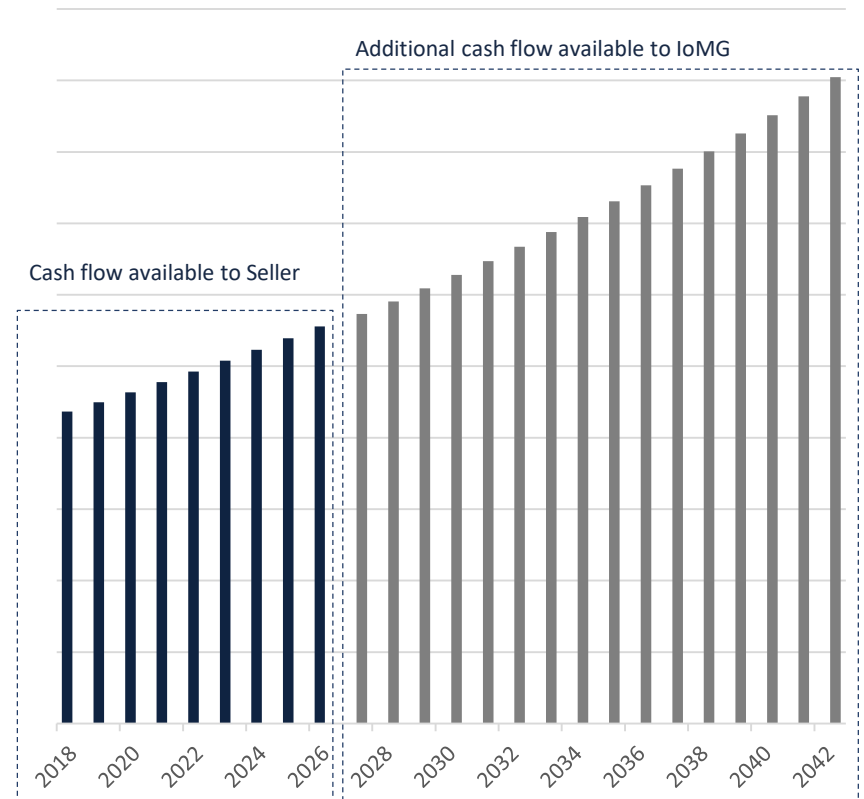
Valuation Periods

Cash Flows Periods

IOMSP worth more to IoM Government than to the Seller

- The Sellers only has certainty of cash flows from IOMSP over the remaining period of the User Agreement to Sept 2026
- When calculating Value to the Seller, we have therefore only valued cash flows over the next 8.5 years
- If IoM Government acquires IOMSP, it can benefit from the cash flows into the foreseeable future⁽¹⁾
- The value of the business to the Seller is substantially less than the value to IoM Government
- This value is only realised by acquiring IOMSP

Illustrative Cash Flows



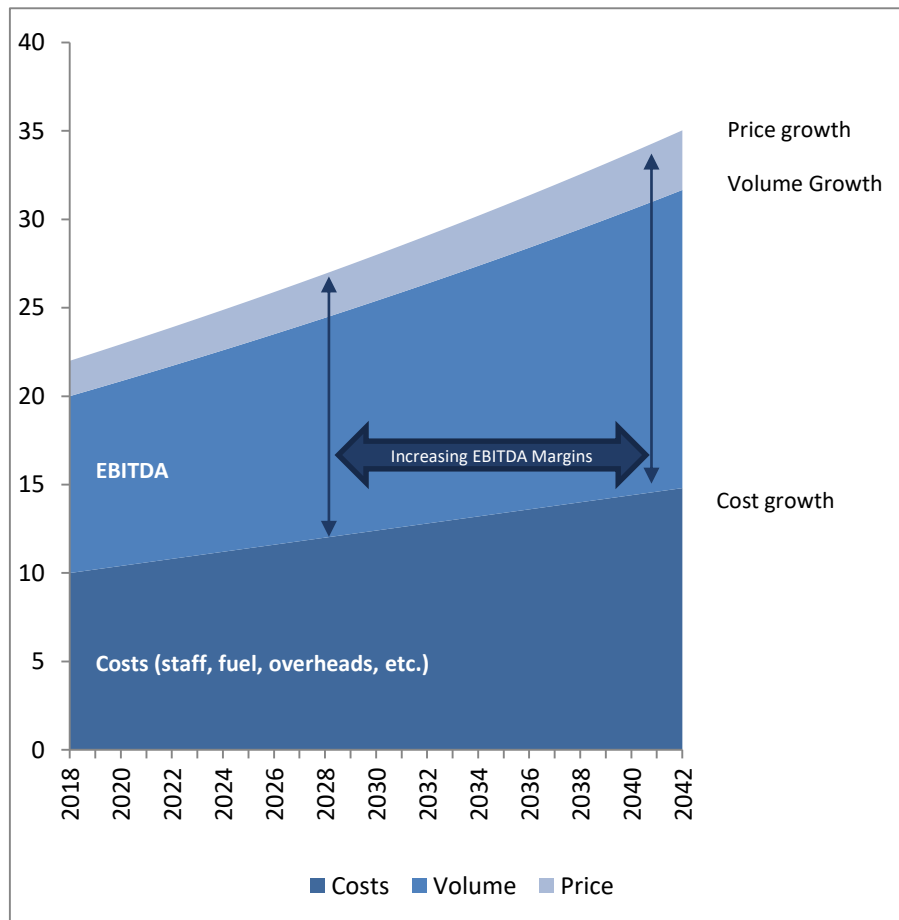
(1) 2042 assumed in valuation plus terminal value thereafter
Source: Indicative numbers provided for only illustrative purposes



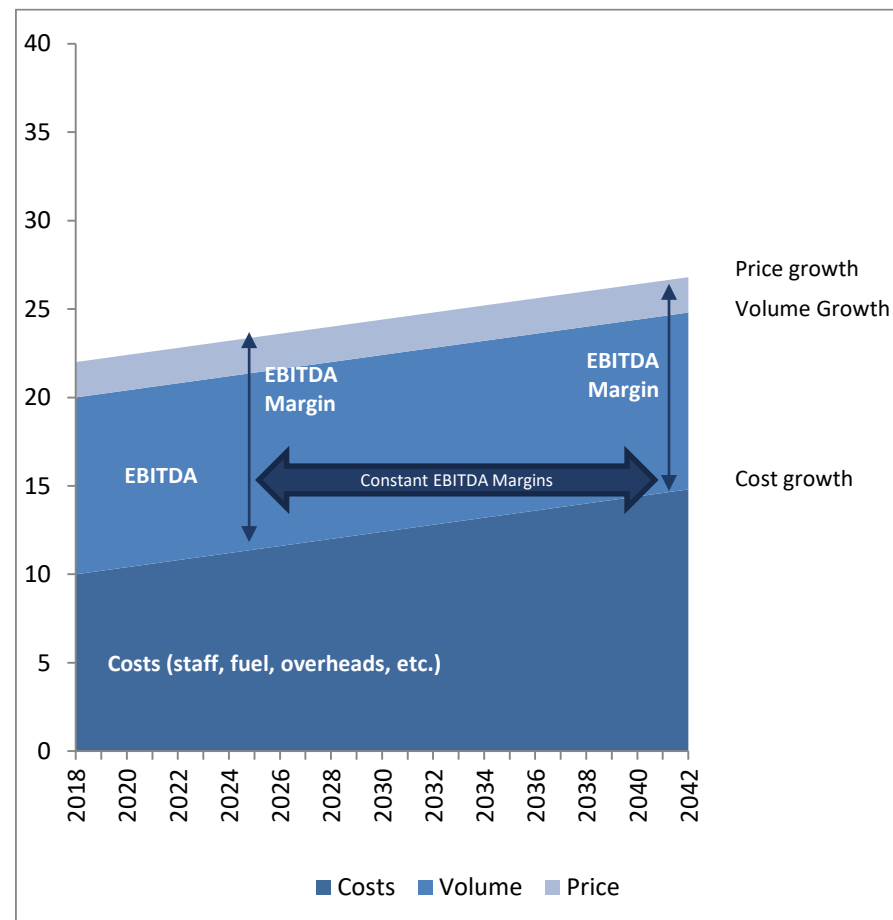
Modelling EBITDA Forecasts

Forecast EBITDA

Value to Seller - Increasing EBITDA margins in line with UA terms



Value to IOMT - Constant EBITDA margins as more prudent





Other Valuation Considerations

Valuation Considerations

Working Capital

IOMSP's working capital varies significantly through the year but the average level grows broadly in line with sales

Capital Expenditure

IOMSP has a prudent level of capital expenditure which has been maintained through forecast period to ensure reliability of services

New Vessels

No expenditure on new vessels has been assumed in Value to Seller as the Seller would not invest without a new User Agreement

Value to IOMT assumes £85m is invested in new or nearly new vessels by 2023

Terminal Value

It is assumed that Seller could sell the vessels at the end of the User Agreement period

A 'terminal value' to account for ongoing ownership after 2042 is assumed in Value to IOMT

Debt & Cash

Valuations are on theoretical basis that there is no cash or debt in company; adjustment is made to the price paid for acquired cash (increase price) and debt (reduce price)

Pensions

Pension deficits are assumed to be a debt and price paid is reduced commensurately



Company Valuation



Value to Seller

Seller Valuation

Base Case Valuation (£m)

Valuation	£m
PV of 8.5 Years Cash Flow ⁽¹⁾	115.7
PV of vessels in 2026	<u>4.4</u>
Total EV	<u>120.0</u>

Unlevered Free Cash Flow	177.7
Difference vs. Total EV	<u>57.6</u>

⁽¹⁾ From 31/3/18 - 30/9/26

Implied EV / Underlying EBITDA Multiples

2017 EBITDA	5.8x
2018 EBITDA	<u>5.5x</u>

Downside Case Valuation (£m)

Valuation	£m
PV of 8.5 years cash flow ⁽¹⁾	98.7
PV of vessels in 2026	<u>4.4</u>
Total EV	<u>103.0</u>

Unlevered Free Cash Flow	149.2
Difference vs. Total EV	<u>46.2</u>

⁽¹⁾ From 31/3/18 - 30/9/26

Implied EV / Underlying EBITDA Multiples

2017 EBITDA	5.0x
2018 EBITDA	<u>4.8x</u>

The most recent valuation produces a **Base Case valuation of £120.0m**, £2.7m lower than the agreed transaction entity value



Value to IOMT

IOMT Valuation

Base Case Valuation (£m)

Valuation		£m
PV of 24.5 Years Cash Flow ⁽¹⁾		170.4
PV of Terminal Value	8.0x	<u>52.2</u>
Total EV		222.5

Unlevered Free Cash Flow		534.1
<u>Difference vs. Total EV</u>		<u>311.5</u>

⁽¹⁾ From 31/3/18 - 30/9/42

Implied EV / Underlying EBITDA Multiples

2017 EBITDA		10.8x
<u>2018 EBITDA</u>		<u>10.2x</u>

Downside Case Valuation (£m)

Valuation		£m
PV of 24.5 Years Cash Flow ⁽¹⁾		131.5
PV of Terminal Value	8.0x	<u>37.5</u>
Total EV		169.0

Unlevered Free Cash Flow		397.1
<u>Difference vs. Total EV</u>		<u>228.1</u>

⁽¹⁾ From 31/3/18 - 30/9/42

Implied EV / Underlying EBITDA Multiples

2017 EBITDA		8.2x
<u>2018 EBITDA</u>		<u>7.9x</u>

The most recent valuation produces a **Base Case valuation of £222.5m**, which is £99.8m higher than the agreed entity transaction value



Value to IOMT - Scenarios

Valuation Scenarios

CPI Growth Valuation (£m)

Valuation		£m
PV of 24.5 years cash flow ⁽¹⁾		140.3
PV of Terminal Value	8.0x	<u>40.0</u>
Total EV		180.2

Unlevered Free Cash Flow		423.9
Difference vs. Total EV		<u>243.7</u>

(2) From 31/3/18 - 30/9/42

Implied EV / Underlying EBITDA Multiples

2017 EBITDA		8.7x
2018 EBITDA		<u>8.3x</u>

No Fare Growth Valuation (£m)

Valuation		£m
PV of 24.5 years cash flow ⁽¹⁾		17.6
PV of Terminal Value	8.0x	<u>(6.2)</u>
Total EV		11.4

Unlevered Free Cash Flow		(15.6)
Difference vs. Total EV		<u>(27.1)</u>

(2) From 31/3/18 - 30/9/42

Implied EV / Underlying EBITDA Multiples

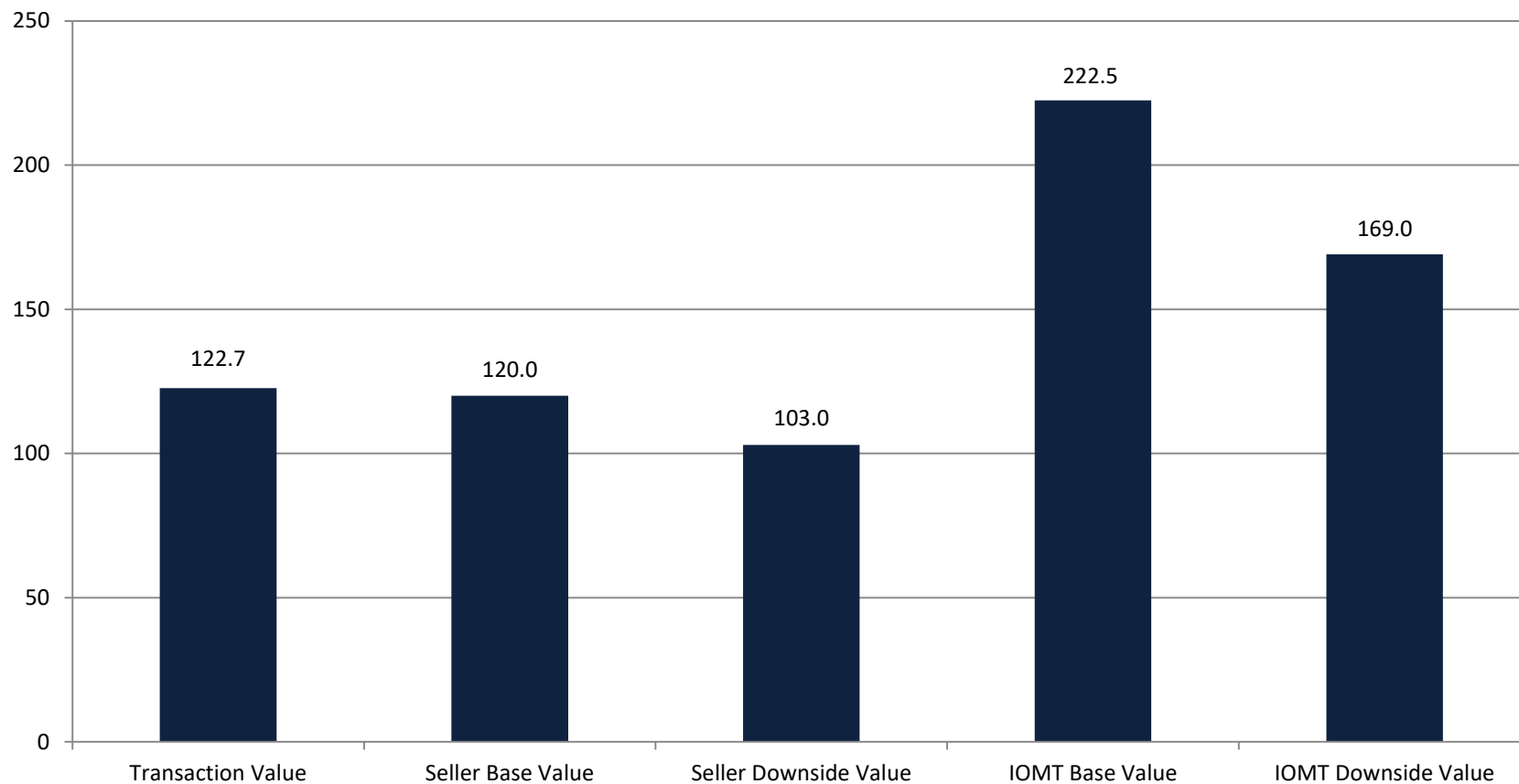
2017 EBITDA		0.6x
2018 EBITDA		<u>0.5x</u>

CPI growth reduces the Value to IOMT to **£180.2m**, which is £57.5m higher than the agreed entity transaction value
 No fare growth results in a marginal valuation of £11.4m



Valuation Summary

Summary



Acquisition value of £122.7m marginally higher than calculated Value to Seller; c. £100m of additional value available to IoM Government if the acquisition is approved and completed



Appendix



Comparable Valuation Metrics

Comparable Metrics

Comparable Company Multiples / Valuation

Company	Mkt Cap (€m)	EV (€m)	EV / EBITDA (x)	
			2017e	2018e
Irish Continental Group	1,100.0	1,060.4	13.2x	12.6x
DFDS Group	2,836.4	3,187.8	8.9x	7.7x
Tallink	700.0	1,176.7	7.4x	7.5x
Fjord1	534.1	670.8	6.8x	6.4x

IOMSP Valuation Range	Low (£m)	High (£m)
Multiple	8.0x	10.0x
EBITDA (2018e)	21.8	21.8
EV	174.4	218.0

Comparable Transaction Multiples / Valuation

Date	Buyer	Target	EV (£m)	EV/EBITDA (x)
Jul-03	Montagu PE	IOMSP	142	11.7
Jan-01	RBS VC Fund	Wightlink	180	10.3
Oct-05	Macquarie IF	IOMSP	225	11.4
Jun-05	Macquarie IF	Wightlink	230	14.2

IOMSP Valuation	Low (£m)	High (£m)		EV/EBITDA (x)
Multiple	10.3	11.7	Average	11.9
EBITDA (2018e)	21.8	21.8	Median	11.5
EV	225.6	255.8	Min	10.3
			Max	14.2