

Municipality of Chatham-Kent

Entegrus Inc.

Information Report

To: Mayor and Members of Council
From: Jim Hogan, President and CEO, Entegrus Inc.
Date: July 25, 2018
Subject: Entegrus Merger – Closing adjustments and Share Ownership

This report is for information to council regarding the closing adjustments and share ownership for the merger between Entegrus Powerlines (EP) and St Thomas Energy (STE).

Background

Entegrus attended the June 5, 2017 council meeting where a report was presented and approval from council was obtained for the merger with STE, subject to satisfactorily completing the various agreements and due diligence.

One section of the report was regarding closing adjustments and read:

Closing Adjustments

In calculating the valuations for each company, the business valutors are forecasting estimates as of December 31, 2017. The actual valuations can change for four items, which need to be adjusted in the final valuations. These four items are: working capital, net fixed assets, long term debt, and regulatory balances.

These four items are estimated at December 31, 2017 and the difference between forecast and actual balances will be a closing adjustment. Therefore, any difference between the forecasted amounts and the actual amounts will be adjusted on a dollar for dollar basis. It is not expected that the balances will change significantly and any change in valuation of up to 1% will be adjusted through share ownership. Any change greater than 1% will be required to be adjusted by cash. The probability of such a cash adjustment is low.

EP and STE have now completed all closing audit and financial review requirements that were agreed to in the merger agreement. The total adjustments impacted the share ownership by 0.29%, well below the 1% threshold that would require a cash injection by either party. The final valuation along with the share ownership is as follows:

	Valuation		
	Entegrus	St. Thomas	
Total Value Pre Adjustments	\$ 125,441,309	\$ 31,908,840	
Adjustments	\$ 2,991,543	\$ 1,341,739	
Total Value Post Adjustments	\$ 128,432,852	\$ 33,250,579	\$ 161,683,431

Entegrus Inc. Share Ownership (Shares)

City of St. Thomas		679	
Municipality of Chatham-Kent	2,360		
Corix Energy Inc.	262		
	2,622	679	3,301

Value per Share \$ 48,980

Value Per Shareholder	Ownership %	\$ millions
City of St. Thomas	20.57%	\$33.3
Municipality of Chatham-Kent	71.49%	\$115.6
Corix Energy Inc.	7.94%	\$12.8

The value of Entegrus' shares (\$161.7 million) have significantly increased from the original value of \$23.8 million at the time of incorporation in September 2000.

Comments

The closing adjustments and the final share ownership has been reviewed with Mike Turner, General Manager / Chief Financial Officer with the Municipality of Chatham-Kent.

Financial Implications

The merger will result in increased returns for the Municipality of Chatham-Kent from their investment in Entegrus. The higher returns will be a result of cost efficiencies and synergies that will be achieved by operating as a merged utility.

Areas of Strategic Focus and Critical Success Factors

The recommendation in this report supports the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth

- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendation in this report supports the following critical success factors:

- Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Prepared by:



Jim Hogan
President and CEO
Entegrus Inc.

Attachments: none