The Aussies' Miserly Offer for Vienna Airport

Flughafen Wien AG (FLU) owns world-class assets - including Vienna International Airport, which handled some 32 million passengers in the year prior to covid. But it's a quirky stock. Roughly 40% of the company is owned by state and local governments in Austria. Another 10% is held in a staff trust that distributes dividends as bonuses to most of the airport's staff. A further 40% is owned by **IFM Global Infrastructure Fund** (IFM). That leaves just 10% of the company's shares as free float, listed on the Vienna Stock Exchange and available to be owned by the broader investing public. Our international fund is one such shareholder.

IFM is a massive investor in infrastructure (and other assets) on behalf of "world-leading pension funds", much of it Australian industry super fund money. It acquired its current stake in Flughafen Wien via takeover offers in 2014 and 2016. We bought into the stock later in 2016, after IFM's second offer, eyes wide open to the illiquid nature of the investment. But monthly trading liquidity in the stock has more than halved over the period of our ownership.

We've long thought the end game here was a squeeze out of minority shareholders by IFM. Dealing with the liquidity issue and protecting minority interests is thus a particularly crucial role for the board of Flughafen Wien. That's a message we've consistently given to the board and management, both formally and informally, stretching back at least three years.

Yet here we are. Last week, [IFM launched a mandatory takeover offer](#) for all remaining shares in Flughafen Wien. That's really targeted at the 10% free float only, government shareholders won't be selling.

Inadequate price a Catch-22

The price offered, €33 per share, is thoroughly inadequate. It represents a multiple of barely 8 times earnings before interest, tax, depreciation and amortisation (EBITDA) from 2019 (the last year before the Covid-19 interruptions). For reference, funds managed by the same IFM paid 23 times 2019 EBITDA to acquire all of Sydney Airport recently. There hasn't been an airport takeover transaction globally in the past decade struck at less than 10 times EBITDA. Bigger European city monopoly airport transactions cluster around 15 times. A "fair" price for Flughafen Wien shares, in our opinion, starts at about €45 per share.

Many of the minority shareholders, ourselves included, will consider the €33 per share offer unfair, and then give serious consideration to selling anyway. That's because this stock, as illiquid as it has become, is about to get a whole lot less liquid as IFM soaks up more or all of the remaining free float. It's a Catch-22 for minorities, with IFM as beneficiary.

The directors need to do something about it.

A few ideas

There are realistic avenues for a fairer outcome here. A buyback of minority shareholders' interests at a fairer price by Flughafen Wien itself could make a lot of sense. It would maintain

the existing balance between the larger shareholders, which might be important to the government shareholders in particular. It could add significant value to their investment through earnings accretion and cost reductions as the company delists. It might offer a "less worse" price for minorities and certainly wouldn't stretch the company's balance sheet, which is ridiculously undergeared.

And, while we're neither lawyers nor adept German speakers, the [Austrian Transformation Act](#) (Umwandlungsgesetz) - known as a "squeeze out" provision - may apply. Whether legally required or not, external valuation is surely best practice as a starting point here.

There's still water flowing under this bridge. We await the board's official response to the offer, perhaps they'll do everything we expect of them. But we're not waiting to remind them of their obligation to ensure a fair outcome for all shareholders, not just those - like IFM - with a seat at the board.

Find below a copy of our letter to the chairman of the supervisory board of Flughafen Wien, emailed Wednesday 15 June, which further outlines our case.