

Information

Edited by: jgiddon@afr.com.au

Breaking news at www.misaustralia.com

Telstra's plan to sell Kaz put on hold

Emma Connors and Renai LeMay

KEY POINTS

- The Kaz Group isn't attracting the level of interest enjoyed by its former subsidiary AAS.
- Market watchers say Telstra should have moved earlier to sell the technology outsourcer.

Telstra has backed away from selling its information technology business, as a lengthy internal review of the Kaz Group draws to a close.

Several potential suitors cast their eye over the Kaz outsourcing business earlier this year but Kaz management is now advising key corporate customers a sale is unlikely.

When Telstra put the former Kaz subsidiary and superannuation processing company AAS under the hammer 15 months ago, there was plenty of competition for the prize and that pushed the purchase price up to \$215 million, equivalent to 13 times earnings before interest, taxes, depreciation and amortisation.

But the Kaz technology outsourcing business did not attract a similar level of interest. Market watchers say Telstra should have made its move earlier.

"Certainly there isn't much appetite for information technology outsourcing companies right now,"

said Sri Annaswamy, founder of Sydney-based advisory firm Swamy & Associates, that has advised several Indian firms on mergers and acquisitions in the local market.

"Most service suppliers are more interested in business and knowledge process providers," Mr Annaswamy said.

Telstra has previously declined to comment on sale speculation. Yesterday Kaz spokesman Kevin Ryder said the company "had nothing to add".

The company has indicated Kaz staff will soon be briefed on a review

of the business that has been underway all year.

IBM, Fujitsu and some Indian service companies are understood to have been approached about a possible sale earlier this year. Discussions are understood to have foundered on pricing with Telstra asking for more than \$100 million for Kaz while potential suitors wondered about "the stickiness" of Kaz customers.

Those customers are weary of the constant speculation about Telstra and Kaz but have no complaints about the service they are getting from Kaz.

One corporate customer who declined to be named said sales and service arms of the Kaz business had settled down after a wave of redundancies earlier in the year. He predicted speculation about a possible sale would not go away until Telstra's top executive made an explicit commitment to the Kaz business.

"We're happy with the service we are getting but for a long time now

Telstra management has been split over whether Kaz is a vital ingredient of the company they are now building or an unnecessary distraction," the customer said.

Earlier this year Telstra removed responsibility for four major corporate accounts out of Kaz. The Telco and IT services supplied to Westpac, National Australia Bank, Woolworths and Qantas are now managed elsewhere in Telstra.

Responsibility for the \$200 million Defence Department of Defence account remains with Kaz. The Defence outsourcing contract, won by Kaz after it was bought by Telstra in 2004 for \$333 million, could be sold with Kaz but Defence would have to agree to such a move.

Meanwhile, at least one of Kaz's historically troubled projects is showing modest signs of improvement.

The NSW Attorney-General's \$48.2 million CourtLink project, which aims to link all the major courts in the state with one adminis-

tration system and remove the need for many paper files, is on the verge of delivering the results it has been promising since 2000.

Kaz inherited the project when it bought out Aspect Computing in 2002. The Telstra subsidiary promptly told the department it would have to re-develop the systems from scratch in order to deliver on its contract.

A spokesman for the NSW Attorney-General's Department said last week that CourtLink, now renamed JusticeLink, was now processing all of the NSW Supreme Court's criminal matters, with the District Court shortly to adopt the system. A number of law firms are also linked in.

"By the end of next year, JusticeLink is expected to be operating in all criminal and civil courts," the spokesman said. The department is holding fortnightly meetings with Kaz to ensure the project is on track.

The overall cost of the project is still growing, having risen from \$44.8 million last year to \$48.2 million.