

ASX Announcement

23rd November 2018

**Inabox announces improved price and terms of the sale to MNF Group.
Inabox board unanimously recommends that shareholders approve Improved MNF
Transaction in the absence of a superior proposal,
and take no action on SB&G proposed takeover.**

- Indirect business to be sold for cash price of \$34.5m on a debt-free basis
- Full purchase price payable at or shortly after completion
- Completion of the Improved MNF Transaction is unconditional except for approval by Inabox shareholders
- Total cash distribution to shareholders expected to be \$0.90 per share with franking credits increasing grossed-up pre-tax distribution to over \$1.00 per share
- If the Improved MNF Transaction is not approved by shareholders, Inabox will require a capital raising of at least \$3m before the end of December 2018 to support working capital requirements and pay transaction expenses
- Directors unanimously recommend shareholders vote in favour of the Improved MNF Transaction in the absence of a superior proposal and take no action in respect to the announced SB&G Offer
- Directors intend to vote their own Inabox shares in favour of the Improved MNF Transaction, in the absence of a superior proposal.

Inabox Group Limited (ASX: IAB) (**Inabox, IAB** or the **Company**) is pleased to announce that it has agreed a revised sale agreement (**Improved Sale Agreement** or **Improved MNF Transaction**) with MNF Group Limited (ASX: MNF) (**MNF Group**) which significantly improves the price and terms of the sale by the Company to MNF Group of the Indirect Business (Inabox's main undertaking and all operating businesses) and the distribution to Inabox shareholders.

The Company also provides an important update on its financial position and notifies shareholders that a capital raising of at least \$3m will be required in December 2018 if the Improved MNF Transaction is not approved by Inabox shareholders and does not proceed to completion.

On 15th November 2018 an off-market takeover offer for Inabox shares of \$0.90 per share was announced by SB&G (Telecoms) Pty Ltd (**SB&G**) (the **SB&G Offer**). SB&G has a relevant interest in 19.9% of the Inabox shares. Inabox has not received SB&G's Bidder's Statement; however, under the *Corporations Act 2001* (Cth) (**Corporations Act**), the terms and conditions of the takeover bid set out in the Bidder's Statement must be the same as or not substantially less favourable than the terms and conditions of the announced SB&G Offer.

The Inabox board believes the Improved MNF Transaction provides shareholders with greater certainty and a higher return than the SB&G Offer. The Inabox board unanimously recommends shareholders vote in favour of the Improved MNF Transaction in the absence of a superior proposal, and take no action in respect to the proposed SB&G Offer when it is made.

Inabox will reconvene the extraordinary general meeting that was adjourned on 19 November 2018 for shareholders to vote on the Improved MNF Transaction on **7 December 2018 at 10.00 am**. A separate letter will be dispatched to shareholders shortly providing details about the meeting.

1. Improved Sale Agreement with MNF Group

Key Terms

The price and terms of the Improved Sale Agreement have improved significantly with the relevant changes described below:

- MNF Group will acquire the Indirect Business from Inabox for a total cash price of \$34.5m on a debt-free basis.
- 100% of the consideration will be paid upon completion or shortly thereafter. All earn-out requirements have been removed. There is no longer any escrow for certain contingent liabilities, or Inabox exposure for those contingent liabilities.
- All conditions required for completion of the Improved MNF Transaction have been satisfied or waived except for Inabox shareholder approval. This means that if the Inabox shareholders approve the Improved MNF Transaction by ordinary resolution, it will complete within three business days following the meeting at which approval is received.
- The target for the working capital price adjustment has been reduced from \$2m to \$0.5m. At this level, Inabox does not expect there will be any adjustment to the purchase price, allowing an additional \$1.5m to be distributed to shareholders (compared to the previous terms).
- Of the total \$34.5m cash consideration, only \$0.5m will be placed in escrow (previously \$2.5m) pending confirmation of the working capital balance. The Company expects this \$0.5m escrow amount will be released in full before the end of December 2018.
- Accordingly, Inabox expects that all of the \$34.5m consideration will have been received by the end of December 2018 and the Company will be in a position to distribute the surplus cash to shareholders, subject to shareholder approval.

Proposed cash distribution to shareholders

If the Improved MNF Transaction is approved by shareholders and proceeds to completion, Inabox has calculated that after all debts and transaction related expenses are paid, the Company expects to have surplus cash of at least \$21.51m. **This is expected to allow \$0.90 cash per share to be returned to shareholders.**

The \$0.90 cash per share distribution would be paid as follows:

- \$0.29 per share through a fully franked dividend to be paid early January 2019 (\$0.41 per share pre-tax grossed up value, which includes a \$0.12 franking credit representing tax paid by the Company); plus
- subject to shareholder approval, \$0.61 per share by way of a return of capital in mid to late January 2019

Grossed up to include the value of franking credits, the distribution increases to \$1.02 per share pre-tax.

Many shareholders may benefit from the franking credits and any capital losses incurred. Shareholders should, however, discuss the tax implications of these distributions with their tax advisers.

The table below describes the estimated sources and uses of funds from the Improved MNF Transaction, the assumptions in the calculations and the resulting distribution to shareholders.

Cash Proceeds	\$m	
Completion Payment to Inabox	34.5	
Assumed working capital adjustment (\$0.5m target)	nil	<i>\$0.5m estimated working capital</i>
Proceeds from Sale	34.5	
Uses of Proceeds		
Repayment of Debt	(9.9)	<i>Forecast as at Completion early December 2018</i>
Costs and fees relating to Direct Business sale	(0.7)	<i>\$0.2m contingency</i>
Transaction / staff costs relating to Improved MNF Transaction	(1.9)	
Estimated winding up expenses	(0.5)	<i>\$0.5m estimated</i>
Total uses of cash	(13.0)	
Proceeds available for distribution to shareholders	21.5	
Inabox shares on issue (million)	23.82	
Cash distribution to shareholders (per share)	\$0.90	
Franking credits distributed (per share)	\$0.12	
Fully grossed up distribution (per share)	\$1.02	

Proposed treatment of remaining companies

Following finalisation of the Improved MNF Transaction and the distribution of surplus cash to Inabox shareholders, the Company (proposed to be renamed IAB Holdings Limited) intends to delist from the ASX and carry out an orderly winding up of the Company and its remaining subsidiaries (subject to shareholder and other relevant approvals).

Break fee

A break-fee of \$0.5m is payable by Inabox to MNF Group if:

- the IAB Board does not continue to recommend the Improved MNF Transaction as superior to the SB&G Offer or any other offer received by the IAB Board or IAB shareholders, in the absence of a superior proposal, and the Improved MNF Transaction is terminated;
- Inabox receives a competing proposal, and (i) any Inabox director withdraws his recommendation that shareholders approve the Improved MNF Transaction and the Improved MNF Transaction is terminated; (ii) the Company terminates the Improved MNF Transaction; or (iii) the Improved MNF Transaction is terminated and before 5 October 2019 any person pursuant to the competing proposal acquires control of Inabox or any of its subsidiaries.

2. Update on financial position and funding requirements

The Company's Market Rate Loan and Leasing Facility limits were reduced following the sale of the Direct Business in August 2018. The table below describes the Company's current debt position and estimated peak funding requirements in the event that the Improved MNF Transaction does not proceed:

(\$m)	30-Jun-18	21-Nov-18		
Debt Facilities	Capacity	Capacity	Drawn	Available
Overdraft	1.8	1.8	1.8	Nil
Market Rate Loan	7.0	5.5	5.5	Nil
AMEX	1.5	1.5	1.5	Nil
Leasing Facility	3.0	1.4	0.7	0.7
Total	13.3	10.2		

Peak Funding Shortfall	Dec-18	Jan-19	Feb-19	Mar-19
Peak cash requirement	2.8	4.6	4.3	4.1
Overdraft limit	1.8	1.8	1.8	1.8
Additional funding required	1.0	2.8	2.5	2.3

The peak funding requirement includes:

- \$1.0m of costs relating to the sale of the Direct Business which remain outstanding, and transaction costs incurred to date on the Improved MNF Transaction
- an allowance for costs that will be incurred if the Improved MNF Transaction does not proceed and an alternative control transaction is completed. These include:
 - \$0.5m break fee payable to MNF Group
 - \$0.8m advisory and legal fees
 - \$0.4m of completion and retention payments to staff

The peak cash requirements do not include any allowance for restructuring costs in the event that the Company is required to right-size the business if development projects for its major Enablement customer continue to be delayed.

MNF Group has also notified Inabox on 22 November 2018 that from January 2019, charges for telephone number ranges provided to Inabox Group under a renewed supply agreement will be adjusted upwards to normal market rates following the expiry of the term of the current contract. The expected impact of this change was not incorporated in the FY19 Outlook provided by Inabox on 19th November 2018 and represents a reduction to FY19 EBITDA of around \$180,000, and ongoing annual EBITDA by \$360,000. The change will also reduce operating cashflows by \$360,000 per annum and impact Inabox's borrowing capacity and compliance with its banking covenants.

Bank Facilities

The Company's bank is supportive of extending its facilities to cover Inabox's short-term additional funding requirements on the basis that proceeds from the Improved MNF Transaction would repay all of the Company's debt in December 2018.

If, however, the Improved MNF Transaction does not complete in December 2018, Inabox does not have capacity under its existing debt facilities to meet its estimated additional funding requirements in late December 2018 and through to the end of the 2019 financial year.

Following the announcement of the SB&G Offer, Inabox met with its bank to discuss the SB&G Offer and its potential impact on the Company. Inabox also asked the bank whether, in light of the change in circumstances, it would be willing to provide additional funding until the ownership position of the Company and its main undertaking were clear.

The bank indicated that it would not be willing to increase the limit of its debt facilities. Furthermore, the combination of a failure to complete the Improved MNF Transaction and a change of control of Inabox would trigger a review event which could result in the bank reducing or withdrawing its facilities.

Based on the current cashflow forecast (and in the absence of a capital raising), if the Improved MNF Transaction does not complete in December 2018, the Company will face solvency issues in January 2019 and will be in breach of its net worth covenant from March 2019.

In the Inabox Board's view, a superior proposal to the Improved MNF Transaction would need to address the Company's imminent requirement for funds with sufficient certainty.

3. Requirement for a capital raise if Improved MNF Transaction does not proceed

Given the Company's expected cash shortfall of around \$1m at the end of December 2018 and the potential for the cash shortfall to increase to \$2.8m at the end of January 2019, if the Improved MNF Transaction does not complete in December 2018, Inabox will have no alternative (if a superior proposal that deals with the Company's requirement for funds does not eventuate) other than to raise at least \$3m (after costs) of new equity before the end of December 2018.

With the Company under a takeover offer, Inabox must seek approval from shareholders for any such equity raising in accordance with ASX Listing Rule 7.9.

4. Breach of defeating conditions

The SB&G Offer as announced is conditional upon SB&G achieving a relevant interest in at least 40% of Inabox shares on a fully diluted basis, rejection of the Improved MNF Transaction by Inabox shareholders and there being no "prescribed occurrences" as defined in sections 652C(1) and 652C(2) of the Corporations Act. Shareholders should be aware that:

- Inabox shareholders approving the Improved MNF Transaction and completion of the Improved MNF Transaction occurring;

- Inabox shareholders resolving to reduce the Company's share capital by way of a capital return; and
 - the Company issuing, or agreeing to issue, shares in the Company under an equity raising,
- are all breaches of defeating conditions under the SB&G Offer (unless waived by SB&G). Accordingly, if any of these events occur, SB&G may seek to withdraw the SB&G Offer, or the SB&G Offer may be unsuccessful (unless SB&G waives the relevant conditions).

In relation to the Improved MNF Transaction and the proposed distribution to shareholders, it should be noted that SB&G announced the SB&G Offer knowing that the Company intended to proceed with a sale of its Indirect Business to MNF Group and had proposed a capital return to shareholders.

Further, based on the Company's very serious financial position, if the Improved MNF Transaction does not complete, the Company has a clear commercial imperative to complete an equity raising.

As noted above, shareholders will be able to vote on the Improved MNF Transaction at the extraordinary general meeting on **7 December 2018 at 10.00 am**. Further, Inabox will also seek shareholder approval at a future extraordinary general meeting for:

- if the Improved MNF Transaction is completed, the capital return; and
- if the Improved MNF Transaction is not completed, an equity raising to raise at least \$3m (after costs).

Ultimately, the Inabox Board wants to offer shareholders a choice between the Improved MNF Transaction and the SB&G Offer within the time constraints that the Company faces.

5. Board recommends Improved MNF Transaction in the absence of a superior proposal and that shareholders take no action in respect to the SB&G Offer

The Inabox Board has compared the SB&G Offer (as announced by SB&G) with the Improved MNF Transaction and based on its analysis, believes the Improved MNF Transaction is, in its totality, superior to the SB&G Offer (on its current terms and conditions).

Accordingly, the Board recommends that shareholders vote for the Improved MNF Transaction in the absence of a superior proposal and take no action in respect to the SB&G Offer.

The key reasons for the Board's recommendation are as follows:

- The Improved MNF Transaction provides shareholders with an expected cash distribution of \$0.90 per share which when grossed up to take into account franking credits amounts to \$1.02 per share pre-tax. This compares to the sale price under the announced SB&G Offer of \$0.90 per share. In addition, the capital gains tax treatment under the Improved MNF Transaction may be more favourable for many shareholders, although shareholders should seek their own tax advice to determine which transaction produces the best after-tax outcome for them.
- If the Improved MNF Transaction is completed in December 2018, Inabox will not be required to raise additional capital. If, however the Improved MNF Transaction is not approved by shareholders in December 2018, Inabox will be required to, subject to shareholder approval,

urgently raise at least \$3m of new capital. If the Company is unable to raise sufficient capital quickly it may be unable to continue to trade in its current form and this could have a significant negative impact on the Company's value. If a capital raising is required, shareholders who do not participate in the capital raising, and do not accept the SB&G Offer, or do accept the SB&G Offer, but it is unsuccessful, will be diluted by the capital raising. The Inabox Board has not decided on the structure of the planned capital raising (whether by way of placement, rights issue or otherwise).

- The Improved MNF Transaction is conditional only upon the approval of Inabox shareholders. MNF Group cannot waive this condition. The SB&G Offer is currently conditional upon SB&G achieving a relevant interest in at least 40% of Inabox shares on a fully diluted basis, rejection of the Improved MNF Transaction by Inabox shareholders and there being no "prescribed occurrences" as defined in sections 652C(1) and 652C(2) of the Corporations Act. SB&G may waive these conditions. The capital raising that will be required if the Improved MNF Transaction does not proceed in December 2018 would currently be a defeating condition to the SB&G Offer as it is a "prescribed occurrence" (unless waived by SB&G). The Inabox Board intends to seek prior shareholder approval for any such capital raising. Further, the conditionality of the SB&G Offer makes the SB&G Offer more uncertain than the Improved MNF Transaction, which is only conditional upon the approval of Inabox shareholders.
- The SB&G Offer provides for the takeover to proceed if, during or before the end of the relevant offer period, SB&G has a relevant interest in at least 40% of all Inabox shares on a fully diluted basis. If SB&G gains control of Inabox but acquires less than 90% of Inabox shares, for those shareholders who do not accept the SB&G Offer, Inabox may remain an ASX-listed company; however liquidity and free float may be substantially reduced, which may affect the ability of remaining Inabox shareholders to sell their shares at fair market value. In addition, if SB&G holds more than 50% of Inabox shares, this will act as a strong deterrent to any future takeover bids for the Company, which may adversely affect the price of Inabox shares (which, in turn, will affect the value of the shares of any Inabox shareholders who do not accept the SB&G Offer).

Risks and disadvantages associated with the Improved MNF Transaction:

- Under the Improved MNF Transaction the consideration from the sale of the Indirect Business is paid to Inabox. Inabox will then repay its debts, retain sufficient capital to meet its known and anticipated obligations and wind down the Company, and distribute all surplus cash to shareholders. There is a risk that Inabox may incur greater costs and expenses than anticipated by the Inabox Board and, as a result, the cash distribution to shareholders could be less than the \$0.90 per share (\$1.02 per share grossed up, pre-tax value) announced by the Company. There is also a risk that Inabox may be unable to obtain shareholder approvals for the distribution of surplus cash to shareholders. In this event the surplus cash would remain within the Company, and a number of possible scenarios could unfold, including delaying or abandoning the distribution to shareholders or a potential back-door listing transaction (which is not the plan of the Inabox board), creating uncertainty for shareholders. This compares to the SB&G Offer in which, once the SB&G Offer is unconditional, \$0.90 per share will be paid directly to shareholders who have accepted the offer.
- Under the Improved MNF Transaction, the Indirect Business will be sold to the MNF Group and shareholders will no longer be able to realise any future value from the Indirect Business or from

holding shares in an ASX listed entity (following, subject to all necessary approvals, the proposed delisting of Inabox and its winding up).

- The Improved MNF Transaction involves the Company selling its main undertaking, which may not be consistent with the investment objectives of all shareholders.
- A distribution or return to shareholders may create a tax liability for some shareholders. Shareholders should seek advice from a tax adviser.

Choices for Inabox shareholders

Inabox shareholders can:

- Vote in favour of the Improved MNF Transaction and take no action or reject the SB&G Offer, once made;
 - If the Improved MNF Transaction is approved and proceeds to completion, vote in favour of capital return to shareholders;
 - If the Improved MNF Transaction is approved and proceeds to completion, vote against capital return to shareholders – shareholders may still be able to accept the SB&G Offer, once made, although this is unlikely;
- Vote against the Improved MNF Transaction and accept the SB&G Offer, once made;
- Vote against the Improved MNF Transaction and take no action or reject the SB&G Offer, once made;
- If the Improved MNF Transaction is not approved:
 - vote in favour of an issue of shares by Inabox to raise capital;
 - vote against an issue of shares by Inabox to raise capital; or
- Take no action.

The Board recommends that shareholders vote for the Improved MNF Transaction in the absence of a superior proposal and take no action in respect to the SB&G Offer.

The table below summarises the key information for shareholders about the Improved MNF Transaction and the SB&G Offer:

	Improved MNF Transaction	SB&G Offer	Notes
Payment /distribution to shareholders	Expected to be \$0.90 in cash per share and an additional \$0.12 per share in franking credits (increasing total distribution to \$1.02 per share pre-tax)	\$0.90 in cash per share	Improved MNF Transaction is expected to provide a higher return. However, IAB shareholders should seek advice from a tax adviser

	Improved MNF Transaction	SB&G Offer	Notes
Inabox funding requirements	No capital raising required if Improved MNF Transaction is completed in December 2018	Capital raising of at least \$3m required before end of December 2018	If the Improved MNF Transaction does not complete in December 2018, shareholders who do not participate in the required capital raising, and do not accept the SB&G Offer, or do accept the SB&G Offer but it is unsuccessful, will be diluted. The IAB board has not decided on the structure of the planned capital raising
Conditions	The Improved MNF Transaction is conditional only upon the approval of Inabox shareholders. MNF Group cannot waive this condition	The SB&G Offer is currently conditional upon SB&G achieving a relevant interest in at least 40% of Inabox shares on a fully diluted basis, rejection of the Improved MNF Transaction by Inabox shareholders and there being no "prescribed occurrences" as defined in sections 652C(1) and 652C(2) of the Corporations Act. SB&G may waive these conditions	The conditionality of the SB&G Offer makes the SB&G Offer more uncertain than the Improved MNF Transaction
Investment in Inabox	All shareholders will receive the same distribution of surplus cash. After finalising the Improved MNF Transaction, the Company will, subject to all required approvals, be delisted and wound up.	Shareholders who accept the SB&G Offer will no longer own shares in Inabox (assuming that the SB&G Offer is successful). Shareholders who do not accept the SB&G Offer may find their investment is less liquid with a single shareholder having a relevant interest in 40% or more of the issued shares.	
Offer Structure	Offer to buy Indirect	Offer to buy shares directly	SB&G Offer does not rely on

	Improved MNF Transaction	SB&G Offer	Notes
	Business from Inabox. Consideration paid to the Company and distributed to shareholders (subject to shareholder approval)	from IAB shareholders	the Company distributing proceeds to shareholders
Timing	If shareholders approve the Improved MNF Transaction at the extraordinary general meeting on 7 December 2018, the Improved MNF Transaction will, subject to there being no unforeseen regulatory or legal issues, complete by 12 December 2018 and shareholders will, subject to shareholder approval, receive a fully franked dividend and the capital return in January 2019	Under the Corporations Act, SB&G must make offers under the SB&G Offer within two months after 15 November 2018, being the date that it announced the SB&G Offer, but it could (and is likely to) make offers earlier. Once SB&G has sent its bidder's statement to Inabox, offers open between 14 and 28 days thereafter. The offer period for the SB&G Offer must last for at least 1 month from the date on which the first offer under the SB&G Offer is made (and could remain open for up to 12 months). If the SB&G Offer is successful, payment of the sale price to Inabox shareholders who accept the SB&G Offer will be made by the end of whichever of the following periods ends earlier (1) one month after the SB&G Offer becomes unconditional; (2) 21 days after the end of the offer period	As at the date of this announcement, the Company has not received a bidder's statement in relation to the SB&G Offer. If the SB&G Offer is successful, the Company does not know when shareholders who accept the SB&G Offer will receive payment for their shares.
Capital gains tax considerations	Capital return of \$0.61 per share (included in the \$0.90 per share distribution to	Sale price of \$0.90 per share	For many shareholders the Improved MNF Transaction may provide a more favourable capital gains tax

	Improved MNF Transaction	SB&G Offer	Notes
	shareholders)		outcome. Shareholders should however seek advice from a tax adviser
Consents	Failure to obtain change of control consents required to be given by Inabox's major customers and suppliers is a risk borne by MNF Group	Failure to obtain change of control consents required to be given by Inabox's major customers and suppliers is a risk borne by the Company and any shareholders who do not accept the SB&G Offer, if it is successful and results in a change in control of the Company	

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About Inabox Group Limited

Inabox supplies wholesale telecommunications and enablement services (its **Indirect Business**), including billing and technical and customer support, to retail service providers around Australia through wholesale brands, Telcoinabox, iVox, Neural Networks and Mobile Service Solutions. Inabox also enables mass-market consumer brands to enter the telecommunications market by leveraging its network and systems capabilities.

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