

ASX Announcement

5th December 2018

Update on Revised Takeover Proposal from SB&G Telecoms

As announced on 4th December 2018, the Board of Inabox Group Limited (ASX: IAB) (**Inabox** or the **Company**) has sought answers to a number of questions about the revised takeover proposal from SB&G Telecoms.

A response from SB&G Telecoms to these questions was received today and is attached to this announcement.

For further details please contact:

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About Inabox Group Limited

Inabox supplies wholesale telecommunications and enablement services, 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.

www.inaboxgroup.com.au



5 December 2018

Mr David Rampa
Chairman, Inabox Group Limited (ASX: IAB)
Level 10, 9 Hunter St
SYDNEY NSW 2000

Dear Mr Rampa

REVISED TAKEOVER OFFER BY SB&G TELECOMS

1. Thank you for your letter dated 4 December 2018 setting out a series of 19 specific questions in relation to our Improved SB&G Offer.
2. Before responding to those questions, SB&G Telecoms wishes to make the following general points:
 - a) Our Improved SB&G Offer is a formal off-market takeover bid under Chapter 6 of the Corporations Act. It is an offer which we are legally obliged to proceed with – and one that we are commercially committed to proceeding with – on the terms and conditions we have previously publicly announced. Our formal offer documentation (i.e. Bidder's Statement) is legally required to be sent to IAB shareholders by no later than 15 January 2019. SB&G Telecoms is well advanced with the preparation of this offer documentation.
 - b) For the avoidance of doubt, our Improved SB&G Offer it is not simply a non-binding, indicative proposal. Our offer is NOT subject to conditions such as:
 - confirmatory due diligence;
 - IAB Board approval; or
 - funding.

The only conditions attached to our formal takeover offer are the three conditions that we have previously publicly announced, namely:

- IAB shareholders vote down the resolution to be considered at the IAB shareholder meeting this Friday, 7 December 2018 to approve the sale of IAB's main undertaking to MNF Group Limited (**MNF**) and any subsequent vote on any offer by MNF;
 - Minimum acceptances of 40% on a fully diluted basis; and
 - No prescribed occurrences.
- Any of these conditions may be waived by SB&G Telecoms.
- c) SB&G Telecoms considers that it is in the best interests of IAB shareholders for the current auction process to be allowed to run its natural course to a conclusion, so that IAB shareholders maximise the value of their shareholding.
 - d) To facilitate a continuation of the current auction process, IAB shareholders need to vote down the MNF proposal at the meeting this Friday, 7 December 2018. If the MNF proposal is approved at that meeting, the auction process would conclude this Friday, in favour of MNF. Any such conclusion would be premature, noting that even if IAB shareholders vote down the MNF proposal at this Friday's meeting, MNF remains free to submit a further revised proposal



that may qualify as a superior proposal to the Improved SB&G Offer that we have now provided to IAB shareholders.

- e) The interests of IAB shareholders are undoubtedly best served by an auction process that is allowed to run its full course, with the IAB Board facilitating the maximisation of shareholder value.
 - f) Importantly this auction process has already seen two offers from SB&G Telecoms as well as a second offer from MNF. In our Improved SB&G Offer, SB&G Telecoms has provided IAB with the ability to continue this auction process by:
 - o Allowing a rights issue to occur without it being a “prescribed occurrence” and creating a termination event under our Improved SB&G Offer; and
 - o Providing IAB with the certainty that it will, if necessary, underwrite the rights issue so that IAB may continue the auction process and shareholders will not be forced into accepting a pre-mature end to this process.
3. Your letter poses 19 specific questions, many of which, whilst being asked in relation to various topics are effectively the same enquiry. By way of example, questions 1, 2 and 9 seek confirmation of IAB bank consents.
 4. Given the limited time that IAB has set us for a response (i.e. by 9am Wednesday 5th December 2018), we do not propose to respond to each of those 19 questions individually (noting that further verbal questions were received from IAB’s financial adviser subsequent to your letter of 4 December 2018 after 6pm on the same day). Rather, we respond below to the five broad themes raised by your 19 questions. We believe that these responses should provide sufficient clarity to ensure IAB shareholders are adequately informed in relation to the matters you have raised.
 5. We thank the IAB Board for its consideration of our offer to date. SB&G Telecoms remains willing and able to work with the IAB Board to resolve any continuing issues or concerns it may have in response to our Improved SB&G Offer. We reiterate that by working with SB&G Telecoms a superior outcome may be achieved for all shareholders of IAB.
 6. Capitalised terms not otherwise defined in this letter have the meaning given in SB&G Telecoms’ ASX / Media release dated 3 December 2018.

Bank Consent

7. Representatives of SB&G Telecoms have recently met with IAB’s bank and have had constructive discussions regarding the future of IAB and its debt position. IAB’s bank would appreciate that the current auction process is fluid. In those circumstances, it would be difficult for IAB’s bank to provide any firm commitment to the structural elements of any offer by SB&G Telecoms or a new bidder, but they did provide the key parameters for ongoing support. SB&G Telecoms believes that the Improved SB&G Offer in totality will be acceptable to the IAB bank where these key parameters are met. SB&G Telecoms believes these parameters are addressed in the Improved SB&G Offer.
8. Specifically, SB&G Telecoms has not received any indication to date from IAB’s bank that it would withhold its consent to allow the Improved SB&G Offer to proceed or that the current facility is likely to be removed or revoked should the shareholders of IAB ultimately decide to support an offer from SB&G Telecoms.

Payment of Special Dividend

9. The Special Dividend component of our Improved SB&G Offer was developed in response to specific feedback from key IAB shareholders who informed us that the ability to access IAB’s accumulated franking credits is important to them. Special Dividends feature in many corporate



transactions (takeovers, schemes of arrangement, etc.) and in each case the approach to achieving the optimal outcome is different. SB&G Telecoms undertakes to work with IAB to ensure that ALL franking credits (\$3.1 million as disclosed in IAB's 2018 Annual Report) are released to shareholders receiving the Special Dividend as a result of this proposed transaction.

10. SB&G Telecoms confirms that if IAB wishes to proceed with a capital raising by way of a rights issue, with that capital raising being on the key terms we have previously publicly announced, the Improved SB&G Offer will extend to all new shares issued under the rights issue. By extension, the holders of those new shares would be eligible to participate in the Special Dividend. SB&G Telecoms acknowledges that this would increase the total quantum of the Special Dividend. SB&G Telecoms confirms that its funding would be increased accordingly.

Importantly this would deliver each participating shareholder in the rights issue an opportunity to achieve a profit of \$0.03 per share on each share subscribed for under the rights issue, being the difference between the rights issue price (i.e. 92 cents) and the Improved SB&G Offer price (i.e. 95 cents).

11. SB&G Telecoms will provide an unsecured loan to IAB to fund the Special Dividend. The repayment terms for this loan will have due regard to IAB's existing indebtedness and other financial considerations, but importantly will also include a conversion right at the option of IAB, which means at all times IAB will have an ability to repay this loan should it so desire. Therefore, IAB should be no worse off in terms of its ability to pay its creditors than if no special dividend formed part of the Improved SB&G Offer.
12. In summary, all of the queries regarding the Special Dividend relate to matters which can be resolved to achieve SB&G Telecoms' stated intention of delivering the available franking credits to shareholders of IAB as part of the Improved SB&G Offer. SB&G Telecoms will work constructively with the IAB Board and its bank to seek to develop the optimal pathway to allow IAB to pay a fully franked dividend within the framework of IAB's existing financial position, the terms of its existing bank facility and all applicable legal requirements.

Financial Capacity

13. The Improved SB&G Telecoms Offer does not contemplate the repayment of IAB's existing banking facilities nor does SB&G Telecoms understand that this is a current requirement of IAB's bank.
14. The Improved SB&G Offer is fully funded. Further, SB&G Telecoms is fully aware of the legal requirement to have certainty as to its funding arrangements for its Improved SB&G Offer. Full details of SB&G Telecoms' funding arrangements will be set out in its forthcoming Bidder's Statement. **For the avoidance of doubt, SB&G Telecoms has available capital in excess of that required to fund the Improved SB&G Offer.**

Financial support to IAB

15. IAB announced on 19 November 2018 that *"if the sale of the company's main undertaking or a take-over bid (**Corporate Transaction**) does not proceed, Inabox is well positioned to continue trading profitably and management will continue to right-size and optimise the business to capitalise on its growth opportunities and maximise profitability".* [emphasis added] Somewhat surprisingly, IAB then announced on 23 November 2018 that *"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".* [emphasis added]
16. In any event, SB&G Telecoms understands the position to be that if the MNF proposal is not approved by shareholders and not completed by the end of December 2018, IAB would be required to raise at least \$3 million (after costs) of new equity in a timely manner.



17. SB&G Telecoms reiterates that it will work constructively with the IAB Board (and, if required, its bank) to facilitate this. To that end, SB&G Telecoms has offered to underwrite this capital raising.
18. If IAB requires SB&G Telecoms to underwrite a capital raising by way of a rights issue, SB&G Telecoms expects that only market standard termination events would be included in any underwriting agreement to ensure the arrangement is on arm's length terms. This is the only key commercial term that SB&G Telecoms would require in addition to those detailed in the Improved SB&G Offer.
19. With regard to IAB's imminent funding requirements and as to whether financial support will need to be provided by SB&G Telecoms by 31 December 2018, these are matters which IAB will be better placed to confirm. However, SB&G Telecoms reiterates its commitment to working constructively with IAB and its bank to meet any immediate funding requirements.

Sequence of steps and timing

20. Subject to the matters outlined earlier in our response, the sequence of steps and timing outlined in item 13 of your letter are broadly consistent with SB&G Telecoms' understanding, although we would expect that the rights issue and associated documentation would have priority. This would allow the auction process to continue. Many of the other matters (including any bank consent) could be progressed whilst the auction process remains ongoing.
21. That being said, SB&G Telecoms reiterates that it is committed to working together with IAB and its bank to potentially merge or abridge any of these proposed steps with the overall imperative of allowing IAB shareholders to receive payment for their IAB shares under the Improved SB&G Offer as soon as practicable.
22. In addition, we make the following specific observations/responses that whilst technical in nature, address a number of points raised by IAB:
 - a) **Shareholder approval under ASX Listing Rule 7.9 for the proposed underwriting arrangements or the shortfall facility:** This is ultimately a matter for IAB and its board to form its own view on, but from SB&G Telecoms' perspective, based on legal advice it has received, the prohibition under ASX Listing Rule 7.9 is not enlivened in the context of the issue of new IAB shares under a pro rata rights issue (see Exception 2 of ASX Listing Rule 7.9). Accordingly, this means that shareholder approval will not be required under ASX Listing Rule 7.9.
 - b) **Shareholder approval for the unsecured loan:** SB&G Telecoms does not expect that the unsecured loan to fund the Special Dividend will require shareholder approval under either:
 - item 7, section 611 of the Corporations Act (as relevant interests do not extend to unissued shares); or
 - ASX Listing Rule 7.1 (as the conversion is likely to only take place once IAB is delisted).

In the event shareholder approval was required, minimum acceptances of 40% would have been achieved and therefore shareholder approval at any vote on this matter would almost be assured.

- c) Details regarding the timing of the Improved SB&G Offer and the timing of the Special Dividend will be disclosed in SB&G Telecoms' Bidder's Statement, which, as previously advised, SB&G expects to shortly lodge with the Australian Securities and Investments Commission and send to IAB shareholders, subject only to IAB shareholders not approving the Latest MNF Group Offer at the shareholder meeting scheduled for 7 December 2018. However, SB&G Telecoms confirms that it is conscious of the importance of proceeding on an accelerated basis:



- The Board of IAB may, in its discretion, accelerate the date at which the Improved SB&G Offer may open by up to 14 days; and
- If the Improved SB&G Offer is ultimately supported by shareholders and the IAB Board, we are committed to working constructively with the IAB Board to proceed to deliver an accelerated offer so IAB shareholders can receive the benefit of the Improved SB&G Offer in a timely manner.

Please contact Paul Salter on +61 414 508 994 (paul.salter@sbggroup.com.au) for further information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Salter', written over a light blue rectangular background.

Paul Salter
Director
SB&G (Telecoms) Pty Ltd