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**16 February 2017**

**ASX Announcement**

## **\$8.5m capital raise and acquisition of Morrison Geotechnic and OCTFOLIO**

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### **HIGHLIGHTS**

- Acquisition of Morrison Geotechnic, a leading Queensland geotechnical engineering and NATA laboratory testing firm, for \$3.75m and cash earn-out up to \$0.75m
- Acquisition of OCTFOLIO, provider of a specialised software solution for the asbestos and hazardous materials market, for \$2.75m and cash earn-out up to \$0.75m, subject to shareholder approval
- ~\$8.5m capital raise, consisting of a ~\$5.8m partially underwritten non-renounceable 4-for-11 Entitlement Offer and a \$2.75m Private Placement to the OCTFOLIO Vendors, who include entities associated with two Directors of the Company, subject to shareholder approval

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### **Acquisition of Morrison Geotechnic**

On 9 February 2017, HRL Holdings Limited (**HRL** or the **Company**) entered into a Share Sale Agreement with the shareholders of Morrison Geotechnic Holdings Pty Ltd (**Morrison**) to acquire all of the issued capital in Morrison.

#### **About Morrison**

Morrison provides engineering and laboratory services to the civil, engineering and construction industries, primarily across South East Queensland, with 3 branches in Brisbane, the Gold Coast and the Sunshine Coast. The Company has been established for over 17 years and has a portfolio of over 12,000 completed projects.

Morrison provides a range of services and analysis including:

- Geotechnical investigations and studies;
- Temporary works designs and inspections;
- Construction phase verification;
- Earthworks supervision;
- Soil, concrete and aggregate testing in its NATA accredited laboratories; and
- Onsite mobile laboratory testing.



## Strategic Rationale

HRL has identified the following key strategic reasons to acquire Morrison:

Established Performing Business	Industry Leading Performance
<ul style="list-style-type: none"> <li>✓ High level of repeat revenues with around 65% revenues deriving from existing major customers and referrers</li> <li>✓ Blue-chip customer base</li> <li>✓ Operated by an experienced and qualified management team who are continuing after acquisition</li> <li>✓ Balanced portfolio of clients with its top 10 customers accounting for only around 54% of revenues</li> <li>✓ Diversified revenues sourced across NATA laboratory and engineering services over 3 locations</li> <li>✓ Synergy achieved between services with large scale engineering work generating laboratory work</li> </ul>	<ul style="list-style-type: none"> <li>✓ 3-year average normalised EBITDA of \$1.3 million</li> <li>✓ Consistent revenues in excess of \$7.5 million over the past 4 years</li> <li>✓ Average gross profits margins of around 39% over the past 4 years</li> <li>✓ Average EBITDA margins of around 12% over the last 4 years, growing to 17% in the last 2 years.</li> <li>✓ Consistent and successful focus on high margin work</li> <li>✓ Very low levels of bad debts due to repeat tier 1 client base</li> <li>✓ Strong working capital position</li> </ul>
Significant Competitive Advantage	Tangible Opportunities for Growth
<ul style="list-style-type: none"> <li>✓ Highly regarded brand - established 17 years</li> <li>✓ Limited direct competition of comparable geotechnical firms with credible scale due to breadth of engineering and laboratory expertise</li> <li>✓ Operate at scale with 58 staff across 3 locations</li> <li>✓ Exceptionally loyal and experienced workforce</li> <li>✓ Portfolio of over 12,000 completed projects</li> <li>✓ 50 to 60 active clients at any one time</li> <li>✓ NATA and ISO9001 accredited</li> <li>✓ Pre-Qualified Contractor with QLD Dept. Housing and Public Works</li> <li>✓ Standing Offer Arrangement with QLD Dept. Transport and Main Roads</li> <li>✓ Client relationships shared amongst management team, i.e. not dependent on any single Owner</li> </ul>	<ul style="list-style-type: none"> <li>✓ Recent project wins have increased the Business' pipeline for the next 12-24 months</li> <li>✓ Recent ISO9001 accreditation will enable the Business to bid for a greater range of work</li> <li>✓ Recent Pre Qualified Contractor status with Department of Housing and Public Works could generate new revenues</li> <li>✓ Application of resources could enable the business to qualify for tier 1 contractors and developers</li> <li>✓ Opportunity for regional expansion (such as Toowoomba) by increasing human resource and project management capability</li> </ul> <p>Investment in technologies to support field staff real-time data collection and sample registration</p>



## Acquisition Details

In consideration for 100% of the share capital of Morrison, HRL will pay a purchase price of up to \$4,500,000 to the vendors of Morrison (**Morrison Vendors**).

The purchase price is broken down as follows:

- \$3,750,000 cash on completion of the Morrison acquisition; and
- Up to \$750,000 cash earn-out, based on financial performance of Morrison and tenure of the Morrison Vendors.

The earn-out consideration is based on the Morrison business achieving a target earnings before interest and taxes (**EBIT**) for the 12 months after settlement, according to the schedule tabled below:

EBIT	Earn-Out Consideration
Less than \$1.1 million	Nil
\$1.1 to less than \$1.3 million	\$250,000
\$1.3m to less than \$1.5 million	\$500,000
\$1.5 million or above	\$750,000

If achieved, the earn-out consideration will be paid in two tranches:

- 50% after 12 months following settlement; and
- 50% in 12 equal monthly instalments thereafter.

Payment of the earn-out consideration is also contingent on the four Morrison Vendors' continuing service with Morrison. The Morrison Vendors will remain employed with Morrison for a minimum period of two years after acquisition. In the event where the Morrison Vendors' employment is terminated prior to completing one year of service, no earn-out consideration is payable. If the Morrison Vendors' employment is terminated after one year but before the minimum two-year period, the earn-out consideration will be reduced proportionately to the length of time not employed.

Completion of the Morrison acquisition is conditional on a number of events including:

- HRL receiving finance for payment of the purchase price;
- Morrison having a minimum working capital position of \$150,000 as at the date of completion; and
- Other conditions which are standard for a transaction of this nature.

## Proposed acquisition of OCTFOLIO

On 14 February 2017, HRL entered into a Share Sale Agreement with the shareholders of Integrated Holdings Group Pty Ltd (**IHG**) to acquire 100% of the issued capital in IHG. IHG is the holding entity of OCTFOLIO Pty Ltd (**OCTFOLIO**) and has no other operations or assets.

IHG is owned by:

- Tulla Property Partners Pty Lt as trustees for the Tulla Property Partners Trust (an entity associated with Kevin Maloney; and
- Darren Anderson and Julie Anderson as trustees for the DG and JE Anderson Family Trust (an entity associated with Darren Anderson); and
- Craig Anderson and Amanda Anderson as trustees for the CM & AM Anderson Family Trust; and
- Gregory Anderson and Nancy Anderson as trustees for the GJ & NJ Anderson Family Trust, (collectively **Octfolio Vendors**)



## About OCTFOLIO

OCTFOLIO is an Australian-based specialised software vendor focused on the development and implementation of:

- Information management software solutions for asbestos and hazardous materials;
- Innovative field management software solutions; and
- Customised compliance solutions and applications relating to workplace health and safety.

OCTFOLIO provides the following services:

- Hosting of HAZMAT compliance data and registers;
- Quality management systems;
- Laboratory management systems;
- Field surveying tools;
- On demand programming services;
- Data migrations; and
- Training.

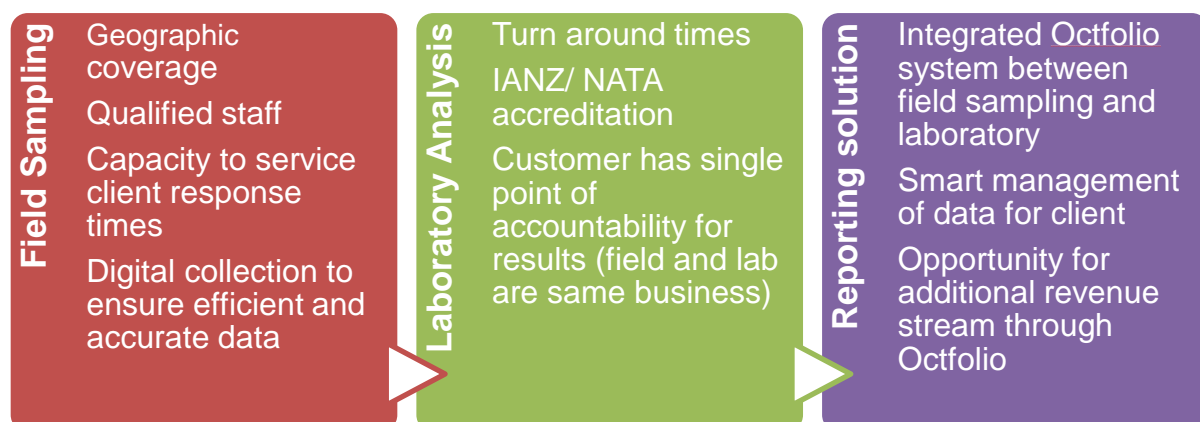
## Strategic Benefits

HRL has identified 3 key strategic reasons to acquire the OCTFOLIO business:

1. Complementary and Enhanced Service Offerings to HRL's Existing Businesses.

The OCTFOLIO software is substantially differentiated from current solutions and provides a key point of difference for HRL from other environmental service businesses. The software has been a significant contributor to HRL's current success winning large ongoing contracts with 'tier-1' corporate and government clients and is expected to continue to be so into the future.

Acquisition of the OCTFOLIO business allows HRL to protect the third pillar of its strategic point of difference, allowing HRL to secure large facility provider contracts.





## 2. Exposure to Other HAZMAT Revenue Streams.

OCTFOLIO has been successful in its own right in securing long-term contract to host client's HAZMAT registers and data that are not related to HRL. Examples of which include, but are not limited to:

- Adelaide City Council
- Centacare
- Mackay Regional Council
- Northern Territory Christian Schools
- Northern Territory Department of Health
- Tasmania Department of Education
- Tasmania Department of Health

On acquisition, HRL will immediately benefit from these contracts and will be able to directly market its other field services to these organisations.

Assuming the successful completion of the acquisition of Morrison, HRL intends to roll out the OCTFOLIO laboratory management system and field surveying module to deliver labour efficiencies and minimise data risk in this business.

HRL may also potentially licence the OCTFOLIO software to other HAZMAT service providers in geographic territories where it is not cost effective for the HRL Group to provide field services.

## 3. Expand OCTFOLIO to Different Markets.

The OCTFOLIO product is primarily used for HAZMAT registers and data collection may be adapted to cover a much wider range of asset tracking and auditing. HRL would look to quickly roll out additional modules and market, through a reseller network, OCTFOLIO to a much wider range of asset managers and owners.

Identified new market opportunities include:

- Fire and sprinkler systems;
- Ladders;
- Health and safety compliance;
- Security and disability access;
- Building condition and warrant of fitness;
- Electrical test and tag.

Most of the service providers operating in these industries collect and control the data directly. OCTFOLIO is marketed to the asset owner/operator and allows them to take back ownership of their data. This gives analytical power to the asset owner and permits smarter decisions around procurement and risk management across their portfolio.

### **Acquisition Details**

In consideration for 100% of the share capital in IHG (the holding entity for OCTFOLIO), HRL will pay a purchase price of up to \$3,500,000 to the OCTFOLIO Vendors.

The purchase price is broken down as follows:

- \$2,750,000 cash on completion of the IHG acquisition; and
- Up to \$750,000 cash earn-out consideration, based on financial performance of OCTFOLIO.

The purchase price is subject to adjustments pursuant to the IHG Share Sale Agreement. The OCTFOLIO Vendors are liable for all taxes payable until settlement. If lodgement of the tax return results in a refundable position this will be passed back to the OCTFOLIO Vendors.



The earn-out consideration is based on the OCTFOLIO business achieving a target EBIT for the 24 months after settlement, according to the schedule tabled below:

#### Tranche 1

12 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$300,000	Nil
Not less than \$300,000	\$375,000

#### Tranche 2

13 Months to 24 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$450,000	Nil
Not less than \$450,000	\$375,000

Completion of the IHG acquisition is conditional on a number of factors, including:

- all necessary ASX and ASIC approvals, waivers and confirmations being obtained by HRL;
- all necessary shareholder approvals being obtained by HRL;
- HRL receiving finance for payment of the Purchase Price;
- IHG having a minimum working capital position of \$50,000 as at the date of completion; and
- other conditions which are standard for a transaction of this nature.

Meeting materials including and independent expert report on the proposed transaction will be distributed in the coming weeks and will contain further detail in relation to the proposed transaction.

### Capital raising

HRL is seeking to raise up to ~\$8.5 million via:

- A non-renounceable 4-for-11 entitlement offer to raise ~\$5.8 million; and
- A placement to raise \$2.75 million (subject to shareholder approval)

#### Entitlement Offer

HRL is undertaking a non-renounceable 4-for-11 Entitlement Offer of approximately 57.8 million new fully paid ordinary shares in HRL (**New Shares**) to raise approximately \$5.8 million (**Entitlement Offer**). New Shares issued under the Entitlement Offer will rank equally with existing shares.

The offer price for the Entitlement Offer will be \$0.10 per New Share (**Offer Price**). The Offer Price represents:

- 24.8% discount to HRL's theoretical ex rights price<sup>1</sup> (**TERP**);
- 31.0% discount to HRL's closing share price on 9 February 2017, the trading day immediately prior to HRL entering into a trading halt in connection with the Entitlement Offer;
- 27.1% discount to the 5 trading day volume weighted average price (**VWAP**) of HRL's shares ending on 9 February 2017; and
- 26.4% discount to the 30 trading day VWAP of HRL's shares ending on 9 February 2017.



Under the Entitlement Offer, eligible shareholders will be able to subscribe for 4 New Share for every 11 existing shares held at 7.00pm (Sydney time) on 24 February 2017 (**Record Date**) at the Offer Price (**Entitlements**).

The Entitlement Offer is partially underwritten to \$5,000,000 by Canaccord Genuity (Australia) Limited.

As the Entitlements will be non-renounceable, they will not be tradeable on ASX or otherwise transferable. Shareholders will not receive any value for those Entitlements that they do not take up. Shareholders who are not eligible to receive Entitlements will not receive any value for the Entitlements they would have received had they been eligible.

HRL will notify shareholders as to whether they are eligible to participate in the Entitlement Offer. Eligible shareholders will receive an Offer Document including a personalised entitlement and acceptance form which will provide further details of how to participate in the Entitlement Offer.

Each of the OCTFOLIO Vendors has advised the Company that they will not participate in the Entitlement Offer.

### **Placement**

HRL is also undertaking a Private Placement of \$2.75 million at the Offer Price (**Placement**), which has been fully subscribed for by the OCTFOLIO Vendors. The Placement will be subject to shareholder approval at an Extraordinary General Meeting (**EGM**) to be held on or about the 29 March 2017.

Canaccord Genuity (Australia) Limited (**Canaccord**) is acting as Lead Manager to the Entitlement Issue and Placement.

Canaccord was appointed as the Company's corporate advisor on 11 November 2016.

### **Use of Funds**

The proceeds of the Entitlement Offer and Placement will be applied towards:

- Acquisition of OCTFOLIO (\$2.75m);
- Acquisition of Morrison (\$3.75m);
- Debt repayment (\$1.20m);
- Costs of the offer (\$0.44m); and
- Working capital requirements (\$0.39m).



### Entitlement Offer Timetable<sup>2</sup>:

HRL expects that the Entitlement Offer will be conducted according to the following timetable:

Event	2017 Date
Announcement of the Entitlement Offer	Thursday, 16 February
Ex-date	Thursday 23 February
Record Date	Friday 24 February
Information Booklet and Entitlement & Acceptance Form despatched	Tuesday 28 February
Entitlement Offer opens	Tuesday 28 February
Closing date for acceptances under Entitlement Offer	Tuesday 14 March
Company notifies ASX of under subscriptions	Friday 17 March
Allotment of New Shares under the Entitlement Offer	Tuesday 21 March
Normal ASX trading for New Shares issued under the Entitlement Offer commences	Wednesday 22 March

1. The theoretical ex-rights price of A\$0.133 is calculated using HRL's closing price on 9 February 2017 assuming proceeds from the Entitlement Offer of A\$5.8m. TERP is the theoretical price at which shares should trade immediately after the ex-date for the Entitlement Offer assuming 100% take-up of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the TERP.
2. All dates are indicative only and subject to change. HRL and the Canaccord reserve the right to withdraw or vary the timetable without notice.

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