

# ASX RELEASE

27 April 2017

## Spotless lodges Target's Statement and recommends shareholders REJECT Downer's offer

Spotless Group Holdings Limited ("Spotless") (ASX: SPO) has today lodged its Target's Statement with the Australian Securities Exchange in response to Downer EDI Limited's (ASX: DOW) unsolicited and highly conditional off-market takeover offer to acquire all your Spotless shares for \$1.15 per Spotless share.

As announced to the market on 24 April 2017, the Spotless Directors unanimously recommend that shareholders REJECT the Downer Offer.

The Spotless Directors have undertaken a comprehensive review of Spotless' earnings outlook in their evaluation of the Offer. The following guidance and outlook commentary should be read together with the detailed commentary, basis of preparation, key assumptions and key risks set out in the Target's Statement.<sup>1</sup>

### Spotless' FY17 and FY18 earnings guidance

Spotless re-affirms its FY17 NPAT guidance of \$80 – 90m.<sup>2</sup>

Spotless does not believe that current broker forecasts for FY18 fully reflect the expected performance of the Company due to a number of factors, described in the Target's Statement, including the following:

- Spotless expects the benefits of the contract book rationalisation, which forms part of the Company's strategy reset, will remove the 'drag' of uneconomic contracts on earnings and re-orientate the portfolio to higher margin contracts in attractive, high growth end-markets;
- the contract book rationalisation is expected to deliver a simplified business model and reduced sector and corporate overhead post restructure which is expected to support earnings growth over the period to which the NPAT Guidance relates; and
- an improvement in Spotless' net leverage position and resultant reduction in net interest expense driven by net debt reduction initiatives.

<sup>1</sup> Refer to section 5.4, section 7 and attachment C of the Target's Statement.

<sup>2</sup> Refer to Spotless' 1H17 results announcement dated 28 February 2017. The Spotless Directors continue to consider that the earnings guidance provided in that announcement is sound and is given on a reasonable basis.

# ASX RELEASE

Within the context of the above expected benefits and subject to the assumptions, risk factors and other matters set out in the Target's Statement, the Spotless Directors provide the following earnings guidance:

	<b>FY17</b> (Spotless guidance)	<b>FY18</b> (Spotless guidance)	<b>FY18</b> (Average broker forecast)
NPAT (pre-exceptional items)	\$80 – 90m	\$85 – 100m	\$83m

## Medium to long term outlook

The Spotless Directors are confident that the strength of Spotless' core business and contract portfolio, together with the forecast business trends and performance in FY18 will drive continued growth into FY19 and the longer term. This is expected to be driven by increasing benefits associated with the strategy reset including:

- focus on priority growth sectors and higher margin contracts;
- further implementation of the contract book rationalisation and associated overhead reduction; and
- continued improvement in Spotless' leverage position.

The Spotless Directors do not believe that the Downer Offer represents adequate value for Spotless Shares for the following reasons detailed in the Target's Statement:

- The Downer Offer is opportunistic and timed to take advantage of a historical Spotless share price low
- Management and the Board have a clear plan to deliver earnings growth and long term value to shareholders
- Despite Spotless only recently implementing its strategy reset, early signs of success are evident and demonstrate its growth potential
- The Offer does not reflect Spotless' strong core business
- Spotless' earnings expectations are not fully reflected in current broker views
- The Offer does not recognise the strategic and financial value of Spotless to Downer
- The Offer is hostile, highly conditional and not certain to proceed

# ASX RELEASE

- Coltrane Asset Management has accumulated relevant interests in 10.37% of Spotless Shares on issue<sup>3</sup> and currently intends to reject the Offer at the current offer price<sup>4</sup> (although it has not made any final decision and reserves the right to take any action it considers appropriate in relation to the Offer)

In considering the Directors' recommendation, Spotless shareholders should review the comprehensive information provided in the Target's Statement lodged today.

Each Director who holds or controls Spotless Shares intends to REJECT the Offer in relation to those Spotless Shares.

Spotless Chairman, Garry Hounsell, said: *"Your Directors have been and continue to focus on exploring all options to maximise value to shareholders – either in its current form as an independent listed entity executing on the strategy reset and returning to growth or exploring options in relation to a superior proposal to the current Downer Offer."*

*"If we remain an independent listed entity, the Directors are confident that the fundamental strengths of Spotless' core business, together with management's execution of the strategy reset will deliver greater value to Spotless' shareholders than the Downer Offer in the medium term."* Mr Hounsell said.

All company announcements and information on the Offer are available on the Spotless website at [www.spotless.com](http://www.spotless.com). Shareholders can also receive further information on the Offer by calling the Spotless Shareholder Information Line below:

Within Australia: 1300 963 991  
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<sup>3</sup> As set out in Spotless' ASX release dated 3 April 2017, Coltrane's relevant interest in 10.37% of Spotless shares on issue is through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless' second largest shareholder.

<sup>4</sup> If it becomes the holder of those shares.