



Wattle Health Australia to acquire a majority holding in leading nutritional dairy manufacturing facility

- **Wattle Health Australia (WHA) has entered into a conditional agreement to purchase an additional 46% of the shares in CNCA accredited dairy products processing and packaging facility, Blend and Pack Pty Ltd (B&P), for \$46 million.**
- **B&P is the leading independent nutritional dairy processing and packaging business by volume with a long history of profitability.**
- **The proposed B&P acquisition is intended to be funded by way of a debt issue to be managed by international capital advisory firm, Exotix Capital (Exotix).**
- **As part of the proposed acquisition terms WHA is also to enter into a Put & Call Option Deed relating to an acquisition of a further 29% interest in B&P.**
- **On satisfaction of the conditions and completion of the acquisition of 46% of B&P, this will increase WHA's stake in B&P to a controlling 51% as part of WHA's vertical integration strategy "*from the farm gate to the consumer*".**
- **WHA group on completion of Acquisition will have total assets circa \$165 million.**

11 February 2019: Wattle Health Australia Limited (WHA:ASX) has entered into a conditional purchase agreement (Purchase Agreement**) with a wholly owned subsidiary of Mason Holdings Limited (**Mason**) to purchase an additional 46% of Australia's largest independent nutritional dairy manufacturer, Blend & Pack (**B&P**), for \$46 million plus undistributed earnings, taking its total holdings in B&P to 51%.**

As part of the proposed acquisition WHA is also to enter into a Put and Call option with Mason to buy the balance of Mason's shareholding in B&P (being 29% after the purchase under the conditional Purchase Agreement) at a base purchase amount of \$30.1 million (plus a cumulative fixed amount and an earn out component). Further details of both the Purchase Agreement and the Put & Call Option are set out in the attached Annexure.

On completion of the initial 46% purchase of B&P, WHA total assets will be circa \$165 million.

About B&P

B&P is the largest (by volume) independent, nutritional dairy processing and packaging business in Australia and one of the first Australian manufacturers to obtain Certification and Accreditation Administration of People's Republic of China (**CNCA**).

B&P manufactures / processes dried dairy products for major domestic and international nutritional dairy companies, with a long history of positive earnings. B&P for FY17 recorded revenue of circa \$26 million with an EBITDA of circa \$4.4 million. FY18 due to the delay in approval for SAMR accreditation recorded revenue of in excess of \$20 million with an EBITDA in excess of \$3 million and in FY19 is on track to match the revenue figures of FY18.

Looking forward projected revenue for B&P for FY20 (subject to SAMR approval for B&P nominated brands) is \$31.2 million ramping up to \$59 million for FY21.



WHA's proposed additional purchase of a further 46% of B&P will take WHA's total shareholding to 51%, reflecting WHA's strategic objective of being the only Australian vertically integrated organic nutritional dairy company.

Vertical integration



WHA's Executive Chairman, Lazarus Karasavvidis said the proposed acquisition of B&P puts WHA in a unique position to add value across every aspect from the farm gate, processing and production supply chain and distribution.

"With this acquisition WHA becomes a fully vertically integrated Australian organic dairy company with influence, control and bricks and mortar investments through the entire value chain – from the farm gate to the consumer."

"We now have the ability to influence every step in the production process with the objective that our Wattle products contain only the highest quality Australian ingredients with products manufactured and packaged to world's best standards", Mr Karasavvidis said.

The acquisition of further shares in Blend and Pack will also bring WHA a step closer to realising its sales and distribution ambitions into key offshore markets such as China.

"As an accredited manufacturer under China's Certification and Accreditation Administration (CNCA), Blend and Pack is crucial to WHA securing a critical distribution channel into a market where a burgeoning middle class is driving demand for clean, green, Australian nutritional dairy products.", Mr Karasavvidis said.



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Finance for the conditional Purchase Agreement

The funding for WHA's acquisition of B&P is intended to be raised via a debt issue (**raise**), to be managed by international capital advisory firm, Exotix Capital (**Exotix**). The proposed terms of the raise have not been finalised but would be a private debt placement. When finalised, further details of the proposed debt issue will be announced to the market.

The proposed debt issue funding is being pursued by WHA to ensure that at current share prices there is no further dilution to shareholders in respect of the B&P acquisition (which would occur if there was an equity issue), while at the same time increasing the net asset base and revenue potential for the WHA group.

Lazarus Karasavvidis noted the importance of the structure of a debt deal to be managed by Exotix. *"To be able to raise the capital efficiently by tapping the capital markets directly in a manner which does not dilute existing WHA shareholder's equity holdings was very important to us"*, he said.

Duncan Wales (CEO, Exotix) confirmed, *"As a leading organic dairy company, we believe Wattle Health will have significant appeal to North American Private Placement debt investors who will value Wattle Health's exposure to high growth Asian markets and commitment to clean, organic products."*

CBDG

On successful completion of the debt issue raise, WHA intends to terminate the Prospere Advisors Ltd loan announced on 14 June 2018 secured to assist WHA in its funding obligations relating to construction of the organic spray drying facility by Corio Bay Dairy Group Ltd (**CBDG**). The funds represented by the Prospere Advisors Ltd loan (to be replaced as part of the application of funds raised in the proposed debt raising to be managed by Exotix) together with existing funding from WHA, is to be used for the construction of Australia's first dedicated organic nutritional spray dryer.

As announced on 30 October 2018, CBDG has managed to reduce the initial projected build cost for the organic spray dryer and, as a result, it is anticipated that WHA's financial commitment to CBDG will correspondingly be reduced.

WHA shareholder approval

The acquisition of B&P (including the entry into the Put and Call Option Deed) is subject to a number of conditions including WHA shareholder approval with a planned Extraordinary General Meeting (**EGM**) to be held in March 2019. Full details of the impact of the B&P transaction and the proposed debt raise will be disclosed in the Notice of Meeting to be dispatched to all shareholders for the proposed EGM.

About Exotix Capital

Exotix Capital provides a comprehensive and integrated cross-asset platform designed to penetrate the full capital structure in developing markets worldwide. Exotix analysts span emerging markets, Europe, the Middle East, Africa, Asia and the Americas covering over 170 companies and government entities. Stretching well beyond the equity and fixed-income markets, the Exotix advisory team provides the full range of investment banking services to companies, financial institutions, investment funds and governments. These include strategic advisory assignments from debt capital to private equity fund raising. More information is available at www.exotix.com.

About WHA

Wattle Health aspires to become a company globally recognised for offering superior quality, organic and sustainable products which promote health and wellness at all stages of life.

Wattle Health uses natural ingredients derived from Australia's pure water, clean air and organically fertile soils. We carefully prepare and pack in ways designed to preserve nutrients. Wherever possible, we source certified organic ingredients which are totally free of fertiliser or pesticide residues. Our pristine Australian provenance and quality-assured supply chain guarantees the highest possible standards of purity.

We support Australian farmers who embrace these soil management practices. We translate consumer demand for pure organic nutrition into a reward for maintaining soil biodiversity, to produce naturally superior products which can be enjoyed for generations to

come. Ultimately, our aim is to make the sustainable Australian goodness of certified organic health and wellness products widely available to families across the globe.

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Annexure

1. Background to the proposed acquisition of an additional 46% of B&P

WHA has entered into a conditional agreement (**SPA**) with GL Food Pte Ltd (**GL Food**), whose ultimate parent entity is Hong Kong listed Mason Group, for WHA to acquire from GL Food, subject to the satisfaction of a number of conditions precedent, 46% of the total issued share capital of Blend & Pack for approximately A\$47.7 million (**Tranche 1**).

Tranche 1 when combined with WHA's existing 5% interest in Blend & Pack, would on closing of Tranche 1 give WHA an aggregate 51% shareholding interest in B&P.

As part of the transaction, WHA is also to enter into a Put and Call Option Deed with GL Food (**Put and Call Option Deed**) conferring options (which may be exercised by either party during periods over the 4 years from SPA completion) over a further 29% shareholding interest in B&P (less any transfers to Third Parties made by GL Food during that period) (**Tranche 2**).

The option relating to Tranche 2 is only exercisable by either WHA or GL Food (except in the case of a default) on the earlier of:

- where Blend & Pack achieves an EBIT of at least A\$7,500,000, after the first 2 years from the date of SPA Completion; or
- between 45 and 48 months after signing the Put and Call Option Deed.

The exercise price under the Put and Call Option Deed is calculated based on a ratchet (or earn out) to reflect the actual performance of the B&P business in the period up to exercise of the option.

The minimum exercise price is:

- up to A\$9.5 million in option fees (scale depending on when exercised); plus
- A\$30 million (fixed purchase price component); plus
- up to A\$46.1 million (fixed and variable earn out component) less the amount of the option fees to be paid (as outlined above).

The total maximum purchase price payable by WHA for the combined Tranche 1 and Tranche 2 (assuming the option for Tranche 2 under the Put & Call Option Deed is exercised and that the maximum earn out component for Tranche 2 is triggered) is A\$133.2 million.

Where exercised this would take WHA's shareholding in Blend & Pack to 80% of the issued share capital. To the extent any GL Food sells any of its remaining Blend & Pack shares (the subject of the Put & Call Option Deed) prior to the exercise of an option, the maximum purchase price (other than the fixed purchase price component) and WHA's total shareholding in Blend & Pack will be reduced accordingly.

Please note that as Mason Group (which currently holds 4.1% in the issued shares of WHA) is the ultimate holding entity of GL Food.

2. SPA summary

A summary of the key terms of the SPA are as follows:

- **Condition Precedent:** Completion under the SPA (**SPA completion**) is subject to a number of conditions precedent being satisfied or waived (**SPA Conditions Precedent**). The SPA Conditions Precedent include:
 - * WHA obtaining all necessary approvals required under the ASX Listing Rules and Corporations Act to give effect to the terms of the Share Purchase Agreement and the put and Call Option Deed, including Shareholder approval for the purposes of ASX Listing Rule 11.1.2;
 - * new shareholders deed is signed by all B&P shareholders;
 - * consents are obtained in respect of all material Blend & Pack contracts which have a change in control of B&P consent requirement;
 - * B&P's CNCA Accreditation has not been cancelled, terminated, withdrawn, and
 - * satisfaction of all regulatory approvals (including by the Hong Kong Stock Exchange).
- **Consideration:** At SPA Completion (**Tranche 1**) a cash purchase price is payable by the WHA group to GL Food of A\$47,791,378.
- **Warranties:** GL Food has provided limited warranties to WHA regarding capacity, title, no encumbrances, accuracy of the B&P financial statements, no material adverse changes in B&P financial performance since the date of the latest financial statements and confirmation GL Food has not deliberately withheld from providing to WHA before the date of entry into the SPA any information that is material to or would reasonably be required for the purpose of making an informed assessment of the value of B&P shares.
- **Termination:** WHA has a right to terminate if the SPA conditions precedent are not satisfied by 15 April 2019 (or such later date agreed by the parties) or there occurs a breach of the warranties prior to SPA completion.

3. Put & Call Option summary (re remaining 29% interest in B&P)

On SPA completion, the parties are to enter into the Put and Call Option Deed which provides GL Food with the option to require WHA to purchase GL Food's remaining 29% interest in B&P, but it also gives WHA the option to require GL Food to sell that remaining 29% interest in B&P (being Tranche 2), less any shares transferred by GL Food to a Third Party prior to the exercise date.

- **Condition Precedent:** The Put and Call Option Deed is subject to the condition precedent being satisfied or waived (**Put and Call Options Condition Precedent**), that SPA completion has taken place.
- **Option Period:** the period -

- (i) commencing on the date being the earlier of:
 - (A) 24 months from SPA completion, provided B&P has achieved an EBIT of at least A\$7,500,000 in any Financial Year after SPA completion, or
 - (B) 45 calendar months after the date of SPA Completion; or
 - (C) 10 business days prior to the occurrence of an event of default,
 - (ii) and ending on the earliest to occur of:
 - (A) 5.00 pm (Eastern standard time) 48 months from SPA completion;
 - (B) a breach by GL Food of a seller's warranty in relation to the sale of the B&P shares to WHA under the SPA, or
 - (C) a sale by GL Food of all of the Option Shares to a third party.
- **Exercise price:** the amount payable for the Option Shares being transferred pursuant to an exercise of the Call Option or Put Option (as the case may be), is the sum of -
 - (i) the **Base Amount**, plus
 - (ii) the **Cumulative Fixed Amount**, plus
 - (iii) the **Cumulative Upside Consideration** (if any),

where:

Base Amount means \$716.0186 per Option Share (as adjusted for any consolidation, subdivision or reclassification) multiplied by the number of Option Shares.

Cumulative Fixed Amount means:

- (i) if the Put Option is exercised by GL Food, the amount set forth in Column (3) of Table A below for the corresponding period set forth in Column (1) during which the Exercise Date falls multiplied by the number of Option Shares provided that the amount in Column (3) shall be adjusted for any consolidation, subdivision or reclassification of the Shares.

Table A

Column (1)	Column (2)	Column (3)
Period during which the Put Option is exercised	Fixed Amount per Option Share (\$)	Cumulative Fixed Amount per Option Share (\$)
From SPA completion to the day falling immediately before the first anniversary of the SPA completion	23.7648	23.7648
From (and including) the first anniversary of SPA	35.6472	59.4120

completion to the day falling immediately before the second anniversary of the SPA completion		
From (and including) the second anniversary of SPA completion to the day falling immediately before the third anniversary of the SPA completion	71.2945	130.7065
From (and including) the third anniversary of SPA completion to the day falling immediately before the fourth anniversary of the SPA completion	95.0593	225.7658

- (ii) if the Call Option is exercised by WHA, the amount of \$225.7658 (as adjusted for any consolidation, subdivision or reclassification of the Shares) multiplied by the number of Option Shares.

Fixed Amount means in respect of each period set forth in Column (1) of Table A above, the corresponding amount set forth in Column (2) of Table A above.

Upside Consideration means in respect of each Financial Year prior to the Exercise Date commencing from (and including) the Financial Year beginning 1 July, 2018, the sum of:

- (A) the amount set out in Column (2) of Table B below (as adjusted for any consolidation, subdivision or reclassification of the Shares) for the corresponding level of EBIT in Column (1) of Table B below achieved by the Company in each Financial Year prior to the Exercise Date multiplied by the number of Option Shares; **less**
- (B) the amount of the Fixed Amount payable for the corresponding period in Column (2) of Table A above during which such Financial Year falls, multiplied by the number of Option Shares.

Provided that:

the Upside Consideration for any Financial Year shall be zero if the amount derived from (A) above in respect of such Financial Year is zero.

Table B

Column (1)	Column (2)
Company EBIT	Upside Consideration (\$)
Less than \$5,000,000	0

Greater than or equal to \$5,000,000 and less than \$7,500,000	142.5889
Greater than or equal to \$7,500,000 and less than \$10,000,000	213.8834
Greater than or equal to \$10,000,000 and less than \$12,000,000	261.4131
Greater than or equal to \$12,000,000	332.7075

Cumulative Upside Consideration is the aggregate of the Upside Consideration for all the Financial Years as from (and including) 1 July 2018 and prior to the Exercise Date.

Third Party Transfer and First Right of Refusal: At any time after the execution of the Put and Call Option Deed and prior to an Option being exercised, GL Food may sell any of the B&P shares to a Third Party (**Third Party Transfer**), provided that where GL Food receives a binding offer from a Third Party, it must first notify WHA of the offer. WHA has an overriding first right of refusal to purchase at the same price as offered by the Third Party.

Termination: The Put & Call Option Deed terminates upon the end of the Option Period.

Automatic Exercise of Option: Where there has occurred an event of default, GL Food is deemed to have served WHA with a Put Option Exercise Notice 10 Business Days prior to the occurrence of the event of default.

Prior to any exercise. Prior to the exercise under the Put & Call Option Deed:

- (i) GL Food may receive and apply for its own use and benefit any dividend or other income distribution paid by Blend & Pack in relation to any Option Shares,
- (ii) GL Food may exercise in its own discretion and for its own benefit any voting right in relation to any Option Shares, and
- (iii) GL Food may sell any of the Option Shares pursuant to a third party transfer, subject to WHA's first right of refusal.