



## **Wattle Health Australia Signs New Agreement to Acquire Blend and Pack and Launches Rights Issue**

- **Wattle Health Australia (WHA) has entered into a new agreement to acquire an additional 75% of CNCA accredited nutritional dairy manufacturing facility, Blend and Pack (B&P) for an upfront payment of US\$30 million and a deferred payment of US\$25 million.**
- **WHA has launched a 4 for 5 non-renounceable rights issue at \$0.40 per share to fund the initial payment to acquire B&P.**
- **WHA has implemented a transition programme to strengthen both the Board and management of the company, including the nomination of Dr. Tony McKenna as Group CEO from February 1 2020.**
- **The construction by Corio Bay Dairy Group (CBDG) of Australia's first dedicated organic nutritional dairy spray dryer is successfully progressing under budget, with planned completion and commissioning expected in the first half of CY2020.**

**Friday 15 November 2019:** Wattle Health Australia Limited (**WHA or the Company**) is pleased to announce it has entered into a legally binding Share Purchase Agreement (**SPA**) with Mason Financial Holdings (**Mason**) to acquire 75% of Blend and Pack (**B&P**), taking WHA's interest in B&P to 80%.

### **Transaction**

As announced to the market on 2 July 2019, the Company had entered into a Share Purchase Agreement under which the Company conditionally agreed to acquire a further 75% shareholding interest in B&P (**Original Share Purchase Agreement**). The parties

have now terminated the Original Share Purchase Agreement and have entered into a new Share Purchase Agreement on more favourable financing terms.

The funding required to complete the B&P transaction no longer relies on an all debt finance structure (which the Company had been seeking from previous funders). Under the new transaction the Company will acquire 75% of B&P with an up-front payment of US\$30 million (which includes a non-refundable deposit of US\$5.5 million - with US\$1 million in cash and US\$4.5 million via a Deposit Promissory Note) to Mason and a deferred payment to Mason of US\$25 million over a five year period (via a Loan Promissory Note).

The cash cost savings of the current proposed acquisition and funding package, compared to the previous all debt structure announced on 2 July 2019, is circa US\$45 million\* over a 5 year period.

Loan Comparison	Previous Structure US\$	Current Structure US\$
Structuring Fee	\$2,000,000.00	\$0
Original Issue Discount 13%	\$12,701,149.43	\$0
Interest 9% P.A (4 years)	\$35,172,413.79	\$0
Interest Rate 3.33% (5 years)	\$0	\$4,125,000
Total	\$49,873,563.22	\$4,125,000.00

*\* **Note** - the estimated cost saving above of approximately US\$45 million does not take into account the non-cash expense of the Underwriting Options nor any Shareholder dilution as a result of the Rights Issue or Deposit Promissory Note.*

The key terms of the Share Purchase Agreement, the Deposit Promissory Note and the Loan Promissory Note are summarised in **Annexure A**.

### **About Blend and Pack Pty Ltd**

B&P is Australia's leading and largest independent (by volume) CNCA accredited manufacturing facility and was established in Hallam, Victoria in 2007. B&P is a highly automated facility with a production capacity of up to 20 million cans per annum and currently manufactures for many leading Australian and international brands.

B&P was one of the first facilities to receive its CNCA accreditation for infant formula and on 1 January 2019 had its CNCA status renewed for a further 4 years.

B&P has a long history of profitability and will provide WHA with an immediate revenue and profit stream on completion of the proposed acquisition.



### **Rights Issue**

The Board of WHA, in securing a break-up of the consideration to acquire 75% of the shares in Blend and Pack, has resolved to undertake a partially underwritten non-renounceable pro-rata rights issue to eligible shareholders of up to 155,602,512. New Shares on the basis of **4 New Shares for every 5 Shares** held at the **record date** at an offer price of AU\$0.40 each to raise approximately AU\$62.2 million before costs (with a minimum capital raise of AU\$55 million) (**Rights Issue**).

The Rights Issue will enable the Company to pay an upfront cash payment to Mason of US\$30 million under the Share Purchase Agreement. The Directors do not intend to participate in the Rights Issue in order to provide flexibility for the introduction of new institutional or wholesale investors to the Company's share register. WHA has secured AU\$20 million in an underwriting agreement with Claymore Capital Pty Ltd (with a major sub-underwriting commitment by Australian institution Regal Funds Management).

In consideration for their commitment to the Rights Issue and subject to shareholder approval, the underwriters will receive one option for each two shares underwritten (the number of options will reflect the amount of underwriting commitments) at a strike price of AU\$0.40 per option for a period of three years from time of issue. Further details of the terms and fees pursuant to the underwriting agreement will be disclosed in the prospectus to be issued by the Company in respect of the Rights Issue offer.

The WHA Board acknowledges that this is a potentially dilutive event for existing shareholders who don't take up their entitlements, and as such the decision to move away from the all debt finance arrangement previously proposed was not taken lightly. The Board does believe it is in the best interests of both the Company and its existing shareholders.

In reviewing and comparing the two proposals, it was decided the benefits of the proposed new equity funding arrangement clearly outweighed that of the alternative all debt financing deal. Following the raising, WHA will be able to move ahead with its vertical integration strategy without being weighed down by a large interest bearing debt and associated debt repayments. The WHA Board believes the proposed new equity funding structure, as well as offering substantial cost savings, will provide better security for the company whilst WHA continues to build its revenue streams.

### **Capital Structure**

Assuming under the Rights Issue the maximum capital raise amount of approximately AU\$62.2 million is raised, the Company's share capital structure would be as follows:

	SHARES	AU\$
Current Shares on Issue	194,503,140	-
Rights Issue	155,602,512	62,241,004
Total	350,105,652	62,241,004

**Note:**

- WHA also currently has 4,687,500 options on issue at a strike price of AU\$1.60 expiring 18 June 2020;
- In addition up to 29,175,471 Shares may be issued pursuant to the terms of the Deposit Promissory Note; and
- Under the partial underwriting of the Rights Issue, the Company will issue a further 30 million Underwriting Options at a strike price of AU\$0.40 expiring 3 years from issue (subject to Shareholder approval).

### **Use of Funds**

Assuming the maximum capital raise amount of approximately AU\$62.2 million\* is raised under the Proposed Rights Issue, the proposed use of funds is as follows:

Blend and Pack Acquisition	A\$43,800,000
Release of Prospere Loan (undrawn)	A\$15,441,004
Fees	A\$3,000,000
<b>Total</b>	<b>A\$62,241,004</b>

*\*If the minimum capital raise amount of AU\$55 million under the Rights Issue is raised, the Company intends to apply that amount to the initial US\$30 million payment under the B&P Share Purchase Agreement.*

### **WHA Shareholder Approval**

ASX has indicated to the Company, despite the prior shareholder approval obtained on 31 July 2019 with respect to the acquisition of the B&P shares from Mason, given the change in funding structure, the ASX requires the Company to again obtain shareholder approval.

In this manner, WHA Shareholders have the ultimate decision on whether WHA proceeds with the B&P share acquisition, the Rights Issue or the placement of any shortfall under the Rights Issue.

An Extraordinary General Meeting is to be held on 16 December 2019. Full details of the B&P transaction are disclosed in the Notice of Meeting.

### **WHA Continues its Vertically Integrated Organic Dairy Strategy**

WHA at the time of listing on the ASX on 15 March 2017 had an enterprise value of AU\$15 million with nil tangible assets. On the completion of the proposed acquisition of B&P, WHA will have net tangible assets of circa AU\$110 million (after provisioning for the deferred payment of US\$30 million due to Mason under the SPA) with an enterprise value based on the closing WHA share price on 30 September 2019 (of AU\$0.53 per share) of circa AU\$80 million.

Over the last two years WHA has embarked on an ambitious plan to become one of the few companies worldwide with a genuine vertically integrated organic nutritional dairy operation. This strategy is acknowledgement of the strong and increasing global demand for certified organic products which are able to attract premiums above commodity product pricing.

The WHA Board acknowledges it has faced challenges in achieving this vertically integrated organic strategy but believes this is the best strategy to build long term value in the increasingly competitive nutritional powder market.

WHA is advancing its vertically integrated organic strategy, albeit at the early stages of bringing the products to market and generating significant revenues. We have secured exclusive supply of certified organic milk from our joint venture partners in CBDG, the Organic Dairy Farmers of Australia (**ODFA**), who control of the largest pool of certified organic Australian fresh milk. Construction of Australia's first dedicated organic nutritional spray dryer is scheduled to be completed in the first half of CY2020 and is currently under budget. Subject to the completion of the Rights Issue and the conditions precedent under the B&P Share Purchase Agreement, WHA will own 80% of Australia's leading and largest independent (by volume) CNCA accredited manufacturing facility.

WHA launched its new certified organic brand Uganic in the Australian market in September this year, with encouraging early results.

These strategic initiatives have set up WHA to diversify and grow its revenue base via three business units that all have significant growth prospects.

### **New CEO from February 2020**

The Board is currently undertaking a transition programme to strengthen the management of WHA to bring in experienced persons who can now deliver and execute the unique advantage WHA has built over a short period of time.

As part of this programme the Board has identified and nominated Dr. Tony McKenna to become the Group Chief Executive Officer of WHA with a start date of February 1 2020. The Board is yet to finalise an employment package for Dr. Tony McKenna and will update the market when this has been settled.

On the completion of the proposed transaction of B&P, it is proposed that Dr. Tony McKenna will join the WHA Board as an Executive Director as part of the transition to Group CEO and Managing Director of WHA.

**Dr. Tony McKenna** brings over 30 years of commercial experience in the dairy industry in Australia, New Zealand and internationally.



Tony has a PhD in Food Technology from Massey University and a Diploma in Management from New Zealand Institute of Management.

Tony previously held senior positions at Saputo and Saputo Dairy Australia as Director of Global Business Development – Whey and Ingredients, and more recently as Senior Vice President – Ingredients, Nutritionals and China.

Previous to Saputo, Tony had roles including CEO of Bodco Limited in New Zealand, General Manager of Nutritionals at Synlait Milk (ASX:SM1), General Manager of Tatura Milk Industries in Australia, and Global Health and Nutrition Portfolio Manager for Fonterra. During his tenure as CEO for Bodco Limited his team successfully secured 2 CFDA (now known as SAMR) brand approvals.

### **CBDG Financing**

CBDG, a joint venture between Organic Dairy Farmers of Australia (ODFA), Niche Dairy (ND) and WHA to build Australia's first dedicated organic spray dryer is continuing to take shape with commissioning of the plant due in the first half of CY2020. This project is currently under budget.

On completion of the Rights Issue, WHA will terminate the undrawn Prospere Advisors Ltd Loan, as announced on 14 June 2018, which was to partly fund the construction of the organic spray drying facility by CBDG.



For further information, contact:

### **Corporate Affairs & International Investor Relations**

Wattle Health Australia Limited  
ABN 77 150 759 363  
17/71 Victoria Crescent,  
Abbotsford Victoria 3067, Australia.  
[info@wattlehealth.com](mailto:info@wattlehealth.com) Phone: +61 3 8399 9419

Peter Nesveda

Email: [peter.n@wattlehealth.com.au](mailto:peter.n@wattlehealth.com.au)

Tel: +61 412 357 375

### **About Wattle Health Australia**

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

We support Australian farmers who embrace sustainable organic practices and have built a supply chain that preserves the quality and traceability of our farmers' milk and subsequent products through the entire supply chain.



Wattle Health Australia Limited  
ABN 77 150 759 363  
17/71 Victoria Crescent,  
Abbotsford Victoria 3067, Australia.  
[info@wattlehealth.com](mailto:info@wattlehealth.com) Phone: +61 3 8399 9419



## **Annexure A - Terms of the B&P Transaction**

### **B&P Share Purchase Agreement**

A summary of the key terms of the B&P Share Purchase Agreement is as follows:

**Condition Precedent:** Completion under the Share Purchase Agreement (**SPA Completion**) is subject to a number of conditions precedent being satisfied or waived (**SPA Conditions Precedent**). The key SPA Conditions Precedent which are still to be satisfied or waived under the Share Purchase Agreement include:

- the Company obtaining all necessary approvals required under the ASX Listing Rules and Corporations Act to give effect to the terms of the Share Purchase Agreement;
- the Company raising at least \$55 million under a rights issue share offering (being the minimum subscription amount under the proposed non-renounceable rights issue);
- the Company providing to Mason Dairy Holdings Limited (**Mason**) a construction report with respect to the powdered milk and infant formula spray drying plant being built by CBDG (**CBDG Plant**). Based on that report Mason, acting reasonably, is of the opinion that the construction of the CBDG Plant is progressing in accordance with the relevant construction schedule and that the actually incurred capital expenditure is in line with the expenditure projections of those items;
- the Company obtains consent to any encumbrances required under the secured Loan Promissory Note.

**Consideration:** At SPA Completion, the Company is to pay a total purchase price of US\$55 million to Mason for the purchase of the 75% shareholding interest in B&P. The purchase price of US\$55 million is to be satisfied by:

- the payment of the non-refundable deposit of US\$5.5 million made up of:
  - » a cash component of US\$1 million; plus
  - » a debt component, documented under the terms of the Deposit Promissory Note, in the amount of US\$4.5 million.
- as to US\$24.5 million, in cash; and
- as to US\$25 million by way of a Loan Promissory Note (please see below for more details).

**Warranties:** Mason has provided limited warranties to the Company regarding capacity, title, no encumbrances, accuracy of the B&P financial statements, changes in B&P financial performance since the date of the latest financial statements and confirmation Mason has not deliberately withheld from providing to the Company before the date of entry into the Share Purchase Agreement any information that is material to or would reasonably be required for the purpose of making an informed assessment of the value of the B&P shares.

**Termination:** Either party has the right to terminate if the SPA Conditions Precedent are not satisfied by 31 December 2019 (or such later date agreed by the parties) or (in the case of the Company) there occurs a breach of its warranties prior to SPA Completion.

**Non Competition:** Mason has agreed not to compete and to use all reasonable efforts to procure that its associates do not compete with the Blend & Pack business for a period of 12 months from the SPA Completion.

### **Deposit Promissory Note**

The Company has entered into a Deposit Promissory Note with Mason whereby the Company has agreed to pay Mason a non-refundable amount of US\$4.5 million as follows:

- where SPA Completion occurs, the Company will pay US\$4.5 million in cash on the date of completion;
- where the B&P Share Purchase Agreement is terminated for any reason including the Company's failure to raise the minimum amount of \$55 million under the proposed Rights Issue, subject to section 606 of the Corporations Act and ASX Listing Rule 7.1A, the Company will issue to Mason shares in the Company to the total value of US\$4.5 million calculated at the volume weighted average price on 31 December 2019 and by paying the balance of the Deposit Debt Component (if any) in cash.

### **Loan Promissory Note**

The Company will enter into a loan promissory note for a total of US\$25 (**Loan Promissory Note**) from Mason Resources Financial Limited CR No:1958779 (an associate of Mason Group Holdings Limited) (**Promissee**) for the balance of the purchase price under the Share Purchase Agreement.

The Loan Promissory Note is to be issued on the completion date under the Share Purchase Agreement (**Completion Date**).

The deferred payment of US\$25 million (**Deferred Payment**) attracts a coupon rate of 3.33% per annum and is amortised as follows:

- 20% of the deferred payment (being US\$5 million) in 36 months
- 30% of the deferred payment (being US\$7.5 million) in 48 months
- 50% of the deferred payment (being \$US\$12.5 million) in 60 months.

The Loan Promissory Note is to be secured against all the assets of the WHA group under the General Security Deed.

The payment of the coupon rate and principal of the deferred payment of \$25 million has been structured with the objective that this will be serviced by the interest and loan repayments as part of the finance package provided by WHA to CBDG to construct Australia's first dedicated organic nutritional spray dryer.

As announced on 21 May 2018 WHA has provided funding to CBDG via a loan of up to AU\$70 million which attracts an average interest rate of nine percent per annum (Loan). The Loan is secured against the assets of CBDG and the profits generated from CBDG are to be applied first in repayment of the loan in priority to any distribution to the CBDG shareholders