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Divestment of Equity Interest in HKNSW

The directors of Easton Investments Limited (**Easton** or **the Company**) advise that a conditional sale agreement has been entered into by Easton to sell its 33.3% equity interest in Hayes Knight (NSW) Pty Limited (**HKNSW**) to the other shareholders in HKNSW (**the Buyers**) for a cash consideration of $2.45 million (**the proposed sale**).

The proposed sale represents a further important step in simplifying the Company's asset holdings and positioning the Company with a more concentrated strategy on growth assets.

Related Party Transaction

As the HKNSW shareholding is a significant asset of Easton (i.e. it represents more than 5% of Easton's total net assets) and the Buyers include Easton's managing director, Mr Greg Hayes and an associate of his, the proposed sale is being treated as a related party transaction for the purposes of the ASX Listing Rules.

As a consequence, the proposed sale is conditional on Easton obtaining the approval of its shareholders at a special (extraordinary general) meeting of the Company to be held on or around 1 October 2020. To help with their assessment, shareholders will be provided with a report from a suitably qualified independent expert as to the fairness and reasonableness of the proposed sale in advance of that meeting.

Greg Hayes (and his associates) will be excluded from voting at that Easton shareholder meeting, as will all of the other Buyers and their associates.

As previously announced, Greg Hayes will retire as Easton's managing director later this year and I note that due to his conflict of interest, he has excused himself from participating in any discussion, and has abstained from voting, at Easton board meetings on this matter.

About the Transaction and Related Matters

The sale price of $2.45 million is based on an earnings before interest, tax and amortisation (**EBITA**) multiple of 6 times – this multiple is considered to represent an appropriate capitalisation rate for a minority stake in what in substance is a mid-sized public accounting practice. A final fully franked dividend of $200k will also be paid to Easton by HKNSW on or before completion.

As well as Easton shareholder approval, the proposed sale is conditional on finance being obtained by the Buyers and the satisfaction of other commercial conditions precedent, on or before 21 August 2020. The sale agreement will lapse and the special meeting of Easton shareholders will not proceed if those conditions are not satisfied on or before that date.

The proposed sale includes Easton's equity interests in entities closely affiliated with HKNSW, being Hayes Knight Services (NSW) Pty Limited and Hayes Knight National Group Pty Limited (**the affiliated entities**).

A new, replacement service agreement has also been entered into on commercial terms and with a *business-as-usual* approach between Easton, Easton's subsidiary Knowledge Shop Pty Limited (**Knowledge Shop**) and HKNSW pursuant to which HKNSW will continue to provide administrative support to Easton and Knowledge Shop in the form of office, accounting and administrative services, as well as technical and overflow help-desk support to Knowledge Shop, for defined periods.

Sale proceeds are to be paid in cash within 5 business days after the special meeting of Easton shareholders, subject to the transaction being approved at that meeting.

An impairment charge of $1.30 million will be recognised in the Company's financial statements at 30 June 2020 in anticipation of the proposed sale being completed on or around 30 September 2020.

Notwithstanding this impairment charge, being a one-off, non- cash item, the directors (excluding Greg Hayes) consider this transaction to be in the best interests of Easton shareholders for both financial and non-financial reasons.

Background and Rationale

Easton acquired its minority interest in HKNSW (and the affiliated entities) in 2014 as part of a larger "*Hayes Knight*" transaction, which also involved the purchase of 100% of both Knowledge Shop and Merit Wealth Pty Limited. While the latter two businesses have grown earnings steadily over this period, HKNSW has contributed relatively flat normalised earnings (EBITA) of around $400k annually on an equity accounted basis, although earnings will be lower in FY20 as a result of COVID-19.

A relevant consideration at the time of the "*Hayes Knight*" transaction was the support services provided by HKNSW to the other two acquired entities under a service agreement which covered a range of services, importantly including technical and overflow support for Knowledge Shop. Certain of the administrative services were extended to Easton to avoid cost duplication. As noted above, a new, replacement service agreement has been entered (conditional on the sale of the HKNSW shares proceeding), which provides for continuation of the arrangements that exist today on a *business-as-usual* approach for defined periods to allow for an on-going, progressive reduction in contracted services from HKNSW as commercial and economic factors dictate.

Whilst an equity stake in HKNSW was considered to be prudent at the time of the original investment in the "*Hayes Knight*" businesses, the Easton Group's reliance on HKNSW has lessened significantly over time and Easton no longer considers itself to be a natural owner of a minority interest in HKNSW, nor is HKNSW a core asset of Easton.

The proposed sale follows the divestment of the Company's 25% interest in First Financial Pty Limited (**First Financial**) which was announced to the market on 5 May 2020 and which is expected to be settled on or around 3 August 2020.

The completion of the proposed divestment of the Company's non-controlling interests in both HKNSW (and the affiliated entities) and First Financial over coming months will:

(a) significantly strengthen the Company's balance sheet:

- net debt on a pro forma basis will be reduced from c. $8 million to c. $2 million

(b) remove minority interests which are non-core assets and greatly simplify the Company's asset holdings:

- the Company will have no non-controlled equity interests post the proposed divestments (other than a minor interest in EWAF, a small finance broking operation where Easton has recently agreed to sell down its equity interest from 70% to 10% as part of business simplification)
- cash flow from operations and reported earnings are expected to be more closely aligned in the absence of minority interests where cash received by Easton is largely dependent on dividends paid by minority interests post financial year-end

(c) allow the Company to focus on and provide scope for further investment in core businesses and capital management initiatives:

- importantly, the Company holds attractively priced call options to move to 100% ownership of Taxbytes Pty Limited (65% owned currently and call option exercisable in January 2021) and Tax Banter Pty Limited (60% owned currently and call option exercisable in January 2022), which will both involve capital investment over the next 18 months
- the recent acquisition of a 60% interest in Tax Banter is expected to largely offset the loss of earnings (EBITA) from the proposed divestments, including the EWAF sell-down
- the anticipated significant reduction in net debt combined with the incremental earnings from Tax Banter will provide increased scope for capital management in the form of dividends and on-market share buy-backs.

Notice of Meeting

It is expected that a formal notice of meeting, together with an accompanying explanatory memorandum and the expert's report will be electronically forwarded or made available to shareholders on or around 31 August 2020. As indicated above, the proposed meeting of Easton shareholders will only proceed if the conditions precedent are satisfied or waived by the Buyers on or before 21 August 2020.

Authorised for release by Kevin White, Chairman.

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Chairman

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