



## **Acquisition of Bosco Jonson**

A Premier Victorian Surveying Business

August 2014

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# Contents

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<b>1</b>	Executive Summary	4
<b>2</b>	Overview of Bosco Jonson	7
<b>3</b>	Strategic Rationale	11
<b>4</b>	Acquisition Terms	19
<b>5</b>	Conclusion	21

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# 1. Executive Summary

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# Executive Summary

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## TRANSACTION HIGHLIGHTS

- OTOC has agreed to acquire Bosco Jonson, a leading Victorian surveying, town planning and urban design business (**Acquisition**)
- First acquisition as part of OTOC's strategy to create a premium national surveying business
- Provides OTOC with an entry into Victorian surveying market and diversifies and enhances the quality of group earnings
- Acquisition consideration: up-front consideration of \$14m<sup>1</sup> and performance consideration of up to \$3m subject to the achievement of financial hurdles
- Acquisition expected to be earnings per share accretive in FY15

## BOSCO JONSON OVERVIEW

- Established in 1997, Bosco Jonson is a Melbourne based surveying company with approximately 80 staff and longstanding reputation for quality
- Recognised leader in large scale urban and broad-acre developments
- Blue-chip, long-term client base including Australand, Parklea, Peet, Stockland, Lend Lease, MAB, Satterley and Salta
- Consistently delivered strong financial results, with average EBITDA margin of 33% over FY09 – FY14 and FY14 EBITDA of \$4.5m
- Vendors/principals will enter into long-term employment contracts prior to Completion

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Note 1: Cash \$13m, OTOC shares \$1m

# Executive Summary

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## ACQUISITION RATIONALE

- **Strategic-fit:** consistent with OTOC's stated strategy of expanding the group's surveying, town planning and urban design capabilities to create a premium national surveying business
- **Clients:** high levels of repeat business from diversified blue-chip client base
- **Management:** experienced management team with proven track record
- **Geographic expansion:** entry into attractive Victorian property market
- **Diversification:** further diversification away from resources sector and contracting work
- **Financial:** diversifies and enhances the quality of OTOC's earnings with the addition of high-margin repeatable earnings
- **EPS accretive:** expected to be EPS accretive in FY15
- **Valuation metrics:** up-front consideration implies a FY14 EBITDA multiple of 3.1x

## FUNDING

- Acquisition is on a cash/debt free basis
- Up-front cash consideration of \$13m will be funded from existing cash reserves and debt facilities

## 2. Overview of Bosco Jonson

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# Background

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- Melbourne based surveying company with approximately 80 staff
- Established in December 1997 after a management buy-out of the surveying division of WBCM Group
- Five key executives have been with the company since inception and will remain with the business post Acquisition
- Long standing reputation in the industry for quality surveying and property services. Bosco Jonson has won numerous industry awards and is a recognised leader in large scale urban and broad-acre developments
- Consistently delivered strong financial results through the property cycle
- Diversified blue-chip customer base including:





# Service Offerings

- Integrated surveying, town planning and urban design capabilities

## SURVEYING

- Survey project management
- Legal boundary surveys
- Land tenure advice & reporting
- Apartment and townhouse subdivision
- Hydrographic surveys
- Engineering and construction surveys
- **~50 staff**

## CONSTRUCTION SURVEYING

- Ground control placement & co-ordination
- Horizontal grid set out & vertical control
- Monitoring and dilapidation surveys
- Industrial measurements and high precision set out & measurement
- **~10 staff**

## TOWN PLANNING

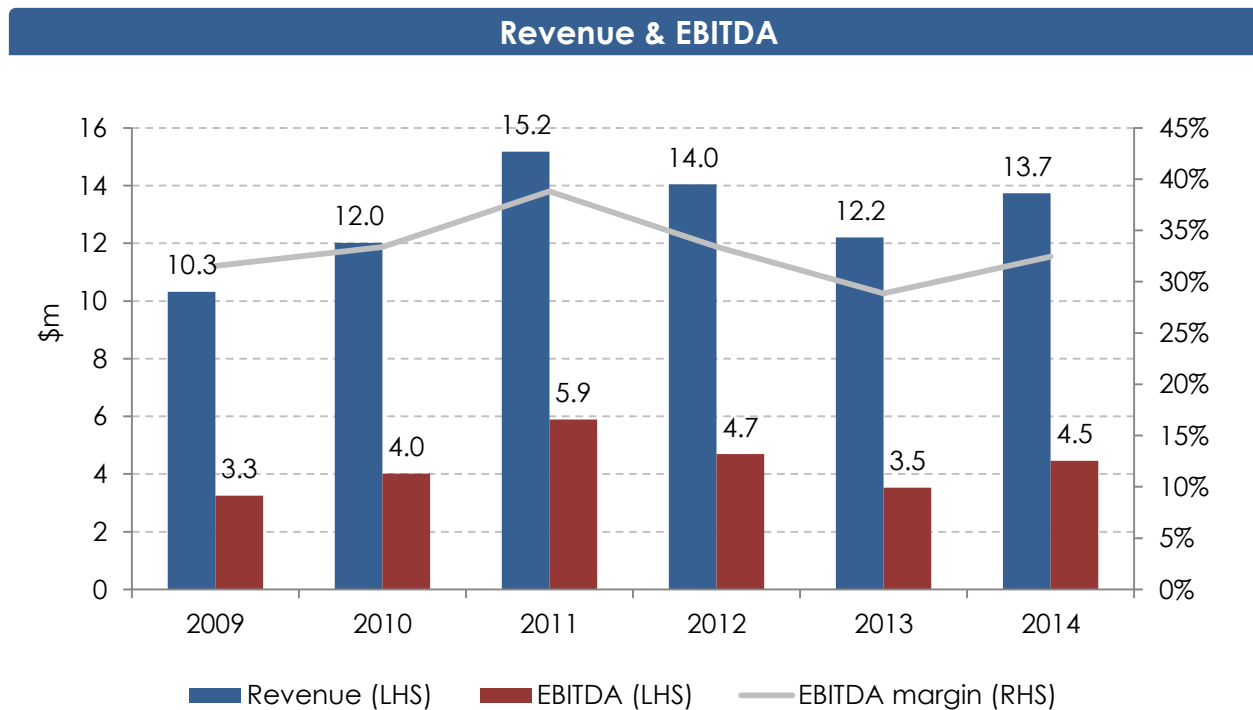
- Prepare applications for planning permits & rezoning
- Sub-consultant briefing & appointments
- Planning appeals, panel hearings and workshops
- Negotiations with councils & service agencies
- Development plan applications
- **~5 staff**

## URBAN DESIGN

- Services include site analysis
- Context plans
- Master plans
- Sub-division design & layout
- Land use plans and regional context plan
- **~5 staff**

# Historical Financial Performance

- Consistently strong financial performance with Industry-leading profit margins
- Premium business with good cost controls
- Capital-light business model generating strong free cash flow



Source: Bosco Jonson Unaudited Management Accounts

## 3. Strategic Rationale

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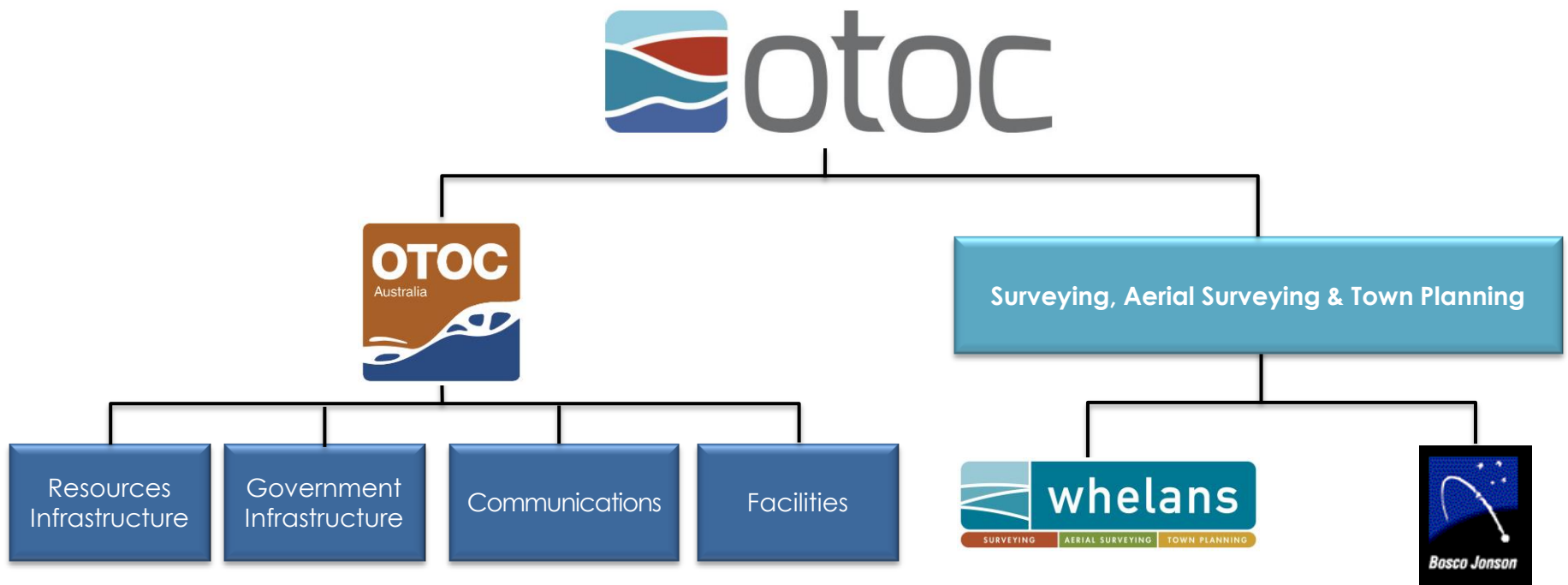
# Acquisition Highlights

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- ✓ Consistent with OTOC's stated strategy of expanding the group's surveying, town planning and urban design capabilities
- ✓ Creation of a premium national surveying business
- ✓ Geographic diversification – entry into the attractive Victorian property market
- ✓ Experienced Management team with proven track record and stellar industry reputation
- ✓ Consistently strong financial performance
- ✓ High levels of repeat business from diversified blue-chip customer base
- ✓ Diversifies and enhances the quality of OTOC's earnings

# OTOC Group – Post Acquisition

- Acquisition strengthens OTOC's surveying, aerial surveying and town planning business
- Bosco Jonson management team and brand will be retained



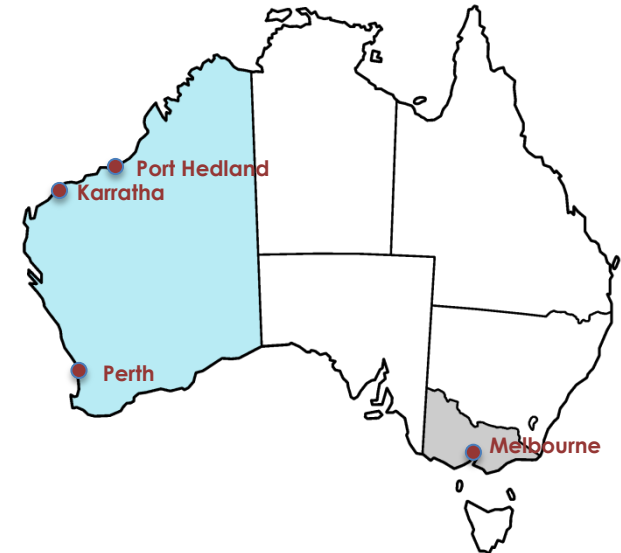
## A National Leader in Surveying, Aerial Surveying & Town Planning

- The Australian Surveying sector is highly fragmented and has an estimated addressable market of \$3.4bn (source: IBIS World)
- OTOC has the opportunity to be the first-mover in a national consolidation strategy to create a premium national surveying business
- Following the proposed acquisition of Bosco Jonson, over 230 staff with offices in Perth, regional WA and Melbourne. Experienced Management teams and award-winning professional staff
- Advantages of national strategy:
  - Better service clients which have national operations
  - Leverage individual relationships into national clients of the group
  - Distribution channel to feed work into other services
  - Sufficient scale to offer specialised services and capture high-margin work in aerial surveying, hydro, urban design and technology
  - Flexible, mobile work force to better manage utilisation and provide employee development opportunities
  - Strong financial platform for further expansion

### Award Winning Brands



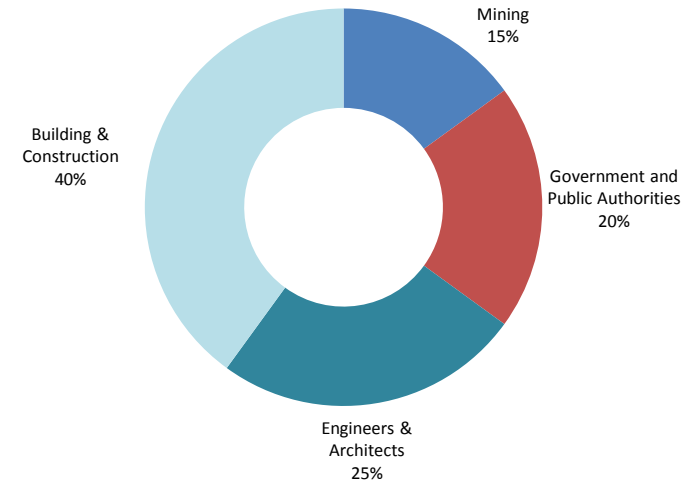
### Locations



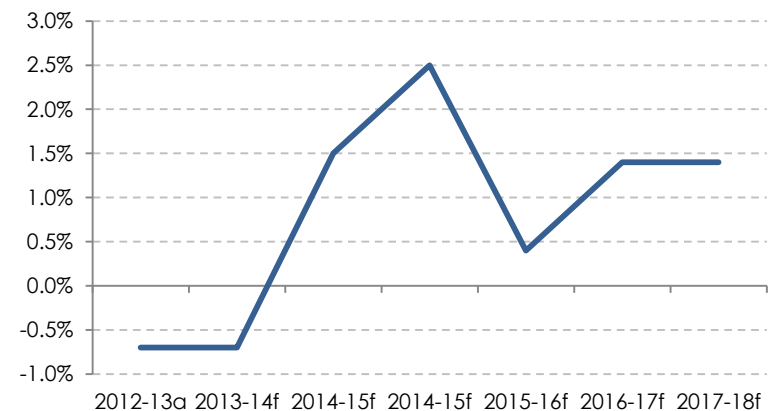
# Increased Exposure to the Surveying Sector

- The Surveying and Mapping Services industry is highly fragmented, comprising many small-scale firms contesting narrow geographic or specialist markets
- According to IBIS World, the industry consists of over 3,500 small businesses. The industry's four largest companies account for less than 10% of annual industry revenue
- \$3.4bn in industry revenue in the year ended 30 June 2013, forecast to grow by an annualised 1.4% over the five years to 2018-19 to \$3.6 billion
- EBIT margins of ~14% in the year ended 30 June 2013, forecast to grow by an annualised 3.0% in the five years 2018-19 to 15.0% of revenue
- The industry generates about 40% of its annual revenue from the provision of services to building companies and real estate property developers, with input from surveyors at most stages of the development and construction process
- The recent upswing of investment into new housing construction has resulted in demand for building surveying on new housing subdivisions
- Mining sector surveying comprises an estimated 15% of the market and often involves specialised, higher-margin services

## Major Markets



## Revenue Growth

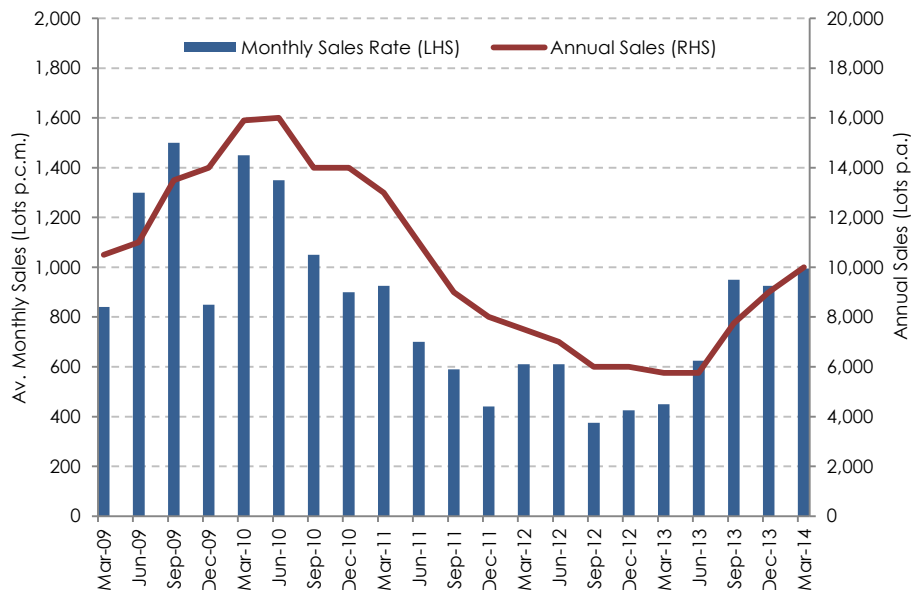


Source: IBIS World

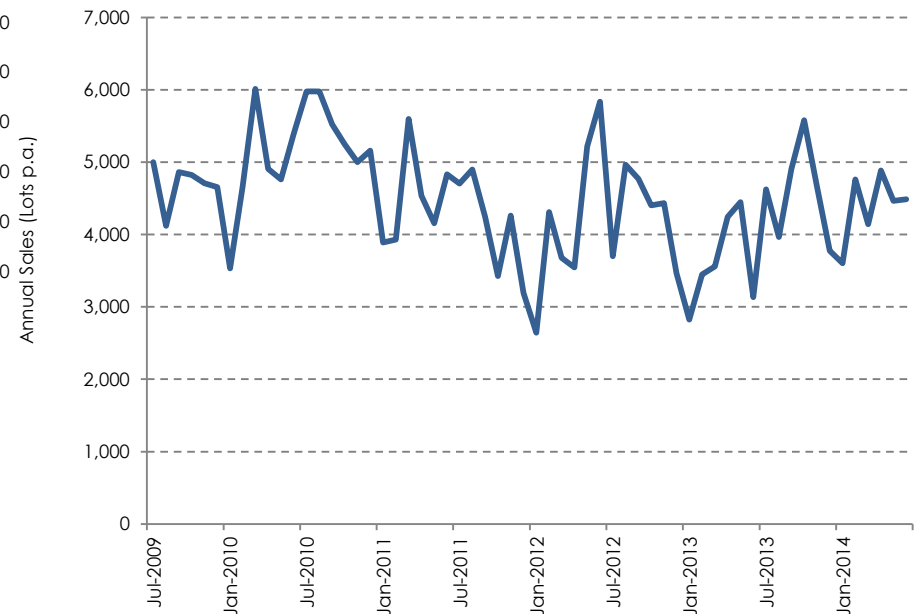
# Victorian Property Market

- Victorian property market expected to experience solid growth, underpinned by demographic and population growth factors and low interest rate environment
- Land sales and residential dwelling approvals have trended upward since 2013

## Melbourne Land Sales



## Victorian Residential Dwelling Approvals

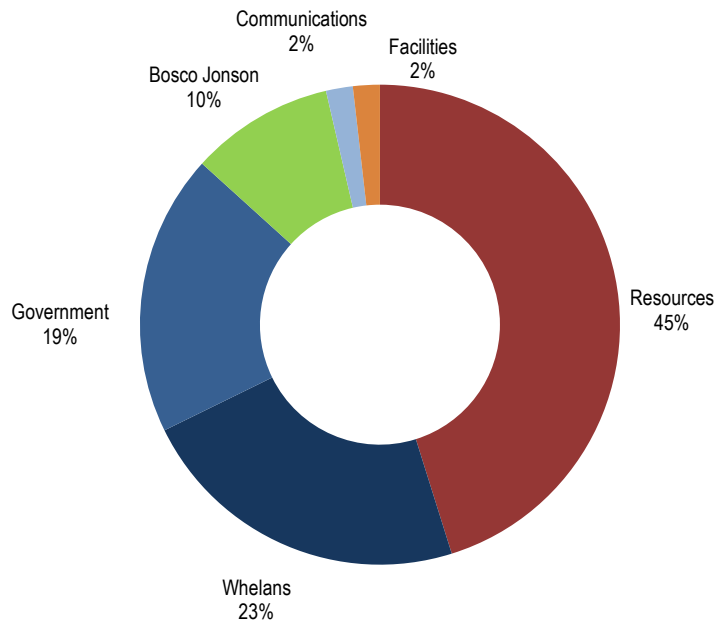


Source: National Land Survey Program, Australian Bureau of Statistics

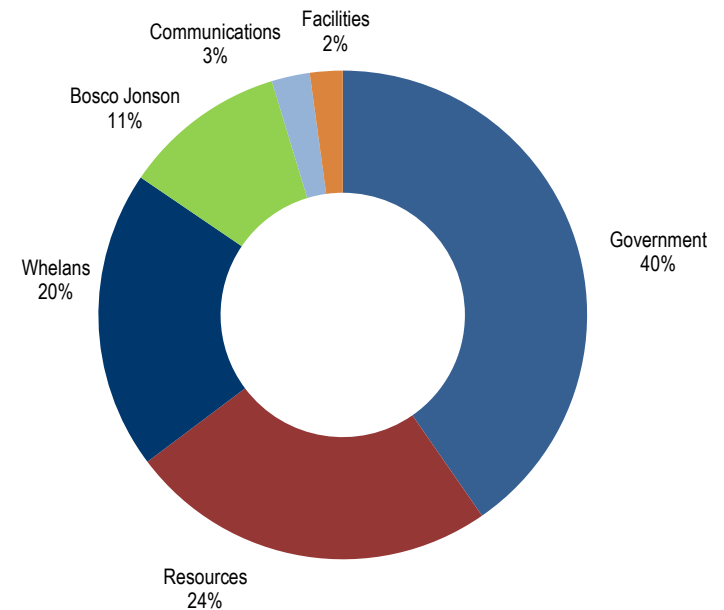


## FY14 | Diversified Revenue Base Percentage %

FY2013



FY2014

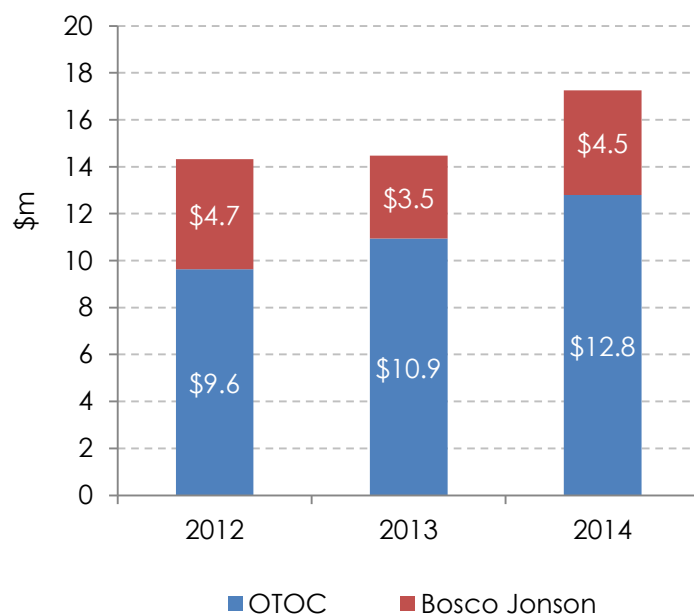


- Diversified revenue model, with reduced reliance on Resources sector activity
- Pro-forma FY14 surveying revenue > 30% of total group revenue

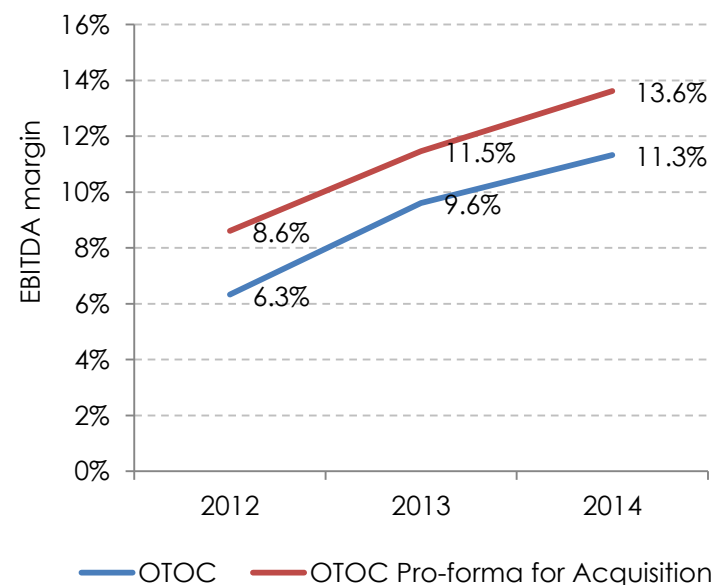
# Pro-Forma Financials

- Enhanced scale, repeatable earnings and improved profit margins
- Pro-forma FY14 EBITDA \$17.3m of which combined surveying business (Whelans and Bosco Jonson) is approximately 30% of pro-forma revenue and approximately 40% of pro-forma EBITDA
- Acquisition expected to be earnings per share accretive in FY15

Pro-Forma EBITDA



Pro-Forma EBITDA Margin



Source: OTOC analysis, Bosco Jonson Unaudited Management Accounts

## 4. Acquisition Terms

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# Acquisition Terms

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- OTOC has agreed to acquire the business and assets of Bosco Jonson:
- **Up-Front Consideration:** \$13.0m cash and new shares in OTOC with a value of \$1.0m
- **Performance Consideration:** Up to \$3.0m cash payable on achievement of financial hurdles in the two annual periods post completion<sup>1</sup>
- **Long-Term Employment Contracts:** The vendors/principals will enter long term employment contracts prior to Completion
- **Completion:** Expected to be completed by late September 2014, subject to satisfaction of customary conditions precedent (refer to OTOC announcement released on ASX)
- Up-front consideration for the Acquisition implies transaction multiples of:
  - 3.4x FY14 EBIT
  - 3.1x FY14 EBITDA
- OTOC is considering its options for funding the up-front consideration which includes using cash and existing debt facilities
- GMP Securities is acting as Financial Advisor and Steinepreis Paganin is acting as Legal Advisor to OTOC

Note 1: Annual performance payment: \$0.75m if EBITDA is no less than \$3.5m and \$1.5m if EBITDA is greater than \$4.25m. If EBITDA is between \$3.5m and \$4.25m, the performance payment will be on a sliding scale on a \$1 for \$1 basis

## 5. Conclusion

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# Conclusion

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## Acquisition of Bosco Jonson is expected to provide strategic and financial benefits

- Ideal first step in terms of size, existing capabilities and geographic reach in OTOC's strategic goal of creating a premium national surveying business.
- Strategic rationale:
  - **Strategic-fit:** consistent with OTOC's strategic goal of creating a premium national surveying business
  - **Scale:** greater scale in surveying, town planning and urban design
  - **Clients:** diversified blue-chip client base
  - **Management:** experienced management team with proven track record
  - **Geographic expansion:** entry into attractive Victorian property market
  - **Diversification:** further diversification away from resources sector and contracting work
  - **Financial:** diversifies and enhances the quality of OTOC's earnings
- The Acquisition is expected to be EPS accretive in FY15

## OTOC Business Update

- OTOC FY14 results: revenue \$113m, EBITDA \$12.8m (up 16%), EBIT \$9.1m (up 19%)
- Good profit growth in the context of subdued conditions in the resources sector led by improved operating margins on construction projects through better internal controls, management systems and experienced management team
- Initiatives including government infrastructure and growth of telecommunications has contributed to higher margins and a much greater degree of lower risk cost-plus work