Strategic Acquisition

ASX & media announcement

18 November 2020

ASX code: SXE

Highlights

SCEE to acquire Trivantage for an enterprise value of up to \$53.5m[1]:

- **Trivantage is a specialised electrical services group with over 50 years operational experience of providing complex electrical solutions across Australia**
- **Trivantage is primarily a services oriented business characterised by a strong degree of recurring and maintenance work**
- **Acquisition is a milestone in SCEE's strategy to enhance its service and maintenance capabilities and grow into adjacent and complementary sectors and new geographies**
- **Trivantage is budgeted to achieve FY21 revenue of circa \$130m and normalised EBIT of \$10.8m[2], delivering enhanced scale and double digit EPS accretion for FY21F for SCEE on a pro forma basis[3]**
- **Following the acquisition, the combined SCEE group is expected to generate revenue of circa \$500m on a pro forma FY21F basis**
- **Anticipate strong operational synergies and considerable cross-selling opportunities**
- **Acquisition consideration structured to ensure ongoing alignment and acquisition success. Initial consideration is payable via \$25.0m in cash on completion, and a further \$10.0m cash and \$5.5m in SCEE shares payable after achievement and confirmation of Trivantage FY21 targets. Further cash components will be payable subject to achieving performance hurdles in FY22 and FY23**
- **SCEE to maintain a strong balance sheet with flexibility to pursue further growth opportunities**
- **Trivantage management to remain in business**
- **Paul Chisholm (significant shareholder and Chairman of Trivantage) to be invited to join SCEE Board**

Overview

Southern Cross Electrical Engineering Limited ("SCEE") today announced that it has executed a Share Purchase Agreement to acquire 100% of Trivantage Holdings Pty Ltd ("Trivantage") from the current shareholders of Trivantage for an enterprise value of up to \$53.5m on a debt free basis. Completion is expected to occur in mid-December 2020.

With over 50 years of operational experience, Trivantage is a leading provider of specialised electrical services across a range of sectors. Trivantage is characterised by a large degree of recurring service and maintenance work with a relatively low risk contracting profile. Headquartered in Melbourne, Trivantage has approximately 400 employees Australia-wide with offices in Victoria, Western Australia, Queensland, New South Wales, South Australia and Tasmania.

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[1] Refer Appendix for detailed transaction terms, including nature and timing of acquisition consideration
[2] On a full year basis and excludes potential synergies, transaction and integration costs
[3] Before synergies, transaction costs, integration costs and amortisation of customer related intangibles

Trivantage has a proven track record servicing leading Australian corporations and government bodies across a variety of markets including commercial, supermarkets, public infrastructure, defence, resources, custodial, telecommunications & data centres, health & aged care, as well as energy and utilities. Of particular note, Trivantage has a strong and strategic focus on recurring service and maintenance work with around 70% of Trivantage's revenue derived from its existing relationships, service and maintenance contracts or as an approved contractor.

Trivantage operates through three specialist divisions:

- **S.J. Electric** – one of Australia's leading providers of electrical solutions to the commercial and retail sector, specialising in maintenance, refrigeration and light and power. Primarily focused on servicing leading Australian supermarkets, retailers and facilities management companies
- **SEME Solutions** – a national supplier of electronic security services and solutions, specialising in the installation and maintenance of CCTV, Access Control, Intruder Detection, Nursecall and Duress Systems
- **Trivantage Manufacturing** – leading designer and manufacturer of premium quality switchboards for a broad range of end-users

In FY20 Trivantage had an audited statutory revenue of $116m and profit before tax of $8.2m. Trivantage is budgeting to deliver FY21 revenue of circa $130m and a normalised EBIT of $10.8m. The high degree of recurring service and maintenance and current order book of over $60m will support strong earnings growth into FY22.

Strategic Rationale

The acquisition of Trivantage is consistent with SCEE's strategy and will deliver significant benefits for shareholders including:

Aligned operating model – strategically aligned business model and complementary focus on electrical services

Diversification benefits – further diversification across sectors, customers and geographies delivering deepening exposure to commercial and social infrastructure markets

Cross-selling opportunities – potential synergies and opportunity to further leverage the combined group's customer relationships and skills. Additionally, Trivantage's in-house high-quality switchboard manufacturing capability provides an opportunity to recapture margin and provide a more integrated offering

Recurring services and maintenance – provides SCEE with greater recurring services and maintenance revenues and capabilities

Enhanced scale and relevance – significantly enhanced scale and geographic coverage with combined pro-forma FY21F revenue of circa $500m

Highly experienced management team and cultural fit - strong incentive structure and ongoing alignment underpinned by acquisition earn-out structure

Financial benefits – immediate and significant pro-forma EPS accretion

Summary of Transaction Terms

SCEE will pay the vendors of Trivantage consideration of up to $53.5m on an enterprise value and debt free basis and the detailed transaction terms are set out in the Appendix.

The acquisition consideration represents EBIT multiples (based on Trivantage's current FY21F forecast EBIT of $10.8m) of:

- 3.8x FY21F EV/EBIT assuming achievement of Trivantage FY21 EBIT of at least $10.1m and before potential payments in FY22 and FY23;
- 4.5x FY21F EV/EBIT assuming Trivantage maintains EBIT of at least $10.1m in each of FY22 and FY23; and
- 3.7x FY23F EV/EBIT assuming Trivantage achieves earnings in FY22 and FY23 sufficient to receive full portion of outperformance earn-out consideration.

Transaction Funding

Cash payments to the vendors of Trivantage will be funded through SCEE's existing cash reserves and operating cash flows post transaction.

Summary of Combined Group and Financial Impact

The combined group will have a geographically diversified portfolio of projects across Australia, with approximately 45% of FY21 proforma budgeted revenues generated from NSW & ACT, 30% from WA, 15% from Queensland & NT and 10% from Victoria. Revenue will also continue to be widely spread across SCEE's three core sectors, with approximately 45% of FY21 proforma budgeted revenue from commercial, 30% from resources and 25% from infrastructure.

The combined pro-forma order book at 30 June 2020 would have been just over $500m.

The acquisition of Trivantage is expected to be immediately EPS accretive with strong double digit pro-forma FY21F EPS accretion[4] (based on Trivantage FY21F EBIT of $10.8m and FY21F broker consensus estimates for SCEE[5]).

CEO Commentary

Commenting on the transaction, SCEE's CEO Graeme Dunn said "I am delighted to announce this acquisition. Trivantage presents for SCEE a transformational change in the breadth and depth of the group's recurring, services and maintenance offerings. The acquisition will give us many cross-selling opportunities and synergies across our respective client bases and, in particular, through Trivantage's switchboard manufacturing capability.

There is a great cultural fit between the two organisations and I am looking forward immensely to working with the Trivantage team to take advantage of the opportunities in our markets."

Advisers

Investec Australia Limited is acting as corporate adviser, EY is acting as financial and tax due diligence adviser and K&L Gates is acting as legal adviser to SCEE on the acquisition.

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[4] *Before synergies, transaction costs, integration costs and amortisation of customer related intangibles*

[5] *On a full year basis and excludes potential synergies, transaction and integration costs. SCEE broker consensus as at 16 November 2020 and sourced from S&P Capital IQ*

Appendix - Detailed Acquisition Terms

Acquisition	• Acquisition of 100% of Trivantage Holdings Pty Ltd • Due diligence finalised • Completion is expected to occur in mid-December 2020
Consideration	Up to a total of $53.5m payable as follows: **1. Deal Completion Initial Cash Consideration** $25.0m in cash at completion **2. FY21 Results Confirmation Payment** Following confirmation that Trivantage's FY21 EBIT is equal to or greater than $10.1m: a) $10.0m in cash; and b) $5.5m in SCEE shares (refer further details below) If Trivantage's EBIT is less than $10.1m for FY21, elements (a) and (b) are both reduced on a pro-rata basis to nil at EBIT of $4.0m. If Trivantage's FY21 EBIT is greater than $10.1m, the incremental EBIT above $10.1m will be added to FY22 EBIT for the purpose of calculating the earn-out consideration in that period **3. Earn-out: Deferred Consideration** a) $4.0m in cash if Trivantage's EBIT result for FY22 is equal to or greater than $10.1m b) $4.0m in cash if Trivantage's EBIT result for FY23 is equal to or greater than $10.1m To the extent that EBIT is below $10.1m in either FY22 or FY23, the Deferred Consideration payment in that year would be calculated based on the following formula reducing the payment to zero: $4.0m less 5 x ($10.1m less actual EBIT) **4. Earn-out: Outperformance Consideration** a) Up to $1.7m of cash payable if Trivantage's EBIT result for FY22 is equal to or greater than $11.4m. Reduced on a pro-rata basis down to nil at EBIT of $10.1m b) Up to $3.3m of cash payable if Trivantage's EBIT result for FY23 is equal to or greater than $14.4m. Reduced on a pro-rata basis down to nil at EBIT of $10.1m
Terms of SCEE Share Issue	• SCEE shares issued under FY21 Results Confirmation Payment will be ordinary fully paid shares in SCEE • Shares issued at the VWAP over the 10-trading day period commencing 5 trading days before announcement • 50% of SCEE shares will be escrowed for 12 months from completion, with the remaining 50% escrowed for 24 months from completion
Ongoing Vendor Involvement	• Vendors that are currently executives of Trivantage will continue in their same executive roles with SCEE post-completion • Paul Chisholm (significant shareholder of Trivantage with 24.8% ownership prior to SCEE acquisition and current Chairman of Trivantage) to be invited to join the SCEE Board
Condition Precedent to Completion	• Completion of the transaction is only conditional on there being no material adverse change in the period prior to completion

This announcement lifts the trading halt on the Company's securities.

Authorised for release by Graeme Dunn – SCEE Managing Director

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