

## ASX/NEWS RELEASE – OTC



7 April 2015

### OTOC EXPANDS INTO QUEENSLAND SURVEYING MARKET THROUGH STRATEGIC ACQUISITION

#### Highlights:

- OTOC has continued to deliver on its strategy of creating a premium multi-disciplinary national surveying business through an agreement to acquire THG, a leading Queensland surveying and planning consultancy, for up to \$4.4m.
- The purchase price comprises \$2.2m in cash funded from existing cash reserves and \$0.4m in OTOC shares, with up to \$1.8m in cash payable subject to THG achieving performance hurdles.
- 50% of the purchase price is in OTOC shares and performance payments, aligning THG management to ongoing earnings performance.
- The up-front purchase price represents a multiple of approximately 3.25x EBIT and 2.25x EBITDA based on forecast earnings for the year ended 30 June 2015<sup>1</sup>.
- THG has an experienced management team, premium brand, presence in key geographic centres and blue-chip client relationships, providing OTOC with a strategic entry and capability in land and cadastral surveying in Queensland.
- The acquisition provides greater scale of surveying revenue and further diversifies OTOC's earnings through geographic and industry exposure away from the resources sector.
- OTOC now has premium land surveying businesses in Western Australia, Victoria and Queensland, enabling the group to offer an integrated service for national property developers.
- The acquisition is expected to be earnings per share accretive in FY2016.

#### Transaction Overview

OTOC Limited (**OTOC**) is pleased to announce it has entered into an agreement to acquire the business and assets of THG WSG Pty Ltd (trading as "THG Resource Strategists", "Whitsunday Surveys" and "Charles O'Neill Surveyors and Planners") (**THG**), a Queensland surveying consultancy, for up to \$4.4m (the **Acquisition**).

The Acquisition is in line with OTOC's strategy to build a national premium surveying business by providing the Company with a unique market presence in Queensland. It further strengthens OTOC's position in the East Coast surveying market – building on the acquisition of Bosco Jonson (in September 2014) and Geo-Metric Surveying (in December 2014) – and complements OTOC's original surveying business, Whelans.

THG has over 35 years' experience primarily in land and cadastral surveying, traditionally focussed on Brisbane and the south-east Queensland growth corridor. THG has a proven management team, premium brand, blue-chip client base and diversified geographic and industry exposure. Over the past three years, THG has diversified its operations to include North Queensland (Mackay and Proserpine) and far North Queensland (Cairns), providing it with exposure to land, infrastructure, government, communities, agriculture, tourism and resources projects. THG has approximately 49 staff.

THG's clients include property developers Peet, Villa World, Investa, Devine, as well as government agencies. THG's property clients are highly complementary and synergistic to Whelans and Bosco Jonson and will enable OTOC to pursue an integrated national service offering for property developers.

<sup>1</sup> Based on estimated EBIT of \$0.8m and EBITDA of \$1.15m for the year ended 30 June 2015

The principals of THG will remain closely aligned to future performance through long-term employment contracts and a substantial component of the purchase price being in OTOC shares and performance payments (50%). Performance payments are subject to THG meeting minimum annual earnings before interest and tax (EBIT) of \$0.8 million.

OTOC has capability to fund the cash component of the transaction through existing reserves, with \$13.0m cash at 31 December 2014.

### Transaction Terms

The key terms of the Acquisition are set out below:

Structure	<ul style="list-style-type: none"> <li>Acquisition of the business and assets of THG for up to \$4.4m</li> </ul>
Purchase price: Cash	<ul style="list-style-type: none"> <li>\$2.2m payable at completion</li> </ul>
Purchase price: OTOC Shares	<ul style="list-style-type: none"> <li>\$0.4m in new fully paid ordinary OTOC shares to be issued at completion</li> <li>4.2m shares to be issued at 20-day pre-announcement VWAP of \$0.096</li> <li>Shares subject to a voluntary escrow period of 12 months</li> </ul>
Purchase price: Performance	<ul style="list-style-type: none"> <li>Performance payments of up to \$1.8m payable over 2 years subject to of EBIT hurdles of at least \$0.8m in a performance period. The first performance period is expected to commence in May 2015</li> </ul>
Employment contracts	<ul style="list-style-type: none"> <li>The principals of THG will enter into employment contracts</li> </ul>
Completion	<ul style="list-style-type: none"> <li>Completion is expected prior to 15 May 2015 following the satisfaction of conditions precedent</li> </ul>
Conditions precedent	<ul style="list-style-type: none"> <li>Execution of employment agreements with the principal employees</li> <li>At least 90% of THG's employees (other than principal employees) accept offers of employment</li> <li>Other customary conditions precedent (i.e. transfer of assets, consents, assignment of contracts)</li> </ul>

*Note 1: OTOC will assume THG's employee entitlements (annual leave and long service leave) and hire purchase agreements. The after-tax value of the employee entitlements will be deducted from the cash component of the purchase price*

*Note 2: OTOC will assume THG's existing hire-purchase liabilities*

### Strategic Rationale

The Acquisition aligns with OTOC's strategy of creating a premium multi-disciplinary national surveying business:

- ✓ Expansion into Queensland – market leadership in land and cadastral surveying
- ✓ Unique market presence – exposure to key growth corridors in Queensland
- ✓ Clients – blue-chip property developers and government agencies
- ✓ Synergies – OTOC will have premium land surveying businesses in Western Australia, Victoria and Queensland, enabling the group to offer an integrated service for national property developers
- ✓ Management – experienced management team aligned to future performance
- ✓ Outlook – leveraged to projected growth in Queensland property market<sup>2</sup> and exposure to investment in government, infrastructure, tourism, agriculture and resources projects
- ✓ Diversification – further diversifies OTOC's geographic and industry exposure, with reduced reliance on resources sector and contracting work

OTOC's immediate focus is on integrating its surveying businesses and targeting growth opportunities, such as a joint service offering for national property developers. The Company remains in a sound position to continue to advance its national surveying strategy and will continue to search for acquisition targets that align with the objectives of enhancing the Group's geographic reach, product capability, and earnings profile.

### Pro-Forma Financial Impact

<sup>2</sup> In 2013/2014 Queensland new dwelling commencements increased ~21% to ~35,550, with ~15% growth predicted in 2014/2015 (Source: HIA statistics)

The up-front purchase price for the Acquisition implies transaction multiples of<sup>3</sup>:

- 2.25x FY15 EBITDA
- 3.25x FY15 EBIT

The total purchase multiple will depend on the future earnings of THG. Based on the annual performance hurdle being achieved in the first performance period, the total implied EBIT multiple will be approximately 2.9x-3.9x<sup>4</sup>.

The Acquisition will add scale and diversity to OTOC's surveying revenue. Following completion of the Acquisition, annualised revenue of the combined surveying business (Whelans, Bosco Jonson, Geo-Metric and THG) is expected to be approximately \$50m-\$60m (before synergies).

The Acquisition is expected to be earnings per share accretive in FY2016.

**Commenting on the Acquisition, OTOC CEO Simon Thomas said:**

*"Our strategy has been focused on developing a premium multi-disciplinary surveying business, and the acquisition of THG certainly aligns with this strategy.*

*"Our previous surveying acquisitions provided OTOC with a premium position in the east coast surveying market and we are pleased to have enhanced this by establishing a strong foothold in Queensland with THG's market leading position in land and cadastral surveying.*

*"We were attracted to THG by its premium and longstanding brand, proven management team, valuable expertise in land and cadastral surveying, blue-chip clients, and unique market presence in the key growth corridors of Queensland.*

*"We believe the addition of THG will strongly enhance our ability to develop an integrated product for national property developers, thereby delivering an enhanced service for our clients, greater opportunities for our employees and stronger financial returns for the group.*

*"We look forward to working closely with the THG team as we deliver on our surveying growth strategy."*

**THG CEO Shane Murphy said:**

*"The Queensland Land Development, Mining, Energy, Agriculture and Tourism Industries offer a significant opportunity for growth, particularly for a well-positioned Survey and Planning business with strong balance sheet backing, taking into account the major infrastructure and resource projects proposed to support the Queensland Plan launched in 2014.*

*"The strategy for growth we have executed over the last two years has been within a significant economic downturn in the Queensland economy. Being part of the OTOC group of companies, we are now in a sound position as the current positive economic cycle unfolds.*

*"The size of Queensland means that its regional centres are in themselves economic hubs; each hub creates access to industry groups and our footprint provides entry to each of these centres.*

*"We at THG share OTOC's vision and have mutual clients particularly in the land development industry, which enables OTOC's vision for a national service coverage.*

*"The senior executives are highly motivated by the possibilities that this combination with OTOC creates."*

**Advisors**

GMP Securities is acting as Financial Advisor and Steinepreis Paganin is acting as Legal Advisor to OTOC.

**- Ends -**

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<sup>3</sup> Based on estimated EBIT of \$0.8m and EBITDA of \$1.15m for the year ended 30 June 2015

<sup>4</sup> EBIT multiples for performance period 1 are calculated as follows:

- If EBIT is \$0.8m, the purchase price is \$2.6m (up-front) and \$0.5m (performance) =  $\$3.1m / \$0.8m = 3.9x$

- If EBIT is \$1.2m, the purchase price is \$2.6m (up-front) and \$0.9m (performance) =  $\$3.5m / \$1.2m = 2.9x$

## About OTOC

OTOC Limited is a diversified infrastructure services company.

OTOC Australia is a leading provider of non-process infrastructure solutions for government, infrastructure and resources projects.

OTOC's surveying division of Whelans, Bosco Jonson and Geo-Metric Surveying are highly regarded surveying consultants with expertise in land and cadastral, infrastructure and engineering surveying, aerial mapping, town planning and urban design.

OTOC has a clear growth strategy to create a premium multi-disciplinary national surveying business.

### For further information please

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