



# Strategic Expansion Of Toxfree's Technical And Environmental Services In NSW Through The Acquisition Of Worth Recycling





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4	Financial impact
5	Acquisition Funding







# Transaction Overview





# Key Highlights

- ✓ Major expansion in NSW through acquisition of Worth Recycling – a leading liquid and industrial waste treatment and industrial services business
- ✓ Strategic EPA licensed waste treatment facilities in South Windsor and St Marys, plus operations in the Illawarra and the Hunter Valley
- ✓ Expands Toxfree's geographic presence and diversifies client base
- ✓ Synergies from integration of NSW operations with Toxfree and ability to expand Worth technologies and IP into other states
- ✓ Highly experienced management team and an excellent cultural fit
- ✓ 13% EPS accretive to Toxfree shareholders on forecast FY16 pro-forma earnings<sup>1</sup> with strong margins and growth potential

<sup>1</sup> Before synergies, transaction costs, rebranding expenses and amortisation of customer related intangibles and based on broker consensus estimates for Toxfree.





# Transaction Overview

## Acquisition of Worth

- Toxfree has entered into a binding agreement to purchase 100% of the shares in Worth Corporation (100% owner of Worth Recycling) for A\$70 million on a cash, debt and tax free basis and including normal working capital
- Strategic acquisition that provides Toxfree with a significant footprint in NSW, which is the largest, fastest growing waste and industrial services market in Australia
- The business is estimated to generate pro-forma revenue in FY16 of A\$62.5 million and pro-forma EBITDA of A\$12.9 million before synergies<sup>1</sup>
- Vendor to receive all cash consideration
- Completion expected to occur 31 March 2016

## Worth

- Founded in 1976, the business has grown to become a significant player in the NSW industrial waste treatment, soil remediation and industrial services markets
- Worth operates a number of key EPA licensed facilities:
  - South Windsor – Oily Water Treatment Plant (OWTP) and associated facilities. Site operated under long term lease (10+5+5+5). (Toxfree will have preemptive acquisition rights)
  - St Marys – Soil remediation and chemical immobilisation facility with significant capacity to expand and add new waste streams
  - Illawarra – OWTP and Coal Tar Preparation Plant (CTP) at Bluescope (BSL) Pt Kembla facility, owned by BSL and operated by Worth
  - Hunter – Operates industrial services depot and waste transfer facility

<sup>1</sup> On full year basis and excludes synergies, transaction costs and rebranding expenses.



# Transaction Overview

## Compelling Strategic Rationale

- Major expansion in NSW – Australia's largest and fastest growing state - with significant position in metropolitan liquid waste market
- Significantly expands Toxfree's presence in NSW, providing opportunity to realise synergies through integration of the respective businesses
- Growth opportunities outside NSW through leveraging Worth's technologies and technical know how into Queensland, Victoria and Western Australia
- Geographic and industry sector diversification
- Financially compelling

## Acquisition Funding

- Purchase price and transaction costs funded by a combination of A\$24.0 million institutional placement and SPP and A\$50.4 million draw down of syndicated debt facility

## Expected Financial Impact

- Expect EPS accretion of 13% pre-synergies in FY2016 on full year pro-forma adjusted basis (based on broker consensus estimates for Toxfree)<sup>1</sup>
- Positive impact on EBITDA margins
- Maintains gearing near target levels

<sup>1</sup> Before synergies, transaction costs, rebranding expenses and amortisation of customer related intangibles.







# Overview of Worth Recycling

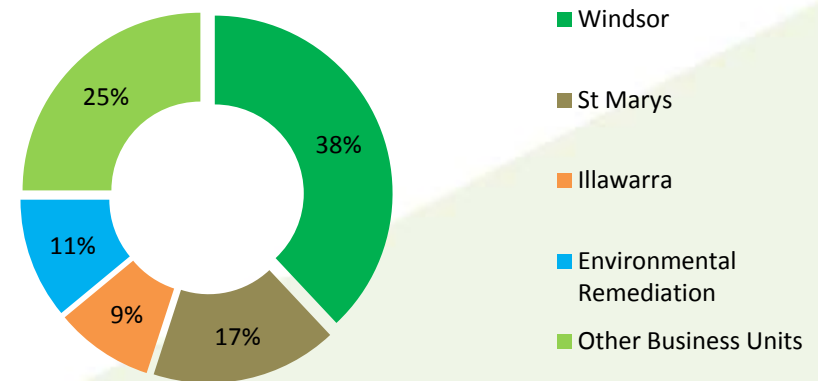


# Business Overview



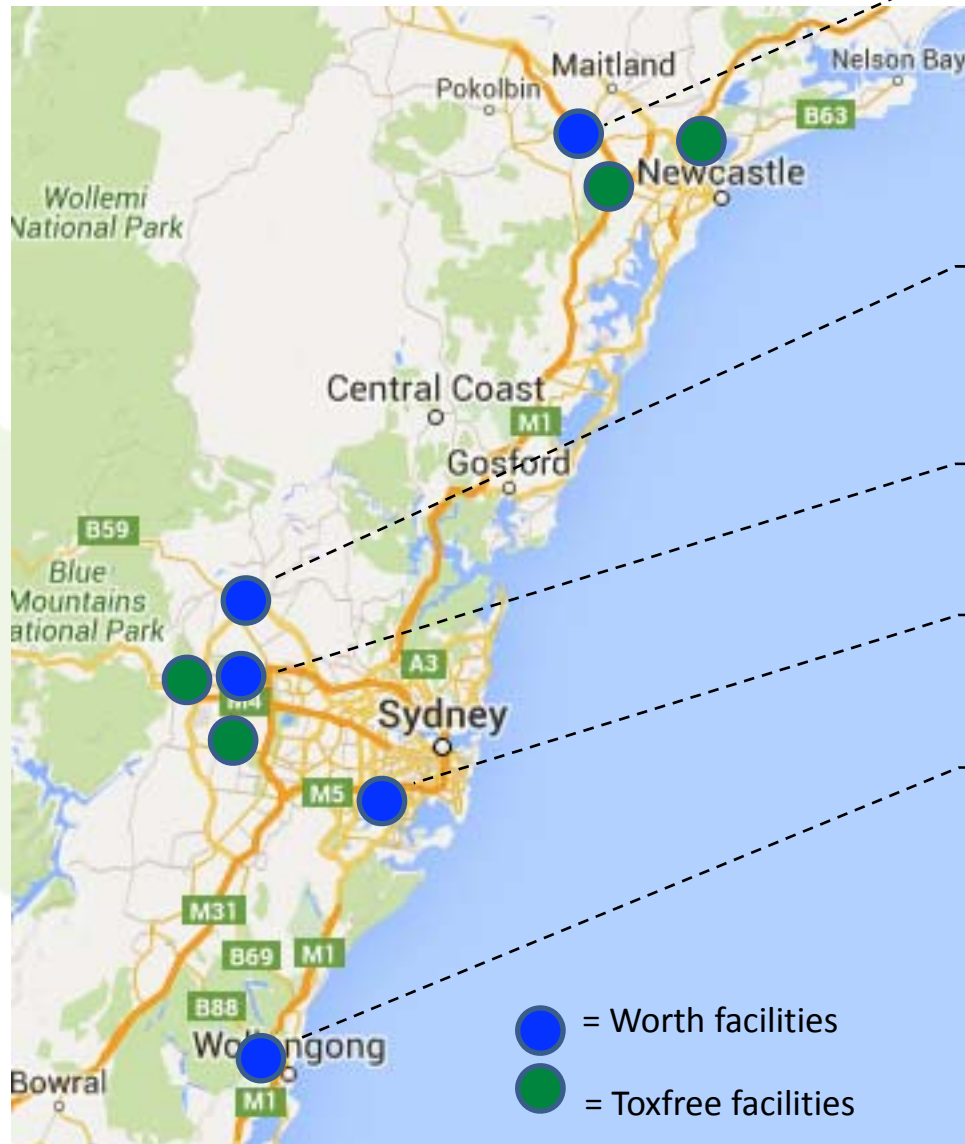
- Operates in NSW industrial waste treatment and industrial services markets
  - Collects, transports, processes and recycles liquid, sludge and contaminated soil
  - Provides confined space services, industrial cleaning and non destructive digging
  - Operates EPA licensed liquid waste treatment facilities in South Windsor and Pt Kembla and soil remediation and immobilisation treatment facilities in St Marys
  - Fleet of liquid and vacuum tankers including heavy vacs
  - Average fleet age of 5.3 years
  - Operations in metropolitan Sydney, the Illawarra and the Hunter Valley
- Established 1976 and grown through investment in treatment facilities and fleet over time
- Designed and built Oily Water Treatment Plants at South Windsor and BSL Pt Kembla

**Business Unit Revenue FY16**





# Business Overview



Kurri Kurri greenfield site  
expected to replace  
existing operation

South Windsor OWTP

St Marys SWT

Sans Souci (head office)

Pt Kembla BSL OWTP and  
CTP

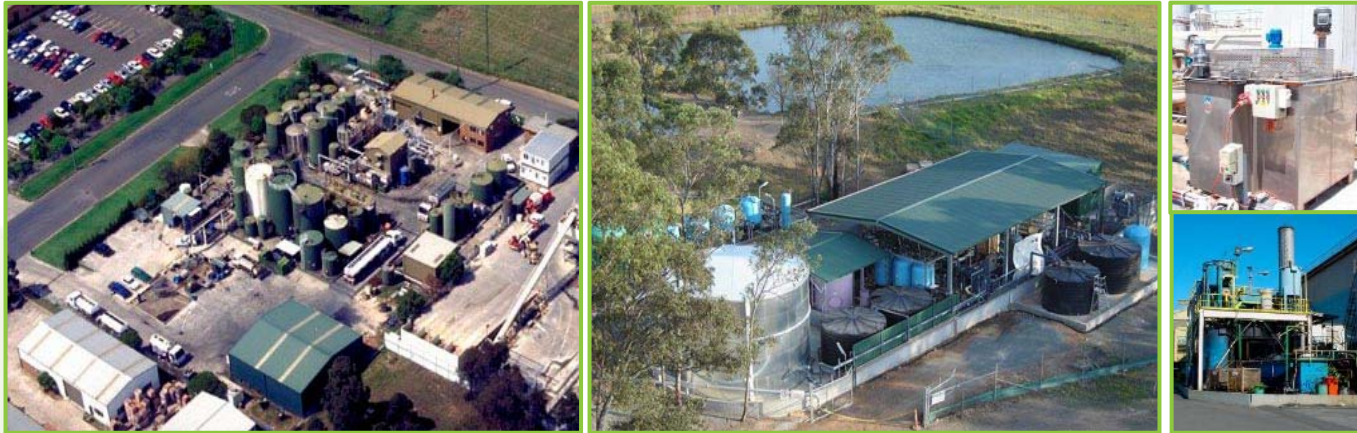


# Integrated Service Offering

*Worth offers a broad range of liquid and hazardous waste collection and treatment as well as other associated industrial services*

- Services include the collection and treatment of liquid and hazardous wastes from commercial and industrial customers and the provision of industrial services including non destructive digging and industrial cleaning

Industrial  
and  
Hazardous  
Waste  
Treatment



Waste  
collection  
and  
industrial  
services





# Business Overview

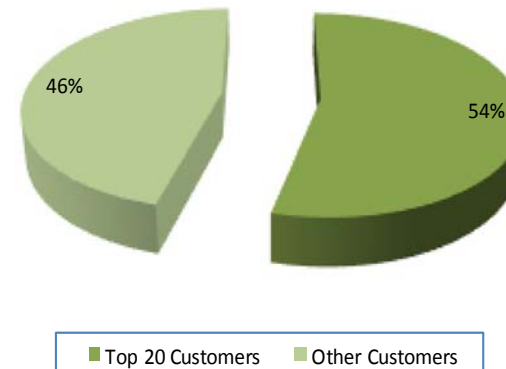
- Top 20 contracted clients make up 54% of revenue
- Top 5 customers include Ventia, Caltex, Bluescope, IOR and Thales

Summary Income Statement FY15 and FY16E

	FY15	FY16E
Revenue	50.5	62.4
Operating expenses	(39.4)	(49.5)
Adjusted EBITDA	11.1	12.9
<i>Margin %</i>	22.0%	20.7%
D&A	(3.2)	(3.8)
EBIT	7.9	9.1
<i>Margin %</i>	15.7%	14.6%

FY15 Customer Concentration by Revenue

FY15 Revenue By Customer





# South Windsor

- Licensed OWTP (est. 1985)
  - Receives and processes oily sludge, slops oils, waste oily waters, and contaminated solids/sludge and wastewater emulsions
  - Wastewater treatment capacity of 1 million litres per week
  - Operates 5.5 days per week (approved to operate 7 days per week)
  - Approximately 90% of water is recycled
  - Truck parking facility
  - Licenses and technologies provide competitive advantage through low cost treatment solutions and levy rebates
  - 10+5+5+5 year lease, CPI index with pre-emptive purchase rights





# St Marys

- Licensed contaminated soil remediation and chemical immobilisation facility, established 2014
- Only large scale off-site fixation-based remediation facility in NSW
  - Toll processor producing disposable solid waste through chemical fixation of waste streams
  - Operates 5 days per week, can operate 24/7 when needed
  - >3,000m<sup>3</sup> undercover storage, odour control and >90% hardstand
  - Planned additional DG3 storage site
  - Potential to co-locate Toxfree's other hazardous waste services including E-waste management BluBox technology
  - Freehold owned by Worth (Toxfree following completion)





# Other Locations and Services

Illawarra	<ul style="list-style-type: none"><li>• Operates OWTP and Coal Tar Preparation Plant at Pt Kembla</li><li>• Facilities owned by Bluescope and operated by Worth</li></ul>
Hunter Valley	<ul style="list-style-type: none"><li>• Currently operates from leased service depot in Kurri Kurri</li><li>• New greenfield site on freehold land with DA to develop integrated facility</li></ul>
Technical projects	<ul style="list-style-type: none"><li>• Tank cleaning / pipe cleaning / pressure blasting / decommissioning</li></ul>
Defence	<ul style="list-style-type: none"><li>• Tank cleaning services on Garden Island</li></ul>
Non Destructive Digging	<ul style="list-style-type: none"><li>• Operating in greater Sydney area &amp; Hunter Valley</li><li>• Potential growth option through expansion into service location and high rail</li><li>• Provides waste streams for South Windsor and St Marys facilities</li><li>• Exposure to growing civil infrastructure sector in NSW</li></ul>





# Fleet

Type	No.
Vacuum	29
Heavy Vacuum	8
Tanker	13
NDD	9
Combination	4
Flat Bed	1
High Pressure	1
<b>GRAND TOTAL</b>	<b>65</b>

High quality, mobile fleet with low average age of 5.3 years

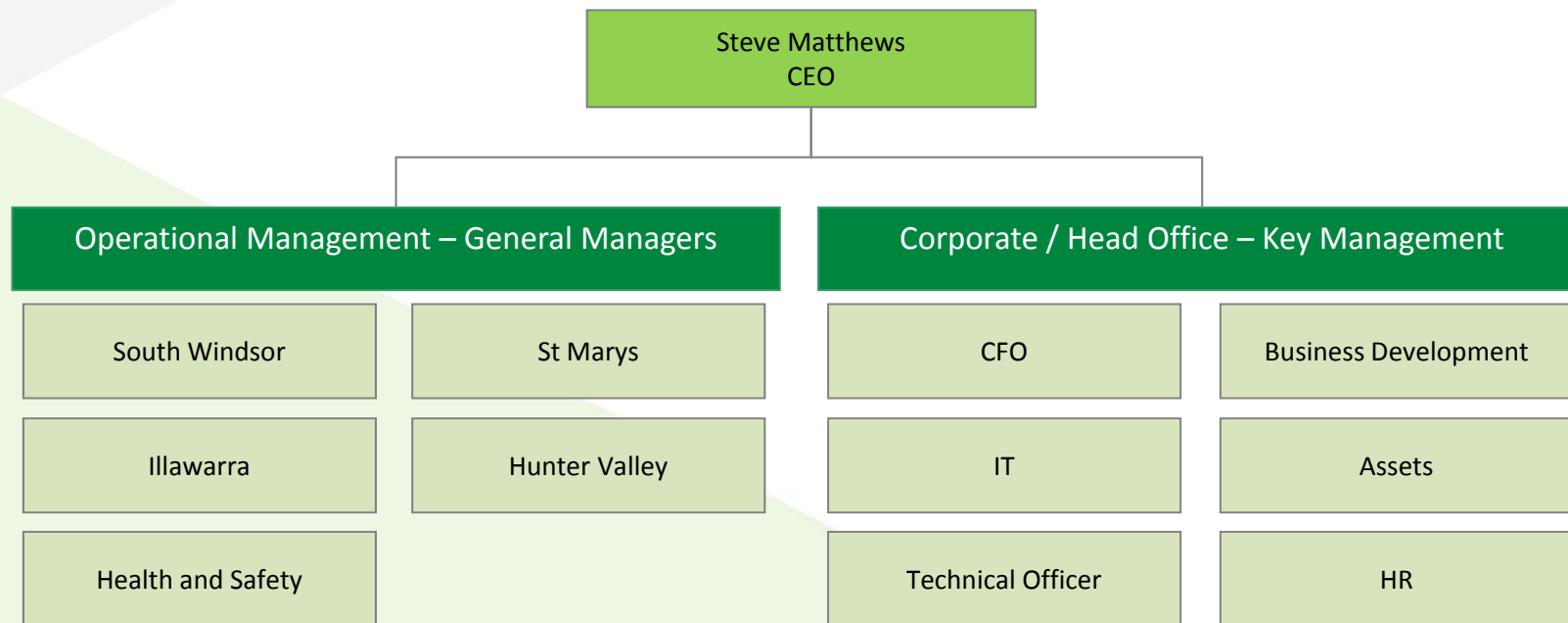
To be rebranded to Toxfree over next 12 months





# Experienced Leadership Team

- Steve Matthews leads a highly experienced, capable and committed management team
- Leadership team have agreed to transition with the business







# Strategic Rationale



# Toxfree's Corporate Strategy

Technical and Environmental Services  
Leader in Hazardous and Industrial  
Waste Management

- Innovation, best practice, low operating cost technologies, centres of excellence, resource recovery
- Unique and Strategic Licences throughout Australia
- High barriers to entry
- Servicing all industry sectors, households and government

Waste Services  
Provide all waste services in all  
regional hubs of Australia

- Regional focus - WA, QLD, TAS, SA and NT
- Total waste management solutions to blue chip clients
- Municipal, Commercial, Industrial
- One stop shop
- Market to producing assets is estimated at >\$1Bn pa

Industrial services  
Leader in provision of industrial  
services throughout Australia

- Producing assets
- Long term contracts
- Blue chip clients
- Ideally integrated with waste services
- Mining, Oil and Gas, Civil Infrastructure, Heavy Industry

*Integrated services*

***'Based on our strategy Toxfree have estimated a target market of approximately A\$4 to A\$5Bn pa\*'***

\*Source: insidewaste, Industry Report 2014-15 , IBIS – Waste Disposal Services in Australia 2012 and Toxfree estimates.





# Strategic Rationale



## Toxfree's Corporate Strategy

1

### Technical and Environmental Services

Leader in Hazardous and Industrial Waste Management nationally

- Best technologies
- Best licenses
- Best people
- High barriers to entry
- Servicing all industry sectors

2

Provide a Broad Range of Industrial Services to Blue Chip Clients Under Long Term Contract

- Civil infrastructure
- Commercial
- Mining
- Oil and gas
- Infrastructure
- Heavy manufacturing
- Government

## Rationale for Acquiring Worth

- ✓ Major expansion in NSW, with significant position in liquid waste and soil remediation
- ✓ NSW is the largest and fastest growing market in Australia
- ✓ Exclusive access to strategic EPA licensed liquid treatment and soil remediation facilities
- ✓ Diversifies Toxfree's industry and geographic exposure and customer base
- ✓ Greatly increases Toxfree penetration of NSW market
- ✓ Significant opportunity to realise synergies and growth
- ✓ Integration into Toxfree NSW operations
- ✓ Processing of Toxfree waste streams through Worth facilities
- ✓ Expansion of Worth's services into Queensland, Victoria and Western Australia
- ✓ Integration of shared services



# Benefits To Toxfree



## Platform for Future Growth

- Attractive geographic presence in NSW providing opportunities to expand Toxfree's services
- Worth holds an attractive position in NSW through the technologies and licenses it operates which complement Toxfree's existing facilities significantly and provide a greater platform from which it can build its industrial waste management offering
- Worth's clients are in commercial and industrial sectors where Toxfree expects to leverage its expertise in Hazardous and Industrial Services to add value to Worth's current service offering

## Expansion and Diversification of Earnings Base

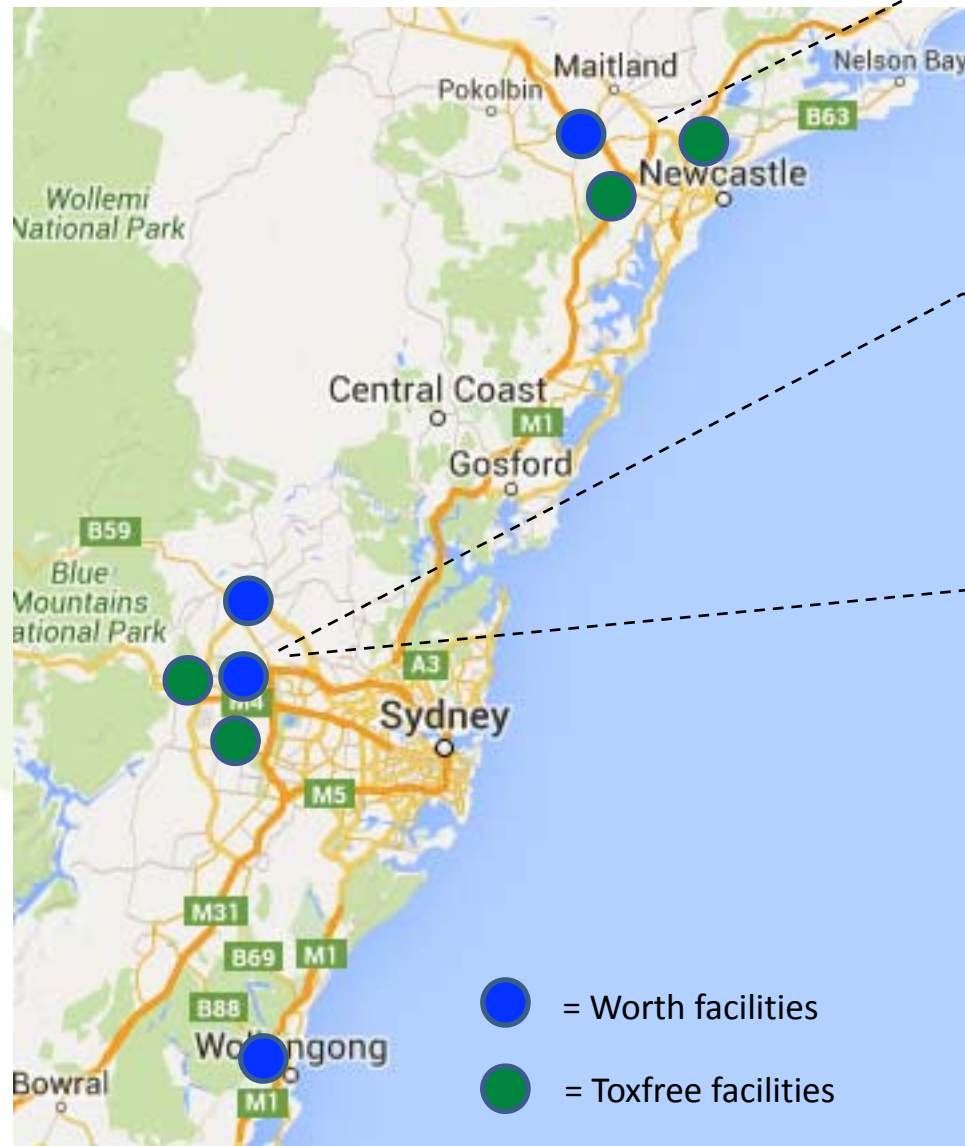
- Expansion and diversification of earnings base both in terms of geography and service
- Ability to leverage expertise and experience to expand Toxfree's earnings base and footprint in attractive markets
- Diversifies sector exposure increasing NSW to 16% of Toxfree revenue

## Financially Compelling Acquisition

- Profitable business with strong operating margins
- Lower capital intensity and higher return on invested capital consistent with Toxfree's TE&S Division
- Potential to extract cost synergies and value add to systems and processes
- Represents an EPS accretive transaction for shareholders



# Strategic Rationale



Rationalization of  
Hunter Valley  
operations

Rationalization of St  
Marys operations

Processing of Toxfree  
waste streams through  
South Windsor &  
St Marys

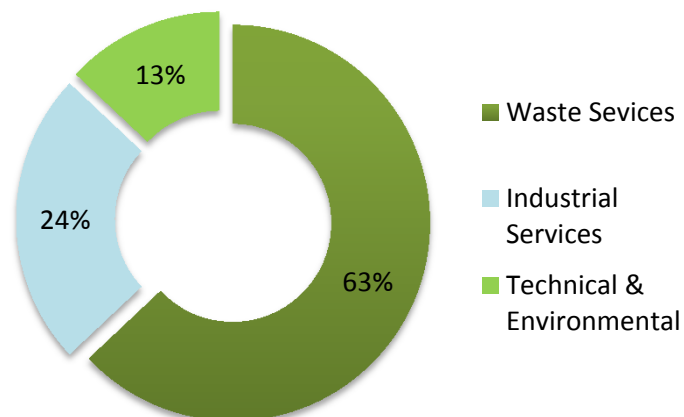


# Revenue By Service And State

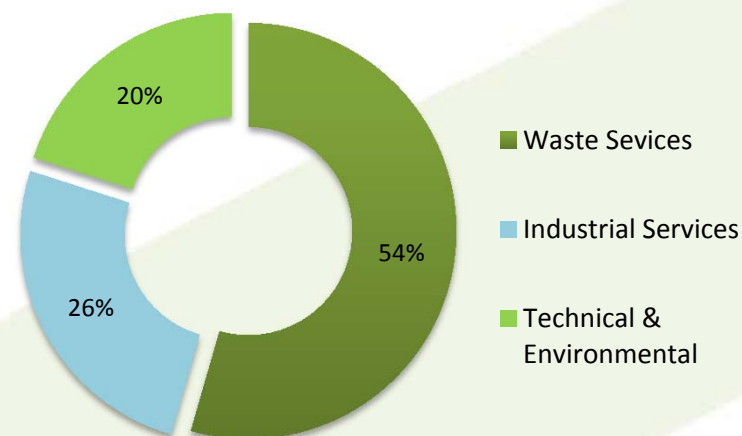


- The acquisition of Worth will significantly expand Toxfree's Technical and Environmental Services Division to 20% of group revenue and provides an opportunity to expand Industrial Services in NSW

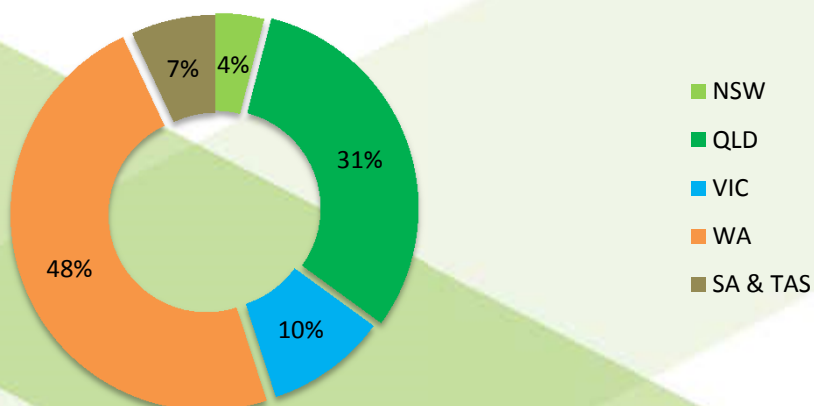
Revenue breakdown by Division FY16E – Toxfree



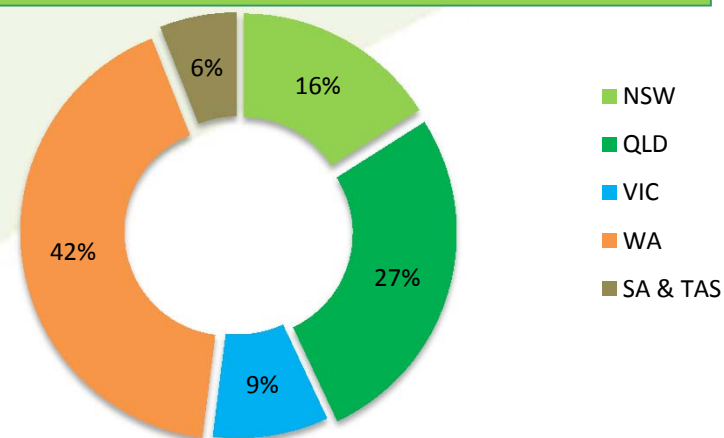
Revenue breakdown by Division PF FY16E – Combined



Revenue breakdown by State FY16E – Toxfree



Revenue breakdown by State PF FY16E – Combined







# Financial Impact



# Expected Financial Impact

- Expected EPS accretion of 13% for pro forma FY2016 on full year basis
  - Based on broker consensus for Toxfree
  - Excludes any revenue or cost synergies
  - Excludes amortisation of customer related intangibles
  - Excludes transaction costs
- Positive impact on EBITDA margins
  - Worth is expected to operate at an EBITDA margin of 20.7% in FY16
- Funded on a conservative basis to return gearing to target levels in near term
- Acquired balance sheet includes A\$9.2 million working capital, A\$29.6 million market value of fleet, land and equipment and A\$31.2 million intangibles
  - Intangibles include an estimated A\$1.9 million of amortisable customer related intangibles





# Historical Pro Forma Balance Sheet

- Pro forma balance sheet reflects fair value of assets acquired including:
  - Land A\$8.0 million
  - Plant A\$8.6 million
  - Fleet A\$13.1 million

A\$ Million	Tox Dec-15	Acquisition <sup>(1)</sup>	Funding	Pro-Forma Balance Sheet
Cash	22.6			22.6
Goodwill & Intangibles	151.0	31.2		182.2
PP&E and Other Assets	242.9	43.0		285.9
<b>Total Assets</b>	<b>416.5</b>	<b>74.2</b>		<b>490.7</b>
Debt	92.9		50.4	143.3
Other Liabilities	64.9	4.3		69.2
<b>Total Liabilities</b>	<b>157.8</b>	<b>4.3</b>	<b>50.4</b>	<b>212.5</b>
<b>Total Equity</b>	<b>258.7</b>	<b>(3.8) <sup>(2)</sup></b>	<b>23.4 <sup>(3)</sup></b>	<b>278.2</b>

- Financial position as at 31 December 2015 on a cash, debt and tax free basis in accordance with the share sale agreement.
- Transaction costs, including stamp duty and rebranding costs that will be expensed.
- Funding includes anticipated draw down of debt and equity raised in the placement and SPP, net of equity raising fees.





# Acquisition Funding





# Funding Arrangements

- Purchase price of A\$70.0 million, payable 100% in cash
  - Based on zero net debt and zero income tax liability and normal working capital
- Transaction costs of A\$4.4 million (including stamp duty (A\$1.2 million) and rebranding costs (A\$1.5 million))
- Toxfree to undertake fully underwritten A\$20.0 million institutional placement
  - Toxfree also plans to offer eligible shareholders an opportunity to participate in a Share Placement Plan (SPP) at the same price as the institutional placement capped at A\$4.0 million
- Toxfree will fund the balance of the acquisition by drawing down debt under its existing syndicated loan facility with ANZ and WBC

Sources	A\$ Million	Uses	A\$ Million
Debt	50.4	Acquisition Price	70.0
Equity Placement	24.0	Transaction Costs	4.4
<b>Total Sources</b>	<b>74.4</b>	<b>Total Uses</b>	<b>74.4</b>





# Equity Raising Details

Equity Raising Details	
<b>Placement Size</b>	A\$20.0 million
<b>Placement Pricing</b>	Fixed price of A\$2.55 per share 4.4% discount to the 5 day VWAP, 3.3% discount to the 1 day VWAP and 1.9% discount to last close
<b>Shares to be Issued</b>	Up to 7.8 million shares (“New Shares”) under placement
<b>Purpose</b>	To partly fund the acquisition of Worth Corporation
<b>Syndicate</b>	Morgan Stanley is acting as Sole Underwriter and Joint Lead Manager and Evans & Partners is acting as Joint Lead Manager on the institutional placement
<b>SPP</b>	<p>Eligible shareholders in Australia and New Zealand will have the opportunity to subscribe for Toxfree shares pursuant to a non-underwritten Share Placement Plan (SPP)</p> <ul style="list-style-type: none"><li>• Pricing to be the same as the Institutional Placement</li><li>• Up to A\$10,000 per eligible shareholder</li><li>• Capped at A\$4.0 million and directors reserve the right to scale back</li></ul>





# Funding - Equity

Key Event	Date
SPP Record Date	Friday, 18 March 2016
Trading Halt, Announcement and Institutional Bookbuild	Monday, 21 March 2016
Existing Shares Recommence Trading	Tuesday, 22 March 2016
Placement Settlement Date	Thursday, 24 March 2016
Allotment and Trading of Placement Shares	Wednesday, 30 March 2013
SPP	Details, including timetable, of the SPP will be sent to shareholders in the near future





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## **United States**

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.





# Key risks

## **Reliance on key customers**

Toxfree's businesses rely on a number of business relationships and contracted revenue with clients. If these clients amend or terminate the relationship, this may have an adverse effect on the financial performance and/or financial position of Toxfree. In addition, Toxfree may generate its revenue from the provision of services to customers under other agreements. There is potential that Toxfree will not receive payments for the provision of its services if a customer becomes insolvent or fails to provide payment in accordance with its agreement with Toxfree.

## **Major shareholder risk**

Toxfree currently has a number of substantial shareholders on its share register. There is a risk that these shareholders or other large shareholders may sell their shares at a future date. This could cause the price of Toxfree shares to decline.

## **Operating risks**

In the performance of its business, Toxfree may be subject to conditions beyond Toxfree's control that can reduce sales of its services and/or increase costs of both current and future operations. These conditions include, but are not limited to: changes in legislative requirements, abnormal or severe weather or climatic conditions, natural disasters, unexpected maintenance or technical problems, key equipment failures, new technology failures and industrial disruption. An inability to secure ongoing supply of such goods and services at prices assumed within production targets could potentially impact the results of Toxfree's operations.

## **Economic conditions**

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, national and international economic conditions and employment rates amongst others are outside Toxfree's control and have the potential to have an adverse impact on Toxfree and its operations.

## **Outsourcing risk**

The level of activity undertaken by Toxfree depends to a large extent on the continuation of the current trend towards the outsourcing of non-core functions by potential clients. If this trend does not continue or reverses, it may impact Toxfree's prospects for growth.

## **Tax risks**

Any change to the current rate of company income tax in Australia will impact on financial performance and cash flows, ability to pay dividends and Toxfree's Share price which could in turn impact shareholder returns. Any changes to the current rates of income tax apply to individuals and trusts will similarly impact on shareholder returns.

## **Capital and operating costs**

Toxfree's forecasts are based on the best available information at the time, and certain assumptions in relation to the level of capital expenditure required to maintain their assets. Any significant unforeseen increases in the capital and operating costs associated with Toxfree's operations would impact Toxfree's future cash flow and profitability. Capital and operating costs for Western Australian operations have increased in recent years due to increased labour and contractor costs.





# Key risks (cont'd)

## **Environmental risks**

Extensive Federal, State and local environmental laws and regulations in Australia affect the activities and operations of Toxfree. The laws and regulations set standards which regulate certain aspects of health and environmental quality (including damage caused by previous owners of property acquired by Toxfree), provide penalties or other remedies for any violation of standards and, in certain circumstances, impose obligations to undertake remedial action in current locations where business is conducted. Toxfree will be subject to all the hazards and risks normally incidental to the waste, manufacturing and the industrial solutions industries. Toxfree will be responsible for past and future environmental liabilities relating to both Toxfree and Worth, including liabilities presently unforeseen or unquantifiable. Compliance or non-compliance with environmental laws or regulations may require Toxfree to incur significant costs and may have a significant material impact on Toxfree's reputation and capability to secure additional work, impacting its financial performance and cash flows. Toxfree minimises these risks by having processes in place to manage compliance with environmental laws and regulations in Australia.

## **Reliance on key personnel**

The responsibility of overseeing day-to-day operations the strategic management of Toxfree is currently, and after the acquisition, will be concentrated amongst a small number of key employees. While it is not currently anticipated, one or any number of these key employees may cease employment with Toxfree. The loss of any such key employees of Toxfree could have the potential to have a detrimental impact on Toxfree until the skills that are lost are adequately replaced. There is also a risk that key personnel of Worth are unable to be retained by Toxfree or successfully replaced.

## **Occupational health and safety**

Toxfree manages certain risks associated with the occupational health and safety of its employees. Toxfree takes out insurance to cover these risks within certain parameters, however it is possible for injuries and/or incidents to occur which may result in expenses in excess of the amount insured or provided for with a resultant impact on Toxfree's earnings.

## **Industrial disputes**

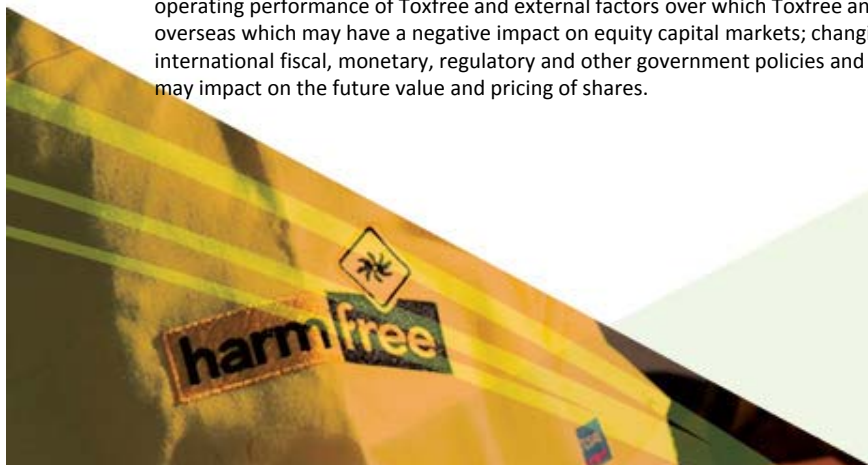
Industrial disputes may arise from claims for higher wages and/or better working conditions in the industry in which Toxfree operates. This could disrupt operations and impact earnings.

## **Debt facilities**

Whilst it is not currently anticipated, should Toxfree not be able to satisfy the conditions of draw down under its debt facilities, Toxfree will need to source funding from alternative sources.

## **Stock market fluctuations**

There are risks associated with any investment in a company listed on the ASX. The value of shares may rise above or below the current share price depending on the financial and operating performance of Toxfree and external factors over which Toxfree and the Directors have no control. These external factors include: economic conditions in Australia and overseas which may have a negative impact on equity capital markets; changing investor sentiment in the local and international stock markets; changes in domestic or international fiscal, monetary, regulatory and other government policies and developments and general conditions in the markets in which Toxfree proposes to operate and which may impact on the future value and pricing of shares.





# Key risks (cont'd)

## **Liquidity and realisation risk**

There may be few or many potential buyers or sellers of Toxfree Shares on the ASX at any time. This may affect the volatility of the market price of Toxfree's Shares. It may also affect the prevailing market price at which shareholders are able to sell their Toxfree Shares that is less or more than the implied share price.

## **Regulatory risks**

Toxfree is exposed to any changes in the regulatory conditions under which it operates in Australia. Such regulatory changes can include, for instance, changes in: taxation laws and policies, accounting laws, policies, standards and practises, environmental laws and regulations that may impact upon the operations and processes of Toxfree, and employment laws and regulations, including laws and regulations relating to occupational health and safety.

## **Customer preference**

Toxfree's products and services are subject to changes in customers' preferences, and therefore market share and pricing competitiveness may vary depending on the popularity of Toxfree's products and services.

## **Sustainability of growth and margins**

Toxfree has achieved strong growth in revenue and profits. The sustainability of this growth and the level of profit margins from operations are dependent on a number of factors outside of Toxfree's control.

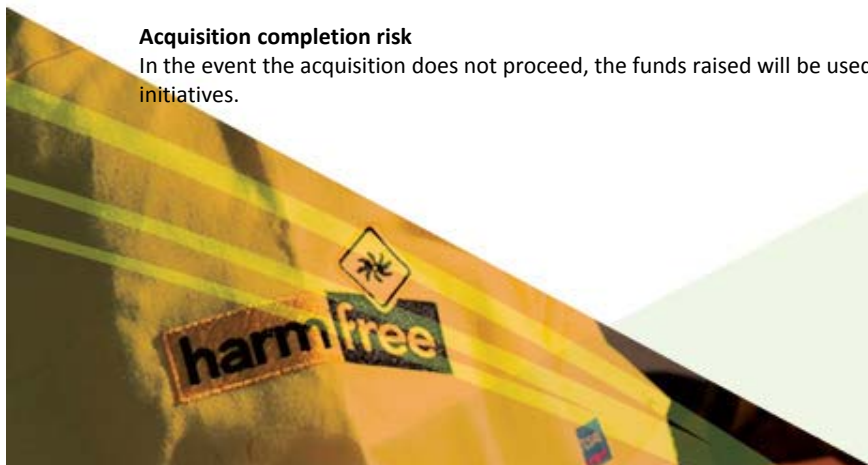
Industry margins in the sectors in which Toxfree operates are likely to be subject to continuing but varying margin pressures. There is no assurance that the historical performance of Toxfree is indicative of future operating results. However, Toxfree's business strategies and its diversification across a range of sectors assist in reducing the short term pressures that can occur as new entrants attempt to secure positions in an individual industry sector.

## **Competition**

A number of entities compete with Toxfree in the industrial services and hazardous waste industries, and while Toxfree is the largest supplier of some specific services, in overall size, some of these competitors may have or develop competitive advantages over Toxfree and may be larger on an international or regional basis and have greater access to capital and other resources. The market share of Toxfree's competitors may increase or decrease as a result of various factors such as securing major new contracts, developing new technologies and adopting pricing strategies specifically designed to gain market share. These competitive actions may reduce the prices Toxfree is able to charge for its services and products or reduce Toxfree's activity levels, both of which would negatively impact the financial performance of Toxfree and could materially affect Toxfree's financial performance or cash flows.

## **Acquisition completion risk**

In the event the acquisition does not proceed, the funds raised will be used for growth and general working capital purposes of Toxfree and/or capital management initiatives.







## For More Information

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# Questions

