

## Media/ASX and NZX Release

21 March 2017

### DOWNER EQUITY RAISING TO SUPPORT TAKEOVER OFFER FOR SPOTLESS

- Offer to acquire all of the issued share capital of Spotless not already owned by Downer by way of an off-market takeover (the "**Takeover Offer**")
- All cash consideration of \$1.15 per share, representing an attractive premium of 59% to \$0.725, the last closing price of Spotless shares prior to the announcement of the Takeover Offer<sup>2</sup>
- Downer has an interest equivalent to 19.99% in the issued share capital of Spotless, which is comprised of a 15.0% shareholding and an economic interest equivalent to 4.99%<sup>3</sup>
- Takeover Offer is subject to conditions including 90% minimum acceptance condition (including Downer's existing holding), no reduction in the FY17 earnings guidance provided by Spotless in February 2017 and regulatory approvals

#### Acquisition on strategy

- ✓ Strategically compelling transaction to strengthen Downer's position as a **leading integrated services provider with resilient earnings and long term customer relationships**
- ✓ **Highly experienced Downer management team** has the capabilities to manage and add value to the Spotless business
  - robust financial discipline and risk management processes
  - track record in executing turnarounds and integrating large acquisitions
  - specialist team working on entry into facilities and social infrastructure services
- ✓ **Well positioned for growth** across the businesses within the combined portfolio, with leading market positions across key sectors and a robust balance sheet to support future growth opportunities
- ✓ **Financially attractive** acquisition metrics
  - EPS accretive on a pro forma FY17 NPAT before amortisation ("**NPATA**") basis
    - Around 10% accretion before any synergies<sup>4</sup>
    - Mid-high teens accretion including conservative estimate of \$20m of run-rate synergies<sup>5</sup>
  - Estimated pre-tax cost synergies of approximately \$20m-\$40m per annum over time

#### Transaction funding

- The Takeover Offer will be funded through a combination of proceeds from a fully underwritten c.\$1,011 million accelerated renounceable entitlement offer with retail rights trading ("**Entitlement Offer**") and committed debt facilities
- Robust balance sheet on completion supports ability to continue investing in Downer's existing business portfolio and pursue future growth opportunities
  - pro forma net debt / EBITDA of approximately 1.5x<sup>6</sup> and pro forma gearing of approximately 28%<sup>7</sup> on completion of the Takeover Offer, with de-gearing from cash flows anticipated going forward

<sup>1</sup> All references to "FY17" in this announcement refer to the 12 month forecast period ending 30 June 2017. References to "FY16" in this announcement refer to the financial year ended 30 June 2016

<sup>2</sup> Closing price as at 20 March 2017

<sup>3</sup> 4.99% economic interest accumulated via cash settled total return swap between 27 February 2017 and 7 March 2017 (inclusive), at a weighted average reference price of \$0.815 per Spotless share. 15.0% shareholding accumulated on 20 March 2017 at a weighted average price of \$1.146 per Spotless share

<sup>4</sup> Pro forma FY17 EPS accretion on a NPATA basis reflects the impact of the acquisition as if it had occurred on 1 July 2016. FY17 pro forma NPATA is based on Downer's FY17 earnings guidance, being underlying NPAT (NPAT excluding transaction costs) of \$175 million, the mid-point of Spotless' underlying NPAT guidance announced on 28 February 2017, being \$85 million (midpoint of \$80-\$90 million range) and the impact of the additional interest expense (post-tax) that would have been incurred as a result of incremental debt drawn down as part of the Takeover Offer. NPATA used to calculate the EPS accretion excludes the impact of integration, implementation and transaction costs. Spotless does not disclose acquired intangibles amortisation for the FY17 forecast, and in the absence of this information, for the purposes of deriving EPS accretion, Downer has used Spotless' FY16 acquired intangibles amortisation expense of \$10.1 million (\$7.1 million after-tax), disclosed in Spotless' audited financial statements for the year ended 30 June 2016, as a proxy for Spotless' FY17 amortisation of acquired intangibles. For the purposes of the calculation, Downer's standalone earnings per share has been adjusted for the bonus element of the Entitlement Offer

<sup>5</sup> Pro forma FY17 EPS accretion inclusive of synergies, is calculated on the same basis as per note 4 above, but includes the assumed impact of \$20 million of run rate synergies (\$14 million post-tax)

<sup>6</sup> Based on 31 December 2016 Combined Group pro forma net debt of \$1,222.9 million (being pro forma debt of \$1,878.9 million less pro forma cash of \$656.0 million) after completion of the Takeover Offer and the Entitlement Offer, and pro forma EBITDA of \$829.6 million for the 12 months ended 31 December 2016 (excluding synergies). Refer to the Investor Presentation lodged with the ASX on the date of this announcement for further details

<sup>7</sup> Calculated as pro forma net debt of \$1,222.9 million after the impact of the Takeover Offer and the Entitlement Offer divided by the sum of pro forma net debt and pro forma equity of \$3,099.6 million after the impact of the Takeover Offer and Entitlement Offer. Refer to the Investor Presentation lodged with the ASX on the date of this announcement for further details



## Transaction details

Downer EDI Limited ("**Downer**"), through Downer EDI Services Pty Ltd ("**Downer Services**"), has an interest equivalent to 19.99% in the issued share capital of Spotless Group Holdings Limited ("**Spotless**"), which is comprised of a 15.0% shareholding and an economic interest equivalent to 4.99%.<sup>8</sup>

Downer today announced that, through Downer Services, it intends to make a conditional cash offer to acquire all of the shares in Spotless that it does not already own, pursuant to an off-market takeover at a price of \$1.15 per share ("**Offer Price**"). The Takeover Offer is subject to certain conditions, including:

- 90% minimum acceptance condition (including Downer's existing holding);
- No reduction to the FY17 earnings guidance provided by Spotless in February 2017 of net profit after tax (pre-exceptional items) of \$80-\$90 million;
- No change of control triggers being exercised in respect of Spotless' existing debt facilities;
- No termination of the underwriting agreement in relation to the Entitlement Offer;
- No material acquisitions, disposals or significant events being undertaken by Spotless;
- Regulatory approvals; and
- Other conditions including no regulatory restraints and no Spotless prescribed occurrence.

The Downer Board believes that this is an attractive offer to Spotless shareholders. Further details on the Takeover Offer, including its conditions and reasons Spotless shareholders should accept the Takeover Offer, are set out in the accompanying ASX announcement.

The Chief Executive Officer of Downer, Grant Fenn, said:

"The proposed acquisition of Spotless is very exciting for Downer, its people and its shareholders. It is aligned with our strategy and strengthens Downer's position as a leading integrated services provider to not only the resources, transport and utilities sectors, but also in health, education, corrections, defence and other areas of government.

"Importantly, the Downer management team has what it takes to turn the Spotless business around and to create a highly competitive, customer focused and successful service organisation.

"This is a strategically and financially compelling transaction with the potential to deliver growth across the combined portfolio and drive shareholder value."

## Overview of Spotless<sup>9</sup>

Spotless is a large scale provider of facility management services and laundry and linen services across Australia and New Zealand, with c.\$3 billion in revenue<sup>10</sup> and c.\$309 million in underlying EBITDA<sup>11</sup> for the 12 months ended 31 December 2016.

<sup>8</sup> 4.99% economic interest accumulated via total return cash settled swap between 27 February 2017 and 7 March 2017 (inclusive), at an average weighted price of \$0.815 per Spotless share. 15.0% shareholding accumulated on 20 March 2017 at a weighted average price of \$1.146 per Spotless share

<sup>9</sup> Information in this announcement relating to Spotless, including financial information, has been sourced or derived from public information and Downer makes no representation or warranty with respect to the fairness, accuracy or completeness of such information

<sup>10</sup> Statutory revenue for the 12 months ended 31 December 2016. Derived from Spotless' audited financial statements for the year ended 30 June 2016, Spotless' reviewed financial statements for the six months ended 31 December 2015 and Spotless' reviewed financial statements for the six months ended 31 December 2016

<sup>11</sup> Underlying EBITDA for the 12 months ended 31 December 2016. Derived from Spotless' statutory income statements as derived per note 10 above, adjusted for the impact of the adjustments disclosed by Spotless in its Annual Report for the year ended 30 June 2016 and its half year report for the six months ended 31 December 2016. No additional adjustments have been made to Spotless' underlying results beyond the adjustments disclosed by Spotless



Spotless operates through two core segments:

- **Facility services**, which includes property maintenance (mechanical/electrical), property management (security, waste, grounds), catering (food supply and delivery) and cleaning; and
- **Laundry services**, which involves the rental, cleaning, delivery and management of linen and workwear.

Facility services contributes c.91% of Spotless' revenue, while Laundry services contributes c.9%.<sup>12</sup>

Spotless has a diversified portfolio of long term contracts across a high quality customer base, with strong market positions across its key sectors.

### Strategic Rationale

There is a strong rationale for Downer's acquisition of Spotless.

- The acquisition of Spotless **delivers on Downer's strategic objectives**:
  - continues Downer's transformation towards a more stable services-focused business with resilient earnings
  - enhances contract portfolio, with long term contracts that provide high certainty over revenues<sup>13</sup>
  - contributes a complementary, high quality customer base
  - creates an integrated services provider with a comprehensive range of capabilities
- Downer has a **highly experienced management team** with the capabilities to manage and add value to the Spotless business
  - robust financial discipline and risk management processes
  - track record in executing turnarounds and integrating large acquisitions
  - specialist team working on entry into facilities and social infrastructure services
- **Well positioned for growth** across the businesses within the combined portfolio. The combined business is expected to benefit from the continuing trend towards outsourcing in the public and private sectors, with leading market positions across all key sectors. The maintenance of a robust balance sheet on completion of the Takeover Offer will support Downer's ability to continue investing in its existing businesses as well as pursue future growth opportunities.
- **Increased market relevance**. The acquisition of Spotless creates the largest diversified and integrated services manager in Australia and New Zealand, with combined revenues of c.\$10.5 billion<sup>14</sup> and c.55,000 employees<sup>15</sup>, as well as a pro forma market capitalisation of over \$4 billion.<sup>16</sup>
- **Potential to realise synergies and value accretion**. The acquisition of Spotless is financially compelling, with the Takeover Offer expected to be EPS accretive on a pro forma FY17 NPATA basis, with around 10% accretion before any synergies<sup>17</sup> and mid-high teens accretion if \$20 million of run-rate synergies are included (as conservatively estimated).<sup>18</sup>

<sup>12</sup> 12 months ended 31 December 2016. Derived from Spotless' FY16 Annual Report. Spotless' reviewed financial statements for the six months ended 31 December 2015 and Spotless' reviewed financial statements for the six months ended 31 December 2016, and includes inter-segment revenues

<sup>13</sup> Spotless ASX filings as at 30 June 2016. Based on top 150 identified contracts by FY17 forecast revenue

<sup>14</sup> 12 months ended 31 December 2016. Based on statutory revenue for Spotless. Based on Total Revenue for Downer, which is a non-statutory disclosure and which includes \$534 million from Downer's share of revenue from equity accounted joint ventures and associates. Excluding Downer's share of revenue from equity accounted joint ventures and associates, the Combined Group revenue is \$9.9 billion

<sup>15</sup> As at 31 December 2016

<sup>16</sup> Based on 424.8 million current shares on issue for Downer, plus 169.9 million shares expected to be issued under the Entitlement Offer, at the theoretical ex-rights price ("TERP") of \$7.00

<sup>17</sup> Pro forma FY17 EPS accretion on a NPATA basis is calculated as per note 4 above

<sup>18</sup> Pro forma FY17 EPS accretion inclusive of synergies is calculated as per note 5 above



The combination of the two businesses is expected to deliver pre-tax cost synergies of approximately \$20-\$40 million per annum over time.

### Transaction Funding

The Takeover Offer is to be funded through a combination of proceeds from a fully underwritten c.\$1,011 million accelerated renounceable entitlement offer with retail rights trading ("**Entitlement Offer**") and committed debt facilities.

Downer has adopted a conservative transaction funding structure, reflecting its commitment to maintaining its current investment grade rating following completion of the Takeover Offer. Pro-forma net debt / EBITDA of approximately 1.5x<sup>19</sup> and pro-forma gearing of 28%<sup>20</sup> are expected on completion, with de-gearing from cash flows expected going forward.

### Entitlement Offer

The Entitlement Offer comprises a fully underwritten 2 for 5 accelerated pro rata renounceable entitlement offer that includes the ability to trade retail entitlements on the ASX.

The Entitlement Offer is expected to raise approximately \$1,011 million.

The Offer Price of \$5.95 per share represents a 19.8% discount to Downer's closing price of \$7.42 on the ASX on Monday, 20 March 2017 and a 15.0% discount to the theoretical ex-rights price ("**TERP**") of \$7.00.

The Entitlement Offer consists of an accelerated institutional entitlement offer ("**Institutional Entitlement Offer**") and a retail entitlement offer that includes the ability for eligible retail shareholders to trade their retail entitlements on ASX ("**Retail Entitlement Offer**").

Under the Entitlement Offer, eligible shareholders are entitled to subscribe for 2 new Downer ordinary shares for every 5 existing Downer ordinary shares ("**Entitlement**") held as at 7.00pm (Sydney time) on Friday, 24 March 2017.

New Downer ordinary shares issued under the Entitlement Offer will rank equally with existing Downer shares in all respects.

Entitlements may only be exercised by eligible investors, being persons who have a registered address in Australia or New Zealand, and certain categories of institutional investors in Canada (Ontario, British Columbia and Quebec only), France, Germany, Hong Kong, Ireland, Japan, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Switzerland, the United Kingdom and the United Arab Emirates. Persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase or trade Entitlements on market, or take up or exercise Entitlements purchased on market or transferred from another person.

### Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Tuesday, 21 March 2017 to Wednesday, 22 March 2017.

Eligible Institutional Shareholders can choose to take up all, part or none of their Entitlements ("**Institutional Entitlements**"). Institutional Entitlements cannot be sold on ASX. Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and Institutional Entitlements that would have been offered to ineligible institutional shareholders had they been entitled to participate, will be offered for sale through the institutional shortfall bookbuild ("**Institutional Shortfall Bookbuild**") opening on Wednesday, 22 March 2017 and closing on Thursday, 23 March 2017. Any proceeds

<sup>19</sup> Pro forma net debt / EBITDA is calculated as per note 6 above

<sup>20</sup> Pro forma gearing is calculated as per note 7 above



from the sale of Institutional Entitlements under the Institutional Shortfall Bookbuild will be remitted proportionally to those institutional shareholders, less any applicable withholding tax.

Downer shares have been placed in trading halt while the Institutional Entitlement Offer and the Institutional Shortfall Bookbuild are undertaken.

### **Retail Entitlement Offer**

Eligible retail shareholders in Australia and New Zealand will be invited to participate in the Retail Entitlement Offer at the same offer price and offer ratio as the Institutional Entitlement Offer. The Retail Offer will open at 9:00am (Sydney time) on Thursday, 30 March 2017 and close at 5:00pm (Sydney time) on Tuesday, 11 April 2017.

Eligible retail shareholders will be allotted Entitlements ("**Retail Entitlements**") which can be traded on the ASX. If they do not wish to take up all or part of their Retail Entitlements, they can seek to sell all or part of their Retail Entitlements on the ASX or by transferring them directly to another person to realise value for those Retail Entitlements ahead of the retail shortfall bookbuild (discussed below). Retail Entitlements can be traded on the ASX from Friday, 24 March 2017 (on a deferred settlement basis) to Tuesday, 4 April 2017.

Eligible retail shareholders should carefully read the retail information booklet and accompanying personalised entitlement and acceptance form which are expected to be despatched on Thursday, 30 March 2017 and which will be made available on the ASX website on that date.

Retail Entitlements which are not exercised by the close of the Retail Entitlement Offer, and Retail Entitlements that would otherwise have been offered to ineligible retail shareholders had they been entitled to participate, will be sold through the retail shortfall bookbuild on Tuesday, 18 April 2017 ("**Retail Shortfall Bookbuild**"). Any proceeds from the sale of Retail Entitlements under the Retail Shortfall Bookbuild will be remitted proportionally to those retail shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those retail shareholders.

It is the responsibility of purchasers of Retail Entitlements to inform themselves of the eligibility criteria for exercise. If holders of Retail Entitlements after the trading period do not meet the eligibility criteria, they will not be able to exercise the Retail Entitlements. In the event that holders are not able to take up their Retail Entitlements, those Retail Entitlements will be sold into the Retail Shortfall Bookbuild and holders may receive no value for them.

## Key Dates

Event	Date
Institutional Entitlement Offer opens	Tuesday, 21 March
Institutional Entitlement Offer closes	Wednesday, 22 March
Institutional shortfall bookbuild opens	Wednesday, 22 March
Institutional shortfall bookbuild closes	Thursday, 23 March
Announcement of results of Institutional Entitlement Offer Trading Halt lifted Trading in ordinary shares resumes on an ex-entitlement basis Rights trading of retail entitlements only commences on a deferred settlement basis Record Date for Entitlement Offer (7.00pm Sydney time)	Friday, 24 March
Retail Entitlement Offer opens	Thursday, 30 March
Settlement of Institutional Entitlement Offer Rights trading of retail entitlements commences on a normal settlement basis	Friday, 31 March
Issue and trading of new shares under the Institutional Entitlement Offer	Monday, 3 April
Rights trading of retail entitlements ends	Tuesday, 4 April
Retail Entitlement Offer closes (5.00pm)	Tuesday, 11 April
Retail shortfall bookbuild	Tuesday, 18 April
Settlement of Retail Entitlement Offer	Friday, 21 April
Issue of new shares under the Retail Entitlement Offer	Monday, 24 April
New shares issued under the Retail Entitlement Offer commence trading on a normal settlement basis	Wednesday, 26 April
Despatch of holding statements for new shares under Retail Entitlement Offer	Thursday, 27 April

The above timetable is indicative only and subject to change. All dates and times are Sydney time.

## Further Information

Further details of the Takeover Offer and the Entitlement Offer are set out in the Investor Presentation lodged with the ASX today. This includes important information with respect to the Entitlement Offer, including key risks involved in an investment in Downer and the Takeover Offer and foreign selling restrictions.

Retail shareholders who have any questions about the Retail Entitlement Offer should speak with their broker or adviser and/or call the Downer Offer Information Line on 1300 048 149 within Australia or +61 3 9415 4275 outside Australia from 8.30am to 5.30pm (Sydney time) Monday to Friday during the Retail Entitlement Offer.

## Advisers

UBS AG, Australia Branch is acting as financial adviser and Ashurst is acting as legal adviser to Downer in relation to the Takeover Offer and Entitlement Offer.

## Forward looking statements disclaimer

This announcement contains certain forward looking statements and comments about current intention, statements of opinion and predictions as to possible future events, including Downer's expectations about the future performance of its business, the effect of the funds raised under the Entitlement Offer on those businesses, the outcome of the Takeover Offer and the future performance (including potential or expected



synergies) of Downer and Spotless post acquisition. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements and include statements in this announcement regarding the conduct and outcome of the Entitlement Offer, the use of proceeds, the outcome of the Takeover Offer, the future performance (including potential or expected synergies) of Downer and Spotless post acquisition and Downer's outstanding debt. You are cautioned not to place undue reliance on any forward looking statement. While due care and attention has been used in the preparation of forward looking statements, forward looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends which are based on interpretations of current market conditions. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Downer, its directors and management. Actual results, performance or achievements may vary materially from any forward looking statements and the assumptions on which statements are based. Downer disclaims any intent or obligation to update publicly any forward looking statements, whether as a result of new information, future events or results or otherwise.

### **Financial information**

The pro forma financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission. Investors should be aware that financial data in this announcement include "non-IFRS financial information" under ASIC Regulatory Guide 230 Disclosing non-IFRS financial information published by the Australian Securities and Investments Commission and also "non-GAAP financial measures" within the meaning of Regulation G under the U.S. Securities Exchange Act of 1934, including NPATA, EBITDA, underlying EBITDA, net debt and gearing. Downer believes this non-IFRS/non-GAAP financial information provides useful information to users in measuring the financial performance and conditions of Downer. The non-IFRS financial information do not have a standardised meaning prescribed in Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS/non-GAAP financial information and ratios included in this announcement.

### **Not for distribution or release in the United States**

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. Neither the Entitlements nor any securities of Downer have been, nor will be, registered under the U.S. Securities Act of 1933, as amended ("**U.S. Securities Act**") or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Entitlements and such securities may not be taken up by, or offered or sold to, directly or indirectly, any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.

### **About Downer**

Downer EDI Limited ("**Downer**") is a leading provider of services to customers in markets including: Transport Services; Rail; Mining; Utilities Services; Technology and Communications Services; and Engineering, Construction & Maintenance. We build strong relationships of trust with our customers, truly understanding and predicting their needs and bringing them world leading insights and solutions. Downer employs about 19,000 people across more than 200 sites and projects, mostly in Australia and New Zealand, but also in the Asia-Pacific region, South America and Southern Africa. For more on Downer, visit: [www.downergroup.com](http://www.downergroup.com).

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