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UXC Limited (ASX: UXC) recently announced that it has achieved compulsory acquisition and declared its off-market takeover bid to acquire Ingena Group Limited (ASX: IGG) unconditional. What is the strategic rationale behind this acquisition?

Executive Chairman Geoff Lord
The acquisition will do several things for us. Firstly, should Ingena perform in line with its publicly released forecast, it will provide an EPS boost for UXC. Secondly, Ingena will form the cornerstone of a third operating group, the new Professional Solutions Group, which will provide management consulting and professional services.

The Ingena capabilities will form an enabler for existing UXC businesses to offer enhanced services to the market. As the deal is scrip for scrip, UXC will effectively raise capital to complete the transaction. This is useful in the current economic climate and will strengthen UXC's balance sheet, reduce its gearing ratio, and increase its debt service cover.

Additionally, Ingena currently has only a small proportion of the market share in their sector. Like their management, we think they can grow into a market leading presence in their space. Their ability to do so will be assisted by being a part of the UXC Group. We have a good track record in growing other UXC Business Units into market leaders.

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You've offered one UXC-IPS share for every two IGG shares held by shareholders. UXC-IPS is an unquoted ordinary share in UXC with an entitlement to an additional 0.25 and 0.15 UXC share if IGG performance target is met in FY09 and FY10 respectively. Why have you funded the acquisition in this manner instead of using cash and ordinary shares?

Executive Chairman Geoff Lord
This is an innovative deal structure in a takeover bid. It is designed to allow UXC to pay a fair price for earnings it actually acquires. The bid allows Ingena shareholders to earn future value for performance and to increase their consideration for the achievement of earnings growth by Ingena. It also protects UXC from paying now for future growth promises which may not eventuate. So, we are keeping some risk with the vendors and through the performance share mechanism, we are able to do it in this transaction as well.

Apart from the aforementioned benefits of the scrip for scrip deal, we have not used cash as it is unlikely we would be able to close the deal with cash at prevailing prices. The important factor in our bid is the relativity of the UXC and Ingena prices. By offering shares under our deal structure, Ingena shareholders have a continuing opportunity for price appreciation, increased consideration and dividend income. If we used cash, acceptance would mean exiting their position at the current prevailing, depressed prices.

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IGG's revenue and NPAT was $14.4 million and $2.3 million respectively for FY08. The deal is expected to be earnings per share accretive for UXC. Can this acquisition have a genuine impact on shareholder value?

Executive Chairman Geoff Lord
Ingena's figures for FY08 do not include full year earnings impacts from their recent acquisitions, so already the scale of their business is different. The more important figures are their forecasts, which they have released into the public domain.

For FY09, they are targeting PBT of $7.150m and NPAT of $5.005m, and they stated at their AGM on 26 November that they are on target for this. Their target NPAT for FY10 is $6.850m. These numbers obviously exclude benefits that our existing businesses can get from the transaction. So yes, we firmly believe that this is a very attractive deal for our shareholders.

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You've indicated that IGG will form the cornerstone of the new Professional Solutions Group. How will the Professional Solutions Group differ from the other three existing groups: Business Solutions Group, Field Solutions Group and Intellectual Property Ventures Group?

Executive Chairman Geoff Lord
The IPVG is not really an operating Group. It primarily holds investments and provides capital gain opportunities, so that distinction is easy. The FSG acts as an asset partner to water, gas, and electricity utilities and government, providing field services in asset management, environmental, and so on. So again, the distinction is fairly easy.

BSG and Ingena will be most similar in terms of their clients and skill sets, but maybe the easiest way to draw a distinction would be in the manner in which they engage with their customers. BSG primarily sells a solution, sometimes for a fixed price, into a business. Ingena primarily sells a capability at a rate for time, into a business that is building a solution.

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In FY08, you acquired Getronics Australia, Lucid IT and Intacct Business Consulting under the Business Solutions Group and in FY09 acquired Datec Queensland to strengthen your engineering solutions business under the Field Solutions Group. What has been the progress of integrating these acquisitions into the Business Solutions Group and Field Solutions Group? How are these businesses performing versus expectations?

Executive Chairman Geoff Lord
Getronics and Lucid represented new spaces to us, so only Intacct and Datec were integrated into existing business streams in the traditional meaning of integration. Both of those businesses are contributing in line with expectations. Lucid is a star: their credentials in ITIL and the growing profile of those services have helped them exceed expectations. Getronics was always going to be more difficult as the price we paid was reflective of its low historical margins, the need to address its cost base, and the need to invest in its supporting infrastructure. This has proven to be the case.

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Fieldforce Services has recently won five contracts in the environmental sector equal to about $90 million. Can you comment on revenue flow year to date in the current year ending June 2009 and how confident are you in achieving the revenue guidance of $700 million you've set out in June 2008?

Executive Chairman Geoff Lord
As announced at the AGM, our year to date revenue is on track to meet our revenue guidance of $700m. Even so, our first half earnings will be down on the first half of last year by a substantial amount. Simply, we haven't managed to reduce the costs in the business quickly enough in response to rapidly changed market conditions, and at this point it looks unlikely that certain divestments will eventuate before the end of the calendar year.

Having said that, we are confident of a vastly improved second half, both in relation to the first half and the previous corresponding period. We have won substantial new contracts in environmental solutions and we have strong annuity business in FSG. There is a strong relationship of contracts in hand to forecast and continuing significant opportunity remains. We will have a much improved cost structure in the second half, the cost of change being incurred in the first half and the benefit of that change being realized in the second. Ingena will contribute only to the second half. We are confident that business remains sound and that over the medium to long term it will continue to grow.

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Thank you Geoff.

For more information about UXC Limited, visit www.uxc.com.au or contact Geoff Lord on 03 9941-3100 or Mark Hubbard, UXC Finance Director / Company Secretary, on 03 9224-5777.

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