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COLORPAK SIGNS HEADS OF AGREEMENT TO ACQUIRE CARTER HOLT HARVEY'S FOLDING CARTON OPERATIONS IN AUSTRALIA AND NEW ZEALAND

Colorpak is pleased to advise that it has signed a Heads of Agreement with Carter Holt Harvey's (CHH) Parent to acquire CHH's folding carton operations in Australia and New Zealand.

Key points

- Colorpak will acquire all of CHH's Australian and New Zealand folding carton operations.
- Colorpak's annualised sales will increase from \$80 million (year to 30 June) to approximately \$250 million.
- This acquisition also gives Colorpak entry into the New Zealand market with a manufacturing operation in Auckland.
- Colorpak's competitive position is enhanced with scope to drive significant shareholder value from the transaction.
- Transaction is expected to be EPS accretive, based on cost synergies alone, in the first full year following acquisition, on a normalised basis. Considerable further potential exists in efficiency and other areas.
- Colorpak to fund the acquisition out of existing cash and debt facilities.
- Integration process is expected to take around two years and to be carefully managed by a dedicated integration team.
- Colorpak will further review the business in due diligence and immediately post acquisition in order to finalise the integration plan.
- The deal is subject to a number of conditions including due diligence and regulatory approvals and is expected to be completed in late calendar 2010 or early 2011.

CHH is one of the leading folding carton board businesses in Australia and New Zealand with 5 plants and 658 employees. For the year to 31 December 2009, CHH had sales of \$170 million pa, EBITDA as measured in our hands of approximately \$4 million pa and net operating assets in excess of \$70 million. CHH has operations in Melbourne, Sydney and Auckland and provides its products and services to customers throughout Australia and New Zealand. The acquisition includes the Montage solutions centre which provides pre-press, and structural design services to the CHH carton and corrugated businesses as well as the trade.

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Colorpak will acquire all the operating assets and assume all of the operating liabilities of the business including plant and equipment, working capital, premises leases and all employee entitlements, for a net consideration of A\$5 million.

Colorpak and Reynolds Group Whakatane Mill have entered into a long term agreement for the supply of folding carton board on competitive commercial terms.

The acquisition of CHH will increase Colorpak's revenue to approximately \$250 million pa and base EBITDA to approximately \$16.5 million, before cost and other synergies. Gearing is expected to remain well within bank covenants.

Colorpak's Managing Director, Alex Commins, commented, "Over the past decade, Colorpak has forged its reputation as providing outstanding customer service and quality. This is a unique opportunity in our company's history to take a leading role in the industry. Combining with CHH will significantly enhance our business in the folding cartons sector and enable us to service clients with a broader product and service offering across the whole of Australia and New Zealand.

"We look forward to working with all of CHH's staff and other stakeholders to create an even better offering for our customers. The speed, flexibility, and "can-do" culture of a small enterprise is to be combined with the scale and strength of the CHH business to further grow Colorpak and create value for our shareholders."

Mr Commins concluded, "We will undertake a thorough review of operations in due diligence and immediately post acquisition in order to fine tune our integration plan."

Colorpak expects to derive significant benefits from the transaction including:

- Ability to extend the customer offering to a full range of products and services throughout both Australia and New Zealand.
- Improved employee engagement and career opportunities by being part of a group dedicated to and focussed on the folding carton industry.
- Enhanced manufacturing capabilities and flexibility through the significant increase in scale of operations and range of equipment available.
- Overhead cost reductions, procurement cost savings and improved operational efficiencies as well as product and customer service benefits from the consolidation of operations including the removal of duplicated functions.
- Increased relevance to suppliers as a result of the increased size and scale of its folding carton converting business in Australia.
- Broader customer base reducing the over-dependence on too few major customers.
- Further positioning Colorpak as a strong and dynamic company.

The transaction is expected to be earnings per share accretive in the first full year following acquisition on a normalised basis from cost synergies alone. Considerable further potential earnings growth is expected from efficiency improvements and working with customers to drive commercially sustainable outcomes with product and service.

Colorpak will establish an integration team led by the company's Operations Director, Paul Commins, as well as a sub-committee of the Board with considerable acquisition and integration experience to oversee the integration process and any consolidation activities. The sub-committee will ensure that the management team has relevant external and internal support to enable them to continue to drive the existing businesses during the integration process.

Colorpak intends to fund the acquisition, associated transaction costs as well as any subsequent consolidation costs from a combination of existing cash balances, ongoing operating cash flow and extended debt facilities. There are no current plans for any equity capital raisings associated with the transaction.

CHH said, "We are pleased Colorpak has acquired our folding carton converting business. We are sure that they will provide excellent service to our customers and provide opportunities for our loyal team of employees. We are keen to see Colorpak's continued success as they will be the key channel to market for a large volume of carton board products from our associated Whakatane Mill. We have entered into a supply agreement with Colorpak that will see mutual benefits to both them and their customers for the long term."

The key principles in the Heads of Agreement include:

- Colorpak to acquire the assets and certain liabilities of CHH's folding carton business including Montage Graphics.
- Colorpak to be supplied with folding carton board and Colorpak agree to continue to acquire board from CHH for the businesses current customers for a minimum of two years.
- Colorpak to offer existing CHH staff employment with Colorpak on no less favourable terms and assume all employee related liabilities and obligations.
- CHH to continue to provide corporate service functions until they are transitioned to Colorpak.
- CHH not to compete against Colorpak in the folding carton market for four years subject to certain exclusions.
- CHH to deal exclusively with Colorpak in relation to the sale of its business until earlier of Colorpak withdrawing from discussions or 1st February 2011.

The proposal is also subject to various conditions precedent including Colorpak completing confirmatory due diligence to its satisfaction, finalisation of revised financing facilities and receiving Australian Competition & Consumer Commission clearance.

On completion of due diligence, Colorpak intends to enter into a Sale Agreement and currently hopes to complete the transaction by late calendar 2010 or early 2011.

Colorpak is being advised on the transaction by Wilson HTM and Freehills.

Further comment:

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