

Proposed sale of Dots Business

- **DataDot to focus on recapitalised Trace business opportunities**
 - **Company proposes to sell the Dots Business to release capital for that purpose**
 - **Consideration payable to the Company comprises:**
 - **\$3.1 million, subject to a working capital adjustment, and**
 - **Deferred contingent consideration of \$250,000**
 - **A General Meeting will be convened to enable Shareholders to consider approving:**
 - **the disposal of the Dots Business, and**
 - **the change of the Company's name to "DataTraceID Limited"**
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DataDot Technology Limited (ASX:DDT) has agreed to sell its DataDotDNA Theft Deterrent System business unit (**Dots Business**), via a sale of all of the shares in the relevant operating subsidiaries and related assets, to DataDot Investments Pty Ltd (the **Buyer**), subject to shareholder approval.

Summary of the Transaction

The Company has agreed to sell the Dots Business to the Buyer on a cash and debt free basis for:

- \$3.1 million (comprised of \$3 million on completion and \$100,000 already paid as a deposit)
- A working capital adjustment (which the Company anticipates will result in the Buyer paying an amount to the Company, which could be in the range of \$400,000 to \$700,000, and
- Up to \$250,000 payable if the Buyer crystallises a new business opportunity available to the Buyer by entering into a contract with a specified third party.

The target date for completion of the transaction is late May 2019.

Completion of the transaction is subject to a number of conditions, including approval of the Company's shareholders, and is also subject to a customary material adverse change clause.

A break-fee of \$100,000 is payable by the Company to the Buyer, and the Company will be obliged to return to the Buyer the \$100,000 deposit, if the transaction does not proceed due to:

- a competing offer for the Company or the Dots Business being announced or made to the Company before completion of the transaction; and
- the Company terminating the transaction as a result of the Board determining that the competing offer is superior to the transaction.

A break fee is not payable if Shareholders vote against the transaction and there is no competing proposal. However, the Company will be obliged to return to the Buyer the \$100,000 deposit.

The Buyer will acquire the Dots Business with all of its employees and the Company will continue to supply DataTrace DNA to the Buyer for at least two years after completion.

A General Meeting will be convened shortly to enable Shareholders to consider approving the disposal of the Dots Business. The Shareholders will also be asked to consider changing the Company's name to "DataTraceID Limited".

There are no Board changes to the Company as a part of, or in connection with, the Transaction.

Rationale for the Sale of the Dots Business

Background

During 2017, the Board considered:

- the plateauing performance of the Dots Business (which has since continued)
- its belief that the Dots Business retains significant growth potential with the right strategy, investment and aligned capabilities
- that DDT is resource constrained and therefore unlikely to be able to optimise this growth potential on its own, and
- the potential of the Trace Business with and without access to growth capital.

The Board determined that the value of the Dots Business may be greater in the hands of a third party than in the hands of the Company and that, in the long term, the potential of the Trace Business with access to growth capital was significantly more attractive than the Company deploying that capital in the Dots Business.

The Board therefore decided to test the market to see if a buyer could be found for the Dots Business on terms that would make divestment of the Dots Business a positive for the Company overall (including because it could be used to generate growth capital for the Trace Business).

Testing the market

An advisor was retained to assist with this process. While the process needed to be selective, to avoid any risk to the Company's existing relationships, over 40 targets were approached from a range of industries, including: Anti-theft, Authentication, Auto (parts and dealer groups), and Packaging and Labelling. These companies ranged from multi-\$bn multinationals to founder led specialist firms.

As a result, the Company entered into discussions with a number of interested parties, including one party that approached the Company separately to the formal process.

Based on this process, the Board is confident that the terms of the transaction are the best terms available.

The potential of the Trace Business with access to growth capital

The Trace Business is an anti-counterfeit business, that:

- has traction with an active customer base that includes a global pharmaceutical company (with discussions underway to broaden the scope of that relationship)

- addresses a growing problem (in 2015 the global impact of counterfeit goods was \$1.77 trillion (up from \$0.25 trillion in 2009))
- is attracting the interest of a number of companies that operate in similar fields, who are interested in exploring partnerships or mergers
- has a strong pipeline of leads, and
- so far has had limited access to growth capital to generate greater awareness and leads, conduct additional research and development and therefore enable it to grow.

Conclusion

The Board believes that the transaction is advantageous because it enables the Company to realise value for the Dots Business that is otherwise not able to grow in the Company's hands, and will enable the Company to focus more fully on growing the Trace Business.

Accordingly, in the absence of a superior offer, the Board believes the transaction is in the best interests of Shareholders and unanimously recommends Shareholders vote to approve it. The directors who hold shares in the Company intend to vote their own shares in favour of the transaction, in the absence of a superior proposal.

Next Steps

Shareholders do not need to take any action at the present time. The Company will shortly issue a Notice of Meeting and Explanatory Memorandum convening a General Meeting to enable the Shareholders to consider and, if thought fit, pass:

- an ordinary resolution approving the disposal of the Dots Business,
- a special resolution approving the change of the Company's name to "DataTraceID Limited", and
- the resolutions that the Directors have been requested to propose to a General Meeting pursuant to section 249D of the Corporations Act (refer the [announcement dated 18 March 2019](#) for more information).

The Company expects to hold the General Meeting in early May 2019.

For further details contact:

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