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**Important Strategic Transaction**

The Directors of Easton Investments Limited (**Easton**) are pleased to announce that in principle agreement has been reached to acquire the following interests as part of a single transaction (**the Transaction**):

- 30% of Hayes Knight (NSW) Pty Limited (**HKNSW**) and its related entity Hayes Knight Services (NSW) Pty Ltd (**HKNSW Services**)
  - 100% of Knowledge Shop Professional Consulting Pty Limited (**Knowledge Shop**)<sup>1</sup>
  - 100% of Merit Wealth Pty Limited (**Merit Wealth**) and its related entity, Hayes Knight Referral Services Pty Limited (**HKRS**)
  - 50% of Superssentials Administration Services Pty Limited (**Superssentials**)
- (collectively, **the Acquisition Businesses**).

The total consideration payable for the Acquisition Businesses would be up to \$13.11 million, including up-front consideration and earn-out payments. Easton expects to enter into legally binding documentation with the vendors of the Acquisition Businesses within the next 2 weeks. The Transaction would be subject to a number of conditions, including completion of legal documentation and the approval of Easton shareholders, and completion is expected to occur in early 2014.

The Board of Easton believes the Transaction to be highly attractive as it:

- Represents an excellent strategic fit with Easton's stated intent and direction
- Offers strong potential for organic growth
- Opens opportunities for prospective acquisitions in the accounting and financial services sector
- Repositions Easton with an expanded capital base and with enhanced earnings and prospects
- Involves a purchase price that is largely satisfied by the issue of Easton shares, thereby providing a strong alignment of interests going forward and reflecting confidence in the

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<sup>1</sup> This entity will also hold the assets of Knowledge Shop Pty Ltd following a restructure to occur prior to completion of the Transaction



further growth of the Acquisition Businesses in particular and in the future prospects of Easton more generally.

## Overview

The Acquisition Businesses are inter-connected businesses which operate in the accounting and financial services sector. They have been progressively developed under a distribution strategy having regard to anticipated market demand, direction and opportunity and focus on the fundamental strength of the accounting client relationship.

HKNSW is a full service accounting practice, based in Sydney, and established by Greg Hayes, its current CEO, in the early 1980s.

HKNSW established the Knowledge Shop business in 2000 and has been responsible for the subsequent strong growth and strategic positioning of that business.

Knowledge Shop provides professional support services to a large number of small to medium accounting firms on a subscription basis, as well as specialist training to a wider accounting audience across Australia.

Merit Wealth and HKRS were established by HKNSW to provide financial services solutions for the accounting profession.

Supersentials was formed to provide self-managed super fund (**SMSF**) administration services to both Knowledge Shop and to Merit Wealth member firms, as well as clients of HKNSW and other Hayes Knight affiliated firms operating around Australia.

All of the businesses are related and are designed to leverage off each other to provide cross referrals and sales. As such, these businesses are well placed to achieve strong organic growth.

Importantly, these businesses are well known in the accounting sector and have long-standing relationships with an extensive number of practices. The Transaction, therefore, also potentially provides access to prospective acquisition opportunities.

Further details in relation to the Acquisition Businesses are set out in the Appendix.

## The Transaction

The Transaction involves the purchase of the Acquisition Businesses for an up-front consideration of \$10.86 million, together with an earn-out consideration of up to \$2.25 million, payable over 3 years subject to specified targets being met or exceeded.

The up-front consideration is to be satisfied by cash of \$3.11 million and Easton shares of \$7.75 million, being comprised of approximately 43.0 million shares at an issue price of 18 cents per share. These shares represent 30.9% of Easton's post completion issued capital and 1/3<sup>rd</sup> will be escrowed for 12 months and 1/3<sup>rd</sup> for 24 months (the remaining 1/3<sup>rd</sup> will not be subject to escrow or any other sale restriction).



The earn-out consideration will be satisfied in cash, shares, or a combination of cash and shares as determined by the Easton Board.

The up-front cash consideration will be funded from existing surplus cash held by Easton, together with a relatively small bank loan if required.

The up-front consideration is priced on an earnings before interest, tax and amortisation (**EBITA**) multiple for 2014 in the range of 5 to 6 times, although due to timing of the Transaction, full year earnings will first apply in the following year (2014/15).

The earnings performance of the Acquisition Businesses will be materially impacted by the performance of Merit Wealth, in particular having regard to the quantum and rate of roll out of the Referral Rights Agreement model as referred to at section 3 of the Appendix.

On completion of the Transaction, Greg Hayes, the founder of the Acquisition Businesses and associated businesses, will be invited to join the Board of Easton and will assume the role of joint Managing Director in conjunction with Easton's recently appointed Managing Director, Kevin White.

Mr Hayes will have responsibility for the performance and growth of the Acquisition Businesses, as well as identifying further accounting acquisition opportunities. Mr White will continue to have responsibility for Easton's existing operations, as well as selectively targeting new, strategic acquisition and merger opportunities in keeping with Easton's aspiration to develop a major distribution capability in the Australian financial services sector.

The combination of Mr Hayes and Mr White, with complementary skills and expertise, working together to build Easton into a substantial enterprise gives Directors a great deal of confidence in the Company's future prospects. Importantly, Easton's two key executives will both have a significant shareholding in the Company and, as a result, they will have a meaningful incentive to deliver sustainable and growing earnings in order to achieve a higher share price and thereby create value for all Easton shareholders. The interests of shareholders and key executives are strongly aligned.

## Strategy and Direction

Easton's strategic intent is to build a significant distribution capability in the Australian accounting and financial services sector. The Directors believe that the underlying strategy and related business plans have the potential to create shareholder value.

Importantly, Directors strongly believe that scale distribution in the financial services sector has strategic value as the major financial institutions seek to offer their products through accounting and financial planning firms which have prominent positions and strong client relationships in the vital SME and HNW sectors, as well as the increasingly important SMSF market.

The Transaction is consistent with Easton's strategic intent and represents an excellent first step in creating an important distribution business with significant scale.

It is also aligned with the Directors' objective of creating a company with sustainable earnings, having excellent longer term growth prospects and having high strategic value.



Further, the structure of the Transaction is consistent with Easton's business model where the intention is to selectively acquire meaningful equity interests in quality accounting and financial planning businesses that are fully aligned with Easton's strategic direction and are capable of helping deliver on its strategic intent and broader aspirations.

Knowledge Shop and Merit Wealth in particular are both well placed to continue to grow organically in their respective sectors. At the same time, both businesses offer strong cross-sell referral opportunities, as well as the potential to leverage other service lines in the financial services sector.

In terms of acquisitions, the intent is to selectively build a national network of compatible accounting firms, similar in culture, scope and size to HKNSW in accordance with Easton's differentiated business model of partial ownership.

The Acquisition Businesses will provide an important platform to accelerate Easton's growth ambitions. Easton will be well placed to provide potential acquisition firms with an attractive value proposition by virtue of the Acquisition Businesses, coupled with its strengthened management structure. Easton will be uniquely placed to offer selected firms an enhanced brand / profile, professional and practice management support, concentrated focus on organic growth and an expanded service capability in financial planning and other service lines, as well as access to capital to fund future growth and succession.

The outlook for sustained growth over coming years, both organic and by the acquisition of meaningful interests in both accounting and financial planning businesses, is considered by Directors to be significant.

### **Next Steps**

Easton has already reached non-binding agreement with the vendors of the Acquisition Businesses in relation to the key transaction terms and negotiations on the sale documentation are well advanced. The parties expect to enter into legally binding documentation within the next two weeks.

The Transaction would be subject to a number of conditions, including the approval of Easton shareholders in relation to the issue of shares to the vendors of the Acquisition Businesses.

In this regard, the Directors propose to convene an extraordinary general meeting (**EGM**) of Easton shareholders in early 2014. A formal Notice of EGM and an accompanying Explanatory Memorandum will be forwarded to shareholders in advance of that meeting.

If approved by shareholders, the Transaction is expected to take effect on or around 1 February 2014.

Easton will continue to keep shareholders updated as key milestones in relation to the Transaction are achieved.

**Rodney Green**  
**Chairman**



## **APPENDIX: THE ACQUISITION BUSINESSES**

Brief comments on each of the Acquisition Businesses are set out below:

### **1. 30% Interest in HKNSW and HKNSW Services**

HKNSW is an established, full service, Sydney based accounting firm, formed in the early 1980s by Greg Hayes, its current CEO.

HKNSW is a traditional accounting practice with a primary focus on the following client channels, where the firm has developed significant specialisation over many years:

- Mid-size, privately owned businesses and corporates
- Fast growth entrepreneurs
- Australian subsidiaries of multi-nationals
- SMSFs
- Membership base organisations
- Accountants (for the provision of specialist services)

These client segments provide HKNSW with a mix of defensive and aggressive marketing strategies and are supported by a full range of professional accounting services, encompassing:

- Business Services – Compliance and Advisory
- Specialist Tax
- Superannuation
- Financial Planning
- Corporate Finance

HKNSW also provides an audit service through a separate corporate structure, which has not been included in the Transaction. The intention is that a service agreement will be entered into between HKNSW and the audit practice relating to shared staff, premises and general support services.

HKNSW's gross fees in 2013 were \$5.03 million and it reported EBITA of \$1.08 million after normalisation adjustments. As previously noted, Easton will acquire a 30% equity interest in both HKNSW and HKNSW Services (which provides services to HKNSW).

### **2. Knowledge Shop**

Knowledge Shop was established by HKNSW in 2000 to provide professional support services to small to medium accounting firms.



Knowledge Shop operates a subscription based service, allowing “member” firms to access a range of support services and material, including:

- An on-line knowledge bank providing electronic precedent, work paper and practice management systems
- A technical support help desk
- Professional development programs
- Quarterly technical and client newsletters.

The Knowledge Shop subscriber base has grown consistently since its inception and today is comprised of approximately 700 member firms across Australia.

Typically, subscribers are 1 to 4 partner accounting firms with a focus on SME (small to medium enterprise) and HNW (high net worth) clients.

In addition, Knowledge Shop deals with another 600 to 700 accounting practices annually on an ad hoc or transactional basis, mainly through training programs offered nationally on a rolling basis.

The Knowledge Shop training programs are tailored to cover contemporary and emerging industry issues.

Where member firms have a professional advice matter that is outside their area of expertise or they have a conflict of interest, these matters are frequently referred to HKNSW which provides specialist tax advisory, business valuation and corporate advisory services.

With approximately 9,000 accounting firms operating in Australia, of which some 83% are 1 or 2 partner practices, the growth potential of Knowledge Shop over coming years is significant. This position is underpinned by Knowledge Shop’s competitive advantage in terms of its:

- Existing operations, including a large customer base and on-line help desk
- Existing infrastructure, including precedent files and an on-line knowledge bank which are supported by purpose designed, internal IT software and applications relating to information management and distribution
- Understanding of the market
- Ability to design practice-based content, rather than theory-based content
- Ability to anticipate market trends and innovate ahead of the curve.

Knowledge Shop’s turnover in 2013 was \$3.35 million and it reported EBITA of \$0.70 million after normalisation adjustments.

Easton intends to acquire 100% of Knowledge Shop and under the terms of the Transaction, an earn-out of \$0.75 million is payable if Knowledge Shop achieves EBITA of \$0.90 million or more in the first 12 months.



### **3. Merit Wealth and HKRS**

Merit Wealth and its related entity, HKRS, were established by HKNSW in 2009 to provide financial services solutions for accounting firms.

Merit Wealth holds an Australian Financial Services License (**AFSL**) and offers accounting firms the option of providing in-house advice through a qualified adviser authorised by Merit Wealth or under a referral service initiated and managed by HKRS in conjunction with Merit Wealth.

Under its referral service, HKRS sources and engages qualified financial advisers who understand the accounting market and who are capable of building a significant financial planning business.

Each adviser enters into a Referral Rights Agreement with HKRS which involves an up-front payment by the adviser plus an on-going annuity fee. In return for these fees, HKRS introduces the financial adviser to accounting firms and facilitates an on-going referral arrangement between the parties.

All advisers operating under the referral service are authorised by Merit Wealth, which provides full dealer services for a standard fee of 10% of annual revenue.

Advisers provide a broad range of advice, including a strong focus on SMSFs, succession planning, risk and investment advice.

HKRS currently has 7 Referral Rights Agreements in place and is planning a progressive roll-out over the next 5 years with the aim of providing wide Referral Rights coverage across the more populated areas of Australia.

Consolidated turnover for Merit Wealth and HKRS in 2013 was \$3.26 million, with reported EBITA (consolidated) of \$0.62 million after normalisation adjustments.

Easton intends to acquire 100% of Merit Wealth and HKRS and under the terms of the Transaction, an earn-out of \$0.50 million is payable in each of the first 3 years (i.e. \$1.50 million in total) if not less than 5 Referral Rights Agreements are achieved in each relevant 12 month period (with one carry over and one catch up adjustment allowed in each 12 month period).

### **4. 50% Interest in Supersentials**

Supersentials was established in 2011 as a joint venture between HKNSW and an affiliated firm, Hayes Knight Queensland, for the specific purpose of providing a centralised SMSF administration service.

The business operates a “white label” platform through Class Super and currently administers approximately 400 funds.

Whilst the administration service is available to the broader market, the growth of Supersentials has not been a business priority to-date.

However, recent legislation to require SMSF compliance and audit work to be carried out by separate firms to remove possible internal conflicts, provides an opportunity to more actively



promote the Superssentials administration service. Increasing price pressure in this area is also forcing small to medium practitioners to look for a low cost, efficient out-source provider.

Easton intends to acquire 50% of Superssentials, while the remaining 50% will continue to be held by Hayes Knight Queensland.

Superssential's reported a small profit before interest, tax and amortisation in 2013.

***28 November 2013***

## Media Release

28 November 2013

### Easton Investments to Acquire Hayes Knight (NSW)

Easton Investments (Easton) has reached an in principle agreement to purchase Hayes Knight (NSW) and its related entities.

Mr Kevin White, Managing Director of ASX listed Easton stated, “The agreement reached with Hayes Knight (NSW) is an important strategic transaction for Easton.

“It is our first step toward delivering on our strategy of creating a significant distribution capability in the Australian accounting and financial services sector.

“Hayes Knight (NSW) and its related businesses represent an exceptional platform for strong growth.”

On completion, the transaction will see Easton acquire:

- **30% of Hayes Knight (NSW)** – a full service accounting practice based in Sydney’s CBD.
- **100% of Knowledge Shop** – a professional support service for accounting firms servicing approximately 700 practices on a subscription basis. Knowledge Shop also provides specialist training services to the broader accounting and SMSF profession.
- **100% of Merit Wealth** – a financial services company providing a wealth management solution for the accounting profession.
- **50% of Supersentials** – a SMSF administration and audit service available to clients of Hayes Knight (NSW), Merit Wealth, Knowledge Shop member firms, and other affiliated Hayes Knight firms operating around Australia.

The businesses to be acquired are inter-connected and have been progressively developed under a deliberate distribution strategy that offers further potential growth opportunities.

Mr Greg Hayes, CEO of Hayes Knight (NSW) said, “This is the right time and opportunity to position our business units for the future.

“The cultural fit is right and allows us to be a part of the growth and development of what we expect to be a significant player in the accounting profession and professional services sector. As a major shareholder in Easton, we will be active in its growth and development.”

On completion of the transaction, Mr Hayes will be invited to join the Board of Easton and will assume the role of joint Managing Director in conjunction with Kevin White.

The company will pursue further acquisition opportunities and the complimentary skills and experience of Mr White and Mr Hayes places the company in a unique position in the accounting and broader financial services market.

Mr Hayes is well known in the profession. In addition to his role of CEO of Hayes Knight (NSW), he is also Chairman of the Hayes Knight group, a specialist business valuer, author of CCH's *A practical guide to business valuations for SMEs*, and a recognised practice management specialist.

Under the agreement, Easton will acquire the businesses for up to \$13.11 million. Legally binding agreements are expected to be in place within the next 2 weeks with completion expected in January 2014 subject to a number of conditions including the approval of Easton shareholders.

See ASX announcement ([link](#))

**Contact:**

**Mr Greg Hayes, CEO, Hayes Knight (NSW) – 0419 298536**

**Mr Kevin White, CEO, Easton Investments – 0403 269193**

# **EASTON INVESTMENTS LIMITED**

## **Important Strategic Transaction**

**28 November 2013**

Kevin White – Managing Director

# Overview

- ❑ Easton has reached in principle agreement to acquire the following interests (**the Acquisition Businesses**):
  - 100% of Knowledge Shop
  - 100% of Merit Wealth and Hayes Knight Referral Services (**HKRS**)
  - 30% of Hayes Knight NSW (**HKNSW**)
  - 50% of Superssentials Administration Services
  
- ❑ The proposed acquisition is subject to the approval of Easton Shareholders at an EGM to be held in early 2014
  
- ❑ If approved by shareholders, the proposed transaction will take effect from on or around 1 February 2014

# Strategic Transaction

- ❑ Represents an excellent strategic fit with Easton's stated intent to "build a significant distribution capability in the Australian Accounting and Financial Services Sector"
- ❑ Offers strong potential for organic growth
  - especially Knowledge Shop and Merit Wealth
- ❑ Opens opportunities for prospective acquisitions in the Accounting and Financial Services Sector
  - Easton will be well placed to build a network of compatible accounting and financial planning firms
  - Able to offer an attractive value proposition, including brand, professional and practice management support, expanded service capability and access to capital to fund future growth and succession
- ❑ Repositions Easton with an expanded capital base with enhanced earnings and earnings prospects
- ❑ The purchase price to be mainly paid in shares and thereby provides strong alignment between shareholders and vendors going forward

# Transaction Details

□ The transaction involves:

- the purchase of the Acquisition Businesses
- an up-front consideration of \$10.86m, plus an earn-out of up to \$2.25m over 3 years
- the up-front consideration is to be satisfied by:
  - cash \$3.11m
  - Easton shares \$7.75m
    - ~43m shares at 18 cents each
    - Representing an interest in Easton of 30.9% of post completion capital
    - Escrow provisions are to apply:
      - $\frac{1}{3}$  not escrowed
      - $\frac{1}{3}$  escrowed for 12 months
      - $\frac{1}{3}$  escrowed for 24 months

## Transaction Details (cont'd)

- ❑ The up-front consideration is priced on an EBITA multiple for 2013/14 in the range of 5 to 6 times
  - EBITA performance will be materially influenced by the performance of Merit Wealth and its related entity, HKRS
- ❑ Greg Hayes, founder of the Hayes Knight Group, will become the joint Managing Director of Easton
  - Greg Hayes will be principally responsible for the performance of the Hayes Knight businesses and for identifying further accounting acquisitions
  - Kevin White will be principally responsible for Easton's existing operations and strategic acquisitions
  - The joint managing directors have complimentary skills and experience which provide a strong base for future growth, both organic and by acquisition, in the financial services sector

## Knowledge Shop (100% interest)

- ☐ Provides professional support services to small to medium accounting firms
- ☐ Operates a subscription based service, encompassing:
  - an on-line precedent bank, work papers and practice management
  - a technical support help desk
  - quarterly technical and client newsletters
- ☐ Currently has ~700 subscribing firms
- ☐ Plus deals with another 600 to 700 accounting practices annually on a transactional or ad hoc basis
- ☐ Turnover in 2013 was \$3.35m and normalised EBITA was \$0.70m
- ☐ Earn-out payment of \$0.75m if EBITA exceeds \$0.90m in the first 12 months

## Merit Wealth & HKRS (100% interest)

- ❑ Provide a financial services solution to the accounting profession
- ❑ Merit Wealth holds an AFSL and in conjunction with HKRS has established a referral service:
  - HKRS sources and engages qualified financial advisers
  - each adviser enters into a Referral Rights Agreement involving an up-front payment plus an on-going annuity fee
  - in return, the adviser is introduced to accounting firms under an on-going referral arrangement
  - the financial adviser is authorised by Merit for a standard fee of 10% of annual revenue
- ❑ Currently 7 Referral Rights Agreements in place
  - Progressive roll-out planned over the next 5 years
- ❑ Consolidated turnover in 2013 was \$3.26m and normalised EBITA was \$0.62m
- ❑ Earn-out payment of \$0.5m in each of the first 3 years if 5 or more Referral Rights Agreements achieved in each of those years (i.e. \$1.5m earn-out in total)

## **HKNSW (30% interest)**

- ❑ Full service, Sydney based accounting firm
  - audit service provided through a separate company and not included in this transaction
- ❑ Turnover in 2013 was \$5.03m and normalised EBITA was \$1.08m

## **Supersentials (50% interest)**

- ❑ Provides a centralised SMSF administration service
- ❑ Operates a 'White Label' platform through Class Super
- ❑ Currently, administers ~400 funds
- ❑ Early stage of development
  - Operates at a small profit

# Strategy and Outlook

- ❑ Easton's strategy is to build a significant distribution capability within the Australian accounting and financial services sector
- ❑ Scaled distribution in this sector is considered to have strategic value
- ❑ The Transaction represents an excellent first step in creating a distribution business with significant scale
- ❑ It also provides scope for sustained growth over coming years, both organic and by acquisition with the potential to create significant shareholder value
- ❑ The Transaction is, therefore, aligned with the Directors' objectives of building a company with sustained earnings, having excellent long term growth prospects and having high strategic value

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