

XENITH IP GROUP LIMITED

ASX ANNOUNCEMENT

2 November 2016

Update regarding Watermark acquisition

On 23 August 2016, Xenith announced a binding agreement to acquire the business and brands of the Watermark Group. Completion of that transaction is scheduled for 2 November 2016.

In the period since announcement, Xenith has observed a softer than anticipated performance in Q1 of FY17 in the Watermark business. While this is believed to result largely from one-off factors and timing issues, Xenith and the vendors of Watermark have agreed a revised transaction structure reflecting a prudent reallocation of risk and stronger alignment of interests, including an incentive for out-performance.

Under the new transaction structure, the purchase consideration has been revised from \$19.5 million to a total upfront consideration of \$15.5 million (subject to working capital and related adjustments) and an earn-out consideration of up to a maximum of \$5.6 million.

The \$15.5 million upfront purchase consideration will be funded as follows:

- \$8.0 million by way of a Xenith share placement to the Watermark principals, based on the one month volume weighted average price (VWAP) of Xenith shares for the period immediately prior to announcement of the transaction on 23 August 2016, being \$3.5004. Shares issued to the Watermark principals will be subject to voluntary escrow for 24 months from the completion date; and
- \$7.5 million in cash (subject to working capital adjustments) funded by the equity capital raise announced on 23 August 2016. The placement raised \$6.9 million and \$1.2 million was raised via a share purchase plan.

The earn-out consideration will be payable following announcement of Xenith's preliminary final results for FY17, and will be calculated based on a formula of 8.0 times each dollar of annualised EBITDA earned above \$2.0 million in the FY17 post-completion period, up to a maximum of amount of \$5.6 million (based on annualised EBITDA of \$2.7 million). The earn-out consideration will be funded as follows:

- 50% by way of a Xenith share placement to the Watermark principals, based on the same price per share as the up-front consideration, being \$3.5004, with the shares issued subject to voluntary escrow until the same date as shares issued as part of the upfront consideration; and
- \$50% in cash funded from cash reserves or existing corporate debt facilities.

Xenith remains confident that the Watermark business will achieve the previously announced maintainable EBITDA of \$2.5 million on an annualised basis in FY17 post-completion and that the acquisition will be EPS accretive (before synergies) on an FY17 underlying basis¹.

¹ Based on underlying EPS, with the maximum consideration being paid before expected synergies and excluding transaction and integration costs, and amortisation of intangible assets.

For further information contact

Stuart Smith

Managing Director

Ph: +61 2 9777 1122

stuartsmith@xenithip.com**Lesley Kennedy**

CFO & Company Secretary

Ph: +61 2 9777 1146

lesleykennedy@xenithip.com

About Xenith

Xenith IP Group Limited (ASX: XIP) is the holding company for the group of entities that comprise the Shelston IP business, namely Shelston IP Pty Ltd, Shelston IP Lawyers Pty Ltd, and Xenith IP Services Pty Ltd. The Group's core business is to provide a comprehensive range of IP services, including identification, registration, management, commercialisation and enforcement of IP rights mainly Patents, Trade Marks and Designs for clients in Australia, New Zealand and the rest of the world.