

ASX Announcement

16 February 2018

DDT announces proposed merger with Beston Technologies

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- **Heads of Agreement executed for possible merger between DDT and Beston Technologies (BT)**
 - **merger subject to, among other things, satisfactory completion of due diligence, negotiation of definitive transaction documents, final board approvals, DDT shareholder approval and completion of a capital raising**
 - **DDT and BT have agreed to a period of exclusivity until 30 March 2018**
 - **Merger would create an Australian-owned and integrated e-commerce traceability and anti-counterfeit software-as-a-service (SaaS) solution across a range of industries**
 - **Proposed merger terms value BT at \$13.0 million and DDT at \$7.0 million with a combined enterprise value of \$20.0 million**
 - **The Board of the merged group would comprise three Directors appointed by Beston Global Food Company (BFC), the current ultimate holding company of BT, and two of the current directors of DDT**
 - **A capital raising is proposed to be undertaken in conjunction with the merger to raise \$12.0 million to \$15.0 million**
 - **At this point there is no assurance that the transaction will proceed to completion as it remains subject to further due diligence investigations and other conditions.**
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DataDot Technology Limited (ASX: DDT) and Beston Global Food Company Limited (ASX: BFC) are pleased to announce that they have agreed upon a proposal and executed a Heads of Agreement (HoA) to merge BFC's wholly-owned technology company, Beston Technologies Pty Ltd (BT), and DDT. The merger would be effected by the acquisition of all the shares in BT by DDT in exchange for the issue of DDT shares to BFC.

The proposed merger is subject to, among other things, satisfactory completion of due diligence by DDT and BFC, negotiation of definitive transaction agreements, final DDT and BFC Board approvals, DDT shareholder approval and certainty of completion of a capital raising (discussed below).

Under the HoA, DDT and BT have agreed to an exclusivity period until 30 March 2018 (or such later date as they may agree) to complete due diligence and to seek to negotiate the definitive transaction agreements (including a merger implementation agreement).

The merger of the two companies would create an Australian owned and integrated e-commerce traceability and anti-counterfeiting software-as-a-service (SaaS) solution for both consumers and producers across a wide range of industries including food, with a primary focus on protecting the integrity of the supply chain.

The business of the merged group (being the group consisting of DDT and BT) would have as part of its strategy going forward, a focus on the expansion of the combined “one trust platform” for consumers and will comprise, comprising the following core technologies and platforms:

- OZIRIS (incorporating Brandlok) – a consumer facing digital technology solution that authenticates and provides full ‘farm to fork’ traceability; see www.oziris.com.au/about-oziris/
- Beston Marketplace & 8ston – e-commerce platforms for the sale of food and beverage products in Australia and China; see www.bestonmarketplace.com.au and www.8ston.com
- a Technology Eco-System (TES) – comprising a central database, customer management, inventory management, fulfilment, reporting and analytics, and a supplier portal
- DDT’s patented DataTraceID covert authentication system that is currently deployed to authenticate pharmaceuticals, food and beverages, gaming chips and fabrics.

The Chairman of BFC, Dr Roger Sexton AM said that the businesses of BT and DDT were a good strategic fit and the merger of the two companies is expected to bring synergistic benefits that would not otherwise be achievable.

“The economic and financial logic supporting the proposed merger is compelling. The two businesses uniquely complement each other.

Combined, they would create a leading integrated e-commerce verification and anti-counterfeit software-as-a-service solution for both consumers and producers, in global markets.”

The Chairman of DDT, Mr Gary Flowers said that the merger would be transformative for DDT, taking the company to another level as an anti-counterfeiting technology product supplier and opening potential new opportunities for growth in product tracking and big data commercialisation.

“On every score – products, markets, IP, R&D and potential revenue synergies – the merger is expected to be a win-win for both companies and their shareholders”.

Beston Technologies Pty Ltd

BT is a technology development company based in Adelaide and established in 2015 to connect global consumers with authentic Australian food and beverage products. BT was established by BFC to house a “Technology Eco System” (TES) to overlay with the core products offered by BFC, ultimately providing consumers with ingredient track-and-trace and anti-counterfeit capabilities on BFC products to ensure provenance and authenticity.

BT provides a unique, patented tracing system, OZIRIS, that allows consumers of food and beverage products to track-and-trace their purchases back to the point of origin – from farm to fork. The OZIRIS system is teamed with Brandlok anti-counterfeiting technology to assure customers that the products they purchase are genuine.

BT holds 12 International Patents or Patents Pending on the technologies that have been developed since the listing of BFC on 28 August, 2015. BT is 100% owned by BFC.

The company that owns the Brandlok intellectual property, Brandlok Brand Protection Solutions Pty Ltd, is currently 80% owned by Grape Ensembles Pty Ltd (Grape Ensembles) and 20% owned by DDT. As part of the proposed merger, BFC would exercise its Call Option and nominate DDT as the purchaser of the shares currently held by Grape Ensembles, and Brandlok Brand Protection Solutions Pty Ltd would become a wholly-owned subsidiary of DDT (and part of the merged group).

One of the benefits of taking ownership of Brandlok within the merged group would be that all of the intellectual property associated with the anti-counterfeiting part of the technology used by BT/DDT would then be housed in the merged group and royalties would no longer have to be paid for the use of this technology.

The platform of services offered by BT comprises the following components referred to above:

- OZIRIS (utilising Brandlok)
- Technology Eco-System (TES) – provides central database, customer management, inventory management, fulfilment, reporting and analytics, and a supplier portal.
- Beston Marketplace and 8ston– provides an e-commerce platform for the sale of BFC and other food and beverage products in Australia and China.

Together, this platform of services provides an end-to-end, track-and-trace and anti-counterfeiting capability that:

- enables consumers to shop with peace of mind, knowing that their product purchases are authentic across a range of industries.
- empowers consumers with the ability to understand the nature, source and quality of ingredients and thereby assure themselves as to the provenance and quality of their food and beverage purchases, and
- addresses consumer concerns about food authenticity, nutrition and safety.

The TES system connects all the BT applications, creating a single view for all consumer and product interactions. TES also ensures full integration with the closed-loop supply chain operated by BFC.

The combination of technologies we believe, could see us be amongst the world's first in the fight against the growing problem of food substitution, and associated consumer concerns about food safety. It empowers consumers with the ability to be assured that the food or beverage products they are looking to purchase are not only safe to eat, but also arms them with the ability to understand the nature, source and quality of the ingredients in the product.

Merger Proposal

Under the terms of the merger proposal, BFC would be issued with shares in DDT in exchange for the sale of all the shares in BT to DDT.

The proposed merger values BT at \$13.0 million and DDT at \$7.0 million, representing a merger ratio of 1.86:1.00 and a combined enterprise value of \$20.0 million.

It is proposed that DDT would undertake a capital raising in conjunction with the merger to raise \$12.0 million to \$15.0 million. The final structure of the capital raising will be determined in due course.

After the capital raising, based on a minimum raising of \$12.0 million, BFC the current owner of BT, would hold approximately 41% of the shares in DDT. Accordingly, BFC shareholders will have an indirect economic interest in the merged group through their shareholding in BFC.

As set out below, the merger is conditional on a number of matters, and there is no assurance that the transaction will proceed to completion.

Merger Rationale

The global counterfeit market is growing rapidly, not only in food and beverages but across a range of other industries including pharmaceutical, automotive and finance. Currently, the size of the global counterfeit market is estimated at over USD 1.0 trillion¹ and is predicted to grow by between 14% and 20% over the next five years².

The largest driver of the rapid increase in “fake products” being sold in global markets has been said to be the growth in e-commerce platforms, which have propagated the sale of products online. These e-commerce platforms are experiencing growth rates of 20% CAGR³ which also provides a platform for counterfeiters to sell products through these regulated sales channels.

One of the drivers for the proposed merger is the shared strategic objective of BFC and DDT to capture the global market leadership role, in providing anti-counterfeiting and ingredient verification services to consumers.

¹ Total global value of counterfeit market (including its impact on the sale of authentic goods) estimated at \$1.7 trillion
<https://www.voanews.com/a/global-trend-in-counterfeiting-and-piracy/3783360.html>

<https://cdn.iccwbo.org/content/uploads/sites/3/2017/02/ICC-BASCAP-Frontier-report-2016.pdf>

² The report "Anti-Counterfeit Packaging Market by Technology (Coding & Printing, RFID, Hologram, Security labels, Packaging Design), Usage Feature (Track & Trace, Tamper Evidence, Overt, Covert, Forensic Markers), End-use Sector, and Region - Global Forecast to 2021", The anti-counterfeit packaging market size is projected to grow from USD 107.26 Billion in 2016 to reach USD 206.57 Billion by 2021 with a CAGR of 14%. <http://www.marketsandmarkets.com/PressReleases/anti-counterfeit-market.asp>

³ <https://www.emarketer.com/Article/Worldwide-Retail-Ecommerce-Sales-Will-Reach-1915-Trillion-This-Year/1014369>

This service currently exists at two ends of the supply chain – the “front end” operated by DDT and the “back end” operated by BT using DataTracelD as the anti-counterfeiting element.

The merger of DDT and BT will bring these two ends of the supply chain together to deliver the first Australian-owned and integrated e-commerce traceability and anti-counterfeit SaaS solution to consumers with a strategic focus, amongst others, on “food trust”.

Both companies have developed complementary intellectual property in solving the counterfeiting of products. Since 2015 they have collaborated, along with associated company, Brandlok Brand Protection Solutions Pty Ltd, to deliver an e-commerce platform that provides supply chain verification and anti-counterfeit protection for products sold both online and offline. The platform is used by BFC and has application across a number of sectors, in addition to food.

The challenges posed by the growing global counterfeit market are serious and growing problems – but they also represent opportunities. CSIRO, along with the Federal Government, has recognised in a number of reports in recent months that a traceability and verification system provides an opportunity to leverage Australia’s clean, green reputation when taking our food and beverage products to the rest of the world⁴⁵.

The merger of DDT and BT would provide an opportunity for the technologies and capabilities embodied in the TES platform developed by BT using DDT technology, to be expanded into a wide range of markets and countries (in particular, into the USA and Europe). The merged business would have the capabilities of delivering a solution for e-commerce, traceability (supply chain authenticity) and anti-counterfeit hardware.

The Chairman of BFC, Dr Roger Sexton AM noted that the merger is expected to provide significant benefits for both DDT and BFC shareholders:

“The ability to take the technology owned by both companies into a wide range of industries, in addition to food and beverage, would provide all shareholders with the opportunity to participate in the future growth and upside from taking an Australian anti-counterfeiting and traceability platform to global consumers and producers”, he said

Benefits for BFC and DDT Shareholders

The merged business would provide a complete “customer brand protection and traceability platform” to major e-commerce providers, large multinational offline providers in the primary market segment of food and beverage with a geographic focus on Australia, China and the United States.

⁴ <https://www.marketingmag.com.au/hubs-c/chinese-middle-class-rising-desire-clean-green-australian-products/>

⁵ <https://www.csiro.au/en/News/News-releases/2017/Mapping-out-Australias-food-future>

Existing pharmaceutical and automotive customers of DDT would also have access to the OZIRIS platform to leverage the existing DDT customer base.

The combined businesses of BFC and DDT would have a broader product mix and a greater financial and operational scale than either entity is likely to achieve if operating alone.

The Boards of BFC and DDT see the following potential benefits for BFC and DDT shareholders:

- **“One trust” platform:** The merger is expected to create a ‘global trust platform’ integrating e-commerce, traceability and anticounterfeit solution for both online and offline markets.
- **Business Model:** Transform the existing business model of DDT to a SaaS platform with the potential to provide an annuity like revenue stream.
- **Intellectual Property:** 100% ownership of its intellectual property, which includes: consumer engagement, e-commerce, traceability software platform combined with anticounterfeit reader hardware and virtual reality platforms.
- **BT Revenue Synergies:** BT platform would be offered to existing DDT customers across the non-food space.
- **DDT Revenue Synergies:** DDT DataTraceID technology would be offered to a wider range of customers through OZIRIS and Brandlok.
- **Global major market sector access:** Customer access across the major market sectors of food, pharmaceutical, finance, and automotive.
- **Global reach:** Provides global coverage through the combination of existing operating entities in Australia, China, ASEAN, USA, UK and Europe.

Benefits to Existing BFC Shareholders

The Board of BFC has identified the following potential benefits for BFC shareholders:

- Assists BT to achieve critical mass through a combination of two complementary businesses with no product duplication.
- Places BT at “arm’s length” from BFC and enables it to be a “Big Data” provider based on consumers which use products made by other food companies and potential users of the technology.
- Provides scale and capital to better position BT to offer its technologies to global markets.
- Assists BT to enter into industries and geographic consumer markets, other than food and beverages, and thereby realise its full potential.

- Removes BFC from any obligations to meet the costs of funding the next stage of growth of the technology.
- Provides the opportunity for BFC to realise a return on its investment to date into BT. If the transaction proceeds to completion BFC anticipates it will book a profit on its investment on BT (a substantial portion of the expenditures incurred over the past two years in developing the technologies have been expensed). However, the actual amount of the profit will be subject to several factors at completion, including any applicable adjustments required under accounting standards.

Benefits to Existing DDT Shareholders

The Board of DDT has identified the following potential benefits for DDT shareholders:

- Revitalisation of the existing suite of products, including enhancement and extension of DataTrace applications;
- An enlarged suite of proprietary IP, including BT's unique OZIRIS technology platform, 12 international patents and several patents pending;
- An expanded product range and customer base across a wider range of industry sectors, both in Australia and internationally;
- Potential to transform DDT into a "big data" company by realising the commercial value of consumer purchasing and usage data harvested by OZIRIS technology.
- Deeper penetration of key Asian markets by leveraging existing BFC relationships and harmonising DDT's and BT's existing Asian operations

Governance and Management

The Board of the merged group is expected to comprise three Directors appointed by BFC and two Directors appointed by DDT. The existing Non-Executive Directors on the Board of DDT, Mr Gary Flowers and Mr Stephe Wilks would remain as the DDT appointed Directors. The current Chairman of BFC, Dr Roger Sexton AM, would be Chairman of the merged group.

The current Chief Executive of DDT, Mr Temogen Hield, would be the CEO of merged group.

Capital Raising

The purpose of the capital raising is to:

- Fund the implementation of the business plan for the merged group, which would be to primarily to grow its revenue base in Australia and China and take the technology embodied in OZIRIS and the TES (in combination with the DataTraceID technology) into the USA and Europe, and

- Exercise a call option held by BFC over shares in Brandlok Brand Protection Solutions Pty Ltd and take ownership of that company within the merged group.

After the capital raising, based on a raising of \$12.0 million, it is currently expected that BFC, the current owner of BT, would hold approximately 41% of the shares in DDT. Accordingly, BFC shareholders will have an indirect economic interest in the merged group through their shareholding in BFC.

As set out below, the merger is conditional on a number of matters, and there is no assurance that the transaction will proceed.

Timing

BFC and DDT are currently undertaking due diligence and, subject to the satisfactory completion of due diligence and final DDT and BFC Board approvals, propose to enter into definitive transaction agreements (including a merger implementation agreement) to proceed with the merger.

If the merger proceeds, it is expected to be implemented by the end of June 2018.

No assurance that the merger will proceed

As mentioned above, the merger is conditional on a number of matters, including satisfactory completion of due diligence and board approvals. Accordingly, shareholders are cautioned that there is no assurance that the transaction will proceed to completion.

Further Information

Further information on the transaction will be provided in an Explanatory Memorandum to be provided to DDT shareholders and filed with the ASX.

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About DataDot: DataDot Technology Limited provides world leading asset identification, management, protection and authentication solutions that deliver great value to customers. For more information please visit www.datadotdna.com.