

ASX Announcement

LUMEX ACQUISITION, EQUITY RAISE, SA EXPANSION and NAME CHANGE

7 June 2018, Melbourne Australia:

Stokes Limited (ASX: **SKS**) (**Stokes**) is pleased to announce a number of exciting expansional initiatives being put to the company's shareholders in an Extraordinary General Meeting (**EGM**) targeted to be held on or around 20 July 2018, as summarised below.

- Asset Sale Agreement executed on 6 June 2018 to acquire the Lumex Electrical business and assets, (excluding a limited number of specific excluded assets) (**Assets**) for up to 10 million fully paid ordinary shares in the capital of Stokes (**Shares**) to be issued over a period of approximately 2 years following Completion, subject to certain conditions being met.
- Share placement to sophisticated and wholesale investors to raise up to \$3.48 million at \$0.20 per new Share (**Investor Placement**) and placements to Directors to raise up to \$520,000, also at \$0.20 per new Share (**Director Placement**) (collectively, **Equity Raise**) to give a total Share placement of up to \$4 million. Proceeds of the Equity Raise are to be used to fund working capital, business integration and retire debt.
- Proposed company name change to ENEVIS Limited.

The Company is also intending to extend the audio-visual and electrical and communications services of another of its subsidiaries (Stokes Technologies Pty Ltd) into the South Australian market, backed by an experienced management team.

Lumex Acquisition

Stokes and its wholly owned subsidiary Urban Lighting Group Pty Ltd (**Buyer**) have executed an Asset Sales Agreement (**ASA**) under which the Buyer will (subject to a range of conditions precedent) acquire the Assets from Scholz Industries Pty Ltd (**Scholz**), with the consideration being provided by Stokes issuing a total of up to 10,000,000 Shares (**Consideration Shares**) to Scholz in tranches, as described below. (**Proposed Acquisition**).

Lumex is a business focused on the Australian and New Zealand Electrical market, with particular emphasis on energy efficiency, LED lighting, and related controls and accessories. Lumex has existing commercial trading arrangements in place with many of the key Electrical wholesaler groups and independent wholesalers in Australia. The brand has traction with Energy Efficiency Integrators, Facility Management Organisations, electrical consultants, electrical contractors and large 'end users' in the commercial and industrial sector. Lumex has a national sales reach through a mix of technical sales employees, and a national network of agents.

Lumex also owns an auditing and customer support programme called Enerspec. This allows direct involvement with key customers by managing the design, Government certificate management and financial justification of commercial / industrial lighting solutions.



The Proposed Acquisition provides for the Consideration Shares to be issued as follows:

- (a) up to 6,000,000 Shares on Completion occurring under the ASA (**Up-Front Shares**), and
- (b) up to a further 4,000,000 Shares over a period of approximately 2 years following completion under the ASA (**Deferred Shares**), subject to certain performance hurdles being satisfied. Stokes has obtained a waiver from the ASX to permit these tranches to be issued over this period, details of which will be included in the EGM notice of meeting.

Mr Scholz will be assisting Stokes in an ongoing capacity in an executive advisory role initially. He has deep industry experience within the lighting and energy efficiency markets. He established Enesolve Pty Ltd with partners to create one of the pioneering energy efficiency solutions providers in 2009 which was sold in 2012 to Gerard Lighting. Mr Scholz has held a range of senior roles within Gerard Industries, Clipsal and Schneider Electric.

An outline of the key terms of the acquisition are contained in Appendix 1.

Stokes Limited Executive Chairman, Mr Peter Jinks commented:

"Stokes is excited to extend its product offerings with the addition of the Lumex suite of quality brands and we welcome the experience and expertise that Mr Erik Scholz will bring to the group. Stokes is embarking on the next phase of its growth agenda with a focus to leverage its combined expertise in audio visual, lighting, solutions architecture and deliver energy efficient outcomes to its customers. The group intends to bring new technologies to market which target this growing sector. We believe Lumex intellectual property, brands, technology partners and 'blue chip' customers will in turn benefit directly from complimentary products which already form part of the Stokes portfolio, and that the end result will be for Stokes to have a seamless energy efficient lighting and AV solution for the commercial, Industrial and Infrastructure markets."

Scholz Industries Managing Director, Mr Erik Scholz also commented:

"The Lumex team and myself are delighted to assist Stokes with a major ongoing role in the Lumex business. Our Energy Efficiency, lighting controls and electrical accessories will form an important component of Stokes aiming to become a major Australian provider of Energy technology and services."

Key Elements of the Equity Raise

Stokes will seek Shareholder approval to raise up to \$3.48 million (before costs) through the issue of 17.4 million Shares at \$0.20 per new Share to professional and sophisticated investors to be introduced in the future to Stokes by its broker for the Investor Placement, Barclay Wells. Stokes has agreed to pay Barclay Wells a fee equal to 5% of the amount of funds raised under the Investor Placement.

It is also proposed to seek shareholder approval for the Director Placement, namely subscriptions by Mr Peter Jinks, Mr Greg Jinks, Mr Thomas Krulis and Mr Terry Grigg, being Directors of Stokes, to collectively subscribe for up to a further 2,600,000 Shares to raise up to an aggregate \$520,000. The Directors have not yet decided what amounts they may subscribe, but expect to be in a position to update Shareholders at the EGM (when held).



Following completion of the Equity Raise, assuming full subscription in the amounts described above, Stokes anticipates raising approximately \$3.6 million in cash (after payment of the capital raising fees and expenses) and have approximately 68,087,214 million shares on issue. In order for the Proposed Acquisition to proceed, as described in Appendix 1, the Equity Placement will need to raise at least \$2 million.

Investor Presentation

An Investor Presentation will be separately released to support the Capital Raise. As outlined therein, Stokes performance at both a revenue and EBITDA level (on a normalised basis) has improved in the six months to 30 June 2018 relative to the six month trading period to 31 December 2017. This improvement is across all business units and from an audio visual perspective reflects the strong pipeline of projects as announced on 20 March 2018. It is also very pleasing to see the improved performance of the Urban Lighting Group Street division which was acquired in October 2016 following operational and management restructuring initiatives.

South Australian market entry

Stokes Technologies Pty Ltd, a subsidiary of Stokes, has commenced trading in South Australia with the recruitment of an experienced management team.

Stokes Limited Executive Chairman, Mr Peter Jinks commented:

"Stokes group looks forward to extending its operational point of presence to the SA market and providing our new customers with quality solutions and service".

Proposed change of name

ENEVIS = Energy Efficiency with VISION

Stokes will put to the EGM a resolution to change the name of Stokes to Enevis Limited (**ENEVIS**). Stokes believes the name change marks and represents a significant development moment in Stokes strategy and forward agenda in its industry. The company intends to leverage its electrical and technology skill base to bring energy efficiency solutions to all its projects and deliverables and seek out new technologies that add to its vision.

Accordingly, the Board considers that now is an appropriate time to reflect the repositioning of the Group as a market participant in energy efficiency-oriented technologies and services, and market-leading audio-visual products and solutions. *ENEVIS* more accurately describes Stokes' renewed focus and aligns with the future strategic direction of Stokes.

For further information contact:

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Leading provider of innovative technologies, products and solutions

APPENDIX 1

Key Terms of the Proposed Acquisition

The key terms of the Proposed Acquisition are summarised below.

The ASA is subject to the following key conditions precedent:

- Stokes obtaining a waiver from the ASX in respect of the Deferred Consideration Shares.
- To the extent necessary, the shareholders of the Buyer and Stokes approving the purchase of the Assets under the ASA.
- Stokes obtains shareholder approval for the issue of the Consideration Shares.
- Scholz obtains all necessary third party consents in respect of the sale of the Assets.
- Stokes having completed an equity fundraising of at least \$2,000,000.
- Scholz having signed a restriction agreement generally in the form set out in Appendix 9A of the ASX Listing Rules which confirms that the Consideration Shares are subject to a voluntary escrow arrangement for 24 months.
- Key management personnel being retained, including Mr Erik Scholz.
- Scholz confirming ownership of a 3.75% shareholding in Nugreen Pty Ltd ACN 154 131 558
- No "material adverse change" occurring.

Other key terms under the ASA are summarised below:

- Completion will take place 10 business days after all conditions precedent are met (or waived).
- Subject to the below acceleration provisions relating to takeover offers, the issue of the Deferred Shares is contingent on the following performance hurdles being satisfied:
 - (i) Up to 1,000,000 to be issued following the financial year ending 30 June 2019 (**FY19**), calculated on a sliding scale subject to the Lumex business achieving minimum revenues of greater than \$11.2 million (upper target \$14 million) **and** a minimum EBITDA contribution of \$1.12 million in FY19 (**Tranche 1**); and
 - (ii) Up to 1,000,000 to be issued following the financial year ending 30 June 2019, calculated on a sliding scale subject to the Lumex business achieving a minimum EBITDA of greater than \$1.12 million (upper target of \$1.4 million) (**Tranche 2**); and
 - (iii) Up to 1,000,000 to be issued following the financial year ending 30 June 2020 (**FY20**), calculated on a sliding scale subject to the Lumex business achieving minimum revenues of greater than \$15.2 million (upper target \$19 million) **and** a minimum EBITDA contribution of \$1.52 million in FY20 (**Tranche 3**); and

- (iv) Up to 1,000,000 to be issued following the financial year ending 30 June 2020, calculated on a sliding scale subject to the Lumex business achieving a minimum EBITDA of greater than \$1.52 million (upper target of \$1.9 million) (**Tranche 4**).
- If there is a successful takeover offer made for the shares in Stokes (being an unconditional offer for which the bidder has acceptances for the offer for more than 50% of the issued shares in Stokes) (**Takeover Event**):
 - (i) before 30 June 2019, all of the Deferred Shares shall be immediately issued on the date which is 5 business days after the later of the date on which the Takeover Event occurs and the date on which Stokes obtains any necessary shareholder approval pursuant to the ASX Listing Rules or the Corporations Act 2001 (**Required Approvals**); and
 - (ii) after 30 June 2019 but before 30 June 2020, the Tranche 3 and Tranche 4 Deferred Shares (but not the Tranche 1 and Tranche 2 Deferred Shares) shall be immediately issued on the date which is 5 business days after the later of the date on which the Takeover Event occurs and the date on which Stokes obtains the Required Approvals.
- The ASA provides for an adjustment mechanism under which the number of Up-Front Shares is adjusted if the "stock value" (as defined in the ASA) is less than \$1 million.
- Scholz provides the Buyer with a limited indemnity in relation to the ASA warranties and for customer claims in connection with products/services provided prior to Completion.
- Erik Scholz personally guarantees the performance by Scholz of its obligations under the ASA.
- The ASA includes a restraint which applies to Scholz and Erik Scholz from the completion date.