



## **Acquisition of THG**

Expanding into Queensland

April 2015

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# 1. Executive Summary

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# Executive Summary

## TRANSACTION OVERVIEW

- OTOC is acquiring the business and assets of THG WSG Pty Ltd (**THG**), a Queensland surveying and planning consultancy, for up to \$4.4m (the **Acquisition**)
- Strategic expansion into Queensland
- Purchase price comprises \$2.2m in cash (funded from existing cash reserves) and \$0.4m in OTOC shares, with up to \$1.8m in cash payable subject to THG achieving performance hurdles
- Up-front purchase price represents a multiple of approximately 3.25x EBIT and 2.25x EBITDA based on THG's forecast earnings for the year ended 30 June 2015<sup>1</sup>
- Approximately 50% of the purchase price is in OTOC shares and performance payments, aligning THG management to ongoing earnings performance
- Expected to be earnings per share accretive in FY2016

## STRATEGIC RATIONALE

- **Strategy:** delivering on strategy of creating a premium national surveying business
- **Expansion into Queensland:** market leadership in land and cadastral surveying
- **Unique market presence:** exposure to key growth corridors in Queensland
- **Clients:** blue-chip property developers and government agencies
- **Management:** experienced management team aligned to future performance
- **Outlook:** leveraged to projected growth in Queensland property market and exposure to investment in government, infrastructure, tourism, agriculture and resources projects
- **Synergies:** premium land surveying businesses in Western Australia, Victoria and Queensland, enabling OTOC to offer an integrated service for national property developers
- **Diversification:** further diversifies OTOC's geographic and industry exposure, with reduced reliance on resources sector and contracting work

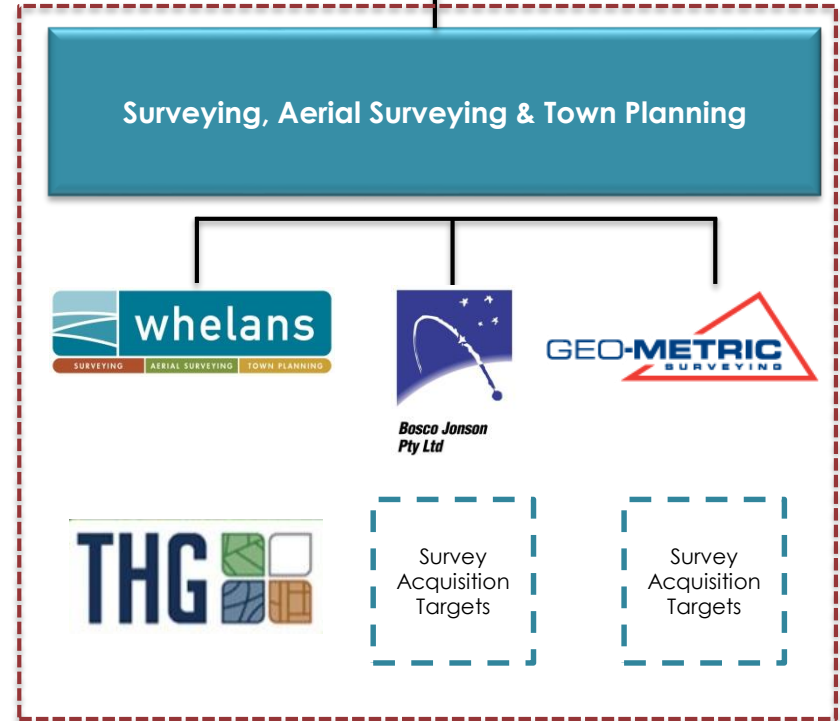
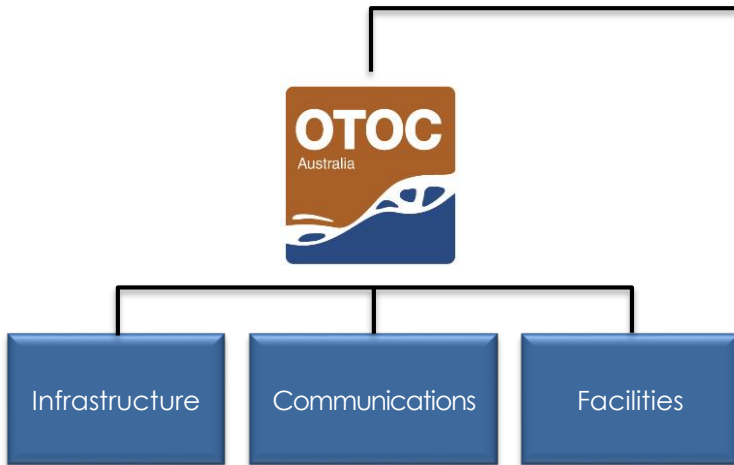
# Pro-Forma Group Structure



OTOC is an Emerging Diversified Infrastructure Services Group



Delivering on strategy of creating a premium multi-disciplinary national surveying business



Pro-Forma Capital Structure	
Shares on issue	264.3m
Market capitalisation at \$0.08/sh	\$21m
Cash (pro-forma 31 Dec)	\$11m
Net Debt (pro-forma 31 Dec)	\$7m

## 2. Overview of THG

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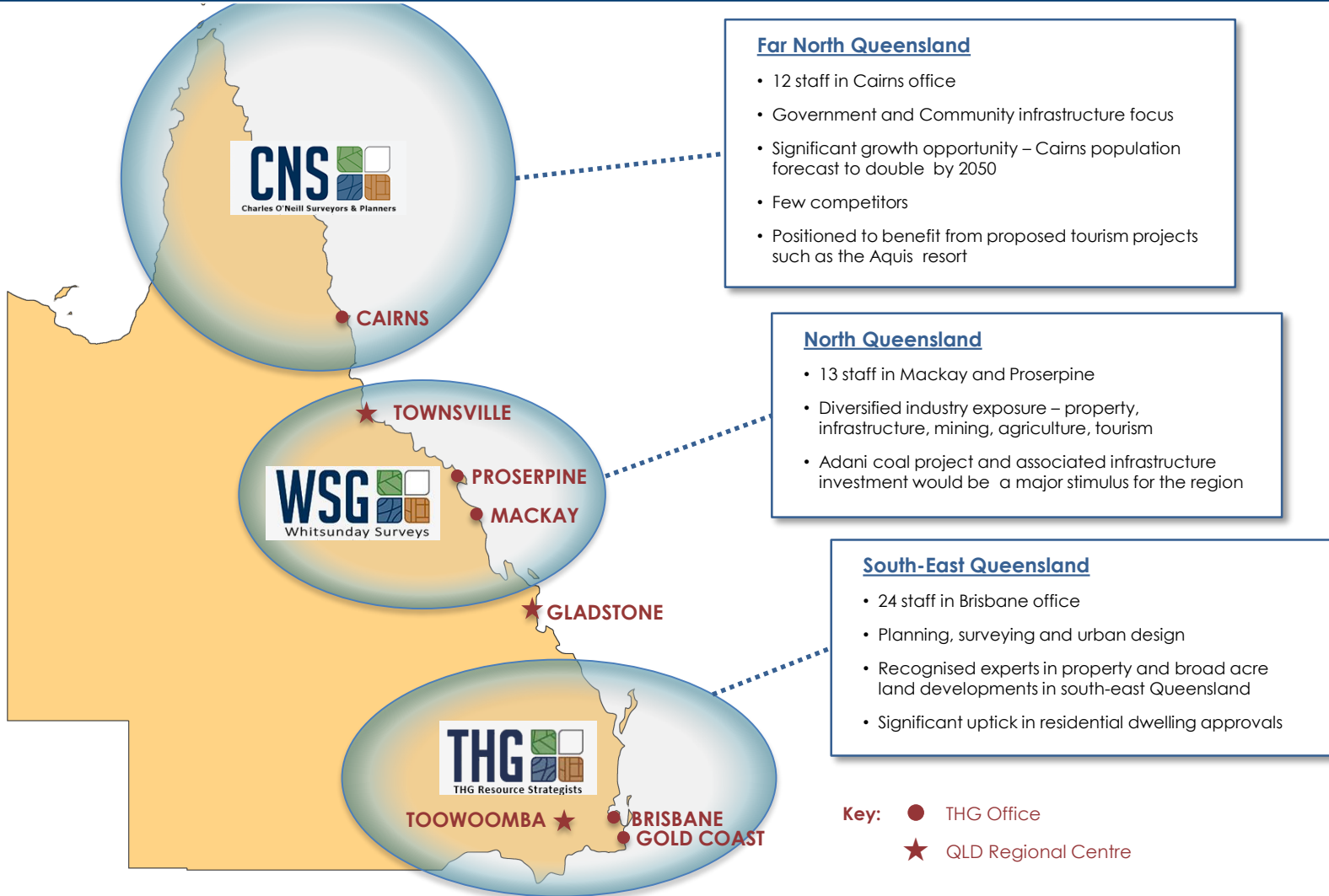
# Background

## THG is a leading Queensland surveying and planning consultancy

- Established in Brisbane in the 1970s as Graham Di Heilbronn Associates (later rebranded Heilbronn & Partners)
- Expertise in land and cadastral surveying
- Acquired Whitsunday Surveys (Mackay and Proserpine) in 2012 and Charles O'Neill Surveys (Cairns) in 2014, providing geographic and end-user diversification
- Key THG executives each have over 25 years experience and will remain with the business post Acquisition
- Approximately 49 staff
- Diversified blue-chip customer base including:



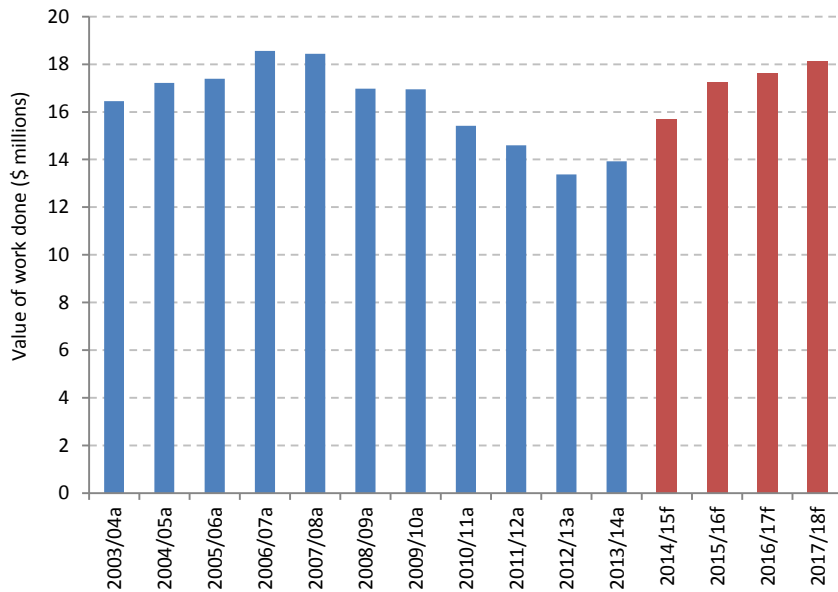
Offices in key growth corridors, underpinned by a leading position in Brisbane and south-east Queensland



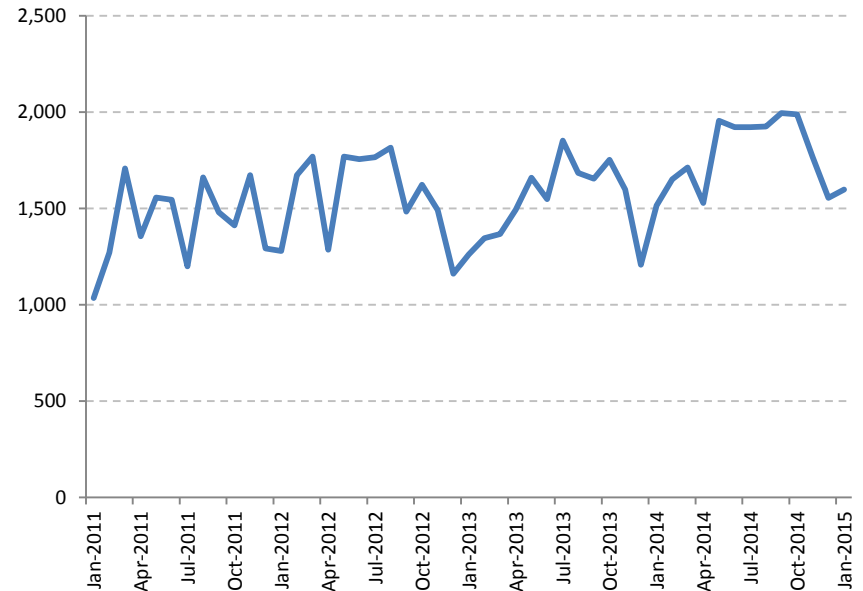
# Queensland Property Market

- Early stages of an upswing, following many years of depressed activity following the GFC
- Residential dwelling approvals have improved significantly, with a number of large developments planned
- New dwelling commencements forecast to increase by 15% in 2014/2015 (*Housing Institute of Australia*)
- Affordability has improved relative to other cities (i.e. Sydney) and rental vacancies remain tight
- Activity concentrated in Brisbane and south-east growth corridor

## Queensland Investment in Housing



## Queensland Residential Dwelling Approvals



Sources: *Housing Institute of Australia, Australian Bureau of Statistics*

## 3. Strategic Rationale

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# Acquisition Highlights



## Delivering on OTOC's National Surveying Strategy

- ✓ Expansion in targeted geographic market
- ✓ Premium brand and market leadership
- ✓ Complementary blue-chip client base
- ✓ Synergies - integrated service offering for national property developers
- ✓ Proven management team that will remain with the business
- ✓ Management aligned with performance consideration and OTOC shares
- ✓ Balance sheet strength maintained
- ✓ Expected to be earnings per share accretive in FY2016

# National Surveying Strategy

## Compelling Strategic Rationale

### Diversification

- Diversified end-user exposure: land, urban development, civil infrastructure, government, resources
- Creating a national business that is diversified from any State-specific exposure and can respond to changing market conditions

### Fragmented Market

- Market size c. \$3.4bn
- Many small firms contesting narrow geographic or technical markets
- Acquisitive growth: platform acquisitions (State) and bolt-on targets
- No competitors pursuing a roll-up strategy

### Financial Returns

- Recurring revenue base and solid growth
- Attractive earnings margins 15%+
- Low capital investment required
- Strong free cash flow to fund organic growth, acquisitions, and returns to OTOC shareholders

### Enhanced Product Offering

- Integrated service offering for national clients - key differentiator and value add product
- Distribution channel to underpin specialist equipment and technology
- Critical mass to offer specialist surveying services – high margins



### Employees

- Long-term employment contracts with key principals
- Enhanced professional development opportunities
- Attract, retain and incentivise top talent
- Industry leaders and technical specialists – greater profitability

### Synergistic Growth

- National client service offering
- Cross-selling between geographic markets and service capabilities (e.g. land/infrastructure, aerial mapping)
- Centralised IT, finance, HR and OH&S
- Best practice technology and systems
- Procurement savings

# National Surveying Strategy



## Creating a Premium Multi-Disciplinary National Surveying Business

	WA	VIC	NSW	QLD	SA/NT
Land/Urban			<div style="border: 1px dashed blue; padding: 5px;">Acquisition Targets</div>		<div style="border: 1px dashed blue; padding: 5px;">Organic Growth/ Acquisitions</div>
Resources	 	<div style="border: 1px dashed blue; padding: 5px;">Not Applicable</div>		 	<div style="border: 1px dashed blue; padding: 5px;">Organic Growth/ Acquisitions</div>
Civil Infrastructure				 	<div style="border: 1px dashed blue; padding: 5px;">Organic Growth/ Acquisitions</div>

## Surveying Technology

Aerial Mapping

Laser Scanning

Information Technology

# National Surveying Strategy



## Acquisitions Highly Complementary to National Strategy Premium East Coast Business



Bosco Jonson  
Pty Ltd



**Location**

Victoria

New South Wales, Queensland,  
Western Australia

Queensland

**Industry Focus**

Land and urban development

Civil infrastructure

Land and urban, infrastructure

**Founded**

1997

2001

1976

**Key Clients**



parklea. PEET



AURIZON.

Fulton Hogan



THIESS

PEET



**Purchase Price**

\$17.0m

\$12.0m

\$4.4m

**Cash Paid**

\$13.0m

\$7.0m

\$2.2m

**Share Consideration**

\$1.0m

\$2.5m

\$0.4m

**Performance Payments**

\$3.0m over 2 years

\$2.5m over 2 years

\$1.8m over 2 years

**Performance Hurdle**

\$3.5m EBITDA








\$3.0m EBIT

\$0.8m EBIT

# National Surveying Strategy

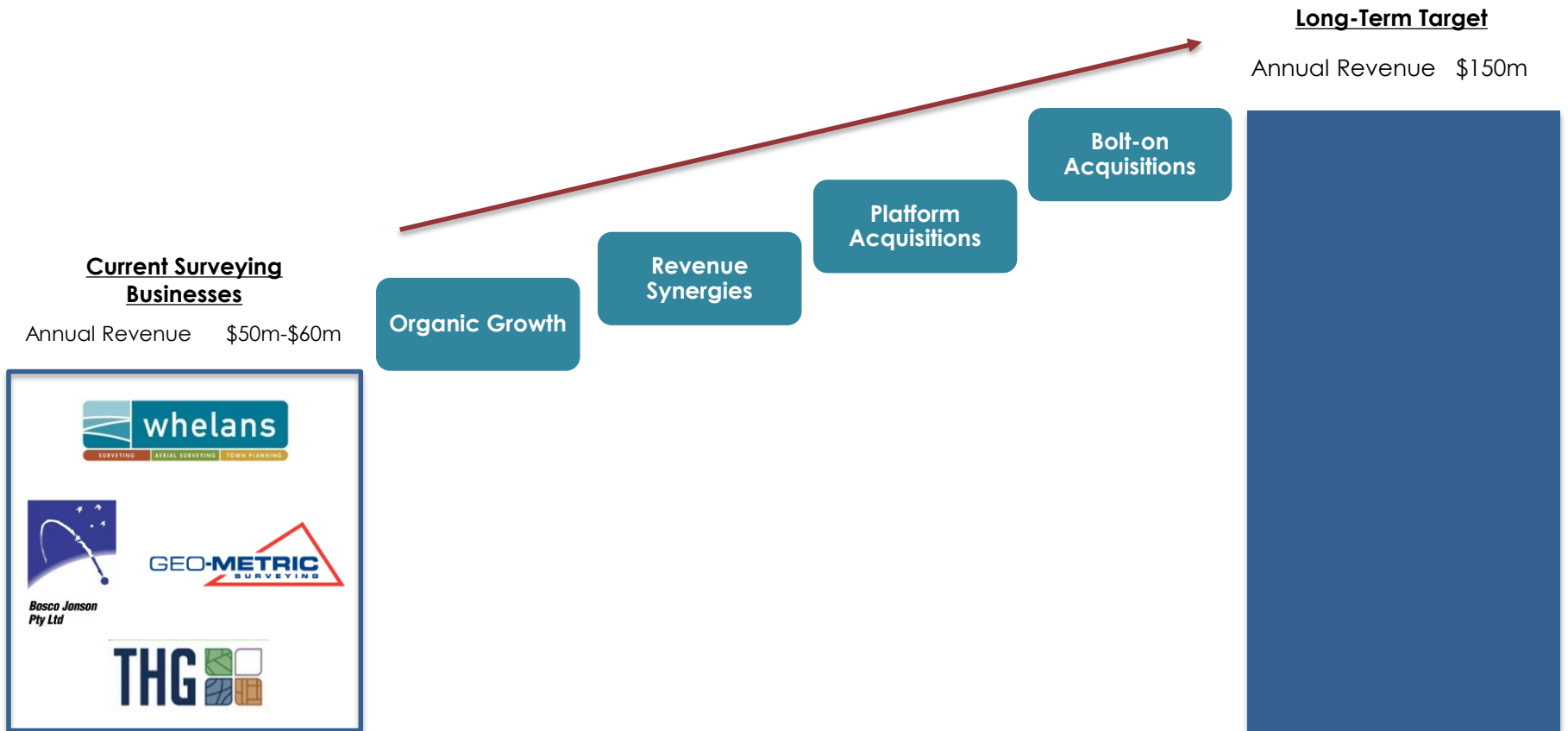
## Pursuing an Integrated Service Offering for National Property Developers



	✓	✓	
			✓
Cedar  Woods	✓	✓	
 Devine			✓
<b>INVESTA</b> 			✓
<b>parklea.</b>		✓	
<b>PEET</b>	✓	✓	✓
		✓	
 Stockland	✓	✓	
<b>VILLAWORLD</b> GROUP		✓	✓

# National Surveying Strategy

## Substantial Growth Opportunity



## 4. Acquisition Terms & Funding

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# Acquisition Terms



## Management aligned to ongoing performance with 50% of the purchase price in OTOC shares and performance payments

Key Term	Detail
<b>Structure</b>	<ul style="list-style-type: none"> <li>Acquisition of the business and assets of THG for up to \$4.4m</li> </ul>
<b>Purchase price (cash)</b>	<ul style="list-style-type: none"> <li>\$2.2m payable at completion</li> <li>Reduced by the after-tax value of employee entitlements (circa \$400k)</li> </ul>
<b>Purchase price (OTOC shares)</b>	<ul style="list-style-type: none"> <li>\$0.4m in new fully paid ordinary OTOC shares to be issued at completion</li> <li>4.2m shares to be issued at 20-day pre-announcement VWAP of \$0.096</li> <li>Shares subject to a voluntary escrow period of 12 months</li> </ul>
<b>Purchase price (performance)</b>	<ul style="list-style-type: none"> <li>Performance payments of up to \$1.8m in cash payable over 2 years</li> <li>If EBIT is at least \$0.8m in a performance period, the performance payment would be \$0.5m plus \$1.0 of performance payment per \$1.0 of EBIT over \$0.8m, up to a maximum EBIT of \$1.2m (i.e. max. payment of \$0.9m in any period)</li> <li>Eg.: if EBIT is \$1.0m in a performance period, the performance payment would be \$0.5m + (\$1.0m-\$0.8m) = \$0.7m</li> <li>The first performance period is expected to commence in May 2015</li> </ul>
<b>Employment contracts</b>	<ul style="list-style-type: none"> <li>The principals of THG will enter into employment contracts with customary restraint clauses</li> </ul>
<b>Conditions Precedent</b>	<ul style="list-style-type: none"> <li>Execution of principal employment contracts</li> <li>At least 90% of THG's employees (other than principal employees) accept offers of employment</li> <li>Other customary conditions precedent (i.e. transfer of assets, consents, assignment of contracts)</li> </ul>
<b>Completion</b>	<ul style="list-style-type: none"> <li>Completion is expected prior to 15 May 2015 following satisfaction of conditions precedent</li> </ul>

# Valuation and Funding

- Up-front purchase price of \$2.6m represents a multiple of approximately 3.25x EBIT and 2.25x EBITDA based on THG's forecast earnings for the year ended 30 June 2015
  - FY15 estimated revenue: ~\$8.0m, EBITDA ~\$1.15m , EBIT ~\$0.8m (based on unaudited management accounts and projections)
- With THG, the annual revenue of OTOC's combined surveying business is expected to be circa \$50m-\$60m:

Estimated annual revenue	\$m	\$m
Whelans	21.0	24.0
Bosco Jonson	12.0	14.0
Geo-Metric	11.0	13.0
THG	8.0	10.0
<b>Total</b>	<b>~52.0</b>	<b>~61.0</b>

- Pro-forma balance sheet:

\$m	OTOC 31 Dec	Acquisition	OTOC Pro-Forma
Cash	13.0	(1.8)	11.2
<b>Facilities (Drawn)</b>			
Hire Purchase	8.5	0.5	9.0
CBA Commercial Bills	9.0		9.0
<b>Net Debt</b>	<b>4.5</b>		<b>6.8</b>

Note 1: Up-front cash consideration (\$2.2m) less after-tax value of employee entitlement (circa \$0.4m)

Note 2: OTOC will assume THG's hire purchase obligations (circa \$0.5m)

## 4. Conclusion

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## Acquisition of THG is expected to provide strategic and financial benefits

- The Acquisition of THG provides OTOC with a leading position in the Queensland surveying market
- **Compelling strategic rationale:**
  - ✓ Highly complementary to OTOC's existing surveying business and national strategy
  - ✓ Market leading position in Queensland
  - ✓ Presence in key growth corridors
  - ✓ Leveraged to improving property market
  - ✓ Experienced management team aligned to future performance
  - ✓ Further diversification of group revenue and earnings
  - ✓ Expected to be EPS accretive in FY16
- OTOC has established a strong position in the East Coast with high quality surveying businesses in Victoria, New South Wales and Queensland
- OTOC's immediate focus is on integrating its surveying businesses and targeting growth opportunities, such as a joint service offering for national property developers
- OTOC is well positioned to continue to advance its national surveying strategy and will continue to search for acquisition targets that align with the objectives of enhancing the Group's geographic reach, product capability, and earnings profile, while retaining balance sheet strength