



21 January 2016

The Manager
 Markets Announcements Office
 Australian Securities Exchange
 20 Bridge Street
 SYDNEY NSW 2000

Dear Sir/Madam,

Letter to Shareholders in relation to the unsolicited Takeover Offer from Ferrovial

Attached is a letter to be sent to the Company's shareholders in relation to the unsolicited Takeover Offer from Ferrovial.

Yours faithfully,

Angelique Nesbitt
Company Secretary

Investor Enquiries

Chris Jeffrey
 Executive General Manager
 Strategy, Markets and Investments
 P: +61 2 9464 1701 M: +61 400 154 176

Media Enquiries

Chris Gordon
 Executive General Manager, Corporate and Public Affairs
 P: +61 2 9464 1089 M: +61 419 805 990

For personal use only



Level 10, 111 Pacific Highway
North Sydney
Locked Bag 917
North Sydney NSW 2059
Telephone: +61 2 9464 1000
Facsimile: +61 2 9464 1111

21 January 2016

Dear Broadspectrum Shareholder

REJECT THE OFFER – DO NOTHING AND TAKE NO ACTION

You have recently received a Bidder's Statement from Ferrovia outlining a highly conditional offer to acquire your Broadspectrum Shares for \$1.35 per share (the **Offer**). This Target's Statement sets out Broadspectrum's formal response to the Offer.

Our turnaround journey is progressing well and our strategy has sustained a three year positive trend across key financial metrics, while providing for further strong growth. Since FY2013 Broadspectrum has increased revenue and Underlying EBITDA, improved Underlying EBITDA margin, ROCE and underlying cash conversion, and reduced net debt and our total funding requirement.

Your Board has carefully considered the Offer to assess whether it is in the interests of Broadspectrum Shareholders and your Directors unanimously recommend that you **REJECT THE OFFER**.

Each of your Directors who own or control Broadspectrum Shares intends to reject the Offer in respect of all the Broadspectrum Shares they own or control.

THE OFFER SIGNIFICANTLY UNDERVALUES YOUR BROADSPECTRUM SHARES

Your Broadspectrum Shares are worth a lot more than Ferrovia is offering. This is the unanimous view of your Directors and is supported by the Independent Expert who has concluded that the Offer is NOT FAIR AND NOT REASONABLE.

Your Directors commissioned Ernst & Young Transaction Advisory Services Limited (**Independent Expert**) to prepare an Independent Expert's Report in response to the Offer (attached in full in appendix 1 to this Target's Statement). The Independent Expert has assessed the value of Broadspectrum to be in the range of \$1.71 to \$1.98 per Broadspectrum Share. The Offer represents a 27% discount to the mid-point of this valuation range (\$1.845 per Broadspectrum Share).

The valuation metrics implied by the Offer also represent a significant discount to those of other similar transactions, as well as against Broadspectrum's longer term share price, as summarised below¹:

¹ Please see sections 2.1 and 2.2 of this Target's Statement for further discussion on these valuation metrics.

For personal use only

- **Broadspectrum's longer term share price:** Broadspectrum Shares have traded above the Offer Price for extended periods in the last 12 months and as recently as 22 July 2015 prior to the announcement of the Offer. The Offer represents a 16% discount to Broadspectrum's closing share price on 5 June 2015 (\$1.60), being the last trading day prior to six months before the announcement of the Offer
- **Comparable transaction multiples:** the EV implied by the Offer represents a 6.9x² multiple of Broadspectrum's FY2015 Underlying EBIT, which is substantially less than the average multiple of Underlying EBIT of comparable transactions which resulted in a change in control in both Australia (9.9x) and overseas (15.2x)³, and
- **Broadspectrum's average trading multiple:** the EV implied by the Offer represents a 6.5x⁴ multiple of Broadspectrum's FY2016 Underlying EBIT, which is also a discount to Broadspectrum's average trading multiple across both FY2014 (9.0x) and FY2015 (8.0x)⁵, noting of course that trading multiples do not include a premium for control.

Reasons for the Broadspectrum Directors' recommendation

Section 2 of this Target's Statement sets out in full the reasons for your Directors' recommendation, which include the following:

- 1 the Offer significantly undervalues your Broadspectrum Shares
- 2 the Offer is opportunistic
- 3 the Offer is highly conditional
- 4 Broadspectrum is in a stronger position now than in December 2014, when Ferrovial indicated a willingness to pay significantly more for your Broadspectrum Shares
- 5 the outlook for Broadspectrum is positive and the Company continues to pursue strategies and initiatives to increase shareholder value, and

² EV/EBIT multiple implied by the EV of the Offer (itself calculated based on the equity value implied by the Offer Price and Broadspectrum's last stated Net Debt position) and Broadspectrum's FY2015 Underlying EBIT.

³ Refer to section 2.1 of this Target's Statement for further discussion of comparable transaction multiples.

⁴ FY2016 EV/EBIT multiple implied by the EV of the Offer (itself calculated based on the equity value implied by the Offer Price and Broadspectrum's last stated Net Debt position) and the mid-point of Broadspectrum's FY2016 Underlying EBITDA guidance of \$265 million to \$285 million less the average broker forecast FY2016 depreciation and amortisation for Broadspectrum (\$98 million). A summary of the selection criteria, number of broker forecasts comprising the average, range and date of the broker forecasts is provided in appendix 3 to this Target's Statement. The Directors do not adopt the average broker forecast of Broadspectrum's depreciation and amortisation. The broker forecasts have been included solely as an indication of market views.

⁵ Refer to section 2.1 of this Target's Statement for further discussion of trading multiples.

- 6 Broadspectrum is a diversified portfolio business, providing flexibility to deliver sustained performance and earnings through industry and sector cycles.

THE OFFER IS OPPORTUNISTIC

The Offer is opportunistic in its timing and is seeking to take advantage of the current disconnect between the recent weakness in Broadspectrum's share price and the ongoing strengthening of Broadspectrum's business. Broadspectrum's closing share price of \$0.85⁶ immediately prior to the announcement of the Offer was the lowest closing share price in more than 18 months.

Your Directors believe the recent trading performance of Broadspectrum Shares has been influenced by a number of factors unrelated to the strengthening fundamentals of the underlying business. The Offer was opportunistically announced prior to the expected signing of major contracts. Since the Offer was announced, Broadspectrum has signed new contracts worth over \$1.1 billion in revenue, including a material contract with NSW Land and Housing Corporation (**NSW Housing**) that could be worth up to \$950 million in revenue over the initial five year period. In addition, Broadspectrum has signed contracts with AGL Energy Limited (**AGL**)⁷ and Queensland Urban Utilities (**QUU**)⁸ through our joint venture operations, for which Broadspectrum's proportionate share of revenue could be worth \$185 million in aggregate over the life of the two contracts.

Broadspectrum is also the preferred tenderer and is in discussions with the Australian Department of Immigration and Border Protection (**DIBP**) in relation to the execution of a new five year contract to provide facilities maintenance and welfare services in Nauru and Manus Province.

Broadspectrum's portfolio of businesses continues to perform strongly in aggregate, as evidenced by the changing composition of our earnings base, with continued growth in profitability. In your Directors' opinion, this does not appear to be reflected in the trading performance of Broadspectrum Shares prior to the announcement of the Offer. Our turnaround journey is progressing well and our strategy has sustained a three year positive trend across key financial metrics, while providing for further strong growth.

THE OFFER IS HIGHLY CONDITIONAL

⁶ Broadspectrum's closing share price on 4 December 2015.

⁷ The contract is for five and a half years and was won by Transfield Worley Power Services Pty Limited, a joint venture in which Broadspectrum holds a 50% interest.

⁸ The contract is for five years and was won by Broadspectrum in a 50:50 unincorporated joint venture with Downer, Utilita Water Solutions.

For personal use only

In its Bidder's Statement, Ferrovia lists over 25 individual conditions, the breach of any of which will allow Ferrovia to let the Offer lapse. The Offer is highly conditional and subject to a number of third party approvals and consents which are outside the control of both Broadspectrum and Ferrovia. This includes certain regulatory approvals (such as Foreign Investment Review Board (**FIRB**) and New Zealand Overseas Investment Office (**OIO**)) which must be applied for, where the outcome of those applications may not be known for a period of months. Such approvals and consents may not be provided in a timely manner, or at all.

Ferrovia's Offer is currently scheduled to close at 7pm (Sydney time) on 8 February 2016. Your Directors consider it highly unlikely that the Offer will be unconditional prior to this date, noting in particular the requirement for OIO approval and that the OIO's published target is to process 90% of applications⁹ within 50 business days, although recent statistics suggest that this approval process has taken on average at least 80 business days. Given Ferrovia had not lodged an application to the OIO as at 23 December 2015, this approval is unlikely to be received by Ferrovia prior to 8 February 2016. Therefore, Ferrovia will likely have to extend the Offer Period if Ferrovia does not wish the Offer to lapse.

Ferrovia cannot acquire your Broadspectrum Shares whilst the Offer is still conditional.

Even if you accept the Offer, you will not be paid for your Broadspectrum Shares unless and until all conditions are satisfied or waived by Ferrovia. Further, if you accept the Offer, you will only be able to withdraw your acceptance under limited circumstances, namely until the FIRB condition is satisfied (if it is at all), or if Ferrovia extends the Offer Period by more than one month and the Offer remains subject to conditions.

BROADSPECTRUM IS IN A STRONGER POSITION NOW THAN IN DECEMBER 2014, WHEN FERROVIA INDICATED A WILLINGNESS TO PAY SIGNIFICANTLY MORE FOR YOUR BROADSPECTRUM SHARES

In December 2014, after a period of limited due diligence Ferrovia delivered to Broadspectrum an indicative, non-binding and conditional proposal to acquire all the shares of Broadspectrum for \$2.00 per Broadspectrum Share (**2014 Proposal**).

Your Directors consider the current financial position and prospects of Broadspectrum to be stronger than when Ferrovia submitted the 2014 Proposal, as summarised in the table below.

⁹ Applications involving the purchase of significant business assets.

Metric ¹⁰	2014 Proposal	Current Offer	Improvement since 2014 Proposal
Contracted revenue	\$8.7 billion	\$10.3 billion	✓
Contracted, shortlisted and preferred revenue	\$10.4 billion	\$12.1 billion	✓
Net Debt	\$534 million	\$471 million	✓
Leverage ratio	2.4x	1.8x	✓
Status of significant contracts	DIBP – tender phase NSW Housing – not renewed	DIBP – preferred tenderer and short term extension NSW Housing – new contract with expanded scope	✓
Underlying cash conversion	108% (FY2014)	113% (FY2015)	✓
Dividend	No dividend	Reviewing ability to pay dividend	✓
ROCE	10.0% (FY2014)	13.7% (FY2015)	✓

In contrast to Broadspectrum's improved financial position, the current Offer Price is at a significant discount (between 26% and 45%) to the 2014 Proposal on a number of measures, as outlined below¹¹.

	2014 Proposal	Current Offer	Current Offer discount
Price per share	\$2.00	\$1.35	33%
EV/Underlying EBITDA multiple (historical)	7.2x	4.4x	39%
EV/Underlying EBIT multiple (historical)	12.5x	6.9x	45%
EV/Underlying EBITDA guidance	5.7x	4.2x	26%

¹⁰ Metrics for 2014 Proposal reflect those as at 30 June 2014. Metrics for current Offer reflect those as at 30 June 2015, except contracted revenue and contracted, shortlisted and preferred revenue which are as at 31 December 2015. Leverage ratio calculated as Net Debt divided by Underlying EBITDA. Underlying cash conversion determined as normalised operating cash flow as a percentage of Underlying EBITDA. FY2014 underlying cash conversion adjusted for the impact of creditor holdbacks of \$118 million in FY2013. Refer to section 2.4 for further discussion.

¹¹ EV calculated as the sum of Net Debt and equity (respective offer price multiplied by total shares on issue). Historical multiples for 2014 Proposal based on Broadspectrum's FY2014 Underlying EBITDA and EBIT and Net Debt as at 30 June 2014. FY2015 Underlying EBITDA guidance calculated as mid-point of Broadspectrum's Underlying FY2015 EBITDA guidance range of \$260 million to \$280 million. FY2016 Underlying EBITDA guidance calculated as mid-point of Broadspectrum's Underlying FY2016 EBITDA guidance range of \$265 million to \$285 million. Historical multiples for current Offer based on Broadspectrum's FY2015 Underlying EBITDA and EBIT and Net Debt as at 30 June 2015. Refer to section 2.4 of this Target's Statement for further discussion.

Broadspectrum has also been focussed on initiatives to maximise shareholder value and has achieved a number of significant milestones over the last 12 months, including:

- delivering on upgraded FY2015 Underlying EBITDA guidance
- strengthening the balance sheet and reducing leverage to 1.8x as at 30 June 2015 (Net Debt/Underlying EBITDA), which is within the Company's target range of 1.5x to 2.0x Underlying EBITDA
- improving working capital discipline (average debtor days¹² reduced to 41 in FY2015 from 49 in FY2014)
- continuing strong cash flow generation (113% underlying cash conversion¹³ in FY2015)
- delivering a three year positive trend on revenue, Underlying EBITDA, Underlying EBITDA Margins and ROCE
- growing contracted revenue to \$10.3 billion at 31 December 2015 (from \$8.8 billion as at 31 December 2014) – a key forward indicator of future earnings and business strength, and
- delivering a turnaround in our Americas business despite challenging operating conditions, with a positive EBITDA contribution in 1HFY2016.

Furthermore, Ferrovia's second attempt to acquire Broadspectrum underscores the attractiveness of Broadspectrum to Ferrovia. Broadspectrum represents a strategic acquisition and provides a valuable platform in Australia for Ferrovia and this is not fully reflected in the current Offer.

THE OUTLOOK FOR BROADSPECTRUM IS POSITIVE AND THE COMPANY CONTINUES TO PURSUE STRATEGIES AND INITIATIVES TO INCREASE SHAREHOLDER VALUE

In recent years, Broadspectrum has focussed on strengthening the balance sheet, re-shaping and improving the business, confirming and embedding the Company's strategy, and positioning our portfolio of contracts within sectors that are weighted towards non-discretionary spending on essential services.

In the last 12 months the signing, renewal or extension of a number of significant contracts which are material to Broadspectrum's business has been announced. These contracts will deliver substantial earnings over the short to medium term. These successes demonstrate the continued strength of Broadspectrum's operating business and include:

- a four month extension to the existing contract with the DIBP announced in October 2015 while Broadspectrum as the preferred tenderer continues negotiations with the DIBP in relation to the execution of a new five year contract
- a five year NSW Housing contract with an expanded scope

¹² Debtor days calculated as trade debtors divided by operating revenue multiplied by 365.

¹³ Underlying cash conversion determined as normalised operating cash flow as a percentage of Underlying EBITDA.

- the five year Multi-Technology Integrated Master Agreement (**MIMA**) with NBN Co
- a five and a half year contract with AGL¹⁴, and
- a five year contract with QUU¹⁵.

Since the announcement of the Offer, Broadspectrum has upgraded guidance for our expected FY2016 Underlying EBITDA to a range of \$265 million to \$285 million, compared to the prevailing average broker forecast FY2016 Underlying EBITDA of \$258 million prior to the upgraded guidance¹⁶. The upgrade in guidance was due to continued strong business momentum and increased growth opportunities across a number of our sectors.

Broadspectrum remains focussed on creating shareholder value and the management team continues to pursue a number of initiatives including:

- commencement of a formal program targeting annualised contract and procurement benefits of \$75 million to \$100 million by 30 June 2016 (refer to sections 2.5 and 3.2 of this Target's Statement for further detail regarding these initiatives)¹⁷
- ongoing prudent financial management and controls to drive further improvement in key capital metrics
- an increased "share of wallet" from existing customers and pursuing identified growth areas to deliver medium term growth
- continued conversion of pipeline opportunities into contracted revenue, with an emphasis on maintaining and improving portfolio balance, diversity and resilience, and
- debt optimisation to provide increased flexibility and to reduce interest expense.

Prior to 1HFY2016, the Company had some cyclicalities in its Net Debt profile, with Net Debt increasing at the half year (31 December) before declining to 30 June. This cyclicalities is not evident at 1HFY2016, with Broadspectrum's unaudited Net Debt at 31 December 2015 of \$459 million being less than the balance as at 30 June 2015 (\$471 million). Broadspectrum also anticipates a further material reduction in its Net Debt balance at 30 June 2016.

¹⁴ The contract is for five and a half years and was won by Transfield Worley Power Services Pty Limited, a joint venture in which Broadspectrum holds a 50% interest.

¹⁵ The contract is for five years and was won by Broadspectrum in a 50:50 unincorporated joint venture with Downer, Utilita Water Solutions.

¹⁶ A summary of the selection criteria, number of broker forecasts comprising the average, range and date of the broker forecasts is provided in appendix 3 to this Target's Statement. The Directors do not adopt the average broker forecast of Broadspectrum's FY2016 EBITDA prior to the upgraded EBITDA guidance. The broker forecasts have been included solely as an indication of market views.

¹⁷ The benefits from the contract and procurement initiatives may directly reduce Broadspectrum's operating cost base or be used to maintain and win work with Broadspectrum's clients.

As noted at our annual general meeting in October 2015, our strengthening balance sheet provides flexibility to pursue increased growth options and the potential for enhanced returns to Broadspectrum Shareholders. It was also noted your Directors would review the current prioritisation of debt reduction over the payment of dividends at the FY2016 half year, in light of business performance and gearing levels.

BROADSPECTRUM IS A DIVERSIFIED PORTFOLIO BUSINESS, PROVIDING FLEXIBILITY TO DELIVER SUSTAINED PERFORMANCE AND EARNINGS THROUGH INDUSTRY AND SECTOR CYCLES

The changing composition of the Company's revenue base through time is reflective of Broadspectrum's diversified portfolio business and helps reduce revenue and earnings volatility as market conditions change. Through its portfolio, Broadspectrum is also able to leverage the strengths of different end markets over time.

The strength of our diversified portfolio has been demonstrated through **year-on-year revenue and Underlying EBITDA growth since FY2013** and Broadspectrum is well placed to capture the upside in our sub-sectors that are showing signs of recovery, for example the turnaround in the Americas sector, activity levels in the telecommunications sub-sector and the return of previously delayed on-shore and off-shore gas projects.

Do not surrender your Broadspectrum Shares at the current Offer Price. Rejecting the Offer will enable Broadspectrum to continue to execute on its proven strategy for the benefit of our shareholders.

I urge you to read this Target's Statement in full, including the Independent Expert's Report, and to seek any independent financial, legal, taxation or other professional advice that you require before making a decision as to whether or not to accept the Offer.

Your Directors will continue to keep you informed on all material developments in relation to the Offer.

If you have any questions in relation to this Target's Statement or your shareholding in Broadspectrum, please call the Broadspectrum Shareholder information line on 1300 361 735 (for calls made from within Australia) or +61 1300 361 735 (for calls made from outside Australia) Monday to Friday between 8.30am and 5.30pm (Sydney time).

Thank you for being a Broadspectrum Shareholder.

Yours sincerely



Diane Smith-Gander
Chairman

For personal use only