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Service Stream Limited

Proposed acquisition of TechSafe

Leigh Mackender
Managing Director

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Transaction Highlights

Transaction Summary

- ▶ **Service Stream proposes to acquire 100% of TechSafe, the largest independent electrical inspection company in Australia**
- ▶ **Total transaction consideration expected to be \$20m¹**
 - An initial cash component of \$19.0m²
 - Plus a deferred cash payment of \$1.0m subject to the achievement of certain financial targets in FY18
- ▶ **Proposed transaction will be funded using 100% cash**
- ▶ **The proposed transaction is subject to an Independent Expert Report and Shareholder approval**
 - The Chairman of Service Stream (Mr Brett Gallagher) has an interest in TechSafe
 - KPMG Corporate Finance has been appointed as Independent Expert to provide an opinion as to whether the proposed transaction is fair and reasonable

Impact on Service Stream

- ▶ **Proposed transaction has a compelling strategic rationale**
 - Consistent with Service Stream's strategy of diversifying revenue and increasing annuity-style revenues
 - Aligns with Service Stream's core capabilities and "ticket-of-work" operating model
 - Presents opportunities to expand TechSafe services across additional geographies and other utilities
- ▶ **The transaction is expected to be EPS accretive on both a reported and adjusted basis³**
 - TechSafe expects to generate revenue of approx. \$14.0m and EBITDA of approx. \$3.0m in FY17
 - Service Stream anticipates additional growth in FY18
- ▶ **Service Stream will retain a strong net cash position after paying the consideration**

¹ Prior to transaction costs of ~\$0.5m

² Subject to adjustments for accrued tax liabilities, cash-at-bank and movements in working capital

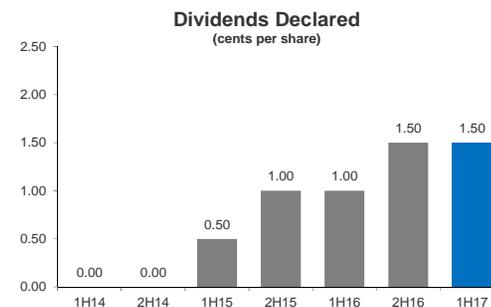
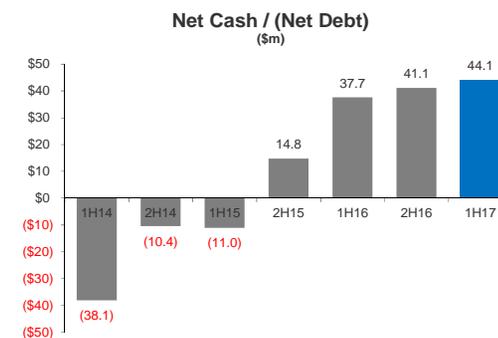
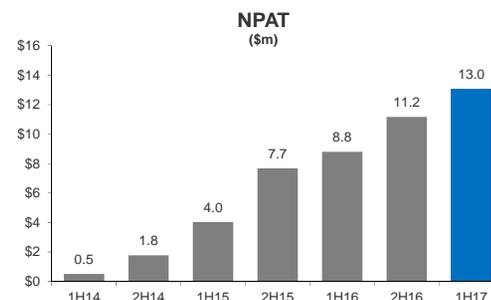
³ Adjusting for non-cash amortisation of customer contracts

Service Stream Performance

Service Stream is well positioned to undertake an acquisition to supplement the strong pipeline of organic growth and further diversify revenues

- ▶ Over the past three years Service Stream has returned to solid and sustainable earnings under a well-performing management team:
 - **Expansion of revenues** across all three operating divisions with seven consecutive half-years delivering EBITDA, NPAT & EPS growth.
 - **Substantially improved Balance Sheet** on the back of strong cash flow generation with net cash of \$44.1 million as at 31 December 2016.
 - **Resumption of fully-franked dividends** in FY15 with periodic increases in cps thereafter.
 - **Capital return of \$19.0m** successfully completed in June 2016.

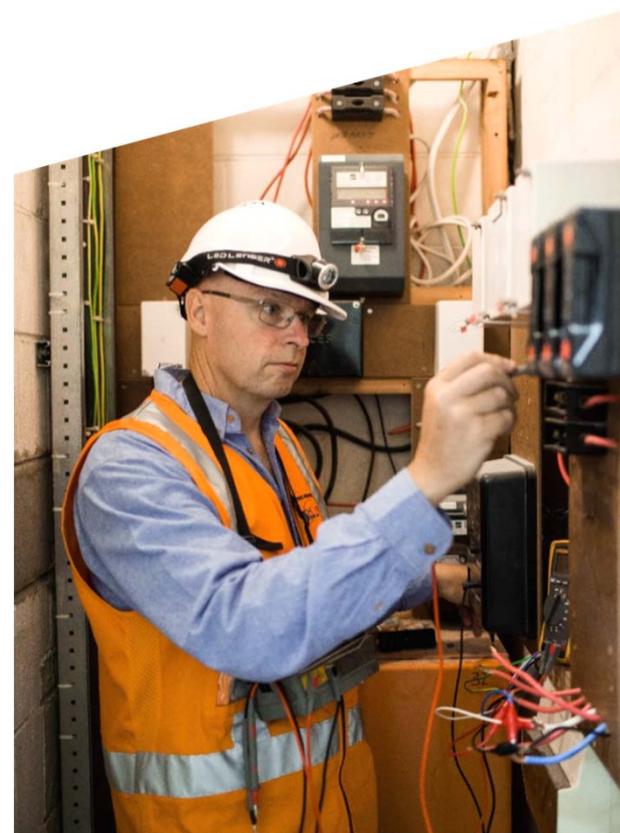
- ▶ The business has maintained a steady focus on the execution of its strategic plan, including the assessment of external 'bolt-on' opportunities.



Compelling Strategic Rationale

The strategic rationale for Service Stream's acquisition of TechSafe is sound and is expected to deliver significant benefits

- ▶ **Strategic fit** with Service Stream's existing 'ticket-of-work' business model and aligned to our core competencies
- ▶ **Diversification of company revenues** and increasing our exposure to additional annuity style revenues across known and growing utility markets
- ▶ **Strong pipeline of existing contracts** has supported a track record of organic growth and leaves TechSafe well positioned for future growth across known markets
- ▶ **Improved exposure to growing markets** through the increased deployment of disruptive technologies (solar pv, battery storage and electric vehicle infrastructure) which increasingly requires regular inspection, testing and compliance verification
- ▶ **Accelerated growth** of TechSafe can be realised through leveraging Service Stream's wider business capabilities and extensive utility client base, including electricity, gas, water and telecommunications providers



Compelling Financial Rationale

- ▶ The proposed transaction is expected to be EPS accretive to Service Stream's pre-acquisition earnings forecast on both a reported and adjusted basis.
 - TechSafe revenues are forecast to increase from \$9.5m in FY16 to approx. \$14.0m in FY17, on the back of expanded and new contracts commencing during the year.
 - TechSafe EBITDA is expected to grow from \$1.9m to approx. \$3.0m over the same period.
 - Service Stream expects additional growth in FY18, assuming the continuation of other major contracts.
- ▶ Transaction costs of approx. \$0.5m will be expensed in FY17.
 - Assuming completion occurs on 28 April 2017, the financial contribution of TechSafe to Service Stream's earnings for May/June 2017 is expected to offset the one-time transaction costs, resulting in an immaterial net decrease to Service Stream's reported EPS for FY17.
- ▶ Service Stream will remain in a strong net cash position after paying the consideration.



Details of the Proposed Transaction

- ▶ The proposed transaction is for Service Stream to acquire all of the shares of TechSafe Australia Pty Ltd and TechSafe Management Pty Ltd.
- ▶ Total transaction consideration of \$20.0m comprising:
 - an aggregate initial cash consideration of \$19.0m payable at completion, subject to adjustments for accrued tax liabilities, cash-at-bank and changes in working capital.
 - an aggregate additional cash consideration of up to \$1.0m with deferred payment, subject to the achievement of certain financial targets in respect of FY18.
- ▶ Transaction is subject to a “fair & reasonable” opinion from the appointed independent expert, KPMG Corporate Finance, and approval by Service Stream shareholders.
- ▶ The proposed transaction will be funded with 100% cash.



Techsafe Overview

A provider of independent inspection, auditing and compliance services and specialist technical advice across the electrical industry



Background

- ▶ Established in 1998 following the privatisation of the State Electricity Commission of Victoria (SECV)
- ▶ The current shareholder group acquired the business in 2011, following which it has grown and evolved with the electrical industry, while enhancing its technical capabilities.
- ▶ TechSafe is now the largest independent electrical inspection company in Australia
- ▶ Provides inspections, auditing, compliance services and specialist technical advice to the electricity industry

Clients & Services

- ▶ **Electricity Network Distributors / Operators:** electrical inspection, network investigations, faults and emergency investigations, prescribed electrical inspections, technical advice
- ▶ **Industry Regulators:** Regulator initiated inspection and auditing programs, technical advice, prescribed electrical inspections, electrical safety training
- ▶ **Government Authorities:** Building inspection services, technical advice
- ▶ **Electrical Trade:** electrical inspection, design and consultancy advice

Experienced Management Team

TechSafe's Managing Director Ashley Haynes will continue to oversee operations and the future growth of the business

- ▶ TechSafe's Managing Director, Mr Ashley Haynes, will join the Service Stream management team following completion of the proposed transaction.
- ▶ Mr Haynes has a wealth of knowledge and business expertise with over 15 years' experience in the outsourcing and management of contracts across the utilities sector.
- ▶ Prior to starting with TechSafe, Mr Haynes was Executive General Manager at Service Stream, overseeing the Energy & Water business unit.



TechSafe presents strategic growth opportunities

Service Stream will target growth opportunities on the back of the TechSafe acquisition, leveraging our expanded and long-term client relationships

1 Electrical Inspection Services

- ▶ At present, TechSafe's operations are predominantly based in Victoria, Tasmania and most recently in Western Australia
- ▶ **Expansion into other states and territories** as electricity distributors and operators increasingly look to outsource inspection services
- ▶ **Increases in electrical assets** connected to the electricity grid requiring increased inspection resources
- ▶ Service Stream has strong client relationships with **other electricity distributors and operators** around the country through the services provided by our Energy & Water division

2 Broader Utilities Market: Gas, Water & Telecommunications

- ▶ Expansion of services across **other utility services**, including; gas, water and telecommunications
- ▶ **Leverage our extensive and long-term client relationships** with gas and water utility distributors and operators
- ▶ **Leverage our existing Radhaz** business, which provides specialised electromagnetic emissions (EME) research and compliance consulting advice to the telecommunications sector, to service the **growing fixed and wireless telecommunications network**

3 Wider Asset Inspection Services

- ▶ Increased deployments of new disruptive technologies, including **solar pv, battery storage and electric vehicle infrastructure** will require electrical inspection, auditing and compliance checks
- ▶ Other asset classes also provide further expansion opportunities for specialist independent inspection, auditing and compliance services, including:
 - Road signaling and traffic infrastructure
 - In-building fire suppression equipment
 - Medical equipment
 - Other...

Related Party Matters

The proposed transaction is classified as a 'Related Party' transaction which requires Service Stream shareholder approval in accordance with ASX Listing Rule 10.1

- ▶ The Chairman of Service Stream (Mr Brett Gallagher) and his wife have an interest in entities which hold one-third of the shares of TechSafe Australia and TechSafe Management. In addition, Mr Gallagher's father-in-law and mother-in-law have an interest in entities which hold a further one-third of the shares of TechSafe Australia and TechSafe Management. Mr Gallagher and his father-in-law are directors of both companies.
- ▶ Each of these individuals and the entities which they control or hold interests are *Related Parties* of Service Stream for the purposes of the ASX Listing Rules and the Corporations Act. The proposed transaction must therefore be approved by Service Stream's shareholders in accordance with ASX Listing Rule 10.1.
- ▶ In light of the Related Party matters, the Service Stream Board established a range of governance protocols to consider the proposed transaction, including the establishment of an Independent Board Committee (IBC) comprising all of the directors of Service Stream Limited, excluding Mr Gallagher.
 - The IBC was chaired by Service Stream's lead independent non-executive director Mr Peter Dempsey, and in accordance with its charter, oversaw all aspects of evaluating the proposed transaction.
 - The IBC has appointed KPMG Corporate Finance for the purposes of preparing an independent expert's report in accordance with the ASX Listing Rules. The independent expert's report will include an opinion as to whether the proposed transaction is fair and reasonable to Service Stream shareholders.

Next Steps

- ▶ Details of an Extraordinary General Meeting (EGM) of Service Stream Limited to consider the proposed transaction are expected to be forwarded to shareholders in the coming weeks.
 - The Notice of Meeting for the EGM will be accompanied by an Explanatory Statement that describes the proposed transaction in further detail.
 - The Notice of Meeting for the EGM will also be accompanied by a copy of the Independent Expert Report from KPMG Corporate Finance.
 - Subject to regulatory approval of the Notice of Meeting and Explanatory Statement, the EGM is targeted to take place in late April.

- ▶ Completion of the proposed transaction is to occur at an accounting month-end, and subject to the timing of the EGM and the satisfaction of conditions precedent, is targeted to occur on Friday 28 April 2017.