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3 April 2017

Update on unsolicited takeover Offer from Downer

TAKE NO ACTION

Spotless Group Holdings Limited (“Spotless” or the “Company”) (ASX: SPO) refers to Downer EDI Limited’s (“Downer”) (ASX: DOW) unsolicited highly conditional Takeover Offer for the Company (the “Offer”) of 21 March 2017. The Offer is for all the issued shares in Spotless for cash consideration of \$1.15 per share.

The Board of Spotless (the “Board”) is currently undertaking a detailed review and evaluation of the Offer for shareholders.

In relation to Downer’s bid, Spotless’ Chairman Garry Hounsell said that, “While the Board’s review is not yet complete, it is our belief that the highly conditional Offer is opportunistically timed to take advantage of short-term factors – particularly in the context of Management’s strategy reset.”

“The Spotless Board is unwavering in its belief in the fundamental strengths of our business. These include a blue chip customer base and a strong portfolio of long term Government, Health, Defence and PPP contracts. We will assess any proposal in the context of our announced strategy reset, which is expected to be a material driver of growth and is already delivering results, including increasing win rates, and a substantially increased pipeline of quality opportunities.”

The Board reiterates that **shareholders should take no action** at this stage, and in assessing the Offer, emphasises the following:

1. The Offer is hostile and opportunistically timed

The Offer was announced when Spotless’ share price was at a historical low due to short term factors:

- There was short selling evident in the Company’s stock driven in part by market misconceptions that Spotless required equity funding.⁽¹⁾ The Company can confirm that it remains well within existing banking covenants and is implementing stated initiatives to reduce net leverage to c.2.5x by June 2018.

⁽¹⁾ Short interest increased to a 3-month high (pre-bid) of 5.4% as at 15 March 2017 from a 3-month low of 3.0% as at 24 January 2017. Sourced from ASIC.

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- The non-cash write down and costs of the contract portfolio rationalisation were recently announced with the release of 1H FY2017 results in late February and negatively impacted Spotless' share price performance. Management expects that the full benefits of this major strategic initiative will be realised over the medium term.

While Downer has selectively cited some short-term comparisons in its Bidder's Statement, it has not shown how the Offer compares against the trading prices of Spotless shares over a longer period. Accordingly, the Directors believe that shareholders should have regard to longer term as well as shorter term share prices when calculating premia implied by the Offer. At \$1.15 cash per Spotless share, the implied bid premia to trading prices over the longer term is demonstrably lower than to the spot price:

- 9.7% to the 12-month VWAP of Spotless Shares of \$1.05⁽²⁾
- 22.3% to the 6-month VWAP of Spotless Shares of \$0.94⁽²⁾
- 11.9% discount to Spotless' 12-month closing high of \$1.305 (18 July 2016)
- 53.4% discount to Spotless' all-time closing high of \$2.47 (17 April 2015)

2. Management and the Board have a clear plan to deliver earnings growth and long term value to shareholders

The management team, led by Martin Sheppard, has clearly articulated the strategy reset to drive future earnings growth for Spotless shareholders. Spotless is confident that the strategy will drive both strong earnings and cashflow growth over the medium term. The Company is taking the necessary action to drive those benefits, including implementation of the contract portfolio rationalisation to exit economically unprofitable contracts and re-orientate the portfolio to higher margin contracts and higher growth sectors.

The strategy reset focuses on high growth end-markets, including Health, Education, Defence and Government while targeting long dated, expandable multi-service contracts that leverage Spotless' scale, geographical footprint and breadth of capabilities. This positioning provides Spotless with a competitive advantage against its generally smaller, specialist competitors.

Spotless' investment in its Business Development team to implement this strategy is already delivering results with improved win rates in long dated, multi-service contracts and

⁽²⁾ Over period up to and including 20 March 2017.

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the pipeline of quality opportunities has grown from \$1.1bn at August 2016 to \$1.6bn at December 2016.⁽³⁾

The Company recently announced major renewals of contracts to provide integrated services to major facilities operators in the Australian health sector, including a 5 year integrated services contract extension with the Victorian Alfred Hospital and a 4 year extension to the national Healthscope partnership. The contracts have combined revenue of circa \$210 million over five years, taking the total value of key strategic contracts awarded during March 2017 to circa \$330 million.

Management is also in the process of implementing a best in practice working capital improvement program in order to improve Spotless' working capital position over the medium term. Management anticipates a substantial working capital release which is expected to further support a reduction in net debt and strengthening of the balance sheet in the medium term.

3. The Offer does not fully recognise the strength of Spotless' core business and the strategic and financial value of Spotless to Downer

Spotless is the market leader in Australian and New Zealand Facility Services and has market leading capabilities in the delivery of large, long-dated, expandable multi-service contracts. The Company is exposed to both growing and defensive end markets:

- c.53% of its revenues are backed by AAA rated Government clients; and
- 96% of its revenues are contracted, with 94% having built in price escalation mechanisms.⁽⁴⁾

Spotless has a large portfolio of Public Private Partnership ("PPP") contracts which are high margin, longer in tenure and often multi-capability, consistent with Spotless' strategy reset. Spotless' 16 PPP contracts have a lifetime revenue of \$10.6bn.⁽⁵⁾

Downer itself has recognised and highlighted the strategic and financial value it sees in Spotless in its communications to Spotless and Downer shareholders to date, describing Spotless as contributing a "complementary, high quality customer base" and helps Downer

⁽³⁾ Reflects the annualised revenue from new business opportunities expected to come to market in the next 24 months.

⁽⁴⁾ Revenue that is contracted through FY17 as percentage of FY17 forecast revenue (as per Q2 FY17 forecasts).

⁽⁵⁾ As per Spotless' 1H FY17 results presentation, released to the ASX on 28 February 2017.

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to create an “integrated service provider with a comprehensive range of capabilities” and “leading market positions across key sectors”.⁽⁶⁾

Downer has indicated Spotless would “de-risk Downer’s portfolio” and deliver Downer a “higher proportion of earnings from stable services businesses with resilient earnings”.⁽⁷⁾ Earnings accretion to Downer shareholders have been estimated in the “mid-high teens” based on a “conservative” estimate of run-rate pre-tax synergies of \$20 million per annum.⁽⁸⁾

4. Spotless has received interest from several parties and is currently exploring these alternatives

Downer’s Offer for Spotless has resulted in Spotless receiving interest from several parties. Spotless is currently exploring these alternatives and will update the market in its Target’s Statement. Spotless understands that the willingness of third parties to progress these expressions of interest is dependent on confidentiality being maintained at this stage. There can be no certainty that an alternative proposal will proceed or result in a superior proposal to the Offer.

5. Coltrane Asset Management has accumulated relevant interests in 10.37% of Spotless shares on issue

Coltrane Asset Management currently has a relevant interest in 10.37% of shares on issue in Spotless through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless’ second largest shareholder.

Coltrane has indicated to Spotless that its present intention, if it was to be delivered the shares the subject of the swap, would be to reject the Offer at the current Offer price (although it has not made any final decision and reserves the right to take any action it considers appropriate in response to the Offer).

6. The Offer is highly conditional and not certain to proceed

The Offer is highly conditional and subject to a number of third party and regulatory approvals and consents which are outside the control of both Spotless and Downer.

⁽⁶⁾ Page 10, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

⁽⁷⁾ Page 19, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

⁽⁸⁾ Page 8, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

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Key conditions include:

- A 90% minimum acceptance condition (including Downer's existing holding)
- No reduction to the FY17 earnings guidance
- Financiers to Spotless' debt facilities providing all required consents to, and waivers and releases (as applicable) in respect of certain rights arising from Downer acquiring Spotless shares, a change of control of Spotless or the announcement of Downer's offer
- All necessary regulatory approvals, including approval of offer by the New Zealand Overseas Investment Office
- Other conditions including no regulatory restraints and no Spotless prescribed occurrence
- No material acquisitions, disposals or significant events
- No termination of the Downer underwriting agreement

Even if Spotless shareholders accept the Offer they will not be paid for their Spotless shares unless all conditions are satisfied or waived by Downer.

Takeovers Panel proceedings

Spotless has made an application to the Takeovers Panel to seek to remedy a number of deficiencies and misleading and deceptive statements in the Bidder's Statement, including in respect of the Offer price premium, Downer's post-acquisition intentions, certain terms of the Offer, Downer's funding arrangements and the conditions of the Offer.

The Board is concerned that these matters are corrected so that Spotless shareholders are properly informed about the Offer.

Spotless has asked the Takeovers Panel to make interim orders restraining dispatch of the Bidder's Statement to Spotless shareholders pending resolution of these matters. Spotless has also asked the Panel to order Downer to produce relevant board papers to the Panel on a confidential basis to assist in its consideration of the application.

The process and next steps

The Board will keep shareholders informed of further developments and will provide a formal recommendation on the Offer in its Target's Statement, which will allow shareholders

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to make an informed decision. The Target's Statement will be released within 15 days of the Bidder's Statement being sent to shareholders.

TAKE NO ACTION

Shareholders are advised that there is **no need to take any action** in relation to the Offer or any document received from Downer until they receive the Target's Statement and the Board's formal recommendation. There will be ample time after the release of the Target's Statement for shareholders to determine a course of action.

The Board is committed to acting in the best interests of all shareholders and to maximising shareholder value, and will explore all options as it prepares its response to the Downer Offer and its recommendation to shareholders.

Citi is engaged as financial adviser and Gilbert + Tobin as legal adviser in relation to the Offer.

Enquiries

Investor and analyst contact:
Geoff Bryant
General Manager, Investor Relations
T +61 2 9816 9281
M +61 419 684 900

Media contact:
GRACosway
John Frey
Founding Partner
M +61 411 361 361

Rhianna Fursdon
Associate Director
M +61 477 029 337