

## ASX Announcement

20 June 2022

### AVADA GROUP LIMITED ANNOUNCES STRATEGIC ACQUISITION OF VICTORIAN TRAFFIC MANAGEMENT BUSINESS

AVADA Group Limited (ASX:AVD) ('AVADA', 'the Company' or 'the Group'), the recently listed provider of traffic management control services in Australia, is pleased to announce that it has entered into a binding agreement to acquire the business and assets of Construct Traffic Pty Ltd ACN 120 994 523 as trustee for the Construct Traffic Unit Trust, trading as Construct Traffic ('Construct Traffic') ('Acquisition').

#### KEY HIGHLIGHTS:

- AVADA to acquire a leading traffic management company in Victoria, establishing a strong presence in the Victorian market
- Strategic acquisition, delivering national expansion, consistent with growth strategies of the Group
- Establishes a cornerstone business in the Victorian market as a base on which to build growth in the market and to enable integration and management of further acquisitions in the region
- Annual revenue for FY22 of over \$34m<sup>1</sup> delivered through a fleet of over 130 vehicles and 340 traffic controllers. Revenue is primarily derived from recurring maintenance contracts
- The acquisition is expected to be earnings per share accretive

#### ACQUISITION OF CONSTRUCT TRAFFIC

The acquisition delivers on the Group's strategy to build a national footprint and scale of operations. Building a presence in the Victorian market enhances the Group's ability to support clients on a national basis, which is expected to deliver revenue synergies in the medium term. The acquisition is also expected to deliver cost synergies from the increased scale of the broader AVADA Group, including purchasing power and back-office integration. The acquisition enhances the geographical and customer diversification of the Group's revenue base.

Completion is conditional upon the novation of key contracts and the company obtaining suitable Victorian operating licences. The Board considers these conditions to be of a procedural nature with completion being targeted for 31 July 2022.

The acquisition of Construct Traffic is also subject to termination provisions in favour of the Company, which apply where the business is subject to a material adverse change of an amount equal to or greater than 10% of the purchase price.

Construct Traffic provides a substantial platform in the Victorian market on which AVADA intend to build market share, both through organic growth and bolt-on acquisitions.

#### OVERVIEW OF CONSTRUCT TRAFFIC

Construct Traffic was established in 2007 by Laresa Jo Bassi and Ronnie Bassi and is headquartered in Tullamarine, Victoria, servicing clients in metropolitan and regional Victoria.

As a further condition to the Acquisition the founders, Laresa Jo Bassi and Ronnie Bassi, will remain as employees for 1-year post acquisition to ensure a smooth transition and integration. The CEO, Michael Bergonzo, has 9 years' experience with Construct Traffic including 12 months as CEO, and will (also as a condition to the Acquisition) remain as CEO of Construct Traffic post acquisition.

For FY22 Construct Traffic has sustainable annual revenue<sup>1</sup> of approximately \$34m and EBITDA of approximately \$5m, focused on recurring maintenance work, including gas maintenance, asphalt and councils. The business maintains a fleet of over 130 vehicles and 450 traffic controllers.

Mr Daniel Crowley, Chief Executive Officer and Managing Director of AVADA Group Limited said, *"the acquisition is an important milestone and first step for the Group in delivering our growth strategy. Construct Traffic is a well-established and extremely well-run operation that will provide the platform to support our expansion through Victoria. The momentum from this significant acquisition for the Group will inspire further opportunities in the short term"*.

## **ACQUISITION FUNDING**

The upfront cash consideration of \$17.6m (on a cash and debt free basis) will be debt funded along with an extension of the net working capital facility to support the increased operating cash requirements of the enlarged Group.

An earnout arrangement is in place for a period of 12 months post acquisition. The earnout is capped at an amount of \$5,420,000 ('Earnout Cap') and the minimum earnout threshold (before which the earnout is paid) is a 12-month EBITDA target of \$4,960,000 ('Threshold EBITDA'). Where the Threshold EBITDA, is exceeded, the earnout amount will be paid at a multiple of x4.25 for every dollar (up to the Earnout Cap).

The Company has also agreed to make a one-off payment of \$489,511 for vehicles purchased prior to completion and which will be payable at completion in addition to the upfront cash consideration.

Total Group debt drawn down post acquisition is expected to be \$30.7m (on facilities of \$38.8m) and net debt to pro-forma EBITDA is expected to be 1.6x with reference to FY22 annualised EBITDA.

## **OUTLOOK**

AVADA will continue to pursue acquisition opportunities to further extend its geographical footprint across Australia and New Zealand, consistent with the Group strategy. Growth in existing markets will be supported through organic growth and bolt-on acquisitions.

There has been ongoing disruption to operations since December due to La Nina weather impacts throughout Queensland and New South Wales. While some of the deferred work has been recovered, the significant disruption experienced by clients and the Company during the widespread severe weather events has continued into May. The month of June to date has seen recovery to expected trading levels with more settled weather. As a result of the continued La Nina events, the Board foresees a shortfall to pro forma EBITDA for FY22 as set out in the prospectus dated 9 November 2021. EBITDA of \$15.5m was disclosed in the prospectus dated 9 November 2021. Actual FY22 pro forma EBITDA is expected to be between 16% to 19% below the prospectus guidance. The aforementioned impact of weather resulted in a deferral of contracted revenue into FY23, combined with the annualised net revenue impact of contract wins, the Group foresees strong demand into FY23.

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<sup>1</sup> Sustainable revenue excludes revenue received in FY22 from providing traffic management solutions to COVID testing centres and clinics.

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## About AVADA Group Limited

AVADA is Australia's largest listed integrated traffic management provider, with established operations throughout Queensland and NSW, servicing major public and private sector clients.

With an extensive network of 26 Depots, more than 800 vehicles and 1,600 dedicated employees the Group is well positioned in the integrated traffic management and associated civil sectors.

Visit us at [avadagroup.com.au](http://avadagroup.com.au)

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