



ASX ANNOUNCEMENT

10 November 2020

Probiotec (ASX: PBP) to acquire Multipack-LJM – a strategically compelling expansion in our value chain

- Probiotec Limited has agreed to **acquire Multipack-LJM for an aggregate enterprise value of \$52.5 million** (subject to deferred consideration hurdles)
- **Strong earnings accretion:** Approximately 40% EPS accretive on a full year pro forma NPATA basis (excluding synergies) for the 12 months ended 30 June 2020¹
- **Strategically compelling acquisition** that positions Probiotec as one of Australia's leading pharmaceutical contract manufacturer and contract packing services provider:
 - ✓ **Complementary business** that provides value-added packing services for fast-moving products in the pharmaceutical, consumer healthcare, cosmetics and food & beverage end markets
 - ✓ Delivers **scale, diversity, new capabilities and a complementary customer base** that provides a significant opportunity for growth in both manufacturing and packing
 - ✓ **Ability to service the needs of national accounts** across the key markets of Sydney and Melbourne using large scale, well invested facilities
 - ✓ **Large scale footprint** that provides organic growth potential and the opportunity for consolidation of operations
- **Favorable transaction structure** that de-risks the acquisition for existing Probiotec shareholders and provides **incentives for the current owners** to remain in the business and drive future growth
 - ✓ Upfront Cash payment of \$32.4 million plus \$7 million of Probiotec shares
 - ✓ Contingent Deferred Consideration of \$13.1 million over 2 years
- Probiotec will utilise its strong balance sheet to **fully debt fund the acquisition** taking pro forma leverage to 1.4x²
- Actively considering further acquisition opportunities in both the manufacturing and packing space

1 Pro forma EPS accretion quoted for the 12 months ended 30 June 2020 assuming the transaction completed on 1 July 2019 and excludes transaction costs, integration costs and amortisation of acquired identifiable intangibles. The impact of purchase price accounting has not been completed, which may impact future depreciation and amortisation charges. The quoted EPS accretion excludes the impact of Deferred Consideration which remains contingent on future financial performance of Multipack LJM and may be paid in cash or Probiotec shares (on the terms detailed in this announcement)

2 Based on Net Bank Debt / Pro Forma LTM EBITDA (excludes Deferred Consideration which is contingent on future financial performance and may be paid in cash or Probiotec shares on the terms detailed in this announcement)

ACQUISITION OF MULTIPACK

Probiotec Limited (“**Probiotec**” or the “**Company**”) is pleased to announce that it has entered into binding transaction documentation to acquire all of the issued shares of Multipack-LJM Pty Ltd and L.J.M. Marketing Services Pty Ltd, which comprise the operations of the Multipack LJM business (**Multipack-LJM**) for \$52.5 million (subject to the vendors achieving certain deferred consideration hurdles). The vendors are also entitled to earn-outs payable over the first two years from completion, only in the event of overperformance.

Multipack-LJM is one of Australia’s leading contract packers, providing value-added packing services for some of the world’s leading pharmaceutical, consumer healthcare, cosmetics and food and beverage companies. With over 30,000 square-meters of dedicated warehouse capacity in Sydney and Melbourne, Multipack-LJM has the capability to provide ‘clean room’ and cold-pack services, plus a broad range of automated and manual packing solutions for large and small-run product lines, making them a vital local partner for world-leading brands.

For the 12 months ended 30 June 2020, Multipack-LJM generated sales revenue of \$70 million and Normalised EBITDA of \$12.6 million and has achieved strong and sustained growth over CY2020 despite the impacts of the COVID-19 pandemic.

Probiotec is pleased to confirm that the Multipack-LJM vendors will be joining the Probiotec executive team and we look forward to working with them to grow both the Probiotec and Multipack-LJM businesses.

Wes Stringer, CEO of Probiotec, commented, “The acquisition of Multipack-LJM is the next step in Probiotec’s evolution. This acquisition will give us significant critical mass and access to an amazing spread of global clients to offer our wide range of manufacturing and packing services. This is a material transaction for the group and it is very exciting to bring the Multipack-LJM business under the Probiotec umbrella. I sincerely look forward to welcoming the Multipack-LJM team to Probiotec.”

Adam Rawson, head of Multipack-LJM NSW, commented, “It is very exciting for the Multipack-LJM business and team. We think the combination of the Probiotec and Multipack-LJM businesses will give us a world-leading manufacturing and packing platform to offer our valued customers,” while Jean-Pascal Marcel, who leads Multipack-LJM’s Victorian business, noted that “The opportunity of having such a large, and state of the art manufacturing and packing operation holds endless possibilities for growth and to leverage our wide service offering. We are very optimistic about what the future holds.”

STRATEGIC RATIONALE

The acquisition is supported by a compelling strategic rationale and provides a new platform for our future growth:

- **Scale:** The Multipack-LJM business combined with Probiotec’s existing Sydney packing operations creates one of Australia’s leading packing operations, with sales revenue from packing services across the Probiotec Group expected to be approximately \$100 million.
- **Expanded Capabilities:** The combination with Multipack-LJM will give Probiotec a full range of manufacturing and rounded-out packing services. Following the acquisition, Probiotec will be the largest co-packer in Australia and will be able to offer an extended range of services to our increasing and widespread client base.
- **Customer Relationships:** Multipack-LJM’s capabilities and relationships are expected to deliver organic revenue opportunities. Furthermore, Probiotec expects to be able to service the needs of national accounts in both of its key markets of NSW and Victoria with a combined range of increasing services.

- **Cost Savings:** The acquisition provides the catalyst to consolidate Probiotec's operations and asset footprint over the next 2-3 years, driving material overhead cost saving opportunities and operating synergies.
- **Management depth & future M&A:** Multipack-LJM's founders will join the Probiotec executive team with a mandate to drive further growth in our packing businesses and cross-sell Probiotec's manufacturing services, leveraging their industry relationships and Probiotec's reputation for quality and customer service.

ACQUISITION TERMS

The terms of the acquisition are favourable for all shareholders and provide an attractive balance between strong financial accretion and risk mitigation for existing shareholders, and ongoing alignment and incentives for the Multipack-LJM vendors.

Key highlights of the transaction structure include:

- In aggregate, the Multipack-LJM vendors will receive approximately \$32.4m (62% of the total transaction consideration) cash at completion, with approximately \$7.0m (13% of the total transaction consideration) payable in Probiotec shares³ at completion and approximately \$13.1m (25% of the total transaction consideration) is structured as deferred consideration.
- Payment of the deferred consideration is subject to the achievement of strict EBITDA performance hurdles and are payable in two instalments, at 12 months and 24 months following completion. See Annexure 1 for further details.
- Probiotec retains the option to pay the deferred consideration in cash or Probiotec shares, with stock issued under the scrip election done so at a fixed price, which caps the maximum number of shares issued as part of the acquisition⁴, ensuring Probiotec retains flexibility around funding the payments.
- Probiotec has provided limited earn-out rights for the vendors ensuring they are incentivised to grow earnings following the acquisitions.

Probiotec believes these arrangements provide strong downside protections for investors while incentivising the Multipack-LJM founders to remain with Probiotec and drive continued outperformance.

FINANCIAL IMPACTS

Probiotec expects the acquisition will materially increase the Company's earnings and be highly accretive. Viewed retrospectively, the acquisition would be approximately 40% EPS accretive based on a full year FY20 pro forma basis.⁵

Following the acquisition, Probiotec's pro forma leverage is expected to be 1.4x on a Net Bank Debt / LTM EBITDA basis, a level which is consistent with the leverage framework endorsed by the Probiotec Board as a comfortable position that adequately utilises the low interest environment available.⁶

3 The shares issued at completion will be issued at a 6.25% discount to the VWAP of Probiotec shares in the 10 trading days before and the 10 trading days after the release of this announcement (excluding the date of the announcement).

4 Any shares issued as part of the deferred consideration component will be issued at the same price as the share issued at completion, with overall shares issued in connection with the acquisition capped at 11.2 million. See Annexure 1 for further details.

5 EPS accretion is shown on an NPATA basis and assumes that the acquisition had completed on 1 July 2019 and excludes transaction costs, integration expenses and amortisation of acquired identifiable intangibles, and assumes shares are issued to the vendors at \$1.75 per share to satisfy the upfront share consideration. The quoted EPS accretion does not reflect the payment of deferred consideration (up to \$13.1 million) which remains subject to the future financial performance of Multipack-LJM and can be paid in cash or Probiotec shares. Any shares issued to satisfy the deferred consideration would be issued at the same price as the upfront share consideration and subject to the overall share cap. The impact of purchase price accounting has not been undertaken and this is likely to impact depreciation and amortisation expenses.

6 Excludes liabilities associated with deferred consideration which can be paid in cash or Probiotec shares

The acquisition is expected to complete at the end of December 2020.

Additional Information

Further information about the Multipack-LJM business and the acquisition terms are contained in the investor presentation lodged with the ASX today.

Advisers

Probiotec is being advised by Salter Brothers, PwC and Arnold Bloch Leibler.

For further information contact:

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About Probiotec

Probiotec Limited is a manufacturer, packer and distributor of a range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines and consumer health products. The company owns three manufacturing facilities in Australia and distributes its products both domestically and internationally. Products are manufactured by Probiotec on behalf of a range of clients, including major international pharmaceutical companies.

Further details about Probiotec are available at www.probiotec.com.au

Authorised for release by the Probiotec Board of Directors.

Annexure 1 – Summary of deferred consideration arrangements

Details	Description			
Deferred Consideration	<p>The amount of deferred consideration payable to the vendors of Multipack-LJM and L.J.M Marketing Services (Target entities) is up to 25% of the total consideration paid for each of the entities (Deferred Consideration). The respective Deferred Consideration amounts are calculated by reference to the achievement by the Target entities of certain target earnings before income, tax, depreciation and amortisation, as set out in the transaction documents.</p> <p>The Deferred Consideration amounts are payable to each of the vendors in two instalments, at 12 months and 24 months following completion of the transactions.</p>			
Deferred Consideration shares	<p>Probiotec may elect to issue Probiotec shares to the vendors in satisfaction of the Deferred Consideration amounts in lieu of cash, subject to the achievement of the milestones set out above.</p> <p>Any shares issued as Deferred Consideration will be issued at a 6.25% discount to the VWAP of Probiotec shares in the 10 trading days immediately prior and the 10 trading days immediately after the release of this announcement (excluding the date of this announcement).</p> <p>The right of the vendors to receive Deferred Consideration (including any Probiotec shares, if Probiotec so elects) will lapse on the expiry of the applicable deferred period if the relevant milestone is not met.</p>			
Maximum dilution	<p>The maximum number of Probiotec shares that may be issued to the vendors of the Target entities in aggregate (including any up-front shares issued to the vendors at completion of the transactions) is 11,216,830 shares. This represents a maximum of 15% of Probiotec’s share capital prior to the date of this announcement.⁷</p>			
Parties to whom Deferred Consideration shares may be issued, and the maximum proportion each party may be issued	Multipack-LJM Pty Ltd		L.J.M. Marketing Services Pty Ltd	
	Vendor	% of the total Deferred Consideration payable to Multipack-LJM	Vendor	% of the total Deferred Consideration payable to L.J.M. Marketing
	Adam Rawson	50%	Jean-Pascal and Detje Marcel	11.3547%
	HDJP Pty Ltd ACN 116 312 264 as trustee for the Marcel Hybrid Unit Trust	25%	HDJP Pty Ltd ACN 116 312 264 as trustee for the Marcel Hybrid Unit Trust	29.8217%

⁷ Based on Probiotec having 74,778,870 ordinary shares on issue immediately prior to the date of this announcement. This calculation is on an undiluted basis and does not include the impact of: (a) the shares issued as part of the up-front consideration for the Target entities; (b) any shares issued as Deferred Consideration; and (c) any issue of shares on or after the date of this announcement (whether on exercise or conversion of any securities which Probiotec has on issue or otherwise)

PROBIOTEC LIMITED

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	L.J.M Nominees Pty Ltd ACN 096 970 697 as trustee for the Miles Family Trust No.2	25%	L.J.M Nominees Pty Ltd ACN 096 970 697 as trustee for the Miles Family Trust No.2	58.8235%
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