

Acquisition of Datatel

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announcement

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Highlights

- SCEE to acquire Datatel Communications Pty Ltd, a leading telecommunications contractor
- Significant strategic acquisition which provides scalable entry into communications and telecommunications sectors
- Strong relationships with key lead contractors in the delivery of the National Broadband Network ("NBN")
- Targeting growth throughout Australia
- Existing client base in commercial, industrial, health and education sectors
- Provides opportunity to widen SCEE's existing resources services offering
- Initial Consideration of \$6.2m split 90% cash and 10% equity
- Up to a further \$11.0m payable on achievement of EBITDA targets over 3 years
- Acquisition expected to be EPS accretive in FY2017
- Completion of acquisition expected in mid-June 2016

Transaction overview

Southern Cross Electrical Engineering Limited ('SCEE') is pleased to announce that it has executed a binding agreement to acquire 100% of the share capital of Datatel Communications Pty Ltd ('Datatel').

Datatel is an award winning electrical and communications contractor with a significant presence in the telecommunications and infrastructure sectors in Western Australia, including relationships with key lead contractors in the delivery of the National Broadband Network ('NBN') project. Datatel's electrical and communications business is driven by activity in the commercial, industrial, health and education sectors.

Datatel was established by Paul Johnson and Wayne Hogan in 1998 and has grown to a team of over 180 staff. Datatel has received numerous national and state electrical industry awards reflecting the business' focus on quality and excellence in project delivery in a range of sectors. The vendors will remain in the business on long term contracts and will be incentivised to deliver continued growth via a three year earn-out component in the purchase consideration.

SCEE has agreed to pay Initial Consideration of \$6.2m (split 90% cash and 10% equity), with up to a further \$11.0m of Deferred Consideration (\$3.5m) and Stretch Consideration (\$7.5m) payable to the vendors on achievement of EBITDA growth targets in FY17, FY18 and FY19 (both split 70% cash and 30% equity).

Initial and Deferred Consideration represents a multiple of 3.3 x forecast FY16F underlying EBITDA.

The cash component of the Initial Consideration will be funded from SCEE's existing cash reserves which stood at \$50.4m at 6 June 2016.

The acquisition is expected to complete in mid-June 2016 subject to satisfaction of customary conditions

precedent.

The detailed terms of the Acquisition have been included in Appendix 1 to this announcement.

Strategic rationale

The transaction represents a key milestone in delivering SCEE's strategy of growth through expansion into adjacent and complementary sectors and new geographies. Datatel provides SCEE with a scalable platform to enter the telecommunications sector where there is an estimated Australia-wide construction spend of approximately \$25bn over the next three years. The opportunity exists to leverage the combination of Datatel's industry experience, relationships and systems and SCEE's complementary skillsets and balance sheet strength to create a significant national telecommunications contractor.

SCEE's balance sheet strength will provide Datatel the working capital support to enable it to pursue larger-scale opportunities to service the roll-out and maintenance of the NBN as well as opportunities in adjacent markets. SCEE's experienced management team, existing systems and administrative infrastructure along with the vast experience of project managing large contracts in remote locations will assist Datatel as it continues to embark on its customer-led expansion into other state markets.

SCEE has a proven track record of successfully integrating previous acquisitions and a number of potential project opportunities for the merged business have already been identified and are under evaluation for Datatel to pursue post-transaction.

CEO Commentary

Commenting on the transaction, SCEE's CEO Graeme Dunn said "I am delighted to be able to announce the acquisition of Datatel. This is a significant and immediate market entry into the Telecommunications sector and provides SCEE with a credible platform which can be leveraged to enter other geographic markets.

The acquisition also presents us with an opportunity to widen our services offering to SCEE's existing resources clients and to leverage off Datatel's presence in the commercial, health and education service sectors.

I believe that there is a strong cultural alignment between the two organisations and, together with everyone at SCEE, I look forward to working with Paul, Wayne and the rest of the Datatel team to capitalise on the significant opportunities that exist in the current market."

Advisors

PricewaterhouseCoopers Securities Ltd is acting as Financial Advisor and K&L Gates is acting as Legal Advisor to SCEE.

This announcement lifts the trading halt on the Company's securities.

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Appendix 1 – Key Transaction Terms

Structure	<ul style="list-style-type: none"> Acquisition of 100% of the share capital of Datatel Communications Pty Ltd
Initial Consideration	<ul style="list-style-type: none"> \$6.2m payable on completion Settled 90% in cash and 10% in equity
Deferred Consideration	<ul style="list-style-type: none"> \$1.4m payable on achieving at least \$3.1m EBITDA in FY17 \$1.033m payable on achieving at least \$3.1m EBITDA in FY18 \$1.033m payable on achieving at least \$3.1m EBITDA in FY19 All Deferred Consideration settled 70% cash and 30% equity
Stretch Consideration	<ul style="list-style-type: none"> 33.3% of EBITDA in excess of \$3.1m in each of FY17, FY18 and FY19 Capped at \$2.5m in any individual financial year All Stretch Consideration settled 70% cash and 30% equity
Equity Consideration	<ul style="list-style-type: none"> The equity component of any consideration paid will be settled in new fully paid ordinary SCEE shares Shares issued in respect of the Initial Consideration will be issued at the VWAP for the five trading days prior to completion Shares issued in respect of Deferred Consideration or Stretch Consideration will be issued at the VWAP for the five trading days prior to the end of the relevant financial year All shares issued will be subject to a voluntary escrow period of 12 months
Working Capital and Debt	<ul style="list-style-type: none"> Business to be delivered with a sufficient level of working capital Business to be delivered with net debt of nil, however on Completion SCEE will advance Vendors around \$0.8m to settle part of their existing finance facilities This advance to the Vendors is interest bearing and will be repaid by set-off from proportions of the cash components of Deferred and Stretch Consideration in FY17 and FY18 insofar as those targets are achieved, with any remaining balance repayable in full on 31 December 2018
Completion	<ul style="list-style-type: none"> The acquisition is expected to complete in mid-June 2016 subject to conditions precedent being satisfied
Key Conditions Precedent	<ul style="list-style-type: none"> No material adverse change All necessary consents and approvals Execution of employment agreements
Employment Contracts	<ul style="list-style-type: none"> Vendors to enter into employment agreements with a minimum term of three years