



ASX ANNOUNCEMENT

4 March 2019

Threat Protect secures a \$49 million funding package to complete the acquisition of a major Eastern states security alarm monitoring business, and refinance current debt facilities.

The Directors of Threat Protect Australia Limited (“**Threat Protect**” or the “**Company**”) (ASX: “**TPS**”) are pleased to announce that the Company has acquired necessary funding and reached an agreement to acquire Onwatch Pty Ltd (“**Onwatch**”), a successful Eastern states monitoring alarm security business for approximately \$35m.

The acquisition will be funded utilising a new \$49m funding package, which is a mix of debt and equity, and which will be used to complete the acquisition of Onwatch, refinance the existing facility with Macquarie, and provide future funding for acquisition growth.

A summary of key terms of the acquisition and funding (**Transaction**) are set out in the Annexure A.

Highlights

- Threat Protect has agreed to acquire Onwatch Pty Ltd for approximately \$35m (**Acquisition**)
Key aspects of the acquisition include:
 - ✓ Additional recurring monitoring revenue ~ \$12m
 - ✓ Increases utilisation of Threat Protect’s excess capacity
 - ✓ Significant synergy and cost saving opportunities in excess of \$2m
 - ✓ EPS accretive post normalisation for acquisition and integration costs
- The acquisition will be funded by a combination of debt and equity:
 - ✓ \$36m Secured Debt Facility arranged by Soliton Capital Partners Pty Ltd (**Soliton**). (\$11.5m will retire the existing Macquarie debt facility)
 - ✓ \$8m Unsecured Debt Facility from First Samuel Limited (**First Samuel**)
 - ✓ \$2m of scrip issued to the Vendors at \$0.25 per share
- A further \$5.4m will be raised from Shareholders through an Underwritten Rights Issue at \$0.25 per share to provide for transaction and integration costs and working capital.
- The existing \$9m convertible notes held by First Samuel will be converted into equity under the existing terms.

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Transaction in Detail

About Onwatch

Threat Protect has agreed to pay ~\$35m for the Onwatch business through a combination of cash, equity and the assumption of the existing liabilities of Onwatch.

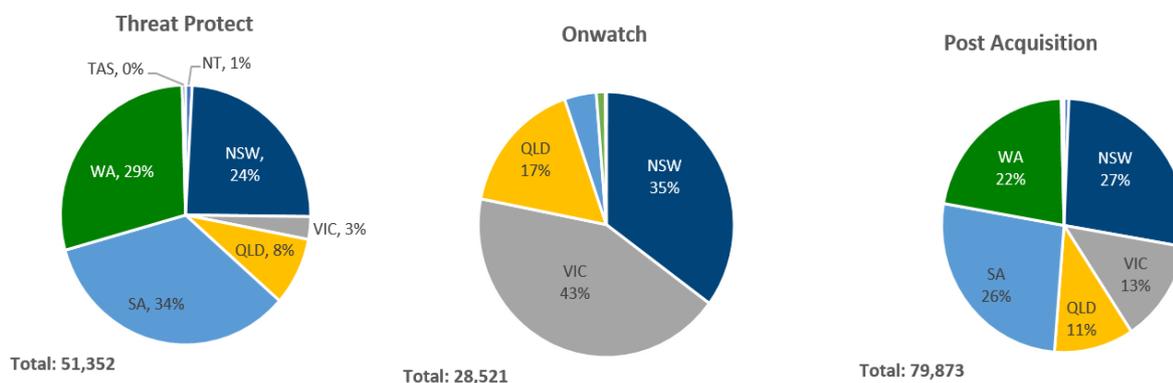
Onwatch has been a successfully run security monitoring and alarm business since 2005.

The business consists of approximately 29,000 accounts:

- 18,000 direct subscribers predominately in the Eastern states, and
- 11,000 bureau subscribers serviced by 158 resellers

Onwatch has two control rooms; one in New South Wales which focuses on direct subscribers, and one in Victoria which services predominantly resellers.

Monitored Accounts by State



The Acquisition will significantly expand Threat Protect's national presence, adding in excess of \$12m in annual recurring revenue, increasing Threat Protect's monitoring revenue to \$24m per annum (or \$2m in recurring monthly revenue (**RMR**)).

The Company expects the acquisition to be immediately earnings per share accretive and to positively contribute to Threat Protect's 2H'19 revenue and earnings.

Strategic Rationale

The Acquisition is a key step in the continued execution of Threat Protect's growth strategy and represents the Company's largest acquisition to date.

Key transaction rationale includes:

- At June 2018 the existing monitoring division delivered RMR of ~\$1m. The acquisition of Onwatch's customer base will increase RMR to over \$2m.
- Significant synergy and cost saving opportunities in excess of a further \$2m will result in an expected combined pro-forma normalised EBITDA of \$9.0m.
- A large base of resellers and indirect connections provides further indirect to direct conversion opportunities, which results in a ~3x uplift in RMR connection revenue.

- Increase in resellers from 608 to 766 will bolster ongoing organic growth. Resellers are the main driver of marketing and new monitoring customer acquisition for the business.
- Further diversification of the Company’s monitoring client base, with strong exposure in New South Wales and Victoria.
- Support from a lending institution with capacity to provide additional financing for future acquisitions.

Commenting on the Acquisition, Threat Protect’s Managing Director Demetrios Pynes said: “Onwatch offers an important addition of scope to the Threat Protect’s business as we continue to successfully deliver on our acquisition growth strategy”.

“This business will enable us to capitalise on our previous expansion into the East coast and by expanding into Victoria we further diversify our connection base and stable of resellers. New monitoring revenue streams and cost and diversification benefits will add to the bottom line for Threat Protect shareholders whilst the extra funding secured from Soliton will ensure our acquisition path can continue with confidence”.

The Acquisition is subject to standard closing conditions, including:

- no material adverse change in the financial condition of Onwatch (including its subsidiaries)
- satisfactory evidence received regarding release of certain Onwatch liabilities and security interests

Please refer to the Annexure A for further details of the Acquisition.

Funding

To facilitate the Transaction, Threat Protect has restructured its debt arrangements and has signed a senior secured facility with Soliton for \$36m and a new \$8m unsecured debt facility with First Samuel.

In addition, Threat Protect will undertake a \$5.4m underwritten rights issue to all shareholders at a price of \$0.25 per share. First Samuel has underwritten the rights issue to \$5m.

The vendors of Onwatch will be issued \$2m shares in Threat Protect on the same terms and conditions as rights issue investors.

The sources and use of funding under the Transaction are outlined beneath:

| Sources of Funding | \$'m |
|--|-------------|
| Soliton Debt Funding | 36.0 |
| First Samuel Debt Funding | 8.0 |
| Rights Issue Proceeds | 5.0 |
| Vendor Shares | 2.0 |
| Total Sources | 51.0 |
| | |
| Application of Funds | |
| Retirement of existing Macquarie Debt Facility | 11.5 |

| | |
|---|-------------|
| Cash & Scrip payment to Onwatch shareholders, retirement of Onwatch Debt Facilities including Shareholder Loans and Convertible Note (excl. \$1.5m of deferred consideration) | 33.5 |
| Fees & Expenses associated with the transaction | 2.0 |
| SAMS deferred consideration | 1.0 |
| Total Applications | 48.0 |
| Working Capital incl. provision for integration costs | 3.0 |
| Total Applications | 51.0 |

Soliton/ SSG Debt Facility

Threat Protect has entered into a \$36 million Note Subscription Agreement (**Soliton/ SSG Debt Facility**) arranged by Soliton and subscribed to by Investment Opportunities IV Pte. Ltd., a Singapore-based subsidiary of SSG Capital Management, the Hong Kong-headquartered, Asia-focused special situations investment firm, to facilitate the Acquisition and refinance the Company's existing debt arrangements.

The Soliton/ SSG Debt Facility is conditional on, among other conditions considered standard for financing agreements of this nature, the conversion of \$9m Convertible Notes currently on issue to First Samuel into 42.85m fully paid ordinary shares in the Company.

The Company notes that it has previously obtained member approval for the conversion of the convertible notes issued to First Samuel Limited at its general meeting held in July 2018 and the conversion is expected occur prior to completion. Upon the conversion of Convertible Notes, First Samuel will hold approximately 37% of the Company's shares on issue.

In addition to the conversion of the First Samuel Convertible Notes, the Company will seek to obtain member approval under the financial assistance provisions of the Corporations Act, which is customary for financing arrangement of this nature. The Notice of Meeting is expected to be dispatched to Company shareholders shortly and will contain further information with respect to the financial assistance approvals the Company will be seeking to obtain.

The funds provided under the Soliton/ SSG Debt Facility will primarily be used towards the acquisition of Onwatch and to extinguish the Company's existing \$11.5m debt facility with Macquarie Bank Limited, who has provided their consent to the Company's refinancing arrangements.

Argonaut Capital Limited (**Argonaut**) has acted as the Company's financial advisor with respect to the Soliton Debt Facility. In consideration for services provided under the engagement, Argonaut will receive 2% of the value of any initial debt arranged for the Company and payable by the Company upon the commitment and drawdown of such debt. In addition, Argonaut will receive a follow-on financing fee of 1% of any additional debt arranged between Soliton and the Company.

The engagement with Argonaut is otherwise on terms and conditions considered standard for agreements of this nature in Australia.

FSL Debt Facility

In addition to the Soliton Debt Facility, the Company has secured a further \$8m through an unsecured debt facility with First Samuel Limited for working capital purposes.

Underwritten Rights Issue

In addition to the debt funding facilities, the Company will undertake a renounceable pro-rata rights issue entitlement offer of up to approximately 21,779,874 shares on the basis of 6 new shares for every 1 share held at an issue price of \$0.25 each, raising approximately \$5,444,968 before costs. The Rights Issue will be underwritten by First Samuel to \$5m.

The rights issue prospectus and associated documents are expected to be lodged and dispatched to Shareholders within the coming week.

Timetable

The indicative timetable for completion of the Transaction is as follows:

| Event | Date |
|---|---------------|
| Announcement of Acquisition and Transaction | 4 March 2019 |
| Initial drawdown of FSL Debt Facility | 4 March 2019 |
| Announcement of Rights Issue Offer, Appendix 3B and Prospectus lodged with ASX, notice sent to Option Holders | 5 March 2019 |
| Notice sent to Shareholders | 6 March 2019 |
| 'Ex' date | 7 March 2019 |
| Record Date (5.00pm (WST)) | 8 March 2019 |
| Prospectus sent to Eligible Shareholders and announcement of issue of the Prospectus | 11 March 2019 |
| Opening Date | 11 March 2019 |
| Rights trading ends | 13 March 2019 |
| Closing Date (5.00pm (WST)) | 20 March 2019 |
| Deferred settlement trading commences | 21 March 2019 |
| ASX notified of any under-subscriptions | 25 March 2019 |
| Issue of New Shares and deferred settlement trading ends | 27 March 2019 |
| Issue of holding statements and commencement of trading of New Shares | 28 March 2019 |
| Conversion of First Samuel convertible notes | 8 April 2019 |
| Extraordinary General Meeting for financial whitewash approvals held | 8 April 2019 |
| Completion of Acquisition and initial drawdown of Soliton Debt Facility | 8 April 2019 |

Pro-forma balance sheet

The following table sets out the Consolidated Balance Sheet of the Company as at 30 June 2018 with pro forma adjustment to reflect the impact of the Acquisition and relevant changes to debt and equity associated with the Transaction as if it had occurred on the 30 June 2018 as described in this announcement:

| | Note | TPS as at 30-Jun-18 | Pro Forma Adjustments | | Pro Forma Post Transaction |
|----------------------------------|------|------------------------|-----------------------|------------|-------------------------------|
| | | | DR | CR | |
| <u>Current Assets</u> | | | | | |
| Cash & cash equivalents | \$ | 1,139,298 | 4,214,332 | - | 5,353,630 |
| Trade & other receivables | \$ | 3,217,180 | | | 3,217,180 |
| Financial assets | \$ | 952,563 | | | 952,563 |
| Other current assets | \$ | 430,179 | | | 430,179 |
| Inventories | \$ | 35,227 | | | 35,227 |
| Total | \$ | 5,774,447 | | | 9,988,779 |
| <u>Non-current Assets</u> | | | | | |
| Plant & equipment | \$ | 1,017,686 | | | 1,017,686 |
| Intangible assets | \$ | 26,485,655 | 35,000,000 | | 61,485,655 |
| Financial assets | \$ | 579,533 | | | 579,533 |
| Total | \$ | 28,082,874 | | | 63,082,874 |
| Total Assets | \$ | 33,857,321 | | | 73,071,653 |
| <u>Current Liabilities</u> | | | | | |
| Trade & other payables | \$ | 6,738,943 | 1,000,000 | | 5,738,943 |
| Provisions | \$ | 821,595 | | | 821,595 |
| Borrowings | \$ | 3,343,046 | 3,343,046 | | - |
| Total | \$ | 10,903,584 | | | 6,560,538 |
| <u>Non-current Liabilities</u> | | | | | |
| Provisions | \$ | 130,155 | | | 130,155 |
| Borrowings | \$ | 16,942,623 | | 27,057,378 | 44,000,000 |
| Deferred tax liability | \$ | 4,199,473 | | | 4,199,473 |
| Deferred consideration liability | \$ | | | 1,500,000 | 1,500,000 |
| Total | \$ | 21,272,251 | | | 49,829,628 |
| Total Liabilities | \$ | 32,175,835 | | | 56,390,166 |
| Net Assets | \$ | 1,681,486 | | | 16,681,487 |
| <u>Equity</u> | | | | | |
| Issued capital | \$ | 14,731,476 | | 17,000,000 | 31,731,476 |
| Reserves | \$ | 1,647,135 | | | 1,647,135 |
| Accumulated losses | \$ | - 14,697,124 | 2,000,000 | | - 16,697,124 |
| Total Equity | \$ | 1,681,487 | | | 16,681,487 |

Notes

1. Total cost of acquisition including Cash Consideration, Deferred Consideration and Vendor Equity
2. Equity raised via Entitlements Issue (~\$5m), Convertible Note Conversion (\$9m), Vendor Equity (\$2m) and placement made 14 January 2019 (\$1m)
3. Transaction Costs including debt origination fees

Capital structure

The pro-forma capital structure of the Company following completion of the Transaction is as follows:

| Capital Structure | Existing | Completion of Transaction |
|--|--------------------|----------------------------------|
| Existing Shares on issue | 130,679,242 | 130,679,242 |
| Shares issued under the Rights Issue | - | 21,779,874 |
| Shares issued to Onwatch vendors under Onwatch SPA | - | 8,000,000 |
| Total Shares | 130,679,242 | 160,459,116 |
| Existing Options on issue | 13,571,425 | 13,571,425 |
| Fully diluted share capital | 144,250,667 | 174,030,541 |

- End -

For further information, contact:

Investors

Demetrios Pynes
Managing Director
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Annexure A

| Material Terms of Soliton Debt Facility | | |
|---|---|--------------|
| Facility | Investment Opportunities IV Pte. Ltd. to subscribe for Loan Notes with an initial face value of A\$1.00 | Limit: \$36m |
| Term | 3 Years. | |
| Conditions | <p>The Soliton Debt Facility contains customary conditions precedent and subsequent, including:</p> <ol style="list-style-type: none"> 1. the Company converting all convertible notes issued to First Samuel Limited into shares in Threat Protect; 2. the Company obtaining member approval under the financial assistance provisions of the Corporations Act; and 3. Other conditions standard for financing arrangements of this nature | |
| Interest | <p>The Loan Notes accrue interest at the rate equal to the aggregate of:</p> <ol style="list-style-type: none"> 1. BBSY Bid ("BBSY" or, if unavailable, "BBSW" plus 0.05%); plus 2. a cash margin (6.5%); and 3. a PIK margin (4.0%). <p>Interest accrued on the Notes is payable quarterly, unless capitalised.</p> | |
| Purpose | Funding the Acquisition, retiring the Company's existing Macquarie Bank Limited debt facility, retiring Onwatch debt and ancillary costs and expenses associated with the Acquisition. | |
| Repayment and prepayment | <p>There are three mandatory repayment dates:</p> <p>31 December 2019 – \$1m</p> <p>31 December 2020 – \$2m</p> <p>31 December 2021 – \$2m</p> <ul style="list-style-type: none"> • The amount owing on the Loan Notes must be repaid in full, including a redemption premium, by the expiration of the 3-year term. • Threat Protect may prepay the notes in full or in part, along with applicable interest, including a redemption premium. | |
| Security | <p>The Soliton Debt Facility will be secured through security documentation considered standard for financing agreements of this nature, including a registered first-priority general security deed over all present and after acquired property of Threat Protect and its subsidiaries, comprising the relevant guarantor group.</p> <p>Threat Protect's subsidiaries that comprise at least 90% of the total EBITDA and total assets of the Threat Protect group are required to accede as guarantors.</p> | |
| Other | The Soliton Debt Facility contains additional provisions which are standard for financing agreements of this nature, including financial covenants and default event provisions. | |

| Material terms of FSL Debt Facility | | |
|--|---|---------------|
| Facility | Issue of loan notes by Threat Protect to First Samuel, who will subscribe for the notes. | Limit: \$8.0m |
| Term | 3 years. | |
| Conditions | First Samuel's obligation to subscribe to the notes is conditional on Threat Protect entering into the Onwatch Share Purchase Agreement. | |
| Interest | <p>Interest rate payable on each note is the the BBSW as at the Business Day before the first day of the Interest Period (period between Interest Payment Dates) plus 8.50% per annum.</p> <p>Interest is payable on each 30 June and 31 December during the Term, and on the day the notes are redeemed.</p> <p>Interest will be satisfied by way of the issue of additional Notes under the FSL Debt Facility to the noteholders (i.e. non-cash interest)</p> | |
| Purpose | To assist with funding general working capital requirements. | |
| Repayment and prepayment | <ul style="list-style-type: none"> • Threat Protect must repay the notes in full 3 years after the date of issue. • Threat Protect may prepay the notes without penalty. | |
| Security | The FSL Debt Facility is unsecured and is subordinated to the Soliton Debt Facility described previously. | |
| Other | The FSL Debt Facility contains additional provisions which are standard for financing agreements of this nature, including financial covenants and default event provisions. | |

| Material terms of Rights Issue | |
|---------------------------------------|--|
| Entitlement | 6 new shares for every 1 share held. |
| Issue Price | \$0.25 per share. |
| Amount to be raised | \$5,444,968 (before costs). |
| Underwritten | Yes. Underwritten by First Samuel Limited to \$5m. |
| Renounceable | Yes. |
| Rights Trading Dates | 7 March 2019 until the close of market on 13 March 2019. |
| Prospectus Lodgement | 5 March 2019 |
| Record Date | 8 March 2019 |

| Material terms of Onwatch SPA | |
|---|--|
| Transaction structure | Acquisition of all the capital issued in Onwatch Pty Ltd (Onwatch) |
| Purchase price | <ul style="list-style-type: none"> • \$35.8m cash consideration comprising: <ul style="list-style-type: none"> ○ \$4m deposit on execution of the Onwatch SPA; ○ \$7.75m on completion; ○ Balance payable 12 months after completion, subject to a reconciliation of working capital and customer numbers. • Equity consideration via the issue of \$2 million in shares in Threat Protect to the shareholders of Onwatch at an issue price of \$0.25 each. |
| Regulatory | The Company is not required to seek member approval for the purpose of ASX Listing Rule 11.1 (change of nature and scale). |
| Expected Completion | Completion is anticipated to occur within the first half of April 2019, subject to customary conditions precedent being satisfied or waived. |
| Conditions precedent | <p>Completion is subject to the satisfaction or waiver of the following conditions:</p> <ul style="list-style-type: none"> • Threat Protect obtaining all relevant shareholder approvals as required for the purposes of the Listing Rules or Corporations Act (if any) • release of security interests given in favour of the existing financiers and noteholders of Onwatch • Threat Protect being satisfied that no event or circumstance has occurred having a material adverse effect • Threat Protect being satisfied that there has been no material breach of any of the vendors' warranties • the release of guarantees given by two of the sellers to ANZ Bank. |
| Changes to Threat Protect's capital structure | 8,000,000 Shares at an issue price of \$0.25 are to be issued to be to shareholders of Onwatch under the Onwatch SPA. |
| Changes to Threat Protect board | No change. |
| Funding | Fully funded through the Soliton Debt Facility and FSL Debt Facility described previously |

About Threat Protect Australia Limited

Threat Protect provides monitored security solutions that ensure the safety of Australian homes and businesses 24 hours a day, 365 days a year.

We have the highest security accreditation possible to achieve in Australia and use only state-of-the-art technology and equipment.

Our commitment to providing a complete end-to-end service is second to none, whether you own a small apartment or giant multi-national headquarters.

- Monitored Security Systems
- Security Personnel
- Corporate Risk Consultancy

We call it “**Security Without Compromise**”.

- Threat Protect is a leading Australian security agency fully licensed by WA, NSW, Victoria, Queensland and South Australian police departments, and other national and international bodies.
- We support thousands of residential and business clients in Australia and beyond.
- We will personally evaluate your security needs.
- All products and services meet Australian Standards.
- 24-hour monitoring from our three A1 graded control rooms, located in Perth, NSW and South Australia.

