

# ASX ANNOUNCEMENT

18 June 2019

## Macmahon to acquire specialist underground contractor GBF Group

### Highlights:

- Acquisition will immediately add underground scale and capability
- Advances strategy to capture underground opportunities with new and existing clients
- Experienced GBF founders and management team to remain in the business
- Purchase price comprises an upfront component plus the possibility of two earn-out payments
- Upfront component reflects an enterprise value of circa \$48 million<sup>1</sup>, equivalent to a small premium to NTA, funded by cash and assumption of GBF debt
- Earn-out payments based on GBF achieving FY20 and FY21 performance hurdles
- Acquisition is expected to be EPS accretive
- Upfront component implies an EV/EBITDA multiple of circa 2.4x based on FY20 forecast EBITDA
- Acquisition subject to conditions, with completion anticipated by mid-August 2019

Macmahon Holdings Limited (ASX:MAH) (**Macmahon** or the **Company**) is pleased to announce it has executed a binding agreement to acquire 100% of GF Holdings (WA) Pty Ltd and its subsidiaries (collectively referred to as the GBF Underground Mining Group) (**GBF**).

The purchase price will comprise an upfront component reflecting an enterprise value of circa \$48 million, and two further earn-out payments which are subject to GBF achieving agreed performance hurdles in the next two financial years.

The acquisition of GBF is consistent with Macmahon's strategy of growing capability and scale in its underground division to capitalise on the significant level of underground opportunities that Macmahon is seeing with its current and potential clients.

The \$48 million upfront component of the purchase price will be funded by cash and the assumption of GBF's finance lease debt. The upfront component implies a FY20 EV/EBITDA of 2.4x, and equates to a small premium to GBF's net tangible asset value.

Macmahon Chief Executive Officer Michael Finnegan said GBF's capability and track record, combined with Macmahon's financial strength and client reach, would give it a strong platform to compete for upcoming underground mining opportunities.

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<sup>1</sup> As at 1 December 2018

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*“GBF is a strategically compelling and financially attractive acquisition for Macmahon. With GBF we have the opportunity to achieve meaningful scale in our underground contracting business, which is a key pillar in our strategy of becoming a leading mining contractor that can service clients through the life cycle of their mining operations,” Mr Finnegan said.*

*“There are also potential synergies to be realised as the two businesses are combined, but growth is the key driver of the transaction.”*

*“GBF’s brand and key personnel will be retained, with its capabilities and strong client relationships being fully integrated into Macmahon’s underground business, to maximise our ability to win new work.”*

GBF’s founders, Michael Foulds and Ross Graham, will continue in the business with incentives to drive further earnings growth via performance based earn-out payments in FY20 and FY21.

Mr Foulds said he and the management team at GBF were pleased to be partnering with Macmahon and looked forward to achieving the growth opportunities that would be available to the combined business.

*“We are excited to join the Macmahon team and are confident this acquisition will create a strong group that will benefit our current clients and unlock new contract opportunities,” he said.*

### **About GBF Group**

**GBF** was founded in 1988 and is a specialist underground mining contractor with a solid track record in the Goldfields region of Western Australia.

GBF currently employs around 450 people. Further information about GBF can be found on its website at [www.gbf.com.au](http://www.gbf.com.au)

GBF is forecast to generate FY20 revenue of circa \$180 million and EBITDA of circa \$20 million<sup>2</sup>.

### **Strong Strategic Rationale**

The GBF transaction is expected to be EPS accretive in FY20 and will:

- boost Macmahon’s underground mining scale and capability;
- enhance Macmahon’s capability to provide both surface and underground services at the outset;
- provide an experienced management team with strong client relationships;

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<sup>2</sup> Forecast GBF FY20 revenue and EBITDA is based on GBF’s current revenue and EBITDA run rates assuming the Comet Vale contract is restructured to a conventional payment model, and excluding certain current Mineral Ventures expenses, one-off costs and transaction costs.

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- provide a pipeline of existing contracts and tender opportunities; and
- increase Macmahon's client diversification and Australian earnings footprint.

### Key Acquisition Metrics and Terms

- Acquisition of 100% of GBF, with completion expected to occur by mid-August 2019.
- The purchase price comprises:
  1. an upfront component of circa \$48 million which:
    - represents a small premium to NTA; and
    - implies an FY20 EV/EBITDA multiple of circa 2.4x, based on FY20 forecast EBITDA; and
  2. two potential earn-out payments based on performance in FY20 and FY21 which:
    - will be 3x the earnings above audited EBITDA hurdle, less any increase in the net debt required to fund that earnings growth; and
    - can be paid (up to 20%) in Macmahon shares, are subject to an overall cap of \$53.5 million (in aggregate), and will be partially subject to voluntary escrow.
- The agreement includes a locked-box mechanism under which (subject to completion) Macmahon will have economic exposure to the GBF business from 1 December 2018.
- Completion is subject to the satisfaction of conditions customary for an acquisition of this nature, including Michael Foulds and Ross Graham entering into new executive service agreements for a term of at least 3 years. Further details of acquisition conditions precedent are in Appendix 1.

### Advisers

Macmahon was advised by Azure Capital, with Johnson Winter & Slattery acting as legal adviser.

### Conference Call

A conference call will be held today at 9:00 am AWST / 11:00 am AEST.

Conference call details are set out below.

<b>Date</b>	18 June 2019
<b>Start Time</b>	9:00 am AWST / 11:00 am AEST
<b>Participant Number</b>	1800 123 296 (Toll Free) / +61 2 8038 5221
<b>Conference ID</b>	7561749

\*\*\* ENDS \*\*\*



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## **About Macmahon**

*Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and South East Asia.*

*Macmahon's extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.*

*Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.*

Visit [www.macmahon.com.au](http://www.macmahon.com.au) for more information.



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## Appendix 1

### GBF Acquisition – Conditions Precedent

Completion is subject to the satisfaction of conditions customary for an acquisition of this nature, including:

- no material adverse change occurring in respect of the GBF business;
- the novation or restructure of certain arrangements relating to the GBF mineral ventures arrangements currently in place;
- each of Michael Foulds and Ross Graham entering into new executive service agreements for a term of at least 3 years;
- obtaining financier consents and the discharge of all GBF debt that is not being assumed under the acquisition;
- change of control or other consents from customers and relevant third parties; and
- Macmahon being satisfied with the outcome of its due diligence investigations