



ASX ANNOUNCEMENT

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26 October 2016

Strategic Acquisition of Daniels Health Australia and Entitlement Offer

Highlights

- Tox Free Solutions Limited (“Toxfree”) today announces that it has signed a binding agreement under which Toxfree will acquire 100% of the shares and related assets of Daniels Health Pty Ltd and Daniels Manufacturing Pty Ltd (together “Daniels”) for an enterprise value of \$186 million from entities associated with the vendor, Dan Daniels (“Seller”) (the “Acquisition”)
- Daniels is the market leading provider of medical waste solutions, collections and treatments in Australia with a strong history of growth. In addition, Daniels holds the intellectual property rights to various collector systems, including the “Sharpsmart” and “Clinismart” series of reusable sharps and clinical waste containers
- Daniels has approximately 300 employees in Australia across 17 sites, including two incineration facilities in Sydney and Melbourne, as well as three joint venture managed sites in New Zealand
- The Acquisition is consistent with Toxfree’s strategy of focusing on specialist waste streams and is highly complementary to Toxfree’s brand and culture. In addition to providing a new pillar of growth for Toxfree in the attractive and growing healthcare segment, the combination is expected to deliver complementary waste handling, treatment and distribution capabilities, potentially delivering meaningful future cost synergy benefits
- Daniels features a large customer base, including long term relationships with public and private hospitals, medical centres and aged care facilities across the country. A future opportunity exists to cross-sell Toxfree’s industrial and total waste management solutions across Daniels’ customer base
- Toxfree intends to fund the Acquisition through a combination of equity, cash and increased debt facilities, including approximately \$85 million via a fully underwritten pro-rata accelerated non-renounceable entitlement offer (“Entitlement Offer”), \$29 million through a placement of Toxfree shares to the Seller (“Placement”), \$67 million from increased debt facilities arranged with Toxfree’s existing lenders, and \$14 million cash from the completion of a proposed sale and leaseback transaction

- **The Entitlement Offer will be structured as a 1 for 3.9 pro-rata non-renounceable entitlement offer priced at \$2.30 per share (“Offer Price”), representing a 5.8% discount to the theoretical ex-rights price (“TERP”) of \$2.44 per share.⁽¹⁾ The Entitlement Offer is fully underwritten. The Placement to the Seller will be made at the Offer Price on completion of the Acquisition**
- **Subject to the satisfaction of certain customary conditions precedent, the Acquisition is scheduled to complete on 1 December 2016, and contains customary working capital adjustments. Toxfree has agreed to defer \$10 million of consideration payable to 31 March 2017, which is payable in cash and/or a further issue of Toxfree shares, at the election of Toxfree**
- **The Acquisition represents a strategic expansion of Toxfree’s operations into the healthcare sector and also strengthens its position in the Australian waste management industry. The Acquisition is expected to deliver approximately 16% EPS accretion in FY2017 on a full year pro forma basis, excluding synergies⁽²⁾**

Overview

Toxfree today announces that it has executed a Share and Asset Sale and Purchase Deed to acquire 100% of Daniels for an enterprise value of \$186 million, on a cash free and debt free basis.

Daniels was founded in 1986 and is the leading player in medical waste services in Australia.⁽³⁾ The business provides a range of waste management solutions, including medical waste collection and treatment, proprietary reusable sharps containers and safety devices, point-of-use disposal technology, recycling, gatewaste, waste stream auditing, controlled substance destruction, secure shredding, training, compliance and education. Daniels has approximately 300 employees in Australia across 17 locations, including two incineration facilities in Sydney and Melbourne, as well as three joint venture managed sites in New Zealand. Daniels generated pro forma revenue of \$83.4 million and pro forma EBITDA of \$20.7 million in the year ended 30 June 2016.⁽⁴⁾

The Acquisition is highly complementary to Toxfree’s existing business and culture, and further expands Toxfree’s ambitions to be the leader in specialist waste streams in Australia. In addition, medical waste is an attractive and growing market segment, with increases in compliance and disposal regulations contributing to increased growth and high customer retention. The business is the leading player in medical waste services in Australia with long-term contracts with hospitals and large medical centres, with specialist intellectual property and know-how, and has grown significantly over the last three years. The segment also provides a new pillar of growth for Toxfree, along with increased diversification by industry and geography. In addition, Toxfree is targeting to deliver synergies of over \$4 million p.a. (on a full run-rate basis and before implementation costs) within two years of ownership.

¹ The theoretical ex-rights price (“TERP”) is the theoretical price at which Toxfree shares should trade at immediately after the ex-date for the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which Toxfree shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not equal the TERP. TERP is calculated by reference to Toxfree’s closing price of \$2.49 on 25 October 2016

² Toxfree financials based on estimates for the 12 months ended 30 June 2017, and assumes that there is no significant change to material contracts. Daniels financials based on Toxfree’s estimation of Daniels’ pro forma earnings for the 12 months ended 30 June 2017. EPS accretion is based on estimated FY2017 NPAT of Toxfree and excludes expensing of transaction costs and amortisation of identifiable intangibles acquired, and includes the impact of a proposed sale and leaseback transaction. Standalone EPS used in EPS accretion calculation incorporates an adjustment factor to account for the bonus element in the Entitlement Offer and assumes the Seller receives the maximum amount of consideration in Toxfree shares as provided in the sale agreement. The EPS accretion calculation assumes that the transaction, the Entitlement Offer and Toxfree shares issued to the Seller all occurred on 1 July 2016. Refer also to Section 7 (Key Risks) of the Investor Presentation lodged with ASX on the date of this release

³ By pro forma FY2016 revenue. Other equivalent references to Daniels’ market position are also based on pro forma FY2016 revenue

⁴ Refer to page 52 of the Investor Presentation lodged with ASX on the date of this release for Basis of Preparation

Daniels' local management team has a long history of involvement in the medical and waste sectors in Australia, and existing operational staff will become employees of the Toxfree group. In addition, Dan Daniels, the founder of Daniels, has agreed to be retained as an advisor to the Daniels business and will assist Toxfree on strategic development and operational management of the business. The Seller has also agreed to subscribe for approximately 12.6 million Toxfree shares as part of the consideration for the Acquisition, and will therefore be a shareholder in Toxfree on Completion. These shares will be subject to voluntary escrow until the release of Toxfree's financial results for the year ended 30 June 2017.⁽⁵⁾ Toxfree has agreed to defer \$10 million of consideration payable to 31 March 2017, which is payable in cash and/or a further issue of Toxfree shares, at the election of Toxfree.

Commenting on the transaction, Toxfree's Managing Director, Steve Gostlow, stated:

"The Acquisition of Daniels is an exciting opportunity for Toxfree that will position us as a leader in specialist waste streams in Australia. Medical waste is highly complementary to our existing capabilities and focus, and Daniels provides Toxfree with a new set of capabilities and technology that we did not have before. In addition, the Acquisition helps to improve Toxfree's overall diversity from an operational and geographic perspective, and provides the business with a new pillar of growth into the healthcare sector. We are also very happy to welcome Dan Daniels, the founder of Daniels, as an advisor to the business and look forward to working together with him in the future."

Acquisition Funding

The acquisition of Daniels, along with associated transaction fees, will be fully funded via a combination of equity, cash and increased debt facilities, as discussed below.

Entitlement Offer and Placement

The Acquisition will be partly funded by approximately \$114 million of new equity funding, comprising a pro-rata accelerated non-renounceable Entitlement Offer of approximately \$85 million and a \$29 million Placement of new ordinary shares in Toxfree to the Seller ("**New Shares**"). The Placement will be undertaken on completion of the Acquisition, expected by 1 December 2016.

The Entitlement Offer will be structured as a 1 for 3.9 pro-rata accelerated non-renounceable Entitlement Offer priced at \$2.30 per share. The Entitlement Offer is fully underwritten, and comprises a pro-rata Institutional Entitlement Offer of approximately \$59 million and Retail Entitlement Offer of approximately \$26 million.

Eligible shareholders will be entitled to subscribe for 1 New Share for every 3.9 Toxfree shares held as at 7:00pm (Melbourne time) on Friday, 28 October 2016. The offer price of \$2.30 per New Share represents a 7.6% discount to the closing price of Toxfree shares on 25 October 2016 (being the last trading day before announcement of the Acquisition and Entitlement Offer) and a discount of 5.8% to the TERP of \$2.44.⁽⁶⁾ Approximately 25.5 million New Shares are expected to be issued in Toxfree under the Institutional Entitlement Offer and 11.5 million New Shares are expected to be issued in Toxfree under the Retail Entitlement Offer.

All Toxfree directors and senior executive management who hold shares in Toxfree have stated that they intend to participate in the Entitlement Offer for some or all of their respective pro-rata Entitlements to the extent that their financial circumstances permit.

⁵ Escrow subject to customary early release events

⁶ Refer to note 1

Toxfree will conduct a Placement to the Seller for approximately \$29 million, who has elected to rollover a portion of its Daniels shares into Toxfree shares as part consideration for the Acquisition. The Placement will be made at a share price equal to the Offer Price, resulting in the issue of approximately 12.6 million New Shares. The New Shares issued under the Placement will be subject to voluntary escrow conditions until the release of Toxfree's financial results for the year ended 30 June 2017.⁽⁷⁾

The New Shares to be issued under the Entitlement Offer and the Placement will rank equally with existing Toxfree shares.

Debt Financing

Toxfree has amended and increased its existing debt facilities from its relationship banks to provide funding capacity for the Acquisition, including any potential shortfall in the Retail Entitlement Offer, and for ongoing growth initiatives in the business. The increased debt facilities will provide additional funding capacity of up to \$95 million to support the Acquisition, and Toxfree expects to have approximately \$159 million of net debt upon Completion (assuming a drawdown of \$67 million to fund the Acquisition). Drawdown under the amended debt facility is subject to various conditions precedent, including the execution of a long form deed of amendment and other conditions, which are usual for a facility of this sort.

Existing Cash and Facilities

Toxfree intends to contribute \$14 million in cash from a proposed sale and leaseback transaction, or otherwise from existing debt facilities.

Trading Update and Guidance

Toxfree today also announced that it has recently been successful in the award of a number of new contracts and opportunities, including:

- Qenos NSW, for hydrocarbon waste collection, treatment and recycling;
- Halliburton Australia, a total waste management contract for operations in Papua New Guinea and Australia;
- Retention of Origin Energy's total waste management contract for APLNG upstream; and
- A new Memorandum of Understanding with BMT International to form a Joint Venture in Australia for the purposes of managing and treating mercury related waste streams from the oil and gas sector.

As at the end of 1Q FY2017, Toxfree is trading in-line with Toxfree and market expectations. Toxfree expects underlying FY2017 EBITDA to be in the lower half of its previous guidance range of 5-10% higher than FY2016 underlying EBITDA,⁽⁸⁾ excluding any impact from the Acquisition and related Acquisition costs.

Further details on Toxfree's trading update are contained in the Investor Presentation that was lodged with the ASX concurrent with this document.

⁷ Escrow subject to customary early release events

⁸ Assumes that there is no significant change to material contracts

Entitlement Offer Timetable ⁽⁹⁾

Institutional Entitlement Offer and Institutional Shortfall Bookbuild

The Institutional Entitlement Offer will be open from 10.00am (Melbourne time) on Wednesday 26 October, 2016 to 4:00pm (Melbourne time) Thursday 27 October, 2016. Eligible institutional shareholders can choose to take up all, part or none of their Entitlement. New Shares equivalent in number to the New Shares not taken up by eligible institutional shareholders by the close of the Institutional Entitlement Offer, and New Shares that would have been offered to ineligible institutional shareholders had they been entitled to participate, will be sold to institutional investors through the Institutional Shortfall Bookbuild to be conducted on Thursday, 27 October 2016. Toxfree shares have been placed in trading halt whilst the Institutional Entitlement Offer and Institutional Shortfall Bookbuild are undertaken.

Retail Entitlement Offer

The Retail Entitlement Offer will be open from Thursday, 3 November 2016 to Friday, 18 November 2016. Eligible retail shareholders wishing to participate in the Retail Entitlement Offer should carefully read the Retail Offer Booklet and accompanying personalised entitlement and acceptance form which are expected to be despatched on Thursday, 3 November 2016.

Indicative Timetable

Event	Date
Announcement of Acquisition, Entitlement Offer and Trading Halt	Wednesday, 26 October 2016
Institutional Entitlement Offer opens	Wednesday, 26 October 2016
Institutional Entitlement Offer closes	Thursday, 27 October 2016
Institutional Shortfall Bookbuild (opens and closes)	Thursday, 27 October 2016
Trading Halt lifted	Friday, 28 October 2016
Record date for eligibility under the Entitlement Offer (7:00pm Melbourne time)	Friday, 28 October 2016
Retail Entitlement Offer opens	Thursday, 3 November 2016
Despatch of Retail Offer booklet and personalised entitlement forms	Thursday, 3 November 2016
Settlement of the Institutional Entitlement Offer and Institutional Shortfall Bookbuild	Monday, 7 November 2016
Issue of New Shares issued under the Institutional Entitlement Offer and Institutional Shortfall Bookbuild and commencement of trading on the ASX	Tuesday, 8 November 2016
Retail Entitlement Offer closes (5:00pm Melbourne time)	Friday, 18 November 2016
Announcement of results of Retail Entitlement Offer	Wednesday, 23 November 2016
Settlement of the Retail Entitlement Offer	Friday, 25 November 2016
New Shares issued under the Retail Entitlement Offer	Monday, 28 November 2016
New Shares issued under the Retail Entitlement Offer commence trading on the ASX	Tuesday, 29 November 2016
Despatch of Holding Statements	Tuesday, 29 November 2016

⁹ Dates and times are indicative only and are subject to change

The above timetable is indicative only and subject to change without notice. All times Australian Eastern Daylight Time. The commencement of quotation of New Shares is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and any other applicable laws, Toxfree, with the consent of Morgan Stanley Australia Securities Limited (ABN 55 078 652 276) ("**Morgan Stanley**"), reserves the right to amend this timetable at any time, including extending the Retail Entitlement Offer Period or accepting late applications, either generally or in particular cases, without notice.

Further Information

For further details regarding the Acquisition of Daniels and the Entitlement Offer, shareholders are advised to refer to the Investor Presentation released to the ASX on Wednesday, 26 October 2016.

Morgan Stanley and Acacia Partners are acting as financial advisers to Toxfree on the transaction. Morgan Stanley is acting as sole bookrunner and lead manager of the Entitlement Offer and sole underwriter of the Institutional Entitlement Offer, and Evans & Partners is acting as co-lead manager of the Entitlement Offer. Clayton Utz is acting as legal adviser to Toxfree. PwCS acted as accounting and taxation adviser to Toxfree.

For further information, please contact:

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Important Notices

This announcement is not a financial product or investment advice, a recommendation to acquire New Shares or accounting, legal or tax advice. It has been prepared without taking into account the objectives, financial or tax situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial and tax situation and needs and seek legal and taxation advice appropriate for their jurisdiction. Toxfree is not licensed to provide financial product advice in respect of an investment in shares.

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This announcement contains forward-looking statements, which can usually be identified by the use of words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “objectives”, “outlook”, “guidance” or words of similar effect. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Toxfree, and which may cause actual outcomes to differ materially from those expressed in the statements contained in this announcement. Undue reliance should not be placed on these forward-looking statements. These forward-looking statements are based on information available to Toxfree as of the date of this announcement. Except as required by law or regulation (including ASX Listing Rules), Toxfree undertakes no obligation to update these forward-looking statements.

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A number of figures, amounts, percentages, estimates, calculations of value and fractions in this document are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

Statements in this announcement are made only as at the date of this announcement.