

**HRL Holdings Limited**

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ASX Announcement

Strategic Acquisition of Analytica Laboratories \$15m Institutional Placement and Securities Purchase Plan

HIGHLIGHTS

- HRL Holdings to acquire Analytica Laboratories, a leading analytical chemistry laboratory business based in New Zealand
 - Materially earnings accretive acquisition
 - Transformational acquisition adding scale and enhancing HRL's competitive position in the high value environmental and food/agriculture testing market
 - Ability to leverage strong existing brand and reputation when entering new markets
 - Purchase price of up to NZ\$30m, comprised of NZ\$19m upfront consideration in cash (70%) and scrip (30%), and cash earn-out up to NZ\$11m
 - Upfront consideration of purchase price and additional growth capital to be funded by an institutional placement of ~A\$15m at the offer price of A\$0.085, subject to shareholder approval
 - Securities purchase plan to be offered to existing eligible shareholders at the offer price of A\$0.085, capped at A\$1m
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Proposed acquisition of Analytica Laboratories

On 16 October 2017, HRL Holdings Limited (**HRL** or the **Company**) entered into a conditional agreement with the shareholders of Analytica Laboratories Limited (**Analytica**) to acquire all of the issued capital in Analytica.

Strategic Rationale

The acquisition is transformational and positions HRL for its next stage of growth by expanding the business' capabilities and expertise in new markets.

- ✓ Highly complementary acquisition adding scale and enhancing competitive position
 - Combined businesses FY18 forecast to deliver in excess of \$33m revenue and in excess of \$7.3m underlying EBITDA with 22% EBITDA margin (assumes run rate to achieving full earn out)
 - Provides rapid entry into the high value environmental and food/agriculture testing market, building on HRL's strategy to focus on more sophisticated and advanced analysis with higher barriers to entry
 - Leverages highly skilled technical and operational staff across a broader operational base



- Provides ability to leverage strong existing brand and reputation when entering new markets
- Complements existing operations through advanced technology and equipment
- ✓ CAIQtest (Pacific) provides a unique opportunity to support the growing export market to China
 - Incorporated joint venture led by Analytica (26% interest) and supported by the Chinese Academy of Inspection and Quarantine
 - New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China assisting greatly with supply chain bottlenecks – a key concern for exporters
 - Currently services the dairy export market, with a focus on infant milk formula
 - CAIQtest (Pacific) developed a first mover advantage by achieving accreditation with the Chinese National Accreditation Service (August 2017) for a broad dairy testing scope – can now provide services to commercial dairy exporters

Acquisition Details

In consideration for 100% of the share capital of Analytica, HRL will pay a purchase price of up to NZ\$30m to the vendors of Analytica (**Analytica Vendors**).

The purchase price is broken down as follows:

- NZ\$13.3m upfront cash consideration on completion of the Analytica acquisition;
- NZ\$5.7m upfront HRL scrip consideration on completion of the Analytica acquisition, subject to a 2-year escrow period; and
- Up to NZ\$11m cash earn-out consideration, based on the following criteria:
 - Analytica business to achieve 12-month post-settlement EBITDA in excess of NZ\$3m;
 - Analytica Vendors to receive a 6x multiple on each NZ\$1 of EBITDA greater than NZ\$3m, up to a maximum earn-out consideration of NZ\$11m; and
 - 50% of earn-out is payable 12 months post-settlement, and 50% in 12 equal monthly instalments thereafter.

The payment of the earn-out consideration is also contingent on the Analytica Vendors providing ongoing services for a minimum of 2 years post-settlement.

Under the terms of the acquisition agreement, Analytica Vendors will have the right to appoint a Director to the Board of HRL.

Completion of the Analytica acquisition is conditional on a number of factors, including:

- all necessary ASX and ASIC approvals, waivers and confirmations being obtained by HRL;
- shareholder approval being obtained by HRL for the proposed Analytica acquisition and placement; and
- other conditions which are standard for a transaction of this nature.



About Analytica

Analytica is a privately owned, New Zealand-based analytical chemistry laboratory business specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets.

Analytica has a strong competitive position in high-end environmental and food/agricultural testing markets with industry leading customers/partners. Key features include:

- ✓ Market leader in honey testing in New Zealand, both among industry organisations and producers/distributors
- ✓ Dominant position in the liquid milk analysis and food origin testing, via strategic alliance with market leading partners
- ✓ Strong and growing exposure to the environmental testing and methamphetamine property screening market with the recent launch of an innovative testing services

Analytica has approximately 70 highly skilled technical and operational laboratory staff, and forecasts to deliver revenue of approximately A\$11m and EBITDA of approximately A\$4m in FY18.

Institutional Placement and SPP

Conditional Placement

To fund the upfront cash consideration of the Analytica acquisition price, HRL is undertaking a conditional placement, subject to shareholder approval, to raise A\$15m, by issuing 176,500,000 shares at a price of A\$0.085 (**Conditional Placement**).

The Conditional Placement was strongly supported by domestic and international sophisticated and institutional investors. Settlement of the Conditional Placement will be subject to shareholder approval of the Analytica acquisition at a General Meeting to be held on or about the 23 November 2017.

Upon completion of the Conditional Placement, consistent with its position as a significant shareholder in HRL, Viburnum Funds will be entitled to appoint a Non-Executive Director to the Board of HRL, provided that their relevant interest in HRL shares does not reduce below 15 per cent. Viburnum Funds will advise HRL in due course of their intended nominee to the Board of Directors of the Company.

Canaccord Genuity (Australia) Limited (**Canaccord**) is acting as Lead Manager to the Conditional Placement.

Securities Purchase Plan

In addition to the Conditional Placement, the Company is offering existing eligible shareholders with registered addresses in Australia and New Zealand the opportunity to subscribe for up to approximately A\$15,000 or 176,470 shares under a Securities Purchase Plan (**SPP**). The issue price under the SPP is A\$0.085 per share, which is the same price as under the Conditional Placement. The amount raised under the SPP will be capped at A\$1m.

All shares issued under the Conditional Placement and SPP will rank equally with existing HRL shares on issue.

The record date for the SPP is 7pm (Melbourne time), 16 October 2017. Full details of the SPP will be released to the ASX and mailed to eligible shareholders shortly.



Use of Funds

The funds raised from the Conditional Placement and SPP will be applied towards:

- Upfront cash consideration of the Analytica acquisition;
- General working capital to support expansion of the business; and
- Costs of the Conditional Placement and SPP.

Approval for the acquisition and the placement will be sought from shareholders at the AGM which will be held on or about 23 November 2017. Meeting materials will be sent to shareholders shortly.

For further information contact:

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