

12 November 2013

## **Proposed Sale of Business**

Thomas & Coffey Limited (“Thomas & Coffey”) (ASX: THO) announces that it has entered into a conditional agreement to sell the majority of its business and its brands (“the Sale Business”) for \$33.5 million (“the Transaction”), subject to working capital and other adjustments to be determined on Completion, to ATIVO Pty Ltd (“ATIVO”), a wholly owned subsidiary of SKILLED Group Limited (ASX: SKE).

The proposed sale will be effected by Thomas & Coffey selling its wholly owned subsidiary T & C Services Pty Ltd (“T&C Services”).

Employees of the Sale Business will be offered employment by T & C Services on the same terms and conditions that they currently enjoy with Thomas & Coffey.

The proposed sale is conditional on:

- Approval of the Transaction and the change in name of Thomas & Coffey by Shareholders;
- Each of certain specified key employees accepting new offers of employment from T & C Services;
- Final confirmatory due diligence by ATIVO in relation to continuing customers and contracts to be acquired (this condition to be satisfied one week prior to the Shareholder meeting);
- In-principle approval of the Transaction by the senior lender to Thomas & Coffey; and
- Market standard conditions relating to a transaction of this nature.

## **Rationale for sale**

In our recent letter to Shareholders, we announced that trading results for Q1 2013/14 have shown a positive EBITDA contribution as compared to a loss in Q4 2012/13 and that the Board expects the business to continue to improve through further operational restructuring.

Nevertheless, the financial position of Thomas & Coffey remains precarious with the balance sheet constrained and access to support funding being limited. Accordingly, the Board deemed it necessary to consider a range of strategic corporate alternatives.

Over the last 12 months, Thomas & Coffey has received unsolicited approaches from three substantial companies, including ATIVO, two of which proceeded to a stage at which non-binding indicative proposals were made. One proposal was not capable of implementation and one was withdrawn by the third party at an early stage.

The Directors have formed the view that, as a result of the financial position of Thomas & Coffey and its limited access to funding, and after having considered the options available within the context of the Transaction and its conditions, the Transaction is the most appropriate course of available action in the current circumstances.

## **Impact of the sale on Thomas & Coffey**

The Transaction will enable Thomas & Coffey to realise value for its Sale Business whilst also stabilising its financial position and giving Shareholders an opportunity to receive some return on their investment in the Company. Employees of the Sale Business will be offered employment by T & C Services on the same terms and conditions that they currently enjoy with Thomas & Coffey.

After completing the Transaction, Thomas & Coffey would hold its remaining business which largely comprises two mining construction contracts in run-off mode (“the Residual Business”). These are scheduled to complete in early 2014. Thomas & Coffey does not intend to undertake any further work. Other assets and liabilities which are not included in the Sale Business will be realised or paid in the normal course of business. Revenue from the Residual Business after the Completion of the Transaction is expected to be insignificant compared to historical revenue for Thomas & Coffey for the 2013 financial year of \$195 million.





From the sale proceeds of the Transaction, the Company would extinguish all its bank borrowings, pay down its remaining liabilities over time as these become due, meet its \$4 million liability to convertible noteholders and deal with bank guarantee exposures. Thomas & Coffey intends to reduce its overheads to a practical minimum and, apart from the personnel engaged in the Residual Business, intends to use flexible and contract labour as required to handle any other issues which may arise.

Once all commitments and obligations are satisfied, Directors intend returning remaining surplus funds to Shareholders. The amount that can be returned, and the timing and the manner in which it is returned, will depend, amongst other things, on receipt of subsequent Shareholder approval, the financial outcome of the remaining work in progress and other factors and circumstances which may arise.

While the final return cannot presently be determined, the expected return to Shareholders is not expected to be higher than the price at which shares currently trade on ASX (4 cents). This is an estimate only and may change depending on future events.

#### **Recommendation from directors**

In the absence of a superior proposal, your Board unanimously recommends Shareholders vote in favour of the Transaction. Each Director who controls shares in Thomas & Coffey intends to vote those shares in favour of the Transaction. Interests associated with John and Julia Cordukes, the largest individual shareholders in Thomas & Coffey with 11.2% of the Shares, also intend to vote those Shares in favour of the Transaction, in the absence of a superior proposal.

#### **Other key terms of the sale**

Thomas & Coffey has given non-competition undertakings with respect to the maintenance services part of the Sale Business for a period of three years from Completion. The Company has also given customary non-solicitation undertakings with respect to inducing employees to cease to be employed with T&C Services and soliciting existing customers of the Sale Business.

If the Sale Agreement is terminated for material breach of warranty or material adverse change of the Sale Business due to material breach by Thomas & Coffey, Thomas & Coffey must make a termination payment of \$335,000 to ATIVO. A termination payment is also required if Shareholders do not approve the sale in circumstances where a Competing Proposal has emerged. For these purposes a Competing Proposal comprises a proposal for the acquisition of all or substantially all of the Sale Business or a control transaction with respect to Thomas & Coffey. A termination payment is also required if the Chairman of Thomas & Coffey or any two directors change their recommendation to Shareholders or recommend, support or endorse a Competing Proposal except in certain circumstances including if the ATIVO business breaches the sale agreement or non-satisfaction of the conditions outside of Thomas & Coffey's control, or if shareholders approve the sale to ATIVO.

#### **Next Steps**

The Notice of Meeting and associated documentation for Shareholders to consider is expected to be finalised and dispatched within three weeks, subject to ASX approval. It is currently expected that, subject to the conditions precedent being met (or waived), the sale will be completed at the end of January 2014.

Robert K Critchley  
Chairman

#### **Enquiries**

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