

XENITH IP GROUP LIMITED

ASX ANNOUNCEMENT

25 November 2016

Xenith IP Group Limited to acquire Griffith Hack

Highlights

- Xenith IP Group Limited ("Xenith" or the "Company") is pleased to announce that it has entered into a binding agreement to acquire Griffith Hack, one of Australia's leading specialist IP firms (the "Acquisition");
- Griffith Hack is one of the largest privately owned IP firms in Australia, with over 110 years of history;
- The increase in scale from the Acquisition positions Xenith to benefit from a range of strategic and financial opportunities and will complement its existing geographic footprint, diversify and significantly enlarge its client profile and increase the scope of its service offering;
- Total upfront consideration of \$152.0 million (excluding transaction costs) will comprise a \$68.4 million placement of Xenith shares to Griffith Hack vendors¹ (representing 45% of upfront consideration) and \$83.6m cash (representing 55% of upfront consideration). The Acquisition is scheduled to be completed on 1 February 2017 ("Completion");
- Griffith Hack vendors may also be entitled to an additional earnout payment, capped at \$20.0 million, payable to the extent actual Griffith Hack annualised pro forma EBITDA from Completion to 30 June 2017 exceeds \$14.5 million²;
- The Acquisition is targeted to deliver pre-tax cost synergies by year 3 of \$4.0 million - 6.0 million³;
- The Acquisition is estimated to deliver mid-teens FY18 pro forma EPS accretion, post synergies on a phased basis and before transaction and implementation costs, and amortisation of acquired intangible assets⁴; and
- The cash component of the Acquisition consideration will be funded by a fully underwritten \$67.5 million 1-for-1.33, pro-rata, accelerated, non-renounceable entitlement offer at \$2.40 per Xenith share and \$21.8 million by way of amended secured debt facilities (net of transaction costs).

¹ Shares will be issued to Griffith Hack vendors at A\$3.161 per share, representing the 20 day VWAP of Xenith shares prior to announcement.

² Refer to note 4 on page 5 and page 30 of the 'Acquisition of Griffith Hack and Entitlement Offer' presentation released on 25 November 2016 ("**Presentation**"). Earnout arrangement subject to an EBITDA cap of \$16.4 million for the relevant period.

³ Refer to page 27 of the Presentation.

⁴ Refer to note 3 on page 5 of the Presentation.

Overview

Xenith today announces that it has entered into an agreement with Griffith Hack to acquire the Griffith Hack business for an upfront cash and share consideration of \$152.0 million, subject to certain conditions⁵.

Griffith Hack is a leading Australian specialist IP firm with offices across Melbourne, Sydney Brisbane and Perth. It specialises in the areas of patents, designs and trade marks and other intellectual property services. With over 110 years of history, Griffith Hack is one of Australia's largest privately owned IP firms, and has been recognised with numerous industry awards across its various fields of specialisation. Griffith Hack has a client base composed of many well known domestic and international corporates and has a team of over 100 professionals.

Commenting on the Acquisition, Mr Stuart Smith, Xenith's Managing Director, stated:

"Griffith Hack has a distinguished history of over 110 years and today is one of the largest IP firms in Australia by patent and trademark filing market share. The acquisition of Griffith Hack is transformational for Xenith and brings together Shelston IP and the recent acquisition of Watermark. This is an exciting opportunity for Xenith to continue with its stated vision of becoming the leading IP services provider in the Asia Pacific region and we are very excited to work together with Griffith Hack and its existing team to grow the combined business under the Xenith banner."

David Hughes, Chairman of Griffith Hack, commented:

"The combination of Xenith and Griffith Hack is a watershed event for their personnel and shareholders. It will create a leading Australian IP group with an enlarged customer base, increased scale and greater scope of service offering to our clients. We look forward to joining Xenith and working together to execute upon our shared strategy."

Strategic Rationale

The Board of Xenith believes that the Acquisition of Griffith Hack represents a significant milestone in the development of Xenith and will accelerate its vision of becoming the leading IP services provider in the Asia Pacific region. Specifically, the strategic rationale includes:

- Transformational combination of three of Australia's leading IP firms – Shelston IP, Watermark and Griffith Hack;
- Independently branded firms with substantial scope for efficiencies through centralised support functions;

⁵ \$152 million represents enterprise value before transaction costs. Conditions include Xenith shareholder approval, corporatisation of Griffith Hack and other customary conditions. Purchase price is subject to customary working capital adjustments.

- Increased scale in a rapidly consolidating sector with the number one market position on several key metrics;
- Complementary geographic fit with a strong presence in major capital cities;
- Diversified, long-term client profile with enhanced focus on premium local clients;
- Increased scope of service offering;
- Significantly enlarged client base from which to leverage adjacent service offerings and pursue growth initiatives, particularly in South East Asia;
- Targeting meaningful synergy benefits over a three year integration period; and
- Estimated mid-teens FY18 EPS accretion, post synergies on a phased basis and before transaction and implementation costs, and amortisation of identifiable intangible assets associated with the Watermark and Griffith Hack acquisitions.⁶

Acquisition Metrics and Funding

Xenith will acquire the Griffith Hack business for an upfront consideration of \$152.0 million. The Acquisition will be made on a cash-free, debt-free basis, subject to working capital adjustments customary for a transaction of this nature. The upfront consideration and transaction costs will be funded as follows:

- \$67.5 million fully underwritten, pro-rata, accelerated, non-renounceable entitlement offer;
- \$68.4 million by way of a Xenith share placement to the Griffith Hack vendors. The shares issued by way of the placement will be subject to a two year escrow (subject to customary early release); and
- \$21.8 million by way of amended secured debt facilities. Xenith has agreed an extension of its existing debt facilities, including an increased limit of \$50.0 million with a tenure of 3 years.

The upfront purchase price of \$152.0 million represents an implied transaction multiple of 10.5x EV / estimated Griffith Hack annualised pro forma EBITDA from Completion to 30 June 2017 of \$14.5 million pre-synergies (“Threshold EBITDA”).

The Griffith Hack vendors may be entitled to additional earnout consideration of up to \$20.0 million. The earnout consideration will be determined having regard to the implied Acquisition multiple of 10.5 multiplied by the amount by which the actual Griffith Hack annualised pro forma EBITDA from Completion to 30 June 2017 exceeds the Threshold EBITDA. Any earnout consideration will be funded via:

- up to \$11.0 million in cash from amended secured debt facilities; and
- up to \$9.0 million placement of Xenith shares.⁷

⁶ Refer note 3 on page 5 of the Presentation.

The Acquisition is subject to closing conditions, including:

- Completion of the restructure of Griffith Hack into an appropriate corporate structure;
- Xenith shareholder approval (expected to be sought in January 2017); and
- Other customary conditions for a transaction of this nature.

The Acquisition has been approved by the Griffith Hack principals.

Each of the Xenith directors and each of the current Shelston IP principals who are significant shareholders in Xenith has indicated their intention to vote in favour of the resolutions in respect of the Acquisition to be voted on at the shareholder meeting (as noted above) and will participate in the Entitlement Offer.

Subject to the closing conditions listed above being satisfied, the Acquisition is scheduled to complete on 1 February 2017.

With effect from completion of the Acquisition, the Griffith Hack equity principals⁸ will be employed under three year minimum term employment contracts. Non-equity principals will be eligible to participate in Xenith STI and LTI programmes.

Share placement to Griffith Hack vendors and eligible employees

As part of the Acquisition consideration reference to above, approximately 21.6 million shares will be issued to the Griffith Hack vendors at an issue price of \$3.161 per share, determined with reference to 20 day VWAP of Xenith shares prior to announcement, and representing 45% of the Acquisition consideration. The shares issued under the placement will represent 24.8% of issued capital after completion of the Entitlement Offer and will be subject to a two-year escrow (subject to customary early release provisions).

Entitlement Offer

The Entitlement Offer is a fully underwritten pro rata accelerated non-renounceable entitlement offer to raise approximately \$67.5 million.

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 new Xenith share for every 1.33 existing Xenith shares ("**Entitlement**") held as at 7.00pm (Sydney time) on Tuesday, 29 November 2016 ("**Record Date**").

The offer price of \$2.40 per new share represents a 12.7% discount to the theoretical ex-rights price of \$2.75 per share on Thursday, 24 November 2016.⁹

⁷ Any shares issued to Griffith Hack vendors under the earnout will be issued at \$3.161 per share and will be subject to an escrow period of 2 years from Completion.

⁸ Excluding two principals, who will become consultants.

⁹ The TERP is a theoretical price at which XIP shares trade immediately after the ex-date for the Entitlement Offer and prior to the share placement to Griffith Hack vendors. TERP is calculated by reference to Xenith's closing price of A\$3.02 on Thursday, 24 November 2016.

Approximately 28.2 million new Xenith shares will be issued under the Entitlement Offer and will rank equally with existing fully paid ordinary shares from their time of issue.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Entitlement Offer for institutional shareholders ("Institutional Entitlement Offer") which is being conducted today Friday, 25 November 2016.

Eligible institutional shareholders can choose to take up all, part or none of their Entitlement. Institutional Entitlements cannot be traded on market or transferred.

Institutional Entitlements which are not taken up by eligible institutional shareholders by the close of the Institutional Entitlement Offer, and institutional Entitlements that would otherwise have been offered to ineligible institutional shareholders, will be offered to eligible institutional shareholders who apply for new shares in excess of their Entitlement, as well as to certain other eligible institutional investors who bid into the institutional bookbuild being conducted concurrently with the Institutional Entitlement Offer.

Xenith's shares will remain in a trading halt pending completion of the Institutional Entitlement Offer.

Retail Entitlement Offer

Eligible retail shareholders in Australia and New Zealand will be invited to participate in the Entitlement Offer for retail shareholders ("Retail Entitlement Offer") at the same offer price and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Friday, 2 December 2016 and close at 5.00pm on Tuesday, 13 December 2016.

Further details about the Retail Entitlement Offer will be set out in the retail offer booklet, which Xenith expects to lodge with the ASX and despatch on Friday 2 December 2016.

Entitlements cannot be traded on the ASX or transferred. Eligible shareholders who do not take up their Entitlement under the Entitlement Offer in full or in part, will not receive any value in respect to those Entitlements not taken up.

Key dates*

Event	Date
Trading halt and announcement of the Acquisition, Institutional Entitlement Offer opens	Friday, 25 November 2016
Institutional Offer Closes (including Institutional Offer shortfall allocation)	Friday, 25 November 2016
Trading halt lifted, trading resumes on ex-entitlement basis	Monday, 28 November 2016
Record date to identify security holders entitled to participate in the Entitlement Offer (7pm Sydney time)	Tuesday, 29 November 2016
Retail Entitlement Offer opens. Despatch of Retail Entitlement Offer Booklet and personalised entitlement forms	Friday, 2 December 2016

Settlement of Institutional Entitlement Offer	Thursday, 8 December 2016
Issue of Shares under Institutional Entitlement Offer	Friday, 9 December 2016
Retail Entitlement Offer closes (5pm Sydney time)	Tuesday, 13 December 2016
Announcement of results of Retail Entitlement Offer	Friday, 16 December 2016
Settlement of Retail Entitlement Offer	Friday, 16 December 2016
Issue of New Shares under Retail Entitlement Offer	Monday, 19 December 2016
New Shares issued under the Retail Entitlement Offer commence trading on ASX	Tuesday, 20 December 2016
Despatch of holding statements in respect of New Shares issued under the Retail Entitlement Offer	Tuesday, 20 December 2016

* The above timetable is indicative only and subject to change without notice. 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, Xenith, with the consent of the Joint Lead Managers, 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.

Trading update

Xenith October YTD underlying performance is in-line with management expectations.

The key areas of Board and management focus include:

- Integration of Watermark and Griffith Hack businesses – based on 3 year detailed integration plans;
- Southeast Asian growth strategy, supported by Watermark and Griffith Hack acquisitions, and continued business development in China to build on current momentum;
- Development of complementary service lines, supported by Watermark and Griffith Hack acquisitions;
- Further consolidation opportunities in Australia; and
- Continued development of technology platform to improve operational efficiencies.

The Board anticipates no change to target dividend payout ratio of 70% - 90% of NPAT, with the dividend per share to reflect current shares on issue and shares to be issued under the Entitlement Offer.¹⁰

¹⁰ Shares issued as consideration for the Acquisition and employee gift shares will not participate in Xenith's FY17 interim dividend.

Advisers

Investec Australia Limited acted as Corporate Adviser to Xenith in relation to the Acquisition.

Shaw and Partners Limited, UBS AG, Australia Branch and Ord Minnett Limited acted as Joint Lead Managers and Underwriters to the Entitlement Offer.

Clayton Utz has acted as Australian legal adviser to Xenith in relation to the Acquisition and the Entitlement offer.

Ernst and Young acted as Corporate Adviser to Griffith Hack in relation to the divestment.

For further information

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About Xenith

Xenith IP Group Limited (ASX: XIP) is the holding company for the group of entities that comprise the Shelston IP business, namely Shelston IP Pty Ltd, Shelston IP Lawyers Pty Ltd, Xenith IP Services Pty Ltd and Watermark Holdings Pty Ltd. The Group's core business is to provide a comprehensive range of IP services, including identification, registration, management, commercialisation and enforcement of IP rights mainly patents, designs and trade marks for clients in Australia, New Zealand and the rest of the world.