

The GO2 People Ltd to Acquire RTO Industry Pathways Pty Ltd

Highlights

- The GO2 People Ltd has entered into a Share Purchase Agreement to acquire Industry Pathways Pty Ltd (IPW)
- IPW is a fast-growing nationally Registered Training Organisation offering fee-for-training services
- Proposed acquisition is based on a favourable multiple and is significantly EBITDA accretive
- Up-front consideration includes a 50/50 split of cash and GO2 shares with further share-based payments to the vendor over 3 years based on achievement of EBITDA targets
- IPW is a highly-synergistic business which complements GO2's service offering and increases overall Group capability
- Acquisition provides multiple cross selling and vertical integration opportunities
- Acquisition is subject to completion of a capital raise of up a minimum of \$2.7 million and a maximum of \$4 million via a placement to sophisticated investors (subject to shareholder approval)

23rd April 2019: Leading provider of vertically integrated recruitment, building and training services, The GO2 People Limited (ASX:GO2) ("GO2" or "Company") is pleased to announce it has executed a Share Purchase Agreement ("SPA") to acquire nationally Registered Training Organisation, Industry Pathways Pty Ltd ("IPW") from Mr. Peter Evans ("Vendor").



About Industry Pathways

Established in 2011, IPW is a fast growing nationally Registered Training Organisation offering fee for service training and education up to Diploma level in the mining and health sectors. It does not rely on any Government funding, and instead focuses on providing quality outcomes for its students, which has ensured the highest levels of compliance are adhered to under the industry's governing body, Australian Skills and Qualification Authority, or ASQA.

IPW has a business to consumer model and its revenue is generated on a pay as you go basis. It has developed considerable resources and infrastructure to maximise its search engine position, and the business has significant capability in the areas of digital marketing and online sales. IPW's training delivery methodology is innovative and effective, with 80% of courses delivered via online platforms and the remaining 20% face-to-face at its facility on the Gold Coast in Queensland.

IPW has a stable and experienced leadership team in place, headed by Founder and Owner, Peter Evans. The business has 20+ staff covering training, sales and marketing, compliance. Over the past 3 years, IPW has seen consistent growth in revenue and profitability, and is expected to generate EBITDA of \$2.0 million in FY19. GO2's acquisition of IPW will become effective on 1 July 2019 (subject to satisfaction of conditions precedent outlined below).

Business Synergies and Benefits

A provider of vertically integrated recruitment, building and training services, part of the GO2 business model is to consider the expansion of its business through acquisitions of complementary and enhancing businesses in appropriate geographies.

The IPW acquisition represents a suitable extension of the existing business given that IPW and GO2's own Training Division have very similar businesses, both being Registered Training Organisations, operating in similar industry sectors, sharing similar target markets and with multiple cross selling opportunities.

Importantly, GO2 can provide employment placement outcomes for IPW's consumers. The acquisition of IPW is consistent GO2's growth strategy and will have an immediate positive impact on GO2's cashflow and profitability.



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Key Terms of the IPW Share Purchase Agreement

1.1 Consideration

Completion of the sale and the purchase of 100% of the issued shares in IPW will occur on performance of the Vendor of its obligations under the SPA, and the Company:

- (a) issuing to the Vendor that number of Shares that equates to \$2,000,000 based on the value of the Capital raise noted above.

(Consideration Shares); and

- (b) a cash payment by the Company of:

- (i) \$2,000,000; plus
- (ii) the aggregate balance of all loans and other financial accommodation provided, or otherwise made available, by IPW to the Vendor, its related bodies corporate and its associates capped however at \$1,000,000.

(Cash Consideration).

The SPA provides that the Vendor will use the “extra” component of the cash consideration, as set out at 1.1(b)(ii) above, to repay loans currently owing by the Vendor to IPW. That is, GO2 will pay the Vendor, the Vendor will pay IPW, and IPW will be owned by GO2. The net effect of these transactions is therefore zero / no cost to GO2.

1.2 Working Capital Adjustment Amount

Under the SPA, the Vendor is entitled to all cash on the Balance Sheet at completion plus a working capital adjustment amount. As part of the Working Capital Adjustment the Vendor is entitled to an additional payment should the Current Assets (including cash and debtors) less Current Liabilities (including all current tax provisions) be greater than \$25,000. As part of the working capital calculations the Vendor must ensure that the Cash at Bank on completion is not less than \$50,000.



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1.3 Earn-Out Consideration

First Earn-Out Amount

On a date determined under the SPA (anticipated to be 1 January 2020), the Company must pay the amount calculated in accordance with the following formula:

First Earn-Out Amount = (First Adjusted Average Earnings before interest and taxation (**EBIT**) x 3.75) – \$5,000,000

Where:

First Adjusted Average EBIT = (\$900,000.00 + \$1,750,000 + Adjusted EBIT FY19), divided by 3 (years)

Second Earn-Out Amount

On a date determined under the SPA (anticipated to be 1 January 2021), the Company must pay the amount calculated in accordance with the following formula:

Second Earn-Out Amount = (Second Adjusted Average EBIT x 3.75) – (\$5,000,000 + the First Earn-Out Amount)

Where:

Second Adjusted Average EBIT = (\$1,750,000 + Adjusted EBIT FY19 + Adjusted EBIT FY20), divided by 3 (years)

Third Earn-Out Amount

On a date determined under the SPA (anticipated to be 1 January 2022), the Company must pay the amount calculated in accordance with the following formula:

Third Earn-Out Amount = (Third Adjusted Average EBIT x 3.75) – (\$5,000,000 + the First Earn-Out Amount + the Second Earn-Out Amount)

Where:

Third Adjusted Average EBIT = (Adjusted EBIT FY19 + Adjusted EBIT FY20 + Adjusted EBIT FY21), divided by 3 (years)

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To provide further information on the Earn Out Consideration calculations, GO2 has prepared the following table as an example of payments based on IPW's future EBIT.

Financial Year Ended	IPW EBIT Scenario	Earn-Out Payment
30 June 2019	\$2,000,000	\$812,500
30 June 2020	\$2,200,000	\$1,625,000
30 June 2021	\$2,500,000	\$937,500

Note that the numbers above are not forecasts for IPW and should not be relied upon as earnings guidance for IPW for these financial years, there is no certainty that that these earnings will be achieved

2.1 Conditions Precedent

The SPA has usual conditions precedent, including:

- (a) the Company successfully obtaining equity funding sufficient to fund the Cash Consideration (plus the Company's legal and other fees and costs associated with the capital raising, together with funding for growth initiatives) via a placement of securities and either a rights issue or Share Purchase Plan;
- (b) the Company obtaining Board and shareholder approval and ASX approval (as required) to facilitate the entry into, and performance of its obligations under, the SPA;
- (c) receipt by the Company of new employment agreements (in a form reasonably required by the Company) signed by key employees of IPW;
- (d) the Company satisfying the requirements of, and obtaining the approval of, the Australian Skills Quality Authority (and the equivalent state bodies in West Australia and Victoria) to enable IPW to continue offering after completion of the SPA all the vocational training offerings that IPW delivers at the date of this agreement, or which the Target proposes to or has applied to deliver at the date of this agreement;
- (e) the price of the Company's Shares at the close of each trading day on the ASX is not less than \$0.05 for an aggregate of 8 or more consecutive trading days in the period up to Completion.



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GO2 has appointed Gobarralong Capital Pty Ltd as Lead Manager in a share placement in order to satisfy the condition noted in 2.1(a) above. The share placement, to be made to sophisticated and exempt investors, will have a minimum of \$2.7 million and a maximum of \$4.0 million and will be undertaken via 2 tranches. Tranche 1 will be undertaken within the Company's placement capacity under ASX Listing Under 7.1 and Tranche 2 will be subject to shareholder approval.

Further details on placement pricing and timing will be released once known.

The Placement will fund the cash consideration for the acquisition of IPW. The Placement will also provide additional working capital to fund growth initiatives and to pay for associated transaction costs.

In addition, GO2 will be seeking Shareholder approval at a General Meeting of Shareholders for the issue for the Consideration Shares to the Vendor

GO2 Managing Director, Billy Ferreira said: "The acquisition of IPW represents an exciting opportunity for GO2 to broaden its offering via an industry leading training organisation, with an effective and innovative training methodology, and a company culture highly aligned to that of GO2.

There are considerable synergies between IPW and GO2, and the potential to leverage these synergies into new geographies and industry sectors is very exciting. None are more appealing than the potential for GO2 to provide real employment and placement outcomes to students who complete their training.

From a corporate perspective, we are thrilled to have secured the acquisition of a well-managed, high margin business which is significantly EBITDA accretive. We expect IPW to contribute significantly to the Group, as we focus on delivering meaningful profits in FY20 and beyond."

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