

18 April 2023

EGL to acquire Airtight Solutions funded through a \$8.0 million institutional placement

Highlights:

- EGL to acquire leading Australian air pollution services provider Airtight Pty Ltd (“Airtight”) for \$7.0 million plus up to \$5.0 million earnout¹ based on FY24 earnings
- Acquisition represents a major expansion of EGL’s presence in the air pollution control market
- Airtight focuses on smaller low-risk projects with recurring cash flow in the light industrials sector, diversifying EGL’s revenue and expanding EGL’s client base
- Revenue synergies from cross-selling with EGL’s TAPC and Waste Services divisions, and the opportunity to grow service revenue through Tomlinson personnel and experience
- Highly experienced and capable leadership team and excellent cultural fit
- Acquisition of Airtight is expected to be more than 15% EPS accretive to EGL shareholders on forecast FY24 pro forma earnings (before any synergies)
- EGL will undertake an equity capital raising of up to \$9.0 million, comprising a placement to raise \$8.0 million (“Placement”) and a subsequent Share Purchase Plan to raise up to a further \$1.0 million (“SPP”)
- Proceeds from the Placement and SPP will be used to support the acquisition and growth of Airtight

Strategic Acquisition and Capital Raising

The Environmental Group Limited (ASX: EGL) (“EGL”) today announces that it has signed a binding agreement to acquire 100% of the shares in Airtight for \$7.0 million plus earnout. Airtight is a leading Australian air pollution services provider in the mid-tier market. Airtight was established in 2002 and operates under the name Airtight Solutions.

This is not the announcement that lifts the trading halt. EGL will release another announcement advising when the trading halt has been lifted.

Background on Airtight

Airtight is one of the largest specialist air pollution control companies operating in Australia, with an extensive track record and a focus on reliability, premium service and safety. Established in 2002, Airtight was formed by senior air pollution control engineers who recognised a gap in the mid-tier market for air pollution control in Australia.

¹ The earnout payable will be equal to the amount by which Airtight’s FY24 EBITDA (calculated on a pre-AASB 16 basis, noting that cash rent is expected to be \$0.3 million) exceeds \$1.35 million, multiplied by 5, up to a maximum of \$5.0 million.

The key divisions include:

- **Dust & Fume Control** – specialises in designing, installing and maintaining air pollution control equipment
- **Engineered Solutions** – offers engineering resources required to deliver pollution control projects
- **Aftercare Servicing** – offers preventative maintenance & servicing packages
- **Waste-to-Energy** – offers extensive range of waste reduction technologies

Airtight serves several key client industries including automotive, agriculture, manufacturing, joinery, metal & polishing, food & pharmaceutical, paper & printing and recycling & waste recovery.

Airtight is headquartered in Wetherill Park, NSW and operates in Sydney, Melbourne and Brisbane. Airtight has approximately 40 staff across these offices.

Strategic rationale

The acquisition represents a major expansion of EGL's presence in the air pollution control market.

- The acquisition expands EGL's solutions offering to include small and medium size airborne dust collection solutions and associated services and products
- The acquisition captures sections of the market outside of TAPC's existing target network, as well as providing industry diversification
- Significant cross-sell opportunities with EGL's TAPC and Waste Services divisions, plus opportunity to leverage Tomlinson personnel/experience to grow EGL's service offering
- Airtight's management team is highly experienced and culturally aligned to EGL, and is expected to add significant depth to EGL's operations

EGL's Chief Executive Officer Jason Dixon said: *"Airtight represents a unique opportunity for EGL to expand significantly in the air pollution control market. Having high quality staff with great reputation in the market, Airtight's strength lies within its focus on the lighter industrials market, which complements TAPC's heavy industrials sector focus."*

"The acquisition will provide EGL with greater diversity in its business and service offerings, broadening our customer base and further improve the consistency of cash flow."

Transaction summary

EGL has entered into a binding agreement to acquire 100% of the shares of Airtight for upfront consideration of \$7.0 million, plus contingent consideration of up to \$5.0 million² dependent on FY24 earnings, on a cash and debt free basis. The purchase price is based on delivery of \$4.0 million in working capital, which is subject to a post-completion adjustment.

² The earnout payable will be equal to the amount by which Airtight's FY24 EBITDA (calculated on a pre-AASB 16 basis, noting that cash rent is expected to be \$0.3 million) exceeds \$1.35 million, multiplied by 5, up to a maximum of \$5.0 million.

Completion of the transaction is scheduled to occur on 1 May 2023, subject to satisfaction of conditions precedent, including, but not limited to, the receipt of all necessary consents, waivers and approvals and the receipt of subscriptions by EGL under the Placement.

Financial impact

Airtight is expected to generate revenue of \$18.2 million and normalised EBITDA of \$1.8 million³ in FY23. The acquisition is expected to deliver more than 15% EPS accretion in FY24 (before synergies).

In addition to the \$7.0 million of upfront consideration, EGL will be liable to make an earnout payment of up to \$5.0 million in late 2024 contingent on FY24 results.

Following the acquisition, EGL will retain a strong balance sheet with an increase of \$3.0 million in Westpac overdraft facility approved to provide additional working capital flexibility and funding flexibility for future acquisitions or investments.

EGL currently has net bank debt of \$0.9 million and will not be required to draw down debt in relation to settlement of the acquisition.

Placement

Under the Placement, EGL will issue approximately 40 million new EGL shares (“New Shares”) at an issue price of A\$0.20 each, representing:

- a 4.8% to the last traded price on Monday, 17 April 2023, A\$0.21;
- a 3.2% discount to the 10-day VWAP price A\$0.2066; and
- a 2.9% discount to the 30-day VWAP price A\$0.2061.

The New Shares issued under the Placement are expected to settle on Wednesday, 26 April 2023 and be issued and commence trading on ASX on Thursday, 27 April 2023.

The New Shares issued under the Placement will rank equally with existing EGL shares on issue with effect from their date of issue.

Taylor Collison Limited and Bell Potter Securities Limited are acting as Joint Lead Managers and Bookrunners to the Placement and SPP. Acacia Partners is acting as Sole Financial Adviser and MST Lawyers as legal adviser on the acquisition.

Share Purchase Plan

Following the completion of the Placement, EGL will also conduct an offer of new shares (“SPP Shares”) by way of an SPP to raise up to \$1.0 million from existing shareholders in EGL with a registered address in Australia or New Zealand (as at 7pm Melbourne time) on 17 April 2023, and who are not in the United States or acting for the account or benefit of a person in the United States (“Eligible Shareholders”).

³ Normalised EBITDA equals EBITDA normalised for one-off and non-recurring items.

The SPP will provide each of the Eligible Shareholders with the opportunity to apply for up to \$15,000 of SPP Shares at A\$0.20 (being the same price payable per New Share). The SPP Shares will rank equally with the New Shares and existing EGL shares with effect from their date of issue and EGL will seek quotation of the SPP Shares issued on ASX.

The SPP offer booklet containing further details of the SPP is expected to be released on ASX and sent to all Eligible Shareholders on 1 May 2023.

The SPP will be subject to a scale back at the discretion of EGL directors.

Indicative Timetable for the Placement and SPP⁴

Event	Date
SPP record date (7.00pm Melbourne time)	7.00pm Monday, 17 April 2023
Announcement of Equity Raising and trading halt	Tuesday, 18 April 2023
Announcement of results of Placement	Thursday, 20 April 2023
EGL shares recommence trading	Thursday, 20 April 2023
Settlement of New Shares issued under the Placement	Wednesday, 26 April 2023
Allotment and commencement of trading of New Shares issued under the Placement	Thursday, 27 April 2023
SPP Booklet dispatched to Eligible Shareholders	Monday, 1 May 2023
SPP opens	Monday, 1 May 2023
SPP closes (5.00pm Melbourne time)	5.00pm Monday, 15 May 2023
Settlement of New Shares issued under SPP	Friday, 19 May 2023
Allotment of New Shares issued under SPP	Monday, 22 May 2023
Commencement of trading of New Shares issued under SPP	Monday, 22 May 2023

Further information

The Investor Presentation dated 18 April 2023 contains important additional information, including information in relation to the key risks that investors in EGL may be subject to, as well as the foreign selling restrictions that apply to offers made under the Placement.

ENDS

⁴ The timetable presented is indicative only and subject to change without notice (subject to applicable laws and the ASX Listing Rules). A reference to a date or time in the timetable is a reference to Melbourne date and time.

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This announcement has been authorised for release by the Board of The Environmental Group Limited.

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Joint Company Secretary & Chief Financial Officer

The Environmental Group Limited

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About EGL

EGL has five business units, all committed to the protection of the environment by improving air quality, reducing carbon emissions, enhancing waste treatment, and lifting water quality.

- **Total Air Pollution Control** has a range of technologies which reduce dust, odours and harmful gasses from the environment.
- **Baltec IES** produces inlet and exhaust systems for gas turbines, which are used to complement and augment solar and wind energy production, without the use of rare mineral battery resources.
- **Tomlinson Energy Service** offers a network of service offices across Australia providing 24/7 service, maintenance and repairs of both proprietary equipment and other OEM equipment. The division also provides an essential link in our strategy to build a bio/waste to energy platform.
- **EGL Water** division continues to develop our patented technologies in conjunction with Victoria University. EGL recognises that one of the world's most valuable assets is water and will persist in our vision to reduce water pollution, leading to an improved environment, through low-cost technology solutions.
- **EGL Waste Services** provides the sales and services platform for the exclusive Turmec Agency agreement in Australia, Turmec are specialists in recycling solutions for the global waste industry, providing bespoke systems that enable their customers to efficiently recover high-quality material from waste, reducing the need for landfills.