

ASX Release

26 July 2019

BABYLON POWERS INTO QUEENSLAND WITH PRIMEPOWER ACQUISITION

Highlights

- **Acquisition of 100% of Primepower Queensland Pty Ltd, a specialist in maintaining and rebuilding large diesel engines for the resource sector**
 - **Specialist Cummins engine repairer and rebuilder**
 - **Three-year average annual revenue of approximately \$8.9m**
 - **A first-class client base with a focus on the coal sector including Peabody, FMG and Wesfarmers**
- **Initial payment of \$1.7 million in cash and \$0.6 million in Babylon shares issued at 2.4 cents per share with**
 - **\$1m in deferred payment adjusted for net asset value and**
 - **\$0.5m conditional on revenue performance targets**
- **Initial cash payment of \$1.7 million funded through existing cash reserves and an underwritten \$1.5 million Share Purchase Plan**
- **Acquisition delivers engine re-build scale, an East Coast footprint and a springboard to introduce Babylon's specialty equipment rental business into the Queensland market**
- **Post-acquisition, combined annualised H2 FY20 revenues over \$25M and ongoing profitability**
- **Primepower vendor to remain with the business and take equity at a premium in Babylon**

Specialist resources services provider Babylon Pump & Power Limited (**Babylon**), (ASX: BPP) is pleased to announce that it has entered into a conditional agreement for the acquisition of leading diesel engine specialist Primepower Queensland Pty Ltd ("Primepower") for up to \$4.2 million in cash, shares, delayed performance payments and assumption of asset finance debt.

Mackay-based Primepower was founded in 2004 and is a specialist in Cummins engine repairs and rebuilds to the Queensland resources sector. The acquisition complements Babylon's WA-based diesel maintenance division and diesel generated power and pumping rental business.

The acquisition is Babylon's first move into the eastern States and forms part of the Company's growth strategy and provides an ideal platform to expand Babylon's successful specialty equipment rental business into the East Coast.

Babylon is also pleased to announce an underwritten Share Purchase Plan (SPP) to raise \$1.5 million before costs and a proposed Placement targeted to raise a further approximately \$1.5 million ("Top-up Placement") (together the "Offer"). Further details of the Offer are provided below.

The SPP provides the opportunity for eligible shareholders to subscribe for up to \$15,000 worth of new Shares ('New Shares') without incurring brokerage or other transaction costs. The New Shares will be issued at a 20% discount to the five-day average volume weighted share price at the time of issue of



the New Shares (back pricing mechanism) and will be offered to Eligible Shareholders (as defined below) free of brokerage and fees.

The Funds raised under the Offer will be used to fund the up-front payments in relation to the acquisition of Primepower and for working capital purposes.

National Australia Bank (“NAB”) has also conditionally approved financing facilities for \$0.5 million in asset financing and \$1.6 million in debtor financing to assist with the growth of Primepower.

Babylon Executive Chairman Michael Shelby said:

“The Primepower business is a standout opportunity and logical fit for Babylon. With our WA operations going from strength-to-strength, now is the right time to expand our footprint on the East Coast of Australia.

“The recent strong performance of Babylon has validated our business model. The acquisition of Primepower gives us scale in our Diesel Maintenance division, extra technical expertise in Cummins engines to complement our sector leading expertise in Caterpillar engines and will be the perfect springboard to introduce our power and pumping rental offering to the East Coast market. The acquisition also provides commodity diversity, exposure to a larger client base, many with national operations, and will deliver a step-change in our operating scale and revenue.

“The resource services and related sectors remain very fragmented, and it has become apparent that there are a number further potential complimentary acquisitions and new business development opportunities available. While focussing on its core business, it is Babylon’s intention to explore thoroughly opportunities to expand in conjunction with its strong organic business growth.”

Transaction Overview

- The consideration is comprised of:
 - Cash on Completion of \$1.7 million (adjusted pro-rata for net assets)
 - \$0.6 million in Babylon shares to be issued at \$0.024 per share, or a 20% premium to 14-day average volume weighted share price. The shares are escrowed for 12 months
 - Assumption of a \$0.5 million trade finance facility
 - Deferred consideration of \$1.0 million over 2 years, adjusted for net asset value
 - Additional deferred consideration of \$0.5 million conditional on a revenue requirement of \$8.9 million being met in FY20
- Primepower purchase consideration is made up of:
 - Net assets including stock and work in progress of \$3.1 million (to be adjusted at settlement)
 - Goodwill and Plant & Equipment value of \$1.1 million
- Primepower founder and owner Michael Donegan will remain a Primepower executive for a minimum 12-months

The acquisition price, based on the fixed components of the acquisition terms, represents an FY19 EV/EBITDA multiple of 6.3 times.





The agreement is subject to conditions precedent including Babylon completing the capital raising Offer, obtaining approvals and authorisation from Babylon's and Primepower's financiers and lessors, Michael Donegan and Babylon entering into a service agreement, and other conditions usual for a transaction of this nature.

Strategic Rationale of Primepower Acquisition

- Culturally aligned – like-minded companies with similar operational philosophies and skill & trade requirements
- Geographic expansion – introduction to Queensland resources sector and other East Coast markets
- East Coast platform – opportunity to introduce specialty rental services to the east coast market
- Technical expansion – additional Cummins expertise to complement Babylon's current expertise
- Growing blue-chip client base – little overlap in clients and all major miners and service companies covered
- Increased commodity exposure – coal operations will continue to require maintenance on equipment for ongoing operations especially if new equipment capex is constrained
- Purchasing power and contract synergies – combination of both companies creates a company of significant size and scale
- Workshop flexibility - ability to shift labour or equipment for project execution
- No additional Corporate overhead – business will be managed locally, and the corporate team will not be increased

About Primepower Queensland Pty Ltd

Primepower was founded in Mackay, Queensland in 2004 by Michael Donegan, and has grown into a highly regarded specialist provider of diesel maintenance to the resources sector with a blue-chip client base including Peabody, FMG, BMA, Anglo, Wesfarmers and Minerva.

The Company generated unaudited annual revenue of c\$9.1 million for the year to June 30 2019, and adjusted net profit of c\$0.6 million.

Offer Details

The SPP is fully underwritten by Patersons Securities Limited (Patersons) which has been mandated to act as Lead Manager and Underwriter to the Offer.

Eligible Shareholders are those shareholders who are registered holders of ordinary fully paid shares (Shares) in Australia, New Zealand or United Kingdom (Eligible Shareholders) at 5pm (WST) on Thursday, 25 July 2019 (Record Date).

Shares issued under the Underwriting Agreement will be issued from the Company's existing capacity under the ASX Listing Rules.



Top-Up Placement

Additionally, the Company has agreed to grant Patersons the right (but not the obligation) to facilitate an offer of New Shares to sophisticated and professional investors at the same price as those under the Plan for approximately \$1.5 million (Top-Up Placement). The Company will be utilising available capacity under ASX Listing Rule 7.1 and if this is insufficient then capacity under ASX Listing Rule 7.1A.

Full details of the SPP will be contained in an Offer document which is scheduled to be dispatched to Eligible Shareholders on or around Wednesday 31 July 2019.

Set out below is the proposed timetable for the SPP. Directors reserve the right to vary the dates and times without notice.

Event	Date
Record Date	Thursday, 25 July 2019
Announce Plan	Friday, 26 July 2019
Dispatch Plan booklet to shareholders and release Offer Letter on the ASX	Wednesday, 31 July 2019
Opening Date	Wednesday, 31 July 2019
Closing Date	Monday, 19 August 2019
Company to notify Underwriter of Shortfall	Wednesday, 21 August 2019
Lodge Appendix 3B, Issue of New Shares under the Plan	Wednesday, 28 August 2019
Quotation on ASX of New Shares under the Plan	Thursday 29 August 2019

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