

29<sup>th</sup> December 2014

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Programmed Maintenance Services Ltd  
ACN 054 742 264

## Programmed proposes merger of equals with Skilled Group

Programmed (ASX: PRG) notes the media speculation regarding an approach by Programmed to Skilled Group (ASX:SKE) regarding a merger of equals.

Programmed confirms that it made a non binding merger of equals proposal to Skilled Group on 17th December 2014. Skilled is currently evaluating the proposal.

Under the merger of equals proposal, shareholders of each company would hold 50% of the combined group, with the opportunity to benefit from the value created by anticipated synergies of more than \$20 million per annum.

Key terms of the proposal were:

- Skilled Group and Programmed shareholders each to own 50% of the Merged Group;
- Skilled shareholders to receive 0.5032 Programmed shares (representing \$1.13 in value based on Programmed's closing share price on the day prior to the proposal) **PLUS** 25 cents in cash for each Skilled share.

At the date of the proposal, this valued each Skilled share at \$1.38. Notwithstanding the proposal is a merger of equals, Programmed proposed a significant premium of 21.3%<sup>1,2</sup>, before both groups of shareholders share equally the significant synergies.

Bruce Brook, Chairman of Programmed said, "The industrial logic for the merger to create a market leading staffing, maintenance and facility management business in the competitive markets we face is compelling. We have designed the proposal as a true merger of equals with a significant premium for Skilled shareholders so that each group of shareholders is able to share equally in more than \$20 million per annum of anticipated synergy benefits. The merger will diversify both companies' existing businesses and result in an appropriate merged group capital structure."

In the interest of the market being fully informed about the detailed proposal, Programmed attaches a copy of its letter to the Skilled Group Chair on 17th December.

Programmed's non binding proposal would be subject to standard conditions including mutual confirmatory due diligence, entering into a binding merger agreement, gaining all necessary regulatory approvals and the unanimous board recommendations of Skilled and Programmed.

Skilled has advised Programmed that it will respond in due course. Programmed looks forward to Skilled's response to the proposal.

### For Media Enquiries

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<sup>1</sup> Based on the closing prices of the two companies on 16th December 2014

<sup>2</sup> Given the proposal is an all scrip merger, the premium will vary as the relative share prices of Programmed and Skilled move. Since the proposal was advanced on 17 December 2014, the premium to the Skilled closing price has been as high as 23.6% and as low as 13.5%. As at close on the 24th December 2014 the proposal represented a 14.4% premium.

## About Programmed

Programmed is a leading provider of staffing, maintenance and facility management services. The group consists of three divisions:

- **Property & Infrastructure:** provides building, maintenance and operation services to the property and infrastructure sector.
- **Resources:** provides construction, maintenance and operation services to the resources sector.
- **Workforce:** provides recruitment and labour hire services to a range of industries including mining and construction, industrial, manufacturing, transport and logistics.

The group employs directly more than 10,000 people across a broad range of government and private sector businesses. Its ability to recruit and deploy staff is supported by an active database of approx. 60,000 people. Programmed provides services to over 7,000 customers, often under long-term contracts and delivers these services through a network of over 100 branches throughout Australia and New Zealand.

Programmed's business model is built around its ability to recruit, retain and deploy a large directly-employed workforce of professional, skilled and semi-skilled staff with a wide range of capabilities.



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**STRICTLY CONFIDENTIAL**

17 December 2014

Ms. Vicki McFadden  
Chair  
Skilled Group Limited  
2 Luton Lane  
Hawthorn Victoria 3122

Dear Ms. McFadden,

### **MERGER OF EQUALS PROPOSAL**

On behalf of the Programmed Maintenance Services Limited ("**Programmed**") Board, I am pleased to make this non-binding proposal for a merger of equals between Programmed and Skilled Group Limited ("**Skilled**") as described below (the "**Proposed Transaction**", "**Proposal**").

Discussions between advisers and our CEOs have for some time confirmed the industrial logic in combining the Programmed and Skilled businesses. The Programmed Board and, we understand, the Skilled Board agree on the merits of the combination in terms of compelling strategic rationale and the potential to create significant value for both companies' shareholders.

The Proposed Transaction would create a market leading diversified staffing, maintenance and facilities management business with substantially greater scale and the potential to unlock significant synergies, estimated by our CEO's and CFO's at more than \$20 million per annum.

We look forward to engaging with you in co-operative discussions to finalise a mutually agreeable proposal. Our desire is to engage collaboratively with the Skilled Board in order to unlock the value available from a combination of the businesses.

#### **1. Indicative proposal**

Consistent with the philosophy of previous discussions and subject to the terms of this letter, Programmed is proposing a cash and scrip **merger of equals**. Accordingly, **each company's current shareholders would comprise 50% of the merged group ("Merged Group")**. This will allow each of our shareholders to participate equally in the value created by the merger.

Notwithstanding the proposed merger of equals, Programmed is also proposing that the Skilled shareholders receive a premium.

Programmed is therefore proposing that Skilled shareholders receive:

- **0.5032 Programmed shares (representing \$1.13 at yesterday's close); PLUS**
- **25 cents per Skilled share in cash**

for each Skilled share.

**This values each Skilled share at \$1.38, representing a 21.3% premium<sup>1</sup>** to the closing price. Furthermore, capitalising a conservative \$15 million of post tax synergies at a 10x multiple would deliver \$150 million of value to the two groups of shareholders. As 50% of this will flow to the benefit of Skilled shareholders, the proposal will deliver significantly greater value than the premium alone.

Other terms of the Proposal include:

- Significant representation from the current Skilled directors to be invited to join the Merged Group Board;
- Chris Sutherland to be appointed CEO and Managing Director of the Merged Group. We will work with you towards resolution or an appropriate role for your recently announced CEO appointment; and
- The management team will be drawn from the talent within both companies on a "best for job" basis.

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<sup>1</sup> Based on Programmed's closing price on 16th December of \$2.24 and Skilled's closing price of \$1.135

## 2. Benefits of the Proposed Transaction

The Proposed Transaction would create the leading player in staffing, maintenance and facilities management providing the Merged Group with increased breadth and depth in the coverage of customer segments, unlocking the complementary value in both businesses. The Proposed Transaction enables both groups of shareholders to equally share the following benefits:

- **Unlocks complementary value in both businesses:** The Proposed Transaction is a logical extension to the strategies of both Skilled and Programmed. The Proposed Transaction has strong strategic rationale:
  - Significantly increases the scale of both groups staffing, maintenance and facilities management activities;
  - Increases operational economies of scale allowing lower costs and improved quality of customer service delivery;
  - Enhanced organic growth opportunities
- **Significantly improved sector and customer diversification:** Merged Group will benefit from improved geographic and end market diversification leading to lower earnings volatility and reduced exposure to individual end markets or customers. The Proposed Transaction provides Skilled's shareholders with exposure to Programmed's relatively stable property and infrastructure services business, its considerable presence in New Zealand and its relatively larger educational and government customer base.
- **Financial benefits:** The Proposal represents a 21.3% premium to the last Skilled closing price. The \$0.25 cash payment per share provides Skilled shareholders with an immediate cash benefit as well as the opportunity to benefit from the potential \$150 million capitalised value of the synergies.
- **Scrip consideration allows participation in the value creation:** The scrip component of the Proposal should not only provide Skilled shareholders with the ability to obtain CGT rollover relief, but importantly would enable Skilled shareholders to continue to share in the benefits of the transaction and the prospects of Merged Group going forward, consistent with the merger of equals philosophy.
- **Enhanced trading liquidity and equity market benefits:** The Merged Group would have a pro forma market capitalisation of approximately \$533 million and will sit comfortably within the top 200 largest companies by market capitalisation providing increased weighting in the S&P/ASX 200 index thereby attracting a greater level of investor interest and trading liquidity. Skilled shareholders may also benefit from the potential re-rating of Skilled's earnings within Merged Group.
- **Greater flexibility with respect to future funding options:** Merged Group's balance sheet will appropriate leverage and funding flexibility to support organic growth and acquisition opportunities.

## 3. Synergy benefits of the Proposed Transaction

Our respective management teams have previously explored and agreed in principle that there would be at least \$20 million of annualised synergies. We anticipate Merged Group achieving that target comfortably within the first 2 years following implementation of the Proposal. These synergies would principally be sourced from:

- Reduced shared services costs in HR, corporate finance, IT, risk and legal;
- Reduced public company costs;
- Branch optimisation;
- Workers compensation savings; and
- Procurement savings.

Additional opportunities to create value for both groups of shareholders would arise in the areas of:

- Enhanced opportunities to service a broader range of customers; and
- Acceleration of online recruitment capabilities: Long term potential to leverage the enlarged labour pool of the combined company with the OneShift online platform to accelerate growth in online recruitment, an important trend in the sector.

#### 4. Funding

The strength of Programmed's balance sheet allows us to fund the cash component of the Proposal. As of 30 September 2014, Programmed had a net debt balance of \$24.3 million and a bank syndicated facility totalling \$200 million.

#### 5. Conditions

The Proposal is subject to limited conditions:

- **Mutual confidentiality agreement, standstill and exclusivity** (subject to usual fiduciary carve outs)
- **Mutual due diligence:** Given the discussions regarding synergies that have already occurred in some detail between management teams, we are very confident that confirmatory due diligence could be undertaken promptly, in approximately 2-3 weeks;
- **Unanimous Board recommendations of Skilled and Programmed**
- **Entering into a scheme implementation agreement** containing customary terms and conditions, such as a mutual material adverse change condition, any necessary regulatory approvals, mutual break fees, prescribed occurrences and deal protection measures.

#### 6. Confidentiality

This Proposal is intended as an expression of our interest and is not intended to constitute, and does not constitute, a legally binding offer. This Proposal does not constitute a proposal to make a takeover bid for the purposes of section 631 of the Corporations Act. It represents an incomplete and non-binding proposal which is subject to negotiation and is strictly confidential. Any legally binding obligations would be subject to, among other things, the execution of definitive transaction documentation.

This letter is provided on the understanding and condition that neither the existence of the letter, its substance, nor Programmed's interest in merging with Skilled would be disclosed publicly or privately by or on behalf of Skilled, except with the prior written permission of Programmed. This non-disclosure requirement does not prevent any disclosure strictly required by law or the listing rules of the Australian Securities Exchange. Should Skilled determine that it is so required to disclose the existence of, or any details pertaining to, Programmed's interest, Programmed would appreciate being consulted in advance regarding the terms of the disclosure and, in all circumstances, Programmed's identity must not be disclosed without our prior agreement.

#### 7. Contact details

If you should have any questions about this Proposal, please do not hesitate to contact me or our financial adviser in relation to the Proposal.

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Programmed believes this Proposal represents an attractive and compelling opportunity for Skilled shareholders to share equally in the significant benefits of the combined group while also providing an immediate cash benefit and substantial premium in the context of a merger of equals.

Programmed is well capitalised and is a logical merger partner for Skilled given, among other things the complementary nature of our businesses.

This Proposal demonstrates the seriousness of Programmed's interest in the Proposed Transaction as well as our view of the merits of the Proposed Transaction for both groups of shareholders.

I look forward to hearing from you when you and your Board have had an opportunity to consider the Proposal.

Yours sincerely,



**Bruce Brook**

Chairman

Programmed Maintenance Services Limited