Swift Makes Transformational Acquisition of Video on Demand

ASX: SW1

Highlights

- Swift has executed a binding Agreement to purchase Video on Demand – a leading digital entertainment provider in the hospitality sector.

- This accretive and transformational Acquisition will see Swift’s site numbers increase by 67% overnight and room numbers increase by 20,000.

- Swift continues to execute on its strategy to become the dominant player in its chosen market verticals.

- Fully funded transaction with $3 million provided by Bankwest and binding commitments for $4.5 million received through a share placement to institutional investors. Total of $7.5 million raised (before costs) to fund the Acquisition and to provide working capital.

Leading telecommunications and content solutions provider Swift Networks Group Limited (ASX: SW1, Swift or the Company) has entered into a binding share purchase agreement (Agreement) for the acquisition (Acquisition) of VOD Pty Ltd (VOD) and its parent Movie Source Pty Ltd (Movie Source).

VOD is a market leader in the provision of IPTV and video-on-demand services and brings with it over 15 years of industry experience in the hospitality sector in addition to material agreements in the growing student accommodation sector, amongst others.

This Acquisition complements Swift’s recent successes in the Aged Care sector leading Swift to an exceptionally strong position in all of its targeted market verticals, namely – Hospitality, Aged Care and Resources. This Acquisition fast tracks Swift’s growth and further demonstrates its ability to deliver on the strategy outlined 12 months ago.

About VOD

VOD is an Australian market leader with more than 15 years of experience in delivering innovative IPTV and video-on-demand solutions.

VOD prides itself on delivering solutions that add value to customers in its target markets of hospitality, resources, student accommodation, hospitals and aged care facilities.

VOD has established strong client relationships and recurring revenue across these target markets through a focus on strategic partnerships with content providers, system integrators and electronic device manufacturers.
VOD’s expertise extends to network design and implementation, application design for multi-platform devices, fully customisable user interfaces, in-room video streaming platform development and integration with third-party vendors.

Based in Sydney, VOD currently services over 26,000 accommodation rooms in Australia, New Zealand and the South Pacific islands.

VOD brings a history of sound financial performance, with pro forma earnings before tax, interest, depreciation and amortisation (EBITDA) of more than $1.1 million on FY17 revenue (unaudited) of $3.75 million.

Key VOD Clients and Content Partners

Strategic Rationale

This significant acquisition offers a number of benefits to the Swift business including:

(i) **Market Share** – Swift’s site numbers will increase immediately by over 67%.

(ii) **Technology and Features** – Swift’s technology will benefit from the combined efforts of two strong industry players and the integration of the already compatible VOD technology will rapidly accelerate Swift’s product roadmap.

(iii) **Reduced Content Costs** – the Acquisition allows Swift to move up the content value chain with a notable reduction in content costs which are a material component of Swift’s overall cost base.

(iv) **Strategic Relationships** – the transaction comes with an impressive network of system integrators, partners and clients including; Telstra, Blue Sky, Iglu and, Triple Play.

(v) **Market Leading Presence** - VOD will bring Swift long-standing contracts with blue-chip multinational clients in the hospitality sector, including Accor Hotels and InterContinental Hotels Group.

(vi) **Geographic Expansion** – Swift’s presence will not only expand on the East Coast but internationally with the provision of services to sites in the Pacific and also provide other synergies for continued expansion in target verticals such as the aged care and student accommodation sectors.
The tables below demonstrate the synergies between the businesses and opportunities for growth:

<table>
<thead>
<tr>
<th>SERVICES</th>
<th>VOD</th>
<th>Swift Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movies on Demand</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>IPTV System</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Digital Signage</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Internet Gateway System</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Digital Concierge</td>
<td>✓</td>
<td>Improved product offering</td>
</tr>
<tr>
<td>Digital Schedule System</td>
<td>✓</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>VERTICALS</th>
<th>VOD</th>
<th>Swift Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitality</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Resources</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Lifestyle/Retirement Villages</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Aged Care</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Student Accommodation</td>
<td>✓</td>
<td>Emerging market growth (3,000+ rooms)</td>
</tr>
<tr>
<td>Hospitals</td>
<td>✓</td>
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</tr>
</tbody>
</table>

The following chart shows the growth in Swift's expected post-acquisition footprint on a region-by-region basis, leading to step change growth in total site numbers of more than 67% from 152 sites to 254 sites.
Swift Chief Executive Officer, Xavier Kris, said:

“While growing our business organically, we have been looking for game-changing acquisitions such as this one and I am delighted to welcome Movie Source and VOD to the Swift Networks Group.

This transaction reduces our content costs and accelerates the strategic plan for vertical and geographical expansion that Swift has outlined consistently since listing on the ASX.

We are excited to leverage VOD’s strength in the hospitality sector to enable the combined business to become the dominant player in this vertical.

As we integrate our businesses we look forward to delivering an increasingly compelling service offering to a growing pool of accommodation providers, their guests and residents across Australia and beyond.”

Acquisition Funding

In order to fund the Acquisition, the Company has received binding commitments to raise $4.5 million via a placement of 18 million fully paid ordinary shares to institutional investors at $0.25 per share (Placement) and has entered into debt facility with Bankwest to raise a further $3 million (Facility).

The Placement will occur in 2 tranches, with the initial tranche of up to $2,204,500 to settle in or around 12 July 2017, and the balance of up to $2,295,500 subject to prior shareholder approval at a general meeting to be held on or around Friday, 11 August 2017. Tranche 1 of the Placement will utilise the Company’s available capacity under Listing Rule 7.1 (735,909 Shares) and 7.1A (8,082,091 Shares).

The Facility has a term of 3 years, during which the Company will make quarterly repayments with a final bullet repayment to be made at the end of the term.

In addition, the Company has negotiated access to a debt facility of up to $350,000 to fund working capital requirements.

Both facilities will be secured by a first ranking general security of all present and future assets of the Company and its subsidiaries, and are subject to other terms which are considered customary for such agreements.

Transaction Structure

To complete the Acquisition, the Company will pay to the shareholders of Movie Source (Sellers) a consideration totalling $6 million consisting of:

- a cash payment of $5.1 million; and
- 3.6 million fully paid ordinary shares in the Company.

The material terms of the Agreement are attached to this announcement.
For more information, please contact:

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Acquisition of Movie Source Pty Ltd and VOD Pty Ltd

The material terms of the Agreement are set out below.

Company Acquisition

The Company will acquire Movie Source Pty Ltd and its wholly-owned subsidiary VOD Pty Ltd (Acquisition) from the shareholders of Movie Source Pty Ltd (Sellers).

The Sellers are Anthony Aduckiewicz and Jennifer Lynne Aduckiewicz as joint trustees for Tony and Jennifer Aduckiewicz Superannuation Fund, Sirep Pty Ltd as trustee for The Peris Family Superannuation Fund, and Aradhippou Grove Pty Ltd as trustee for Kafataris Family Trust.

Purchase Price

The purchase price payable by the Company to the Sellers for the Acquisition is:

- $5,100,000 in cash (subject to adjustment for prepaid liabilities, trade debts, trade credits, employee entitlements and prepayments); and
- 3,600,000 fully paid ordinary shares in the Company.

Escrow

25% of the share consideration issued to the Sellers will be escrowed for 9 months, from the date of completion, and the remaining 75% will be escrowed for 12 months.

Conditions Precedent

Completion of the Acquisition is conditional upon certain conditions precedent, including:

- the Company obtaining shareholder approval;
- the Company completing a capital raising and/or debt raising sufficient to fund the Acquisition;
- third parties to certain material contracts with VOD consenting to the Acquisition; and
- certain key employees of VOD accepting the Company’s employment terms.

Restraint Period

The Sellers are subject to a restraint and non-compete clause for up to 2 years from completion.

Warranties and Indemnities

The Agreement contains warranties and indemnities given by, and in favour of, of both the Company and the Seller’s, which is considered standard for agreements of this nature.