Spotless Group Holdings Limited (ACN 154 229 562)

This is an important document and requires your immediate attention. If you are in any doubt about what to do, you should contact your broker or your legal, financial or other professional advisor as soon as possible.

Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by Downer EDI Services Pty Ltd, a wholly owned subsidiary of Downer EDI Limited.

The Independent Directors of Spotless unanimously recommend that, in the absence of a superior proposal, you **ACCEPT** the Offer made by Downer Services to purchase all of your Spotless Shares for $1.00 cash per Spotless share plus, for every 17.92741 Spotless Shares accepted into the Offer, a contingent share option exercisable over 1 Downer Share, subject to the future market prices of Downer shares.

The Independent Expert has concluded that the Offer is **fair and reasonable** for Spotless Shareholders not associated with Downer.

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your financial or other professional adviser immediately.

Spotless Shareholders can call Spotless Shareholder Information Line on 1300 202 738 (within Australia) or +61 1300 202 738 outside Australia if they require assistance.

Oaktower Partnership	**Gilbert + Tobin**	**Ernst & Young**
Financial Adviser	Legal Adviser	Tax Adviser

Important notices

Key Dates

Date of the Offer	Thursday, 20 August 2020
Date of this Target's Statement	Tuesday, 1 September 2020
Close of the Offer (unless extended or withdrawn)	Monday, 21 September 2020

Nature of this document

This document is a Target's Statement issued by Spotless Group Holdings Limited (ACN 154 229 562) (**Spotless**) under Part 6.5, Division 3 of the Corporations Act in response to the Bidder's Statement dated 12 August 2020 issued by Downer EDI Services Pty Ltd (ACN 137 732 042) (**Downer Services**), a wholly owned subsidiary of Downer EDI Limited (ACN 003 872 848) (**Downer**), for all Spotless Shares in which Downer Services does not currently have a relevant interest (**Offer**).

ASIC disclaimer

A copy of this Target's Statement has been lodged with ASIC on 1 September 2020. None of ASIC or any of its respective officers takes any responsibility for the content of this Target's Statement.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 11. The rules of interpretation that apply to this Target's Statement are also set out in Section 11.

No account of personal circumstances

The Independent Directors of Spotless recommend that you read this Target's Statement, the Bidder's Statement and the Supplementary Bidder's Statement in full and seek independent advice if you have any queries in respect of the Offer. The information contained in this Target's Statement does not constitute personal advice. In preparing this Target's Statement, Spotless has not taken into account the objectives, financial situation or needs of individual Spotless Shareholders. It is important that you consider the information in this Target's Statement in light of your particular circumstances. You should seek advice from your financial, legal or other professional adviser before deciding whether to accept or reject the Offer.

Forward-looking statements

This Target's Statement contains forward-looking statements, including statements of current intention or expectation. As such forward-looking statements relate to future matters, they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by such forward-looking statements.

None of Spotless or the Directors, officers and advisers give any representation, assurance or guarantee to Spotless Shareholders or any other person as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement (including in the

Independent Expert's Report) reflect views held only as at the date of this Target's Statement. Except as required by applicable law, Spotless does not undertake to update or revise these forward-looking statements nor any other statements (written or oral) that may be made from time by or on behalf of Spotless, whether as a result of new information, future events or otherwise.

Disclaimer as to information

The information on Downer and Downer Services contained in this Target's Statement has been compiled from and prepared by Spotless using information obtained from Downer or other publicly available information (including information contained in the Bidder's Statement) and has not been independently audited or verified by Spotless or its advisers. Accordingly, subject to the Corporations Act, Spotless does not make any representation or warranty (express or implied) as to the accuracy or completeness of such information. If any information obtained from Downer or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward-looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward-looking statements.

Independent Expert's Report

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report. Neither Spotless nor any of its officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement may be restricted by law or regulation in some jurisdictions outside Australia. Accordingly, persons outside Australia who come into possession of this Target's Statement should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations outside Australia.

Privacy

Spotless has collected your information from the Spotless share register for the purpose of providing you with this Target's Statement. Such information may include the name, contact details and shareholdings of Spotless Shareholders and the names of persons appointed to act as proxy, attorney or corporate representative of Spotless Shareholders. Without this information, Spotless would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the name and address of shareholdings to be held in a public register. Personal information of the type described above may be disclosed on a confidential basis to Spotless and its Related Bodies Corporate, holders of Spotless Shares and external service providers (including the Share Registry), and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Spotless, please contact us on the Spotless Shareholder Information Line as set out below.

Diagrams

Diagrams appearing in this Target's Statement are illustrative only and may not be drawn to scale.

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Target's Statement.

Spotless Shareholder Information Line

If you have any questions in relation to the Offer, please contact the Spotless Shareholder Information Line on 1300 202 738 (within Australia) or +61 1300 202 738 (outside Australia) between 9am and 5.30pm (AEST) on Business Days.

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Letter from the Independent Chairman

1 September 2020

Dear Spotless Shareholders

On 21 July 2020, Downer, a majority shareholder of Spotless via its wholly owned subsidiary Downer Services, announced an off market offer to acquire all ordinary shares in Spotless which Downer or Downer Services does not already own. Downer also announced that it has entered into a call option deed with Coltrane Master Fund, L.P. (which has a current Relevant Interest in approximately 11.8% of Spotless) (**Coltrane**) which grants Downer a call option over 2.99% of Spotless Shares (**Call Option**), and which on exercise would increase Downer's ownership interest in Spotless above the 90% threshold required for it to proceed to compulsory acquisition.

As a result of its pre-bid 87.8% shareholding in Spotless and the Call Option, Downer was already in a position to proceed to 100% ownership of Spotless on exercise of the Call Option notwithstanding the Offer. The Offer opened on 20 August 2020 and Coltrane has already accepted its entire shareholding to Downer. Downer now holds a Relevant Interest in approximately 99.6% of Spotless Shares and lodged a Compulsory Acquisition Notice with ASIC on 25 August 2020 to acquire the remainder of Spotless Shares, and which has been dispatched to Spotless Shareholders. Spotless Shareholders have until the close of the Offer (Monday, 21 September 2020) to accept the Offer after which Downer intends to compulsorily acquire all outstanding shares in Spotless. If your Spotless Shares are compulsorily acquired then you will receive the consideration later than if you had accepted under the Offer.

Under the terms of the Offer, you are being offered $1.00 cash per Spotless Share plus, for every 17.92741 Spotless Shares accepted into the Offer, a contingent share option exercisable over 1 Downer Share, subject to the future market prices of Downer shares (**Downer Contingent Share Options**). The Downer Contingent Share Options are allotted into and exercisable in three tranches. Each tranche has a different 'target price condition' attached which, when satisfied, will result in Downer Shares being issued.

Following Downer's announcement on 21 July 2020, Spotless established an Independent Board Committee (**IBC**) to consider the Offer. The IBC comprises the two Independent Directors, being John Humphrey, Non-Executive Director and Chairman and Simon McKeon, Non-Executive Director. The other Directors of Spotless (**Non-Independent Directors**) are regarded as representatives of Downer and were therefore not appointed to the IBC. The Non-Independent Directors are not making a recommendation to Spotless Shareholders in relation to the Offer.

The IBC appointed Oaktower Partnership as financial adviser, Gilbert + Tobin as legal adviser and Ernst & Young as tax adviser to assist the IBC to evaluate and respond to the Offer by Downer Services. The Independent Directors have carefully considered the Offer in all the current circumstances (including the prospects for Spotless in the absence of the Offer and Downer having commenced the process to compulsorily acquire all shares in Spotless not owned by it at completion of the Offer). The Independent Directors recommend that, in the absence of a superior proposal, you should **ACCEPT** the Offer.

The IBC appointed Deloitte Corporate Finance to prepare the Independent Expert's Report. The Independent Expert has concluded that the Offer is fair and reasonable for Spotless Shareholders not associated with Downer. A copy of the Independent Expert's Report is included as Attachment A to this Target's Statement, and you are encouraged to read that report in full. The Independent Expert assessed the estimated market value of Spotless Shares to be in the range of $0.83 and $1.11 per Spotless Share. The Independent Expert has assessed the estimated market value of the Offer consideration to be in the range of $1.07 and $1.12 per Spotless Share. As the estimated value of the

Offer consideration, as assessed by the Independent Expert is within the range of its estimate of the market value of a Spotless Share, the Independent Expert has concluded that the Offer is fair and reasonable to Spotless Shareholders not associated with Downer.

All Spotless Shareholders should have already received a copy of the Bidder's Statement and Supplementary Bidder's Statement from Downer Services in the mail, which sets out the detailed terms of the Offer, and includes an Acceptance Form.

If you have not received a Bidder's Statement, Supplementary Bidder's Statement or Acceptance Form, you should call Downer's Offer Information Line on 1300 157 206 (within Australia) or +613 9415 4087 (outside Australia) between 8.30am and 5.30pm (Sydney time) on Business Days.

Reasons for the IBC's Recommendation

This Target's Statement sets out the formal response of the Independent Directors to the Offer, including the reasons why the Independent Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a superior proposal.

In summary:

1. The Independent Expert, Deloitte Corporate Finance, has concluded that the Offer is fair and reasonable for Spotless Shareholders not associated with Downer;

2. The Offer is unanimously recommended by your Independent Directors, with the Independent Director, Simon McKeon, who owns shares in Spotless, intending to accept the Offer for all his Spotless Shares;

3. Coltrane has already accepted the Offer and Downer now has an approximate 99.6% shareholding in Spotless. Downer has commenced the compulsory acquisition process to acquire your Spotless Shares after the end of the Offer Period and you will receive the same consideration that you would have received if you accept the Offer. If you accept the Offer you will receive the consideration earlier than those Spotless Shareholders whose Shares are compulsorily acquired after the close of the Offer;

4. The Offer from Downer is unconditional and is made in respect of all of your Spotless Shares, and if accepted by you, $1.00 cash per Spotless Share will be paid to you within 7 days of your acceptance of the Offer;

5. In addition to $1.00 cash per Spotless Share, Spotless Shareholders that accept the Offer will also receive Downer Contingent Share Options. These are zero priced, non-voting, non-quoted contingent share options and give Spotless Shareholders the potential to receive shares in Downer, currently an ASX listed company, over the next four years (subject to the future market prices of Downer shares and the terms of the Downer Contingent Share Options);

6. The Offer is the best available offer for Spotless Shares at this time, noting that the Independent Directors consider that it is unlikely a superior offer will emerge from another bidder, given the existing shareholding of Downer Services in Spotless (and given Coltrane has already accepted the Offer which has enabled Downer to proceed to compulsorily acquire any Spotless Shares not owned by it after the close of the Offer); and

7. Downer already has effective majority control of Spotless and is in a position to control the composition of the Spotless Board and the strategic direction of Spotless. By accepting the Offer, Spotless Shareholders will no longer be directly exposed to the risks of an

investment in the unlisted Spotless Group (including the risk that future dividends are fully controlled by Downer);

Each of these reasons is explained in greater detail in this Target's Statement.

Further Information

The Offer is scheduled to close at 7:00pm (AEST) on Monday, 21 September 2020. To accept the Offer, simply follow the instructions outlined in the Bidder's Statement, the Supplementary Bidder's Statement and the Acceptance Form and section 4.1(a) of this Target's Statement. No action is required if you decide not to accept the Offer.

We encourage you to read this Target's Statement carefully, and to seek independent advice if you are in any doubt as to how to respond to the Offer.

If you need any more information about the Offer, we recommend that you seek professional advice, or call 1300 202 738 (within Australia) or +61 1300 202 738 (outside Australia) Monday to Friday between 8.30am and 5.30pm (AEST), or go to www.spotless.com.

Yours sincerely

John Humphrey
Director and Chairman of the Independent Board Committee

1 Reasons why you should ACCEPT the Offer

This section summarises the key reasons why the Independent Directors unanimously recommend to Spotless Shareholders that they **ACCEPT** the Offer, in the absence of a superior proposal.

1.1 The Independent Expert has concluded that the Offer is fair and reasonable for Spotless Shareholders not associated with Downer

The Independent Directors appointed Deloitte Corporate Finance to prepare an Independent Expert's Report on the Offer. The Independent Expert concluded that the Offer is fair and reasonable for Spotless Shareholders not associated with Downer.

The Independent Expert has assessed the estimated market value of Spotless Shares to be in the range of $0.83 to $1.11 per Spotless Share.

The Independent Expert has assessed the estimated market value of the Offer consideration to be in the range of $1.07 to $1.12 per Spotless Share as comprised as follows:

	Offer Consideration per Spotless Share	
Component	Low	High
Cash	$1.00	$1.00
Downer Contingent Share Options[1]	$0.07	$0.12
Total	**$1.07**	**$1.12**

Note

1. Represents the value of Downer Contingent Share Option that one Spotless Share is entitled to (i.e. 1/17.92741 of a Downer Contingent Share Options).

As the estimated value of the Offer consideration, as assessed by the Independent Expert is within the range of its estimate of the market value of a Spotless Share, the Independent Expert has concluded that the Offer is fair and reasonable.

The Independent Expert has assessed the consideration for the Downer Contingent Share Options to be between $0.07 and $0.12 per Spotless Share. The Independent Expert has concluded that even excluding this component of the consideration (if a Spotless Shareholder was to hold the view that there is too much uncertainty associated with the achievability of the Downer Contingent Share Options target prices) because the $1.00 cash component of the consideration is slightly higher than the mid-point of his assessed market value of a Spotless Share that in their opinion the Offer would still be fair.

A copy of the Independent Expert's Report is attached to this Target's Statement as Attachment A.

The Independent Directors encourage shareholders to read the Independent Expert's Report in its entirety before making a decision as to whether or not to accept the Offer.

1.2 Downer has already commenced the compulsory acquisition process to acquire your Spotless Shares

Coltrane has already accepted the Offer in relation to approximately 11.8% of Spotless Shares to Downer. Consequently, Downer has now proceeded to compulsory acquisition, which would be completed after the end of the Offer Period. Downer lodged a Compulsory Acquisition Notice with ASIC on 25 August 2020, and unless you successfully challenge the compulsory acquisition process, your Spotless Shares will be compulsorily acquired and you will receive the same consideration that you would have received under the Offer. However, you will receive the consideration later than those Spotless Shareholders who accept the Offer. Section 5.5 of this Target's Statement sets out further details regarding the compulsory acquisition procedure (including information on your rights to challenge the compulsory acquisition).

1.3 The Offer is unconditional and has a cash component which delivers certain value for your Spotless Shares

The unconditional Offer provides partial certainty of value, with part of the consideration in cash.

If you accept the Offer, you will (in addition to receiving the Downer Contingent Share Options):

– be paid $1.00 in cash for each Spotless Share which you hold;

– not incur any stamp duty or brokerage fees under the Offer (section 9.2(h) of this Target's Statement sets out further details regarding stamp duty); and

– receive payment of the cash component of the Offer within 7 days after the date of your acceptance.

Further to the cash component of the Offer providing certain value for your investment, by accepting the Offer you will substantially reduce your direct exposure to the risks inherent in continuing to hold Spotless Shares, including risks associated with Spotless' business and general industry risks. Please refer to section 8.2 for further information about these risks.

1.4 The Offer provides Spotless Shareholders with the opportunity to receive Downer Shares (subject to the future market price of the Downer Shares and the terms of the Downer Contingent Share Options)

The Downer Contingent Share Options give Spotless Shareholders the possibility to have exposure to the larger and more diverse Downer business through three tranches of zero priced, non-voting and non-quoted contingent options that may convert into Downer Shares over a four-year period.

If the future price of Downer Shares satisfies a 'target price condition' attached to a tranche of Downer Contingent Share Options, Spotless Shareholders will be entitled to Downer Shares. On receipt of Downer Shares, current Spotless Shareholders would be participants in a large and diverse ASX-listed company and benefit from any upside in the market value of those Downer Shares, a benefit Spotless Shareholders do not currently have as shareholders in an unlisted public company. However, there is no guarantee that the exercise conditions of the Downer Contingent Share Options will be met during the option period.

See section 1, section 10.2 and Annexure B of the Bidder's Statement for further information on the terms of the Downer Contingent Share Options.

The Downer Contingent Share Options will exercise automatically if the relevant Downer share price targets and other conditions of the Downer Contingent Share Options are met, provided Spotless Shareholders do not select the manual exercise alternative.

If you elect to manually exercise your Downer Contingent Share Options, you bear the onus of giving notice to Downer of your intention to exercise your Downer Contingent Share Options within 20 Business Days of the relevant "target price condition" being satisfied. If you do not correctly give notice of your manual exercise to Downer, you may lose the right to receive Downer Shares.

Spotless Shareholders who decide to accept the Offer should take the automatic exercise alternative rather than electing to manually exercise the Downer Contingent Share Options. You do not need to fill out the election notice which accompanies the Bidder's Statement. See section 2 of the Bidder's Statement for further information.

1.5 No superior proposal has emerged as at the date of this Target's Statement

As at the date of this Target's Statement, no alternative proposals to the Offer have been put to Spotless or are currently under consideration by Spotless, and the Independent Directors are not aware of any other offer or proposal that might be an alternative to the Offer.

In light of Downer's Relevant Interest in approximately 99.6% of Spotless Shares, the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

Similarly, the Independent Expert's Report states that an alternative takeover offer is unlikely as any such offer would require Downer to sell its shares which it considers to be unlikely. On this basis, Spotless Shareholders not associated with Downer are unlikely to receive a superior offer.

1.6 Downer already has effective majority control of Spotless and is in a position to control the composition of the Spotless Board and the strategic direction of Spotless

Downer has effectively controlled Spotless since the close of its takeover offer in August 2017. Spotless was delisted from the ASX in August 2019 and Spotless Shareholders have not been able to trade its shares on-market since that date.

Accepting the Offer will mean Spotless Shareholders will no longer be exposed to the risks associated with being shareholders in an unlisted entity in which dividends are fully controlled by Downer.

2 Reasons why you may decide not to accept the Offer

This section summarises the key reasons why you may decide not to accept the Offer.

As noted in section 5.5 of this Target's Statement, Downer is entitled to proceed to compulsorily acquire all of your Spotless Shares after close of the Offer and has commenced this process.

As such, even if you do not accept the Offer, you are unlikely to be able to continue as a Spotless Shareholder and are likely to be compelled by law to sell your Spotless Shares to Downer Services.

2.1 You may disagree with the Independent Directors' recommendation or the conclusions of the Independent Expert

You may believe that the Offer Price of $1.00 per Spotless Share plus the Downer Contingent Share Options is insufficient and you may hold a different view as to the value of Spotless Shares to both the Independent Directors and the Independent Expert. However, as noted in section 5.5, Downer has already commenced the compulsory acquisition process and you may be required to dispose of your Spotless Shares to Downer Services for the Offer Price in any event.

2.2 You may wish to apply to the court to prevent the compulsory acquisition of your shares

If you wish to try to prevent the compulsory acquisition of your Spotless Shares proceeding, you may apply to the court under Part 6A.1 of the Corporations Act.

The court will only order the Spotless Shares not be compulsorily acquired if the court is satisfied that the consideration is not fair value for the securities. Although it is a separate process Spotless Shareholders should understand that the Independent Expert has determined the Offer to be fair and reasonable for Spotless Shareholders not associated with Downer. If you wish to challenge the compulsory acquisition of your shares, you should seek your own legal advice as to the process for such a challenge.

See section 5.5 of this Target's Statement for further information on the compulsory acquisition process.

2.3 You may receive higher consideration if you successfully challenge the compulsory acquisition in court

If the court finds the consideration is not fair value, and your Spotless Shares are therefore not compulsorily acquired, Downer may initiate a subsequent compulsory acquisition process in respect of any remaining Spotless Shareholders, and that may be at a revised consideration. If you have already accepted the Offer, or if you do not challenge the compulsory acquisition process, you will not receive any revised consideration under any such subsequent process (if it were to occur).

See section 5.5 of this Target's Statement for further information on the compulsory acquisition process.

2.4 You may consider that there is potential for a superior proposal to emerge

You may believe that a superior proposal for all Spotless Shares could emerge in the future.

If a superior proposal is announced, Spotless Shareholders who have accepted the Offer will not be able to withdraw their acceptance in order to accept a superior proposal, unless the Offer is withdrawn. However, if Downer varies the Offer to increase the consideration it is offering for your Spotless Shares you will be entitled to receive the increased consideration even if you have already accepted the Offer.

You should note that, as at the date of this Target's Statement, no superior proposal has been received and the Independent Directors consider it unlikely that a superior proposal will emerge, particularly as Downer and Downer Services has a Relevant Interest in approximately 99.6% which is above the threshold required for compulsory acquisition, and Downer Services has commenced the compulsory acquisition process.

Other matters

In considering whether to accept the Offer, the Independent Directors encourage you to:

- read both this Target’s Statement (including the Independent Expert’s Report) and the Bidder’s Statement and Supplementary Bidder’s Statement in their entirety;
- have regard to your individual risk profile, portfolio strategy, tax considerations and financial circumstances;
- obtain independent financial advice from your own broker or financial adviser regarding the Offer; and
- obtain taxation advice on the consequences for you of accepting the Offer.

3 Frequently asked questions

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Spotless Shareholders. This section should be read together with all other parts of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement.

Question	Answer
Who is making the Offer?	Downer EDI Services Pty Ltd (**Downer Services**), a wholly owned subsidiary of Downer EDI Limited (**Downer**). Downer Services made a takeover offer for Spotless in 2017 and obtained approximately 87.8% of Spotless Shares. Following Coltrane's acceptance of the Offer, Downer and Downer Services have increased their Relevant Interest to approximately 99.6% of Spotless Shares (as at the date of this Target Statement). Information in relation to Downer is set out in section 4 of the Bidder's Statement or can otherwise obtained via Downer's website at https://www.downergroup.com/. Information in relation to Downer is also referred to in section 7 of this Target's Statement and in Section 1.2 of the Independent Expert's Report, which is contained as Attachment A to this Target's Statement.
What is the Bidder's Statement?	The Bidder's Statement contains information on the Offer. The law requires Downer to send it to you. Downer lodged its Bidder's Statement with ASIC on 12 August 2020. Downer lodged a Supplementary Bidder's Statement with ASIC on 25 August 2020.
What is this Target's Statement?	This booklet comprises the Target's Statement and has been prepared by Spotless. Spotless is required by law to produce this Target's Statement in response to the Offer. The Target's Statement contains information to help you decide whether to accept the Offer, including the recommendation by the IBC and the accompanying Independent Expert's Report.
What is Downer offering for my Spotless Shares?	The Offer Price under the Offer is $1.00 cash per Spotless Share plus one Downer Contingent Share Option for every 17.92741 Spotless Shares you own.
How many Downer Contingent Share Options will I receive?	For every 17.92741 Spotless Shares you own, you will receive 1 Downer Contingent Share Option which, on exercise if relevant target price conditions are satisfied, will entitle you to 1 Downer Share. Your total number of Downer Contingent Share Options will be allocated into three tranches. This is subject to rounding (as set out in Annexure B of the Bidder's Statement). For example, if you receive 100 Downer Contingent Share Options, 33 will be allocated to 'Tranche 1 Series', 33 to 'Tranche 2 Series' and 34 to 'Tranche 3 Series'. See section 1, section 10.2 and Annexure B of the Bidder's Statement for further information.
When can the Downer Contingent Share Options be exercised?	The Downer Contingent Share Options are exercisable for a period of 4 years from the date the Offer opened (which was 20 August 2020). If the target price condition attached to a tranche of Downer Contingent Share Options has not been satisfied within this period, the Downer Contingent Share Options in that tranche will lapse.
At what price do the Downer Contingent Share Options exercise	The target price condition for a tranche of Downer Contingent Share Options is satisfied when Downer's 5-day VWAP is equal to or exceeds the relevant target price as set out below (and subject to certain adjustments):

Question	Answer
into Downer Shares?	**Series** / **Target price** Tranche 1 Series: $6.382 Tranche 2 Series: $6.873 Tranche 3 Series: $7.364 See section 10.2 and Annexure B of the Bidder's Statement for further information.
Do I have to pay anything to exercise the Downer Contingent Share Options?	No. The Downer Contingent Share Options have a zero exercise price. See section 10.2 and Annexure B of the Bidder's Statement for further information.
How do I exercise my Downer Contingent Share Options?	Unless you make a manual exercise election your Downer Contingent Share Options will automatically exercise (and you will be issued Downer Shares) where the relevant target price condition has been satisfied. See section 2 of the Bidder's Statement for further information.
Am I guaranteed to receive Downer Shares?	No. You will receive Downer Contingent Share Options, which on exercise entitles you to Downer Shares. The ability to exercise a Downer Contingent Share Option (and hence receive a Downer Share) is subject to Downer's 5-day VWAP meeting or exceeding the target price attached to the relevant tranche of Downer Contingent Share Options. There is no guarantee this will occur (and therefore there is no guarantee you will receive Downer Shares). See section 4.8 of the Bidder's Statement for recent trading data for Downer Shares on the ASX since August 2019. You should note however that historical trading data of Downer Shares is not a guarantee of future performance.
What rights do I have as a holder of Downer Contingent Share Options?	The Downer Contingent Share Options are an irrevocable offer by Downer to you to subscribe for Downer Shares, subject to the terms of the Downer Contingent Share Options as set out in Annexure B of the Bidder's Statement. Downer Contingent Share Options do not confer any voting rights, any rights to participate in new issues of capital by Downer or any right to a dividend or any entitlement to Downer's assets if it were wound up. If the Downer Contingent Share Options are exercised into Downer Shares, you will receive ordinary shares in Downer and have the rights and liabilities of an ordinary shareholder as set out in Downer's constitution. Such rights include, but are not limited to, the right to attend and vote at shareholder meetings, receive dividends and participate in capital distributions. See section 10.2, section 10.3 and Annexure B of the Bidder's Statement for further information.
What happens to my Downer Contingent Share Options if there is	The terms of the Downer Contingent Share Options do not expressly provide for their treatment in the event of a takeover bid for Downer. As set out above, the Downer Contingent Share Options are exercisable when the relevant target price condition for each tranche of Downer Contingent Share Options is met or exceeded. If a takeover bid for Downer was to result in the 5-day VWAP for

Question	Answer
a takeover bid for Downer?	Downer shares satisfying the relevant target price condition attached to each tranche of Downer Contingent Share Options, then the relevant Downer Contingent Share Options would be become exercisable in accordance with their terms. If the relevant target price condition is not satisfied, the Downer Contingent Share Options would continue in accordance with their terms. Those terms do not expressly provide for the treatment of the Downer Contingent Share Options in the event that Downer shares cease to be traded on ASX. Given this, there is a risk that such circumstances may result in a loss (including a total loss) of value of the Downer Contingent Share Options, or that holders of the Downer Contingent Share Options may need to take action (including, potentially, court or Takeovers Panel proceedings) to seek to realise value for their Downer Contingent Share Options." See Annexure B of the Bidder's Statement for the full terms of the Downer Contingent Share Options.
Does Downer or Downer Services already have an interest in Spotless Shares?	As at the date of this Target Statement. Downer has a Relevant Interest in 1,098,154,638 Spotless Shares, equating to approximately 99.6% of the total issued capital of Spotless. Prior to the Offer, Downer had a Relevant Interest in 87.8% of Spotless Shares. Downer entered into the Call Option which gave it a call option over 2.99% of Spotless Shares held by Coltrane. Following opening of the Offer, Downer exercised the Call Option which required Coltrane to accept the Offer in respect of those Spotless Shares. Coltrane has also accepted the Offer in respect of its remaining shareholding in Spotless, resulting in Downer currently having a Relevant Interest in approximately 99.6% in Spotless.
What choices do I have in response to the Offer?	As a Spotless Shareholder, you have the following three choices in respect of your Spotless Shares: • accept the Offer, in which case you should follow the instructions in the Bidder's Statement; • sell your Spotless Shares, unless you have previously accepted the Offer and have not validly withdrawn that acceptance; or • reject the Offer by doing nothing. There are several implications in relation to each of the above choices. A summary of these implications is set out in section 4 of this Target's Statement. You should seek legal, financial and taxation advice from your professional adviser regarding the action that you should take in relation to the Offer.
Why was the IBC established?	The IBC is a committee of the Spotless Board which was established pursuant to internal conflict management protocols which were put in place by Spotless when Downer's Offer was announced on 21 July 2020. The purpose of the IBC is to evaluate and respond to the Offer, and otherwise manage conflicts which arise in relation to the Offer in an appropriate manner. The IBC comprises of John Humphrey (Non-Executive Director and Chairman) and Simon McKeon (Non-Executive Director). The other Directors of Spotless (who are not members of the IBC) are Grant Fenn, Peter Tompkins and Michael Ferguson.
What are the Independent Directors recommending?	The Independent Directors unanimously recommend that you accept the Offer, in the absence of a superior proposal. The reasons for the Independent Directors' recommendation are set out in section 1 of this Target's Statement.

Question	Answer
Will I be forced to sell my Spotless Shares?	You can be forced to sell your Spotless Shares if Downer Services: • receives acceptances giving it (or it otherwise acquires) a Relevant Interest in at least 90% (by number) of the Spotless Shares; and • acquires at least 75% (by number) of the Spotless Shares in which Downer or its associates did not have a Relevant Interest as at 8.00am (Sydney time) on Wednesday, 12 August 2020. Both of these limbs were satisfied once Coltrane accepted the Offer. Downer is now entitled to proceed to compulsory acquisition of Spotless Shares held by Spotless Shareholders who do not accept the Offer and retain their Spotless Shares, and it has commenced this process. If your Spotless Shares are compulsorily acquired, you will receive the same consideration for your Spotless Shares that you would have received under the Offer, as if you accepted the Offer. However, it will take you longer to receive your consideration than if you accept the Offer before the end of the Offer Period. If you do not wish to have your Spotless Shares compulsorily acquired, you may make an application to the court to prevent compulsory acquisition. However, the Court may only make an order to prevent the compulsory acquisition of your Spotless Shares if it is satisfied that the consideration for your Spotless Shares is not fair. If you wish to challenge the compulsory acquisition of your shares, you should seek your own legal advice as to the process for such a challenge. Please refer to section 5.5 of this Target's Statement for more information about the compulsory acquisition process.
When does the Offer close?	The Offer Period must remain open for at least 1 month. It is currently scheduled to close at 7.00pm (AEST) on Monday, 21 September 2020 but can be extended in certain circumstances. The Independent Directors will keep you informed if there are any material developments in relation to the Offer. Spotless Shareholders are also encouraged to monitor the Spotless website at www.spotless.com for any updates on the Offer.
Can the Offer Period be extended?	As the Offer is unconditional, Downer Services may extend the Offer Period at any time before the end of the Offer Period. The maximum Offer Period is 12 months. There will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, Downer Services increases the consideration offered. If that happens, the Offer will be automatically extended so that it ends 14 days after that event.
How do I accept the Offer?	Instructions on how to accept the Offer are set out in section 4.1(a) of this Target's Statement, section 1 of the Bidder's Statement, section 1.10 of Annexure A of the Bidder's Statement and on the Acceptance Form which accompanies the Bidder's Statement. If you want to accept the Offer, you should follow these instructions carefully to ensure that your acceptance is valid.
What are the consequences of accepting the Offer now?	If you accept the Offer, you will be obliged to sell your Spotless Shares to Downer and you will receive the Offer Price under the Offer. If you accept the Offer, you will be unable to sell or transfer your Spotless Shares or accept any other offer for your Spotless Shares, while the Offer is open.
What will happen if a competing or superior proposal emerges?	The Independent Directors will carefully consider any competing or superior proposal and will advise you whether the competing proposal affects their recommendation that you accept the Offer. However, the Independent Directors consider it unlikely that a superior proposal will emerge, particularly as Downer and Downer Services already have a Relevant Interest in approximately 99.6% of Spotless Shares. Importantly, if you accept the Offer, you will be unable to withdraw your acceptance and accept a superior proposal if one emerges, except in limited circumstances (which are set out below and further in section 5.4).

Question	Answer
If I accept the Offer, can I withdraw my acceptance?	No, unless the Takeovers Panel decides otherwise.
Can Downer Services withdraw the Offer Once I have accepted?	Downer Services may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.
Can I accept the Offer for only some of my Spotless Shares?	Yes.
What will happen if Downer Service increases its Offer?	If you accept the Offer and Downer Services subsequently increases the Offer Price you will receive the increased consideration for your Spotless Shares.
Will Spotless pay a dividend as part of the Offer?	No dividend is intended to be paid by Spotless in connection with the Offer.
When will I receive the Offer Price if I accept the Offer?	If you accept the Offer, Downer will pay you the Offer Price to which you are entitled under the terms of the Offer: • in respect of the cash component of the Offer Price, within 7 days after the date you validly accept the Offer; and • in respect of the scrip component of the Offer Price, within 7 days of the end of the Offer Period.
Will I need to pay stamp duty if I accept the Offer?	Section 9.6 of the Bidder's Statement states that you will not pay stamp duty or goods and services tax on a disposal of your shares or the grant of the Downer Contingent Share Options. Stamp duty should not arise on the issue of Downer Shares on exercise of the Downer Contingent Share Options provided at the time of the issue Downer is a member of the Official List of the ASX, its shares are quoted on that exchange and less than a 90% interest in Downer is acquired, either alone or together with associated persons/related persons.
What are the tax implications of accepting the Offer?	This depends on your personal tax position and the price and time at which you originally acquired your Spotless Shares. A general outline of the tax implications of accepting the Offer is set out in section 9 of the Bidder's Statement and section 9 of this Target's Statement. You should consult with your taxation adviser for detailed advice before making a decision whether or not to accept the Offer.
Who should I call if I have questions?	If you have any further queries in relation to the Offer or how to accept the Offer, you should call the Spotless Shareholder Information Line 1300 202 738 (within Australia) or +61 1300 202 738 (outside Australia), Monday to Friday between 8.30am and 5.30pm or go to www.spotless.com.

4 Your choices as a Spotless Shareholder

Spotless encourages you to consider your personal risk profile, investment objectives and tax and financial circumstances before making any decision in relation to your Spotless Shares. As a Spotless Shareholder, you have the following three choices available to you in relation to the Offer:

4.1 Option 1 – Accept the Offer

<u>The Independent Directors recommend that you accept the Offer in the absence of a superior proposal.</u>

(a) How to accept the Offer

If you choose to accept the Offer, then your acceptance must be received by Downer before the end of the Offer Period. The Offer Period ends on Monday, 21 September 2020, unless extended. Instructions on how to accept the Offer are set out in section 1 of the Bidder's Statement, section 1.10 of Annexure A of the Bidder's Statement and on the Acceptance Form accompanying the Bidder's Statement. If you want to accept the Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

(b) Effect of acceptance

If you accept the Offer you will be entitled to be paid the Offer Price by Downer Services in accordance with the terms of the Offer (see Annexure A of the Bidder's Statement for further information on timing of payment of the Offer Price).

The effect of acceptance of the Offer is explained in more detail in section 7 of the Bidder's Statement and sections 1.12 and 1.13 of Annexure A of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Spotless Shares and the representations and warranties that you are deemed by Downer Services to give to it by accepting the Offer.

It is worth noting that accepting the Offer would (subject to the possible withdrawal rights set out in section 5.4 of this Target's Statement):

- prevent you from participating in any competing superior proposal that may emerge; and
- prevent you from otherwise selling your Spotless Shares.

The taxation implications of accepting the Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian tax consequences of accepting the Offer is set out in section 9 of this Target's Statement and section 9 of the Bidder's Statement. You should seek your own specific professional advice regarding the taxation consequences for you in accepting the Offer.

4.2 Option 2 – Sell your Spotless Shares

During a takeover, shareholders in a target company may still sell their shares for cash provided that they have not accepted a takeover offer for those shares. Accordingly, Spotless Shareholders remain free to sell their Spotless Shares, provided they have not already accepted the Offer. However, as Spotless is no longer listed on the ASX, this may be difficult.

Spotless Shareholders who sell their Spotless Shares other than via the Offer:

- will lose the ability to accept the Offer, or to participate in any other superior proposal that may emerge;
- may receive more or less for their Spotless Shares than the consideration under the Offer of $1.00 cash per Spotless Share plus the Downer Contingent Share Options; and
- may incur a brokerage charge.

Spotless Shareholders who wish to sell their Spotless Shares other than via the Offer should contact their stockbroker or financial adviser for instructions on how to effect that sale.

The taxation implications of selling your Spotless Shares other than via the Offer depend on a number of factors and will vary according to your particular circumstances, in the same way as if you accept the Offer. You should seek your own specific professional advice regarding the taxation consequences for you of selling your Spotless Shares.

4.3 Option 3 – Reject the Offer by doing nothing

If you do not wish to accept the Offer and wish to retain your Spotless Shares, you do not need to take any action.

Downer Services is now entitled to compulsorily acquire your Spotless Shares under the Corporations Act (and has lodged a Compulsory Acquisition Notice with ASIC to commence the compulsory acquisition process). If this compulsory acquisition process proceeds, you will receive your consideration later than Spotless Shareholders who choose to accept the Offer. Please refer to section 5.5 of this Target's Statement for further details on compulsory acquisition. Please also see section 1 of the Supplementary Bidder's Statement.

If you successfully challenge the compulsory acquisition process (and Downer does not subsequently make a successful offer with revised consideration), you will remain a minority shareholder in Spotless, with potential adverse implications, including that it will be difficult for you to sell your Spotless Shares.

5 Important information about the Offer

5.1 Summary of the Offer

The Offer Price is $1.00 cash per Spotless Share plus such number of Downer Contingent Share Options calculated in accordance with the terms of the Offer.

5.2 Offer Period

The Offer opened for acceptance from Thursday, 20 August 2020 and will remain open for acceptance until 7:00pm (AEST) on Monday, 21 September, unless extended or withdrawn. The circumstances in which Downer Services may extend or withdraw the Offer are set out in section 1.23 of Annexure A of the Bidder's Statement.

5.3 Withdrawal of Offer

Downer Services may not withdraw the Offer if you have already accepted it.

Before you accept the Offer, Downer Services may withdraw offers made in respect of the Offer only with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

5.4 Effect of acceptance and your ability to withdraw your acceptance

Spotless Shareholders who accept the Offer give up their rights to sell or otherwise deal with their Spotless Shares, unless the above withdrawal rights are exercised.

5.5 Effect of Downer lodging the Compulsory Acquisition Notice

By lodging the Compulsory Acquisition Notice with ASIC and issuing it to Spotless Shareholders, Downer has commenced the process of compulsory acquisition under the Corporations Act. See section 1 of the Supplementary Bidder’s Statement for further detail.

(a) Follow on compulsory acquisition

Under Part 6A.1 of the Corporations Act, if, at any point during the Offer Period, Downer Services has (together with its associates):

- a Relevant Interest in at least 90% (by number) of Spotless Shares; and
- acquired at least 75% (by number) of Spotless Shares in which Downer Services or its associates did not have a Relevant Interest as at 12 August 2020,

then Downer Services will be entitled to compulsorily acquire any outstanding Spotless Shares for which it did not receive acceptances, on the same terms as the Offer. Downer must also offer to buy out remaining Spotless Shares held by Spotless Shareholders as Downer (and its associates) have a Relevant Interest in at least 90% of Spotless Shares (by number) at the end of the Offer Period.

Coltrane has already accepted the Offer in respect of is entire shareholding which has resulted in Downer obtaining greater than 75% (by number) of the outstanding Spotless Shares and a Relevant Interest in approximately 99.6% (by number) of the total number of Spotless Shares.

Downner Services lodged its Compulsory Acquisition Notice with ASIC and sent it to Spotless Shareholders on 25 August 2020. Under Part 6A.1 of the Corporations Act, Downer must give one month notice of compulsory acquisition, following which Downer has two weeks to complete the compulsory acquisition. Subject to any extensions required under the provisions of the Corporations Act, completion of the compulsory acquisition of Spotless Shares is currently expected to occur on or around 29 September 2020. See section 1 of the Supplementary Bidder's Statement for further information.

Spotless Shareholders should be aware that if they do not accept the Offer and their Spotless Shares are compulsorily acquired, those Spotless Shareholders will face a delay in receiving the Offer Price compared with Spotless Shareholders who have accepted the Offer (who will receive the cash consideration within 7 days of accepting the Offer). However, these Spotless Shareholders will be paid the same consideration under the Offer.

Spotless Shareholders have statutory rights to challenge the compulsory acquisition of their Spotless Shares, but a successful challenge will require the relevant Spotless Shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent "fair value".

(b) **Obtaining names and addresses of other holders**

Spotless Shareholders may at any time before 25 September 2020 (being one month from when the Compulsory Acquisition Notice was lodged with ASIC) request Downer provide a written statement with the names and addresses of everyone to whom Downer issued the Compulsory Acquisition Notice. Downer Services must provide that statement within 7 days after the request.

(c) **Objecting to the compulsory acquisition process**

If any Spotless Shareholder wishes to prevent the compulsory acquisition process in respect of its Spotless Shares, that shareholder must apply to the court under Part 6A.1 of the Corporations Act. A successful challenge will require the relevant Spotless Shareholders to establish to the satisfaction of a court that the consideration offered is not "fair value".

Any application must be made before the later of:

– one month from when the Spotless Shareholder was notified of the compulsory acquisition by way of the Compulsory Acquisition Notice, which will be on 25 September 2020; or

– the end of 14 days from when the Spotless Shareholder requests the written statement of names and addresses from Downer.

5.6 When you will receive the Offer Price

If you accept the Offer, Downer will pay you the Offer Price to which you are entitled:

– in respect of the cash component of the Offer Price, within 7 days after the date you validly accept the Offer; and

– in respect of the scrip component of the Offer Price, within 7 days of the end of the Offer Period.

6 Information relating to Spotless

6.1 Overview of Spotless

Spotless is the largest integrated facilities services provider throughout Australia and New Zealand. It provides essential services and solutions for every day operations and services across various sectors and industries in Australia and New Zealand.

The essential services and solutions include outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions.

Spotless employs over 20,478 people across 50 offices comprised of full-time, part-time and casual employees. Spotless provides more than 100 integrated services and delivers solutions for over 4,182 contracts.

6.2 Corporate History

Spotless has origins dating back to 1946 and was listed on the Australian Securities Exchange between 2014 and 2019.

On 21 March 2017, Downer Services made an off-market, takeover offer for Spotless Shares. This offer closed on 28 August 2017 at which point Downer held a Relevant Interest in approximately 87.80% of Spotless Shares.

Spotless was subsequently de-listed from the ASX at the close of trading on 30 August 2019. Spotless is currently a majority owned and controlled subsidiary of Downer.

Spotless is currently an unlisted, public company and is subject to the periodic and continuous disclosure requirements of the Corporations Act.

6.3 Business activities

The principal business activities of Spotless and its subsidiaries are the provision of outsourced facility services, laundry and linen services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries in Australian and New Zealand.

Spotless' eight core lines of business include:

(a) "Health and Education (H&E)" covering integrated facilities management and specialist operation support to health and education precincts;

(b) "Government & Citizen Services (G&CS)" covering hard and soft maintenance and services for government facilities and assets;

(c) "Defence" covering integrated facilities management and the delivery of project works for defence estates;

(d) "Asset & Development Services (A&DS)" covering mechanical and electrical and HVAC (heating, ventilation and air conditioning) services and integrated hard facilities management services to industrial customers;

(e) “Hospitality” covering catering services to private customers across stadia, tourism, corporate and education sectors;

(f) “Laundries” covering linen and garment laundry services provided to social infrastructure, industry and accommodation customers;

(g) “New Zealand” covering the management of contracts in the Laundries, Hospitality and Defence sector; and

(h) “Utilities” covering the design, construction and maintenance of utility networks.

See section 3.1 and section 3.3 of the Independent Expert’s Report for further detail.

6.4 Spotless business and assets in the event that the Offer is not successful

On 21 July 2020 Downer, as the majority owner of Spotless, announced the following changes affecting the business and assets of Spotless. As set out in Section 6.2 of the Bidder’s Statement, Downer has indicated that it would intend to pursue the following changes whether or not Spotless becomes a wholly owned subsidiary pursuant to the Offer.

The changes below are extracted from the Bidder’s Statement.

I. “Disposal of Laundry businesses

The exit of Spotless' Laundries business remains a key objective. The Laundries business includes the rental, cleaning, collection, delivery and stock management of linen, uniforms and specialised workwear, with 13 commercial laundries servicing 3,500 clients across Australia and New Zealand and processing over 117,000 tonnes of laundry every year.

The Laundries business sale process has been paused and will resume when investment market conditions improve.”

II. “Review of Hospitality business

The Hospitality business includes services such as operating canteens, dining halls and restaurants, personal meal delivery, specialised food preparation and delivery and management of food and beverage facilities. The Hospitality business provides services across business and industry, functions, special events, stadia and retail in Australia and New Zealand.

In Australia, Spotless’ Hospitality business has been generating virtually no revenue since COVID-19 regulations were introduced in March 2020. As a result, Downer reduced the size of this business in June 2020 to reflect the smaller scale of operations.

Downer is reviewing the prospects of Spotless' Hospitality business to determine which parts of the business or contracts will continue, be run off or sold as the future market demand becomes clearer.

In Hospitality all non-critical staff have been stood down or made redundant. Contracts have been temporarily discontinued, not renewed or converted to cost plus a margin.”

III. “Run off of higher risk construction projects

A move away from higher-risk construction projects in Spotless’ Infrastructure and Construction business (I&C) is underway and will complete as existing projects finish.

This will minimise Spotless’ exposure in high risk projects, particularly vertical commercial construction, with increased focus on opportunities that better matches I&C’s capabilities and Downer Group’s risk appetite. As a result, the I&C business in Spotless will focus on longer-term maintenance contracts and smaller scale construction.”

6.5 Details of Spotless Directors

The IBC comprises of John Humphrey (Non-Executive Director and Chairman) and Simon McKeon (Non-Executive Director). The other Directors of Spotless are Grant Fenn, Peter Tompkins and Michael Ferguson.

Details of each of Spotless’ Directors is as follows:

John Humphrey
Chairman and Non-Executive Director
LLB

John was appointed a Non-Executive Director in July 2017 and appointed Chairman on 24 August 2017. He is also the Chairman of the People and Remuneration Committee and a member of the Audit, Business Risk and Compliance Committee.

He served as an independent Non-Executive Director at Downer between 2001 and 2016. He is currently a Legal Consultant to King & Wood Mallesons. John is also currently a Director at Lynas Corporation Ltd and the Chairman of Auswide Bank Limited. He is a former member of the Australian Takeovers Panel and was the Executive Dean of the Faculty of Law at Queensland University of Technology from 2013 to 2019.

Simon McKeon AO
Non-Executive Director
BCom, LLB, DPH, FAICD

Simon was appointed a Non-Executive Director in December 2016. He is Chairman of the Audit, Business Risk and Compliance Committee and a member of the People and Remuneration Committee.

He is currently Chancellor of Monash University and a non-executive director of Rio Tinto and National Australia Bank Limited, was Australian of the Year in 2011 and was made an Officer of the Order of Australia in 2012 for distinguished services to business, commerce and the community. Simon has extensive experience in senior leadership and Board roles across a broad range of industries and sectors; this includes having served as Executive Chairman of Macquarie Group Melbourne as well as Chairman of AMP Limited, CSIRO and MYOB Group Limited and as the Founding President of the Australian Takeovers Panel.

During his over 35 years at Macquarie Group, Simon specialised in corporate mergers and acquisitions, fund raising and strategic advice. He continues to be retained as a consultant by Macquarie. Prior to this, he practiced as a lawyer with Blake Dawson Waldron in Sydney.

Simon is an active philanthropist and has been a significant contributor over many years to charitable, educational, public health and other community-based organisations and causes.

Simon is presently Chairman of South East Melbourne, Summer Housing and the Australian Industry Energy Transitions Initiative. He is an Australia Day Ambassador for the Victorian Government and also serves on the Advisory Boards of The Big Issue and InfraBuild.

Grant Anthony Fenn
Non-Executive Director
BEc, CA

Grant was appointed a Non-Executive Director in December 2017.

Grant has over 30 years' experience in operational management, strategic development and financial management. He joined Downer in October 2009 as Chief Financial Officer and was appointed Chief Executive Officer in July 2010.

He was previously a Member of the Qantas Executive Committee, holding a number of senior roles over 14 years, as well as Chairman of Star Track Express and a Director of Australian Air Express. He worked at KPMG for eight years before he joined Qantas.

Grant is currently a Director of Sydney Airport Limited and a Member of the UTS Engineering and IT Industry Advisory Board.

Grant holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants.

Peter Tompkins
Chief Executive Officer and Managing Director
BCom, LLB

Peter was appointed Chief Executive Officer and Managing Director in October 2018.

Prior to this appointment, Peter held the role of the Group General Counsel and Company Secretary of Downer Group for seven years, where he was a key member of the Executive Committee and Tenders and Contracts Committee.

Peter also represented Downer Group on numerous joint venture and Public Private Partnership Boards, including Keolis Downer, Evolution Rail and Reliance Rail.

Michael Ferguson
Non-Executive Director
BCom, CA

Michael was appointed a Non-Executive Director in July 2017. He is also a member of the Audit, Business Risk and Compliance Committee.

He is the Chief Financial Officer at Downer Group and leads its financial reporting, tax, treasury, shared service, IT, M&A and risk management activities. Michael has held a range of senior finance positions in a career spanning 25 years. He was previously VP Finance for ASX listed explosives group Dyno Nobel and more recently held a number of portfolio CFO positions for a large private equity fund.

6.6 Financial results

(a) Financial Position of Spotless Group

On the 12 August 2020, Spotless released its 2020 Annual Report for the year ended 30 June 2020. An extract of key balance sheet metrics from Spotless' audited Consolidated Statement of Financial Position as at 30 June 2020 is set out below:

Key Balance Sheet Metrics	**As at 30 June 2020[2] $m**
Current Assets	563.9
Non-Current Assets	1,507.7
– Goodwill	774.0
– PP&E, Right of use assets and Other	733.7
Current Liabilities	738.3
Non-Current Liabilities	1,034.7
Net Current (Liabilities) / Assets	(174.4)
Net Assets	298.6
Net Debt[1]	654.4

Notes:

1. Excludes deferred borrowing costs, and lease liabilities (refer to note 2 below).
2. Spotless Group elected to apply AASB 16 from 1 July 2019. Upon transition to AASB 16, Spotless Group recognised Right of use assets of $155.9 million and lease liabilities of $194.4 million as at 1 July 2019.

Further details can be found in Spotless' 2020 Annual Report.

(b) Historical Financial Performance of Spotless Group

An extract of Spotless' Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019 and 30 June 2020 is shown in the following table:

	Year Ended 30 June 2020 $m	Year Ended 30 June 2019 $m	Change %
Sales Revenue[1]	**3,038.2**	3,025.1	0.4
Profit before depreciation, amortisation, finance costs and income tax (EBITDA)	**73.2**	249.5	(70.7)
(Loss) / Profit before finance costs and income tax (EBIT)[2]	**(39.1)**	159.0	> (100)
(Loss) / Profit before income tax	**(75.5)**	119.8	> (100)
(Loss) / Profit after income tax[3]	**(53.1)**	84.0	> (100)

Notes:

1. Sales Revenue of $3,038.2 million, up 0.4% from the prior corresponding period, reflecting increased project volumes within Government and Defence businesses, partially offset by COVID-19 pandemic impacts on the Hospitality, New Zealand and Laundries businesses.

2. EBIT loss of $39.1 million, reflects a decrease of $198.1 million from the prior year driven by the impact of $141.1 million of individually significant items recorded as a result of:

    a. Portfolio Restructure and Exit Costs

    Portfolio restructure and exit costs of $64.1 million (after tax) represents restructuring costs incurred following management decision to scale back the Spotless Group's construction service offerings and the exit from the Resources sector, as well as cost associated in right sizing the business to reflect a new operating model and remain competitive in a post COVID-19 environment.

    b. Payroll Remediation Costs

    Payroll remediation costs of $11.8 million (after tax) reflect the costs incurred in relation to the Spotless Group's assessment to confirm compliance with its Modern Awards and EBAs and ensure employees have been paid appropriately.

    c. Legal settlement expenses

    Legal settlement costs of $23.8 million (after tax) represent the excess cost over the insurance cover, following the acceptance of the offer to settle the shareholder claim action commenced against Spotless in the Federal Court of Australia in May 2017. The settlement was without admission of liability, and includes interest and cost to the Applicant. This claim has been previously disclosed as a contingent liability.

3. Loss after tax of $53.1 million decreased from FY19 profit by $137.1 million due to the impact of the above mentioned individually significant items ($99.7 million after tax) on the current period comprising portfolio restructure and exit costs ($64.1 million), payroll remediation costs ($11.8 million) and legal settlement expenses ($23.8 million).

Spotless Group financial reports, including the 2020 Annual Report, are available on the Company's website at www.spotless.com.

7 Information relating to Downer

Downer is a public company incorporated in Australia which is listed on ASX (ASX Code: DOW) with a secondary listing as an overseas listed issuer on NZX. The market capitalisation of Downer as at the date of this Target's Statement is approximately A$3.1 billion.

Downer is a leading provider of integrated services in Australia and New Zealand. Downer employs approximately 52,000 people, mostly in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

Refer to Section 4 of the Bidder's Statement or Downer's website (www.downergroup.com) for further information about Downer. Information on Downer is also set out in section 1.2 of the Independent Expert's Report, which contained in this Target's Statement as Attachment A.

8 Risk factors

8.1 Risks associated with accepting the Offer

(a) Possibility of a superior proposal emerging

If you accept the Offer, you will forego the opportunity to benefit from any superior proposal by another party for your Spotless Shares should such a proposal eventuate.

As at the date of this Target's Statement, the Independent Directors are not aware of a proposal by anyone to make a superior proposal. In light of Downer's Relevant Interest in approximately 99.6% of Spotless Shares, the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

Similarly, the Independent Expert's Report states that, an alternative takeover offer is unlikely as any such offer would require Downer to sell its shares which it considers to be unlikely. On this basis, Spotless Shareholders not associated with Downer are unlikely to receive a superior offer.

(b) You will not be able to challenge the compulsory acquisition process

You are entitled to apply to the court under section 661E of the Corporations Act for an order that your Spotless Shares not be compulsorily acquired. The application will be successful if the court is satisfied that the consideration (comprising the cash component and the Downer Contingent Share Options component) is not “fair value” for your Spotless Shares. If the court makes such an order, your Spotless Shares will not be compulsorily acquired as part of the current process, and Downer may make a further offer for your Spotless Shares, or commence a further compulsory acquisition process, with revised consideration.

If you accept the Offer, you will not be eligible to make an application to the court to challenge the compulsory acquisition process, and if successful, you will not benefit in any possible revised offer for, or compulsory acquisition process in respect of, your Spotless Shares which Downer may make or undertake.

See sections 2.2 and 5.5 of this Target’s Statement for further information.

Although it is a separate process Spotless Shareholders should understand that the Independent Expert has determined the Offer to be fair and reasonable for Spotless Shareholders not associated with Downer.

(c) Possibility the Downer Contingent Share Options will not convert into Downer Shares

The Downer Contingent Share Options are subject to certain vesting conditions. If the market price of Downer Shares does not reach certain “target price conditions” within four years then the options will lapse and Spotless Shareholders will have no entitlement to Downer Shares. Further, the Downer Contingent Share Options are split into three tranches with escalating “target price conditions”. There is therefore no guarantee that some or all of your Downer Contingent Share Options will convert into Downer Shares.

(d) Risks associated with becoming a Downer Shareholder on conversion of the Downer Contingent Share Options

If the “target price conditions” and other conditions associated with the Downer Contingent Share Options are satisfied you will be issued Downer Shares. There are certain risks you may face as an investor in Downer. See section 7.2 of the Bidder’s Statement for further information on these risk factors.

(e) **Risks associated with a takeover offer being made for Downer**

The terms of the Downer Contingent Share Options do not expressly provide for their treatment in the event of a takeover bid for Downer.

The Downer Contingent Share Options are exercisable when the relevant target price condition for each tranche of Downer Contingent Share Options is met or exceeded. If a takeover bid for Downer was to result in the 5-day VWAP for Downer shares satisfying the relevant target price condition attached to each tranche of Downer Contingent Share Options, then the relevant Downer Contingent Share Options would be become exercisable in accordance with their terms.

If the relevant target price condition is not satisfied, the Downer Contingent Share Options would continue in accordance with their terms. Those terms do not expressly provide for the treatment of the Downer Contingent Share Options in the event that Downer shares cease to be traded on ASX. Given this, there is a risk that such circumstances may result in a loss (including a total loss) of value of the Downer Contingent Share Options, or that holders of the Downer Contingent Share Options may need to take action (including, potentially, court or Takeovers Panel proceedings) to seek to realise value for their Downer Contingent Share Options.”

See Annexure B of the Bidder’s Statement for the full terms of the Downer Contingent Share Options.

8.2 Risks associated with rejecting the Offer, challenging the current compulsory acquisition process and continuing as a Spotless Shareholder

Notwithstanding that Downer has commenced the compulsory acquisition process, there are very limited circumstances in which you could continue as a Spotless Shareholder. This would require you to not accept the Offer, to successfully challenge the current compulsory acquisition process, and Downer not to commence a further compulsory acquisition process.

Therefore, in considering this Target's Statement and the Offer, you should be aware that there are a number of risks which may affect the future operating and financial performance of Spotless if you were to continue as a Spotless Shareholder.

Spotless Shareholders should carefully consider and evaluate Spotless and its business and whether they should continue to hold Spotless Shares, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. Spotless Shareholders should examine the full content of this Target's Statement and may wish to consult their financial or other advisers before deciding whether or not to accept the Offer.

The risk factors set out below are not exhaustive. Additional risks of which Spotless is unaware or that Spotless currently considers to be immaterial also have the potential to have a material adverse effect on the business, financial condition and operating and financial performance of Spotless.

(a) **Spotless may fail to renew existing contracts or win new contracts**

Spotless' ability to renew contracts with existing customers and win new contracts with existing and new customers is fundamental to its business, growth and profitability. These contracts are usually subject to a competitive process, and there is a risk that Spotless may not win these contracts, which could negatively impact Spotless' financial performance.

(b) **Commencement of new contracts**

Commencement of Spotless' customer contracts can be delayed for various reasons. Such delays may result in a delay in Spotless receiving revenue or may cause Spotless to incur additional costs, which could have an adverse impact on Spotless' financial performance.

(c) **Ability to understand customer requirements or cost inputs**

For a variety of reasons, Spotless may from time to time enter into contracts where agreed revenue is insufficient to cover Spotless' costs of delivering the services or to provide adequate profit margins. If Spotless enters into low margin contracts, its financial performance could be adversely impacted. Although this risk is limited with the implementation of strict governance processes.

(d) **Contract termination, renegotiation or price resets**

Early termination of Spotless' services or the failure to renew contracts for Spotless' services will reduce Spotless' future revenue and may leave Spotless with excess capacity or redundancy costs (for which Spotless may not receive adequate (or any) compensation).

Customers may also seek to renegotiate existing contracts for various reasons during the contract term. Spotless' financial performance could be adversely impacted if renegotiations of contracts are on terms less favourable to Spotless or if the parties fail to reach agreement.

Certain public-private partnership contracts provide for periodic re-setting of the price paid for services. If the parties fail to reach agreement on such price resets and there is a subsequent curtailment of services, Spotless' financial performance may be impacted.

(e) **Possibility of customers changing to in-sourcing of services**

Spotless' financial performance and growth depends on continued demand for its services. A decline in outsourcing or an increase in customers taking services back in-house may adversely affect Spotless' financial performance or growth prospects.

(f) **Ability to attract and retain key personnel**

Spotless' performance is dependent on the ability of its senior executives and other key personnel to manage and grow its business and respond to customers' needs. The loss of such personnel, or an inability to attract replacement or additional key personnel, could have a material adverse effect on Spotless' operating and financial performance.

(g) Ability to manage large workforce

Spotless manages a large and diverse workforce to deliver outsourced services to its customers. Spotless' service quality is largely dependent on Spotless' ability to attract, develop, manage, motivate and retain its workforce.

A high level of key staff turnover reduces operational efficiency, impairs knowledge management and leads to excessive recruitment costs.

Many of Spotless' employees are represented by a union or are otherwise employed under awards or union-negotiated Enterprise Agreements. The negotiation of new Enterprise Agreements or changes to awards from time to time may increase the overall costs of running Spotless' business and such increased costs may not be able to be passed through to customers in full.

If employees take industrial action, Spotless could be exposed to loss to the extent the industrial action impairs Spotless' ability to provide services or causes disruption to Spotless' customers and Spotless is not adequately protected under the relevant contract.

(h) Disruption due to the effects of COVID-19

As Spotless Shareholders are aware, numerous industries and the Australian economy as a whole has been affected by the effects of COVID-19, including a number of industries which Spotless provides services to. Spotless is not listed on the ASX and is not directly impacted by the share market volatility resulting from COVID-19. However, the effects of COVID-19 may impact Spotless' supply chain, ability to deploy its workforce and maintain its contracting base.

(i) Disruption to Spotless' external suppliers

Spotless has various supply relationships necessary for the operation of its business. Any disruption to the supply chain could adversely impact Spotless' operating and financial performance.

Inadequate or inefficient management of subcontractors could also result in damage to Spotless' reputation, or cause Spotless to be in breach of its customer contracts, which could adversely impact Spotless' operating and financial performance.

(j) Rising input costs may lead to lower profitability

The profitability of Spotless' contracts depends on its management of costs. A significant or sustained increase in input costs to which Spotless is unable to respond adequately, or at all, either through cost reduction measures or contract price increases, could have an adverse effect on the financial performance of the business and the ability of the business.

(k) Regulatory non-compliance

Spotless is subject to a number of laws and regulations, including those relating to workplace health and safety, as well as the handling, preparation and serving of food, the cleanliness of food production facilities and the responsible service of alcohol. Additional or amended laws and regulations may increase the cost of compliance, adversely impact Spotless' ability to comply, or expose Spotless to greater potential liabilities.

A failure by Spotless to comply with applicable laws and regulations may adversely impact on Spotless' business and financial performance.

(l) Environmental regulation non-compliance

Spotless is required to run its operations in compliance with legislation concerning the protection of the environment. In particular, certain chemicals have contaminated soil and groundwater at some of Spotless' laundry sites due to historical use of those sites. Spotless is presently assessing, managing and remediating the contamination caused by such events and may in the future be required to undertake additional environmental management and remediation activities.

Costs may be incurred in connection with actual or alleged violations arising under any environmental laws, including fines, damages and criminal or civil sanctions, or interruptions to operations.

(m) Failure of key IT systems

Spotless relies on a variety of IT systems in the operation of its business. If these systems fail, or if those employees with the skills to operate those systems leave, it may be difficult to hire suitably qualified personnel and the business may suffer as a result.

(n) Failure to manage working capital may negatively impact Spotless' business

At any point in time, Spotless may hold a significant level of trade receivables, and is therefore exposed to credit risk (although bad debts are rare).

While this risk is limited as a result of the diversity of its customer base, an economic downturn could affect the solvency of customers, which in turn could adversely affect Spotless' financial performance.

Similarly, Spotless must ensure that it manages its trade payables appropriately. Any misalignment between the movement in receivables and payables could significantly impact Spotless' cash position.

(o) Failure to maintain financing in the current environment

As set out in the Independent Expert's Report, Spotless has substantial levels of debt and any further negative impacts on Spotless' earnings without negotiating a corresponding increase to its leverage ratio may breach covenants.

See page 5 of the Independent's Expert Report for further information.

(p) Foreign exchange rate risk

In FY2020, 11.17% of Spotless' sales revenue was earned in New Zealand dollars. Changes in the Australian and New Zealand dollar exchange rate may adversely impact on Spotless' revenue and balance sheet valuations.

While Spotless may implement currency hedging policies, the Australian dollar value of both its net debt and operating profits may fluctuate as exchange rates vary and, in any case, such hedging may not be effective.

(q) **Permits, licences, accreditations and certifications**

Spotless is required to hold certain operating permits, licences, accreditations and certifications. Loss of, failure to comply with or failure to hold such required permits, licences, accreditations and certifications may directly impact Spotless' ability to fulfil its contractual obligations and adversely affect profitability.

9 Taxation considerations

This section 9 provides a summary of the general Australian tax consequences for Spotless Shareholders in relation to the Offer and should be considered in conjunction with the rest of the Target's Statement.

The information is a general guide and is not intended to be an authoritative or complete statement of the Australian tax law applicable to the specific circumstances of each Spotless Shareholder and should not be relied upon by Spotless Shareholders as tax advice. Spotless Shareholders are strongly advised to seek their own professional advice with respect to the tax implications of the Offer.

9.1 Overview

The following is a general summary of the Australian tax (including capital gains tax (**CGT**), goods and services tax (**GST**) and stamp duty) implications for Spotless Shareholders who hold their Spotless Shares on capital account and who dispose of their Spotless Shares under the Offer.

This summary does not apply to Spotless Shareholders who:

- hold their Spotless Shares as revenue assets, as trading stock, or are subject to the Taxation of Financial Arrangements provisions in Division 230 of the *Income Tax Assessment Act 1997*;
- are financial institutions, insurance companies, partnerships, tax exempt organisations, dealers in securities, shareholders who changed their tax residency while holding their Spotless Shares, or non-resident shareholders who own their Spotless Shares through a permanent establishment in Australia, each of which may be subject to specific additional tax rules;
- acquired their Spotless Shares as part of employee share arrangements; or
- have their Spotless Shares compulsorily acquired under Part 6A.2 of the Corporations Act.

The summary has been prepared on the basis of Australian taxation law and administrative practice as at the date of the Target's Statement.

References to Australian resident Spotless Shareholders are to Spotless Shareholders who are residents of Australia for Australian income tax purposes and are not tax resident in any other jurisdiction.

9.2 Australian tax implications of the Offer

(a) Disposal of Spotless Shares by Australian resident shareholders

(i) Australian capital gains tax

The disposal of Spotless Shares by an Australian resident Spotless Shareholder should constitute CGT event A1 for Australian income tax purposes.

Australian resident Spotless Shareholders should:

- make a capital gain if the capital proceeds from the disposal of their Spotless Shares are greater than the cost base of their Spotless Shares; or
- make a capital loss if the capital proceeds from the disposal of their Spotless Shares are less than the reduced cost base of their Spotless Shares.

Australian resident Spotless Shareholders who make a capital gain on disposal of their Spotless Shares will be required to include the net capital gain (if any) for the income year in their assessable income. No CGT roll-overs should be applicable to the Offer.

Australian resident Spotless Shareholders who make a capital loss on the disposal of their Spotless Shares can only offset the capital losses against capital gains realised in the same or subsequent income years. Specific loss recoupment rules apply to companies and may restrict their ability to utilise capital losses in a future period.

(ii) Time of CGT event

CGT event A1 occurs when there is a change in beneficial ownership of Spotless Shares. The time of the CGT event is:

- when an Australian resident Spotless Shareholder enters into the contract to dispose of their Spotless Shares; or
- where their Spotless Shares are compulsorily acquired, when Downer Services becomes the beneficial owner of their Spotless Shares.

(iii) Capital proceeds

The capital proceeds from the disposal of Spotless Shares under the Offer should include $1.00 cash for each Spotless Share, and the market value of the Downer Contingent Share Options received at the time of the CGT event.

(iv) Cost base

The cost base and reduced cost base of Spotless Shares should generally include the amount paid to acquire the Spotless Shares, the market value of any property given to acquire the Spotless Shares and any incidental costs of acquisition.

(v) CGT discount

Generally, Australian resident Spotless Shareholders who are individuals, trusts, or complying superannuation funds that have held their Spotless Shares for at least 12 months at the time of their disposal should be entitled to the CGT discount in calculating the amount of the capital gain on disposal of their Spotless Shares.

The CGT discount is applied after available capital losses have been offset to reduce the capital gain.

The applicable CGT discount which should reduce a capital gain arising from the disposal of Spotless Shares is as follows:

- 50% for individuals and trusts; or
- $33^1/_3$% for a complying superannuation fund.

The CGT discount is not available for Australian resident Spotless Shareholders who are companies.

(b) Acquisition of Downer Contingent Share Options by Australian residents

The receipt of Downer Contingent Share Options should not give rise any further CGT event to an Australian resident Spotless Shareholder.

The cost base (and reduced cost base) of a Downer Contingent Share Option should reflect the market value of the property given by the Australian resident Spotless Shareholder as consideration for the Downer Contingent Share Option. The property given by an Australian resident Spotless Shareholder is their Spotless Shares. The cost base (and reduced cost base) of the Downer Contingent Share Options received should be the difference between the market value of the Spotless Shares at the time of disposal less the $1.00 cash received per Spotless Share.

(c) Exercise or cancellation of Downer Contingent Share Options by Australian residents

If the Downer Contingent Share Options are exercised and Australian resident Spotless Shareholders receive Downer Shares:

- the Downer Contingent Share Options will cease to exist. Whilst this should represent a CGT event, no capital gain or loss should arise to Australian resident Spotless Shareholders;
- the first element of the cost base (and reduced cost base) of the Downer Shares should be equal to the cost base (and reduced cost base) of the Downer Contingent Share Options (refer above);
- the Downer shares should be taken to have been acquired at the time of exercise of the Downer Contingent Share Options.

The disposal of any Downer Shares received on exercise of the Downer Contingent Share Options by an Australian resident Spotless Shareholder should give rise to CGT event A1. Australian resident Spotless Shareholders should:

- make a capital gain if the capital proceeds from the disposal of their Downer Shares are greater than the cost base of their Downer Shares; or
- make a capital loss if the capital proceeds from the disposal of their Downer Shares are less than the reduced cost base of their Downer Shares.

If some or all of the Downer Contingent Share Options are not exercised, the Downer Contingent Share Options will lapse, and a CGT event should occur. Australian resident Spotless Shareholders should incur a capital loss on the basis that their reduced cost base in the Downer Contingent Share Options should exceed any capital proceeds on the Downer Contingent Share Options lapsing.

(d) Example

Dan owns 100,000 Spotless Shares. The total cost base of Dan's Spotless Shares is $105,000.

Dan's total consideration under the Offer is as follows:

- Cash – A$100,000 (being $1.00 per Spotless Share)
- Downer Contingent Share Options received – 5,578 (being 1 Downer Contingent Share Option per 17.92741 Spotless Shares). For the purposes of this example, the assumed market value per Spotless Share is $0.09315 (based on the mid point of the value of one Downer Contingent Share Option of $1.27 - $2.07 (refer section 5.4 of Independent Experts Report)) equating to $9,315 for Dan's Spotless Shares

Dan's capital gain equals $4,315 (capital proceeds of $109,315 less cost base of $105,000). Assuming Dan has no available capital losses, Dan's discount capital gain is $2,157.50 (50% of $4,315).

Dan's holds the following Downer Contingent Share Options:

Tranche	Downer Contingent Share Options held	Cost Base
1	1,859	$3,104.50
2	1,859	$3,104.50
3	1,860	$3,106
Total	5,578	$9,315

If all tranches are exercised, Dan will hold 5,578 Downer shares with a total cost base of $9,315 (cost base of $1.67 per Downer Share).

If all tranches lapse, Dan should be entitled to a capital loss of $9,315.

(e) Disposal of Spotless Shares by non-resident shareholders

In general terms, a non-resident Spotless Shareholder who holds Spotless Shares on capital account should not be subject to Australian capital gains tax in relation to the disposal of their Spotless Shares pursuant to the Offer unless:

- the non-resident Spotless Shareholder (together with associates) directly holds 10% or more of the issued shares in Spotless at the time of the disposal (**non-portfolio interest**), or throughout a continuous period of 12 months within the two years before the disposal; and
- at the time of the disposal, more than 50% of Spotless' assets (by market value) are "taxable Australian real property" (**principal asset test**).

Any non-resident Spotless Shareholder (together with associates) who holds a non-portfolio interest should seek their own independent advice regarding the disposal of their Spotless Shares.

(f) Acquisition, exercise or cancellation of Downer Contingent Share Options by non-resident shareholders

A non-resident Spotless Shareholder should only need to consider the Australian tax consequences of acquiring, exercising or the cancellation of their Downer Contingent Share Options if the non-resident Spotless Shareholder owns, before or after the exercise of the Downer Contingent Share Options, a non-portfolio interest in Downer.

Any non-resident Spotless Shareholder (together with associates) who holds a non-portfolio interest in Downer should seek their own independent advice regarding the acquisition, exercise or cancellation of Downer Contingent Share Options.

(g) GST

The disposal of Spotless Shares by a Spotless Shareholder, the acquisition of Downer Contingent Share Options and the acquisition of Downer Shares should not give rise to a liability to account for GST, regardless of whether a Spotless Shareholder is registered for GST. This on the basis such transactions should be considered an input taxed financial supply, or outside the scope of GST.

If a Spotless Shareholder incurs GST on any acquisitions relating to the disposal of Spotless Shares, the acquisition of Downer Contingent Share Options or the acquisition of Downer Shares, the Spotless Shareholder should obtain independent advice in relation to the precise GST implications, including whether any GST included in such acquisitions is recoverable.

(h) Stamp duty

There should not be stamp duty (including landholder duty) payable by a Spotless Shareholder on the disposal of your Spotless Shares. Further, no duty should arise on the issue of Downer Contingent Share Options.

Based on current legislation, no duty should arise on the issue of the Downer Shares provided at the time of issue, Downer is admitted to the Official List of the ASX and its shares are quoted on that exchange and you acquire less than a 90% interest in Downer, whether that be alone or together with associated or related persons or as part of one transaction or arrangement with other persons. However, the legislation in force at the time of exercise of any Downer Contingent Share Options should be considered at the time of any proposed exercise.

9.3 Foreign resident capital gains withholding tax

Foreign resident capital gains withholding tax applies to a transaction involving the acquisition of the ownership of an asset that is an Australian indirect real property interest from a ‘relevant foreign resident’.

Under the Australian foreign resident capital gains withholding tax rules, Downer Services, as the purchaser of your Spotless Shares is required to assess whether you as a Spotless Shareholder are a ‘relevant foreign resident’ and whether your Spotless Shares represent indirect Australian real property interests.

Downer Services has indicated in the Bidder’s Statement that Downer does not consider that any withholding is required under these rules. Absent a material changes in circumstances by the time your Spotless Shares are disposed of, Downer Services has indicated that it does not intend to withhold under these rules.

10 Additional information

10.1 Capital structure

As at the date of this Target Statement, the following securities on Spotless on issue are:

Class	Number
Spotless Shares	1,102,239,882

10.2 Substantial holders

As at the date of this Target Statement, the substantial shareholders of Spotless are:

Name of holder	Relevant Interest in number of Spotless Shares	Relevant Interest as a % of Shareholding
Downer EDI Services Pty Ltd	1,098,203,638	99.6%
Coltrane Master Fund, L.P	130,419,321*	11.8%*

* Coltrane Master Find, L.P. has accepted the Offer and delivered to Downer Services a valid completed Acceptance Form. Until the transfer of the relevant Spotless Shares to Downer Services is registered, Coltrane retains a relevant interest in the relevant Spotless Shares

10.3 Continuous disclosure

Spotless is a disclosing entity (as that term is defined in the Corporations Act) and is subject to regular reporting and disclosure obligations under the Corporations Act.

Copies of documents may be obtained from the Spotless website at www.spotless.com. Copies of documents lodged with ASIC in relation to Spotless may also be obtained from, or inspected at, an ASIC office.

10.4 No other material information

This Target's Statement is required to include all information that Spotless Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept the Offer, but:

– only to the extent to which it is reasonable for investors and their professional advisors to expect to find the information in this Target's Statement; and

– only if the information is known to any of the Spotless Directors.

The Independent Directors are of the opinion that the information that Spotless Shareholders and their professional advisors would reasonably require to make an informed assessment of whether to accept the Offer is the information contained in:

– the Bidder's Statement and the Supplementary Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);

- Spotless' annual reports and public announcements before the date of this Target's Statement;
- documents lodged by Spotless with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement and Supplementary Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Independent Directors do not take any responsibility for the contents of the Bidder's Statement and Supplementary Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Independent Directors have had regard to:

- the nature of the Spotless Shares (being fully paid ordinary shares);
- the matters which Spotless Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisors of Spotless Shareholders; and
- the time available to Spotless to prepare this Target's Statement.

10.5 Directors of Spotless

The Directors of Spotless as at the date of this Target's Statement are:

- John Humphrey (Chairman and Non-Executive Director)
- Peter Tompkins (Chief Executive Officer and Managing Director)
- Simon McKeon AO (Non-Executive Director)
- Grant Fenn (Non-Executive Director)
- Michael Ferguson (Non-Executive Director)

For the purpose of assessing the Offer, Spotless has established the IBC, which comprises of the Independent Directors (being John Humphrey and Simon McKeon).

10.6 Relevant Interests of Directors in Spotless or Downer securities

As at 30 August 2020, except as set out below, no Director has a Relevant Interest in any of the securities of Spotless or Downer or any other Related Body Corporate of Downer.

Director	Number of Spotless Shares held directly or indirectly	Number of ordinary shares in Downer held directly or indirectly	Number of performance rights held pursuant to the Downer LTI Plan
John Humphrey	Nil	44,221	Nil
Peter Tompkins	Nil	257,172	76,894
Simon McKeon AO	800,000	Nil	Nil
Grant Fenn	Nil	2,049,772	307,573
Michael Ferguson	Nil	57,718	73,048

10.7 Recommendation of Independent Directors

Each of the Independent Directors (being, John Humphrey and Simon McKeon) unanimously recommend that Spotless Shareholders accept the Offer in respect of their Spotless Shares, in the absence of a superior proposal, for the reasons set out in this Target's Statement (particularly the matters discussed in Section 1).

The Non-Independent Directors (being Peter Tompkins, Grant Fenn and Michael Ferguson) have not made a recommendation in relation to the Offer as they are also officers of Downer or its Related Bodies Corporate.

10.8 Independent Directors' intentions in relation to personal holdings

Simon McKeon intends, with respect to his personal holdings of Spotless Shares, to accept the Offer.

10.9 Recent dealings of Directors in Spotless securities and Downer securities

No Director acquired or disposed of any Spotless Shares, any other securities in Spotless, within the period of four months immediately preceding the date of this Target's Statement.

Certain Directors, including John Humphrey (Independent Director) and Grant Fenn, Peter Tompkins and Michael Ferguson (Non-Independent Directors) accepted into Downer's recent Entitlement Offer (announced on the same day as the Offer) and acquired ordinary shares in Downer. On 4 August 2020, Grant Fenn, Peter Tompkins and Michael Ferguson (all Non-Independent Directors) exercised certain of their performance rights and were issued Downer Shares.

10.10 Benefits and agreements

No Independent Director has an interest in any contract entered into by them with Downer Services or Downer. The Non-Independent Directors, who are not making a recommendation in this Target's Statement, have interests in agreements entered into by them with Downer that relate to their executive positions with Downer.

As a result of the Offer, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to an Independent Director in connection with their retirement from office in Spotless or a Related Body Corporate of Spotless.

No Independent Director has agreed to receive, or is entitled to receive, any benefit from Downer which is conditional on, or is related to, the Offer.

Spotless does not propose and, except as otherwise disclosed in this Target's Statement, is not aware of any proposal in connection with the Offer:

(a) that will confer a benefit on any person in connection with the retirement of that person from a board or managerial office of Spotless or Related Body Corporate of Spotless; or

(b) that will or may be given to any person in connection with the transfer of the whole or any part of undertaking or property currently owned by Spotless.

10.11 Consents

The following parties have given, and have not withdrawn before the date of this Target's Statement, their consent to be named in this Target's Statement in the form and context in which they are so named:

(a) Oaktower Partnership;

(b) Gilbert + Tobin;

(c) Ernst & Young;

(d) Link Market Services Limited; and

(e) the Independent Expert, including consenting to the inclusion of the Independent Expert's Report in this Target's Statement as Attachment A,

and each of those parties:

(a) has not authorised or caused the issue of this Target's Statement;

(b) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than a statement included in this Target's Statement with the consent of that party; and

(c) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Target's Statement, other than a reference to its name and the statements (if any) included in this Target's Statement with the consent of that party.

As permitted by ASIC Class Order 13/521, this Target's Statement may include or be accompanied by statements which are made in documents lodged with ASIC or ASX. Pursuant to the Class Order, provided this Target's Statement fairly represents such statements, the consent of the parties making those statements is not required for, and those parties have not consented to, the inclusion of such statements in this Target's Statement. Spotless Shareholders may, during the Offer Period, obtain a copy of the documents (free of charge) in which the aforementioned statements appear (or in which statements based on those statements appear, as the case may be), or the relevant part(s) of any of those documents, by contacting the Spotless Shareholder Information Line on 1300 202 738 (within Australia) or +61 1300 202 738 (outside Australia) at any time between 8.30am and 5.30pm (AEST) on Business Days.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by statements fairly representing a statement by an official person, or statements from a public official document or a published book, journal or comparable publication.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains share price data sourced from IRESS without its consent.

Approval of this Target's Statement

This Target's Statement has been approved by a resolution passed by the Independent Directors.

Signed for and on behalf of Spotless Group Holdings Limited:

John Humphrey
Chairman of Spotless, Chairman of the Independent Board Committee and Independent Non-Executive Director

1 September 2020

11 Glossary and Interpretation

Glossary

The following defined terms in this Target's Statement have the meanings set out below.

Acceptance Form means the acceptance form enclosed within the Bidder's Statement.

Approvals mean means a licence, authority, consent, approval, order, exemption, waiver, ruling or decision.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the "Australian Securities Exchange" operated by that entity.

Bidder's Statement means the bidder's statement of Downer Services in relation to the Offer dated 12 August 2020.

Business Day means a day other than a Saturday, Sunday or public holiday on which banks are open for general banking business in Melbourne, Victoria.

Call Option means the call option deed entered into by Downer and Coltrane which grants Downer a call option of 2.99% of Spotless Shares.

Coltrane means Coltrane Master Fund, L.P, of which Coltrane Asset Management L.P is the investment manager.

Compulsory Acquisition Notice means the notice of compulsory acquisition of Spotless by Downer lodged with ASIC and issued to Spotless Shareholders on 25 August 2020.

Corporations Act means the *Corporations Act 2001* (Cth) and any regulations made under that Act.

Directors means the directors of Spotless.

Deloitte Corporate Finance means Deloitte Corporate Finance Pty Limited (ACN 003 833 127)

Downer means Downer EDI Limited (ACN 003 872 848).

Downer Contingent Share Options means for every 17.92741 Spotless Shares accepted into the Offer, a contingent share option exercisable over 1 Downer Share, subject to the future market prices of Downer shares, as set out in Annexure B of the Bidder's Statement.

Downer Group means Downer and its Related Bodies Corporate.

Downer LTI Plan means the long term incentive plan of the Downer Group.

Downer Services means Downer EDI Services Pty Ltd (ACN 137 732 042).

Downer Shares means fully paid ordinary shares in the capital of Downer.

EBIT means earnings before interest and tax.

Entitlement Offer means the accelerated non-renounceable pro rata entitlement offer announced by Downer on 21 July 2020. The Entitlement Offer was undertaken in part to raise capital to support the Offer. See section 4.3 of the Bidder's Statement for further information.

IBC means the Independent Board Committee established by the Spotless Board to consider the Offer and comprising the Independent Directors.

Independent Directors means Mr John Humphrey and Mr Simon McKeon.

Independent Expert means Deloitte Corporate Finance.

Independent Expert's Report means the report prepared by the Independent Expert, a copy of which is attached to this Target's Statement as Attachment A.

Non-Independent Directors means all of the Directors other than the Independent Directors.

Offer means the off-market takeover offer by Downer Services for Spotless Shares under the terms and conditions contained in Annexure A of the Bidder's Statement.

Offer Period means the period during which the Offer will remain open for acceptance in accordance with the terms and conditions of the Bidder's Statement.

Offer Price means the price offered for Spotless Shares under the Offer, being $1.00 cash for each Spotless Share plus the Downer Contingent Share Options.

Register Date means 8.00am (Sydney time) on Wednesday, 12 August 2020, being the date set by Downer Services under section 633(2) of the Corporations Act.

Related Body Corporate has the same meaning given it in section 50 of the Corporations Act.

Relevant Interest has the meaning given to it in section 9 of the Corporations Act.

Share Registry means Link Market Services Limited (ACN 083 214 537) of Tower 4, Collins Square, 727 Collins Street, Melbourne VIC 3000.

Spotless means Spotless Group Holdings Limited (ACN 154 229 562).

Spotless Board means the board of Directors of Spotless.

Spotless Group means Spotless and its Related Bodies Corporate.

Spotless Shareholder Information Line means the information line established by Spotless to answer questions from Spotless Shareholders about the Offer.

Spotless Shareholders means the holders of Spotless Shares.

Spotless Shares means fully paid ordinary shares in the capital of Spotless.

Supplementary Bidder's Statement means the supplementary bidder's statement of Downer Services in relation to the Offer dated 25 August 2020.

Target's Statement means this document and includes the attachment to it.

VWAP means the volume weighted average trading price on ASX.

Interpretation

(a) Words and phrases to which a meaning is given by the Corporations Act have that meaning in this Target's Statement unless that meaning is inconsistent with the context in which the word or phrase is used.

(b) Headings are for convenience only and do not affect the interpretation of this Target's Statement.

(c) The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations, other bodies corporate, unincorporated bodies, partnership, joint ventures or associations.

(d) References to sections are to sections of this Target's Statement, unless stated otherwise.

(e) Where a term is defined, its other grammatical forms have a corresponding meaning.

(f) References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.

(g) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.

(h) "$" or "A$" or "AUD" is a reference to the lawful currency of Australia.

Attachment A Independent Expert's Report

Deloitte.

Spotless Group Holdings Limited

Independent expert's report and Financial Services Guide

30 August 2020

Financial Services Guide (FSG)

What is an FSG?

An FSG is designed to provide information about the supply of financial services to you.

Why are we providing this FSG to you?

Deloitte Corporate Finance Pty Limited (DCF) (AFSL 241457) has been engaged by Spotless Group Holdings Limited (Spotless) to prepare an independent expert's report (our Report) in connection with the proposed takeover of Spotless. Spotless will provide our Report to you.

Our Report provides you with general financial product advice. This FSG informs you about the use of general financial product advice, the financial services we offer, our dispute resolution process and our remuneration. Our contact details are in the document that accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

We are providing general financial product advice

In our Report, we provide general financial product advice as we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. You should consider whether our general advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. You are not responsible for our fees.

We will receive a fee of approximately $350,000 exclusive of GST in relation to the preparation of our Report. This fee is not contingent on the outcome of proposed takeover of Spotless.

Apart from these fees, DCF, our directors and officers, and any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

The Deloitte member firm in Australia (Deloitte Touche Tohmatsu) controls DCF. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We, and other entities related to Deloitte Touche Tohmatsu, do not have any formal associations or relationships with any entities that are issuers of financial products. However, we may provide professional services to issuers of financial products in the ordinary course of business.

Deloitte has not had any involvement in providing advice connected with the Proposed Takeover. In the last 2 years Deloitte has provided advice and services to Spotless that are not connected with the Proposed Takeover. None of the individuals who were involved in preparing this report have provided services or advice to Spotless in the past 2 years.

What should you do if you have a complaint?

If you have a concern about our Report, please contact us:
The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Phone: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Australian Financial Complaints Authority (AFCA). AFCA provides fair and independent financial services dispute resolution free to consumers.

www.afca.org.au
1800 931 678 (free call)
Australian Financial Complaints Authority Limited
GPO Box 3 Melbourne VIC 3001

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services we provide. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

30 August 2020

Deloitte Corporate Finance Pty Limited
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The Independent Directors
Spotless Group Holdings Limited
549 St Kilda Road
Melbourne VIC 3004

30 August 2020

Dear Directors

Re: Independent expert's report

Introduction

On 21 July 2020, Downer EDI Services Pty Ltd, a wholly-owned subsidiary of Downer EDI Limited (Downer) announced an unconditional offer to acquire all of the issued share capital in Spotless Group Holdings Limited (Spotless or the Company) that Downer does not already own (the Proposed Takeover). The consideration offered by Downer to holders of Spotless shares other than Downer (Non-Associated Shareholders) is $1.00 per Spotless share plus, for every 17.92741 Spotless shares accepted into the Spotless Offer, a Downer contingent share option exercisable over 1 Downer share, subject to the future market prices of Downer shares (DCSO) (the Consideration).

On 20 August 2020, Downer opened the takeover offer by dispatching the bidder's statement to Non-Associated Shareholders. On 25 August 2020, Downer announced that Coltrane Master Fund, L.P. (Coltrane) which controls approximately 11.8% of the issued shares of Spotless, has accepted the takeover offer and as a result, Downer now has a relevant interest of 99.6%. Downer also announced that it has commenced compulsory acquisition of all remaining Spotless shares it does not own, as it is entitled to do so, under the Corporations Act.

The full details of the Proposed Takeover are included in a Bidder's Statement which was issued by Downer on 12 August 2020. An overview of the Proposed Takeover is provided in Section 1 of our detailed report.

The directors of Spotless will issue a Target's Statement, which will include their recommendation as to whether or not Non-Associated Shareholders should accept the Proposed Takeover.

Purpose of the report

Under Section 640 a Target's Statement given in response to a takeover offer must include, or be accompanied by, an independent expert's report if either the bidder's voting power in the target is 30% or more, or the bidder and target have one or more common directors, to assist non-associated shareholders in their decision whether to accept or reject the takeover offer. As Downer owns more than 30% of Spotless, an independent expert's report is therefore required under Section 640.

The independent directors of Spotless (the Independent Directors) have engaged Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) to provide an independent expert's report advising whether or not, the Proposed Takeover is fair and reasonable.

This report is to be included in a Target's Statement and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Takeover. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Spotless, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

In undertaking the work associated with this report, we have had regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 in relation to the content of an expert's report and ASIC Regulatory Guide 112 in respect of the independence of experts. The Regulatory Guide prescribes standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

To assess whether or not the Proposed Takeover is fair and reasonable to Non-Associated Shareholders, we have adopted the tests of whether the Proposed Takeover is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Definition of value

For the purpose of our opinion, we have referred to the concept of fair market value. Fair market value is defined as the amount at which the shares in the entities valued would be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm's length.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

Summary and conclusion

In our opinion the Proposed Takeover is fair and reasonable. In arriving at this opinion, we have had regard to the following factors.

The Proposed Takeover is fair

According to ASIC Regulatory Guide 111, in order to assess whether the Proposed Takeover is fair, the independent expert is required to compare the fair market value of a share in Spotless on a control basis with the fair market value of the consideration offered. The Proposed Takeover is fair if the value of the Consideration is equal to or greater than the value of a Spotless share.

Set out in the table below is a comparison of our assessment of the market value of a Spotless share with the Consideration offered by Downer.

Table 1: Assessment of fairness

$ (unless otherwise stated)	Section	Low	High
Estimated market value of a Spotless share	4.1	0.83	1.11
Estimated market value of the Consideration	5.1	1.07	1.12
Premium of Consideration over market value of a Spotless share		0.24	0.01
Premium %		28%	1%

Source: Deloitte Corporate Finance analysis

The market value of the Consideration is at the top end of the range of our estimate of the market value of a Spotless share. Accordingly, it is our opinion that the Proposed Takeover is fair.

Between $0.07 per share and $0.12 per share of the Consideration relates to the DCSOs. Excluding this component of the Consideration (if a Non-Associated Shareholder was to hold the view that there is too much uncertainty associated with the achievability of the target prices) would still result in the cash component of the Consideration being slightly higher than the mid-point of our assessed market value of a Spotless share and thus in our opinion, the Proposed Takeover would still be fair.

If at any time during the 4 year life of the DCSOs Downer shares trade at prices between $6.382 and $7.364 the value of the DCSOs would be up to $0.41 per Spotless share. However, there is risk that these target prices might not be achieved given that the current price of Downer shares is $4.22. On a risk adjusted basis we have determined that the current market value of a DCSO is between $0.07 and $0.12 cents per Spotless share as set out in Section 5.

Non-Associated Shareholders will need to have regard to their own risk tolerance and other factors specific to them in order to form a view on the value of the DCSOs to them, in particular, in light of the fact that the DCSO will not be capable of being traded on a securities exchange.

Valuation of Spotless

We have estimated the market value of Spotless by applying the earnings multiples approach and discounted cash flow approach.

Table 2: Spotless valuation summary

	Section	Unit	Low	High
Earnings multiples approach	4.3	$m	1,700	2,138
Discounted cash flow approach	4.4	$m	1,798	2,043
Enterprise value range (selected)		**$m**	**1,800**	**2,100**
Less: net debt	4.5.1	$m	(836)	(836)
Less: debt-like liabilities	4.5.2	$m	(96)	(96)
Add: surplus assets	4.5.3	$m	51	51
Equity value		**$m**	**919**	**1,219**
Number of shares on issue	4.6	m	1,102	1,102
Value per share		**$**	0.83	1.11

Source: Deloitte Corporate Finance analysis

Our valuation range is wider that would normally be the case. This reflects the current uncertainty associated with the impacts of the COVID-19 pandemic on capital markets and Spotless' business operations, and the high level of debt that Spotless is carrying.

Under the earnings multiples approach we have assessed the maintainable EBITDA to be in the range of $200m to $225m based on our analysis of a normalised level EBITDA having regard to the current market environment and management's plans within the business.

The selected earnings multiple of 8.5 times to 9.5 times (on a control basis) was based on the earnings multiples of listed comparable companies and transactions in the facilities services industry.

The discounted cash flow approach requires the determination of an appropriate discount rate and the projection of future cash flows. We selected a nominal after tax discount rate in the range of 8.5% to 9.5% to discount the estimated future cash flows to their present value. When applying the discounted cash flow approach and having regard to the uncertainty with respect to medium-term and long-term future projections in the current environment, we considered a number of future cash flow scenarios.

Further details of our valuation of Spotless are set out in Section 4.

Valuation of the Consideration

We have valued the Consideration offered to Non-Associated Shareholders under the Proposed Takeover at between $1.07 and $1.12.

Table 3: Valuation of the Consideration

	Consideration per Spotless share	
Component	**Low**	**High**
Cash	$1.00	$1.00
DCSO[1]	$0.07	$0.12
Total	**$1.07**	**$1.12**

Note:
1. Represents the value of DCSOs that one Spotless security is entitled to (i.e. 1/17.92741 of a DCSO)
Source: Deloitte Corporate Finance analysis

In order to value the DCSO we had regard to the terms of issue and that they only offer value through potential future increases in the price of Downer shares. For this reason, we used an option pricing model to estimate this value.

Further details of our valuation of each DCSO is set out in Section 5.

The Proposed Takeover is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Takeover is reasonable.

Notwithstanding, we set out below a number of reasonableness considerations.

Acceptance of the Proposed Takeover will allow Non-Associated Shareholders to receive the Consideration sooner than through compulsory acquisition

Coltrane, who previously owned 11.8% of the shares in Spotless has accepted the Proposed Takeover. Downer has now commenced compulsory acquisition of all shares not currently owned by Downer.

As noted in the Bidder's Statement, if Non-Associated Shareholders wait until compulsory acquisition, they will receive payment later than through the Proposed Takeover process.

There is certainty in the cash component of the Consideration

The Proposed Takeover represents an opportunity for Non-Associated Shareholders to realise their investment in Spotless with the certainty of the cash component of the Consideration offered under the Proposed Takeover and without incurring any transaction costs.

The Proposed Takeover provides liquidity for Non-Associated Shareholders

Shares in Spotless are no longer traded on the Australian Securities Exchange. Consequently, there are limited opportunities for Non-Associated Shareholders to achieve liquidity for their shares. The Consideration offered under the Proposed Takeover provides Non-Associated Shareholders with the ability to sell their shares.

Spotless has not paid any dividend for the past three financial years. Furthermore, there remains uncertainty regarding if and when dividends will resume with the backdrop of the COVID-19 pandemic.

Downer already has control of Spotless

Downer through its ownership of 87.8% of the shares (which has increased to 99.6% following Coltrane's acceptance of the Proposed Takeover) has control of Spotless. In addition, of the 5 directors that comprise the Board of Spotless, 3 are Downer representatives.

As a result, it is able to control the business operations of Spotless and can influence the cash flows received by all shareholders and in particular Non-Associated Shareholders.

Also, given our assessment of fairness has been undertaken on a control basis, and we have formed the view that the Consideration is fair, it follows that Non-Associated Shareholders are receiving control value despite not having control.

There is financing risk in the current environment

Spotless has substantial levels of debt. Whilst Spotless was in compliance with all covenants as at 30 June 2020, management of Spotless were able to negotiate a temporary increase to the leverage ratio in the event that these may have been breached at 30 June 2020 or in the immediately following reporting period. Should there be any further impacts on earnings and a further extension to the increase in leverage ratio not be forthcoming, Spotless may need to consider alternative courses of action that may not be value accretive to shareholders.

The likelihood of an alternative superior offer emerging is low

We believe that an alternative takeover offer is unlikely as any such offer would require Downer to sell its shares which we also consider to be unlikely. On this basis, Non-Associated Shareholders are unlikely to receive a superior offer.

Downer is likely to realise additional benefits from having 100% ownership of Spotless

Our assessment of fairness has reflected certain benefits of control available to market participant buyers of Spotless. However, it may be the case that Downer is able to extract certain other benefits that are unique to it which are not taken into account in our assessment of fairness.

Opinion

In our opinion, the Proposed Takeover is fair and reasonable to Non-Associated Shareholders.

An individual shareholder's decision in relation to the Proposed Takeover may be influenced by his or her particular circumstances. If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

Tapan Parekh
Authorised Representative
AR Number: 461009

Glossary

Reference	Definition
$	Australian dollars
ACCC	Australian Competition and Consumer Commission
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Bidder's Statement	Statement from Downer regarding the Proposed Takeover lodged in 12 August 2020
CAPM	Capital Asset Pricing Model
Coltrane	Coltrane Master Fund, L.P.
Company	Spotless Group Holdings Limited
Consideration	Downer consideration for Spotless shares of $1 cash and 1 DCSO for every 17.92741 Spotless shares
COVID-19	Novel Coronavirus
DCF	Discounted cash flow
DCSO	Downer Contingent Share Option
Deloitte	Deloitte Touche Tohmatsu
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Ltd
Downer	Downer EDI Services Limited
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise Value
FSG	Financial Services Guide
FY	Financial year ended 30 June
Independent Directors	Independent Directors of Spotless
KPIs	Key performance indicators
NPAT	Net profit after tax
Non-Associated Shareholders	Holders of Spotless shares other than Downer
nRAH	New Royal Adelaide Hospital
PPP	Public-private partnership
Proposed Takeover	Downer's proposed acquisition of Spotless shares owned by Non-Associated Shareholders
Spotless	Spotless Group Holdings Limited
Target's Statement	Statement from Spotless responding to the Bidder's Statement

Table of contents

1 Overview of the Proposed Takeover

1.1 Background to the Proposed Takeover

In March 2017 Downer made a takeover offer for Spotless after initially acquiring a 15% interest. It ultimately acquired 87.8% of Spotless' shares with Coltrane, a New York based hedge fund, holding 10.6% of the shares.

On 21 July 2020, Downer announced that it had entered into a call option deed with Coltrane over 2.99% of the issued shares of Spotless, which, if exercised will result in Downer's interest increasing above the 90% compulsory acquisition threshold.

On 12 August 2020 Downer lodged an unconditional offer to acquire all of the issued shares in Spotless that it does not already own.

On 20 August 2020, Downer opened the Proposed Takeover by dispatching the bidder's statement to Non-Associated Shareholders. On 25 August 2020, Downer announced that Coltrane which controls approximately 11.8% of Spotless shares, has accepted the Proposed Takeover and as a result, Downer now has a relevant interest of 99.6%. Downer also announced that it has commenced compulsory acquisition of all outstanding Spotless shares as it is entitled to do so, under the Corporations Act.

The Consideration under the Proposed Takeover is:

- **Cash**: $1.00 cash per Spotless share; plus
- **DCSO**: one Downer contingent share option for every 17.92741 Spotless shares

There are no conditions attaching to the Proposed Takeover and Non-Associated Shareholders will receive the cash consideration within seven days of acceptance. The DCSOs will be issued within seven days of the end of the offer period, which is currently 21 September 2020 per the Bidder's Statement.

The key terms of each DCSO is summarised below:

- They will be issued in three tranches, with each tranche subject to a target pricing condition
- The target price condition is satisfied when, in respect of a series, Downer's 5-day volume weighted average price is equal to or exceeds the relevant target price (as stipulated in the table below) for that series
- The exercise price for each DCSO series is nil
- The DCSOs expire 4 years after the first date on which offers are open for acceptance under the Proposed Takeover. If the target price condition is satisfied during the 4 year period, that tranche of the DCSOs will be capable of being exercised

Table 4: DCSO target prices

Series	Target price
Tranche 1	$6.382
Tranche 2	$6.873
Tranche 3	$7.364

Source: Bidder's statement

The above target prices have been adjusted for a capital raising recently undertaken by Downer.

The terms of the DCSOs are set out in Annexure B of the Bidder's Statement. We highlight the following:

- The DCSOs do not entitle a holder to a shareholder vote
- The DCSOs do not entitle a holder to receive dividends or to participate in new issues of capital offered to Downer shareholders
- Unless a holder elects a manual exercise, each DCSO will be automatically exercised in relation to a series, without any further action being required by the holder on the exercise date for that series if the target price condition applicable to that DCSO series is satisfied
- Our understanding is that whilst there are no restrictions on a Non-Associated Shareholder selling their DCSOs, they will not be listed on any securities exchange

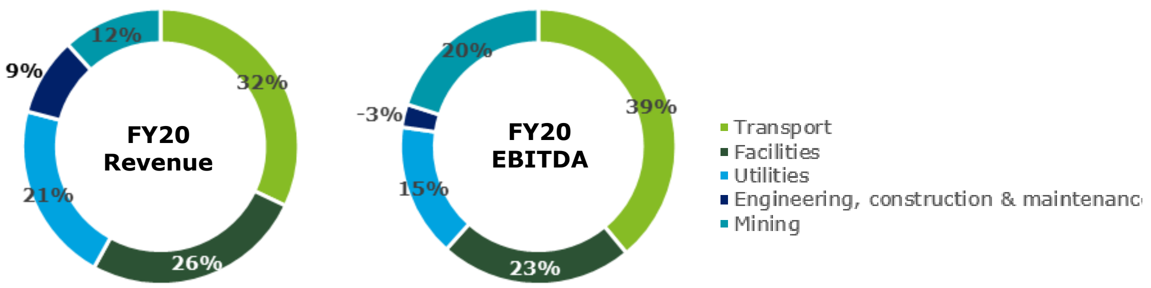
- there appears to be ambiguity as to what happens to the DCSOs if Downer is subject to a takeover offer during the term of the DCSOs and that takeover offer price is less than the target prices. Specifically, if Downer shares are delisted from the Australian Securities Exchange (or the New Zealand Stock Exchange), it would not be possible to determine whether the target price has been attained under the terms of the DCSOs.

1.2 Background to Downer

Downer designs, builds and maintains infrastructure and facilities and is a leading provider of integrated services in Australia and New Zealand. It's history dates back over 150 years and its shares are traded on the Australian Securities Exchange and the New Zealand Stock Exchange. Downer employs approximately 52,000 people mostly in Australia and New Zealand but also in the Asia Pacific region, South America and South Africa.

For the year ended 30 June 2020, Downer reported revenue of $12.7b, underlying EBITA of $416.0m and a net loss after tax of $155.7m. Given Downer consolidates Spotless, these figures include the financial results of Spotless. We present a summary of Downer's operating segments in the figures below.

Figure 1: Downer operating segment split

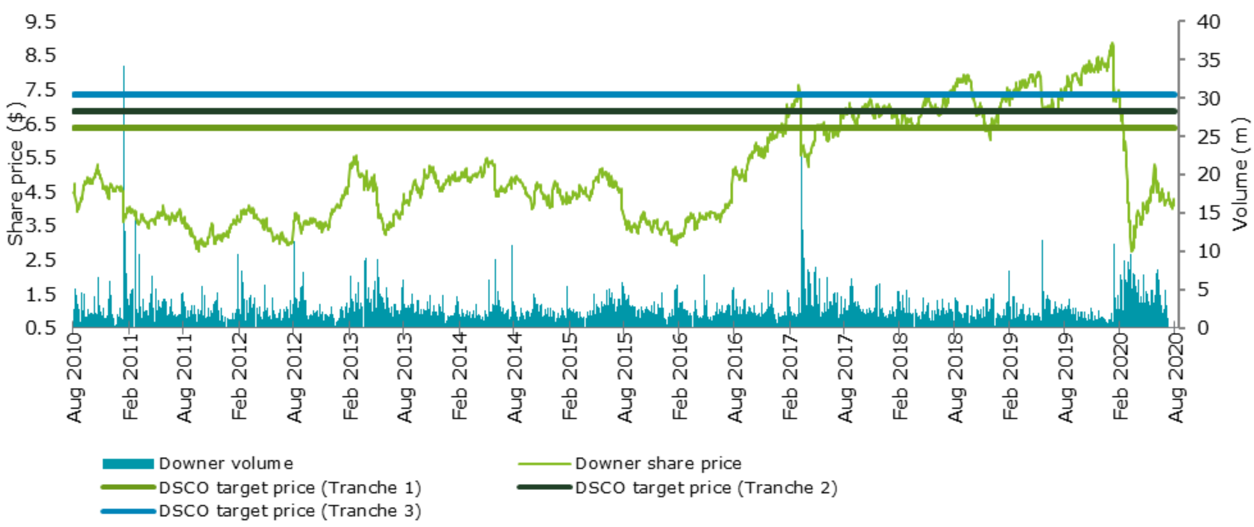


Note: Excluding unallocated revenue/costs
Source: Annual report, Deloitte Corporate Finance analysis

As at 27 August 2020 Downer had a share market capitalisation of $3.1b.

The recent share trading history on the Australian Securities Exchange relative to the target prices for the various tranches of DCSO is set out in the figure below:

Figure 2: Downer share trading



Source: Capital IQ, Deloitte Corporate Finance analysis

1.3 Downer’s intentions if the Proposed Takeover proceeds

If the Proposed Takeover proceeds, Downer intends to:

- operate Spotless as a wholly owned subsidiary. The current independent directors of the Spotless board will retire and will be replaced with members of Downer's management team
- realise synergies in the range of $10m to $15m per annum. Downer expects to be able to achieve these synergies by eliminating redundant corporate management structures, integrating operations and refinancing debt facilities
- review and where appropriate replace current debt facilities, so that Spotless can take advantage of the Downer Group’s debt platform.

Certain initiatives currently being pursued by Spotless, including the disposal of the Laundries business, review of the Hospitality business, and the run-off of higher-risk construction projects, will continue to be pursued by Downer.

Further details of Downer’s intentions can be found in Section 6 of the Bidder’s Statement.

2 Basis of evaluation

2.1 Guidance

In undertaking the work associated with this report, we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's reports and ASIC Regulatory Guide 112 in respect of the independence of experts.

Section 640 of the Corporations Act 2001 (Section 640) requires an independent expert's report in connection with a takeover offer to state whether, in the expert's opinion, the takeover offer is fair and reasonable.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for a range of transactions. It notes that the basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of s611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the shares subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company.
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should accept the offer under the proposed scheme, in the absence of any higher bids before the close of the offer.

2.2 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities subject to the offer. The comparison must be made assuming 100% ownership of the target company.

We have assessed whether the Proposed Transaction is fair by comparing the value of a Spotless share to the value of the Consideration to be received from Downer. We have assessed the value of each Spotless share by estimating the current value of Spotless on a control basis and dividing this value by the number of shares on issue.

The Spotless shares have been valued at market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a Spotless share has not been premised on the existence of a special purchaser.

2.3 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Transaction we considered the following factors in addition to determining whether the Proposed Transaction is fair:

- the fact that the Proposed Transaction allows Non-Associated Shareholders to realise their investment in Spotless
- the likelihood of an alternative offer being made
- other implications associated with Non-Associated Shareholders not accepting the Proposed Transaction.

2.4 Limitations

This report should be read in conjunction with Appendix 6.

3 Profile of Spotless

3.1 Introduction and company history

Spotless Group is a provider of outsourced integrated facility services to various industries across Australia and New Zealand. The company is headquartered in Melbourne, Australia and was listed on the Australian Securities Exchange from 2014 to 2019.

Key milestones in the company's history are outlined in the table below.

Table 5: Key events in corporate history

1946	• Founded in Fitzroy Melbourne, Australia
2011	• Entered into the new Royal Adelaide Hospital (nRAH) contract as part of a consortium
2014	• Diversified into security services across Australia • Acquired Aladdin Laundry and International Linen Services to become a provider of commercial laundry services • Relisted on the ASX following a period of ownership by private equity
2015	• Developed air conditioning and mechanical services line of business through acquisition of AE Smith • Launched into meter reading, energy efficiency and utilities services through acquisition of Utility Services Group
2017	• Downer made a takeover offer at $1.15 cash per Spotless share in March • Coltrane increased its interest in Spotless to 10.6% • Announcement of intention to acquire Cabrini Laundry in Victoria • Contract rationalisation by a new management team, resulted in an impairment of intangibles and other assets totalling $464m in FY17 • nRAH opened and services were mobilised • Downer closed the takeover offer in August having acquired 87.8% of Spotless
2018	• Challenges with the delivery of the nRAH contract result in a $51.4m impairment in FY18
2019	• Acquisition of Envar Group for consideration of c.$25m. Envar specialises in engineering, construction, maintenance, service and fabrication of heating, ventilation and air conditioning systems and works on projects ranging across office blocks, resorts, hospitals and shopping centres • Coltrane acquired additional shares between March and August, increasing its shareholding to 11.8% • Delisted from the ASX (August 2019)
2020	• COVID-19 and associated shutdowns across Australia and New Zealand cause wide ranging impact on the Spotless business and require it to stand down substantial components of the workforce • Proposals received in respect of disposal of the Laundries business. Two of the proposals are currently the subject of ACCC review with the ACCC announcing on 27 August 2020 that it has preliminary concerns with regards to one of the proposals.

Source: Capital IQ, Spotless, Management discussions

3.2 Service offerings, markets and operations

3.2.1 Overview of the business

Spotless operates through a range of brands (such as Alliance, Epicure, UASG, Skilltech, Taylors and Ensign) to deliver integrated, multi-service facility services.

Spotless has a workforce of approximately 21,000 staff in 50 offices and services approximately 4,182 contracts from a diverse range of sectors. The company provides the following services:

- **Facilities management and maintenance**: covering a broad range of services including project management, asset due diligence/condition assessments, lifecycle planning and replacements, building management systems, trade services, construction/refurbishments, compliance, grounds and gardening, handyman services, painting, pest control, procurement expertise, retail fit outs, water management, vegetation management and rehabilitation
- **Security**: Operates security sites providing onsite security, remote monitoring, and security installation mainly for sports stadiums and hospitals
- **Cleaning and waste management**: Cleaning services are offered to clients across Australia in metropolitan, regional and remote areas. The range of cleaning services includes commercial and retail cleaning, grounds and maintenance services, heavy and light industrial environment

cleaning, hygiene and washroom services, pest control, sterile and hygienic cleaning, waste management, recycling and window cleaning

- **Utility infrastructure**: Spotless designs, constructs and maintains utility networks and is Australia's leading metering, logistics and field operations provider. Spotless offers solutions to domestic, commercial and industrial markets, including advanced metering solutions and related mobile technology, pole reinstatement systems, asset inspection and monitoring, electrical construction and maintenance, technical and design solutions and servicing and replacement of mains
- **Catering and hospitality services**: Spotless offers tailored catering and hospitality services to stadiums, aged care, schools and tertiary institutions, hospitals, business and industry canteens as well as functions and special events
- **Laundry and Linen Services**: Spotless provides a comprehensive laundry service offering including linen supply, laundering and management for accommodation, hospitality and healthcare sectors, workwear laundering, linen rental and management, workwear supply and design. This business is currently the subject of a sale process which requires ACCC approval.

3.3 Profile of contracts and customers

Spotless' portfolio is structured into different lines of business, each with a line of business head and support team. The lines of business are categorised as follows:

- Government & Citizen Services
- Defence and Resources (now known as Defence)
- Asset and Development Services
- Health & Education
- Hospitality
- New Zealand
- Laundries
- Utilities.

The segmentation of revenue is set out below:

Figure 3: FY20 Revenue split by line of business[1]

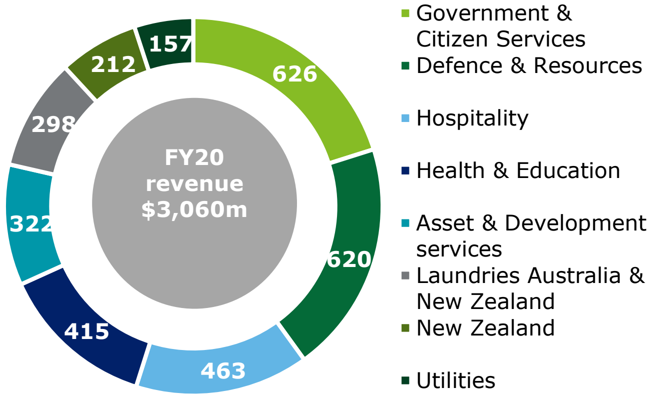
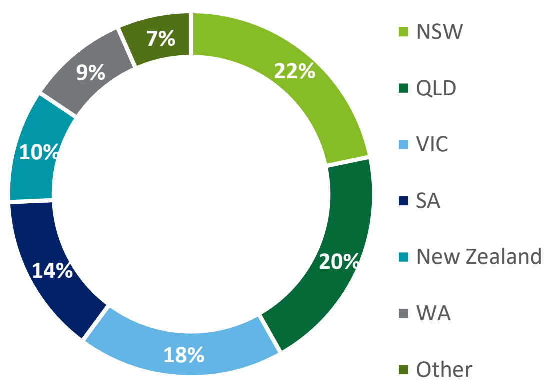


Figure 4: FY20 revenue split by Australia(state) and New Zealand[2]



Note:
1. Revenue is presented on a gross basis (excluding corporate eliminations)
2. Revenue is presented in a net basis
Source: Financial statements, Management discussions

Spotless has a growing and resilient market, which has the following key characteristics:

- Gross revenue generated from government line of business accounts for 20.5% of revenue in FY20
- Approximately 70% of gross revenue in FY20 relates to priority markets including Government, Defence, Health & Education and Infrastructure
- A significant portion of FY21 budgeted revenue is contracted and contains built in price escalation clauses
- The top 10 contracts accounted for 41.6% of gross revenue in FY20. The weighted average contract tenure is approximately 10.4 years for the top 10 contracts.
- Adjusted EBIT margins (exclusive of one-off individually significant items totalling $141.1m and corporate cost allocations) for the top 10 contracts averaged 9.6% in FY20, compared to adjusted

EBIT for the Group of 5.2%. The higher margins for the top 10 contracts are driven by large contracts across the Defence, Health and Education and Government sectors
- A number of long-term PPP contracts with maturities up to 2062

Set out in Appendix 1 are some key themes for the industries Spotless operates in.

3.4 Recent acquisitions

The business has experienced inorganic growth over the past three years due to the following acquisitions:

- **Envar Group acquired in FY19**: The Envar Group specialises in engineering, construction, maintenance, service and fabrication of heating, ventilation and air conditioning systems and works on projects ranging across office blocks, resorts, hospitals and shopping centres. Their main operations are based in WA with a smaller footprint in NSW. The group has a diversified and repeat customer base with long standing relationships of over 40 years.
- **Cabrini Laundry acquired in FY18**: The acquisition of the Cabrini hospital's 3-year old laundry, had a 15-year exclusive contract with the Cabrini facilities (including the hospital) and health contracts worth approximately $20m of revenue per annum.

3.5 Contract rationalisation/simplification programme

In August 2016, the newly formed management team of Spotless developed a strategy to optimise and grow the contract portfolio. The new management team reviewed the business model and refocussed the business on Health, Education, Defence, Infrastructure and Government clients, with an expectation of higher growth in those segments. The focus under the new strategy was to target long dated, expandable multi-service contracts, which leverage the businesses scale, geographic reach and breadth of the businesses' capabilities, thereby delivering higher return.

In executing the strategy, the business undertook a detailed review of its contract book and identified a list of smaller, underperforming contracts which it rationalised to improve financial performance and reduce operational complexity.

The removal of some of these less strategic and less profitable contracts, resulted in an impairment of goodwill, customer intangibles and other assets totalling $464.4m in FY17. Notwithstanding Downer taking control and a new management team being employed, the rationalisation strategy continued and further contract rationalisation and portfolio restructure costs were incurred in FY18 ($49.5m) and in FY20 ($85.1m). The group continues to be on that journey with the COVID-19 pandemic creating greater urgency around the rationalisation.

3.6 Impact of the COVID-19 pandemic

The COVID-19 pandemic has had and continues to have varied impacts across the group:

- **Hospitality**: all major event venues and other customer premises were either temporarily closed or running at a lower capacity. As a result, 6,000 staff were stood down. The Hospitality business was placed into hibernation, awaiting demand to recover. In addition, a number of contracts were exited where the returns were marginal and with respect to a number of other contracts, cost plus arrangements were negotiated
- **Laundries**: lower volumes from hospitals where non-urgent elective surgery was temporarily suspended to ensure adequate hospital capacity to respond to COVID-19. In early August 2020, one of the laundries in Melbourne was forced to shut down for a short time due to a number of employees testing positive for COVID-19 and has subsequently been reopened
- **Asset and Development Services**: delays to non-essential maintenance and capital works
- **New Zealand**: Spotless received wage subsidies of $22m from the New Zealand government in FY20, to assist the businesses impacted by the COVID-19 pandemic.

The remaining lines of business were largely unaffected by COVID-19 and the temporary downturn in the above lines of business was partially offset by an increase in demand from Government, Health and Defence contracts. Volumes in the Laundries segment have started to recover as it relates to health sector contracts which comprise the majority of the business, however the accommodation linen business is only anticipated to return to normalised levels by FY23.

There remains the risk, as evident through lockdowns being reinstated recently in Victoria and New Zealand, that there could be further negative impacts.

3.7 Laundries

The Laundries business unit has been the subject of review for a number of years, due to the high capital investment required and the competitive nature of the market segments in which it operates.

The acquisition of Cabrini laundry in July 2017 whilst giving access to long term contracts in the healthcare sector was also undertaken to avoid capital investment. Since then, Spotless has closed a number of underperforming plants and repositioned the business as two standalone businesses, operating under the Ensign brand in Australia and the Taylors brand in New Zealand.

In late 2019, Spotless commenced a process to dispose the Laundries business. The process was interrupted by COVID-19 which also had an impact on the business as described above. However, it did receive two proposals of which one is currently the subject of ACCC review. As at the date of the report there remains substantial uncertainty with respect to whether a disposal of the laundries business in part or full will eventuate, with the ACCC announcing on 27 August 2020 that it has preliminary concerns with respect to one of the proposals.

3.8 Capital structure and shareholders

3.8.1 Equity shareholders

Spotless has 1,102m ordinary shares on issue. All performance options and rights issued to key management personnel had expired by 30 June 2020. The substantial shareholders are set out in the table below:

Table 6: Spotless' substantial shareholders as at 21 July 2020

Investor	Number of shares (m)	% of shares issued
Downer	967.8	87.8
Coltrane	130.4	11.8
Other shareholders	3.8	0.4
Total share capital	**1,102.2**	**100.0%**

Source: Spotless

As at 21 July 2020, Downer and Coltrane collectively owned 99.6% of the shares of Spotless. On 25 August 2020, Downer announced that Coltrane has accepted the Proposed Takeover and as a result, Downer now has a relevant interest of 99.6%.

3.8.2 Debt

Debt facilities as at 30 June 2020 are summarised in the following table.

Table 7: Summary of debt facilities

Facility type	Margin	Value drawn ($m)	Facility amount ($m)	Maturity
Syndicated loan facilities	1.5% – 1.8%	720.2	880.2	July 2022 – July 2023
Bilateral loan facilities	n/a – 1.5%	50.6	145.6	July 2021 – June 2022
Total		**770.8**	**1,025.8**	

Source: Spotless

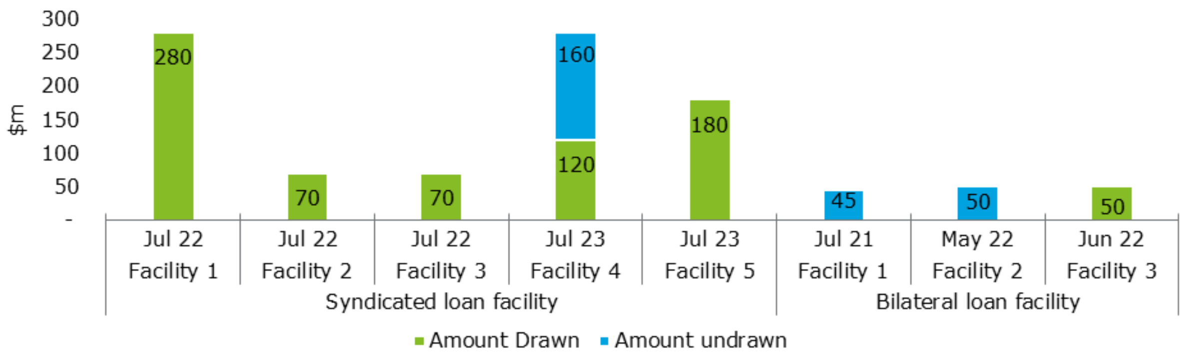
The Group's borrowing facilities require compliance with a net leverage ratio and interest coverage ratio set out below:

- Net leverage ratio (Net Debt/EBITDA <3.5x): ratio at 30 June 2020 was 3.4x
- Interest coverage ratio (EBITDA/Interest >3.0x): ratio at 30 June 2020 was 6.9x.

As a result of the COVID-19 pandemic, Spotless management have negotiated a temporary increase to the leverage ratio.

The maturity profile of Spotless' debt facilities (based on debt facilities as at 30 June 2020) is illustrated in the figure below.

Figure 5: Spotless debt maturity profile ($m)



Source: Spotless

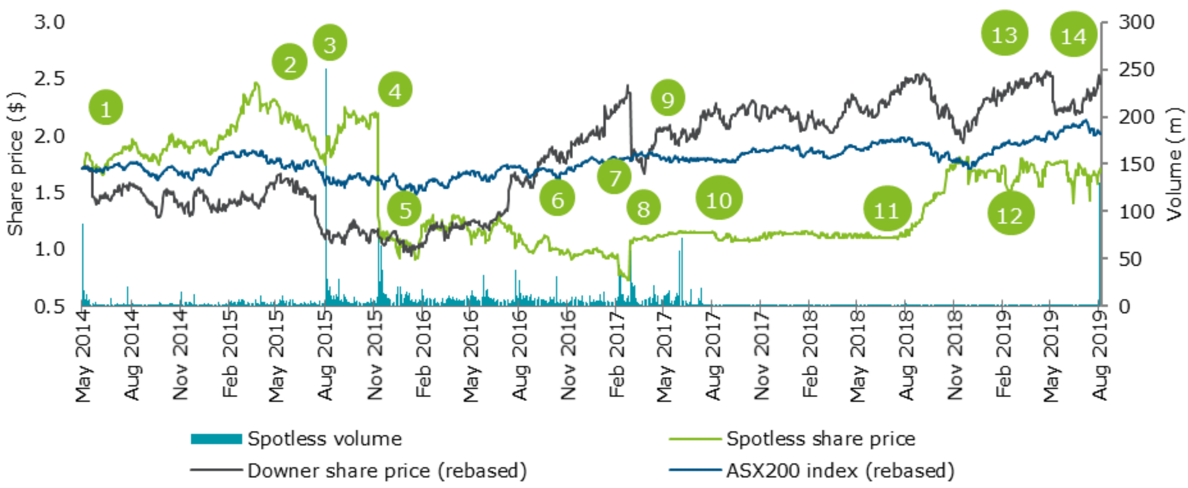
During FY20, Spotless refinanced certain existing facilities which resulted in more favourable terms including lower interest rates.

3.9 Share price performance

In May 2014, Spotless listed on the Australian Securities Exchange. In March 2017 Downer announced a takeover, offering cash of $1.15 per Spotless share. Following the close of the takeover offer, Downer held an 87.8% interest in the ordinary shares in Spotless, and with Coltrane owning 10.6% of the issued shares, the volume of shares traded on the ASX declined substantially. For this reason, and because of the administrative costs associated with being a listed entity, Spotless shares were delisted in August 2019.

The daily share price history, trading volumes and performance against the S&P/ASX 200 Index since listing and up to delisting are presented in the chart below, along with potentially price sensitive ASX announcements and other events over the period.

Figure 6: Spotless share price relative to Downer and the S&P ASX200 Index



Note: The Downer share price and ASX 200 Index has been rebased to the share price of Spotless following IPO
Source: Capital IQ, Company announcements

The key price movements in share price and trading volumes, as identified by the numbers in the figure above, can be attributed to the following events and announcements.

Table 8: Key Spotless announcements

Reference	Date	Comments
1	23-May-14	Spotless completes IPO at $1.72 per share and implying a market capitalisation of $2.09bn
2	Oct-14-July 2015	Announces a number of acquisitions
3	26-Aug-15	250.7m shares traded mainly as a result of the previous owner of Spotless selling the balance of their shareholding which was escrowed for a period of time following IPO
4	2-Dec-15	Trading results released, noting that growth from new business had slowed due to tighter economic conditions and that tender decisions had been delayed or deferred
5	09-Dec-15	Acquired Prime Laundry
6	01-Nov-16	Acquired NovuGroup (Australia) Pty Ltd
7	24-Feb-17	IMF Bentham and William Roberts Lawyers filed a lawsuit in the Australian Federal Court relating to misleading or deceptive conduct and/or breaching continuous obligations in relation to the company's financials for FY15
8	21-Mar-17	Downer announced takeover offer at $1.15 per share
9	1-Jul-17	Acquired Cabrini
10	28-Aug-17	Downer closes takeover offer
11	30-Jun-18	Release of the 30 June 2018 consolidated results, which included information on contract rationalisation and write-down on the nRAH contract.
12	28-Feb-19	Acquired Envar Group
13	Mar-Aug 19	Coltrane acquired additional shares between March and August, increasing its shareholding from 10.6% to 11.8%. Given the low liquidity in Spotless shares, this seems to have driven the share price up
14	30-Aug-19	Spotless delisted from ASX

Source: Capital IQ, Company announcements

3.10 Financial performance

The financial performance of Spotless for the financial years ended 30 June 2018 to 30 June 2020 is summarised below.

Table 9: Historical financial performance

$m (unless otherwise stated)	Audited FY18	Audited FY19[1]	Audited FY20[2]
Sales revenue	**3,044.6**	**3,025.1**	**3,038.2**
Other income	-	-	22.0
Cost of goods used	(488.3)	(483.7)	(454.5)
Employee and subcontractor costs	(2,125.3)	(2,071.4)	(2,257.2)
Catering costs	(50.2)	(43.9)	(32.0)
Occupancy costs[1]	(24.3)	(55.4)	(46.1)
Other opex[1]	(225.0)	(121.2)	(197.2)
Operating expenses	(2,913.1)	(2,775.6)	(2,987.0)
EBITDA	**131.5**	**249.5**	**73.2**
Depreciation	(89.6)	(74.7)	(71.5)
Amortisation[2]	(15.8)	(15.8)	(40.8)
EBIT	**26.1**	**159.0**	**(39.1)**
Net finance income/(expense)	(43.4)	(39.2)	(36.4)
Tax income/(expense)	15.0	(35.8)	22.4
NPAT	**(2.3)**	**84.0**	**(53.1)**
Revenue growth	*1.3%*	*(0.6%)*	*0.4%*
EBITDA margin	*4.3%*	*8.2%*	*2.4%*
NPAT margin	*(0.1%)*	*2.8%*	*(1.7%)*

Note:
1. $31.1m was allocated from other costs to occupancy costs above. This is based on the restated FY19 income statement. This is an allocation difference and there was no change to the FY19 NPAT. FY18 occupancy costs are lower than FY19 and FY20 as there was no reallocation performed.
2. FY20 includes $26.7m right of use asset amortisation on implementation of AASB 16.
Source: Spotless Annual Reports, Deloitte Corporate Finance analysis

Revenue growth is driven by the level of mobilisation of new contracts offset by exit of existing contracts, the related pricing terms and inorganic growth through new acquisitions. Sales revenue decreased between FY18 and FY20, largely due to the following:

- Increase in revenue of 1.3% in FY18 which reflected the first full year of new PPPs and the acquisition of Cabrini
- Revenue decreased by 0.6% in FY19 reflecting the impact of previously exited contracts, offset by newly mobilised contracts
- Revenue increased by 0.4% in FY20, due to increased project and contract volumes with Government and Defence, offset by the negative impact as a result of COVD-19 in particular on the Hospitality business. As a reflection of the impact of COVID-19, in the first half of FY20 revenue was up 9.1% on the prior corresponding period.

Other income of $22m in FY20 represents Government wage subsidies received in New Zealand to assist businesses impacted by the COVID-19 pandemic.

Operating expenses mainly comprises employee and subcontractor costs which accounted for an average of 90% of total operating costs (excluding cost of goods used) between FY18 and FY20.

Lower EBITDA margins in FY18 were due to one-off or non-recurring expenses incurred during the year. These items are detailed in Table 10 below. After adjusting for these items, the adjusted EBITDA margin of 8.1% in FY18 is consistent with FY19 adjusted EBITDA margin of 8.1%.

EBITDA in FY20 was also impacted by various one-off or non-recurring items which totalled $144.1m[1]. After adjusting for these items, the adjusted EBITDA margin of 7.2% in FY20 is consistent with the historical periods under review but we note that FY20 excludes lease rental expense due to the introduction of AASB 16.

There have been no dividends declared or paid since FY17 with excess cash from operations used to reduce debt levels.

The reported financial performance includes a number of costs that are considered to be one-off or non-recurring and need to be adjusted from reported EBITDA in order to calculate an adjusted EBITDA, as summarised in the table below.

Table 10: Adjusted historical financial performance

$m (unless otherwise stated)	Audited FY18[1]	Audited FY19	Audited FY20	Notes
Reported EBITDA	**131.5**	**249.5**	**73.2**	
One-off/non-recurring adjustments				
Contract rationalisation and portfolio restructure	9.5	-	85.1	1
nRAH write-off	51.4	-	-	2
Laundries impairment	40.0	-	-	3
Redundancies	9.4	-	-	4
Smart metering development	4.5	-	-	5
Backpay, redundancy payments and other related costs	(4.0)	(3.8)	15.1	6
Class action	-	-	34.0	7
Laundries portfolio review	-	-	5.7	8
Other material items	5.3	-	12.7	9
Government relief	-	-	(8.5)	10
Adjusted EBITDA	**247.6**	**245.7**	**217.3**	
Depreciation	(89.6)	(74.7)	(71.5)	
Depreciation – ROU	**-**	**-**	(26.7)	
Adjusted EBITA	**158.0**	**171.0**	**119.1**	
Adjusted EBITDA margin	*8.1%*	*8.1%*	*7.2%*	
Adjusted EBITA margin	*5.2%*	*5.7%*	*3.9%*	

Source: Spotless Annual Reports, Deloitte Corporate Finance analysis

The above adjustments are described below:

1. The execution of the revised strategy resulted in various one-off costs in FY18, including exit costs, asset write-offs and staff redundancies. In FY20 restructuring adjustments related to onerous contracts, predominantly in the Resources and Hospitality business units ($2.2m), asset impairments relating to the restructure of the contract portfolio ($32.3m), stock write-offs relating to perishable inventory in the Hospitality and Laundries business units ($9.7m), staff redundancies ($23.1m), doubtful debts ($8.6m), and other restructuring related costs, which comprises exit and unwinding costs attributable to existing contracts ($9.2m)
2. These costs relate to the write-off of work in progress costs in relation to the underperforming nRAH contract

[1] We note that the annual financial statements disclosed individually significant items of $141.1, which has been calculated in line with accounting conventions. Our calculation of one-off and non-recurring adjustments is set out below.

3. Goodwill was impaired by $40m in FY18 due to the underperformance of the Laundries business
4. The response to the takeover by Downer and subsequent management departures in FY18, resulted in non-recurring costs
5. One-off costs of $4.5m relating to building a smart metering utilities capability
6. Management undertook a compliance review of its Modern Awards and Enterprise Agreements to ensure that employees had been appropriately remunerated for past work. This review identified underpayments and resulted in various advisor and other one-off project costs in FY20. Spotless was also involved in two Federal Court proceedings, which resulted in a court decision for Spotless to make redundancy and late payment penalties to past employees in FY20. We have also adjusted FY18 and FY19 to recognise the additional payments that were identified through the course of FY20
7. Class action claims relate to the excess (net of insurance recoveries) to settle the shareholder action, which commenced against Spotless in the Federal Court of Australia in May 2017. The claim was previously disclosed as a contingent liability
8. Transaction costs of $5.7m were incurred as part of the potential sale of the Laundries business
9. In FY18 other adjustments relates to the revision of certain balance sheet items. In FY20 other adjustments include the following:
    - renegotiated terms on the nRAH contract which generated a $23m adjustment, offset by a $7m WIP adjustment on a Health contract (PPP)
    - In the Asset and Development Services business a $25.9m write-down of margin for construction contracts nearing completion
    - $2.8m relating to onerous contracts in the Hospitality line of business. These contracts were not considered as part of individually significant items, as the expected losses have been driven by the impact of COVID-19.
10. Spotless qualified for wage subsidies from the New Zealand government, to assist the New Zealand operations during the COVID-19 pandemic. The adjustment represents the amount net of payments to employees and operational losses.

The FY20 EBITDA (reported and adjusted) stated above, includes the introduction of AASB 16. The introduction of this standard has resulted in Spotless no longer expensing operating lease rental costs, which were $29.4m in FY20, but rather expensing depreciation and interest aggregating to $30.3m which are below EBITDA.

As such, to compare EBITDA relative to prior periods, the Adjusted EBITDA for FY20 would be $187.9m, reflecting a decrease of $57.8m or 23.5% on the prior period. This decrease can largely be attributed to the impact of the COVID-19 pandemic, which impacted the Hospitality, Laundries and Asset and Development businesses.

3.11 Financial position

The financial position as at 30 June 2018, 30 June 2019 and 30 June 2020 is set out below.

Table 11: Historical financial position

$m	Audited 30 June 2018	Audited[1] 30 June 2019	Audited 30 June 2020
Contract assets	377.6	254.3	273.5
Trade receivables	107.3	238.0	221.3
Inventories	29.4	29.5	24.4
Prepayments and other assets	13.4	11.2	11.0
Trade payables	(183.2)	(244.3)	(213.3)
Accruals and other	(195.0)	(187.8)	(328.2)
Contract liabilities	(29.0)	(54.0)	(37.9)
Tax liabilities	(4.5)	(11.4)	(4.0)
Net working capital	**116.0**	**35.5**	**(53.2)**
Equity accounted investments	1.5	1.6	1.2
Right of use asset	-	-	105.7
Property, plant and equipment	269.3	270.0	249.8
Deferred tax assets and liabilities	55.7	85.7	127.8
Intangible assets, including goodwill	867.4	879.1	849.7
Provisions, net of other assets and liabilities	(150.0)	(208.4)	(149.3)
Total funds employed	**1,043.9**	**1,028.0**	**1,184.9**
Cash and deposits	91.2	109.9	122.9
Derivatives	(0.4)	(4.9)	(8.6)
Borrowings[2]	(823.0)	(779.8)	(767.5)
Lease liability	(3.6)	(10.0)	(179.9)
Net debt (including lease liabilities)	**(735.8)**	**(684.8)**	**(833.1)**
Net assets	**424.1**	**378.7**	**298.6**

Notes:
1. The FY19 financial position reflects a restated position
2. Includes capitalised borrowing costs
Source: Annual reports and half yearly report

Over the period, net working capital has decreased as a result of one-off items of $88.0m in FY20 largely relating to various normalisation adjustments as described in Section 3.5 which were accrued at year end. These include accruals relating to redundancy costs ($28.9m), the shareholder class action ($34.0m), employee underpayment liabilities ($16.9m), resource contract exits ($5.1m) and other accruals ($3.1m).

Property, plant and equipment relates mainly to the Laundries business and also includes rental stock for that business.

The adoption of AASB 16 in FY20 resulted in the recognition of a right of use asset of $105.7m and related lease liability of $179.9m. For the purposes of the analysis above, we have included the lease liability in net debt.

Net deferred tax assets $127.8m at 30 June 2020, comprises deferred tax assets of $201.9m and deferred tax liabilities of $74.1m. Deferred tax assets comprises temporary differences of $151.9m and $50.0m arising from historical tax losses.

Intangible assets at 30 June 2020 comprise goodwill of $774m, customer contracts of $41.4m and software of $34.3m. Customer contracts are amortised over 6-30 years, whilst software is amortised over 12 years.

Provisions mainly relate to employee benefits and onerous contracts, with a smaller portion relating to make-good, public liability and environmental remediations. In FY20 provisions were impacted by $10.3m of onerous leases.

Historical contingent liabilities

nRAH contract

In September 2017, Spotless commenced a facilities management sub-contract at nRAH. The sub-contract was with Celsus, which had a contract with South Australian Government as part of a PPP.

In August 2019, Spotless reached an agreement with both parties in relation to the delivery of services, which included the following:

- No payment to be made in respect of the historical abatement claims previously disclosed as a contingent liability by Spotless
- A revised set of KPIs
- An increase in the monthly service fee paid to Spotless

The settlement agreement took effect from 1 July 2019 and as at the date of this report, there were no liabilities contingent or outstanding, other than the onerous contract provisions discussed above.

Shareholder class action

Spotless agreed to a settlement relating to a shareholder class action in May 2020. The settlement net of insurance proceeds received, had a $34m impact on FY20 earnings. As at 30 June 2020, payment of this liability was outstanding, and it was recognised as an accrual on the balance sheet.

Other contingent liabilities

There are no material contingent liabilities. However, certain recent court decisions not involving Spotless regarding the correct application of various employee entitlements may have a financial impact on Spotless.

3.12 Strategy of the business and outlook

With the substantial impact of the COVID-19 pandemic on the Hospitality business, the business has been reshaped to create a standalone Hospitality line of business. A number of multi-discipline facility management and cleaning contracts were transferred to other lines of business. The balance of the hospitality contracts, which largely relate to recreation and leisure segments, have then been restructured to reflect lower demand or put into hibernation.

Within the Health and Education business, FY21 performance is likely to continue to be impacted by unprofitable contracts. However, over the medium term, contractual terms provide rights to renegotiate these contracts and thus there is an expectation of an improvement in profitability. Management also anticipate further revenue growth from new contracts under PPPs and, to a small extent, from the aged care segment.

Whilst revenues in the Defence and Resources business are expected to drop in FY21 as a result of exiting Resources contracts, Management foresee growth opportunities in the Government and Citizen Services and Defence businesses with a number of large opportunities on the horizon with State Governments and the Department of Defence.

Within the Laundries business, accommodation linen services are expected to recover at a slower rate than health which started to recover once hospitals recommenced elective procedures. The expectation is for growth from FY22 onwards, mainly due to a return to pre-COVID levels of accommodation related linen services and garment rentals.

At a group level, Management anticipates a recovery path that sees the group outperforming FY19 performance by FY23. This reflects a combination of an economic recovery particularly in Hospitality, the move to profitability through renegotiation of PPP services pricing and further cost savings through continued removal of smaller, less profitable contracts and efficiencies in management structures.

Notwithstanding the above, we would highlight that as a result of the COVID-19 pandemic, there are substantial risks. In particular, we highlight:

- Stage 4 lockdowns were imposed in Victoria in July 2020 and a number of events that were anticipated to be held at Victorian stadiums in FY21 have been cancelled or postponed. Spotless

has substantial business activities in Victoria (as set out in Figure 4) including the provision of services at major stadiums such as the MCG
- In the last week of July 2020, a number of employees at one of the laundries in Victoria were diagnosed with COVID-19 and as a result the laundry was forced to close for 2 weeks
- Lock downs were re-imposed in New Zealand in mid-August 2020. Spotless management were anticipating growth within the New Zealand business. If the lockdowns continue, the growth outlook for the New Zealand business may be optimistic.

4 Valuation of Spotless

4.1 Valuation summary

We have estimated the current market enterprise value of Spotless to be in the range of $1,800m to $2,100m. After deducting net debt this implies a value of between $0.83 and $1.11 per share.

A summary of our valuation is set out in the following table:

Table 12: Spotless valuation summary

	Section	Unit	Low	High
Market multiples approach	4.3	$m	1,700	2,138
Discounted cash flow approach	4.4	$m	1,798	2,043
Enterprise value range (selected)		**$m**	**1,800**	**2,100**
Less: net debt	4.5.1	$m	(836)	(836)
Less: other debt like items	4.5.2	$m	(96)	(96)
Add: surplus assets	4.5.3	$m	51	51
Equity value		**$m**	**919**	**1,219**
Number of shares on issue	4.6	m	1,102	1,102
Value per share		**$**	0.83	1.11

Source: Deloitte Corporate Finance analysis

In estimating the enterprise value, we have utilised the market multiples and the discounted cash flow approach. Our rationale for selecting these approaches is set out below in Section 4.2.

In selecting our enterprise value range, we had regard to the following:

- the top end of the market multiples approach is based on estimated maintainable earnings that could be viewed as high in the current environment with the uncertainties arising from the COVID-19 pandemic
- with respect to the discounted cash flow approach we recognise that management may seek to put in place further actions to respond to any further downturn should there be evidence of a downside scenario eventuating
- In the current environment, there are substantial risks associated with valuations given the uncertainty and volatility in earnings and cash flows created by COVID-19. This risk is also apparent in forecasting future cash flows which are utilised in the application of the discounted cash flow approach.

Having regard to the above factors, we selected an enterprise value range of between $1,800m and 2,100m.

We have reduced the enterprise value for debt and debt like items to arrive at the equity value. These items are discussed in Section 4.5.

The equity value (which has been assessed on a control basis) has then been translated into a value per Spotless share based on the number of shares outstanding.

The analysis supporting the valuation assumptions adopted are set out in the following sections.

4.2 Selection of valuation approach and other considerations

We valued Spotless as a whole and did not explicitly consider a sum-of-the-parts valuation. Many of the facilities services business units are integrated into the broader group and therefore it would be difficult to derive a 'stand-alone' value of each business unit.

Although the Laundries business unit could be considered separately it is not material to the overall value of Spotless. We did however undertake a high level analysis of a sum-of-the-parts valuation (between Laundries and Facility services) in selecting our valuation range.

Appendix 2 provides an overview of the various valuation methodologies which can be adopted in valuing corporate entities and businesses.

The market multiples approach is typically applied to value businesses which generate a stable level of earnings. This method involves applying a multiple to an estimated maintainable level of earnings. In this regard, we note:

- The approach is commonly used by equity research analysts to value similar enterprises
- Based on company disclosures, information and discussions with Spotless management we have been able to adjust current year earnings for one-off significant items
- There are an adequate number of publicly listed companies with operations sufficiently comparable to Spotless from which a meaningful comparison can be undertaken and an appropriate multiple can be identified. We have also identified a recent transaction involving a business which we consider comparable to Spotless and thereby providing further evidence of an appropriate earnings multiple.

We also undertook a discounted cash flow analysis having regard to the current business plan developed by Spotless management and extrapolation of this based on a number of scenarios to recognise the uncertainty of future earnings posed by COVID-19.

We undertook a number of cross-checks of our valuation, using the revenue multiple approach, and a comparison to the initial Downer acquisition of Spotless in 2017.

Our valuation of Spotless has been undertaken on a control basis, consistent with the requirements of ASIC RG111.

4.3 Market multiples approach

Set out below is a summary of our application of the market multiples approach.

Table 13: Spotless valuation summary

	Section	Unit	Low	High
EBITDA	4.3.1	$m	200	225
Multiple	4.3.2	times	8.5x	9.5x
Enterprise value		**$m**	**1,700**	**2,138**

Source: Deloitte Corporate Finance analysis

We have selected EBITDA as an appropriate measure of earnings because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT.

This allows a better comparison with earnings multiples of other comparable companies. In addition, EBITDA is more commonly and consistently forecast by equity research analysts and thus results in more accurate implied multiples for the comparable companies which form our market benchmarks.

4.3.1 EBITDA assessment

In selecting the maintainable EBITDA range, we considered the following:

- The historical normalised EBITDA as outlined in Section 3.10. Over the years, Spotless' reported earnings have been impacted by a number of significant costs associated with restructurings undertaken by the company. These costs are not expected to be individually incurred on an ongoing basis and thus we have adjusted the reported earnings for these costs
- During the second half of FY20, Spotless' operations were substantially impacted by the COVID-19 pandemic. In order to maintain consistency with the earnings of the comparable companies earnings (which were also impacted by the COVID-19 pandemic), we have not normalised for this impact
- The ongoing contract rationalisation process and cost savings initiatives undertaken by management, as the business looks to exit less profitable contracts and focus on more sustainable, larger size and higher margin opportunities

- A level of cost savings available to market participant buyers of Spotless which recognise the removal of certain corporate costs associated with being an unlisted public company and having an independent board and management structure.

Based on the above considerations, we have assessed normalised EBITDA to be between $200m and $225m. This range is substantially higher than the reported or adjusted EBITDA achieved by the business in FY20. This range is slightly lower than the annualised EBITDA for the first half of FY20 and accordingly recognises the impact of the COVID-19 pandemic on earnings.

4.3.2 Selection of earnings multiple

In selecting an appropriate earnings multiple, we have considered earnings multiples observed from share market trading of listed companies with operations comparable to Spotless and the implied earnings multiples paid to acquire companies with operations comparable to Spotless.

Earnings multiples derived from share market trading do not reflect the market value for control of a company as they are based on portfolio holdings in the subject companies. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- Control the cash flows of the company, such as dividends, capital expenditure and compensation for directors and managers
- Determine and change the strategy and policies of the company
- Make acquisitions, restructure the business or divest operations
- Control the composition of the board of directors.

Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. However, such premiums often mask other factors outside of a pure premium for control such as low profitability and payment for synergies.

The acquisition price achieved in mergers or acquisitions of companies (particularly where control is transferred) represents the market value of a controlling interest in that company. However, the same issue also exists with respect to transactions in that the implied multiple could be calculated on low profitability and could reflect payment for synergies.

4.3.3 Selection of comparable companies and transactions

Market trading multiples

We conducted a global search for companies comparable to Spotless and identified a small number of listed companies that are comparable to Spotless.

Our comparable company group includes Downer as its earnings include Spotless (25% of Downer's revenue) and also because it undertakes other activities that are similar to those of Spotless. We also identified a number of other facility services providers in other geographic markets, a number of which have operations in the Australian market.

Set out in in the figure below are the implied EBITDA multiples of the companies we identified.

Table 14: Summarised comparable companies' financial and valuation metrics

Company	LTM[1] EBITDA ($m)	EBITDA margin (current)	Revenue growth[2] (current)	EBITDA multiples (current)
Downer	669	7.0%	4.7%	5.5x
Facility services				
ABM	454	5.4%	2.6%	9.8x
Compass	3,920	8.2%	7.3%	13.0x
GDI	75	6.7%	8.9%	10.3x
ISS	605	5.6%	4.6%	7.8x
Mitie	201	5.3%	(2.6%)	5.0x
Sodexo	2,672	6.5%	(7.6%)	10.5x

Note:
1. LTM = last twelve months
2. Growth implied by the revenue for the financial year ending June 2021 (or closest full year results announcement)
Source: Capital IQ, Annual Reports, Company Announcements, Deloitte Corporate Finance analysis

A full list containing the description and details of the comparable companies considered in our analysis is provided in Appendix 3.

In our analysis we have aligned the financial years of the comparable companies with (to the extent possible) the financial year of Spotless. We consider this important in the current environment as the COVID-19 pandemic largely started impacting the countries the companies operate in from March 2020 onwards. As such, where companies have substantially different year ends, the impact on their business operations and reported earnings of the COVID-19 pandemic needs to be considered.

In assessing the comparability of these companies, we have had regard to the following key factors:

- Business model: whilst there are no directly comparable listed companies in the Australian market, a number of the companies we identified have operations in facilities, construction, utilities and hospitality services. We have also had regard to Downer, as this provides a guide on investor sentiment in the Australian market as Spotless represents about 25% of Downer's consolidated revenue
- Growth prospects: companies with a higher growth outlook generally trade at higher multiples than those with lower growth prospects. We have observed that the comparable multiples are correlated with revenue growth as this is reflective of the expectation of increased market share and growth opportunities
- Diversification and scale: Companies with greater product and/or geographic diversification (which also tend to be larger) can, all things being equal, trade on higher multiples than smaller companies. This is because the product and geographic diversification can mean that the business is more insulated from specific risks (which may only impact a particular product or geography) or because their larger size gives them a scale advantage (for example, the opportunity to tender for large public and private sector contracts)
- EBITDA margin: companies with higher margins tend to trade at higher multiples as these companies tend to have more pricing power in the market, and/or have greater capacity to absorb higher costs which may be imposed on the business. The higher margins can also be viewed as a proxy for higher returns and thus businesses with higher margins would be more valuable.

Of the comparable companies identified, we consider ABM, GDI and ISS to be most comparable due to their focus on facilities management offerings and similar contract portfolios servicing a broad mixture of public and private sector clients. More specifically:

- ABM is a large company in the United States facilities services market and inherently has access to a larger addressable market (the United States) and growth regions than Spotless. It has recently pursued an aggressive growth strategy through acquisitions aimed at growing earnings in the short to medium term. ABM has an increasingly diversified offering across general facilities management and specialist technical services. ABM is larger than Spotless with revenue of c. $9b compared to Spotless revenue of c. $3b. ABM and Spotless have similar historical and current

EBITDA margins ranging between c.5% and 7%. Over the last 3 years ABM's revenues have grown by a CAGR of 15.1% whilst Spotless' revenues have been stable. Given these factors, we would expect ABM to command a higher multiple than Spotless. ABM trades at a current EBITDA multiple of 9.8 times

- GDI is an outsourced facility services provider, operating predominately within Canada and the United States. GDI targets a larger addressable market than Spotless with access to markets across North America with a more diversified offering across both janitorial facilities services and specialist services. GDI is smaller than Spotless, although growing rapidly, with revenue growth averaging 15% p.a. over the last 5 years. GDI's current EBITDA margin is similar to Spotless at c.7%.On balance we would expect GDI to be more attractive than Spotless. GDI trades at a current EBITDA multiple of 10.3 times.
- ISS is a large global leader in facilities services, with extensive operations across Europe, the Americas and Asia Pacific (including Australia). ISS is significantly larger than Spotless with revenue c. $17.4b and EBITDA of c. $1b. Growth has stagnated in recent years and broker consensus has forecast revenue growth of c.4-6%over the next two years. ISS has a larger laundries segment relative to Spotless and also offers waste management solutions, which results in high capital requirements relative to Spotless. Businesses with higher capital expenditure requirements generally trade at lower multiples to businesses which have greater cash conversion from earnings. For these reasons we expect ISS to trade at a lower multiple to Spotless. ISS trades at a current EBITDA multiple of 7.8 times
- Downer is the parent company of Spotless and is also a competitor in its own right with a diversified service offering across long-term government and private sector contracts. Downer is significantly larger, generating revenue of c. $12.7b. Downer's aggregate current EBITDA margin is similar to Spotless at c.7%. However, Downer has a more capital intensive business than Spotless, with a large portion of its revenue derived from mining services which requires significant capital. For this reason we would expect Downer to trade at a lower multiple to Spotless. Downer trades at a current EBITDA multiple of 5.5 times.

The remaining comparable companies have either a different core focus or service offering mix to Spotless. Compass and Sodexo primarily focus on hospitality and catering whilst Mitie has a more broadly diversified offering across facilities, energy and infrastructure services. On this basis, we have observed but placed less reliance on their implied earnings multiples in our assessment of an appropriate earnings multiple for Spotless. In particular, we note:

- Compass and Sodexo are large multi-national businesses which are significantly larger than Spotless, with these companies having recently experienced increased earnings volatility due to the impact of the COVID-19 pandemic on their large-scale catering and hospitality offerings. These companies are currently operating under restrained trading conditions with a large portion of their businesses in a state of hibernation, reducing meaningful conclusions in relation to their trading multiples. With these depressed earnings, Compass and Sodexo trade on current multiples of 13.0 times and 10.5 times, respectively
- Mitie provides a broad range of engineering, construction and facilities management offerings. Due to Mitie's offerings being more capital intensive and the business achieving lower margins than Spotless. Mitie trades at a current multiple of 5.0 times.

Comparable transaction multiples

Transaction multiples are generally calculated with reference to historical earnings and, as a result, all things being equal, we would expect the transaction multiples (particularly where control is transferred) to be higher than the unadjusted current or forecast trading multiples observed for listed comparable companies.

We identified a number of transactions involving businesses similar to Spotless. However, all of the transactions involving similar companies we identified pre-dated the COVID-19 pandemic. In addition, with the exception of the Broadspectrum acquisition, the comparable transactions occurred before the implementation of AASB 16, which further reduces the comparability of the implied transaction multiples.

Broadspectrum was acquired earlier this year by Ventia and the price paid implied a multiple of 6.1 times EBITDA. Their business operations are comparable to Spotless. Although the transaction was announced before the outbreak of the COVID-19 pandemic, the transaction closed in June 2020, and as such we have assumed the final consideration paid incorporates the additional risk associated with COVID-19.

Broadspectrum has adopted AASB 16 and the EBITDA was calculated reflecting AASB 16. Broadspectrum's operations are more capital intensive than Spotless and therefore is likely to trade at a lower multiple.

The EBITDA utilised for the purpose of implying the Broadspectrum transaction multiple was for the year ended 31 December 2019, and therefore does not include any impact of the COVID-19 pandemic (although given Broadspectrum doesn't have exposure to the hospitality sector and the laundries sector, the impact on its earnings is likely to be less). A multiple based on earnings impacted by COVID-19 would be higher.

4.3.4 Selected multiple

Based on our analysis of the comparable companies and transactions outlined above, we have adopted an EBITDA multiple (on a control basis) in the range of 8.5 times to 9.5 times for the following reasons:

- With the exception of the Laundries business, Spotless has relatively low capital and working capital requirements
- Spotless has a relatively small hospitality and laundries business and therefore has not been as adversely impacted by COVID-19 in comparison to some of its global peers with high levels of exposure to these segments
- Spotless, an exclusively Australian and New Zealand business does not have the same opportunities for growth in comparison to predominately global based companies. These companies have access to greater growth opportunities and a larger addressable market across Europe, Asia, and North America. This has been counter-balanced against the scale and brand Spotless has in the Australian market which allows it to actively participate in large scale government, defence and PPP contracts.

4.4 Discounted cash flow approach

We have also assessed the enterprise value using the discounted cash flow approach having regard to the current business plan developed by management

The discounted cash flow approach estimates enterprise value by discounting a company's future cash flows to their net present value provided that the future cash flows that are expected to be derived from a business are capable of being estimated with a reasonable degree of confidence.

The discounted cash flow method requires the determination of the following:

- future cash flows based on a range of revenue and earnings scenarios which may be achievable over the next 5 years
- an appropriate discount rate to be applied to the future cash flows
- an estimate of the terminal value growth rate.

Our considerations on each of these factors are presented below.

4.4.1 Future cash flows

Management prepare a budget for the following financial period, which goes through a detailed review and approval process. The budget is prepared for each of the seven key lines of business, from input from each of the line of business heads. Management have also prepared high level forecasts for FY22 and FY23 accompanied by more detailed forecasts for the Hospitality line of business.

Set out below are the key considerations in management's development of the forecasts:

- The impact of COVID-19 has been considered for each line of business, leveraging the work undertaken by management in determining the budget and plan for the restructured Hospitality and Laundry businesses
- Due to the significant impact that COVID-19 had on the hospitality business, this analysis was undertaken at a more granular level
- The forecasts reflect a gradual recovery of the Laundries business, with a return to pre-COVID activity levels over the course of FY21
- Defence, Government and Health and Education business units are expected to be relatively unaffected by COVID-19, with some growth as a result of Government stimulus efforts in FY21. There is also an expectation of opportunities materialising for PPPs in healthcare, additional defence facilities contracts such as base refreshers and infrastructure maintenance and new Government contracts for the various state Justice and social housing departments

A summary of those forecasts is set out below:

- Revenue is budgeted to decrease in FY21, primarily as a result of the impact of the COVID-19 pandemic on the hospitality business and the laundries business, but also the exit of a number of low margin contracts. This decline is expected to turnaround in FY22 and FY23
- Despite the lower revenues in FY21, the EBITDA margin is anticipated to increase as a result of the restructuring that has already been undertaken to combat the impact of the COVID-19 pandemic and also because of the exit of a number of low margin contracts. Together with the growth in revenue, this growth in EBITDA margin is expected to continue into FY22 and FY23

The forecasts require some adjustments in order to be used as the basis of a discounted cash flow methodology including:

- We extended management's 3-year forecasts for a further 2 years, which we considered sufficient to capture the new strategic initiatives identified by management over the next 5 years, followed by a reversion to a long-term growth rate into perpetuity
- Capital expenditure is expected to be broadly in line with forecast depreciation and amortisation and is based on a consistent % of revenue (2.5%)
- Working capital is based on a proportion of forecast revenue (1.2%), after considering a normalised historical net working capital
- We adopted an effective tax rate of 30%, which is consistent with historical effective tax rate and aligns with the Australian corporate tax rate.

4.4.2 Terminal growth rate

We have estimated a terminal value at the end of the forecast period using the perpetuity growth formula. A long-term growth rate of 2.0% p.a. has been adopted having regard to long term inflation rates in Australia and the outlook for the sector.

4.4.3 Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a base case nominal after tax discount rate in the range of 8.5% to 9.5% to discount the future cash flows to their present value. In selecting these discount rates we considered the following:

- the required rate of return of comparable companies
- the debt to equity ratio of comparable companies.

We also used the CAPM as a frame of reference for the calculation of these rates and used the following inputs in applying the CAPM:

- a cost of equity of 9.5% to 11.8% based on:
  - a risk free rate of 0.9% based on the five day average of the zero coupon ten year Australian government bond
  - an equity market risk premium of 8.3%
  - a levered beta of 1.04 to 1.20.
- a net debt to enterprise value ratio of 15% to 25%
- a pre-tax cost of debt of 5.0%
- a corporate tax rate of 30%.

This discount rate is at the low end of the range currently being used by equity research analysts for the comparable companies.

4.4.4 Conclusion on DCF valuation

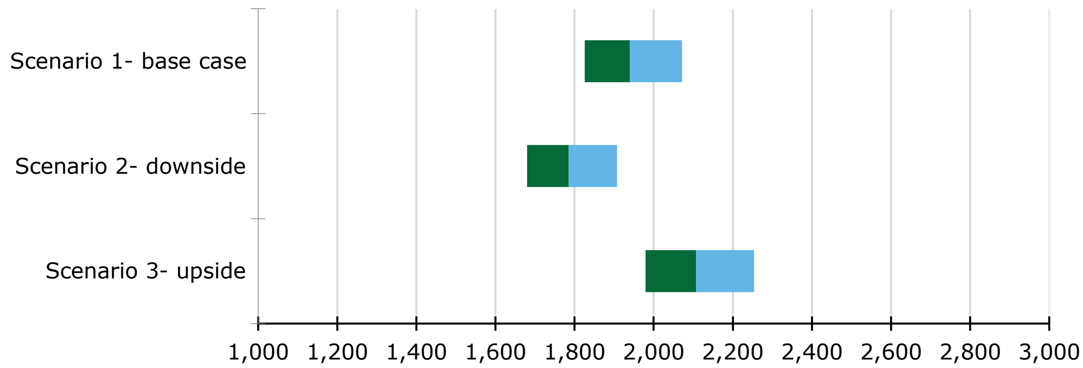
In the current environment, with the possible impacts of the COVID-19 pandemic and in particular further spikes in infections such as those evidenced in Victoria and New Zealand, there is substantial uncertainty concerning the preparation of cash flow projections. One approach to reflect that uncertainty would be through the application of a risk premium in the discount rate.

An alternative approach would be to consider a variety of scenarios with a probability weighting to those scenarios. We consider this approach more appropriate and accordingly, have set out below the various scenarios we considered:

- Scenario 1: Base case based on management's projections
- Scenario 2: Downside scenario which is based on management's base case but assumes lower revenue growth in FY22 and that revenue growth tapering down at a faster rate to 2% in FY25. The scenario also assumes consequential impacts on margins. This reflects a more conservative facilities services market growth outlook and would not be viewed as unreasonable if the recovery out of the COVID-19 pandemic is more subdued than currently anticipated
- Scenario 3: Upside scenario which is based on management's base case but assumes higher EBITA margins reflecting the benefit of continued cost saving and contract rationalisation benefits. We also assume higher revenue growth to reflect the more aggressive industry growth forecasts in the defence, health and education sectors, which are all key growth areas for Spotless.

The results of this analysis are set out below.

Figure 7: Discounted cash flow valuation (enterprise value) ($m))



Source: Deloitte Corporate Finance analysis

Given the level of work undertaken by management in the development of the forecasts but also recognising that since the development of the forecasts there have been some adverse developments as a result of the COVID-19 pandemic we consider it reasonable to apply a weighting of 40% to Scenario 1 (base case) and Scenario 2 (downside) and 20% weighting to Scenario 3 (upside).

The resulting enterprise value using the discounted cash flow approach is $1,798m to $2,043m.

4.5 Equity value

4.5.1 Net debt

To assess the equity value, we have reduced the enterprise value by net debt and other debt like items expected at the time of completion.

As at 30 June 2020, the net debt of Spotless as recorded in the statement of financial position was $833m including lease liabilities of $179.9m. This included c.$3m of capitalised borrowing costs which we have adjusted to arrive at a net debt of $836m.

4.5.2 Debt-like liabilities

As noted in Section 3.11, Spotless has other liabilities which are related to historical matters and are debt-like in nature. These are set out in the table below:

Table 15: Debt-like liabilities

$m	Debt-like liabilities
Labour related accruals	(48)
Shareholder class action	(34)
Contract exit costs	(5)
Onerous contracts, leases and other make-good provisions	(8)
Other	(1)
Debt-like items	**(96)**

Source: Deloitte Corporate Finance analysis

Labour related accruals largely relate to staff redundancy and back-pay not yet paid at year end

Shareholder class action relates to the excess over that covered by insurance.

Onerous contracts, onerous leases and other make-good provisions relate to costs associated with the ongoing contract rationalisation and restructure process.

Other liabilities relate to costs associated with the recent demobilisation of the Hospitality business unit due to COVID-19 and other residual debt-like accruals identified by Management.

4.5.3 Surplus assets

Assets not captured by our enterprise valuation, comprise the following:

- Deferred tax asset of $50.0m related to past tax losses. Management anticipate being able to utilise these losses in FY21. Thus the impact of present value on these losses would be immaterial and we have therefore selected the undiscounted value
- Equity accounted investments of $1.2m, relating to interests in jointly controlled entities

4.6 Shares outstanding

As noted in Section 3.8.1, Spotless has 1,102.2m fully paid ordinary shares on issue.

4.7 Valuation cross-checks

4.7.1 Revenue multiple cross-check

We also cross-checked our valuation by reference to revenue multiples, as set out in the table below.

Table 16: Revenue multiples cross-check

	Section	Unit	Low	High
Selected enterprise value range	4.1	**$m**	**1,800**	**2,100**
FY20 revenue	3.10	$m	3,038	3,038
Implied revenue multiple		**$m**	**0.6x**	**0.7x**

Source: Deloitte Corporate Finance analysis

Whilst revenue multiples do not account for different cost structures in businesses and thus, in our opinion, for a business like Spotless can only be used as a cross-check, they form a useful cross-check in the current environment given the impacts of the COVID-19 pandemic and the introduction of IFRS-16 on profitability.

The revenue multiples implied by our valuation are within the range of the revenue multiples observed for the listed comparable companies (as set out in Appendix 3) and therefore we consider this supported our assessed valuation range.

4.7.2 Comparison to 2017 Downer acquisition

The implied EBITDA multiple in the initial Downer acquisition in 2017 was 7.7x (Table 22) compared to c.8.7x as implied by our valuation[2]. Whilst the multiple implied by our valuation is higher than that offered by Downer in 2017, we consider this multiple reasonable given FY20 earnings have been impacted by the COVID-19 pandemic.

[2] Multiples have been calculated on a pre-AASB 16 basis to ensure comparability

5 Valuation of the Consideration

5.1 Value of the Consideration

The Consideration consists of two components, cash and a DCSO, as set out below.

Table 17: Valuation summary of the Consideration

	Consideration per Spotless share	
Component	**Low**	**High**
Cash	$1.00	$1.00
DCSO[1]	$0.07	$0.12
Total	**$1.07**	**$1.12**

Note:
1. Represents the value of DCSOs that one Spotless share is entitled to
Source: Deloitte Corporate Finance analysis

We have assessed the market value of the DCSO as follows.

5.2 Selection of valuation methodology

We have assessed the fair market value of the DCSO using a Monte Carlo simulation model which simulates future share prices according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. Monte Carlo simulations are appropriate to value options which are subject to complex hurdles like the DCSO.

We have also cross-checked the outcomes from this model to the use of a variety of analytic models (various mathematical formulae that have been developed by researchers to value such options).

5.3 Inputs to our valuation of the DCSOs

Summarised below are the key valuation inputs adopted and the basis of selection of those inputs.

Table 18: Monte Carlo valuation inputs

Input	Value	Basis
Risk free rate	0.37%	4 year zero coupon government bond yield
Downer share price	$4.30	5 day volume weighted average price
Forecast dividend per share	FY21 - 17c FY22 - 24c FY23 - 26c FY24 - 28c	We have used annual estimates of dividend per share for Downer as opposed to a uniform dividend yield over the period of the options as the expectation is that the dividends per share will vary over time In forming a view on the estimate for each year, we had regard to consensus broker projections
Volatility	25% to 35%	We analysed the share price volatility of Downer and the various other comparable companies over the last 1, 2, 3 and 4 years. This analysis is presented in Appendix 5. The more recent share trading has exhibited greater volatility because of the impact of COVID-19 and thus the volatility rates are higher. Over the long-term we do not expect such high volatility rates to persist. We also placed greater weight on the volatility of Downer shares as the DCSOs are linked to them. As a result, we selected volatility rates of 25% to 35%
Term	4.0 years	The terms of issue of the DCSOs allow Non-Associated Shareholders to exercise the options over a period of 4 years (subject to the Target Prices being achieved). If the Target Prices are not achieved at the end of the 4 years, the DCSOs will expire
Exercise price	Nil	The terms of issue of the DCSOs do not require holders to pay an exercise price

Input	Value	Basis
Target price:		
- Tranche 1	$6.382	The terms of the DCSOs require Downer's share price to have exceeded certain target prices in order for the options to be exercisable
- Tranche 2	$6.873	
- Tranche 3	$7.364	

Source: S&P Capital IQ, Broker reports, Bidder's Statement, Deloitte Corporate Finance analysis

5.4 Conclusion as to the valuation of the DCSOs

Summarised below is the range of values arising from the Monte Carlo simulation:

Table 19: Monte Carlo values

Item	Value	
	Low	High
Tranche 1	$1.57	$2.30
Tranche 2	$1.25	$2.12
Tranche 3	$0.99	$1.79
Value of one DCSO[1]	**$1.27**	**$2.07**
DCSOs issued per Spotless share	1 DCSO issued per 17.92741 Spotless shares	
DCSO value per Spotless share	**$0.07**	**$0.12**

Note:
1. Assumes that the value of a DCSO will be split equally between the tranches
Source: Deloitte Corporate Finance analysis

Each tranche has a different value because the target price for conversion as set out in Section 5.3 above is different and thus the probability of holders being able to exercise the option differs.

Non-Associated Shareholders are entitled to 1 DCSO for every 17.92741 shares held by them and as such the value of a DCSO for every Spotless share has been assessed to be in the range of $0.07 to $0.12 per share. Our analysis assumes that a Non-Associated Shareholder will receive an equal proportion of the three tranches listed above.

We note that the value of the DCSO, assuming all target prices are achieved immediately, is $0.41 per Spotless share. This implies a probability weighted likelihood of DCSOs vesting of between 17% and 27%. Noting the current share price of Downer and the target prices we consider such a probability reasonable.

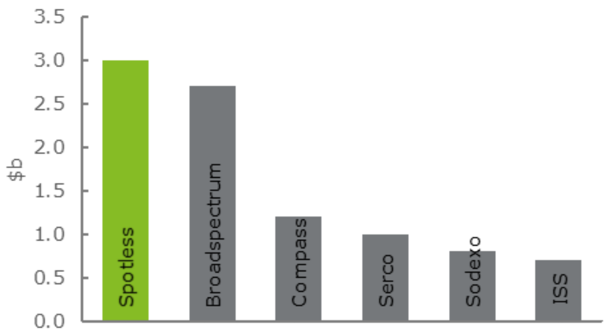
Non-Associated Shareholders will need to have regard to their own risk tolerance and other factors specific to them in order to form a view on the value of the DCSOs to them, in particular, in light of the fact that the DCSO will not be capable of being traded on a securities exchange.

Appendix 1: Key industry themes

Spotless holds a strong market position

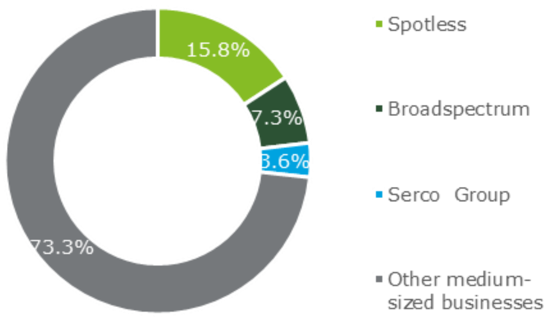
The market position of Spotless relative to its competitors in the Australian / New Zealand market is summarised in the figure below.

Figure 8: Last reported Aus/NZ annual revenue



Notes:
Revenue based on last reported financial year
Source: Financial reports, Capital IQ, IBISWorld, Deloitte Corporate Finance Analysis

Figure 9: Australian facility services market share



Notes:
Compass not included by IBISWorld as it operates in the food segment and not the facilities services segment
Source: IBISWorld, Deloitte Corporate Finance Analysis

Spotless has leading market positions in the sectors in which it operates. Notwithstanding, the Australian facility services market is highly fragmented and consequently, is highly competitive.

The impacts of COVID-19 have been varied but in a number of segments significant

The impacts of COVID-19 have varied across different segments within the facilities services industry. Government, defence, health, and infrastructure development industries have been largely unaffected, with many being considered 'essential services' and government departments moving ahead with planned and new projects in order to promote economic activity. The education sector has been affected by closures, a drop in international student numbers, and a transition to remote-based learning, all of which have a flow-on effect to spending on facility services.

The hospitality/catering services sector has been substantially affected by government restrictions that have resulted in the cancellation of major events and functions across Australia from March 2020. Whilst restrictions eased in June 2020, a second round of restrictions in July/August 2020 is introducing additional uncertainty to the sector. Some relief has been provided to affected operators through government stimulus, including the Job Keeper package, which is intended to assist businesses retain their staff. This is likely to have a reduced impact in the catering services sector however, as casual staff and contractors who have worked for less than 12 months are not eligible. Furthermore, certain employers who do not meet the Government's eligibility criteria, due to factors such as the size of the business, will not receive support, as is the case for Spotless.

The industry has been impacted by increasing regulation with respect to employees

Regulatory frameworks dictate the standards to which services are performed, as well as minimum levels of qualifications for staff, and occupational health and safety requirements. Given companies in these industries spend the largest proportion of their operational costs on workers and contractors, occupational health and safety regulations have a substantial effect on businesses operating within the industry. The impact of the COVID-19 pandemic is expected to increase the onus on operators to provide appropriate staff training in hygiene standards and protocols which will increase operating costs.

Under the *Modern Slavery Act* 2018 large Australian businesses are required to report on the mitigation of modern slavery risk factors throughout their supply chains. The New South Wales state government has also established its own version of the act which was originally set to come into force on 1 July 2019, however has since been delayed for further consideration. Under this legislation industry players must ensure that materials used when rendering services were not produced through modern slavery conditions.

A large proportion of the Spotless workforce is employed casually or via subcontractor arrangements. There are certain risks arising with this model. Due to the nature of the work, high staff turnover is an issue across the industry. This reduces operational efficiency, impairs knowledge sharing and may lead to higher recruitment costs. On the other hand, there is a risk that long-term contractors and casual employees may be seen as permanent employees and be entitled to additional benefits such as superannuation and paid leave, and also be captured in employee numbers for the purposes of calculating obligations such as payroll tax. For workers that are considered employees, the industry is highly represented by unions, or otherwise captured by the requirements of industry awards or union-negotiated Enterprise Agreements. Negotiation with unions on new Enterprise Agreements and/or a response to industrial action can be time consuming and costly, and has the potential to expose the company to risks to the extent that the company's ability to provide its services to customers is inhibited.

Contractual arrangements are changing

There has been a shift in the industry toward longer-term, structured arrangements in education, defence and healthcare sectors. Industry operators are increasing the breadth of services offered, to accommodate the expanding needs of customers. This has been evident at companies such as Spotless, which undertook a contract rationalisation and simplification programme in 2016 and has also been a focus of its competitors.

As a consequence, preferred contracts are longer-term and more comprehensive in nature, and attract higher margins because expenses can be more easily managed when part of a larger offering. While this is seen as a benefit from many perspectives, these "full service" contracts can require early stage commitments, equity participation in some cases and may leave participants exposed to additional risks due to potentially unforeseen circumstances, especially over longer term contracts when there may be an expectation that consortium partners will collectively be responsible for contract breaches or reported issues.

The industry outlook over the long-term is positive

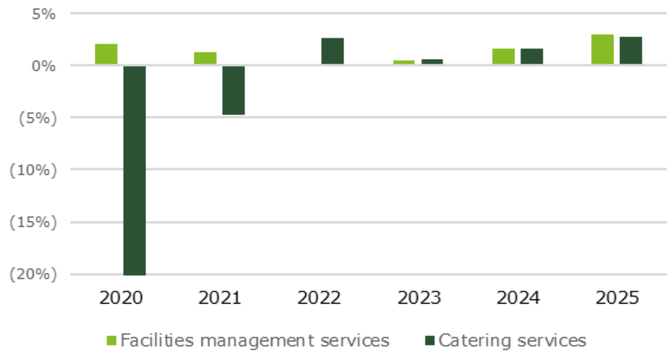
As a result of the impacts of COVID-19 (as described above), financial performance within the catering services sector is expected to decline significantly in FY21 followed by a slow recovery from FY22 to FY25 as restrictions ease and business confidence and consumer sentiment improves.[3]

More generally, in the short term, the number of businesses in Australia is expected to decline, partially due to exits of businesses that face difficulties during the COVID-19 crisis. Negative real GDP growth, declining household disposable and discretionary incomes, and negative consumer sentiment and business confidence are projected to discourage new business creation while negatively affecting the viability of existing businesses. These factors are expected to moderate growth within the broader facilities management industry over the short term.

[3] Australia Industry (ANZSIC) Report H4513, IBISWorld

In the long-term a recovery is expected as existing customers expand their suite of outsourced processes. This is expected to include government departments and public sector organisations including in the education, health and defence sectors, which are expected to increasingly outsource services.

Figure 10: Industry revenue growth projections



Source: IBISWorld, Deloitte Corporate Finance Analysis

Appendix 2: Valuation methodologies

Common market practice and the valuation methodologies which are applicable to corporate entities and businesses are discussed below.

Market based methods

Market based methods estimate an entity's fair market value by considering the market price of transactions in its shares or the fair market value of comparable companies. Market based methods include:

- earnings multiple method
- analysis of an entity's recent share trading history
- industry specific methods.

The earnings multiple method estimates fair market value as a multiple of an entity's earnings. An appropriate earnings multiple is derived from market transactions involving comparable companies. The earnings multiple method is appropriate where the entity's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an entity's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of an entity's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of an entity but does not take account of realisation costs.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of an entity's assets are liquid, or for asset holding companies.

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Appendix 3: Comparable entities

The following table outlines the listed companies we consider comparable to Spotless.

Table 20: Comparable companies' financial and valuation metrics

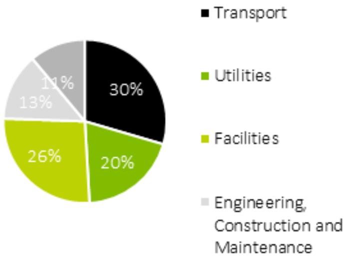
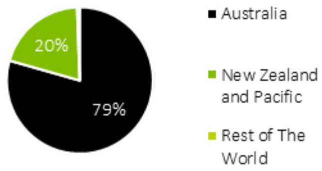
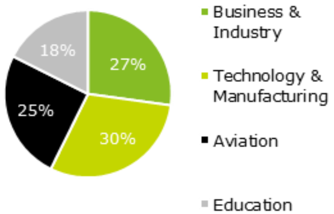
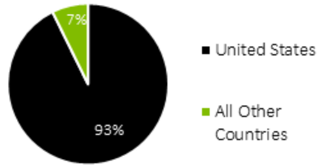
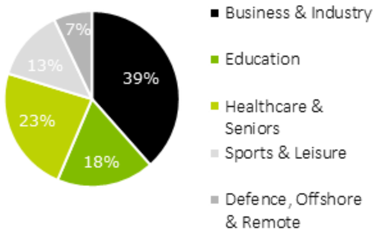
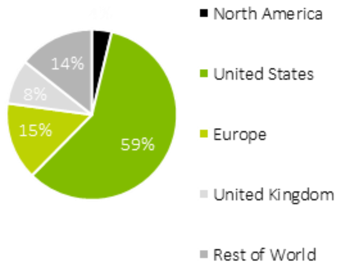
	EBITDA margin (%)			Revenue	EBITDA	Revenue multiples			EBITDA multiples		
Company Name	Historical[1]	LTM[2]	Current	growth[3]	growth[3]	Historical	Current	Forecast	Historical	Current	Forecast
Downer[4]	5.3%[5]	5.3%[5]	7.0%	4.7%	37.7%	0.4x	0.4x	0.4x	7.6x	5.5x	5.1x
Facility services											
ABM[6]	5.3%	5.1%[57]	5.4%	2.6%	5.2%	0.5x	0.5x	0.5x	10.3x	9.8x	10.8x
Compass[9]	6.1%	8.6%[7]	8.2%	7.3%	43.2%	1.1x	1.1x	1.0x	18.6x	13.0x	10.3x
GDI	6.5%	5.3%	6.7%	8.9%	12.9%	0.8x	0.7x	0.6x	11.7x	10.3x	9.3x
ISS	1.6%	3.6%	5.6%	4.6%	257.9%	0.5x	0.4x	0.4x	27.8x	7.8x	6.2x
Mitie	5.1%	5.1%	5.3%	-2.6%	2.4%	0.3x	0.3x	0.2x	5.1x	5.0x	3.3x
Sodexo	4.9%	7.7%[7]	6.5%	-7.6%	35.4%	0.7x	0.7x	0.6x	14.3x	10.5x	9.0x

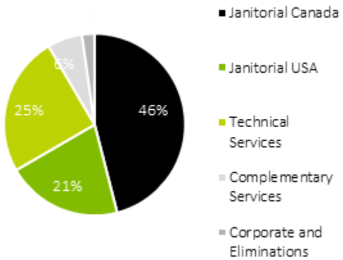
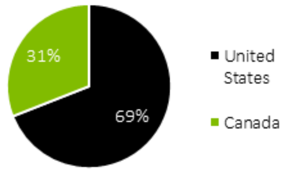
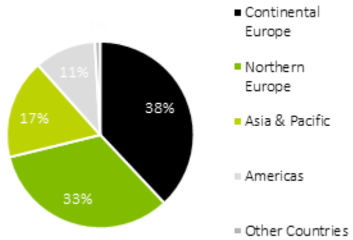
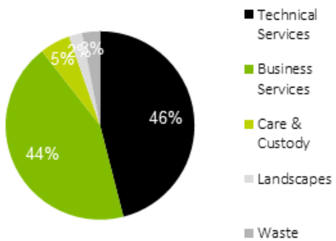
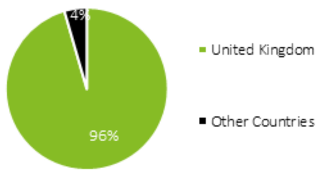
Notes:
Projections are based on broker consensus estimates
Multiples are presented on a post IFRS-16 basis. Unless otherwise stated, EBITDA does not include rent expense, and lease liabilities are treated as debt in assessing enterprise value

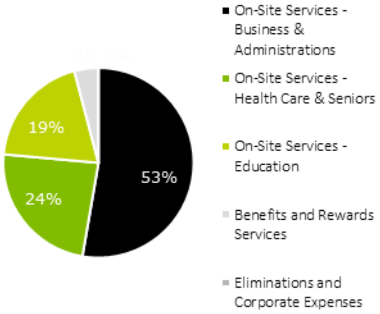
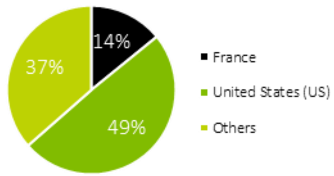
1. We have aligned the historical, current and forecast years to align (to the extent possible) to the reporting periods for Spotless, i.e. Historical is as at June 2020, current as at June 2021, etc.
2. LTM = last twelve months EBITDA margin based on the most recent quarterly or half yearly reports available
3. Growth implied by revenue and EBITDA forecasts for the current period compared to the historical period
4. Enterprise value has been adjusted to include $400m cash following the equity raising completed in July 2020
5. EBITDA excludes impairment losses of $212m
6. ABM reports under ASC 842 (the US GAAP equivalent of IFRS-16) and as such EBITDA includes rent expense from operating leases and net debt only includes leases classified as capital finance leases
7. Calculated on a pre-IFRS16 basis, as such EBITDA includes rent expense
8. EBITDA excludes impairment losses of USD 173m
9. Enterprise value has been adjusted to include GBP2b capital raise completed in May 2020

Source: Capital IQ, annual reports, company announcements, Deloitte Corporate Finance analysis

Table 21: Description of comparable companies

Company	Historical revenue ($m)[1]	Historical EBITDA ($m)[1]	Business segments	Geographical segments	Business descriptions
Downer	12,669	669			Downer operates as an integrated services provider in Australia and New Zealand. It specialises in the design, building and maintenance of assets, infrastructure and facilities. Downer serves a range of public and private sector clients through specialised contracting, operations and construction services.
ABM	9,064	441			ABM provides integrated facility solutions in the United States and internationally. The company services clients primarily within aviation, education, healthcare, technology and general business sectors. The company primarily provides janitorial, facilities engineering, parking, custodial, landscaping, mechanical and electrical services.
Compass	45,266	3,977			Compass operates as a food and support services company in North America, Europe and internationally. The company serves a range of business and industries including clients in healthcare and senior living markets, education, sports and leisure, defence, offshore and remote sectors.

Company	Historical revenue ($m)[1]	Historical EBITDA ($m)[1]	Business segments	Geographical segments	Business descriptions
GDI	1,353	72			GDI primarily offers janitorial services with secondary mechanical maintenance and electrical services, as well as heating, ventilation, and air conditioning services; data cabling services, high voltage services for commercial, industrial, institutional, government and residential building clients. GDI also provides maintenance services for high-rise office buildings, manufacturing facilities, and other commercial properties.
ISS	17,354	1,084			ISS provides workplace and facility service solutions in Continental Europe, Northern Europe, Asia and Pacific, the Americas and internationally. The company primarily offers facility management services including daily office, industrial, periodical, and specialised cleaning services. As a secondary offering, the company provides catering services that comprise operating restaurants, canteens, and takeaways, coffee shops/outlets, hospitality, events, and fine dining.
Mitie	3,955	201			Mitie provides strategic services in the United Kingdom and internationally. The company primarily offers engineering services, technical and building maintenance services. The company also provides general security and facilities management services including indoor and outdoor event catering services.

Company	Historical revenue ($m)[1]	Historical EBITDA ($m)[1]	Business segments	Geographical segments	Business descriptions
Sodexo	36,108	2,339			Sodexo primarily offers food catering services as well as various on-site facility services, including business and administration, healthcare and senior community support, and education services. Sodexo’s client base includes corporate, energy and resources, government and agencies, sports and leisure and other sectors. Sodexo also offers secondary facilities management services including outsourced asset maintenance and security staffing.

Notes:
1. Historical revenue and EBITDA refer to the most recent financial year with EBITDA presented on an operational reported basis, including normalisations for significant one-off items. Converted to Australian dollars at the relevant foreign exchange spot rates
Source: Capital IQ, Company website and presentations, Deloitte Corporate Finance analysis

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Appendix 4: Comparable transactions

The following table outlines acquisitions of companies we consider broadly comparable.

Table 22: Comparable transactions

Announcement date	Target	Acquirer	Currency	Implied EV (m)	Implied EV/ Revenue	Implied EV/ EBITDA
23 Dec 2019	Broadspectrum	Ventia	AUD	876[1]	0.3x[1]	6.2x[1]
11 Jun 2019	Fazer Food Services	Compass Group	EUR	475[2]	0.8x[2]	11.9x[2]
19 Aug 2019	Mitie Catering Services	CH&Co Catering Group	GBP	85[3]	0.6x[3]	n/m[3]
14 July 2017	Programmed Maintenance Services	Persol	AUD	991[4]	0.4x[4]	10.3x[4]
7 Dec 2015	Broadspectrum	Ferrovial Services	AUD	1,240[5]	0.3x[5]	4.7x[5]
21 Mar 2017	Spotless	Downer	AUD	2,045[6]	0.7x[6]	7.7[6]

Notes:
n/m = not meaningful
1. Multiples implied are reported on a post-AASB 16 basis with Broadspectrum's implied EV including lease liabilities and EBITDA excluding operating lease rental expense. Implied EV includes a disclosed transaction price of $465m and assumed net debt of $411m as at 31 December 2019. The transaction price does not include Ferrovial's 50% interest in a joint venture with a local partner, for which there is an irrevocable purchase offer issued by Ventia accounting for EUR12m. Revenue and EBITDA multiples are based on the most recent historical year, being the twelve months to 31 December 2019
2. Transaction represents sale of Fazer Group's catering division, Fazer Foods. Implied EV is based on disclosure from Compass' annual report and includes a transaction price of EUR420 cash consideration and an earnout mechanism disclosed at EUR55m. Total consideration disclosed is assumed to represent enterprise value. Revenue and EBITDA are based on the most recent historical year being the twelve-month period ended 30 April 2019
3. Transaction represents the sale of Mitie's catering division, 'Mitie Catering Services Ltd'. Implied EV reflects a transaction price of GBP73m and a disclosed earnout of GBP12m. Implied EV assumes that the disclosed consideration is on an enterprise value basis. Revenue and EBITDA multiples are on a historical basis (twelve months ended 31 March 2019). Transaction data has been based on Morningstar reports and market soundings including disclosures found in publicly available information
4. Implied EV reflects a transaction price of $778m cash consideration, $13m of reported value from disclosed equity warrants and assumed net debt of $200m, based on the reported net debt as at 31 March 2017. Revenue and EBITDA multiples are on a historical basis, reflecting the normalised earnings for the twelve months ended 31 March 2017
5. Implied EV reflects $769m of cash consideration and assumed net debt of $471m, based on the net debt reported as at 31 December 2015. Implied revenue and EBITDA multiples are based on earnings for the twelve months ended 31 December 2015
6. Implied EV reflects $1,263m in cash consideration and the assumption of $782m in net debt, reflecting Spotless' reported net debt as at 30 June 2017. Revenue and EBITDA multiples reflect the normalised earnings for the twelve months ended 30 June 2017

Source: Mergermarket, Capital IQ, Annual Reports, Company Announcements, Deloitte Corporate Finance analysis

Appendix 5: Volatility analysis

To accurately value options such as the DCSOs, a volatility measure should be selected that is most likely to represent the future volatility of the underlying share over the life of the option. However, the recent history of share trading of the comparators has been impacted by the COVID-19 pandemic. As such, our volatility analysis has also had regard to periods prior to the COVID-19 pandemic when volatility was lower.

Table 23: Volatilities of comparator group of companies

	Volatility as at 31 December 2019				Volatility as at 26 August 2020			
Company Name	1-year	2-year	3-year	4-year	1-year	2-year	3-year	4-year
Downer	23.2%	21.9%	29.1%	30.5%	48.0%	37.3%	32.1%	33.4%
ABM	25.7%	30.1%	28.3%	26.7%	50.5%	41.2%	37.1%	33.5%
Compass	34.6%	29.1%	26.4%	24.9%	50.0%	39.5%	33.8%	30.5%
GDI	28.0%	24.8%	26.8%	32.9%	35.1%	29.5%	27.6%	27.3%
ISS	34.6%	29.1%	26.4%	24.9%	50.0%	39.5%	33.8%	30.5%
Mitie	42.2%	41.1%	37.4%	39.8%	84.9%	65.7%	56.7%	53.3%
Sodexo	17.7%	23.3%	21.1%	21.2%	42.8%	32.7%	29.9%	27.0%

Notes:
Source: Capital IQ, Deloitte Corporate Finance Analysis

Appendix 6: Context to the report

Individual circumstances

We have evaluated the Proposed Takeover for Non-Associated Shareholders as a whole and have not considered the effect of the Proposed Takeover on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Takeover from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Takeover is fair and reasonable. If in doubt Non-Associated Shareholders should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

Our opinion is based on the prevailing economic, market and other conditions as at the date of this report. Such conditions can change significantly over relatively short periods of time. Many uncertainties remain as to the effect the COVID-19 pandemic will have on Spotless and the broader domestic and global economy. Our work relies, in part, on publicly available information, Spotless management projections and other information provided by management in relation to the effect COVID-19 could have on Spotless. Given the evolving nature of the COVID-19 crisis, it is likely that our work has not fully identified or quantified the impact of the COVID-19. Recognising all of these factors, our work and therefore our opinion may be more susceptible to change than would normally be the case.

This report has been prepared at the request of the Independent Directors of Spotless and is to be included in the Target's Statement to be given to Non-Associated Shareholders to allow them to consider the Proposed Takeover and in accordance with Section 640. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Target's Statement in their assessment of the Proposed Takeover outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Spotless, in respect of this report, including any errors or omissions however caused.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

This report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Takeover is fair and reasonable in relation to Section 640.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Spotless and its officers, employees, agents or advisors (as set out below in 'Sources of Information'). Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us.

In recognition that Deloitte Corporate Finance may rely on information provided by Spotless and its officers, employees, agents or advisors, Spotless has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Spotless may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Spotless and its officers, employees, agents or advisors or the failure by Spotless and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Takeover.

In recognition that Deloitte Corporate Finance may rely on information provided by Spotless and its officers, employees, agents or advisors, Spotless has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Spotless may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Spotless and its officers, employees, agents or advisors or the failure by Spotless and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Takeover.

Drafts of our report were issued to Spotless management for confirmation of factual accuracy. We may not have become aware of all information that may be relevant to our work and opinion.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Spotless personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Spotless included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of Spotless referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employee of Deloitte Corporate Finance principally involved in the preparation of this report was Tapan Parekh, B.Bus, M.Com, CA (BV Specialist), F.Fin. Tapan has many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Spotless proposes to issue a Target Statement in respect of the Proposed Takeover
- the Target Statement will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Target Statement for review
- it is named in the Target Statement as the 'independent expert' and the Target Statement includes its independent expert's report as Attachment A to the Target Statement.

On the basis that the Target Statement is consistent in all material respects with the draft Target Statement received, Deloitte Corporate Finance Pty Limited consents to it being named in the Target Statement in the form and context in which it is so named, to the inclusion of its independent expert's report as Attachment A to the Target Statement and to all references to its independent expert's report in the form and context in which they are included, whether the Target Statement is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Target Statement and takes no responsibility for any part of the Target Statement, other than any references to its name and the independent expert's report as included as Attachment A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- Bidder's Statement issued by Downer on 12 August 2020
- Audited financial statements for Spotless for the years ending 30 June 2019 and 30 June 2020
- Management presentations and company strategy documents provided by Spotless executives
- Minutes of Board meetings dated July 2019 to May 2020
- Spotless company website
- Publicly available information on comparable companies and market transactions published by ASIC, Thomson Research, Thomson Reuters Financial markets, SDC Platinum and Mergermarket
- IBIS World company and industry reports
- other publicly available information, media releases and broker reports on Spotless and the facility services and laundry industries.

In addition, we had discussions with the Independent Directors and executives of Spotless in relation to the above information, the current operations and prospects of Spotless and the Proposed Takeover.