

**ASX: CCG**

**ASX Release** 17 December 2020

## **Comms Group Announces Acquisition of Next Telecom & Successful Completion of \$6.25M Placement to Institutional Investors**

Comms Group Limited (ASX: CCG) (“Comms Group” or the “Company”) is pleased to announce the:

- Acquisition of Next Telecom Pty Ltd (“Next Telecom”), a telecommunications service provider servicing the SME and mid-sized corporate business markets in Australia. The acquisition is subject to shareholder approval and expected to close on or around 29 January 2021; and
- Successful completion of a \$6.25M capital raising via placement to partially fund the Next Telecom acquisition and for further acquisitions which includes \$2.5M conditional placement subject to shareholder approval. The Placement was well supported by a broad range of Australia’s leading small cap institutional investors, existing shareholders and Directors and senior management.

### **Key Highlights**

- Acquisition of Next Telecom Pty Ltd, a telecommunications service provider servicing the medium sized corporate business markets in Australia with an office in Sydney:
  - Business offers corporate data services (including corporate fibre and NBN products), cloud IP telephony, managed IT services, managed security offerings and other telecommunication services
  - FY21 (30 June) forecast revenue of \$15.5m and pro-forma annualised EBITDA of \$1.5m+
- Total purchase price for the shares in Next Telecom of up to a maximum of \$12.0m comprising:
  - Acquisition upfront consideration of \$8.67m comprising:
    - Cash consideration of \$2.0m subject to adjustment for working capital and net debt
    - \$6.67m in CCG scrip issued at 30-day VWAP \$0.094<sup>1</sup> per share, subject to shareholder approval and escrowed for 12-18 months from the date of completion
    - Effective EBITDA multiple of less than 5.0 x (accretive EBITDA multiple for Comms Group)
  - Performance / earn out payment of up to \$3.33m in CCG scrip issued at \$0.10 per share (with the same escrow arrangements as upfront consideration) based on any additional pro-forma EBITDA over \$1.445m up to \$2.0m in FY21

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1. Issued at 30-day VWAP calculated at \$0.094 per share from the 30 trading days from 3 November 2020 to 14 December 2020.

- For personal use only
- The acquisition is transformational with significant increase in scale, product offerings and customer base of overall Comms Group
  - Post-acquisition, Comms Group will have revenue of over \$30m and annualised pro-forma EBITDA of \$4m+, including synergies
  - Significant opportunity to lead consolidation within the domestic market and grow a regional footprint
  - Comms Group is well progressed with its M&A strategy to bring further scale, additional profit and synergies and has identified a number of additional domestic M&A opportunities
  - Placement successfully completed, raising \$6.25m for the acquisition of the shares of Next Telecom and working capital, acquisition integration and transaction costs and to strengthen the balance sheet to support additional acquisitions

Comms Group CEO and Managing Director, Peter McGrath, said: “We are really pleased to welcome Next Telecom to the Comms Group overall business. Next Telecom are a leading and innovative service provider targeting mid-sized corporate customers with a strong reputation for high levels of customer service. We are also very pleased to receive strong levels of support for the capital raising from a range of new institutional and sophisticated investors.”

### **Next Telecom Overview**

Founded in 2008, Next Telecom is an established and multiservice award-winning telecommunications service provider in Australia targeting the corporate mid-market.

Next Telecom provides a full range of telecommunication services including:

- Cloud hosted IP telephony: sophisticated voice and video platform with functionality of a traditional phone system with a host of additional features
- Voice, SIP trunking, business mobile services and inbound services
- NBN products, fibre services and international data services
- Managed services and network security solutions

Next Telecom is recognised for its tailored solutions and excellence in customer services.

Next Telecom Customers:

- Next Telecom has established a high-quality and diverse customer base, particularly in the Corporate mid-market sector
- Its diversified and sophisticated customer base includes businesses and enterprises across retail, legal, distribution, freight, finance, hospitality and manufacturing industries

- The business is known for its high levels of customer satisfaction.

Next Telecom is forecast to generate:

- Revenue in FY21 of c.\$15.5m; and
- Pro-forma annualised EBITDA of \$1.5m+

### **Strategic Rationale**

“There is strong strategic rationale for the acquisition of Next Telecom” commented Mr McGrath. “The acquisition provides a complementary customer base, expanding and diversifying the Comms Group’s customer base with significantly less reliance on any one customer, particularly in the corporate mid-market sector (100 seats +). There is also good product and technology fit across Voice, Data and Managed Services. Comms Group’s domestic telco business CommsChoice will also provide additional products and service offerings that Next Telecom can take to market. Importantly, Next Telecom has strong and award recognised service levels.”

- Next Telecom Management and Staff
  - Next Telecom has on board a high-quality management team and committed staff with significant industry experience. The two key executives running Sales and Operations (Gavin Roache and Mark Manion) will be coming across to run the Next Telecom business as joint CEOs of Next Telecom. All other staff will be coming across as part of the Next Telecom team.
  - Mr Ryan O’Hare, the current Executive Chairman and CEO of Next Telecom will step down from his executive role with Next Telecom and will join Comms Group’s Board of Directors as a Non-Executive Director.
  - A significant portion of the acquisition consideration (>75%) will be issued to Next Telecom vendors in Comms Group scrip
- Financial benefits
  - The purchase price is at an accretive EBITDA multiple for Comms Group
  - Opportunity for cross-selling existing products across the consolidated customer base
  - Ability to realise cost reduction synergies from FY22 – estimated at \$0.4m+

### **Summary of Ryan O’Hare**

- Ryan O'Hare's career began in retail distribution before assuming control of the U.S. operations of a global energy and telecommunications services business.
- In 1993, to capitalise on the imminent deregulation of the telecommunications industry, Ryan founded a telecommunications service provider, corpTEL Communications, which became one of the largest privately owned telecommunication

service providers in Australia, recording revenues over \$150,000,000 in 1998. Ryan was its major shareholder, Chief Executive and Chairman until its sale to AAPT Limited.

- People Telecom Limited was co-founded by Ryan in 2000. Five years later, annual revenues had grown to over \$150,000,000. Today it is part of the Vocus Group that generates revenues of over \$1 billion per annum.

Commenting on the transaction, Ryan O'Hare, said: "I am very pleased to be part of Comms Group which provides our team within Next Telecom with the great opportunity to be part of the Comms Group's broader long term growth plans."

### **Financial Impact**

Despite Covid headwinds in 1H FY21, Comms Group (before acquisition) anticipates FY21 EBITDA to be broadly in line with FY20 following recent contract wins.

"We are particularly pleased with our recent wins in the UCaaS (Unified Communications as a Service) area with Microsoft Teams calling" said Mr McGrath. "Within the last few weeks, Comms Group has either signed or commenced proof of concept trials with over six leading corporates and enterprises for Asia-Pacific unified communications solutions and we are building a pipeline of opportunities with some leading global businesses."

Post the acquisition of Next Telecom, Comms Group will have revenue of over \$30m and annualised pro-forma EBITDA of \$4.0m+, including synergies.

### **Equity Raising – Successful Completion of Placement**

Comms Group is pleased to announce the successful completion of its \$6.25m placement ("Placement") comprising \$3.7m of 46.7m new fully paid ordinary shares ("New Shares") issued within the Company's capacity under ASX Listing Rule 7.1 & 7.1A and \$2.5m through the issue of 31.4m New Shares subject to shareholder approval at A\$0.08 per share.

Proceeds from the Placement will be used to fund the following:

- Acquisition cash consideration – \$2.0m
- Working capital, acquisition integration and transaction costs – \$1.7m
- Strengthen the balance sheet to support future acquisitions - \$2.6m

The issue price of A\$0.08 per share represents a 15.8% discount to the last closing price of A\$0.095 and a 14.2% discount to the 5-day volume weighted average price.

Henslow acted as corporate advisor for the acquisition and lead manager to the Placement.

## Indicative Timetable

<b>Announcement to the ASX</b>	17 December 2020
<b>Settlement of Placement shares</b>	22 December 2020
<b>Quotation of Placement shares</b>	23 December 2020
<b>Release notice of Extraordinary General Meeting (EGM) and proxy</b>	On or around 24 December 2020
<b>EGM</b>	On or around 25 January 2021
<b>Next Telecom acquisition completion, including issue of Next Telecom upfront consideration shares to vendors</b>	On or around 29 January 2021
<b>Settlement of tranche 2 Placement shares</b>	On or around 29 January 2021
<b>Quotation of tranche 2 Placement shares</b>	On or around 1 February 2021

**Authorised for release by the Board of Comms Group Limited.**

**ENDS**

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### **Corporate & Media Enquiries:**

Peter McGrath, CEO and Managing Director

Phone: +61 2 9137 1175

### **About Comms Group:**

Comms Group provides global cloud communications for business. The company services SME and corporate customers in Australia, Asia and internationally using its cloud based global business phone platform and its global Microsoft Teams calling/Direct routing telephony calling offering combined with innovative SD-WAN technology and fibre and NBN access products.