



Evolution Group Holdings Limited **(“Evolution”)**

Information Memorandum for issue of Preference Shares

Strictly confidential
September 2017



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1. Introduction

This Information Memorandum has been prepared for the purpose of offering preference shares (**Preference Shares**) in Evolution (the **Offer**). The Information Memorandum sets out the terms of the Offer and provides investors with additional background information on Evolution and its various business segments.

1.1 Evolution overview

Evolution is an Australian and New Zealand provider of specialised 'road corridor' infrastructure services to federal and state government road authorities, local councils, private road operators, engineering, civil and construction contractors. It has grown to become the largest traffic management and control operator in Australia.

Evolution is a key player in the Australian road infrastructure services market. Evolution is comprised of four business units:

1. Evolution Traffic Control (**ETC**);
2. Evolution Civil Maintenance (**ECM**);
3. Evolution Training and Safety (**ETS**); and
4. Evolution Fleet Services (**EFS**).

The primary business unit, ETC, is a leading market player in the non-discretionary compliance driven traffic management and control industry, which has high barriers to entry. ETC represents approximately 84% of Evolutions FY18B revenue and benefits from operational and financial leverage through its complementary business units.

1.2 Investment highlights

Detailed information regarding Evolution is contained in the body of this Information Memorandum. The key highlights of an investment in Evolution are set out below:

Number one road infrastructure services player	<ul style="list-style-type: none">• Specialises in the traffic management and control market in Australia and New Zealand• Extensive depot network offers opportunity to further roll out complementary existing services (e.g. Fleet, Training, Civils)• Large but fragmented addressable markets across traffic control, civil maintenance and training, present further opportunities for accretive growth
Long term client relationships	<ul style="list-style-type: none">• Diverse client base of 300+ clients across private and public sectors including federal and state government road authorities, local councils, private road operators, engineering, civil and construction contractors• High levels of repeat business and very low churn rate with many 5 year-plus customer relationships
Consistent long term financial performance	<ul style="list-style-type: none">• Maintenance-driven recurring revenue stream with majority awarded, pending or tendered• Low capital intensity given low levels of maintenance capex
Strong prospects for growth	<ul style="list-style-type: none">• Future growth horizons include winning national contracts, expanding fleet management and introduction of robotics and algorithmic based delivery
Highly experienced Board and management team	<ul style="list-style-type: none">• Management with long term industry experience, particularly in traffic management and control, and fleet management industries• Experienced and knowledgeable Board with appropriate mix of skills

1.3 Use of funds

Evolution intends to use the funds raised from the Offer to improve the strength of its balance sheet and to fund additional growth initiatives. See Section 4 for detailed Sources and Uses table.

1.4 Overview of the Offer

Further detail regarding the terms of the Offer can be found in Section 5 of this Information Memorandum. A summary of the key terms is set out below.

Term	Description
Issuer	Evolution
Instrument	Preference Shares
Amount	Up to A\$25m
Use of Funds	Refinancing of current debt facilities and to fund future growth initiatives
Ranking	Preference shares rank equally among themselves and ahead of ordinary shares for return of capital up to the aggregate of the issue price and the accrued but unpaid dividends
Maturity	Perpetual
Dividend Yield	Three month BBSW plus a Margin of 6.80% for the first three years. Thereafter a step up margin of 4.00% is payable (total margin of 10.80%).
Franking	All dividends are intended to be fully franked and a gross-up applies where dividends are unable to be franked.
Dividend Cumulative	Yes
Dividend Stopper	No distributions on ordinary shares (including dividend, return of capital or bonus issue) and no share buyback while any dividends due on preference shares remain outstanding
Redemption / Buyback by Issuer	Evolution may, at its election, redeem Preference Share at any time; after the occurrence of a Trigger Event; or in any other case, after the first anniversary of the date of issue.
Holder Redemption Rights	<p>In the event of a Holder Trigger Event (being a change of control in Evolution), Evolution must redeem all Preference shares of a Holder if that Holder issues the Company with a Redemption Notice.</p> <p>Should a Trigger Event occur and subsequent Redemption Notices are issued, the Redemption Sum is the aggregate of the Adjusted Issue Price multiplied by the Adjustment Factor and the Dividend payable in respect of the final Dividend Period.</p> <p>The Adjustment Factor is as follows;</p> <ol style="list-style-type: none"> 1. Net Proceeds deemed to be realised for the Trigger Event exceed \$1.50 per share- the Adjustment Factor is 1.05; and 2. Net Proceeds deemed to be realised for the Trigger Event exceed \$1.80 per share the Adjustment Factor is 1.1
Voting rights	Limited to proposals to wind up the company; undertake buyback or capital reduction; conduct a disposal of all the assets of the company; when dividends remain outstanding or on a proposal to vary the Terms of the issue of the Preference Share.
Class Rights	Terms of the issue can be varied with approval of Preference Share Holders by Special Resolution. Issue of any securities with rights in priority to Preference Shares (including a new class of preference shares) constitutes a variation of class rights and requires approval from Preference Share Holders by Special Resolution.

2. Industry overview

Evolution operates within the traffic management and control, civil maintenance service, vocational training and fleet management and maintenance industry.

This section of the Information Memorandum focuses on the traffic management and control industry, given its large contribution to Evolution's revenue, including its key growth drivers and prevailing thematic.

2.1 Traffic management and control

The ETC business unit operates within the traffic management and control industry.

2.1.1 Overview

Traffic management and control refers to the planning, design, delivery and reporting of vehicular and pedestrian traffic redirection projects around road networks in order to ensure the safety of workers and the general public. Required by law for all activities that impact the flow of traffic on roads, it is an essential service and no works can be commenced until traffic controllers are on site and have set up in accordance with an approved traffic plan. Reliability and proficiency are essential to deliver a safe and efficient service offering to ensure works are not delayed. This is important given delays could cause contractors to incur time penalties and down time costs associated with having idle contractors and hired equipment on site. It also ensures all work personnel are safely protected throughout the project. Therefore, there are many examples of where traffic management and control is required, including inter alia:

- construction of new, and maintenance of existing roads by government entities and private contractors;
- railways and signalling infrastructure works undertaken where a road intersects;
- any works conducted by utility providers (telecommunication, electricity, water and gas) that have a direct impact on road infrastructure (e.g. transmission infrastructure is often located underneath roads);
- civil infrastructure and housing construction;
- major construction projects that inherently require moving vehicles on site or adjoin a road or pedestrian access;
- street light maintenance activities including the periodic replacement of street lamps;
- tree trimming and other vegetation management activities alongside roads;
- full and partial road and highway closures in response to accidents, natural disasters or industrial material spillages; and
- special periodic and one-off events such as festivals, sporting events and filming activities.

2.1.2 Market size

In 2016, the Australian traffic management and control industry was estimated to be worth \$790m. The market is expected to experience continued growth via the growth drivers as discussed in Section 2.1.3.

2.1.3 Growth drivers

The key growth drivers of the traffic management and control industry include:

- infrastructure construction and investment; and
- OH&S and other regulation.

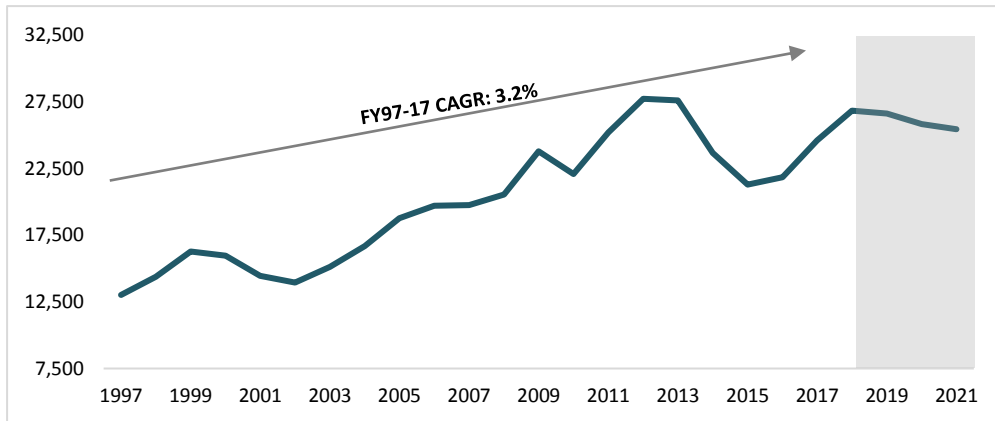
2.1.3.1 Infrastructure construction and investment

Infrastructure construction and investment is a strong growth driver for the traffic management and control industry. This includes infrastructure construction and maintenance investment in roads, railways, utilities, ports and other civil infrastructure.¹

Road construction has been a multi-generational real growth industry, driven by population growth and infrastructure upgrades. Road maintenance demand levels increase with the stock of new and existing roads, as well as natural disasters. Figure 1 shows the projected increase in road spend in Australia through to CY21. Market conditions weakened between FY14 and FY16 due to tightening of fiscal policy by the previous Federal Government and exacerbated by austerity measures of the Queensland State Government. However, FY17 has seen market conditions recover, particularly in NSW, where the state has moved into a strong fiscal budget surplus. Further growth is expected in FY18 and beyond, driven by large pipeline activity in NSW and QLD.

¹ Note that infrastructure spending in the resources sector is not a direct growth driver of the traffic management and control industry and has therefore been excluded from the analysis shown in this Information Memorandum.

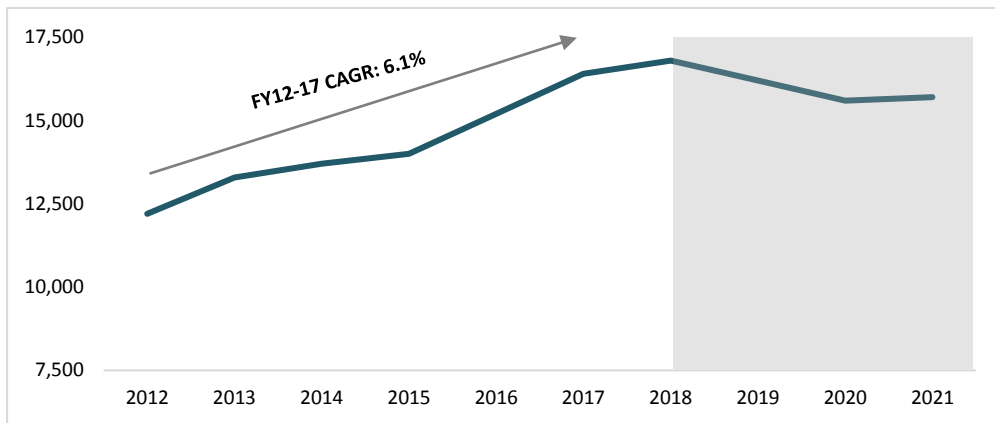
Figure 1: Australian Road Construction and Maintenance Spend (A\$m)



Source: BIS Oxford Economics Road Construction in Australia 2017-31, Road Maintenance in Australia 2017-31

Like Australia, the New Zealand traffic management and control industry has been underpinned by sustained growth in infrastructure investment and construction activity. The forecast value of national non-residential construction is expected to reach unprecedented levels, bolstered by strong growth in the Auckland region.

Figure 2: New Zealand Non-Residential Construction Spend (NZ\$m)



Source: Source: National Construction Pipeline Report 2016

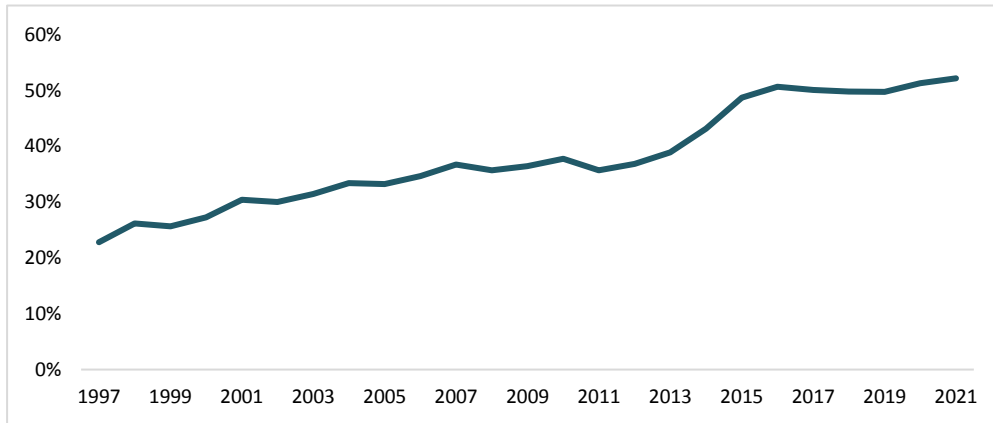
2.1.3.2 OH&S and other regulation

Growth in the traffic management and control industry is also being driven by increasing levels of OH&S and other traffic management and control specific regulation at the federal, state and local government levels. The regulation pertaining to the traffic management and control industry is further outlined in Section 2.1.7.

2.1.4 Industry Trends

Historically traffic management and control was largely performed by local councils and state governments. However, there is a continued long-run trend of road maintenance outsourcing given governments are increasingly focused on reducing costs and improving safety standards (see Figure 3). Rationalisation of traffic management and control providers on panels is also occurring as the industry moves away from a low-cost to a value-added and professional managed service.

Figure 3: Australian Road Maintenance – Percentage of Outsourced Works



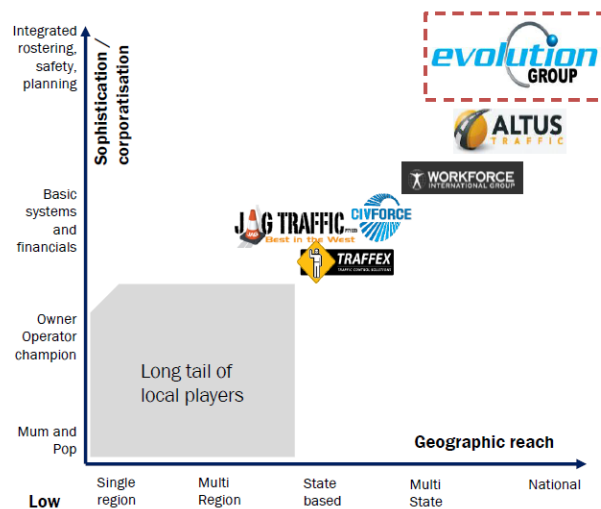
Source: BIS Oxford Economics, Road Construction in Australia 2017 – 2031

2.1.5 Competition

Evolution and its shareholders identified the opportunity to leverage the outsourcing trend and corporatise a fragmented industry. Since establishment, Evolution has grown to become the largest traffic management and control operator in Australia.

Evolution competes with a limited number of national competitors, being Altus and Workforce. Smaller, state based competition also exists however these competitors are constrained due to the size of their workforce, financial ability to tender to large government contracts, and potentially lack the well-defined governance and safety record acceptable to large customers.

Figure 4: Overview of competitive landscape – Australia



Source: management

The New Zealand traffic management and control industry comprises large road and construction contractors with in-house traffic management divisions (e.g. Fulton Hogan, Downer, JFC) and independent operators, offering specialised traffic management solutions and overflow services to major contractors.

2.1.6 Barriers to scale

The traffic management and control industry has low barriers to entry, however the barriers to scale in the Australian market are significant and enduring (see Figure 5). Given the significant size and sophistication of many projects, clients need large service providers such as Evolution that have the ability, both operationally and financially, to fulfil their contractual obligations. Evolution's scale allows it to access the appropriate equipment and workforce to further leverage its position as the market leader.

Figure 5: Barriers to scale

Safety and compliance regulations and requirements	<ul style="list-style-type: none">▪ Complex regulations are increasing across the three tiers of government and are a substantial compliance burden on small and medium sized operators that do not have adequate internal resources, systems and support▪ Traffic management and traffic control providers require operating licences approved by the relevant state road authorities and compliance with state based OH&S legislation as well as the National Heavy Vehicle Regulator
Brand loyalty and long term customer relationships	<ul style="list-style-type: none">▪ Incumbent service providers have entrenched relationships with customers▪ Track record and strong client relationships are difficult to replicate and leads to repeat business▪ Ability to 'package value add services' where traffic constitutes a significant cost
Capacity to win and service major contracts	<ul style="list-style-type: none">▪ Large private and government clients typically have a national procurement model where financial capacity, scale, reputation and safety track records are critical to winning jobs▪ Large contracts require a step change in working capital intensity and requires balance sheet strength▪ The above are key inhibitors for small to medium sized operators
Access to a qualified and national workforce	<ul style="list-style-type: none">▪ New market entrants struggle to recruit qualified, experienced and reliable staff critical to providing high quality service to clients▪ Training and upskilling of new staff is difficult without embedded training capabilities▪ Traffic controllers are typically employed on a part-time or casual basis and constant work flow offered by larger operators is a key retention factor

Source: Management

2.1.7 Regulation

Complex regulation has created a significant barrier to entry due to its onerous requirements obliging service providers to be appropriately licensed, certified, have trained staff with knowledge of regulations in multiple jurisdictions, and have advanced systems and processes in place to provide safe and compliant services. The scale, capability and experience of Evolution and its management means that Evolution is able to navigate this complex environment while continuing to grow.

Regulation in the traffic management and control market has been increasing year-on-year and is complex and multi-layered. It has evolved over the past decade in line with the government's sustained focus on improving OH&S standards in the workplace and enhancing safety for road users. Regulation is set at federal, state and local government level and has been a major factor shaping the traffic management and control industry in a number of ways, including:

- both the public and private sectors are increasingly outsourcing traffic management and control in order to reduce their safety and compliance exposure and to improve service efficiencies;
- non-compliance ultimately impacts clients' safety records and therefore full adherence is critical for providers in order to maintain reputations and win further work. Once confidence is gained through a demonstrated ability to meet and understand these requirements, customers do not typically change providers; and
- limiting the growth of small service providers that are unable to win large contracts, panel positions and projects without the working capital and balance sheet strength, back-office systems, processes and procedures required to be fully compliant.

Federal regulation

The traffic management and control industry is regulated at federal level by the Workplace Health and Safety Act 1995 and also the Australian Standard, AS1742.3 that regulates the use of traffic control devices. In addition, in 2002, the federal government released a National OH&S Strategy 2002-2012 to support the development of sustainable, safe and healthy work environments and also reduce the occurrence of work related injuries. This has been a key initiative in improving Australia's work health and safety performance and has assisted in raising awareness among industry participants.

State regulation

In addition to federal regulation, each state has its own legislative framework that governs the delivery of traffic management and control services. Each traffic management and control provider needs to be licenced and compliant with regulations that cover all traffic management activities including planning, project design, service delivery, equipment usage and reporting.

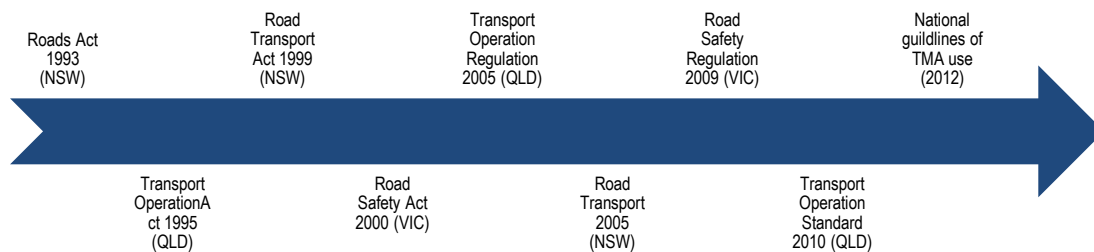
Traffic control personnel are also required to complete training and receive accreditations relative to the complexity of traffic management and control services they undertake. There are a number of training courses that traffic controllers can undertake.

Queensland has the most advanced and stringent standards and regulatory requirements in Australia, however, regulation in other states is moving towards this. Traffic management providers are also subject to annual audits by road authorities of each state to ensure they are fully compliant.

State regulation has moved to introduce truck mounted attenuators (**TMA**s) into high speed road environments. These devices seek to further protect structures, people, vehicles and motorists in the result of a collision. TMAs are deployed in situations when it may not be practical to close the roads and in high speed situations. This introduction has been particularly relevant for Evolution in generating further business.

State regulations are frequently subject to revisions and change as highlighted below shows the major regulatory updates impacting the traffic management and control industry across Queensland, New South Wales and Victoria over the past 20 years.

Figure 6: Timeline of major state road regulatory updates



Source: Management

Local regulation

At the local government level, councils also have additional legislative traffic management and control requirements that supplement those imposed by the state. For example, local councils will dictate the hours of operation on local roads or minimum safety standards while operating on highways (e.g. prescribing the use of 16 tonne attenuator trucks).

2.2 Civil maintenance service industry

The ECM business division operates within the civil maintenance services industry in Australia. The industry is categorised by activities carried out along the 'road corridor' such as barrier installation and maintenance, highway and bridge maintenance, and street light and vegetation maintenance. These activities are natural users of traffic control and as such, demand for these civil maintenance services are expected to grow in line with road maintenance and construction spend. The market is highly fragmented and competitors vary by activity. Competitors include:

- Guardrail: A1 Highways, Ontime Guardrail, Erections WA!, Bittly Holdings
- Bridges: Raw Worx, Freyssinet, Roadtek (QLD Government)

2.3 Vocational training industry

The ETS business division operates within the vocational training industry, covering accreditation related to civic construction and traffic management. Traffic management and traffic control training accreditations vary between states and are set by the relevant road authority. ETS is registered to provide all relevant courses nationally.

Demand is primarily driven by road maintenance and construction spend as well as trade and civil construction industry labour shortages. The market is highly fragmented and competitors include Training and Assessment Mentor, Realistic Training, TCP Training and Acquired Awareness.

2.4 Fleet management and maintenance industry

The EFS business division operates within the fleet leasing and management industry, which services primary markets such as infrastructure, utilities and government sectors. Demand is predominantly driven by corporate outsourcing, which is underpinned by focus on core competency mindset, drive to maximise efficiencies and cost management, and focus on risk management requirements.

The industry in Australia is fragmented with many small franchisees responsible for geographic territories. Many of these competitors, while using well-known company names, lack mine or site compliant vehicles and are therefore unable to fulfil some clients' needs. These competitors include Thrifty, Avis, Hertz, Corefleet and Fleet Crew.

3 Business overview

3. Business overview

3.1 Overview

Evolution is an Australian and New Zealand provider of specialised 'road corridor' infrastructure services to federal and state government road authorities, local councils, private road operators, engineering, civil and construction contractors.

Evolution has expanded rapidly since 2004 and is the Australian market leader with approximately 1,400 field staff and over 1,000 vehicles.

Evolution has 16 depots across Australia, including QLD (9), NSW (5), WA (1) and NT (1). Evolution also operates 3 depots in New Zealand. Depots comprise parking bays for vehicles, equipment storage facilities and adjoining office space. A depot allows Evolution to service work within a circa 100km radius although longer distances can be accommodated if required. Depots are utilised across multiple business units and can be leveraged to facilitate the expansion of complementary divisions.

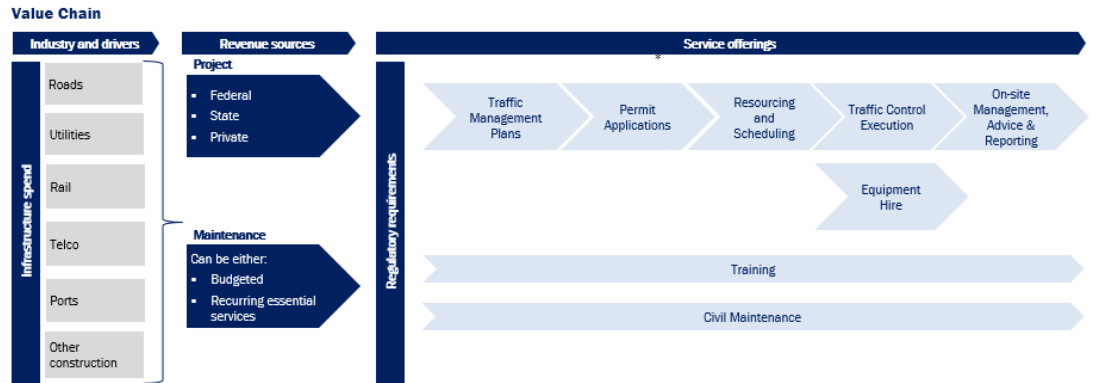
Figure 7: Depot locations



Source: management

Figure 8 shows Evolution's value chain within the traffic management and control industry.

Figure 8: Evolution business model



Source: Management

3.2 History

Evolution was founded in 2004 by David Schramm and Peter Stahlhut. Under the leadership of its founders and subsequently Arowana International Limited (**Arowana**), the business has grown and further diversified its operations, improving its infrastructure, personnel and client relationships.

Figure 9: Key milestones

2004	<ul style="list-style-type: none"> The business was founded in June 2004 by David Schramm and Peter Stahlhut. First depots were opened in Brisbane, Sunshine Coast, Gold Coast and Toowoomba.
2008	<ul style="list-style-type: none"> Arowana's MicroCap PE Fund acquires 60% of Evolution Traffic Control (ETC)
2009	<ul style="list-style-type: none"> ETC expands into Sydney, New South Wales with bolt-on acquisition of HMS Traffic
2010	<ul style="list-style-type: none"> ETC establishes Evolution Civils Maintenance (ECM) through acquisition of HMS Civils
	<ul style="list-style-type: none"> ETC establishes Evolution Graffiti Services (EGS) through acquisition of The Graffiti Specialists
2011	<ul style="list-style-type: none"> Arowana leads buyout and conversion of ETC into an unlisted public company called ERMG
	<ul style="list-style-type: none"> Co-founder retires and leaves the business; new CEO appointed
2012	<ul style="list-style-type: none"> ERMG launches training business, Evolution Training Services (ETS)
2013	<ul style="list-style-type: none"> Co-founder retires and leaves the business
2014	<ul style="list-style-type: none"> ERMG exceeds its five-year financial targets set in 2009, achieving record results
	<ul style="list-style-type: none"> ERMG acquires small Perth-based traffic-control company to launch WA presence
2015	<ul style="list-style-type: none"> CFO promoted to CEO as part of succession-planning strategy; new CFO appointed
	<ul style="list-style-type: none"> ERMG acquires bolt-on traffic-control businesses in NZ to launch presence
	<ul style="list-style-type: none"> ERMG acquires bolt-on traffic-control businesses in Darwin to launch NT presence
2016	<ul style="list-style-type: none"> Original co-founder returns to the business
	<ul style="list-style-type: none"> Restructuring programme commences to streamline business
2017	<ul style="list-style-type: none"> Surefleet founder appointed as new group CEO with original co-founder as executive director
	<ul style="list-style-type: none"> ERMG rebrands to Evolution Group Holdings following the acquisition of Surefleet

Source: Management

3.3 Business units

Evolution is a diverse business that operates across four business units: ETC, ECM, ETS and EFS.

Figure 10: Group structure



Source: Management

The core competency of Evolution is the ETC unit. Evolution utilises its market leading position in traffic management and control in ETC, to offer its clients complementary services through its ECM, ETS and EFS businesses which further drives the success of the group.

3.3.1 Evolution Traffic Control

ETC is the core competency of Evolution and generates the majority of revenue for the company. ETC is the largest traffic management and control company in Australia (~1400 staff), providing a value-added service offering that differentiates it from competitors. It has consistently led the way in setting the standards of operational excellence, safety management and client service.

Traffic management and control is a critical part of road construction and maintenance projects, requiring detailed planning, risk management, liaison with road authorities and use of specialist equipment and scheduling before any works can start.

ETC has developed a comprehensive range of traffic management services to offer a complete managed solution for clients' traffic management needs including traffic management plans/traffic planning, site management, traffic control, traffic equipment hire, traffic data services and also accredited traffic management and safety induction training courses (through ETS).

The business is headquartered in Brisbane and has 16 depots across Australia and 3 in New Zealand servicing clients.

3.3.1.1 Traffic management and control

ETC's core service is the provision of professional, experienced and well-trained crews at road related worksites. On average, each crew includes approximately two to three traffic controllers and a utility vehicle, fully-equipped with high-quality equipment. Traffic control utility vehicles are deployed for each project and used to transport traffic control personnel and the appropriate equipment in accordance with the traffic management plan. Due to ETC's scale of operations and extensive sector expertise, ETC services a wide range of projects from small suburban road works to major high-speed highway closures.

ETC's brand is built on its reputation for consistently delivering high quality traffic management and control services and its exceptional record of reliability throughout the traffic management and control process. ETC has developed systems and procedures to ensure effective service delivery, including a 24-hour call desk and fully trained staff focused on client service delivery.

ETC is able to meet client requests at short-notice due to its large scale and effective rostering system that enables it to reorganise its fleet and draw on spare staff and fleet capacity. This is a key differentiator to other competitors who often have a cut-off time after which no next-day requests can be fulfilled.

ETC's rostering system is designed to ensure that the appropriate traffic controllers and equipment are allocated to each job and clients' needs are always met. Staff allocation is determined by a number of criteria, which are ranked in the following order:

- requisite training, skills and experience for the particular project;
- experience of working at the particular site (continuity of staff at work sites maximises efficiency e.g. foremen are not required to complete site induction to new traffic controllers); and
- proximity to location to minimise transit time (which clients are often required to pay).

3.3.1.2 *Traffic management plans/traffic planning*

Traffic management planning is fundamental to the safe and efficient operation of worksites in close proximity to roads or where moving vehicles can affect the safety of staff. ETC spends significant time with its clients in the planning phase to design an effective traffic management plan that is compliant with all relevant laws and regulations and ensures the safety of all workers and the public. Compliant traffic management plans are required to receive the necessary work permits from road authorities and councils. ETC provides an end-to-end service to allow clients to focus on the core project and commence work at the earliest possible time.

ETC has a dedicated team of traffic management plan designers who work with depot and project managers on each project. To become a qualified designer it requires approximately 5 years of study considering the practical and technical elements.

Figure 11: Traffic management plan example



Source: Management

3.3.1.3 *Equipment hire*

Safe and compliant equipment is necessary for all traffic management and traffic control sites. Equipment needs are dependent on specific site requirements, complexity of work, by-laws and regulations (e.g. certain councils require attenuator trucks to be present on all highway sites). ETC provides its clients with all their equipment needs through a comprehensive range of modern equipment located at fully stocked depots.

Equipment is charged to clients by the hour on a daily, weekly or monthly basis and provides ETC with a high return on invested capital. ETC is able to achieve long-term use from its large collection of equipment and vehicles given its minimal wear and tear when utilised.

3.3.1.4 *Telematics*

ETC offers clients a range of telematics data management and monitoring services. These include real-time tracking of fleet, driver identification, driver exception reporting, speed monitoring and alerts, video and audio recording and general vehicle performance.

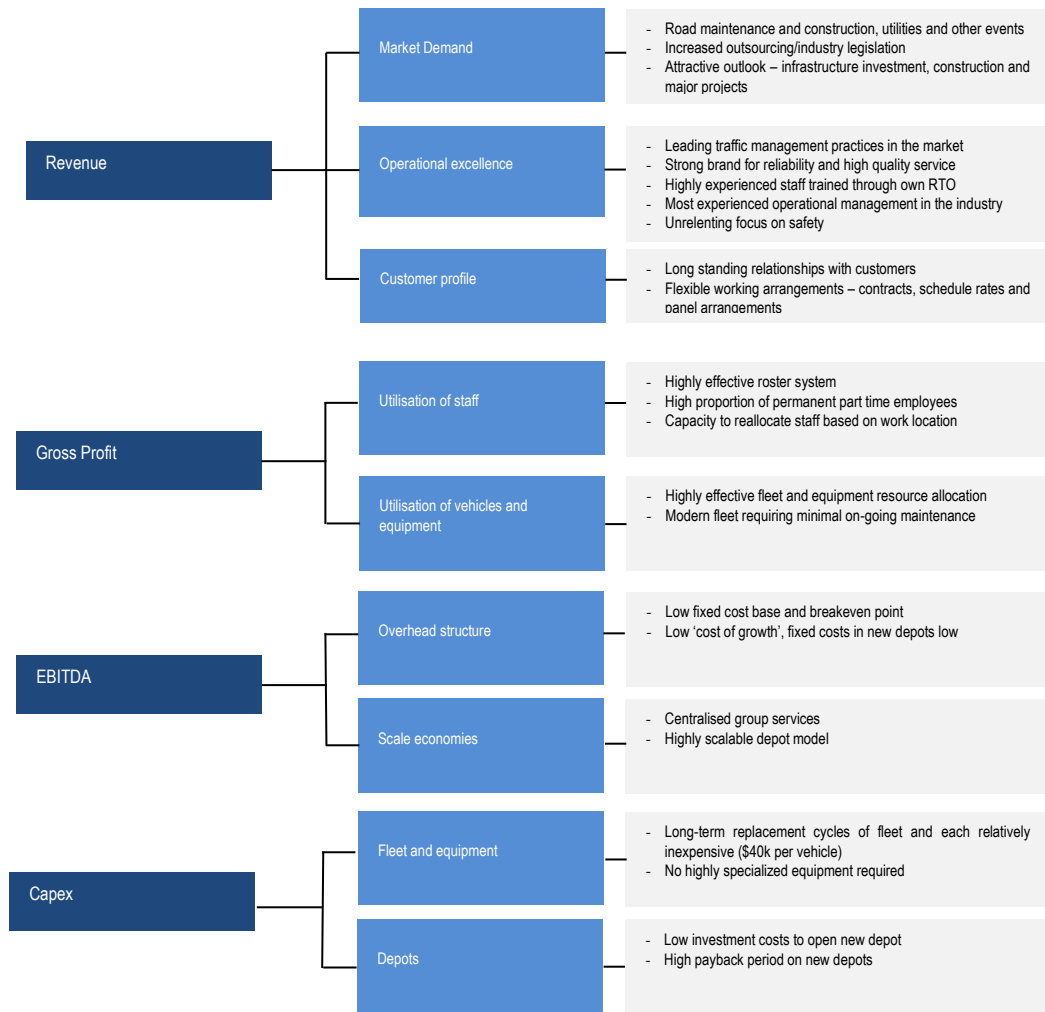
3.3.1.5 *Business model*

ETC has developed a highly attractive business model that maximises utilisation, margins and in turn, yields on invested capital. It offers a premium product in the traffic management industry and charges its clients on a value-based pricing model, not a cost-plus model. This pricing strategy has allowed ETC to achieve consistently strong profit margins as clients recognise the premium service ETC delivers compared to its competitors.

Management take a disciplined approach with respect to the work that it pursues or accepts. The company has a history of pursuing contracts and services where the margins are reflective of the value of the service it provides.

Clients are engaged through a schedule of rates, panel and contract arrangements which ensure ETC's margins are maintained. Figure 12 highlights ETC's key profit and cash drivers.

Figure 12: ETC business model



Source: Management

3.3.1.6 Clients

Evolution's customer base is diverse with over 300 active clients, including local councils, road maintenance and construction contractors, state road authorities, utility providers and civil engineering contractors.

Given ETC's value-added service beyond the provision of basic traffic control, relationships are strengthened and allow ETC to become an integral part of its clients' projects. This is illustrated by the large number of repeat business clients that continue to use ETC's services.

ETC continues to grow the size of its client base through business development activities but also through an increasing number of cold-call enquiries that are effective due to the strength of its reputation. Figure 13 shows revenue from ETC's top 10 clients in FY17. ETC is not reliant on any key client, with the largest contributing less than 12% of revenues in FY17 and its top 10 clients contributing 50.9%.

Figure 13: Client profiling analysis

Client	FY17 Revenue (A\$m)	% of FY17 Revenue	Type
1	10.3	11.9%	Private contractor
2	6.8	7.8%	Government
3	5.4	6.2%	Private contractor
4	3.9	4.5%	Private contractor
5	3.7	4.3%	Government
6	3.7	4.2%	Private contractor
7	3.0	3.5%	Private contractor
8	2.9	3.4%	Private contractor
9	2.4	2.8%	Utility provider
10	1.9	2.2%	Utility provider
Top 10	44.0	50.9%	

Source: Management

In addition to its blue chip public and private sector clients, ETC has many clients that individually require small scale works completed but collectively account for a significant portion of ETC's business. This group of clients is a valuable source of consistent work flow and delivers higher profit margins compared to larger projects. The higher margin is achieved as work is completed under an agreed schedule of rates which are typically higher due to their short-term duration.

3.3.2 Evolution Civil Maintenance

ECM is a niche provider of maintenance services to bridges, highways, structures and car parks. The business was founded in 2000 and acquired by Evolution in 2010 as part of its strategy to acquire specialist businesses in adjacencies complementary to ETC.

Management considers ECM and ETC to be highly complementary as on most ECM projects there is a requirement for traffic management and control services and an overlap of clients. In addition, ECM and ETC service a similar client base which positions Evolution as an integrated service provider creating the ability to cross sell and increase contracted revenue from clients by delivering bundled services.

ETC's traffic depot network also provides a platform for ECM to leverage and expand its product offering.

3.3.2.1 Services

ECM is a niche provider of civil maintenance services specialising in:

- roadside guardrail and barrier installation and maintenance;
- expansion joint installation and maintenance; and
- bridge and road maintenance and rehabilitation.

Figure 14: ECM services



Source: Management

ETC's traffic depot network also provides a platform for a national roll out of complementary ECM services such as line-marking, signage and drainage.

A number of general civil maintenance activities are carried out along the 'road corridor' such as:

- barrier installation and maintenance;
- highway and bridge maintenance; and
- street light and vegetation maintenance.

The above activities are natural users of traffic control and as such, demand for these civil maintenance services are expected to grow in line with road maintenance and construction spend.

3.3.3 Evolution Training Services

ETS is a Registered Training Organisation (RTO) providing accredited competency-based training in traffic control, traffic management, and civil construction and safety. ETS has permanent training facilities in Brisbane, Sydney and Perth.

ETS began offering safety and traffic control courses to external customers on a commercial basis in 2012. ETS is an important stand-alone business and management are building the range of civil works courses that can be delivered throughout the Evolution client base. The ETC is also important for the following strategic reasons:

- **Key differentiator** from the competition and reinforces ETC's reputation as a high-quality service provider in the traffic management and control sector;
- **Creates closer client relationships** by offering training to ETC's clients' staff;
- **Effective recruitment tool** by forming a natural database of skilled employees for recruitment purposes;
- **Targeted business development channel** as it provides ETC with additional opportunities to target new clients; and
- **Cost effective training option** for ETC as conducting in-house training is a cheaper and more reliable option than depending on any 3rd party training provider.

3.3.3.1 Courses

Figure 16: Courses offered

State	Course
Queensland	▪ Traffic controller course
	▪ Traffic controller refresher course
	▪ Traffic management awareness
	▪ Traffic management implementation
	▪ Traffic management implementation refresher course
	▪ Construction industry safety induction training (White card)
New South Wales	▪ WorkCover industry induction training for construction work (Green Card)
	▪ Traffic control using stop/slow bat
	▪ Implement traffic control plans
	▪ Prepare work zone traffic management plan
	▪ Operate a truck or trailer mounted attenuator training
Victoria	▪ Traffic control using stop/slow bat
	▪ Implement traffic control plans
	▪ Work Safely in the construction industry
	▪ Operate a truck or trailer mounted attenuator training

Source: Management

3.3.4 Evolution Fleet Services

EFS is a national fleet management services business, specialising in providing vehicles to the infrastructure, construction, utilities and government sectors.

EFS offers a full range of fleet management services encompassing full maintenance of vehicles, fixed priced servicing and driver training. EFS has over 300 vehicles ranging from standard passenger and commercial vehicles through to fully equipped site compliant vehicles.

Formerly Surefleet, EFS was acquired in March 2017 and subsequently renamed and integrated into the wider Evolution group. The acquisition of EFS gives greater capability in the quality and sophistication of Evolution's fleet management practices, enables the extension of "operations support services" to clients, increasing key management capabilities and increasing Evolution's purchasing power.

The primary driver of demand within EFS is corporate outsourcing, which is underpinned by a focus on maximising efficiencies, cost management, and a risk management.

3.4 Strategy and growth

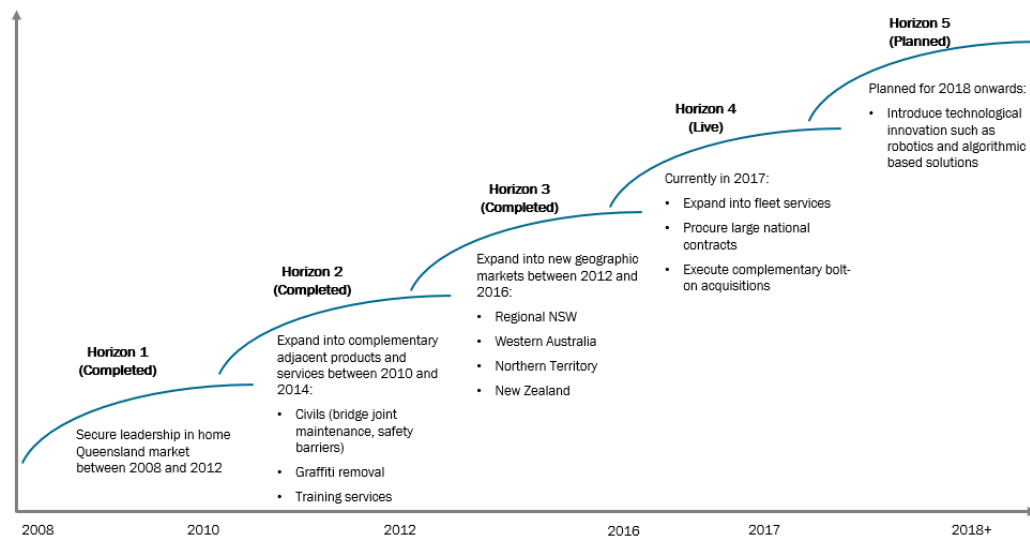
Historically Evolution has experienced rapid growth both organically and through acquisitions.

Future growth of the business is being driven by the 5 horizon growth strategy, implemented by returning found Peter Stahlhut and Marshall Scott (CEO). In addition to this growth strategy, management have introduced an Operational Improvement Plan which aims to increase margins, productivity and efficiency to drive further profitability.

3.4.1 5 Horizon growth strategy

The 5 horizon growth strategy seeks to expand the adjacent capabilities of Evolution in order to win larger contracts, which due to Evolutions' scale, means there will be fewer competitors with access to comparable equipment and skilled workforces. Figure 17 outlines the 5 Horizon Growth Strategy in more detail.

Figure 17: 5 Horizon growth strategy



Source: Management

3.5 Corporate structure and ownership

3.5.1 Ownership

Evolution is an unlisted public company based in Queensland, Australia.

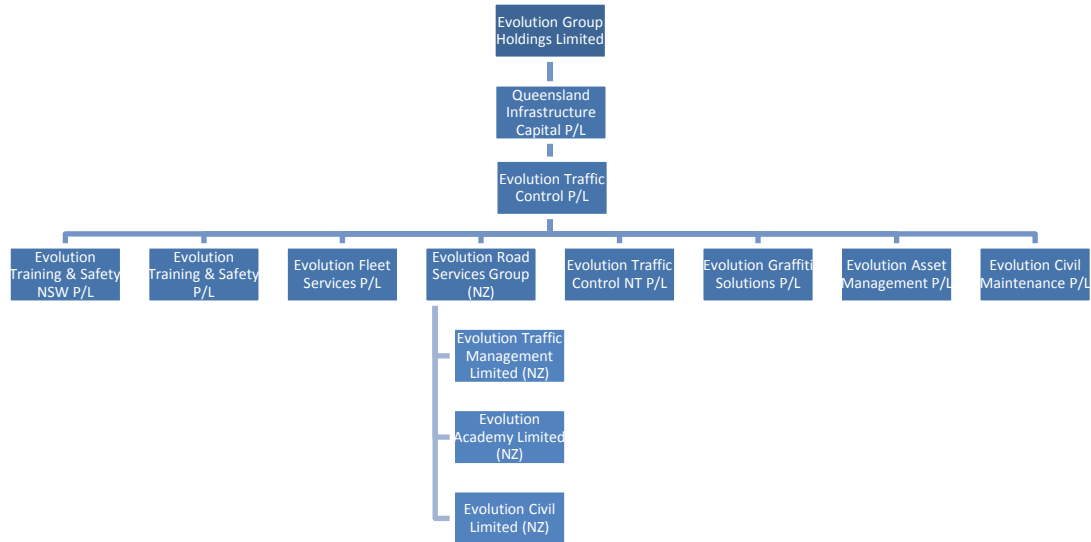
The Company has been supported since 2011 by Arowana, see Section 3.2 for more information on Evolution and Arowana's history. Arowana is a specialist asset management firm that assists small and medium sized businesses to grow and create value for management and shareholders.

3.5.2 Corporate structure

The corporate structure of the Evolution Group is outlined in Figure 17.

Figure 17: Corporate structure

Group Structure as of August 2017. All Companies have 100% ownership



Source: Management

3.6 Board and Management profiles

Evolution's Board and Management comprises of executives with extensive experience in the traffic management, bridge maintenance and training industries. Figure 17 outlines further details of Evolution's Board members and Figure 18 outlines details of the Evolution Management team.

Figure 17: Board

John Moore AO
Chairman

After earning his titles as Bachelor of Commerce and Associate in Accountancy at the University of Queensland, John Moore became a member of the Brisbane Stock Exchange. In 1996 he was appointed as Federal Minister for Industry, Science and Tourism, as well as Vice President of the Executive Council. Two years on, John took up the position of Federal Minister for Defence and continued in this role until his retirement from politics in 2001.

Before joining the Board of Arowana he served as Director and Board Member of various Australian companies, including Brandt Limited, P.F.C.B. Limited, Agricultural Investments Limited, Merrill Lynch Australia and Citinational Australia. In addition to his role as Independent non-Executive Director of Arowana International Limited and a non-Executive Director at the Arowana Australasian Value Opportunities Fund Limited.

Figure 17: Board

Kevin Chin Vice Chairman and Executive Director	<p>Kevin originated and led Arowana's initial 60% investment in Evolution Traffic Control in November 2008 when it had less than \$20m in revenues and was only in Queensland. He has served as a vice chairman since then with primary responsibility for setting strategy with the leadership team. He also fulfilled a role as interim CFO to help the business navigate growth challenges and scale up during 2011-2012.</p> <p>Kevin has over 20 years of business experience and has successfully started, bought, built, operated and sold businesses across industries including software, education, funds management, media, infrastructure services and solar power. He has led over a dozen IPOs and trade sales in the last 10 years in Australia, New Zealand and on the NASDAQ. With extensive experience in "hands on" strategic and operational management in the SME / emerging companies space, Kevin has served as CEO, CFO and COO of various companies across a range of industries. Kevin's primary strategic and operational expertise includes the art of scaling up businesses (in particular navigating growing pains and inflection points for enterprises experiencing exponential rates of growth) and leading companies through distressed and turnaround situations.</p> <p>Kevin holds a Bachelor of Commerce degree from the University of New South Wales where he was part of the inaugural cohort of CoOp Scholars in the School of Banking and Finance. He is also a qualified chartered accountant (Institute of Chartered Accountants Australia) and a fellow of FINSIA (the Financial Services Institute of Australia) where he has lectured on masters subjects including Advanced Industrial Equities Analysis and Corporate Finance.</p>
Peter Stahlhut Executive Director	<p>After leaving the Australian Defence Force, Peter started as a traffic controller in the traffic control industry when it was first privatised over 20 years ago.</p> <p>He co-founded Evolution in 2004 and has a hands on approach to leadership, which has helped drive Evolution to become the largest traffic control and traffic management company in Australasia.</p> <p>With over 25 year experience Peter is considered one of the pioneers of the traffic management industry.</p>
Marshall Scott Chief Executive Officer	<p>Marshall is group CEO of Evolution and has over 20 years' experience as a client, people and fleet focused leader. Following leadership roles with several large companies, Marshall established Surefleet which rapidly grew to become one of Australia's largest independent fleet management services companies. Surefleet was acquired by Evolution Group Holdings in March 2017.</p> <p>Marshall has a hands-on, safety and technology-focused leadership style. His focus on corporate development and people development will deliver a holistic service offering to clients and improved returns to our shareholders</p>
Steve Thomas Non-Executive Director	<p>Steve has had a history with Evolution since 2011, having worked in many different parts of the business. He was appointed CEO in August 2014 and stepped down from the role in March 2017.</p> <p>He has over 19 years' experience in senior finance roles.</p>

Source: Management

Figure 18: Management profiles

Marshall Scott Chief Executive Officer	See above
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Figure 18: Management profiles

<p>Peter Stahlhut Executive Director</p>	<p>See above</p>
<p>Wayne Bailey Regional Operations Manager QLD, NSW</p>	<p>Wayne commenced with Evolution on its first day of operation in 2004 is currently Regional Operations Manager – QLD/NSW. His experience was initially gained through seven years as a traffic controller including supervision of operations for major road construction projects including the Eumundi Bypass for Leighton Constructions and the M1 from Logan to the Gold Coast.</p> <p>Wayne has managed all Evolution branches in Northern Queensland from the Sunshine Coast to Cairns and the Western District to Mt Isa. He holds a Diploma in Business Management, along with other formal industry specific qualifications. Wayne is responsible for overseeing management and growth of the QLD/NSW areas of operation for traffic.</p>
<p>Adam Stahlhut Regional Operations Manager QLD, Planning Department</p>	<p>Adam's role as the Regional Operations Manager – Brisbane/Gold Coast/Planning oversees all the day to day operations within his Region. Adam brings his wealth of knowledge and experience from 13 years in the traffic management industry, including planning and implementation.</p> <p>Adam commenced work with Evolution in 2004 during its establishment, and has a proven track record of successfully delivering traffic management to major projects throughout the region. Adam has a very hands on approach and has a 'no task is unachievable' attitude.</p> <p>Adam is trained in Traffic Management Implementation, Traffic Management Design, Operation of a Truck Mounted Attenuator and holds Certificate IV in Frontline Management. He has successfully coordinated large scale projects such as LBAJV – Clem 7 Tunnel, Leighton Contractors – Bruce Highway Upgrade and Origin Alliance – Goodna to Dinmore Upgrade.</p>
<p>Ian Schramm Regional Operations Manager WA, NT</p>	<p>A glazier by trade, Ian served in the QLD police service for 20 years prior to his time at Evolution. Time in the police force afforded Ian the ability to remain calm when faced with operational pressure demanding quick response times. This skill has proven valuable when servicing clients in areas where responses times are important following the likes of natural disasters. Ian prides himself on having staff onsite within an hour of any emergency request for traffic control. In 2007 Ian joined Evolution's National Support Office in Brisbane working as a Coordinator in the Operations team as well as serving as a Traffic Controller when needed.</p> <p>In 2008 Ian relocated to Cairns to open the group's first depot in Northern Queensland. The opening of the Cairns depot was the beginning of the group's expansion down the Northern East Coast. Within the next two years the business had depots open in all the major regional centres in QLD.</p> <p>In 2012 Ian transferred back to Brisbane to take on a role within the group's safety department. This saw Ian serving as part of the team supporting Evolution's core principle of safety.</p> <p>Currently Ian oversees the general operations and business development in WA and NT as well as Townville and Cairns areas.</p>
<p>Chris Kerr General Manager NZ</p>	<p>Chris is the General Manager of Evolution's New Zealand operations. His role includes managing the delivery of temporary traffic management services, traffic management planning, events management and training.</p>

Figure 18: Management profiles

Michael Gardiner
Financial Controller

Michael is currently Evolution's Financial Controller and has extensive experience in managing group finances including preparing accurate monthly and yearly financial statements. He manages the finance team across Australia and New Zealand covering all aspects from transactional processing, stakeholder reporting, insurance and statutory obligations to treasury and financial modelling.

During his time at Evolution, Michael has implemented a new accounting and reporting system and integrated the business acquisitions into the Evolution.

Michael is CPA Qualified and holds a Master of Business Administration (executive) from Australian Catholic University along with a Bachelor's Degree in Business majoring in Accountancy from Queensland University of Technology.

Source: Management

4 Financial information

4. Financial information

The purpose of this Section of the Information Memorandum is to provide investors with an overview of Evolutions financial performance, including the impact of the Offer on Evolution's financial position.

Included in this section is the following information:

- Historical and Forecast Income Statement;
- Pro-Forma Statement of Financial Position (following completion of the Offer)
- Description of the use for the funds raised from the Offer.

All financial information is to be read subject to the comments below as well as the Disclaimer and Important Notice at the beginning of this Information Memorandum.

4.1 Assumptions

Management have prepared the Projections based on economic conditions as at the date of this Information Memorandum. The Projections should be read in conjunction with the general and specific assumptions outlined below and the other information contained in this Information Memorandum.

General assumptions

General assumptions made by management in preparing the Projections include:

- No material beneficial or adverse effects arising from the actions of competitors;
- No material amendment to any material relationships relating to the business; and
- No material changes to existing arrangements with customers or suppliers to the business.

4.2 Financial history

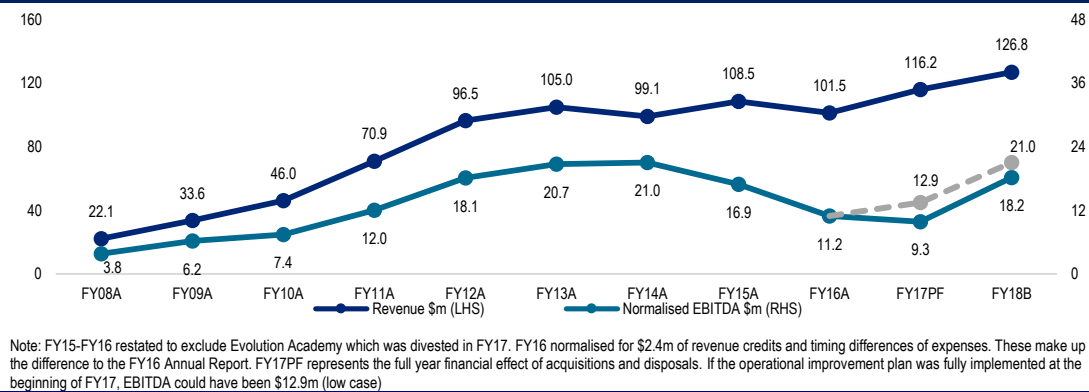
Evolution has grown rapidly since FY08 as the business continued to roll out new depots and acquire further depots through opportunistic acquisitions.

Unfortunately between 2013 and 2015 there was a period of reduced investment in road construction which ultimately led to a decline in the operational, business and financial performance of Evolution.

Since the period of reduced investment, new management have joined the business in addition to the return of one of the original founders, Peter Stahlhut, and have implemented an operations improvement plan (see Section 4.2.2). The refreshed management team continue to drive profitability, scale and returns to shareholders while winning new contracts.

Through gross margin expansion and an uplift in EBITDA, Evolution is forecasting EBITDA of \$18.2 million and NPAT of \$6.6 million in FY18B. Approximately 70% of FY18 revenue is already contracted.

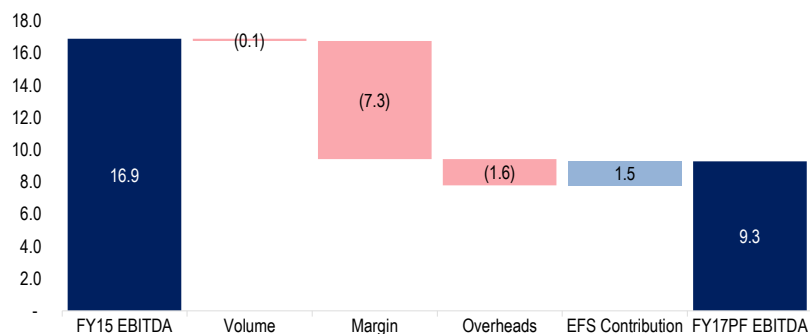
Figure 19: Financial history and forecast



4.2.1 FY15-FY17 earnings trajectory

Figure 21 outlines the operational issues that led to the decrease in earnings between FY15 and FY17PF. As discussed in Section 4.2, these issues have now been addressed by the refreshed management team and are described further in Figure 20 and 21.

Figure 20: FY15-FY17 Earnings Bridge



Source: Management

Figure 21: Operational issues and mitigants		
	FY15-FY17 Key Issues	Mitigating Actions
Volume	1. Minimal volume growth due to market downturn and operational issues resulting in lost work	2. Focus on pipeline conversion which has generated significant contract wins with tier 1 clients 3. New leadership team have also fixed operational issues in the past 6 months
Margin	• Customer pressure to hold prices due to slowdown in the market	• Market recovery since CY17 has resulted in strong demand growth and pushed pricing levels up across the industry
	• Underperforming and unprofitable contracts as a result of poor pricing decisions	• Comprehensive customer profitability analysis undertaken • Increase in standard rate cards and successful re-negotiation of terms on selected key contracts
	• Sub-optimal labour composition and low vehicle utilisation	• Conversion of casuals to permanent part time staff to reduce labour costs • Double shifting of vehicles to maximise utilisation • Acquisition of EFS to introduce best practice fleet management to Evolution
Overheads	• Expansion of depot footprint in a slowing market	• Closure and/or downsizing of underperforming depots and non-core business units
	• Inefficient organisational structure with excessive management layers	• Organisation restructure including removal of the general management layer • CEO introduced

4.2.2 Operational Improvement Plan

An Operational Improvement Plan (OIP) was devised with extensive support from the operational optimisation team at Arowana to underpin Evolution's ongoing growth strategy. This plan was implemented following the return of Peter Stahlhut as Executive Director. This program has delivered \$2.3m of EBITDA improvement to date (approximately 50% of target) and remaining benefits are expected to be achieved during the current financial year. The key elements of the operational improvement plan are set out below.

Operational Improvement Plan	Target EBITDA Benefit	Realised EBITDA Benefit (to date)
Margin initiatives:		
<ul style="list-style-type: none"> Customer profitability analytics and pricing review which resulted in increased standard rate cards for all new and existing clients Labour utilisation analytics which resulted in an increased mix of permanent part time staff (PPT) to casuals to improve margin whilst providing more stability of hours to staff. This further reduced the cost of overtime hours of casual staff 	\$1.9m - \$2.7m	\$1.9m
Efficiency initiatives:		
<ul style="list-style-type: none"> Overhead cost reduction program incorporating an organisational restructure delivering savings from headcount, property costs, closure and downsizing of depots and non-core business units, reduction in discretionary spend and sale of excess vehicles Supply chain optimisation through review of key supplier arrangements to maximise value 	\$2.4m - \$2.7m	\$0.4m
Productivity initiatives:	TBC	TBC
<ul style="list-style-type: none"> Improved EBA (rates, simplification) for mutual benefit of Evolution and staff 		
Total	\$4.3m - \$5.4m	\$2.3m

4.3 Income statement

The financial performance of Evolution is shown below in Figure 22.

Figure 22: Income Statement			
AUD	FY16	FY17	FY18
	Adjusted	Pro-Forma	Forecast
Revenue	101,486,874	116,175,083	126,788,407
Direct Materials	2,103,589	2,196,835	3,124,287
Direct Labour	61,052,052	67,390,699	67,444,719
Direct Vehicles	3,982,612	8,176,085	8,277,469
Direct Other	5,010,996	5,055,890	6,011,087
Cost of Sales	72,149,249	82,819,510	84,857,562
Gross Profit	29,337,626	33,355,573	41,930,845
Other Income	90,374	353,877	-
General Expenses	4,503,989	6,459,395	5,958,637
Employee Expenses	8,710,027	12,260,456	12,087,768
Motor Vehicle Expenses	2,581,943	3,157,861	3,410,467
Occupancy Expenses	2,451,288	2,562,962	2,301,983
Total Overheads	18,247,247	24,440,673	23,758,855
EBITDA Normalised	11,180,752	9,268,777	18,171,989
EBITA Normalised	6,302,772	4,124,122	13,247,583
EBIT Normalised	4,035,570	1,979,266	12,054,229
EBIT	4,875,282	(3,737,265)	12,054,229
NPAT	950,454	(12,349,392)	6,641,896

Notes to the income statement:

- **Direct Materials** – direct materials consists of cost of goods that relates to materials and stock movements.
- **Direct Labour**– direct labour consists of all allowances, annual leave, payroll tax obligations, superannuation and other employee related expenses.
- **Direct Other**- consists of costs associated with the delivery of client contracts such as freight, permits, travel, subcontractors and police costs.
- **Motor Vehicle Expenses** – motor vehicle expenses cover fuel, insurance, tyres and all other costs associated with vehicle operations.

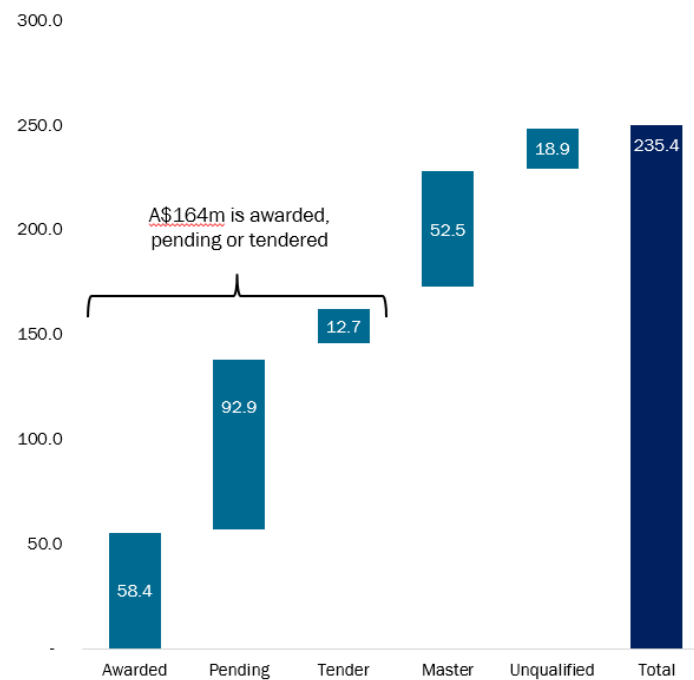
4.3.1 Normalisations

The normalisations for FY17 EBIT included in the financial information above are detailed in the table below:

Normalisations	EBIT FY17 (\$m)	Commentary
Restructuring Cost	2.5	Primarily costs relating to organisational restructure, depot right sizing, divestments and capital restructure
Prior Year Timing Adjustments	2.4	Normalisations relating to revenue credits and timing differences of expenses
Professional Fees	0.4	Primarily one-off fees for legal claims relating to prior acquisitions
One-off DET audit costs	0.4	One-off costs relating to temporary training audit resources and Department of Education & Training audit fines
Total	5.7	

4.3.2 FY18 Outlook

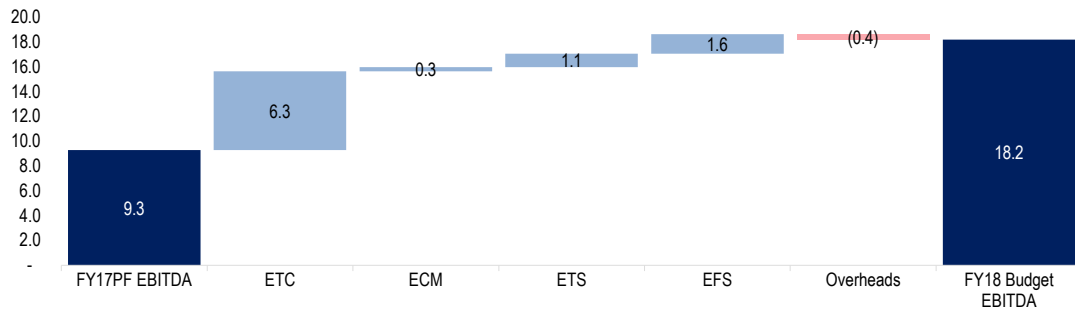
Figure 23: FY18B Revenue Pipeline



Note: The above chart is based on Management's pipeline as at July 2017 and is subject to change

- **Awarded** represents works where contracts have been awarded, or ongoing maintenance style works where outcome is known with high probability
- **Pending** is qualified works where formal tender has been submitted and a decision is pending
- **Pre-tender** is identified works where contract value has been refined but formal tender has not yet been submitted
- **Master** relates to publically identified major works yet to be awarded
- **Unqualified** works are those where contract value and start date have not yet been confirmed

Figure 24: FY18B EBITDA Contribution



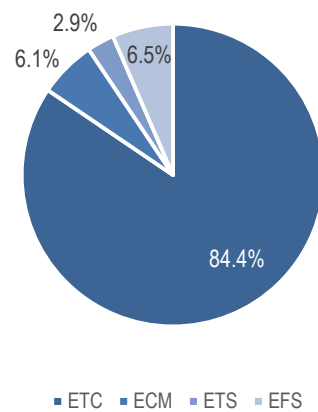
Source: management

Evolution is forecasting FY18 EBITDA of \$18.2 million which is driven by increased expenditure on road and maintenance which is largely captured by ETC, as well as contributing to ECM and ETS.

In addition, FY18 is the first full year of contribution from EFS which will not only result in greater vehicle utilisation but also increase margin and the ability to cross sell.

The cost savings associated with reduced overheads as a result of the OIP are partially offset by costs incurred to support growth.

Figure 25: FY18B revenue contribution



4.4 Pro-forma balance sheet

The table below provides a summary of the consolidated pro-forma balance sheets for Evolution as at 30 June 2017.

Figure 26: Consolidated pro-forma balance sheet			
EGH Consolidated	30-Jun-17 Actual	Pro Forma Adjustment	30-Jun-17 Post Transaction
CURRENT ASSETS			
Cash	1,309,926	3,000,000	4,309,926
Receivable	23,213,848		23,213,848
Accrued Income	1,958,879		1,958,879
Prepayments	1,125,216		1,125,216
Inventory	1,423,494		1,423,494
Total Current Assets	29,031,363		32,031,363
NON-CURRENT ASSETS			
Property, Plant & Equipment	19,704,229		19,704,229
Intangibles	3,972,892	1,000,000	4,972,892
Goodwill	40,415,457		40,415,457
Deposits Paid	164,494		164,494
Deferred Tax Assets	930,047		930,047
Total Non-current Assets	65,187,118		66,187,119
Total Assets	94,218,481		98,218,482
CURRENT LIABILITIES			
Accounts Payable	5,805,515		5,805,515
Accrued Expenses	5,471,571		5,471,571
Provisions	415,018		415,018
Employee Provisions	3,730,087		3,730,087
Deferred Consideration	4,522,265		4,522,265
Borrowings	5,000,000		5,000,000
Other Borrowings	16,701,002		16,701,002
Total Current Liabilities	41,645,457		41,645,458
NON-CURRENT LIABILITIES			
Term Debt	30,522,929	(20,000,000)	10,522,929
Convertible notes	6,000,000	(6,000,000)	0
Shareholder loan	1,000,000	(1,000,000)	0
Hire Purchase	1,712,092		1,712,092
Deferred Tax Liability	1,252,911		1,252,911
Total Non-current Liabilities	40,487,932		13,487,932
Total Liabilities	82,133,389		55,133,390
Net Assets	12,085,093		43,085,092
EQUITY			
Capital	33,145,462		33,145,462
Preference Shares		31,000,000	31,000,000
Reserves	(281,125)		(281,125)
Retained Profit	(5,942,779)		(5,942,779)
Current year earnings	(14,836,465)		(14,836,465)
Total Equity	12,085,093		43,085,092

4.4.1 Details of main balance sheet accounts

- **Trade and other receivables** – includes current customer invoices and other receivables and is net of provisions for doubtful debts.
- **Inventories** – consists of miscellaneous spare parts and consumables used throughout the group. Inventory accounting is not applied at present. As such, a conservative inventory balance is presented at year end. Management plan to introduce a rolling stock system going forward.
- **Property, plant and equipment** – primarily consists of motor vehicles but also includes equipment held for hire and depot and head office fixtures and fittings.
- **Intangible assets** – comprises customer contracts, customer relationships and trade names recognised at the time of the Evolution recapitalisation.
- **Goodwill** – recognised on prior acquisitions.
- **Related party advance** – primarily comprises a loan advanced to staff to assist employees to acquire shares in the employee share loan plan.
- **Trade payables** – includes current amounts payable to suppliers.
- **Accruals and other payables** – consists of GST payables, payroll tax accruals, wages and workers compensation accruals and miscellaneous accruals including electricity, E-toll and telephone outgoings.
- **Employee entitlements** – includes annual leave (current portion) and long service leave provisions (non-current portion) plus on-costs specified by the relevant state EBAs.
- **Other Borrowings** – consists of debtor finance, overdraft, hire purchase and insurance funding.

4.5 Sources and Uses

The sources and uses of funds raised from the Offer are set out below.

Sources	A\$m	Uses	A\$m
Preference Share issue for cash	25.0	NAB Term Debt repayment	20.0
Preference Share issue for convertible note rollover	6.0	Convertible note rollover (non-cash)	6.0
		Shareholder loan repayment	1.0
		Additional growth initiatives	3.0
		Transaction costs	1.0
Total	31.0		31.0

- Primary use of funds is to reduce NAB core debt from A\$35.5m to A\$15.5m
- Convertible noteholders will likely rollover into Preference Shares (i.e. non cash transactions)
- A bridge loan facility will also be repaid as part of the raising
- In addition, the raising will provide Evolution with capital to fund additional growth initiatives
- Transaction costs of A\$1m have been budgeted for the raising

5 Terms of the Offer

5. Terms of issue of Preference Shares

1. Issue Price

1.1. Issue Price

The issue price of each Preference Share is \$100.00 (**Issue Price**).

1.2. Adjusted Issue Price

For the purposes of clause 2.1(a), the **Adjusted Issue Price** is:

- (a) if Evolution has not paid a Dividend equal to the Dividend Entitlement for that Dividend Period within 20 Business Days after the end of the relevant Dividend Period, in respect of that and all subsequent Dividend Periods until a Shortfall Dividend is paid, the Adjusted Issue Price is the Issue Price increased by an amount equal to the Dividend that would have been payable for each Dividend Period. By way of example, if a Dividend is not paid for a Dividend Period, the Adjusted Issue Price for calculating the next Dividend is \$102.50 being \$100.00 increased by the \$2.50 Dividend that was unpaid; and
- (b) otherwise the Issue Price.

2. Dividends

2.1. Calculation of Dividends

- (a) Subject to these Terms, the Holder on the relevant Record Date is entitled to receive on each relevant Dividend Payment Date a cumulative dividend (**Dividend**) in respect of each Dividend Period for each Preference Share (**Dividend Entitlement**) calculated at a rate of:
 - (i) for the Initial Period, a rate (expressed as a percentage per annum) equal to the aggregate of the Rate and the Margin of the Adjusted Issue Price; and
 - (ii) thereafter a rate per annum equal to the aggregate of the Rate, the Margin and the Step Up Margin per annum of the Adjusted Issue Price.
- (b) For the purposes of this clause 2.1:
 - (i) **Rate** means the midpoint of the 3 month ASX Bank Bill Swap Reference Rate determined by ASX (or any replacement administrator of that rate) and published on the Thompson Reuters page 'BBSY' on the last Business Day of the relevant Dividend Period or if there is a manifest error in the calculation of that rate or that rate is not displayed by 10:30 am (Sydney time) on that date the rate specified in good faith by Evolution at or around that time on that date having regard, to the extent possible, to:
 - (A) the rates otherwise bid and offered for bills of a term of 3 months or for funds of that tenor displayed on Thompson Reuters page bbSW (or any page which replaces that page) at that time on that date; and
 - (B) if bid and offer rates for bills of a term of 3 months are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date;
 - (ii) **Margin** means 6.80%; and
 - (iii) **Step Up Margin** means 4.00%.
- (c) The Dividend Entitlement for a Dividend Period will be calculated on the basis of a 365 day year pro rata to the actual number of days elapsed in that Dividend Period.]

2.2. Dividend Period

- (a) The initial Dividend Period is the period from the date of issue of the Preference Shares to 30 September 2017.
- (b) Thereafter, subject to clause 2.2(c), each Dividend Period is the period of 3 months until the next to occur of 31 March, 30 June, 30 September and 31 December.
- (c) The final Dividend Period is the period from the last day of the previous Dividend Period until the Redemption of the Preference Shares.
- (d) Notwithstanding clauses 2.2(a) - 2.2(c), if any Dividend Period ends on a day other than a Business Day, then the Dividend Period extends to the next Business Day.

2.3. Payment of Dividends

The payment of Dividends is subject to:

- (a) the Directors, at their absolute discretion, determining the Dividend to be payable; and
- (b) the Corporations Act and any other law not prohibiting Evolution from paying the Dividend.

2.4. Rounding of Dividends

All calculations of Dividends will be rounded down to 2 decimal places. For the purposes of calculating a Holder's aggregate Dividend Entitlement, any fraction of a cent will be disregarded.

2.5. Dividend Payment Dates

Subject to this clause 2, Dividends are payable in arrears on the date 20 Business Days of the end of the relevant Dividend Period.

2.6. Franked Dividend

- (a) Subject to having sufficient franking credits, each Dividend must be a fully franked Dividend.
- (b) If a Dividend, for any reason, cannot be a fully franked Dividend, Evolution must pay to the Holder an amount equal to the sum of the Dividend and the Gross Up on the unfranked portion of the Dividend.
- (c) To the extent that Evolution is entitled to pay a dividend on any Shares in respect of any Dividend Period in accordance with this clause 2.6, it must not apply any available franking credits to the dividend if to do so would result in any Holder on the relevant Record Date receiving less than its Dividend Entitlement in respect of that Dividend Period as a fully franked Dividend.

2.7. Record Dates

- (a) A Dividend is only payable to Holders on the Record Date for that Dividend.
- (b) A Shortfall Dividend is only payable to Holders on the Record Date in respect of the Shortfall Dividend.

2.8. Deductions

Evolution may deduct from any Dividend payable to a Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of that amount. If any such deduction has been made and the amount of the deduction accounted for by Evolution to the relevant revenue authority and the balance of the amount payable has been paid to the Holder concerned, then the full amount payable to such Holder is deemed to have been duly paid and satisfied by Evolution.

2.9. Consequences of non-payment

- (a) If, for any reason, Evolution has not paid a Dividend in an amount equal to the Dividend Entitlement for that Dividend Period within 20 Business Days after the end of the relevant Dividend Period, Evolution must not, without the approval of a Special Resolution passed at a separate meeting of Holders undertake any Restricted Expenditure or:
- (i) pay any dividends on;
 - (ii) return any capital with respect to;
 - (iii) undertake a buyback or otherwise cancel; or
 - (iv) give effect to a redemption of;
- any Shares or any other share in Evolution over which the Preference Shares rank in priority for participation of profits with respect to the Dividend Period for that Dividend, unless and until a shortfall dividend (**Shortfall Dividend**) has been paid to Holders equal to the unpaid amount of that Dividend and all preceding unpaid Dividend Entitlements.
- (b) Without derogating from clause 2.3, the Directors may in their absolute discretion determine that Evolution pay a Shortfall Dividend from time to time.
- (c) For the purpose of clause 2.9(a), **Restricted Expenditure** comprises any:
- (i) capital expenditure to be undertaken by any member of the Group with the objective of increasing the revenue or profitability of the Group including through the expansion of operations. For the avoidance of doubt, capital expenditure required to replace aging or damaged equipment, to sustain existing operations, to service existing contractual or budgeted commitments or to ensure the safety of employees or customers of the Group does not constitute Restricted Expenditure; and
 - (ii) payment of consideration to:
 - (A) acquire any entity or business operation which represents a material expansion to the existing operations of the Group; or
 - (B) establish a new range of services not previously provided by the Group.

2.10. Undertakings

Evolution must apply its profits in each financial year towards payment of Dividends before any other distribution of profit.

3. Redemption

3.1. Redemption

- (a) Evolution may, at its election, redeem Preference Shares at any time:
- (i) after the occurrence of a Trigger Event; or
 - (ii) in any other case, after the first anniversary of the date of issue,
- in accordance with this clause 3. For the avoidance of doubt, redemption at the election of Evolution is not mandatory, and is at the absolute discretion of Evolution.
- (b) Evolution must redeem all Preference Shares of a Holder on the occurrence of a Holder Trigger Event if that Holder has delivered a Redemption Notice. A **Holder Trigger Event** is an event

referred to in clauses 3.2(a)(i), 3.2(b), 3.2(c) or 3.2(d) where that event is recommended by the Directors.

- (c) Notwithstanding clauses 3.1(a) and 3.1(b), Preference Shares may only be redeemed in accordance with the Corporations Act including section 254K of the Corporations Act.
- (d) The Preference Shares are not otherwise redeemable. However, this does not prejudice Evolution's rights or power to redeem Preference Shares pursuant to law.

3.2. Trigger Event

A **Trigger Event** means the occurrence of any of the following events:

- (a) a takeover bid is made to acquire all or some of the Shares and the offer is or becomes unconditional and:
 - (i) the bidder has at any time during the offer period, a relevant interest in more than 50% of the Shares on issue; or
 - (ii) the Directors recommend that holders of Shares accept the offer;
- (b) Evolution completes the issue of shares or gives effect to or facilitates the sale of shares pursuant to a prospectus where the prospectus contemplates that the issuer will apply for admission to the official list of an Approved Exchange and the Approved Exchange has confirmed that the shares so issued and sold will be quoted on the Approved Exchange;
- (c) a court approves a scheme of arrangement under section 411 of the Corporations Act which, when implemented, results in Evolution becoming under the Control of a person who is not in Control of Evolution prior to implementation of that scheme of arrangement;
- (d) Evolution enters into an agreement to sell all or substantially all of its business undertakings or assets (other than to effect a solvent reconstruction or where, after the sale, Evolution will retain a beneficial or economic interest in at least 50% of the business undertaking or assets sold); or
- (e) Evolution executes a deed of company arrangement under Division 10 of Part 5.3A of the Corporations Act.

3.3. Redemption Notice

- (a) Evolution may deliver a redemption notice to Holders (**Redemption Notice**) in respect of their Preference Shares at any time.
- (b) A Redemption Notice given by Evolution is irrevocable.
- (c) A Redemption Notice is taken to be given by Evolution for the purposes of these Terms when it is mailed in a prepaid envelope to an address or sent to a fax number or electronic address, if permitted by the Constitution, irrespective of when it is actually received by the Holder. This clause 3.3(c) does not limit the means by which Evolution may give Redemption Notices to the Holder.

3.4. Holder Redemption Notice

- (a) Evolution must give written notice to the Holders of a Holder Trigger Event within 5 Business Days of the event occurring (**Holder Trigger Event Notice**).
- (b) To require Redemption under clause 3.1(b), Holders must give written notice (**Holder Redemption Notice**) to Evolution no later than 15 Business Days after a Holder Trigger Event Notice is given.
- (c) A Holder Redemption Notice given by a Holder is irrevocable.

- (d) If a Holder requests redemption in accordance with this clause:
 - (i) the Holder must not deal with, transfer or dispose of or otherwise encumber its Preference Shares (unless Evolution fails to redeem the Preference Shares in accordance with this clause);
 - (ii) the redemption Date is the day which is 55 Business Days after the Holder Trigger Event occurs, unless Evolution determines an earlier date having regard to the best interests of Holders requesting Redemption and notifies those Holders accordingly (**Holder Redemption Date**); and
 - (iii) Evolution must redeem those Holders' Preference Shares on that date.
- (e) if a Holder gives a Holder Redemption Notice in accordance with this clause but Evolution:
 - (i) has already given a Redemption Notice; or
 - (ii) after the Holder Redemption Notice is given gives a Redemption Notice stating a Redemption Date which is no later than the Redemption Date applicable in accordance with clause 3.4(d)(ii).

to the extent of any inconsistency the Redemption Notice prevails, and the Holder Redemption Notice is taken to be of no effect.

3.5. Redemption

- (a) For Redemption under clause 3.1(a), on the date 10 Business Days after delivery of a Redemption Notice (**Redemption Date**), Evolution must Redeem all Preference Shares by paying the Redemption Sum to each Holder for each Preference Share held.
- (b) For Redemption under clause 3.1(b), on the Holder Redemption Date, Evolution must Redeem all Preference Shares by paying the Redemption Sum to each Holder for each Preference Share held.
- (c) For the purposes of this clause 3.5, **Redemption Sum** is the aggregate of:
 - (i) the Adjusted Issue Price multiplied by the Adjustment Factor; and
 - (ii) the Dividend payable in respect of the final Dividend Period.
- (d) Each Holder must do all things required by Evolution to give effect to a redemption of Preference Shares under this clause 3.

3.6. Adjustment Factor

- (a) For the purposes of clause 3.5(c)(i), the **Adjustment Factor** is as follows:
 - (i) if a Trigger Event has occurred within 30 Business Days prior to delivery of a Redemption Notice and the Net Proceeds deemed to be realised for the relevant Trigger Event is less than the equivalent of \$1.50 per Share – the Adjustment Factor is 1;
 - (ii) if a Trigger Event has occurred within 30 Business Days prior to delivery of a Redemption Notice and the Net Proceeds deemed to be realised for the relevant Trigger Event is equal to or greater than the equivalent \$1.50 per Share and less than \$1.80 per Share – the Adjustment Factor is 1.05;
 - (iii) if a Trigger Event has occurred within 30 Business Days prior to delivery of a Redemption Notice and the Net Proceeds deemed to be realised for the relevant

Trigger Event is equal to or greater than the equivalent of \$1.80 per Share – the Adjustment Factor is 1.1; and

- (iv) in all other circumstances, the Adjustment Factor is 1.
- (b) For the purposes of clause 3.6(a), **Net Proceeds** for a Trigger Event is determined as follows:
- (i) if the relevant Trigger Event is an event set out in clause 3.2(a), the Net Proceeds is:
 - (A) if the relevant takeover bid is a cash offer, the value of all of the issued Shares as at the Redemption Date attributed to those Shares by the takeover bid offer price; and
 - (B) if the consideration offered under that takeover bid includes non-cash consideration, the value attributed to the issued Shares by that takeover bid as determined by an independent expert engaged by Evolution. This valuation must be undertaken as at the date of delivery of the relevant Notice. In undertaking the valuation, the independent expert acts as an expert and not as an arbitrator and may apply such methodology as it considers appropriate to undertake the valuation;
 - (ii) if the relevant Trigger Event is the event set out in clause 3.2(b), the Net Proceeds is the value attributed to all of the issued Shares by reference to the market capitalisation of Evolution at the highest of the issue price and sale price for the Shares issued and sold under the relevant prospectus. The market capitalisation will be determined as at the time of admission of Evolution to the relevant Approved Exchange;
 - (iii) if the relevant Trigger Event is an event referred to in clause 3.2(c), the Net Proceeds is the value attributed to the issued Shares by that scheme of arrangement as determined by an independent expert engaged by Evolution. That value must be determined as at the date of the delivery of the Redemption Notice. In undertaking the valuation, the independent expert acts as an expert and not as an arbitrator and may apply such methodology as it considers appropriate to undertake the valuation;
 - (iv) if the relevant Trigger Event is an event referred to in clause 3.2(d), the Net Proceeds is the net proceeds of sale of the relevant assets (deducting only transaction costs associated with the sale and all debt and liabilities) irrespective of whether the consideration is received at or at some time after completion of the sale. If the relevant consideration is not in the form of cash, the value will be the value determined by an independent expert engaged by Evolution. In undertaking a valuation the expert will act as an expert and not as an arbitrator and may apply such valuation methodologies as it considers appropriate; and
 - (v) if the relevant Trigger Event is an event referred to in clause 3.2(e), the Net Proceeds is \$1.00,

in each case expressed on a per Share basis.

3.7. Adjustment to thresholds

The thresholds of \$1.50 and \$1.80 set out in clause 3.6(a) (**Share Thresholds**) must be adjusted as follows:

- (a) subject to clause 3.7(e), in a consolidation of Shares, the Share Thresholds must be consolidated in the same ratio as the Shares.
- (b) subject to clause 3.7(e), in a subdivision of Shares, the Share Thresholds must be subdivided in the same ratio as the Shares;

- (c) subject to clause 3.7(e), in a return of capital by payment or other distribution to holders of Shares, the Share Thresholds must be reduced by the amount of the capital per Share returned;
- (d) subject to clause 3.7(e), in a reduction of capital by a cancellation of capital that is lost or not represented by available assets where no securities are cancelled, the Share Thresholds must remain unaltered; and
- (e) notwithstanding the express provisions of clauses 3.7(a) - 3.7(d), in any reconstruction or alteration of capital or issue of Shares with an issue price below the Share Thresholds or other issue of securities, the Share Thresholds must be reorganised so that:
 - (i) a Holder will not receive a benefit that holders of Shares do not receive; and
 - (ii) a Holder does not forego any benefit that it would have received had the reconstruction or alteration of capital or issue not happened.

3.8. No Set-off

All amounts payable on redemption of the Preference Shares must be made without set-off or counterclaim and without withholding or reduction except any compulsory withholding or reduction required by law. If any compulsory withholding or reduction is required by law, Evolution must pay such additional amount on redemption of the Preference Shares as will result in Holders receiving the full amount of the Redemption Sum.

3.9. No Reduction of Capital

Evolution may not undertake a return of capital (other than by way of cancellation of capital no longer represented by assets of Evolution) without the prior consent of Holders by way of Special Resolution.

4. General Rights

4.1. Ranking

- (a) Preference Shares rank equally among themselves in all respects.
- (b) Preference Shares are subordinated to all creditors of Evolution in respect of:
 - (i) return of capital (subject to these Terms, not exceeding the Adjusted Issue Price for each Preference Share); and
 - (ii) payment of any Dividends determined by the Directors to be paid and which are due but unpaid.

4.2. Priority of Dividends

- (a) If:
 - (i) a Dividend for each Preference Share held in respect of a Dividend Period; or
 - (ii) a dividend entitlement on any other shares in Evolution which rank equally with the Preference Shares as to dividends;
 has been determined by the Directors to be paid but has not been paid, or is not able to be paid in full, any Dividends and any dividends payable on those other shares must be paid pro rata.
- (b) Unless and until Redemption occurs, the Preference Shares rank in priority to Shares for the payment of dividends.

4.3. Return of Capital on a Winding Up

Unless and until Redemption, if there is a return of capital on a winding up of Evolution, Holders will be entitled to receive out of the assets of Evolution available for distribution, in respect of each Preference Share held, a cash payment equal to the sum of:

- (a) the amount of any Dividend Entitlement (calculated on a daily basis assuming a 365 day year) throughout the period from and including the last day of the preceding Dividend Period to the date of commencement of the winding up together with the amount of any Shortfall Dividend which would have needed to be paid under clause 2.9 to relieve Evolution from the prohibition on Restricted Expenditure; and
- (b) the Adjusted Issue Price,

before any return of capital is made to holders of Shares or any other class of shares ranking behind the Preference Shares.

4.4. Shortfall on a Winding Up

If, upon a winding up of Evolution, there are insufficient funds to pay in full the amounts referred to in clause 4.3 and the amounts payable in respect of any other shares in Evolution ranking as to such distribution equally with the Preference Shares on a winding up of Evolution, Holders and the holders of any such other shares will share in any distribution of assets of Evolution in proportion to the amounts to which they are entitled respectively.

4.5. Participation in Surplus Assets and Profits

The Preference Shares do not confer on Holders any further right to participate in the surplus assets of Evolution on a winding up or in the property or profits of Evolution beyond the rights set out in these Terms.

4.6. Restrictions on Other Issues

- (a) The issue by Evolution of any other preference shares which rank in priority to the Preference Shares in respect of dividends or return of capital on a winding up constitutes an alteration of the rights attached to the Preference Shares. Accordingly, unless and until all the Preference Shares have been Redeemed, Evolution must not, without approval of a Special Resolution passed at a separate meeting of Holders, issue, or permit the conversion of any existing shares ranking in priority to the Preference Shares as to dividends or return of capital on winding up.
- (b) The Directors are at all times authorised to issue further Preference Shares or other securities ranking equally or behind any existing Preference Shares as to dividends or return of capital on winding up without approval of a Special Resolution passed at a separate meeting of Holders. Such an issue does not constitute a variation or cancellation of the rights attached to the then existing Preference Shares.

5. Voting Rights

5.1. Notice and Attendance

Holders have the same rights as Shareholders to receive accounts, reports and notices of Evolution (including notices of any general meetings) and to attend and speak at those meetings.

5.2. Voting

A Preference Share confers upon its Holder the right to vote at any general meeting of Evolution in the following circumstances and no others:

- (a) on a proposal to wind up Evolution;

- (b) on a proposal to reduce the share capital of Evolution;
- (c) on a proposal to dispose of all the property, business and undertaking of Evolution;
- (d) during the period during which a Dividend or part of a Dividend is in arrears;
- (e) on a resolution to approve the terms of a buy-back agreement;
- (f) on a proposal that affects the rights attached to Preference Shares; and
- (g) during the winding up of Evolution.

5.3. Votes

Each Holder has the same right to vote (both on a show of hands and on a poll) as the holder of 1 Share for each Preference Share held.

6. No listing

The Preference Shares will not be listed on the ASX.

7. Amendment to Terms

7.1. Amendment

Subject to complying with all applicable laws, Evolution may amend or add to these Terms:

- (a) without the authority, assent or approval of Holders, if such amendment or addition is, in the opinion of Evolution:
 - (i) of a formal, minor or technical nature;
 - (ii) made to correct a manifest error; or
 - (iii) not likely (taken as whole or in conjunction with all other modifications if any to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders.
- (b) otherwise, with the approval of a Special Resolution passed at a separate meeting of Holders,

and such amendment or addition will be taken to bind all Holders from the date of the amendment or addition, or from an effective date specified in connection with the amendment or addition.

7.2. Procedures

The provisions of Evolution's constitution relating to general meetings apply so far as they are capable of application, and with any necessary modifications, to every meeting of Holders.

8. Interpretation and Definitions

8.1. Interpretation

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms and the Constitution, then, to the maximum extent permitted by law, the provisions of these Terms will prevail.
- (b) Unless otherwise specified, the Directors may exercise all powers of Evolution under these Terms as are not by the Corporations Act or by the Constitution required to be exercised by Evolution in a general meeting.

- (c) Except to the extent otherwise specified in these Terms, notices may be given by Evolution to a Holder in the manner described by the Constitution for the giving of notices to members of Evolution and the relevant provisions of the Constitution apply with all necessary modification to notices to Holders.
- (d) Unless otherwise specified, a reference to a clause is a reference to a clause of these Terms.
- (e) If a calculation is required under these Terms, unless the contrary intention is expressed, the calculation will be rounded down to 2 decimal places.
- (f) If an event under these Terms must occur, or anything must be done under these Terms, on or by a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.
- (g) Definitions and interpretations under the Constitution will also apply to these Terms, subject to clause 8.1(a).
- (h) The terms "takeover bid", "relevant interest" and "scheme of arrangement" when used in these Terms have the meaning given in the Corporations Act.
- (i) 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.

8.2. Definitions

In these Terms the following terms have the meaning set out below:

Adjusted Issue Price	has the meaning given in clause 1.2
Adjustment Factor	has the meaning given in clause 3.6(a)
Allotment Date	the date on which Preference Shares are issued in accordance with these Terms.
Approved Exchange	any of the ASX, the London Stock Exchange, the Alternative Investment Market, the New York Stock Exchange, NASDAQ or any other stock exchange approved by Holders by special resolution in general meeting.
ASX	Australian Securities Exchange Limited.
Business Day	a day other than a Saturday, Sunday or public holiday on which banks are open for normal banking business in Sydney.
Constitution	the constitution of Evolution.
Control	has the meaning given in Section 53AA of the Corporations Act
Corporations Act	the <i>Corporations Act 2001 (Cth)</i> .
Director	a director of Evolution.
Dividend	has the meaning given in clause 2.1(a).
Dividend Entitlement	has the meaning given in clause 2.1(a).

Share Thresholds	has the meaning given in clause 3.6(a)
Shortfall Dividend	has the meaning given in clause 2.9.
Share	an ordinary fully paid share in Evolution.
Shareholder	a holder of a Share.
Special Resolution	has the meaning given in the Corporations Act.
Tax Act	the <i>Income Tax Assessment Act 1936 (Cth)</i> and the <i>Income Tax Assessment Act 1997 (Cth)</i> as amended.
Terms	these terms and conditions of issue of the Preference Shares.
Trigger Event	has the meaning given in clause 3.2.

6 Risks

6. Risks

This section provides detail of the risks associate with:

- An investment in Evolution; and
- An investment in the Preference Shares.

6.1 Risks associated with an investment in Evolution

Potential risks that could be faced by Evolution in the future are outlined below. The list is not exhaustive and Recipients of the Information Memorandum will need to make their own assessment as to the potential risks associated with an investment in Evolution.

6.1.1 Customer in-sourcing

Government entities and private contractors could seek to increase the level of traffic management and control services completed by internal departments in order to save costs. The process of insourcing could lead to margin pressure and/or reduced pipeline of works.

Should the pipeline of works decline due to insourcing, there is a risk that the operational and financial performance of Evolution could be negatively impacted.

6.1.2 Lack of labour supply or industrial relations action

There is a risk to the operational and financial performance of Evolution that an increase in union activism could have a material impact on the supply of Evolution's workforce. Any impact to the availability of labour could also impact Evolution's ability to meet its contractual obligations and as a result could lead to a material negative impact on Evolutions financial performance.

6.1.3 Dependency on key personnel

Despite having a large operational team, the loss of key management personnel may be perceived to have a material impact on the Evolution's operational and financial performance.

6.1.4 Benefits from operational improvement plan not being realised

Evolution is in the process of implementing a significant operational improvement plan. This program involves a number of steps and is expected to generate cost savings, efficiencies and growth in FY17 and beyond. If successful, it would result in a margin performance above previous years. There is a risk that any delay or failure to achieve the operational improvement plan may impact Evolutions operational and financial performance.

6.1.5 Material increase in labour costs

A small percentage of Evolution's workforce are union members and are covered by EBAs which periodically require renegotiation and renewal. Evolution's operations depend on the availability of adequately skilled labour and the relative cost of said labour to meet FY18 forecasts. The absence of any agreement or failure to renegotiate such agreements on acceptable terms to Evolution could result in increased labour costs.

6.1.6 Competition

An increase in competition could have or could be perceived to have a material impact on the ability of management to retain existing client contracts or win new business. This ability could have material implications for the Evolution's operational and financial performance, including delivering its financial forecasts.

6.1.7 Reputational risk

There is a risk or that any damage to Evolution's reputation could have an impact on its ability to win or retain new or existing client contracts. Any reputational damage could have a material impact on the operational and financial performance of Evolution.

6.1.8 Infrastructure expenditure

There is a risk that a sustained decline in economic conditions occurs which may lead to reduced expenditure on roads and infrastructure. This reduced spend could severely negatively impact the operational and financial performance of Evolution could be materially impacted.

6.1.9 Litigation

There is a risk that Evolution is sued and the disruption of the legal action and any damages have a material impact on the operations, business and financial performance of Evolution.

6.2 Risks for an investment in the Preference Shares

6.2.1 Preference Shares are perpetual, unsecured and subordinated obligations

Preference Shares are perpetual securities, meaning that they have no maturity date, so investors may never be repaid the principal invested.

Preference Shares are not secured over any of the Evolution Group's assets.

In a winding-up of Evolution, Preference Shares are subordinated and holders rank for payment of the Face Value behind senior creditors. They rank senior only to claims in respect of ordinary equity. Therefore, holders will lose their investment in Preference Shares if there are insufficient assets to satisfy senior creditors in a winding-up of Evolution. Therefore, although Preference Shares may pay a higher rate of distribution than securities and instruments that are not subordinated, there is also a higher risk that Holders will lose all or some of their investment if Evolution becomes insolvent.

6.2.2 Evolution may issue further securities

Preference Shares do not in any way restrict Evolution from issuing further securities or from incurring further indebtedness at any time, including obligations which rank senior to Preference Shares.

Evolution's obligations under Preference Shares rank subordinate and junior in a winding-up of Evolution to Evolution's obligations to senior creditors. This means that holders will not receive any amounts in respect of Preference Shares until the claims of all senior creditors have been satisfied. If Evolution is wound-up, it is possible that there may be insufficient assets to satisfy the claims of senior creditors, in which case holders will not receive any amounts and will lose all of their investment in Preference Shares. Therefore, any return of capital to holders and the market price or liquidity of Preference Shares may be affected by an increase in senior ranking creditors. The Preference Shares may also be affected in this manner by an increase in equal ranking creditors.

Evolution may in the future issue securities that:

- rank for payments of principal or interest (including on the winding-up of Evolution) equally with, behind or ahead of Preference Shares;
- have the same or different maturities as Preference Shares;
- have the same or different dividend, interest or distribution rates as those for Preference Shares;
- have conditions to payment and distribution restrictions or other covenants which affect Preference Shares (including by restricting the circumstances in which distributions can be paid on Preference Shares or the circumstances in which Preference Shares can be Redeemed); or
- have the same or different terms and conditions as Preference Shares.

An investment in Preference Shares confers no right to participate in any future issue of securities (whether equity, subordinated or senior debt or otherwise) by Evolution other than in accordance with the Terms.

6.2.3 Dividends may not be paid

There is a risk that dividends will not be paid. Dividends are only payable if Evolution decides to pay them in its absolute discretion.

Evolution may also be prevented from paying dividends by the terms of other securities which may be issued in the future by Evolution, if a dividend or other payment has not been paid on those securities.

Failure to pay a dividend when scheduled will not constitute an event of default; the Terms contain no events of default. Therefore, if Evolution does not pay a dividend when scheduled, a Holder:

- has no right to apply for Evolution to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of Evolution; and
- has no right to set-off any amount owing to it by Evolution in connection with Preference Shares against any amount owing by it to Evolution.

6.2.4 Dividends may not be franked

Evolution expects dividends to be fully franked. However, Evolution may not have sufficient franking credits in the future to fully frank dividends. Evolution's available franking credits may be affected by a wide range of factors, including its business performance, the applicable Australian corporate tax rate, the assessment of relevant tax authorities and the amount of other frankable payments.

If a dividend payment is not fully franked, then the dividend will be adjusted to reflect the applicable franking rate (see clause 2.6 of the Terms). This adjustment will result in the cash amount of the dividend increasing to compensate for the reduction in franking credits.

6.2.5 *Use of franking credits by Holders*

The value and availability of franking credits to a holder will differ depending on the holder's particular tax circumstances. Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash dividend, and that the ability to use the franking credits, either as an offset to a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder.

6.2.6 *Liquidity of Preference Shares*

There is no guarantee that a liquid market will develop for Preference Shares.

Holders who wish to sell their Preference Shares may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for Preference Shares. Holders may suffer loss as a result.

Appendices

Appendix 1: Glossary of terms

Term	Definition
\$	Australian dollar
Board	Board of Evolution Group Holdings Ltd
CAGR	Compound annual growth rate
Capex	Capital expenditure
Company	Evolution Group Holdings Ltd and its subsidiaries
EBA	Enterprise Bargaining Agreement
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITA	Earnings before interest, tax and amortisation
EBIT	Earnings before interest and tax
Effective Date	The date of this Information Memorandum
ECM	Evolution Civil Maintenance
EFS	Evolution Fleet Services
ETC	Evolution Traffic Control
ETS	Evolution Training and Safety
Forecasts	Estimates, forecasts or projections or other forward looking information
FTE	Full-time equivalent
FY	Financial year
FY15A	Actual audited figures for the Financial Year ended 30 June 2015
FY16A	Actual but unaudited figures for the Financial Year ended 30 June 2016
FY17	Figures for the Financial Year ending 30 June 2017
FY17PF	Pro forma figures for the Financial Year ending 30 June 2017
FY18B	Projected figures for the Financial Year ending 30 June 2018
HMS	HMS Civils
Information Memorandum	This confidential Information Memorandum
Information	Information contained in this Information Memorandum
KPI	Key performance indicator
Losses	Any loss, damage, cost, expense, outgoing, interest, loss of profits or loss of any kind
Management	Senior management
OH&S	Occupational health and safety
Opex	Operational expenditure
Projections	Any estimates, projections and forward looking statements
Process Letter	Letter accompanying this Information Memorandum
Shareholders	Evolution shareholders
Evolution	Evolution Group Holdings Ltd and its subsidiaries
YTD	Year to date

Corporate Directory

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