

ASX ANNOUNCEMENT

Photon to be debt free after agreeing to sell Field Marketing & Retail Agencies for \$146.5 million

PhotonGroup.

Photon Group Limited (ASX:PGA) today announced the sale of its Field Marketing & Retail Agencies division to Navis Capital Partners for cash consideration of \$146.5 million in a transaction that, when completed, will leave Photon debt free.

Photon's chief executive officer, Jeremy Philips, said that following completion of the transaction, the company would be greatly simplified, with 14 agencies, and would have an excess cash balance of at least \$15 million.

Under the agreement, Photon will sell its five Field Marketing & Retail agencies - Demonstration Plus, Club Sales & Marketing, Powerforce, Ausrep, and REL- as well as two closely-related businesses - Artel and Retail Insight.

This price of \$146.5 million represents a multiple of 7 times the last 12 months EBITDA.

Including this transaction, over the past year, Photon has sold 13 businesses for a total of \$233 million consideration at an average of 7.5 times trailing 12 months EBITDA

Photon chairman Brian Bickmore said the board and management had set out a very clear strategy during the year to reduce debt and simplify Photon's structure.

"We have repeatedly made it clear we would not be involved in a fire sale of Photon's valuable assets. The CEO and his management team have achieved a dramatic turnaround in the past year from the company's previous unsustainable debt load," Mr Bickmore said.

Jeremy Philips said: "At the beginning of the 2011 financial year, Photon was an eclectic mix of 45 highly uneven business units in five divisions. The company carried an entirely unsustainable debt load of \$450 million.

"During the course of the past year Photon has been transformed through this transaction, other divestments, a recapitalisation, and a corporate restructure. We have now transformed Photon into an unleveraged, focused, transparent company, with leading Australian and international agencies including Naked, BMF, and BWM.

"On behalf of the company, let me thank Field Marketing and Retail Agencies head Craig Hart, the heads of the businesses, and the entire team in the division for all of their hard work and dedication, particularly the efforts over the last year to introduce a consistent culture of collaboration, efficiency and professionalism across the division. Craig Hart will become chief executive officer of the entity that will own these agencies after completion."

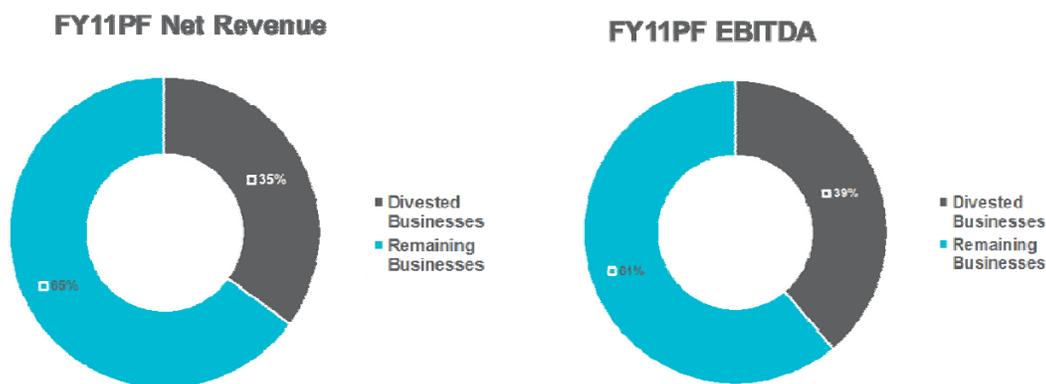
The business is being purchased by a fund advised by Navis Capital Partners, South East Asia's largest private equity business, with over US\$3 billion under management and seven offices across Asia. Philip Latham of Navis said "We are extremely excited to be partnering

Craig and his management team in growing Australia's largest field marketing operations and are keen to pursue an expansion strategy across South East Asia, China and Asia".

Impact on Earnings and Balance Sheet

The seven businesses being divested contributed a total of \$115 million of net revenue and \$21 million of EBITDA in the 12 months to 30 September 2011.

These businesses contributed 35% of Photon's FY2011 pro forma net revenue, and 39% of pro forma operating company EBITDA.



Note: Excludes the impact of FY2011 divestments and corporate costs.

The net proceeds from the sale (after any working capital adjustment and transaction costs) will be applied to debt repayment and is expected to result in an excess cash balance of at least \$15 million. These divestments are expected to result in a further non-cash loss on sale to be recognised in the first half of FY2012 of approximately \$32 to \$37 million.

The sale, which is subject to certain customary conditions, is scheduled for completion on 30 November 2011. Although Photon is expected to have an excess cash balance following completion, the company is keeping in place a \$16 million debt facility until 31 March 2013. The facility will be undrawn following completion of the sale. The company does not currently intend to make any substantial acquisitions in the near term.

Photon will use its debt facility or excess cash balance to fund the remaining capped cash deferred consideration payments of \$15 million over the next two years. In accordance with the terms of the deferred consideration restructure that Photon completed in September 2010, the EBITDA targets for any further capped deferred consideration payments under Tranche 3A and 3B are reduced to adjust for the impact of divestments.

Accordingly, the EBITDA target for Tranche 3A payments are expected to be reduced to approximately \$53.5 million and the EBITDA target for Tranche 3B payments will be reduced to approximately \$63.5 million. The leverage target remains unchanged at 2.25 times.

Update on Year-to-Date Trading and Strategy

In the three months to 30 September 2011, net revenue was down 7% on the prior period after adjusting for the dispositions announced during FY2012, businesses sold or closed during FY2011 and the material Telstra contract lost during FY2011¹. Total EBITDA is down 25% on the same basis. International Agencies EBITDA was up 6% in the first quarter on the prior period; however Australian Agencies EBITDA was down 25% in the first quarter, primarily due to losses incurred in the restructuring of one business unit.

Including the businesses which Photon will divest in the first half of 2012, EBITDA is down 28% in the first quarter versus the prior corresponding period.

The sale of the Field Marketing & Retail Agencies division leaves Photon greatly simplified and with a strong balance sheet position. Following completion of the sale, Photon will comprise 14 agencies, down from 45 at 30 June 2010.

The company's primary focus will be to organically grow its key businesses, with a particular focus on digital initiatives and expansion to take advantage of attractive geographic opportunities.

Given the more focused strategy and simplified operations following these dispositions the company is undertaking an immediate review of its operating structure and overhead and expects to implement significant cost reduction measures during fiscal 2012.

A further update will be provided at Photon's Annual General Meeting to be held at 12.00pm on Tuesday 29 November at Level 4, 60 Carrington Street, Sydney NSW 2000.

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1. Excludes contribution from businesses to be sold in this transaction, Retail Insight's point-of-sale business sold in September 2011, five digital businesses sold in December 2010; Telstra contract lost by BWM in May 2011 and closure of Counterpoint and Yield Media during 1H2011.