

Smiths News PLC

Smiths News PLC
("Smiths News" or "the Group")

Acquisition of Hedgelane Limited

Smiths News PLC, the UK's leading wholesaler of newspapers, magazines and books, is pleased to announce the unconditional acquisition of Hedgelane Limited whose principal subsidiary trades as The Consortium for Purchasing and Distribution Limited ("The Consortium"), the UK's leading specialist distributor of consumable products to the educational market, for an aggregate consideration of £38.0m, equivalent to an enterprise value ("EV") of £44.1m.

The aggregate consideration comprises £32.0m of initial cash consideration to be financed through existing available debt facilities, up to £2.0m of deferred consideration payable in cash in January 2013 dependent on certain conditions and to be financed through available existing debt facilities, and up to £4.0m of deferred consideration payable in Smiths News PLC shares in January 2014 dependent on certain conditions.

The Consortium supplies consumable products predominantly to the education market which is estimated to have an addressable market value of £1bn; and also to the care and early years nursery markets, estimated to have addressable market values of £160m and £55m respectively. All are large, fragmented and in structural growth, offering significant opportunities for The Consortium to expand.

The Consortium is a profitable, cash generative business that is expected to add an additional £64m sales and £7m EBITDA to Smiths News PLC on a proforma FY12 basis. The transaction is immediately EPS accretive and will generate returns significantly above the Group's cost of capital.

Rationale for the Acquisition

The acquisition of The Consortium is an important strategic initiative and is consistent with the Group's stated ambition of growing profits outside its core magazine and newspaper markets and becoming a leading specialist distributor. The Group's diversification strategy has been clearly articulated over the past 18 months and the Board believe The Consortium is a strong strategic fit for Smiths News PLC, capitalising on the Group's core skill set and delivering earnings growth for shareholders.

The key strategic drivers for the acquisition include:

- The Consortium operates in large markets in structural growth, with significant headroom to grow ahead of the market both organically and via acquisition
- The Consortium operates from a strong UK market position and is the leading independent distributor of consumable products in the education sector
- the supply chain for the education, care and early years nursery markets are highly fragmented, supporting the role and value of a specialist distributor
- customer service and efficiency are valued and important to the proposition, which is a hallmark strength of Smiths News PLC

The acquisition of The Consortium offers shareholders a profitable, cash generative business which will deliver returns significantly above the Group's cost of capital. Incremental revenues of £64m and EBITDA of £7.0m will be added to Smiths News PLC on a full year basis, adding 1.3 pence to EPS on a proforma basis for FY12. The pro forma EV/EBITDA multiple is 6.3x; post synergies the multiple is 5.5x.

Smiths News PLC will leverage its core skills in effective change management and integration, service excellence, process and operational efficiency, customer management and technology to unlock the

significant headroom for growth in The Consortium. The Group will also provide investment capital in order to pursue suitable bolt-on acquisitions whilst supporting The Consortium as it seeks to accelerate expansion into adjacent markets.

Through extensive research on the sector and due diligence, the Group is confident of being able to deliver sustainable growth from The Consortium and generate strong returns for shareholders.

Smiths News PLC and The Consortium will therefore target a number of key growth drivers which include:

- increasing the share of wallet across The Consortium's existing customer base across all markets served
- expanding beyond The Consortium's existing customer base by targeting additional schools, care homes and nurseries with a national offering
- capitalising on opportunities to expand The Consortium into adjacent markets that exist beyond the education, care and early years nursery base
- pursuing suitable bolt-on acquisition opportunities of similar operations from within the public and private sectors

Additional information on The Consortium

The Consortium is the UK's leading independent distributor of consumable supplies predominantly to the education market, estimated to have an addressable market value of £1bn, and also servicing the care and early years nursery markets, estimated to have addressable market values of £160m and £55m respectively.

The Consortium supplies consumables such as stationery, art and craft, janitorial and curriculum products principally to the education market. The business currently services over 25,000 customers with an extensive product range of over 40,000 products, all accessible through both a catalogue and website offering. Customer service is integral to the value proposition The Consortium offers with strong service delivery a differentiator against its competition, supporting its growth record.

The business employs 260 people at the head office and primary warehouse based in Trowbridge, near Bath.

Smiths News PLC, through its subsidiary Smiths News Holdings Limited, acquired Hedgelane Limited from its four management shareholders, Melanie Teal, Mark Barnett, Mike Gahan and Joe Caddell, who will be retained following the acquisition and have extensive knowledge of the business and markets in which it operates. Key individuals to the ongoing running of the business include:

- Melanie Teal: Chief Executive officer, 20 years' service at The Consortium in a wide variety of roles
- Mark Barnett: Chief Operating Officer, 16 years' service at The Consortium, extensive supply chain and distribution experience
- Mike Gahan: Finance Director, 6 years' service at The Consortium, qualified chartered accountant with over 20 years' experience in commercial and corporate finance
- Joe Caddell: Business Support Director, 7 years' service at The Consortium, extensive systems experience in major blue chip organisations
- John Kershaw: Head of Marketing and Merchandising, 3 years' service at The Consortium, previous positions held in Electrolux and Miele
- Matthew Palmer: Sales Director, recently joined the business, previous positions held in Premier Farnell and Findel

The business is active in the local community and has won several awards including education supplier of the year for the 3rd year running and has been listed in the Sunday Times Profit Track 100.

The Consortium very recently acquired, from public sector ownership, the catalogue business of West Mercia Supplies ("WMS"). Based in Shrewsbury, with 95 employees, WMS adds a market leading position in the West Midlands and scale to The Consortium business supporting delivery of synergy benefits to the overall transaction.

In FY11 combined, The Consortium and WMS gross assets were £26.8m and its pre tax profits were £6.3m.

Mark Cashmore, Group Chief Executive, commented

"We are delighted to be announcing the acquisition of The Consortium today which represents another significant step forward in our diversification strategy. We have talked about Smiths News desire to expand our operational footprint beyond the core newspaper and magazine business and this acquisition, alongside our two other transactions (Bertram and Dawson Holdings) since demerger, clearly demonstrates that strategic progress.

"Our skills and competencies, which are now well known to the market, will underpin our future plans for The Consortium, as we actively pursue a number of exciting growth opportunities. This acquisition will deliver strong shareholder returns. We are delighted to welcome The Consortium employees into the Group and look forward to all of our stakeholders sharing in our continued success"

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About Smiths News PLC:

Smiths News PLC comprises Smiths News, the UK's leading wholesaler of newspapers and magazines, and Bertram Group, a leading UK book wholesaler.

Smiths News distributes newspapers and magazines on behalf of all the major national publishers as well as a large number of regional publishers. The business serves approximately 30,000 customers across England and Wales, supplying large general retailers as well as smaller independent newsagents. Smiths News has an approximate 55% share of the newspaper and magazine wholesaling market in the UK. In addition to its distribution activities, Smiths News collects and processes returns, supplies sales information to publishers and provides a range of services for its retail customers.

Bertram, which was acquired on 20 March 2009, supplies books to a mix of independent booksellers, on-line and multiple retailers, and libraries. Bertram has an approximate 45% share of the wholesale book market.

In August 2011 the company acquired Dawson Holdings plc and is currently integrating its businesses into the Smiths News Group. The principal asset, Dawson Books is a leading supplier of academic books in the UK and internationally.