

ASX Announcement

6 December 2018

Inabox board unanimously continues to recommend Improved MNF Transaction in the absence of a superior proposal and expresses concerns about the Improved SB&G Takeover Offer.

Inabox Group Limited (ASX:IAB) (**Inabox** or the **Company**) refers to the ASX / Media release by SB&G (Telecoms) Pty Ltd (**SB&G**) dated 3 December 2018 announcing an improved proposal to make a takeover bid for all of the shares in the Company (**Improved SB&G Takeover Offer**).

Following receipt of the Improved SB&G Takeover Offer, Inabox requested that SB&G respond to important questions about the offer in order to properly inform the Company's shareholders on its merits compared to the improved sale agreement with MNF Group Limited (ASX: MNF) (**MNF Group**) which it announced on 23 November 2018 (**Improved MNF Transaction**).

SB&G replied to the Company on 5 December 2018, and accordingly the Inabox board (**Board**) would like to update shareholders on its views of the Improved SB&G Takeover Offer and its recommendation with respect to the Improved MNF Transaction.

Given the expected \$0.90 per share payment to shareholders (comprising a dividend and one or more returns of capital) and certainty under the Improved MNF Transaction, the Inabox board unanimously recommends shareholders vote in favour of the Improved MNF Transaction in the absence of a superior proposal, and recommends they take no action in respect to the Improved SB&G Takeover Offer when it is made.

Material uncertainty remains about Improved SB&G Takeover Offer

The answers received from SB&G in response to the Company's questions do not adequately address a number of important concerns raised by Inabox.

In the Company's view, the uncertainty remaining around the Improved SB&G Takeover Offer far outweighs the value of the benefits promised to shareholders by SB&G and potentially exposes the Company to risk breaching its bank covenants and being unable to pay its debts as and when they fall due, if the Company is unable to quickly and successfully complete a capital raising. The success of any capital raising by the Company is likely to be dependent upon the strength of the underwriting, and it may be difficult to achieve certainty around underwriting given the current volatility of equity markets and while there remains material uncertainty whether any bid, including the Improved SB&G Takeover Offer, will be successful.

In addition, based on the initial advice received and the terms of the Company's current banking arrangements, the Board does not believe that a fully franked special dividend can be paid to shareholders under the Improved SB&G Takeover Offer, if it is successful, nor can it provide any assurance of the timing of payments to shareholders, if it is successful.

What is in the best interests of shareholders?

SB&G considers that it is in the best interests of IAB shareholders for the current auction process to be allowed to run its natural course to a conclusion, so that IAB shareholders maximise the value of their shareholding.

Shareholders should be aware that over the last 7 months Inabox has been running a competitive sale process (**Sale Process**) in which information was provided to numerous interested parties, including a related entity of SB&G.

Accordingly, SB&G has had over 7 months to put forward a compelling offer to Inabox shareholders. The Company acknowledges, and has not suggested to the contrary, that SB&G's proposal to make a takeover bid for IAB shares, first announced on 15 November 2018, compels it to proceed with the bid, and is not a non-binding or indicative. However, Inabox made it clear in its ASX announcement on 23 November 2018 that a superior proposal to the Improved MNF Transaction would need to address the Company's funding requirements with "sufficient certainty". The funding, financial support and special dividend components of the Improved SB&G Takeover Offer do not attract the same legal compulsion of an announced takeover bid, and remain, at this stage, proposals. The IAB board considers such components lack sufficient detail or certainty for the Company to recommend them to shareholders.

In addition, SB&G has also chosen not to engage with Inabox's board to discuss its proposals prior to submitting them, nor has it, after one meeting with CBA, Inabox's bank, requested subsequent meetings or calls, despite an open invitation to do so. This provides Inabox with material doubts that SB&G will, as represented in its letter to Inabox of 5 December 2018, work constructively with the Board and CBA to construct, negotiate and execute the series of agreements necessary for the Improved SB&G Takeover Offer to be achieved in accordance with its terms, if it is successful.

CBA has written to Inabox to express, amongst other things, its concern that SB&G infers in its letter of 5 December 2018 that the Improved SB&G Takeover Offer would be acceptable to CBA. CBA has confirmed that it has given no such acceptance and none should be inferred.

The Improved MNF Transaction resulted from the Sale Process and offers shareholders the greatest certainty. If shareholders do not vote in favour of the Improved MNF Transaction, MNF Group has the right to terminate the Share Sale Agreement and may choose to do so.

MNF Group terminating its agreement and walking away would be advantageous to SB&G and leave Inabox and its shareholders in an uncertain and vulnerable position.

It would also provide SB&G with an opportunity to negotiate with Inabox and CBA terms favourable to SB&G for funding support, if the Improved SB&G Takeover Proposal is successful. If the Improved SB&G Takeover Offer is not capable of being executed in its current form, for example because Inabox is unable to pay the full special dividend, SB&G has not stated that it will increase its bid price to compensate, and faced with no competitive pressure the outlook for shareholders would in that circumstance be uncertain.

The Board expects that, while there remains material uncertainty whether any bid will be successful, it will be extremely difficult for Inabox to raise capital. Potential investors and underwriters will likely struggle to assess and value the risks of a control transaction not proceeding. If no control transaction completes, the share price could fall significantly, potentially even below the \$0.40 per share range it traded in prior to commencement of the Sale Process. Alternatively allowing SB&G to underwrite a capital raising that increases its relevant interest in Inabox would act as a deterrent to MNF Group participating in an auction.

General meeting to vote on Improved MNF Transaction will proceed as planned

Given the serious funding issues facing Inabox and announced previously, the Company believes there is a strong commercial imperative to have shareholders vote on the Improved MNF Transaction without further delay.

Accordingly, Inabox will proceed with the general meeting set for this Friday 7 December 2018, at which Inabox shareholders have a simple decision to make - either:

1. Vote for the Improved MNF Transaction which is a binding legal agreement and conditional only upon Inabox shareholder approval.

- The Improved MNF Transaction is fully funded and provides completion certainty three business days from the meeting date allowing all debts to be repaid in December 2018 and payments to be made to shareholders in middle January 2019 and (subject to shareholder approval) late January 2019;

Or

2. Vote against the Improved MNF Transaction and hope that:

- a. MNF Group elects to participate in an auction process; and
- b. Inabox is able to raise \$3m in capital to avoid solvency issues in an environment where there is uncertainty surrounding the Company's future and risks associated with any takeover offer completing; and
- c. Inabox's bank remains supportive; and
- d. The Improved SB&G Takeover Offer is successful and can be completed in accordance with its terms.

Given the expected \$0.90 per share return and certainty under the Improved MNF Transaction, the Inabox board unanimously recommends shareholders vote in favour of the Improved MNF Transaction in the absence of a superior proposal, and recommends they take no action in respect to the Improved SB&G Takeover Offer when it is made.

Other concerns with the Improved SB&G Takeover Offer include:

1. Inability to pay a fully-franked Special Dividend

The Company does not believe it will be able to pay the Special Dividend of \$0.29 described in the Improved SB&G Takeover Offer.

- CBA has notified the Company that *"From our initial review of the revised offer by SB&G, and if accepted by Inabox Group Limited (IAB), this may result in a breach of existing financial covenants for IAB, including Permitted debts, Net Worth and Interest Coverage."* Accordingly Inabox believes the proposed loan by SB&G to Inabox in order to fund the Special Dividend will have to be in the form of or immediately converted to equity.
- Separate to the way in which the special dividend itself is funded, Inabox is prohibited under its banking agreement from paying a dividend if its net debt is greater than 1x EBITDA. Currently net debt is equal to around 2.54x EBITDA. In order to reduce net debt to a level that would allow payment of the Special Dividend, the Company's net debt would have to be reduced by

approximately \$6m. CBA has notified the Company that *“the Bank would require certainty of debt resizing, amongst various considerations, to be included within any purchase offer and the revised offer by SB&G does not sufficiently address these”*.

In addition:

- Even if Inabox could pay a Special Dividend under the Improved SB&G Takeover Offer the Company has received advice that it would not have sufficient profits or retained earnings to declare a fully franked dividend from profits to satisfy the franking rules under taxation laws. In that case, the special dividend would have to be paid from the Company’s share capital account, which will prevent the Company from franking the dividend. This is not the case under the Improved MNF Transaction, which generates a profit on the sale of the Indirect Business sufficient for the Company to distribute a fully franked dividend from that source of profits.

It is therefore clear to Inabox’s Board that Inabox will be unable to pay the Special Dividend proposed under the Improved SB&G Takeover Offer.

The Board notes that in respect of both the Improved MNF Transaction and the Improved SB&G Takeover Offer, franking credits may be a benefit to some shareholders but not others. IAB shareholders should seek advice from a tax adviser in relation to their individual circumstances.

2. SB&G’s financial capacity

SB&G has provided no evidence that it has capacity to fully fund all of the commitments made in its offer (and not just the payments made by SB&G to shareholders under takeover contracts) and to reduce the Company’s net debt to a level that would satisfy the bank and allow a Special Dividend to be paid.

3. Financial support to Inabox

SB&G has committed to fully underwrite an accelerated non-renounceable entitlement issue to Inabox Shareholders and to provide further debt funding to the Company. The market standard termination events that SB&G proposes be included in the underwriting agreement create a risk that in certain circumstances (e.g. a significant market correction) the underwriting may not cover a shortfall in the offer potentially leaving Inabox with insufficient funding and facing solvency issues by the end of December 2018.

In addition, the uncertainty which the Board sees in the Improved SB&G Takeover Offer may result in a low acceptance rate for the entitlement issue. A large shortfall allocated to SB&G in its capacity as underwriter would increase SB&G’s relevant interest in Inabox and act as a deterrent to MNF Group continuing to be interested in acquiring the Indirect Business.

It is unclear when Shareholders will receive any Special Dividend or payment for their shares if they accept the offer described under the Improved SB&G Takeover Offer and it is successful.

Inabox Board unanimously recommends shareholders vote for the Improved MNF Transaction

The Improved MNF Transaction is conditional only upon the approval of Inabox shareholders at the general meeting to be held at 10am on Friday 7th December. Once approved, the Improved MNF Transaction is due to be completed 3 business days later, allowing Inabox to repay all of its debts and commence paying an expected \$0.90 per share to shareholders, by way of a dividend of \$0.29 per share in middle January 2019 and, subject to shareholder approval, a capital return of at least \$0.41 per share in late January 2019.

The table below summarises the key information for shareholders about the Improved MNF Transaction and the Improved SB&G Takeover Offer:

	Improved MNF Transaction	Improved SB&G Takeover Offer	Notes
Payment /distribution to shareholders	Expected to be \$0.90 in cash per share, comprised of \$0.29 per share through a dividend and, subject to shareholder approval, \$0.61 per share through a return or returns of capital	\$0.95 in cash per share, comprised of \$0.29 per share through a dividend and \$0.66 in cash per share	The Board does not believe that a fully franked special dividend can be paid to shareholders under the Improved SB&G Takeover Offer, if it is successful. Further, SB&G has not stated that it will increase its bid price to compensate in the event the special dividend cannot be paid. In that case, the payment to shareholders under the Improved SB&G Takeover Offer would be \$0.66 in cash per share
Franking credits	Shareholders who can access the full benefit of the franking credits associated with the dividend will receive an additional benefit valued at \$0.12 per share	SB&G represents that shareholders who can access the full benefit of the franking credits associated with the dividend will receive an additional benefit valued at \$0.12 per share. The Company has received advice that it will be prevented from distributing the franking credits as the dividend will be paid (if it can be paid) from share capital (as opposed to profit)	IAB shareholders should seek advice from a tax adviser in relation to their individual circumstances
Inabox funding requirements	No capital raising required if Improved MNF Transaction is completed in December 2018	Capital raising of at least \$3m required before end of December 2018	If the Improved MNF Transaction does not complete in December 2018, shareholders who do not

	Improved MNF Transaction	Improved SB&G Takeover Offer	Notes
		SB&G has agreed to the Company undertaking an accelerated rights issue on the terms set out in Annexure A of its announcement dated 3 December 2018	participate in the rights issue, will be diluted
Conditions	The Improved MNF Transaction is conditional only upon the approval of Inabox shareholders. MNF Group cannot waive this condition	The Improved SB&G Takeover Offer is currently conditional upon SB&G achieving a relevant interest in at least 40% of Inabox shares on a fully diluted basis, rejection of the Improved MNF Transaction by Inabox shareholders and there being no "prescribed occurrences" as defined in sections 652C(1) and 652C(2) of the Corporations Act. SB&G may waive these conditions	The conditionality of the Improved SB&G Takeover Offer makes the Improved SB&G Takeover Offer more uncertain than the Improved MNF Transaction
Investment in Inabox	All shareholders will receive the same payment of surplus cash. After finalising the Improved MNF Transaction, the Company will, subject to all required approvals, be delisted and wound up	Shareholders who accept the Improved SB&G Takeover Offer will no longer own shares in Inabox (assuming that the Improved SB&G Takeover Offer is successful). Shareholders who do not accept the Improved SB&G Takeover Offer, and it is successful, may find their investment is less liquid with a single shareholder having a relevant interest in 40% or more of the issued shares. Further, SB&G has indicated in its letter dated 5 December 2018 that IAB will be delisted (if the Improved SB&G Takeover Offer is successful)	
Offer Structure	Offer to buy Indirect Business from Inabox. Consideration paid to the Company and then paid to shareholders (subject to shareholder approval)	Offer to buy shares directly from IAB shareholders for \$0.66 in cash per share and for the Company to pay a dividend of \$0.29 per share	The Improved MNF Transaction relies on the Company paying all of the proceeds to shareholders, while the Improved SB&G Takeover Offer relies on the Company paying part of the price to

	Improved MNF Transaction	Improved SB&G Takeover Offer	Notes
			shareholders
Timing	If shareholders approve the Improved MNF Transaction at the extraordinary general meeting on 7 December 2018, the Improved MNF Transaction will, subject to there being no unforeseen regulatory or legal issues, complete by 12 December 2018 and shareholders will receive a fully franked dividend in middle January 2019 and, subject to shareholder approval, a capital return in late January 2019	<p>Under the Corporations Act, SB&G must make offers under the Improved SB&G Takeover Offer within two months after 15 November 2018, being the date that it announced the Improved SB&G Takeover Offer, but it could (and is likely to) make offers earlier. Once SB&G has sent its bidder's statement to Inabox, offers open between 14 and 28 days thereafter.</p> <p>The offer period for the Improved SB&G Takeover Offer must last for at least 1 month from the date on which the first offer under the Improved SB&G Takeover Offer is made (and could remain open for up to 12 months).</p> <p>If the Improved SB&G Takeover Offer is successful, payment of the sale price to Inabox shareholders who accept the Improved SB&G Takeover Offer will be made by the end of whichever of the following periods ends earlier (1) one month after the Improved SB&G Takeover Offer becomes unconditional; (2) 21 days after the end of the offer period</p>	As at the date of this announcement, the Company has not received a bidder's statement in relation to the Improved SB&G Takeover Offer. If the Improved SB&G Takeover Offer is successful, the Company does not know when shareholders who accept the Improved SB&G Takeover Offer will receive payment for their shares
Capital gains tax considerations	Capital return of \$0.61 per share (included in the \$0.90 per share payment to shareholders)	<p>Sale price of \$0.66 per share</p> <p>SB&G has stated in its ASX/Media release dated 3 December 2018 that:</p> <ul style="list-style-type: none"> Any capital gain made by a shareholder of the Company on the sale of its shares will be reduced by the amount of the Special 	For many shareholders the Improved MNF Transaction may provide a more favourable capital gains tax outcome. Shareholders should however seek advice from a tax adviser in relation to their individual circumstances

	Improved MNF Transaction	Improved SB&G Takeover Offer	Notes
		<p>Dividend (i.e. \$0.29) reflected in the price under the Improved SB&G Takeover Offer that is included in that shareholder's assessable income</p> <ul style="list-style-type: none"> If a capital loss arises for a shareholder of the Company, the capital loss will not be adjusted <p>The Company has not verified these statements by SB&G</p>	
Consents	Failure to obtain change of control consents required to be given by Inabox's major customers and suppliers is a risk borne by MNF Group	Failure to obtain change of control consents required to be given by Inabox's major customers and suppliers is a risk borne by the Company and any shareholders who do not accept the Improved SB&G Takeover Offer, if it is successful and results in a change in control of the Company	

For further details please contact:

Damian Kay, CEO & Managing Director

T: +61 413 888 655

E: damian@inaboxgroup.com.au

About Inabox Group Limited

Inabox supplies wholesale telecommunications and enablement services (its **Indirect Business**), including billing and technical and customer support, to retail service providers around Australia through wholesale brands, Telcoinabox, iVox, Neural Networks and Mobile Service Solutions. Inabox also enables mass-market consumer brands to enter the telecommunications market by leveraging its network and systems capabilities.

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