The Environmental Group Limited

Investor presentation

Acquisition of Airtight Pty Ltd and Equity Raising

18 April 2023

EGL
The Environmental Group Limited

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1 Transaction overview

Key highlights

Unique opportunity to significantly expand in the air pollution control market

- EGL has agreed to acquire Airtight Pty Ltd, a leading Australian air pollution services provider focused on mid-tier customers
- Consideration of $7.0m cash plus up to $5.0m[1] earnout based on FY24 earnings
- Major expansion of EGL's presence in the air pollution control market
- Diversifies revenue and client base with smaller, low-risk projects with recurring cash flow in the light industrials sector
- Synergies from cross-selling with EGL's TAPC and Waste Services divisions and opportunity to grow service revenue through Tomlinson personnel/experience
- Highly experienced and capable leadership team and excellent cultural fit
- Estimated >15% accretive to EGL shareholders on forecast FY24 pro forma earnings before synergies

1. The earnout payable will be equal to the amount by which Airtight's FY24 EBITDA (calculated on a pre-AASB 16 basis, noting that cash rent is expected to be $0.3 million) exceeds $1.35 million, multiplied by 5, up to a maximum of $5.0 million.

Transaction overview

Strategically aligned accretive acquisition funded by $8.0m placement

TRANSACTION OVERVIEW	• EGL has entered a binding agreement to acquire 100% of Airtight Pty Ltd ("Airtight") for upfront cash consideration of $7.0m plus contingent consideration of up to $5.0m[1] dependent on FY24 earnings • Implied acquisition multiple of 4.0x forecast FY23 normalised EBITDA[2] based on initial purchase price • Acquisition will be funded by new equity from a placement to institutional and wholesale investors with a Share Purchase Plan ("SPP") to fund general working capital requirements
OVERVIEW OF AIRTIGHT	• Airtight is a leading air pollution solutions provider in Australia • Four key divisions include: ○ **Dust & Fume Control** – designing, supplying, installing and maintaining air pollution control equipment ○ **Engineered Solutions** – pollution control project solutions ○ **Aftercare Servicing** – preventative maintenance and servicing ○ **Waste-to-Energy** – waste volume reduction technologies and solutions • Expected FY23 revenue of $18.2m and normalised EBITDA[2] of $1.8m • Mid-tier focus versus TAPC's focus on larger projects for heavy industrials/refining

1. The earnout payable will be equal to the amount by which Airtight's FY24 EBITDA (calculated on a pre-AASB 16 basis, noting that cash rent is expected to be $0.3 million) exceeds $1.35 million, multiplied by 5, up to a maximum of $5.0 million.
2. Normalised EBITDA equals EBITDA normalised for one-off and non-recurring items.

Transaction overview

Strategically aligned accretive acquisition funded by $8.0m placement

STRATEGIC RATIONALE	• Acquisition expands EGL's solutions offering to include small to medium size airborne dust collection solutions and associated services/products • Captures sections of the market outside of TAPC's existing target network, including industry diversification • Significant cross-sell synergies with EGL's TAPC and Waste Services divisions, plus opportunity to leverage Tomlinson personnel/experience to grow service offering
FINANCIAL IMPACT	• Acquisition expected to deliver >15% EPS accretion in FY24 before synergies • Acquisition price includes $4.0m of working capital • Potential earnout payment of up to $5.0m[1] contingent on FY24 results and not payable until late calendar 2024

1. The earnout payable will be equal to the amount by which Airtight's FY24 EBITDA (calculated on a pre-AASB 16 basis, noting that cash rent is expected to be $0.3 million) exceeds $1.35 million, multiplied by 5, up to a maximum of $5.0 million.

EGL

Transaction overview

Strategically aligned accretive acquisition funded by $8.0m placement

ACQUISITION FUNDING	• Up to $9.0m equity raising ("Equity Raising" or "Offer"), comprising:
	  • $8.0m institutional placement ("Placement") to new and existing institutional and wholesale investors
	  • Up to $1.0m SPP from existing eligible shareholders ("Eligible Shareholders")
	• Equity raising will be conducted at a fixed price of A$0.20 per New Share ("Offer Price"), representing:
	  • a 4.8% discount to the last traded price on Monday, 17 April 2023, A$0.21
	  • a 3.2% discount to the 10-day VWAP price A$0.2066
	  • a 2.9% discount to the 30-day VWAP price A$0.2061
	• Increase of $3.0m in Westpac overdraft facility to provide additional working capital flexibility and funding flexibility for future acquisitions or investments[1]
	• EGL currently has net bank debt of $0.9m, and will not be required to draw down debt in relation to settlement of the acquisition

1. The overdraft facility will not be used to fund the acquisition of Airtight.

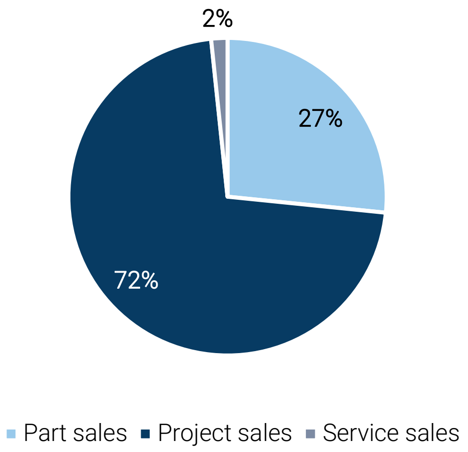
2 Overview of Airtight and acquisition rationale

Business overview

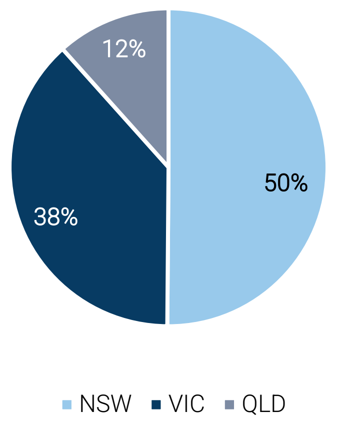
Leading specialist air pollution solutions provider with a successful 20-year track record

- One of the largest specialist air pollution control companies operating in Australia, with an extensive track record and a focus on reliability, premium service and safety
- Steady revenue growth with forecast of $18.2m revenue in FY23 and 14% CAGR between FY20-FY23e. FY23e revenue has been impacted by slippage in timing of delivery of part of a large project into FY24
- Key operations include Dust & Fume Control, Engineered Solutions, Aftercare Servicing and Waste Management Solutions (Waste-to-Energy)
- Established in 2002 by senior air pollution control engineers who recognised a gap in the mid-tier market for air pollution control in Australia
- Key client industries include automotive, agriculture, manufacturing, joinery, metal & polishing, food & pharmaceuticals, paper & printing and recycling & waste recovery
- Project sales represent 72% of revenue and 88% of revenue is derived from customers in NSW and VIC
- Operates in Sydney (headquarters), Melbourne and Brisbane

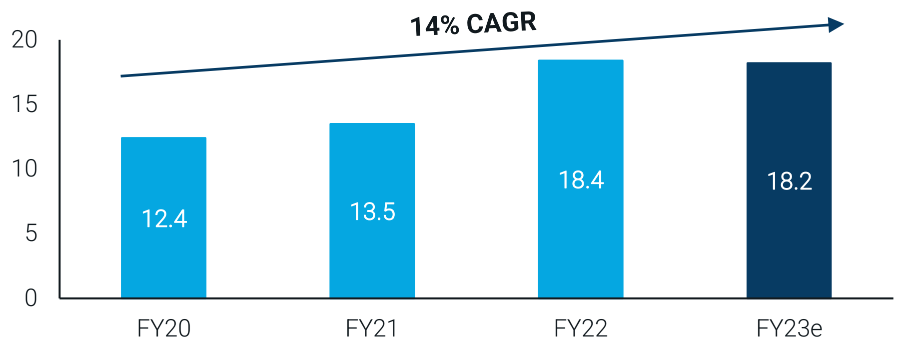
FY22 revenue by type



FY22 revenue by geography



Airtight revenue ($M)



Business units

Key divisions include Dust & Fume Control, Aftercare Servicing, Engineered Solutions and Waste-to-Energy

Airtight SOLUTIONS

DUST & FUME CONTROL

Specialises in designing, installing and maintaining air pollution control equipment, including:

- Dust & fume collectors
    - Full range of baghouses
    - Wet scrubbers
    - In-house manufacturing
- Modular duct
    - Off-the-shelf and bespoke
    - Quick Fit System – best quality and quickest installation on the market
- Flexible hose
    - Best quality on the market with fully stocked warehouses in QLD, NSW & VIC
- Industrial fans
    - Stock and bespoke

ENGINEERED SOLUTIONS

Offers engineering resources required to deliver pollution control projects:

- Specialised applications
- In-house process & mechatronic engineers
- CAD/Fluid design capacity
- Expert project management

AFTERCARE SERVICING

Offers a number of preventative maintenance & servicing packages, including:

- Preventative maintenance
- Site inspections
- Consulting & diagnostics
- Smart automation
- Remote 24/7 system monitoring
- Fault monitoring & reporting

WASTE-TO-ENERGY

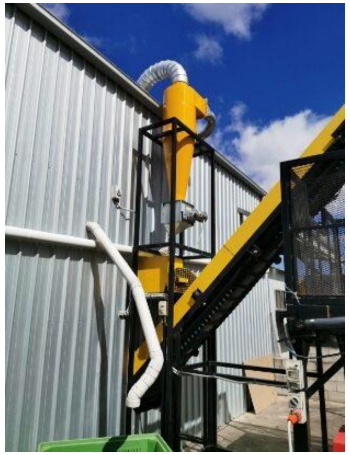
Offers extensive range of waste reduction technologies, including:

- Shredders
- Briquetters
- Heat plants
- Storage silos

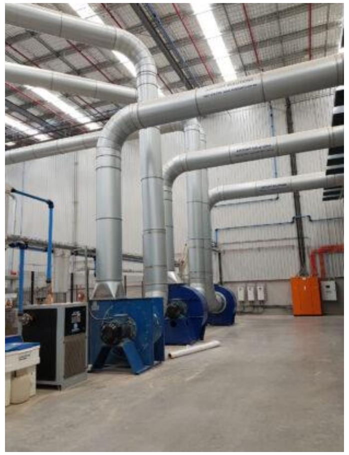
Key products

Dust collector & extraction systems

Cyclones & insertable filters



Modular ducting



Industrial fans

Engineered products

Fume extraction systems

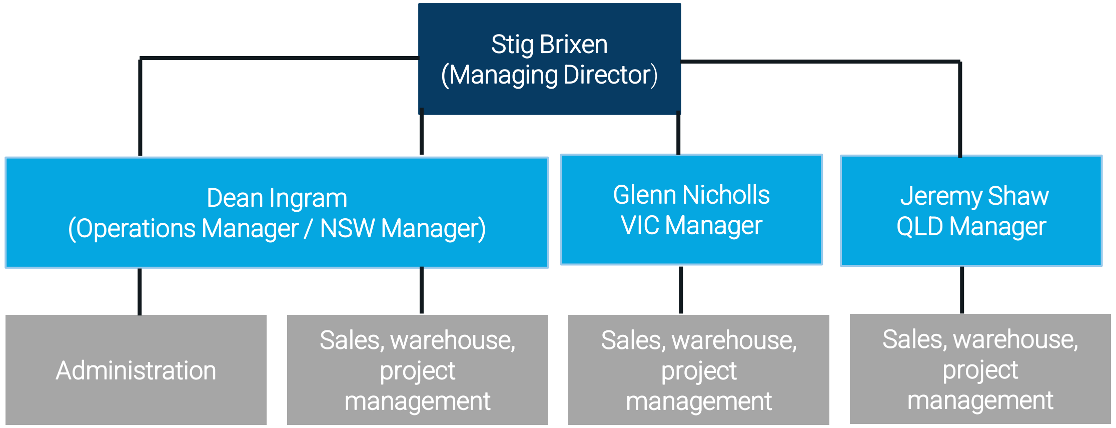
Rotary valves

Wood waste fired heat plants

Leadership team

Experienced leadership team with high quality staff

- Stig Brixen joined Airtight in 2011 and leads a highly experienced and capable team; culturally well aligned to EGL
- Dean Ingram joined Airtight in 2011 and is responsible for the day-to-day operations with strong capability and technical expertise
- Stig and Dean were both minority shareholders of Airtight



Key investment highlights

Airtight represents an attractive opportunity to expand EGL's presence in the air pollution solutions market

MARKET LEADER

- Airtight holds a leading position in the mid-tier air pollution solutions market
- Provides EGL with a major expansion in the air pollution solutions market and strengthens TAPC

EXPERIENCED MANAGEMENT AND STAFF

- Experienced management with Airtight MD/CEO aligned with EGL's culture and motivation
- High quality staff with great reputation in the market

ROBUST MARGINS

- Airtight has a track record of strong gross margins
- Opportunity to improve by applying EGL management and finance processes

REVENUE AND INDUSTRY DIVERSIFICATION

- Airtight generates most of its revenues from projects that are relatively simple in design and implementation and across diversified industries, generating stable, recurring revenues and improving cash flow consistency
- Airtight focuses on the lighter industrials market compared to TAPC in the heavy industrials/refining sector

ACCRETIVE TRANSACTION

- Expected to generate >15% EPS accretion in FY24 on pro forma forecast earnings, before synergies

SYNERGY POTENTIAL

- Opportunity to achieve incremental margins through cross-selling between EGL's TAPC and Waste Services divisions
- Well positioned to grow additional service revenue by leveraging Tomlinson's go-to-market experience and ~70 technicians

Potential synergies

Opportunity to achieve incremental margins and significantly grow service sales

INCREMENTAL MARGINS

- Airtight currently subcontracts gas and vapour works (ESP's, scrubbers, pack towers etc.). This can be directed to TAPC going forward

- EGL currently subcontracts dust extraction works (baghouses, filtration units etc.) on EGL Waste Services projects. This can be directed to Airtight going forward
- Airtíght's Waste-to-Energy division to combine with EGL Waste Services

ADDITIONAL REVENUES

- Airtight have not traditionally focused on securing service contracts (~2% of revenues)
- Additional revenues anticipated in relation to service sales that can be performed by ~70 technicians within the Tomlinson division

3 Acquisition funding

Funding overview

Fully funded via new equity from institutional and retail shareholders

- Up to $9.0m Equity Raising comprising:
  - $8.0m Placement to new and existing institutional and wholesale investors; and
  - Up to $1.0m SPP from Eligible Shareholders
- Equity Raising will be conducted at a fixed price of A$0.20 per New Share, representing:
  - a 4.8% discount to the last traded price on Monday, 17 April 2023, A$0.21
  - a 3.2% discount to the 10-day VWAP price A$0.2066
  - a 2.9% discount to the 30-day VWAP price A$0.2061
- Approval obtained from Westpac to increase overdraft facility by $3.0m to provide for additional working capital flexibility post-acquisition and additional funding flexibility for future acquisitions or investments[1]
- EGL currently has net bank debt of $0.9m, and will not draw down debt in relation to settlement of the proposed acquisition

1. The overdraft facility will not be used to fund the acquisition of Airtight.

Sources and uses

Fully funded via new equity from institutional and retail shareholders

- Acquisition fully funded by proceeds of Placement. Proceeds of SPP will be used for general working capital purposes
- Acquisition agreement requires Airtight to deliver $4.0m net working capital at completion. EGL anticipates further savings of up to $0.5m in working capital will be achievable as inventory levels are optimised following reversal of Covid-related supply chain issues
- Airtight has limited PP&E (having been depreciated in accordance with taxation allowances), with capex typically limited to vehicle/forklift purchases and leasehold improvements as required

SOURCES	A$M
New equity – Placement	8.0
New equity – SPP	1.0
Total sources	**9.0**

USES	A$M
Purchase price payable at Completion	7.0
Transaction expenses	0.8
Additional working capital	1.2
Total uses	**9.0**

Equity raising details

EGL is undertaking a $9.0m equity raising

OFFER SIZE AND STRUCTURE	• $9.0m Equity Raising consisting of:
	  ○ A Placement to raise $8.0m; and
	  ○ A SPP from Eligible Shareholders to raise up to $1.0m
	• Approximately 45 million New Shares to be issued under the Offer

OFFER PRICE	• Equity Raising will be conducted at a fixed price of A$0.20 per New Share (“Offer Price”), representing a:
	  ○ a 4.8% discount to the last traded price on Monday, 17 April 2023, A$0.21
	  ○ a 3.2% discount to the 10-day VWAP price A$0.2066
	  ○ a 2.9% discount to the 30-day VWAP price A$0.2061

USE OF PROCEEDS	• The proceeds from the Equity Raising will be used to fully fund the acquisition of Airtight, associated transaction costs and working capital
INSTITUTIONAL PLACEMENT	• Placement to be conducted on Tuesday, 18 April 2023 and Wednesday, 19 April 2023
SHARE PURCHASE PLAN	• SPP to open on Monday, 1 May 2023 and close on Monday, 15 May 2023 • Only Eligible Shareholders with an address on the EGL share register in Australia or New Zealand may participate in SPP
SPP RECORD DATE	• 7pm Melbourne time Monday, 17 April 2023
RANKING OF NEW SHARES	• New Shares issued will rank equally with existing EGL shares from the date of issue

Equity raising timetable

SUMMARY OF KEY DATES	DATE
SPP record date (7.00pm Melbourne time)	7.00pm Monday, 17 April 2023
Announcement of Equity Raising and trading halt	Tuesday, 18 April 2023
Announcement of results of Placement	Thursday, 20 April 2023
EGL shares recommence trading	Thursday, 20 April 2023
Settlement of New Shares issued under the Placement	Wednesday, 26 April 2023
Allotment and commencement of trading of New Shares issued under the Placement	Thursday, 27 April 2023
SPP Booklet dispatched to Eligible Shareholders	Monday, 1 May 2023
SPP opens	Monday, 1 May 2023
SPP closes (5.00pm Melbourne time)	5.00pm Monday, 15 May 2023
Settlement of New Shares issued under SPP	Friday, 19 May 2023
Allotment of New Shares issued under SPP	Monday, 22 May 2023
Commencement of trading of New Shares issued under SPP	Monday, 22 May 2023

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