



# Vitec Group RF Systems 'Consolidate and Grow'

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# Rationale for transaction

- ◆ Complementary business segment in an area Vitec understands, with shared customer base
- ◆ Attractive markets, BAS and beyond
- ◆ Vitec's experience and market weight to assist in driving market share growth and profitability
- ◆ Near term profit growth and 4-year earn out structure aims to safeguard Vitec's investment

# Consolidation, Leverage, and Growth - in line with established strategy

- ◆ Consolidation improves offering to customers
  - ◆ Broadcast market typically served by specialist companies
- ◆ Products adjacent to Vitec's
  - ◆ Ancillary to the camera, but essential for operation
  - ◆ Vitec's products are 'all around the camera'
- ◆ Overlap of customer base
  - ◆ Customers who buy ENG and Sports cameras and camera support also buy wireless links
- ◆ Benefits from Vitec's distribution infrastructure
- ◆ BAS project brings singular opportunity for rapid growth, and base for future



# Vitec Group RF Systems Market positioning

# Vitec Group RF Systems Overview

- ◆ Makes, sells and maintains wireless links for broadcasters
  - ◆ Strong US customer base
- ◆ Broadcasters use (their own) wireless links to transmit video
  - ◆ from a mobile camera to the studio via a number of links
  - ◆ from the studio to the transmitter
  - ◆ Can be analogue or digital
- ◆ In 2006 VGRFS achieved \$19.3m sales
  - ◆ Strong growth in Q1
- ◆ Sold to existing Vitec customers



# Constituent companies



- ◆ Key parts of a combined offering
- ◆ Nucomm (US) – technology leader in fixed and mobile links
- ◆ RF Central (US)
  - ◆ Sales, integration and installation of wireless products
  - ◆ With agreement to acquire MSC, a leading US Microwave repair house
- ◆ Owners staying with the business, incentivised by earn-out

# Full range of wireless links



**NOTE: Diagram is for general illustration only and does not represent the full product line for either company**

**Key**  
Red - NuComm  
Blue - RF Central

# 'BAS'/Nextel project

- ◆ Nextel bought part of the US radio spectrum (2GHz)
  - ◆ Broadcasters presently use this for wireless transmission
- ◆ Nextel paying to “squeeze” the broadcasters’ spectrum
  - ◆ Can only be done with digital equipment
- ◆ All 2GHz analogue gear to be replaced by Nextel with ‘Standard Definition’ digital equipment by 2009
  - ◆ Expected cost to Nextel of c.\$600m
  - ◆ Products already proven in use
- ◆ Good opportunity to grow sales
- ◆ Targeting “super-normal” trading outcome until 2009
- ◆ Additional opportunities following the BAS project

# Current market situation

- ◆ VGRFS probably No 2 in US at current order rate
  - ◆ Share increasing due to BAS project
- ◆ Fragmented wireless supplier base historically break-even
  - ◆ Targeting improved outcome due to expected market share and integration benefits
- ◆ VGRFS loss-making in 2006 due to huge build up of inventories
  - ◆ US GAAP does not allow revenue recognition until products have been dispatched
  - ◆ Product shipments currently ramping up
- ◆ Q1 2007 sales more than 60% above Q1 2006 level

# Transaction structure

# Two separate but simultaneous transactions

- ◆ Upfront payments totalling \$38.5m (£19.4m)
- ◆ Earnout of max \$37.3m (to existing shareholders) based on post tax profits in 2007-2010
- ◆ Max payment of \$73m (£36.9m)
- ◆ Earn-out thresholds based on returning upfront plus notional interest during the BAS project

# Financing the acquisition

- ◆ Upfront is \$38.5m
  - ◆ Shares: \$3.5m
  - ◆ Cash payments: \$35m
  - ◆ Includes future cost of MSC of \$3m (\$2m cash, \$1m shares)
  - ◆ Assumes net cash of \$2.8m at closing
- ◆ Earn-out at least 50% Vitec shares, the rest cash
- ◆ Cash requirements well within existing facilities
- ◆ Pro-forma net debt of £39.8m as at 31/12/06
  - ◆ Room for further acquisitions if required

# Expected financial effects

- ◆ BAS inventories are prepaid by Nextel
  - ◆ Cash flow thus runs ahead of sales and profits
  - ◆ Current trading reflects the commencement of deliveries to broadcasters
- ◆ Significant sales 'bulge' during BAS years 2007, 2008 and 2009
  - ◆ Stable growth thereafter from lower base
  - ◆ Goodwill to be substantially written-off during 2007-09
- ◆ Targeting improved Group margins
- ◆ EPS enhancing immediately, materially earnings enhancing 2008–09<sup>(1)</sup>
- ◆ RoI expected to exceed cost of capital from 2008

(1) This statement should not be taken to mean that earnings per share (pre amortisation of intangibles) of The Vitec Group plc will necessarily exceed historic earnings per share (pre amortisation of intangibles) of The Vitec Group plc and no forecast is intended or implied.

# Consolidate and Grow

- ◆ Vitec will have a significant and growing part of the broadcast wireless products and services market
  - Benefiting from the Nextel / BAS project
  - Forming a sustainable and valuable business thereafter

- ◆ Complementary business segment in an area Vitec understands, with shared customer base
- ◆ Attractive markets, BAS and beyond
- ◆ Vitec will help drive market share growth
- ◆ Short term payback and 4-year earn out structure

- ◆ Materially earnings enhancing



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