28 September 2012

ALESCO AND DULUXGROUP REACH AGREEMENT ON TERMS OF RECOMMENDED TAKEOVER OFFER

Alesco Corporation Limited (**Alesco**) (ASX:ALS) today announced it has reached agreement with DuluxGroup Limited (**DuluxGroup**) (ASX:DLX) in relation to DuluxGroup's takeover offer for Alesco (**Offer**) on the basis that Alesco may pay an additional fully franked special dividend of up to $0.27 per share if DuluxGroup achieves a 90% interest in Alesco[1]. DuluxGroup has agreed not to declare its Offer unconditional while there is a possibility that an Additional Dividend can be paid (provided it is paid before 31 December 2012).

On this basis, the Alesco Board unanimously recommends that you ACCEPT DuluxGroup's Offer or sell your shares on market, in the absence of a superior proposal.

KEY POINTS

- DuluxGroup's best and final Offer of $2.05 per share is the only offer available to Alesco shareholders.
- DuluxGroup now has a relevant interest in Alesco Shares and acceptances into the DuluxGroup Institutional Acceptance Facility (**IAF**) representing 55.7% of Alesco's issued share capital.
- Shareholders should note that, with acceptances of 55.7%, DuluxGroup will gain effective control of Alesco upon its offer being declared unconditional. Assuming that DuluxGroup continues to hold a greater than 50.1% interest in Alesco, DuluxGroup intends to declare the Offer unconditional on 1 October 2012, in the absence of an Alesco Board recommendation.
- While the Alesco Board reiterates its view that the Offer does not reflect the full value of Alesco, now that DuluxGroup has received acceptances representing 55.7% of Alesco shares, Alesco has reached agreement with DuluxGroup and unanimously recommends that shareholders accept the Offer having regard to the factors discussed below:
    - The possibility that Alesco will exercise its discretion to pay total dividends of up to $0.42 per share[2] including an additional dividend of up to $0.27 per Alesco share (**Additional Dividend**) as part of the Offer, upon DuluxGroup acquiring a greater than 90% interest[3] in Alesco;
    - DuluxGroup materially reducing the conditionality of its Offer and confirming that it will not declare its Offer unconditional whilst there is a possibility that an Additional Dividend can be paid (provided it is paid before 31 December 2012);

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[1] As always, the Alesco Board retains the discretion to pay additional dividends at any time, including where DuluxGroup holds an interest in Alesco that is materially below 90%. However, Alesco has previously stated that it cannot afford to wholly fund any material additional dividend within its existing banking facilities and covenants.

[2] The reference to $0.42 comprises the $0.15 per Alesco share in FY12 final and special dividends paid to Alesco shareholders on 7 September 2012 and a possible additional dividend of up to $0.27 per Alesco share.

[3] For these purposes, 'interest' includes the total of DuluxGroup's voting power in Alesco plus shares subject to acceptance instructions under the DuluxGroup Institutional Acceptance Facility (IAF) plus shares held by index funds as agreed by DuluxGroup and Alesco.

- DuluxGroup confirming it will not deduct up to $0.18 per share of franking credits from the Offer price;

- DuluxGroup agreeing that if the conditions for the payment of any Additional Dividend are not met, shareholders will be given the right to withdraw their acceptance and will be free to deal with their Alesco shares as they wish.

- If an Additional Dividend of up to $0.27 per share is paid, Alesco shareholders would receive $1.63 per share from DuluxGroup and up to an additional $0.12 per share of franking credits. This would bring the total fully franked dividends paid under the Offer up to the maximum permitted under DuluxGroup's best and final Offer of $0.42 providing a total of up to $0.18 per share of franking credits. The value of franking credits is not the same for all shareholders and shareholders should take their own tax advice.

- In circumstances where conditions for the payment of any Additional Dividend are not met, Alesco will contact all shareholders to update them on its recommendation.

On this basis, your Board unanimously recommends that you ACCEPT DuluxGroup's Offer or sell your shares on market, in the absence of a superior proposal.

In light of the Board's recommendation, Alesco will terminate the Alesco Shareholder Acceptance Facility (ALSAF). All acceptance instructions under the ALSAF will be returned to shareholders who have already accepted and those shareholders will be free to deal with their Alesco shares as they wish.

Commenting on the developments, Mark Luby Chairman of Alesco said:

"Your Board's view is that the decision as to whether or not to recommend DuluxGroup's Offer is finely balanced.

"We have consistently said that the Offer undervalues Alesco. However, the Alesco directors believe, on balance, given the circumstances shareholders would be better served by the Board facilitating the possibility of an Additional Dividend, subject to DuluxGroup achieving a 90% interest in Alesco.

"With this in mind, we approached DuluxGroup to see if an agreement could be reached where Alesco could facilitate the possibility of an additional fully franked dividend of up to $0.27 per share in a financially prudent manner.

"Having taken these steps and reached agreement, there is a clear pathway for Alesco shareholders to realise franking credits which we have consistently said belong to them.

"This represents a deliverable outcome for Alesco shareholders and, on this basis we recommend that shareholders accept DuluxGroup's Offer. However, the Board stresses that the steps involved will take some time and there can be no guarantee that the Additional Dividend will be paid.

"Having reached agreement with DuluxGroup, we are looking forward to working with DuluxGroup management to effect a smooth transition."

CONSIDERATIONS FOR MINORITY SHAREHOLDERS

The Board's recommendation that you accept DuluxGroup's Offer is finely balanced. Shareholders should note that, with acceptances now over 55.7%, DuluxGroup will gain effective control of Alesco if DuluxGroup declares it Offer unconditional. However, Alesco will not be wholly-owned by DuluxGroup and will continue to be listed on the ASX. As a result, there are a number of considerations that are relevant to potential minority shareholders in Alesco including:

- DuluxGroup has stated that it will replace all or some of the Directors of Alesco with a majority of DuluxGroup nominees – accordingly DuluxGroup will have significant influence over Alesco's operations on both a strategic and financial level going forward;

- DuluxGroup has also stated that it will conduct a review of Alesco's operations, including in relation to dividends and funding – so there may be changes to Alesco and its business;

- It is substantially less likely that shareholders in Alesco would receive a future takeover offer, other than from DuluxGroup itself. Further, there is no guarantee DuluxGroup will make any such offer or that the offer price will be the same as or higher than the total value of the current Offer;

- The liquidity of Alesco shares is likely to be substantially reduced, affecting the ability for shareholders to sell their Alesco shares;

- Under DuluxGroup control, a reconstituted Board will have to continue to represent the interests of all shareholders including respecting the rights of minority shareholders;

- DuluxGroup may not be able to fully realise synergies from the Offer if doing so would unfairly impact the rights of minority shareholders, particularly if a significant number of minority shareholders remain.

These considerations facing potential minority shareholders of Alesco were among the factors balanced as part of the Board's considerations and ultimate recommendation that shareholders accept the Offer, which includes the possibility of an Additional Dividend.

PAYMENT OF AN ADDITIONAL DIVIDEND

Alesco has previously stated that it cannot afford to wholly fund an additional dividend of up to $0.27 per share within its existing banking facilities and covenants.

As such, at present the Additional Dividend may only be determined if DuluxGroup achieves a relevant interest equivalent to 90% of Alesco shares[4] and a favourable tax ruling is received from the Australian Taxation Office. It is expected that the ATO's response on Alesco's tax ruling application will be received within approximately eight to 10 weeks. However, the tax ruling may be received earlier or later than this expected timeframe and there is no certainty that a favourable tax ruling will be received.

The record date in respect of any Additional Dividend is expected to be shortly after the conditions to the determination of an Additional Dividend are met.

Shareholders who acquire their shares on or after the ex-dividend date for the Additional Dividend and accept the Offer will receive $1.63 per share cash from DuluxGroup but will not receive any Additional Dividend from Alesco.

The value of franking credits is not the same for all shareholders and varies depending on the tax position of shareholders (including whether a shareholder is an individual, a superfund or a corporate entity).

Shareholders accepting the Offer should note there is no guarantee that the conditions for the payment of the Additional Dividend will be met and, in this respect, Alesco may not determine the Additional Dividend.

If this occurs, shareholders who have accepted the Offer will have the right to withdraw their acceptance and will be free to deal with their Alesco shares as they wish. In circumstances where conditions for the payment of any Additional Dividend are not met, Alesco will contact all shareholders to update them on its recommendation.

Each shareholder's individual circumstances differ and shareholders should take their own tax and financial advice.

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[4] The Alesco Board retains the discretion to pay additional dividends at any time, including where DuluxGroup holds an interest in Alesco that is materially below 90%.

TAKEOVER IMPLEMENTATION AGREEMENT

A summary of the terms of the Takeover Implementation Agreement (TIA) between DuluxGroup and Alesco is set out in Annexure A.

Under the terms of the TIA, Alesco agrees that it will not solicit or participate in discussions which may lead to a competing proposal subject to the usual fiduciary exception for when a third party approaches Alesco with a superior proposal.

All company announcements and information on the DuluxGroup Offer and Alesco's response are available on the Alesco website at www.alesco.com.au. Shareholders can also receive information on the Offer by calling the Alesco Shareholder Information Line below.

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Alesco supplies innovative branded products to trade and industrial customers serving the building products markets in Australia and New Zealand. For more information on Alesco visit www.alesco.com.au.

All company announcements and information on the DuluxGroup Offer and Alesco's response are available on the Alesco website at www.alesco.com.au. Shareholders can also receive information on the Offer by calling the Alesco Shareholder Information Line:

Within Australia: 1800 828 558
Outside Australia: +61 2 8280 7215

Annexure A: Summary of the Takeover Implementation Agreement

The following is a summary of the key terms of the Takeover Implementation Agreement (**TIA**) between DuluxGroup and Alesco under which the parties have agreed to cooperate in relation to the Offer.

1 Additional Discretionary Dividend

(a) DuluxGroup's headline offer price will remain $2.05 per share.

(b) Subject to DuluxGroup acquiring a relevant interest (as that term is defined in the TIA) in Alesco shares of 90%, Alesco may (at its discretion) determine to pay a fully franked dividend of up to $0.27 per share (**Additional Discretionary Dividend**) conditional on DuluxGroup declaring the Offer free of all defeating conditions.

(c) The Offer will be revised such that:

(i) the amount payable by DuluxGroup will be at least $1.63 per share, being $2.05 less the amount of any Additional Discretionary Dividend and the fully franked dividends paid by Alesco on 7 September 2012; and

(ii) shareholders which are shareholders on the record date for any Additional Discretionary Dividend will receive a fully franked dividend of up to $0.27 per share from Alesco.

(d) If a Favourable Tax Ruling is not received by Alesco or it becomes clear that the Additional Discretionary Dividend, if paid, cannot be fully franked, the Additional Discretionary Dividend will not be paid.

(e) The Additional Discretionary Dividend will be funded:

(i) by Alesco drawing down (to the maximum extent possible in a financially prudent manner) funds from any Alesco (or Alesco Subsidiary) debt facilities; and

(ii) to the extent the Additional Discretionary Dividend cannot be fully funded under (i) above, by a loan provided by DuluxGroup on arms length terms.

(f) The record date for any Additional Discretionary Dividend will be 7 business days after the date that Alesco determines to pay the Additional Discretionary Dividend unless the parties agree otherwise.

2 Offer conditions

DuluxGroup will waive all conditions to its offer other than minimum acceptance, no prescribed occurrences and index out. DuluxGroup agrees that it will not rely on the Index out condition unless the S&P/ASX 200 index closes below 3,750 for 3 or more consecutive trading days.

Unless the TIA is terminated, DuluxGroup will not waive any remaining defeating conditions of the Offer before the date that is 3 business days after the record date for the Additional Discretionary Dividend (**Declaration Date**).

3 Recommendation

(a) The Alesco Board agrees to unanimously recommend the Offer (and maintain that recommendation for the duration of the Offer) subject to:

(i) there being no superior proposal;

(ii) the Additional Discretionary Dividend being paid; or

(iii) the TIA not being terminated.

(b) Each Alesco director intends to accept the Offer for shares they own or control within 5 business days and will not withdraw such acceptance except if the TIA is terminated.

(c) Alesco will in good faith provide support for the Offer and if requested by DuluxGroup, procure that its Board and management will reasonably assist DuluxGroup to acquire a relevant interest in Alesco shares of at least 90%.

(d) Alesco will facilitate integration planning, provided such measures do not disrupt the day to day operations of the Alesco business.

4 Tax ruling

Alesco must within 5 business days of the date of the TIA (in consultation with DuluxGroup) seek a class ruling on behalf of Alesco shareholders from the ATO in relation to the Additional Discretionary Dividend which seeks to confirm that:

(a) Alesco shareholders are not precluded from entitlement to the franking credits and associated tax offset attached to the Additional Discretionary Dividend;

(b) the amount of the capital proceeds received by Alesco shareholders in respect of the takeover offer excludes any Additional Discretionary Dividend paid; and

(c) the Commissioner of Taxation will not make a determination under section 204-30(3)(c) of the Income Tax Assessment Act 1997 or section 177EA(5)(b) of the Income Tax Assessment Act 1936 to deny any franking benefits on any Additional Discretionary Dividends.

5 Exclusivity

(a) Until the TIA is terminated, Alesco agrees to usual no shop and no talk provisions such that they will not solicit any competing transactions. The no shop provision is subject to a fiduciary exception for a competing transaction to acquire 100% of the Alesco shares which the Alesco Board determines in good faith and acting reasonably that it may reasonably be expected to lead to a superior proposal.

(b) Alesco agrees to promptly notify DuluxGroup of any approaches which may lead to a competing transaction which it or its advisers receives (and all material details in relation to such proposal).

For the purposes of the TIA, a competing transaction will include any transaction relating to the sale of a material business of Alesco, including for the avoidance of doubt any of the following divisions (or a material part of the relevant division): Garage Doors & Openers; Cabinets, Windows & Appliances; and Construction Products & Equipment.

6 Conduct of business

Alesco agrees, among other matters, to:

(a) not take or omit to take any action within its control which would breach any of the conditions in sections 9.7(l) and 9.7(h) of the bidder's statement (including if already waived);

(b) advise DuluxGroup monthly of its net debt and amount drawn under its debt facilities and promptly advise DuluxGroup of any change in its net debt position or the amount drawn under its debt facilities that is outside the ordinary course of business; and

(c) conduct its business in the ordinary course.

7 Change of board

Alesco agrees that on the day following the Declaration Date, and provided that DuluxGroup has declared the Offer free of all defeating conditions by then, Alesco will use its reasonable endeavours to procure that all of the existing directors resign from the Alesco Board and three DuluxGroup nominees are appointed to the Alesco Board, provided that a validly constituted board is in place at all times.

8 Termination

The TIA may be terminated by:

(a) Alesco, if a majority of Alesco directors determine that a competing transaction is a superior proposal and to recommend that proposal;

(b) DuluxGroup, if a majority of Alesco directors or the Alesco chairman recommend a competing transaction withdraw or adversely change their recommendation;

(c) the non-defaulting party, if the other party has materially breached this agreement and failed to remedy that breach within 5 business days of receiving written notice from the non-defaulting party to do so; or

(d) either party, if:

  (i) an Additional Discretionary Dividend is not paid by 31 December 2012;

  (ii) a Favourable Tax Ruling is not received by 31 December 2012;

  (iii) DuluxGroup does not acquire a relevant interest of 90% or greater before 31 December 2012; or

  (iv) it becomes clear that an Additional Discretionary Dividend, if paid, cannot be fully franked.

9 Consequences of Termination

(a) If the TIA terminates, DuluxGroup may, at its sole discretion, waive any or all of the remaining defeating conditions of the Offer.

(b) If a party terminates this agreement under clause 8(c) (the Terminating Party), the other party must pay the Terminating Party's costs of implementing the transaction under this agreement up to an amount of $2,000,000 (excluding GST) within 10 business days of receiving the Terminating Party's written demand.

10 Withdrawal rights

If the TIA is terminated, DuluxGroup will permit retail shareholders and Alesco directors to withdraw acceptances of the Offer in the 15 business days after the date of termination. This clause survives termination of the TIA.

11 ALSAF

As soon as possible after the date of the TIA, Alesco will terminate the Alesco Shareholder Acceptance Facility in accordance with the terms of that facility and all acceptance instructions under the facility will be returned in accordance with those terms.

12 Performance Rights Plan

DuluxGroup agrees that if it declares the Offer unconditional, Alesco's Board is permitted to determine to cancel any or all of the Performance Rights and in consideration immediately pay the relevant Performance Rights holder $2.05 for each Performance Right cancelled. DuluxGroup agrees to fund the payment for the cancellation of the Performance Rights.

13 Interpretation

For the purposes of the TIA:

A **Favourable Tax Ruling** is a draft class ruling (or other document agreed between the parties as providing sufficient comfort the draft ruling will be issued) issued by the ATO which Alesco determines, acting reasonably adequately provides the confirmations set out in clause 4(a) and (c).

A reference to **Performance Rights** means the 1,337,592 "Performance Rights" as at the date of this agreement granted under the Alesco Performance Rights Plan Rules approved at the 2010 Annual General Meeting.

Relevant interest includes any shares the subject of acceptance instructions in an acceptance facility and any shares which Alesco and DuluxGroup (both acting reasonably) agree are held by index funds.

A **superior proposal** is a bona fide proposal for the acquisition of 100% of the issued shares of Alesco which has the same or superior conditionality and certainty as the DuluxGroup offer, which is capable of being implemented within 6 months and which, after taking advice from Alesco's financial advisers, the Alesco Board considers is at a superior offer price.