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23 October 2013

Today Pace plc ("Pace", the "Company"), a leading global developer of technologies and products for PayTV and broadband service providers, announces that it has entered into a conditional agreement with Aurora Networks, Inc. ("Aurora") to acquire Aurora for a headline consideration of $310m[1] in cash (the "Acquisition").

Aurora is a leading developer and manufacturer of advanced, next-generation Optical Transport and Access Network solutions for broadband networks that support the convergence of video, data and voice applications. For the year ended 31 March 2013, Aurora generated revenues of $217m[2] and EBITDA of $30m[3].

Strategic rationale

- Positions Pace to support operators' and consumers' constant demand for cost effective delivery of ever increasing bandwidth
- Highly profitable and growing business with blue chip customer base and market leading positions, serving over 200 customers in 50 countries, including all of the top 10 cable operators in the US
- Strong management team that has delivered 30 straight quarters of profitability
- Creates deeper and more embedded relationships with key customers
- Cross-sell opportunity across customer footprints
- Further widens Pace out beyond PayTV Customer Premise Equipment ("CPE")

Financial rationale

- Significantly accretive to earnings in 2014 and accelerates Pace towards improved profitability target of 9% Return on Sales in 2015
- Expected to generate annual run rate cost synergies across CoGs and Opex of $8m by the end of 2014
- The headline consideration represents a historic EV/EBITDA[4] multiple of 10.5x before synergies and 8.2x after expected annual run rate synergies, based on the results of Aurora for the 12 months to 31 March 2013
- Opportunity to apply robust Pace working capital controls to deliver significant working capital benefits
- Following completion of the Acquisition Pace expects to be conservatively levered and retain significant financial flexibility

Transaction overview

Pace will acquire Aurora for headline consideration of $310m (footnote 1) on a cash-free and debt-free basis, plus a further $13m payable on closing in connection with tax benefits to be recovered over the three years post Acquisition. 15% of the headline consideration will be reserved for existing Hockey management and employees, with an element deferred over two years as a retention mechanism for key management, who will also be eligible to participate in a post-acquisition incentive plan.

The consideration for the Acquisition will be satisfied by the payment of cash on completion, funded through a new $310m 5-year amortising Term Loan. In addition, the Company is using the Acquisition as an opportunity to refinance its existing debt facilities with a new $150m 5-year Revolving Credit Facility. The new financing facilities are being provided by HSBC and RBS as Joint Underwriters, Bookrunners and Mandated Lead Arrangers with JPMorgan Chase Bank, N.A as Lead Arranger.

Footnotes
[1] On a cash and debt-free basis, plus a further $13m payable at closing in connection with tax benefits to be recovered over the three years post Acquisition
[2] Values stated are US GAAP, with the majority of revenue from North America (including Canada & Caribbean)
[3] Values stated are US GAAP
[4] EBITDA calculated as Income from Operations plus Depreciation and Amortisation (US GAAP as reported)

Management and employees
Following completion of the Acquisition, Aurora will continue to be run by its existing senior management team. Pace recognises the importance of the skills and experience of the existing management and employees of Aurora and believes that they will be an important factor for continuing the success of Aurora's business under Pace ownership. Aurora will operate as a Strategic Business Unit ("SBU") of Pace, leveraging Pace Group common services, whilst retaining the Aurora brand and managing a separate P&L to retain focus and accountability for business performance.

Pace will put in place appropriate retention and incentivisation arrangements for key management. The incentive arrangements will have a performance element based on the achievement of Aurora adjusted EBITA targets for 2014 and 2015, to be satisfied with a combination of cash and/or Pace deferred share awards under existing Pace employee share plans. The retention and incentive arrangements will span over a period of three years.

Other terms and conditions
The consideration for the Acquisition is subject to normal post-closing cash, debt and working capital adjustments.

Closing of the Acquisition is conditional upon the satisfaction of necessary regulatory and other conditions. The Acquisition constitutes a Class 1 transaction under the UK Listing Rules and is therefore conditional upon the approval of Pace shareholders.

A circular containing further details of the Acquisition will be sent to Pace shareholders in due course, together with a notice convening a General Meeting to seek shareholder approval for the Acquisition.

Closing is expected to take place around the end of Q4 2013.

J.P. Morgan Cazenove is acting as sole financial adviser, sponsor and corporate broker to Pace.

Commenting on the Acquisition, Allan Leighton, Chairman of Pace, said:
"Since the announcement of the Pace Strategic Plan on 17 November 2011, we have consistently delivered on it, achieving almost all of the milestones and targets laid out at that time and there remains significant opportunity for development of the core business. The acquisition of Aurora represents an important evolution in this process and enhances our strategy to grow a broader platform across Hardware, Software and Services. Acquiring Aurora will allow Pace to expand beyond our core business and build deeper and more embedded relationships with our customers, which the Company believes will strengthen Pace's position as a market leading solutions provider for the PayTV and broadband industries."

Mike Pulli, CEO of Pace, said:
"Following a strong first half in 2013, good progress has been made in the period with continued momentum across the business. I am pleased to be able to announce the acquisition of Aurora. Aurora is a leading player in the pivotal area of Optical Transport and Access Network solutions, with a complementary overlap to Pace's blue-chip customer base and a strong and seasoned team of talented and innovative cable industry professionals.

With a leading presence in products that are increasingly important for cable operators as they fulfil consumers' constant demand for ever increasing bandwidth, this transaction further strengthens our relationships with our customers. The combined business will have strong financials and a broad market leading portfolio that will provide excellent opportunities for our customers, employees and shareholders alike."

Guy Sucharczuk, CEO of Aurora, said:
"Joining with Pace will create a market leading PayTV and broadband solution portfolio and a leading solutions provider to operators globally. The management team and I are excited to be joining and believe the combined organisation will go from strength to strength."

Update on Pace Current Trading
Trading performance in the period 1 July to 22 October 2013 has shown good progress with continued momentum across the business. Revenue in the period is in line with expectations, gross margins have benefitted from improved revenue mix and procurement savings and operating costs are lower than in the same period in 2012.

Cash flow in the period has been strong following the completion of the Electronic Manufacturing Services ("EMS") rationalisation, working capital has been further reduced and Pace is in a net cash position (31 December 2011 net debt: $322m).

The Company continues to make good progress against its strategic plan announced in November 2011 and full year earnings guidance is reiterated:

- Revenues for 2013 expected to be broadly in-line with 2012;
- Operating margin for 2013 is expected to be greater than 7.5%;
- and Strong cash flow will continue, and excluding acquisitions, Pace expects to retain a net cash position through to the end of 2013.

The Company's Q3 IMS is scheduled to be released on Thursday 14th November.