

ASX Announcement**19 October 2022****Australian Family Lawyers to create one of the largest personal legal services firms in Australia through a merger with GTC Legal Group****Key highlights**

- Australian Family Lawyers has entered into an agreement to merge with GTC Legal Group
- The merger will create one of the largest personal services legal firms in Australia
- The transaction is materially earnings and value accretive on a proforma FY22 basis before synergies

AF Legal Group Ltd (ASX:AFL, **AFL** or the **Company**) is pleased to announce that it has executed a share sale deed to acquire 100% of the issued share capital of GTC Legal Group Holdings Pty Ltd, the holding company of Armstrong Legal and other legal firm brands (together, “**GTC**”), subject to satisfaction of customary conditions, including AFL obtaining the required approvals from its shareholders (**Proposed Merger**).

The Proposed Merger will create one of the largest personal services legal firms in Australia with pro-forma¹ FY22 revenue of \$40.8 million, EBITDA² of \$8.8 million and EBITA³ of \$6.2 million. Pro forma numbers exclude immediate and long term revenue and expense synergies that are currently being quantified and expected to be material.

The Proposed Merger is 40% EBITA³ per share accretive (pre synergies) for AFL shareholders, with proforma¹ FY22 EBITA³ per share increasing from 3.5 cents per share to 4.9 cents per share.

The Proposed Merger is unanimously endorsed and supported by the Board of AFL.

Comments on the Proposed Merger

AFL Executive Director Grant Dearlove said, “The merger of AFL and GTC is a seminal moment for the personal legal services industry in Australia with the combined group being uniquely positioned in a \$20 billion⁴ market ripe for consolidation. For shareholders, it delivers immediate scale, increased revenue and profitability and a more diversified earnings base from family law only to an additional six practice areas. We will have new exposure to the fast growing revenue-sharing platform model which is challenging the traditional law firm model in regions such as the UK, and our geographic footprint will increase from 19 to 26 offices under seven quality and recognised brands.

¹ Pro forma means the combination of (1) unaudited management accounts for GTC for the year ended 30 June 2022 adjusted to be consistent with the accounting policies of AFL and to include the removal of non-recurring, one-off or unusual costs and (2) AFL statutory audited accounts for the year ended 30 June 2022, adjusted to include the removal of non-recurring, “one off” or unusual costs (as reported historically). AFL pro forma numbers include the full year impact of the Withalls acquisition from 1 July 2021

² EBITDA means statutory EBITDA adjusted to include the removal of non-recurring, one-off or unusual costs

³ EBITA means statutory EBIT adjusted to include the removal of amortization associated with goodwill and non-recurring, one-off or unusual costs

⁴ IbisWorld Australia Report, February 2021

The integration of our complementary businesses will drive immediate and long-term increased revenue and expense synergies, with a significant reduction of duplicated costs already identified. The merged group will have a strengthened board and leadership team with proven track records in legal firm disruption and consolidation”.

GTC Managing Director, James Stevens added, “Put simply, the merger of GTC and AFL marks the true beginning of the consolidation of the personal legal services market in Australia – a development that is long overdue. The combined resources of the new group will provide it with all the tools it needs to grow and adapt to a rapidly changing world. Our enhanced national presence, top-tier administrative efficiencies and strong record of client acquisition will present a compelling business going forward.”

GTC is highly complementary to AFL

Founded in 2009 by its current Managing Director, James Stevens, GTC was one of the first “platform” law models in Australia disrupting the traditional model of law firms operating within the personal legal services market.

GTC operates nationally and comprises a “traditional” model law firm (Armstrong Legal); a “non-traditional” revenue-sharing model law firm (GTC Lawyers); around 1,500 network partners (All Courts Lawyers), and a front and back office service company (GTC Legal Group Services).

GTC also operates one of Australia’s busiest legal hotlines, operating 7am-midnight, 7 days a week; staffed exclusively by practising lawyers, and fielding over 80,000 enquiries each year; it runs two of Australia’s largest legal websites, www.gotocourt.com.au and www.armstronglegal.com.au, generating hundreds of thousands of unique visitors each month, and it has highly developed digital marketing and technology capabilities to improve law practices’ organic growth and profitability.

With the acquisition of family law and criminal specialist Armstrong Legal in 2019, GTC operates across seven segments of personal law being family law, criminal law, contested estates, civil and commercial, administrative, agency and immigration. The business has 116 staff, seven offices in Australia and generated pro forma⁵ \$20.3 million in revenue, \$4.8 million in EBITDA⁶ and \$3.6 million in EBITA⁷ for the financial year ended 30 June 2022.

Compelling strategic rationale

The Company believes that the Proposed Merger will provide it with a material increase in both size, scale and diversity of its operations, will be materially earnings accretive, and is expected to deliver synergistic benefits for the merged group.

The key strategic rationale for the transaction includes:

- Delivers immediate scale, increased revenue and profitability and a more diversified earnings base;

⁵ Pro forma means unaudited management accounts for GTC for the year ended 30 June 2022 adjusted to be consistent with the accounting policies of AFL and to include the removal of non-recurring, one-off or unusual costs

⁶ EBITDA means statutory EBITDA adjusted to be consistent with the accounting policies of AFL and to include the removal of non-recurring, one-off or unusual costs

⁷ EBITA means statutory EBIT adjusted to be consistent with the accounting policies of AFL and remove amortization associated with goodwill and non-recurring, one-off or unusual costs

- Greatly expanded and diversified legal offering from family law only to an additional six practice areas;
- Exposure to fast growing “consultant” platform model which has disrupted the “partner” law model in the comparable UK market;
- Increased geographic footprint from 19 to 26 offices in Australia under seven quality and recognised brands;
- Greatly enhanced organic growth opportunities in all markets where the combined group will have a presence;
- Immediate and long term revenue and expense synergies including significant reduction of duplicated costs already identified;
- Strengthened board and leadership team with proven track records in legal market disruption and consolidation;
- Greater liquidity for shareholders through increased market capitalisation and capital market significance; and
- Over 40% EBITA⁸ per share accretive transaction for AFL shareholders.

Transaction overview

Pursuant to a share sale deed dated 18 October 2022 (**Sale Agreement**) AFL has agreed to acquire all of the shares in GTC from its existing shareholders in consideration for the issue of shares in AFL.

The total consideration to be paid to the vendors of GTC is estimated to be 49,709,716 AFL shares⁹ assuming the balance of GTC’s net debt is \$10 million at completion (**Consideration Shares**). At completion of the transaction, the total ownership of AFL held by GTC’s existing shareholders is estimated to be 39%.

Given the transformational nature of the transaction, two new directors from GTC will join the AFL Board, namely GTC Managing Director James Stevens and GTC Chief Executive Officer Wayne Windell. Existing AFL non-executive independent directors, Sarah Kelly and Kevin Lynch, will step off the Board on completion and a new independent non-executive director will be appointed. Rick Dennis and Grant Dearlove will remain on the AFL Board as Non-Executive Chairman and Executive Director respectively.

Further transaction details will be included in the Notice of Meeting with respect to the Proposed Merger. A summary of the material terms and conditions of the Sale Agreement are set out in Annexure A.

Shareholder Approvals

AFL has consulted ASX with respect to the Proposed Merger and ASX has provided in-principle advice that it will not require AFL to seek approval of AFL’s shareholders under ASX Listing Rule 11.1.2 and will not require AFL to re-comply with Chapters 1 and 2 of the ASX Listing Rules. However, as noted above, AFL will seek shareholder approval for certain matters in relation to the Proposed

⁸ EBITA means statutory EBIT adjusted to remove amortization associated with goodwill and non-recurring, one-off or unusual costs

⁹ See Annexure A for further details

Merger at an extraordinary general meeting which is currently anticipated will take place in December 2022.

As the GTC shareholders are considered ‘associates’ of each other upon signing the Sale Agreement and the GTC shareholders will collectively acquire voting power of more than 20% in AFL under the Proposed Merger on Completion, the AFL Board has engaged an independent expert to provide an opinion as to whether the Proposed Merger is fair and reasonable to AFL shareholders (**Independent Expert’s Report**). A copy of this report will be provided to shareholders with the Notice of Meeting in due course. Immediately after Completion, the GTC shareholders will cease to be associates of each other and no GTC shareholder will hold in excess of 19.9% of the issued share capital of the Company.

Financial impact of the Proposed Merger

The table below sets out the indicative impact of the Proposed Merger based on financial information for the year ended 30 June 2022 (FY22) after estimated adjustments to reflect the combination of the entities (e.g., transactions between the respective parties, differences in accounting policies, the recognition of goodwill etc):

Pro Forma A\$'000s	FY20 Merged Group	FY21 Merged Group	FY22		Merged Group
			AFL	GTC	
Underlying					
Revenue	28,803	32,113	20,462	20,372	40,834
EBITDA	7,146	7,914	3,956	4,814	8,770
<i>Less: AASB 16 (occupancy costs)</i>	<i>(1,755)</i>	<i>(1,963)</i>	<i>(1,092)</i>	<i>(1,207)</i>	<i>(2,299)</i>
EBITDA (pre AASB 16)	5,390	5,952	2,864	3,607	6,471
<i>Less: Depreciation on fixed assets</i>	<i>(308)</i>	<i>(335)</i>	<i>(204)</i>	<i>(30)</i>	<i>(234)</i>
EBITA	5,082	5,616	2,660	3,577	6,237
Statutory					
EBITDA	6,147	6,559	2,732	3,691	6,423
PBT	3,504	3,398	954	2,071	3,025
Total assets			23,444	13,840	43,399
Total equity			14,905	1,697	25,001

1. Pro forma means the combination of (1) unaudited management accounts for GTC for the year ended 30 June 2022 adjusted to be consistent with the accounting policies of AFL and to include the removal of non-recurring, one-off or unusual costs and (2) AFL statutory audited accounts for the year ended 30 June 2022, adjusted to include the removal of non-recurring, “one off” or unusual costs (as reported historically). AFL pro forma numbers include the full year impact of the Withnalls acquisition from 1 July 2021

2. Underlying EBITDA means statutory EBITDA adjusted to include the removal of non-recurring, one-off or unusual costs

3. Underlying EBITA means statutory EBIT adjusted to include the removal of amortization associated with goodwill and non-recurring, one-off or unusual costs

Pro forma numbers exclude immediate and long term revenue and expense synergies that are currently being quantified and expected to be material, with a significant reduction of duplicated costs already identified.

As part of the transaction, AFL will be acquiring the net debt of GTC which is estimated to be \$10 million and cannot be more than \$10.5 million. AFL has already obtained indicative support from its bank to refinance the GTC debt. In addition, the total facility will be expanded to accommodate

future acquisitions that will first be funded by free cash flow generation from the merged business with additional debt available if required.

Further details will be included in the Notice of Meeting with respect to the Proposed Merger.

Impact on capital structure from the Proposed Merger

The following table shows the anticipated capital structure of AFL on Completion, and on a fully diluted basis:

Type of AFL securityholder	Before Completion (undiluted)		Before Completion (on a fully diluted basis)		After Completion ¹ (undiluted)		After Completion (on a fully diluted basis)	
	No. of Shares	% of total Shares	No. of Shares	% of total Shares	No. of Shares	% of total Shares	No. of Shares	% of total Shares
Shares held by existing shareholders	76,536,418	100%	76,536,418	95%	78,561,418	61%	78,561,418	60%
Shares held by GTC shareholders	0	0%	0	0%	49,709,716	39%	49,709,716	38%
Performance rights holders ²	0	0%	4,025,000	5%	0	0%	1,833,744	2%
TOTAL	76,536,418	100%	80,561,418	100%	128,271,134	100%	130,104,878	100%

1. Assumes that the net debt of GTC at Completion is \$10 million and there is no working capital deficit. The actual number of Consideration Shares to be issued will vary if net debt is greater or less than this amount, or there is a working capital deficit at Completion.

2. Performance rights are unlisted. There are currently 4,025,000 performance rights on issue, 2,025,000 of which have vested and will be converted into new ordinary fully paid shares prior to Completion.

3. See Annexure A for further details.

In order to provide stability and security for investors, GTC shareholders representing at least 90% of GTC shares on issue have agreed to the voluntary escrow of their Consideration Shares for a period of 12 months following completion.

Timetable and next steps

AFL shareholders do not need to take any action in relation to the Proposed Merger at this stage.

A Notice of Meeting containing information in relation to the Proposed Merger, including the basis for the AFL Board's unanimous recommendation, an Independent Expert Report and further details of the Proposed Merger is expected to be circulated to all AFL shareholders in the coming weeks.

An indicative timetable to complete the Proposed Merger is set out below:

Event	Date*
Dispatch of Notice of Meeting, Explanatory Statement and Independent Expert's Report	16 November 2022
Extraordinary General Meeting	16 December 2022
Completion of the Proposed Merger – issue of shares to GTC's shareholders	20 December 2022

This indicative timetable is subject to variance by the Company to ensure compliance with the Corporations Act and ASX Listing Rules.

Investor webinar

AFL will host an investor webinar to discuss the proposed transaction on Wednesday 19 October at 2pm AEDT. The webinar will run for approximately 45 minutes. Register to attend at:

https://us02web.zoom.us/webinar/register/WN_NKdliqpQRWy2FKCaI9nR7Q

The Board of Directors of AF Legal Group Ltd has approved the release of this document to the market.

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About AFL

The Company and its subsidiaries (**Group**) principal activities is a tech enabled law firm that currently specialises in family and relationship law. The Group provides advice to clients in respect of divorce, separation, property and children's matters together with related and ancillary services such as litigation. For more information, please visit www.australianfamilylawyers.com.au.

About GTC

GTC Legal Group Holdings Pty Ltd and its subsidiaries operate nationally and include a "traditional" model law firm (Armstrong Legal); a "non-traditional" revenue-sharing model law firm (GTC Lawyers); around 1,500 network partners (All Courts Lawyers), and a front and back office service company (GTC Legal Group Services).

Annexure A – Summary of Sale Agreement

Term	Details
Parties	<p>AFL Legal Group Ltd ACN 063 366 487 (AFL)</p> <p>GTC Legal Group Holdings Pty Ltd ACN 623 098 877 (GTC Holdco)</p> <p>The majority shareholders of GTC Holdco (Sellers)</p>
Transaction	Acquisition by AFL of the entire issued share capital of GTC Holdco from the Sellers, being the Proposed Merger as described earlier in this announcement.
Conditions precedent	<p>Completion of the transactions contemplated in the Sale Agreement are subject to a number of conditions precedent, including:</p> <ul style="list-style-type: none"> • approval by AFL shareholders including for the purposes of section 611, item 7 of the Corporations Act; • there being no material adverse change in relation to either AFL or GTC prior to completion; • the independent expert concluding that the Proposed Merger is fair and reasonable, or not fair but reasonable; • AFL having re-financed and repaid GTC's current debt facility (approximately \$10.0 million and capped at \$10.5 million); • AFL obtaining the consent of its current lender to the Proposed Merger; • ASX granting any waivers required to implement the Proposed Merger; • GTC HoldCo arranging the transfer of the minority interests pursuant to the shareholder drag provisions in the GTC Holdco shareholders' agreement; and • there being no material breach of the Sale Agreement by any party which has not been remedied. <p>A party may terminate the Sale Agreement if the conditions precedent are not satisfied or waived in accordance with the terms of the Sale Agreement by 28 February 2023, or such other date as AFL and GTC Holdco may agree.</p>
Pre-completion covenants and obligations	The Sale Agreement contains customary pre-completion positive and negative covenants given by GTC Holdco and AFL, such that neither party may take any material action, such as entering into a transaction which is not on arm's length terms, issue any securities etc, without the consent in writing from the other party.
Consideration	<p>The consideration payable comprises solely of new fully paid ordinary shares in AFL (being the Consideration Shares described earlier in this announcement).</p> <p>The Consideration Shares will be issued in tranches:</p> <ul style="list-style-type: none"> • On Completion, the number of Consideration Shares to be issued will be equal to the number of shares on issue in AFL on Completion, less a number of shares which is equal in value to the aggregate estimated net debt and any estimated working capital deficit of GTC Holdco on Completion, calculated using the 30 day VWAP¹⁰ of AFL shares to

¹⁰ Being the volume weighted average price, as that term is defined in the ASX Listing Rules.

Term	Details
	<p>1 September 2022 (being the date that a non-binding heads of agreement was signed between AFL and GTC Holdco)</p> <ul style="list-style-type: none"> • Post-Completion, the parties will prepare and finalise a set of completion accounts, which determines the actual net debt and any working capital deficit of GTC Holdco on Completion. Within 7 business days of these accounts being finalised, AFL will issue additional Consideration Shares to the Sellers to the extent necessary in order to true-up any shortfall. • Within 7 business days of AFL issuing shares pursuant to any existing agreements to issue shares (such as acquisition agreements with deferred scrip consideration) or the vesting of any existing performance rights on issue, AFL will issue additional Consideration Shares to the Sellers on a 1 for 1 basis. <p>The number of shares on issue in AFL on Completion for the purpose of calculating the number of Consideration Shares to be issued on Completion will include any performance rights on issue that have vested prior to Completion as if they had been converted into shares.</p> <p>The Consideration Shares will be allocated to the Sellers based on their equity proportion in GTC Holdco.</p> <p>The Consideration Shares to be issued to the Sellers will be escrowed for a period of 12 months following Completion.</p>
<p>Issue of new Performance Rights and cancellation of existing Performance rights</p>	<p>Under the Sale Agreement, AFL is required to issue 610,000 new performance rights to each of James Stevens and Wayne Windell, subject to the same performance hurdles as those unvested performance rights currently held by Grant Dearlove as approved by shareholders at the 2021 AGM and subject to AFL shareholder approval.</p> <p>An estimated 3,648 new performance rights will also be granted to certain employees of GTC as long term incentives, in consideration for those employees agreeing to the cancellation of rights held by them to shares in GTC.</p> <p>As part of the transaction, 400,000 performance rights held by Grant Dearlove will be cancelled, so that he also holds 610,000 unvested performance rights. The 990,000 unvested performance rights held by former director, Glen Dobbie, and the independent non-executive directors who step off the AFL Board (Sarah Kelly AO and Kevin Lynch) will also be cancelled or lapse on Completion.</p>
<p>Warranties and indemnities</p>	<p>The Sellers severally provide customary title and capacity warranties relating to their shares in GTC Holdco and their ability to transfer those shares to AFL free from any encumbrances, and the solvency of GTC.</p> <p>GTC Holdco and AFL each provide customary warranties relating to solvency and the capital structure of their respective corporate groups, as well as other ‘business warranties’, including in respect of their group accounts and tax, employees, material contracts, compliance with laws, intellectual property and the information provided to the other party during the due diligence process.</p> <p>The warranties are given on an indemnity basis, subject to usual limitations such as limitations relating to the quantum of claims, matters fairly disclosed and consequential losses.</p>

Term	Details
Post Completion covenants and obligations	For a period of 3 years after Completion, the Sellers are restricted from being involved in any business that competes with the businesses conducted by GTC and from soliciting clients or employees of GTC. The Sellers are however permitted to hold a passive interest in a competing business or employment with, or be a partner in, a law firm or other business that competes with the businesses conducted by GTC.
Completion date	Completion will occur on the later of 20 December 2022 and 2 business days after the last of the conditions precedent is satisfied or waived.
