
Sebata Holdings Limited
Incorporated in the Republic of South Africa
(Registration number 1998/003821/06)
Share code: SEB ISIN: ZAE000260493
(“**Sebata**” or “**the Company**”)

**EMPOWERMENT TRANSACTION RELATING TO THE SECTION 112 DISPOSAL OF
THE SOFTWARE GROUP COMPANIES, BEING THE MAJORITY OF SEBATA’S ASSETS**

1. INTRODUCTION

The board of directors of Sebata (“**the Board**”) is pleased to inform shareholders that the Company has entered into a Sale of Shares Agreement and a Donation Agreement (“**Agreements**”) with Inzalo Capital Holdings Proprietary Limited (“**Inzalo**” or “**the Purchaser**”), for:

- the disposal of 55% of the total issued share capital in each of the companies that collectively comprise the “Software Group Companies” (“**Sale Shares**”) to Inzalo for the consideration detailed in paragraph 2.3.1 below (“**Disposal**”); and
- the donation of 5% of the total issued share capital in each of the companies that collectively comprise the “Software Group Companies” (“**Donation Shares**”) to Inzalo as detailed in paragraph 2.5 below (“**Donation**”),

collectively referred to hereinafter as the “**Transaction**”.

The directors and majority shareholders of Inzalo are Sihle Lloyd Ndlovu and Sbonelo Trinity Mazibuko.

The “**Software Group Companies**” comprise Sebata Municipal Solutions Proprietary Limited (“**Sebata Municipal Solutions**”), R-Data Proprietary Limited (“**R-Data**”) and MICROOmega Accounting and Professional Services Proprietary Limited (“**MAPS**”), which are all wholly owned subsidiaries of the Company.

The effective date of the Transaction is 1 February 2020 (“**Effective Date**”).

2. THE TRANSACTION

2.1 Nature of the businesses of the Software Group Companies

- 2.1.1 Sebata Municipal Solutions is a leading provider of enterprise management systems, integrated technology solutions and multi-disciplinary professional services, focusing on servicing municipalities and the provincial governments. Sebata Municipal Solutions’ flagship product, SebataEMS was developed specifically to meet the requirements set out by National Treasury through its municipal standard chart of accounts (mSCOA) financial reporting framework and provides for full integration across the various required modules. Through its team of innovative and solutions-driven professionals, who are all specialists in their respective fields, Sebata Municipal Solutions’ services extend to numerous local government institutions and public utilities.
- 2.1.2 R-Data, founded in 1991, specialises in providing public sector accounting system solutions throughout Southern Africa mainly through the development and subsequent enhancement of the PROMUN accounting system. This system-based solution is supplemented by system implementation, system training, system development and database design, carried out by R-Data’s highly-skilled technical and support personnel. R-Data’s consistent and market-leading delivery on these support functions, along with the robust and comprehensive nature of the development of the PROMUN system, has ensured long-term and valued relationships with its clients.
- 2.1.3 MAPS is an accredited training office, focusing on the upskilling and education of prospective accounting students as they complete their studies. MAPS, through its relationship with Sebata Municipal Solutions, facilitates the provision of key experiences

to its candidates through secondments to municipalities as trainee accountants. MAPS holds accreditations from the South African Institute of Professional Accountants (SAIPA), the Chartered Institute of Management Accountants (CIMA) and the South African Institute of Chartered Accountants (SAICA) with a level 1 SAICA status. MAPS is one of few companies that holds accreditations with all three of these accounting bodies.

2.2 Rationale for the Transaction

The Software Group Companies are presently experiencing significant difficulty in attracting new customers and retaining existing customers as a result of their unacceptable empowerment status. As sole shareholder the Seller wishes to find a solution to the Software Group Companies' empowerment challenge. However, this must be done in a manner that protects the value of the Software Group Companies for Sebata while recognising that it will not be possible at this time for Sebata to dispose of the Software Group Companies at their perceived economic value. It is considered that a transaction with Inzalo is the best solution as it will allow the Software Group Companies to immediately achieve an appropriate empowerment rating with a considerable immediate uplift in profitability. This Transaction is predicated upon an immediate improvement in profitability and offers Inzalo protection in the event that this does not materialise.

Over the last six months, Sebata has entered into two transactions with Inzalo namely, the disposal of 60% of the "Water Group" comprising of USC Metering Proprietary Limited ("**USC**") and Amanzi Meters Proprietary Limited ("**Amanzi**"), which disposal was approved by shareholders of Sebata in January 2020, and the disposal of 100% of IPES-Utility Management Services Proprietary Limited ("**UMS**") to USC Metering Proprietary Limited. All of the aforementioned businesses had encountered the same challenge of increasing their respective empowerment statuses to an acceptable level in order to operate within the public sector environment. Ultimately the Board has identified that Inzalo is best placed as the majority owner to take these businesses, including the Software Group Companies, forward.

2.3 The Transaction

2.3.1 Consideration

- 2.3.1.1 The purchase price of R501.9 million for the Sale Shares ("**Purchase Price**") is payable in cash on the aggregate achievement by the Software Group Companies of:
 - 2.3.1.1.1 earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of R35 million for the 12-month period beginning at the Effective Date, based on the finalised management accounts of the Software Group Companies for the period in question.
 - 2.3.1.1.2 EBITDA of R45 million for the 12-month period beginning the day after the 12-month period set out in paragraph 2.3.1.1.1 above.
 - 2.3.1.1.3 In the event that the EBITDA for the period set out in paragraph 2.3.1.1.1 above is not achieved, the shortfall which is not achieved will be added onto the requirements of paragraph 2.3.1.1.2 above, thereby increasing the required target for this period accordingly.
- 2.3.1.2 Achievement of the targets set out in paragraph 2.3.1.1 above and full settlement of the Purchase Price will constitute full settlement of the payment obligations in respect of the Sale Shares.
- 2.3.1.3 The Purchaser will have the right at any time to make accelerated payments in full or in part of the Purchase Price prior to the achievement of the EBITDA targets referred to in paragraph 2.3.1.1 above.
- 2.3.1.4 All dividends received by the Purchaser, through its ownership of the Sale Shares post the Effective Date, will be appropriated to the settlement of the Purchase Price until the Purchase Price has been fully settled.

- 2.3.1.4.1 In the event that the Software Group Companies fails to achieve the EBITDA targets set out in paragraph 2.3.1.1 above and the Transaction is terminated as envisaged in paragraph 2.3.1.5 below, any dividends appropriated by the Purchaser to the Company in terms of paragraph 2.3.1.4 above prior to such termination, will not be returned to the Purchaser.
- 2.3.1.5 In the event that the EBITDA targets set out in paragraph 2.3.1.1 and 2.3.1.1.2 above are not achieved, the Transaction will be terminated with neither party having any claim against the other in respect of the Agreements.
- 2.3.1.6 The Purchase Price will be payable in full by no later than 31 March 2022.

2.3.2 Suspensive conditions to the Transaction

- 2.3.2.1 The Disposal is subject to the fulfilment of the following suspensive conditions by no later than 31 March 2020, or such later date as the parties may agree in writing prior thereto:
 - 2.3.2.1.1 the Seller obtaining the approval of the Transaction by the Board and shareholders of Sebata;
 - 2.3.2.1.2 the Purchaser obtaining the approval of the Transaction by the board and shareholders of the Purchaser;
 - 2.3.2.1.3 such statutory and regulatory approvals including, *inter alia*, approval by the Takeover Regulation Panel (“**Panel**”) and the JSE Limited (“**JSE**”) that may be required are obtained and to the extent that the approval of such authorities is conditional, the parties agreeing in writing to such conditions; and
 - 2.3.2.1.4 the execution by and between both parties of shareholder’s agreements in respect of each Software Group Company.
- 2.3.2.2 The conditions set out in paragraph 2.3.2.1 above are stipulated for the benefit of the Company which may in writing, on or before the day of fulfilment of such conditions, waive, where possible, any of such conditions.
- 2.3.2.3 Notwithstanding the provisions of paragraph 2.3.1 above, on full satisfaction of the conditions, as set out in paragraph 2.3.2.1 above, the documents of title will be held as a form of surety by the appointed lawyers of Sebata against full satisfaction of the payment obligations of the Purchaser.
- 2.3.2.4 If the conditions referred to in paragraph 2.3.2.1 above are not fulfilled on or before the date referred to therein (and fulfilment thereof is not waived), the Sale of Shares Agreement will be of no further force and effect and, *inter alia*, to the extent that such agreement may have been partially implemented the parties will be restored to their status quo ante, except insofar as provided for in such agreement.

2.4 Application of the sale proceeds

It is intended that the majority of the net proceeds of the Transaction will be distributed to shareholders of Sebata.

2.5 The Donation

- 2.5.1 In terms of the Donation Agreement, Sebata as the donor, will donate the Donation Shares to Inzalo. The Donation is made concurrently with the execution of the Sale of Shares Agreement in respect of the Disposal. The Donation Shares will be transferred to Inzalo as follows:

- 2.5.1.1 on the Effective Date, the documents of title in respect of 50% of the Donation Shares; and
- 2.5.1.2 on 1 February 2021, the documents of title in respect of remaining 50% of the Donation Shares.
 - 2.5.1.2.1 In the event that the EBITDA targets set out in paragraph 2.3.1.1 above are not achieved, Sebata will purchase the Donation Shares from Inzalo for a consideration calculated as the difference between the net asset value per share of the Donation Shares at the Effective Date, and the net asset value per share of the Donation Shares at 31 January 2022, as evidenced by the management accounts.
 - 2.5.1.2.2 In the event that the EBITDA targets set out in paragraph 2.3.1.1 above are not achieved and the difference between the net asset value per share of the Donation Shares at the Effective Date and the net asset value per share of the Donation Shares at 31 January 2022, as evidenced by the management accounts, is a negative value, the consideration payable by Sebata to Inzalo for the Donation Shares will be the par value of the Donation Shares.

3. FINANCIAL INFORMATION

The audited value of the net assets of the Software Group Companies as at 31 March 2019 is R274.3 million. The audited profit after tax for the Software Group Companies for the year ended 31 March 2019 is R58.9 million.

The unaudited value of the net assets of the Software Group Companies as at 30 September 2019 is R205 million. The unaudited profit after tax for the Software Group Companies for the six month period ended 30 September 2019 is R69.3 million.

The financial statements were prepared in accordance with International Financial Reporting Standards and the Companies Act, 2008 (Act 71 of 2008), as amended ("**Companies Act**").

4. RECOMMENDATION AND FAIRNESS OPINION

In accordance with Companies Regulation 90(1), Sebata's Independent Board, consisting of Siphwe Nodwele (Chairperson), Don Passmore, Ross Lewin and Deborah Di Siena, will appoint an independent expert acceptable to the Panel ("**Independent Expert**"), to provide it with external advice in relation to the Transaction and to make appropriate recommendations to the Independent Board in the form of an Independent Expert Report.

The substance of the external advice received from the Independent Expert and the views of the Independent Board will be detailed in the Circular referred to in paragraph 5 below.

5. CLASSIFICATION OF THE TRANSACTION AND FURTHER DOCUMENTATION

The Transaction constitutes a Category 1 transaction in terms of section 9.5(b) of the Listings Requirements of the JSE ("**Listings Requirements**") and a proposal to dispose of all or the greater part of the assets of Sebata in terms of section 112 of the Companies Act. Accordingly, the Transaction is subject to, *inter alia*, the approval thereof by the requisite majority, being 75% of Sebata shareholders (as contemplated in section 115(2) of the Companies Act) entitled to exercise voting rights, in general meeting, called for such purpose and at which sufficient persons are present to exercise, in aggregate at least 25% of all the voting rights that are entitled to be exercised in respect of the Transaction and requires a circular to shareholders ("**Circular**") incorporating, *inter alia*, *pro forma* financial effects of the Transaction, the fairness opinion obtained from an Independent Expert and a notice to convene a general meeting of shareholders of Sebata in order to consider and, if deemed fit to pass, with or without modification, the resolutions necessary to approve and implement the Transaction.

Accordingly, the Circular containing full details of the Transaction will be distributed to shareholders of Sebata in due course.

6. RESPONSIBILITY STATEMENT

The Independent Board accepts responsibility for the information contained in this announcement to the extent that it relates to Sebata. To the best of their knowledge and belief, the information contained in this announcement is true and nothing has been omitted which is likely to affect the import of the information.

Johannesburg
25 February 2020

Corporate Advisor and Sponsor
Merchantec Capital