

CSG HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 2006/011359/06)

Share code: CSG

ISIN: ZAE000184438

("CSG" or "the Company")



CATEGORY 1 DISPOSAL ANNOUNCEMENT: SALE OF THE ARMED RESPONSE MONITORING BUSINESS AND RESIDENTIAL GUARDING BUSINESS OF 7 ARROWS PROPRIETARY LIMITED, A WHOLLY-OWNED SUBSIDIARY OF CSG

1. INTRODUCTION

Shareholders are advised that on 25 June 2020 ("**Signature Date**"), the Company, through its wholly-owned subsidiary, 7 Arrows Security Proprietary Limited with registration number: 2015/208415/07 ("**7 Arrows**"), entered into an agreement ("**Agreement**") with Fidelity ADT Monitoring Proprietary Limited, with registration number: 1996/017820/07 ("**Purchaser**"), in terms of which the Company will sell:

- 1.1. a certain specified part of the armed response and monitoring business of 7 Arrows, which encompasses the provision of armed response and monitoring services to clients of 7 Arrows ("**Armed Response and Monitoring Business**"); and
- 1.2. a certain specified part of the residential guarding business of 7 Arrows, which encompasses the provisions of residential guarding services to clients of 7 Arrows ("**Residential Guarding Business**"),

to the Purchaser (collectively the "**Business**"), for a disposal consideration of R65,850,000 (sixty-five million eighty hundred and fifty thousand Rand) ("**Disposal Consideration**") ("**Disposal**").

2. DESCRIPTION OF THE BUSINESS ASSETS

- 2.1. The assets of the Business being sold, subject to the fulfilment (or, where permissible, waiver) of the conditions precedent set out in paragraph 6 below ("**Conditions Precedent**"), include the following:
 - 2.1.1. certain specified client ("**Specified Client**") contracts concluded between 7 Arrows and such clients for the provision of security services ("**Specified Client Contracts**");
 - 2.1.2. alarm radios and transmitters relating to Specified Clients, fixed assets, certain radio signal relay and supporting equipment, certain usage agreements held by 7 Arrows in respect of radio signal relaying facilities, certain service and usage agreements concluded between 7 Arrows and a third party in respect of the provision of radio signal relaying facilities, any alarm systems that are owned by 7 Arrows that may be leased to the Specified Clients, all personal information pertaining to the Specified Clients, control room equipment, license plate recognition cameras and telephone numbers utilized in the monitoring process;
 - 2.1.3. all licenses, consents and/or registrations necessary to conduct the Business, in so far as legally transferable;

- 2.1.4. other assets that are in the Purchaser's discretion related to or used in connection with the Business, subject to the approval of 7 Arrows;
 - 2.1.5. 7 Arrow's registered intellectual property; and
 - 2.1.6. any goodwill associated with any of the abovementioned,

collectively the "**Business Assets**" but excluding non-Specified Client Contracts.
- 2.2. The Disposal excludes liabilities of the Business (including contingent liabilities) arising prior to the effective date of the Disposal, as well as, certain assets of 7 Arrows relating to the Business, namely, debtors as at the effective date of the Disposal, firearms, motor vehicles, premises whether owned or leased by 7 Arrows and office furniture, uniforms and equipment not forming part of the Business Assets.

3. RATIONALE FOR THE DISPOSAL

- 3.1. Following a thorough and robust interrogation of all parts of the organisation, the board of directors of CSG adopted a new and focused "business to business" strategy, which supports the overall long-term strategy of being the leading strategic outsourced partner for facilities management, security and risk solutions and staffing solutions.
- 3.2. As a result of the review of underlying operations, and considering the negative return on investment of 7 Arrows over the last two years, certain of the 7 Arrows business segments were considered to be non-core to the future strategy of the Company and are being disposed of in terms of the Disposal. However, segments that fall within the ambit of new strategy will be consolidated within the security business of Revert Risk Management Solutions Proprietary Limited.

4. DISPOSAL CONSIDERATION

- 4.1. The Disposal Consideration is an amount equal to the sum of R65,850,000 (sixty-five million eighty hundred and fifty thousand Rand), subject to the Disposal Consideration adjustments, as set out below.
- 4.2. The Disposal Consideration is allocated as follows:
 - 4.2.1. an amount of R51,200,000 (fifty-one million and two hundred thousand Rand), allocated to the Armed Response and Monitoring Business ("**Armed Response and Monitoring Business Consideration**"); and
 - 4.2.2. an amount of R14,650,000 (fourteen million six hundred and fifty thousand Rand), allocated to the Residential Guarding Business ("**Residential Guarding Business Consideration**").
- 4.3. The metric used to determine the Disposal Consideration is the aggregate recurring monthly revenue attributable to Specified Client Contracts ("**MRR**").
- 4.4. The Disposal Consideration has been calculated based on agreed MRR amounts, multiplied by an agreed price multiple (as set out in the Disposal Agreement) ("**Effective Date MRR**"), which 7 Arrows expects to receive from the Specified Client Contracts over particular periods following the effective date of the Disposal, being the first calendar day of the month following the fulfilment of the Conditions Precedent

or such later date as the parties may agree in writing (“**Effective Date**”). The aforementioned particular periods being certain anniversaries of the 30th (thirtieth) day following the Effective Date (“**Banked Date**”) as set out in paragraphs 4.6 and 4.7 below.

4.5. Following the implementation of the Disposal Agreement on the Effective Date, in the event the relevant actual MRR received by the Purchaser over a relevant agreed period:

4.5.1. is less than the Effective Date MRR for that relevant period, the Disposal Consideration allocated to be paid in respect of that particular period shall be adjusted downwards and the Purchaser shall only pay (or receive a credit note in respect of) the proportion of the actual received MRR for the relevant period as a percentage of the total Effective Date MRR (plus VAT), multiplied by the multiple used for calculating the Effective Date MRR, less any Disposal Consideration payments already paid for prior periods;

4.5.2. is greater than the Effective Date MRR for that relevant period, the Disposal Consideration allocated to be paid in respect of that particular period shall be adjusted upwards on the basis consistent with paragraph 4.5.1, provided that 7 Arrows is the effective cause for such increase in MRR over the relevant period.

4.6. Armed Response and Monitoring Business Disposal Consideration

The Purchaser shall settle the Armed Response and Monitoring Disposal Consideration as follows:

4.6.1. 20% (twenty percent) of the Armed Response and Monitoring Disposal Consideration on or before the 30th (thirtieth) day following the Banked Date;

4.6.2. 32,5% (thirty-two comma five percent) of the Armed Response and Monitoring Disposal Consideration on or before the last day of the 3rd (third) calendar month following on the Banked Date;

4.6.3. 10% (ten percent) of the Armed Response and Monitoring Disposal Consideration on or before the last day of the 6th (sixth) calendar month following the Banked Date;

4.6.4. 20% (twenty percent) of the Armed Response and Monitoring Disposal Consideration on or before the last day of the 12th (twelfth) calendar month following the Banked Date;

4.6.5. 8,75% (eight comma seven five percent) of the Armed Response and Monitoring Disposal Consideration on or before the last day of the 15th (fifteenth) calendar month following the Banked Date; and

4.6.6. the balance of the Armed Response and Monitoring Disposal Consideration on or before the 25th (twenty fifth) calendar month following the Banked Date.

4.7. Residential Guarding Business Disposal Consideration

The Purchaser shall settle the Residential Guarding Business Disposal Consideration as follows:

- 4.7.1. 10% (ten percent) of the Residential Guarding Business Disposal Consideration on or before the 30th (thirtieth) day following the Banked Date;
- 4.7.2. 25% (twenty five percent) of the Residential Guarding Business Disposal Consideration on or before the last day of the 6th (sixth) calendar month following the Banked Date;
- 4.7.3. 40% (forty percent) of the Residential Guarding Business Disposal Consideration on or before the last day of the 12th (twelfth) calendar month following the Banked Date; and
- 4.7.4. the balance of the Residential Guarding Business Disposal Consideration on or before the 25th (twenty fifth) calendar month following the Banked Date.

4.8. Non-Specified Client Contracts

In respect of those Business related client contracts which are not Specified Client Contracts as at the Effective Date, the Purchaser and 7 Arrows, by mutual agreement, may at a later stage identify any such client contracts which could be classified as a Specified Client Contract, and these client contracts will be sold by 7 Arrows to the Purchaser at the applicable MRR amounts multiplied by the same agreed price multiple applicable to the Specified Client Contracts (subject to the consent of the client, to the extent applicable).

5. APPLICATION OF THE DISPOSAL CONSIDERATION

The disposal consideration will be used to settle the remaining creditor business liabilities in 7 Arrows, as well as a reduction of Nedbank debt facilities in CSG.

6. CONDITIONS PRECEDENT

The Disposal is subject to the fulfilment or waiver (to the extent legally permissible) of the following outstanding conditions precedent ("**Conditions Precedent**"):

- 6.1. by not later than 10 (ten) business days from the Signature Date, or such later date as the parties may agree in writing:
 - 6.1.1. the sole shareholder of the 7 Arrows passing a special resolution, as may be required in terms of section 112 as read with section 115 of the Companies Act 71 of 2008, as amended from time to time ("**Companies Act**"), to approve and implement the Disposal;
 - 6.1.2. 7 Arrows and / or the Company to provide the Purchaser with a copy of the cancellation agreement pertaining to the cession agreement entered into between the Company and 7 Arrows on 22 October 2018;
 - 6.1.3. the Purchaser and/or Fidelity Services Group Proprietary Limited with registration number: 2002/030292/07 ("**FSG**") delivering to 7 Arrows, a written notice confirming that it is satisfied with the due diligence investigation to be performed by the Purchaser in respect of the Business ("**Due Diligence Investigation**") and that the Purchaser is satisfied that no material variance in the assumptions made by the Purchaser regarding the Business information has occurred;

- 6.1.4. the terms of this Agreement and the implementation thereof being approved by the Purchaser's board and shareholders, FSG and the Purchaser's funders (as appropriate);
- 6.2. by not later than 17h00 on 30 September 2020, or such later period as may be agreed between the parties ("**Deadline Date**");
 - 6.2.1. 7 Arrows procuring the consent of all counterparties to certain Specified Client Contracts (to the extent required), if any, to the cession and assignment of such Specified Client Contracts to the Purchaser, with effect from the Effective Date;
 - 6.2.2. 7 Arrows furnishing the Purchaser (to the extent such information has not been furnished to the Purchaser as at the Signature Date), with a Tax Status Compliance Certificate from the South African Revenue Services, certifying that 7 Arrows is tax compliant and its tax affairs are up to date and in order;
 - 6.2.3. 7 Arrows furnishing the Purchaser (to the extent such information has not been furnished to the Purchaser as at the Signature Date), with a Compliance Certificate from the Private Security Sector Provident Fund certifying that 7 Arrows is duly compliant in all respects;
 - 6.2.4. the Purchaser satisfying itself that no material adverse changes in the business, operations, assets, financial and/or trading position of 7 Arrows or any other circumstance that may result in such a material adverse change, have occurred subsequent to the date of conclusion of the Due Diligence Investigation;
 - 6.2.5. the Purchaser not discovering any material risks not previously disclosed to it in writing; and
 - 6.2.6. CSG providing the Purchaser with a resolution approving the Disposal passed by the requisite majority of its shareholders in accordance with provisions of the JSE Listings Requirements.

7. EFFECTIVE DATE OF THE DISPOSAL

Delivery in respect of the Business Assets will take place on the Effective Date, which is anticipated as being 1 September 2020.

8. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT

- 8.1. CSG and certain of its subsidiaries namely BDM Management Proprietary Limited, CSG Resourcings Proprietary Limited, CSG Food Solutions Proprietary Limited, Afriboom Proprietary Limited, Revert Risk Management Solutions Proprietary Limited and Hi-Tech Nelspruit Proprietary Limited (collectively the "**Material Subsidiaries**") have provided an irrevocable and unconditional guarantee to the Purchaser, as principal debtor and obligor, in respect of the complete performance and discharge by 7 Arrows promptly when due, of all the duties, obligations, undertakings, warranties and liabilities of 7 Arrows at any time under the Disposal Agreement ("**Guaranteed Obligations**").
- 8.2. CSG and its Material Subsidiaries, jointly and severally with 7 Arrows, have indemnified and held the Purchaser harmless against any and all loss, damages, claims, costs and other liabilities arising from, *inter alia*, any failure by 7 Arrows to perform promptly and discharge when due, any and all of the Guaranteed Obligations.

- 8.3. The Purchaser is entitled but not obliged to take-over the employment contracts of specific employees of 7 Arrows, subject to the Purchaser's election in writing by not later than 30 (thirty) business days prior to the Deadline Date. In respect of those employees which the Purchaser takes over, if any, 7 Arrows shall remain liable for and settle all pre-Effective Date liabilities of such employees, if any.
- 8.4. The Purchaser is entitled to terminate the Disposal Agreement prior to the Effective Date on the happening of certain events, including but not limited to, a material adverse changes occurring, the Purchaser becoming aware that a warranty (given by 7 Arrows) is not true and correct in all respects or that a warrantee has been breached, 7 Arrows is placed in liquidation or business rescue and/or the performance of any obligation of 7 Arrows in terms of the Disposal Agreement is unlawful, invalid or unenforceable.
- 8.5. The Disposal Agreement further contains interim period undertakings, confidentiality and restraint provisions and warranties and indemnities that are customary for agreements of this nature.

9. CLASSIFICATION OF THE DISPOSAL

- 9.1. As the value of the Disposal exceeds 30% of the Company's market capitalisation as at the date of the signature of the Agreement, it meets the definition of a category 1 transaction as contemplated in section 9 of the JSE Limited Listings Requirements.
- 9.2. As a result, the Disposal is required to be approved by an ordinary resolution of the shareholders of the Company and accordingly a general meeting of the shareholders of the Company will be convened.
- 9.3. For the avoidance of doubt, the 7 Arrows Business does not constitute the greater part of the assets or undertaking of CSG, as contemplated in section 112 of the Companies Act.

10. CIRCULAR

A circular containing the full details of the Disposal, incorporating a notice convening the required general meeting of the shareholders of the Company, will be distributed to shareholders in due course, at which time the salient dates and times of the Disposal, including the date of the general meeting, will be announced on SENS.

11. CONTINUATION OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement released on SENS on 22 June 2020. Notwithstanding the publication of this announcement, given that the financial information applicable to the Disposal has not been included in this announcement, shareholders are advised to continue to exercise caution when dealing in the Company's securities until a further announcement regarding the financial information applicable to the Disposal has been made.

26 June 2020

Sponsor

PSG Capital



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