

Imperial Logistics Limited
(Incorporated in the Republic of South Africa)
Registration number 1946/021048/06
ISIN: ZAE000067211
JSE share code: IPL
(“Imperial”, “Company” or “Group”)

PROPOSED INTRODUCTION OF A 25.0% BROAD-BASED BLACK ECONOMIC EMPOWERMENT (“B-BBEE”) SHAREHOLDING IN IMPERIAL LOGISTICS GROUP SOUTH AFRICA PROPRIETARY LIMITED

1. INTRODUCTION

The board of directors of Imperial (“**the Board**”) is pleased to announce that it has entered into transaction agreements with the Afropulse Group Proprietary Limited (“**Afropulse**”), Willowton Group Investments One Proprietary Limited (“**Willowton**”) and Converting Trade (RF) Proprietary Limited (“**Converting Trade**”), a 100% black women owned entity (together referred to as “**the B-BBEE Shareholders**”), in relation to a proposed transaction that would provide the B-BBEE Shareholders with an opportunity to participate in a 25% B-BBEE shareholding in Imperial Logistics Group South Africa Proprietary Limited (“**ILSA**”) to be implemented in terms of the steps set out in paragraph 3 below (“**the Transaction**”). Subsequent to the Transaction, ILSA will house a significant majority of the Group’s South African operations.

Converting Trade, (of which Afropulse holds 61% and Willowton holds 39%) currently holds 25% shareholding in Imperial Logistics Advance Proprietary Limited (“**ILA**”). Imperial Logistics South Africa Limited, a wholly-owned subsidiary of Imperial holds the remaining 75%. As a result, ILA is a more than 51% black-owned and more than 30% black woman-owned enterprise.

Both Afropulse and Willowton are black women owned enterprises. Willowton is an affiliate of the Willowton Group which is one of the leading FMCG manufacturers in the South African FMCG market.

The Transaction is deemed to be a category 2 transaction in terms of the Listings Requirements of the JSE (“**JSE Listings Requirements**”).

Afropulse’s executive chairman and co-founder, Ms Phumzile Langeni, is the chairman and a non-executive director of Imperial. Accordingly, in terms of the JSE Listings Requirements, Afropulse would be deemed to be an associate of a director and therefore subject to the “Related Party Transaction” requirements as set out in Section 10 of the JSE Listings Requirements.

2. RATIONALE FOR THE TRANSACTION

With transformation being a key focus for the Group, its B-BBEE policies have been developed to ensure that measurable progress is made towards black economic empowerment. The Transaction will ensure significantly enhanced B-BBEE ownership for the majority of Imperial’s South African operations and reiterates Imperial’s commitment to sustainable empowerment and transformation.

Improving the B-BBEE ownership and status of the Group’s South African operations is critical for the future prospects of the Group given its exposure to the South African market as part of its ‘Gateway to Africa’ strategy.

The Transaction will also enhance Imperial’s competitiveness and appeal to its clients and customers in South Africa which will contribute to sustaining current earnings and achieving future growth. The effective

B-BBEE ownership of ILSA post implementation of the Transaction will be more than 51%, with more than 30% black women ownership.

3. OVERVIEW OF TRANSACTION

3.1. Background to ILSA and ILA

ILSA constitutes the largest component of Imperial's South African operations in terms of revenue and is currently a wholly-owned subsidiary of Imperial Logistics South Africa Holdings Limited ("**ILSA Holdings**"), which in turn is a wholly-owned subsidiary of Imperial. ILSA comprises Imperial's Dedicated Contracts, Cargo, Managed Solutions, Health Sciences, Truck Rental, Resolve, Fast 'n Fresh and cross-border businesses. It also houses certain treasury functions and the Market Access Head Office, however, post the consolidation of the businesses of ILSA and ILA pursuant to the implementation of the Transaction, these will be excluded.

ILA comprises the Tanker Services Fuel and Gas, Tanker Services Food and Chemical and KWS businesses. It also has a 75% investment in Imperial Tanker Services Botswana Proprietary Limited and 70% in Imperial Logistics Motion Proprietary Limited. The core capability of ILA is the bulk road transportation management of liquid, gases, powders, ores and grains, which requires specialised assets and skills.

3.2. Transaction overview

The purpose of the Transaction is to consolidate the businesses of ILSA and ILA and create an enlarged ILSA, with a 25% B-BBEE shareholding. The B-BBEE Shareholders will acquire their respective shares in ILSA as follows:

- i. Converting Trade will, through a series of transactions, dispose of its 25% shareholding in ILA, and will acquire, on a value for value basis, a 9.9% shareholding in ILSA; and
- ii. Willowton will acquire an 8.52% shareholding in ILSA by way of a subscription for shares and Afropulse (via a subsidiary) will acquire a 6.58% shareholding in ILSA by way of a subscription for shares, in the aggregate a 15.1% shareholding in ILSA.

The 15.1% shareholding in ILSA is valued at ZAR628.4 million, before any discounts are applicable. Imperial will provide an upfront 20% discount to Willowton and Afropulse, implying a cash consideration of ZAR502.8 million, with a lock-in on the entire 25% B-BBEE shareholding for a period of five years from the effective date of the Transaction ("**the Lock-In Period**").

This equates to a pre-discount multiple of 7.5X and a post discount multiple of 6.9X FY2020 reported EBITDA.

The effective B-BBEE shareholding of Afropulse in ILSA post the Transaction will be 12.6% and of Willowton will be 12.4%.

Following the implementation of the Transaction, the B-BBEE Shareholders will collectively be 25% shareholders in ILSA with ILSA Holdings holding the remaining 75% shares in ILSA.

3.2.1 Payment mechanism

The Transaction comprises of Converting Trade disposing of its 25% shareholding in ILA, through a series of transactions, and on a value-for-value basis, acquiring a 9.9% shareholding in ILSA, and a 25% subscription by Willowton and Afropulse for new shares in ILSA for a consideration of ZAR502.8 million in the aggregate (post the application of the 20% discount provided by Imperial) to acquire an additional 15.1% shareholding in ILSA.

The payment profile for the total new investment of ZAR502.8 million (post the application of the 20% discount provided by Imperial) ("**Transaction Consideration**") is as follows:

- Initial payment of 60%, equal to ZAR302 million, of the Transaction Consideration upon implementation of the Transaction;
- A payment of 10% of the Transaction Consideration, equal to a maximum of ZAR50 million, upon completion of the first full year financial reporting period for ILSA post the implementation of the Transaction, subject to achievement of agreed performance hurdles;
- A payment of 15% of the Transaction Consideration, equal to a maximum of ZAR75 million, upon completion of the second full year financial reporting period for ILSA post the implementation of the Transaction, subject to achievement of agreed performance hurdles; and
- A payment of 15% of the Transaction Consideration, equal to a maximum of ZAR75 million, upon completion of the third full year financial reporting period for ILSA post the implementation of the Transaction, subject to achievement of agreed performance hurdles.

The payments upon completion of year one, two and three are subject to the achievement of the minimum performance hurdle for each of the financial years and are deferred payments.

The net proceeds from the Transaction will be retained by ILSA for purposes of supporting ILSA's growth strategy and working capital.

3.2.2 Clawback mechanism

A clawback mechanism will be in place to allow ILSA Holdings to recoup any reduced deferred payment in a prior year as a result of underperformance relative to the business plan, for that period.

3.2.3 Payment for outperformance

An additional payment shall be due from Afropulse and Willowton to the extent that the average EBITDA achieved by ILSA over the three measurement periods is greater than the average target EBITDA for ILSA set out in the business plan.

An EV/EBITDA multiple of 6.0x shall be applied to the additional EBITDA generated by ILSA over and above the average EBITDA per the forecasts provided for years one, two and three, to determine the quantum payable ("**Upside Payment**").

If the Upside Payment is greater than ZAR100 million, then ZAR100 million shall be paid by Afropulse and Willowton along with the payment due at the end of year three, while the remaining amount shall be paid within a period of twelve months.

3.3. Lock-In Period

The shareholding in ILSA held by the B-BBEE Shareholders shall be subject to a five-year lock-in period commencing on the effective date of the Transaction during which the B-BBEE Shareholders shall be precluded from a sale of their respective shareholding.

3.4 Flip-up into Imperial shares

At the end of the Lock-In Period, the B-BBEE Shareholders have the right to exchange their shares in ILSA for shares in Imperial ("**Listed Share Flip-Up**"). The number of Imperial shares to be issued to the B-BBEE

Shareholders shall be based on the fundamental value of ILSA at the time of the Listed Share Flip-Up and converted at the prevailing 30-day Imperial volume weighted average price.

Following the Listed Share Flip-Up, each of the B-BBEE Shareholders shall be entitled to dispose of their shareholding in the open market subject to a limit of:

- Up to 30% of its pro-rata shareholding in the year immediately following the completion of the Lock-In Period; and
- The remaining shareholding in Imperial being available for disposal over the second year following the Lock-In Period.

Following the Lock-In Period, each of the B-BBEE Shareholders shall be allowed to dispose of its entire shareholding in Imperial to any other B-BBEE entity, subject to the identity of the person or entity being approved by Imperial.

3.5. Governance

Afropulse and Willowton will be entitled to appoint one director each to the ILSA board of directors.

3.6. Empowerment requirements

The B-BBEE Shareholders will be required to maintain 100% black woman ownership.

3.7. Independent fairness opinion

As set out in paragraph 1 above, Afropulse is deemed to be an “associate” of Ms Phumzile Langeni and accordingly, the transaction between Afropulse and Imperial would be deemed to be a Related Party Transaction in terms of the JSE Listings Requirements.

The Board appointed PricewaterhouseCoopers Corporate Finance Proprietary Limited (“**PWC**”) as Independent Expert to provide the fairness opinion in respect of the Related Party Transaction.

Its opinion will be set out in a circular to Shareholders setting out full details of the transaction which will be issued on or about 3 June 2021.

A further announcement setting out the salient dates and times of the general meeting of Shareholders to approve the Related Party Transaction which is expected to be held on or about 5 July 2021, will be released in due course.

3.8. Conditions and Effective Date

In addition to receipt of a positive fairness opinion in relation to the Related Party Transaction, the Transaction is subject to certain suspensive conditions, including (but not limited to) approval from shareholders of Imperial.

The definitive transaction agreements to give effect to the Transaction contain warranties and indemnities customary for transactions of this nature.

The effective date of the Transaction will be dependent on the fulfilment of the suspensive conditions to the Transaction and is expected to occur during the second quarter of 2021.

3.9 Net Assets and Profits Attributable to the Enlarged ILSA

The unaudited attributable profit after tax for the six months ended 31 December 2020 was R155 million and the unaudited net asset value as at 31 December 2020 was negative R112 million. In arriving at the net asset value, shareholder loans have been treated as a liability. This information was prepared in terms of International Financial Reporting Standards.

This information is unaudited and extracted from management information. Imperial has considered the information and is satisfied with the quality of the management accounts.

Post 31 December 2020, ILSA Holdings converted shareholder loans in ILSA into equity, the pro forma net asset value reflecting this conversion as at 31 December 2020 would have been R160 million, as prepared in terms of International Financial Reporting Standards.

Bedfordview
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Enquiries

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