

KAAP AGRI LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2011/113185/06)

Share code: KAL

ISIN: ZAE000244711

("KAL")



CATEGORY 1 ACQUISITION ANNOUNCEMENT

1. INTRODUCTION

Shareholders are advised that on 18 January 2022, Kaap Agri Limited's ("KAL") subsidiary, TFC Operations Proprietary Limited ("TFC"), entered into a sale of shares and claims agreement ("**Agreement**") with Stoney Meadows Investments 22 Proprietary Limited ("**Stoney Meadows**") and its associates, in terms of which TFC will purchase 100% of the issued ordinary shares in and loan claims against ("**Sale Shares and Claims**") PEG Retail Holdings Proprietary Limited ("**PEG Retail Holdings**") from Stoney Meadows and related loan accounts against a subsidiary of PEG Retail Holdings such that there will not be any outside vendor funding remaining, for an aggregate purchase consideration of R1,097,800,343, adjusted and payable in accordance with paragraph 5 below ("**Purchase Consideration**") ("**the Acquisition**").

2. DESCRIPTION OF THE ASSETS

PEG Retail Holdings is the holding company for various entities with operations in the retail fuel industry in South Africa, including fuel forecourts, quick services restaurants, convenience shops and the like ("**PEG Group**") ("**service stations**"). No properties are held by the PEG Group.

Established in 1993, the PEG Group is a leading independent fuel retailer in South Africa and consists of a number of operational entities, housing 41 service stations situated throughout South Africa (most of which are national highway service stations). The various service stations are operated under the following brands, namely Engen, Sasol, Total, BP and Shell ("**Oil Companies**") and most of the properties on which the service stations are operated, are leased from the Oil Companies on renewable terms.

Each service station is operated by an independent partner, which in most cases are also a minority shareholder in that specific service station ("**Minority Partners**"). These Minority Partners are responsible for the day-to-day management of the individual service stations. The Minority Partners will effectively own approximately 13.4% of the operating entities as at the date of the implementation of the Acquisition.

3. TFC OWNERSHIP AND BLACK ECONOMIC EMPOWERMENT

As part of the terms of the transaction, two of the current BEE minority shareholders within the PEG Group, namely Bourbon Investment Holdings Proprietary Limited ("**Bourbon Investment**") and Red Navona Properties Proprietary Limited ("**Red Navona**"), will swap their current interests in a subsidiary of PEG Retail Holdings into TFC, by subscribing for shares in TFC, based on a like-for-like valuation of TFC which will effectively increase TFC's existing BEE ownership based on the current Liquid Fuel Charter ("**LFC**").

Prior to the Acquisition, the issued shares of TFC are held as follows:

Shareholder	Percentage of issued shares held
Kaap Agri Bedryf Limited	70.50%
C-Max investments 71 (Pty) Ltd	23.50%
Empowerment and Transformation Investments (Pty) Ltd	6.00%

The table below sets out the **indicative** shareholding in TFC, following the Acquisition and subject to the subsequent subscription for shares in TFC by Bourbon Investment and Red Navona:

Shareholder	Percentage of issued shares held
Kaap Agri Bedryf Limited	57.88%
C-Max investments 71 (Pty) Ltd	17.87%
Empowerment and Transformation Investments (Pty) Ltd	4.56%
Bourbon Investment	16.76%
Red Navona	2.93%

Prior to the Acquisition, TFC's direct BEE shareholding (not applying the modified flow through principle) and BEE shareholding based on the modified flow through principle are set out in the table below:

Shareholder	Direct BEE shareholding percentage	BEE shareholding percentage based on the modified flow through principle
Kaap Agri Bedryf Limited	10.81%	17.72%
C-Max investments 71 (Pty) Ltd	23.50%	23.50%
Empowerment and Transformation Investments (Pty) Ltd	6.00%	6.00%
Total	40.31%	47.22%

The table below sets out the **indicative** direct BEE Shareholding in TFC (not applying the modified flow through principle) and the indicative BEE shareholding in TFC based on the modified flow through principle, following the Acquisition and subject to the subsequent subscription for shares in TFC by Bourbon Investment and Red Navona:

Shareholder	Direct BEE shareholding percentage	BEE shareholding percentage based on the modified flow through principle
Kaap Agri Bedryf Limited	8.86%	14.55%
C-Max investments 71 (Pty) Ltd	17.87%	17.87%
Empowerment and Transformation Investments (Pty) Ltd	4.56%	4.56%
Bourbon Investment	16.76%	16.76%
Red Navona	2.93%	2.93%
Total	50.98%	56.67%

4. RATIONALE FOR THE ACQUISITION

The Acquisition will create a diversified retail fuel operations group, which will, after the Acquisition, have black ownership in excess of 50% as measured by the current LFC, which will make it a leading BEE retail fuel operations company in South Africa and ideally poised for growth to the benefit of all stakeholders.

TFC believes that there are several benefits to the Acquisition of the PEG Group, which include, *inter alia*:

- the acquisition of stable and predictable income streams;
- the acquisition of a highly profitable business situated mostly on national highways of South Africa;
- the PEG Group is highly cash generative with low post transaction capex requirements;
- the PEG Group has a short and favourable working capital cycle;
- the PEG Group is diversified across the major Oil Companies;
- the PEG Group has a strong management team with a successful earnings accretive acquisition track record;
- the managing director will remain in the business and become a shareholder in TFC; and
- the resultant increased BEE ownership in TFC will offer opportunities in related markets.

The Acquisition will be earnings enhancing for current KAL shareholders and will further improve the KAL Group's return on invested capital.

5. PURCHASE CONSIDERATION

The Purchase Consideration has been calculated based on the earnings of the PEG Group for the 12 months ended 30 September 2021, as adjusted and normalised for certain items.

The Purchase Consideration will comprise of the aggregate of:

- an upfront purchase consideration, being a pre adjusted amount equal to R1,017,022,674, of which a portion equal to R944,932,174 will be payable in cash and a portion equal to R72,090,500 will be used by Bourbon Investment and Red Navona to subscribe for shares in TFC; and
- a retention amount, which will only be payable subject to certain milestones being achieved and verified, being an estimated amount (which is not subject to any minimum amount) equal to R80,777,668, prior to any adjustments.

The Purchase Consideration will be allocated as follows:

- in respect of the Sale Claims, the face value thereof; and
- in respect of the Sale Shares, the balance of the consideration or the sum of R1, whichever is the greater.

The Purchase Consideration will potentially be adjusted with the balance of the net working capital and certain loan balances within the PEG Group as at the Effective Date and will be increased by a factor equal to the Prime Rate less 1% calculated from the Effective Date to the date of actual payment of the relevant portion of the Purchase

Consideration, limited to 21 days. Neither of these adjustments are expected to be material to the Purchase Consideration.

For purposes of calculating the potential adjustments to the Purchase Consideration, PEG Retail Holdings will prepare a set of financial statement as at the Effective Date (as defined below) ("**Effective Date Accounts**") to be delivered to TFC within 21 business days after the Effective Date.

6. CONDITIONS PRECEDENT

The Acquisition is subject to the fulfilment of the following normal outstanding conditions precedent ("**Conditions Precedent**"):

- the board of directors of TFC and KAL have approved the implementation of the Acquisition;
- the shareholders of the Stoney Meadows have passed the required resolutions to approve and implement the Acquisition, including such special resolution as may be required in terms of section 112 read with section 115 of the Companies Act;
- the shareholders of TFC, Kaap Agri Bedryf Limited and Kaap Agri Limited have passed all such resolutions as may be required to approve and implement the Acquisition, including such resolutions as may be required in terms of the JSE Limited Listings Requirements;
- TFC confirms to Stoney Meadows, in writing, that it has secured bank funding to the extent required by it for the funding of the transaction contemplated in terms of the Agreement, on terms acceptable to TFC;
- to the extent required, the counterparties to the material contracts have consented in writing to the change in control of the PEG Group resulting from the implementation of the Acquisition;
- the Department of Mineral Resources and Energy, which issued the various retail fuel licences (as listed in the Agreement), has consented in writing to the change in control of the applicable entities in the PEG Group resulting from the implementation of the Acquisition;
- the remaining transaction agreements forming part of the Transaction Documents (as listed in the Agreement) have been entered into and have become unconditional in accordance with their terms, save for any condition contained therein requiring that the Agreement become unconditional;
- the Acquisition (to the extent necessary) has been unconditionally approved by the Competition Authorities in terms of the Competition Act, or conditionally approved on terms and conditions which each of TFC and Stoney Meadows confirms in writing to the other (by not later than the said date and time) to be acceptable to it.

The last of the Conditions Precedent must be fulfilled by not later than 30 April 2022, which date may be extended by the parties in writing.

7. EFFECTIVE DATE OF THE ACQUISITION

The effective date of the Acquisition ("**Effective Date**") will be the later of:

- 1 May 2022; or
- the first day of the month following the month in which the Conditions Precedent are fulfilled or waived, as the case may be.

Notwithstanding the Effective Date, delivery and payment in respect of the Sale Shares and Sale Claims will take place on the second business day after the date on which the Effective Date Management Accounts are deemed to have been accepted by the relevant Parties as correct, or after any dispute in respect of the relevant accounts have been finally determined, in terms of the provisions of the Agreement ("**Closing Date**").

The effective date of the Acquisition is anticipated as being 1 May 2022.

8. FINANCIAL INFORMATION

The value of the net assets comprising the Sale Shares and Sale Claims as at 30 September 2021, being the date of the last audited annual financial statements, was R256,328,712.

The audited profits after tax attributable to the Assets for the financial year ended 30 September 2021, was R181,537,149, based on the audited annual financial statements of PEG Retail Holdings for the year ending 30 September 2021, which were prepared in terms of IFRS for SMEs.

TFC will fund the Acquisition through bank funding and existing cash resources, and accordingly no rights issue will be required by KAL for purposes of the Acquisition.

9. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT

The Agreement contains representations and warranties by Stoney Meadows and its shareholders in favour of TFC which are standard for a transaction of this nature.

10. CLASSIFICATION OF THE ACQUISITION

As the value of the Acquisition exceeds 30% of KAL'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.

As a result, the Acquisition is required to be approved by an ordinary resolution of the shareholders of KAL and accordingly a general meeting of the shareholders of KAL will be convened.

11. CIRCULAR

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

12. WITHDRAWAL OF CAUTIONARY

Shareholders are referred to KAL's cautionary announcement released on SENS on 17 November 2021 and the further cautionary announcement released on SENS on 28 December 2021.

Shareholders are hereby advised that as the particulars of the Acquisition have now been announced, caution is no longer required to be exercised by shareholders when dealing in KAL's securities.

13. OTHER

KAL confirms, for purposes of paragraph 9.16 of the JSE Limited Listings Requirements, that nothing in the constitutional documents of PEG Retail Holdings will, in any way, frustrate or relieve KAL from compliance with the JSE Limited Listings Requirements.

Paarl
19 January 2022

Sponsor and Transaction Adviser
PSG Capital



PSG CAPITAL