

ETION LIMITED

(Incorporated in the Republic of South Africa)
(Registration Number: 1987/001222/06)
(Share Code: ETO)
(ISIN: ZAE000097028)
("Etion" or "the Company" or "the Group")



FIRM INTENTION ANNOUNCEMENT REGARDING THE DISPOSAL BY THE COMPANY OF 100% OF THE SHARES IN ETION CREATE PROPRIETARY LIMITED TO REUNERT APPLIED ELECTRONICS HOLDINGS PROPRIETARY LIMITED

1. INTRODUCTION, CLASSIFICATION AND PURPOSE

Shareholders are referred to the announcement published by the Company on Stock Exchange News Service ("**SENS**") on 20 May 2022 ("**Transaction Announcement**") in terms whereof, inter alia, shareholders were advised that the Company has entered into an agreement ("**Agreement**") with, inter alios, Reunert Applied Electronics Holdings Proprietary Limited ("**the Offeror**"), in terms of which Etion will sell 100% of the issued shares in Etion Create Proprietary Limited ("**Etion Create**") ("**Sale Shares**") to the Offeror for the purchase price ("**Purchase Price**") set out in paragraph 4.1 below ("**Disposal**").

The Disposal is regarded as a disposal of the greater part of the assets or undertaking of the Company in terms of section 112 of the Companies Act and therefore constitutes an "affected transaction" as defined in section 117(1)(c)(i) of the Companies Act, 2008 (Act No. 71 of 2008) ("**Companies Act**"). As such:

- 1.1. a firm intention announcement ("**Firm Intention Announcement**") is required to be published by the Company; and
- 1.2. the Disposal requires the approval of the Takeover Regulation Panel ("**TRP**") established in terms of section 196 of the Companies Act, and the approval of the Company's shareholders by way of a special resolution, in terms of the provisions of section 115 of the Companies Act.

The purpose of this Firm Intention Announcement is to provide shareholders with the detailed information regarding the Disposal as required in terms of the Companies Act and Companies Regulations, 2011 ("**Companies Regulations**").

As stated in the Transaction Announcement, the value of the Disposal constitutes a category 1 transaction in terms of the Listings Requirements of the JSE Limited ("**JSE Listings Requirements**"). As such, (i) the Transaction Announcement was published in order to provide shareholders with the detailed information regarding the Disposal as required in the JSE Listings Requirements; and (ii) the Disposal is required to be approved by an ordinary resolution of the Company's shareholders in terms of section 9 of the JSE Listings Requirements.

2. DESCRIPTION OF ETION CREATE

Etion Create is a leading Original Design Manufacturing company, specialising in the design, manufacturing, integration and support of advanced technology.

Etion Create is able to create customised electronic subsystems and products for clients across a range of sectors including Mining and Industrial; Defence and Aerospace; Internet of Things and Sensors; and Cyber Security.

3. RATIONALE FOR THE DISPOSAL

The strategy of the Company's board of directors ("**Board**") as adopted in 2020 was to unlock shareholder value by selling off the operating entities of the Group as the market capitalisation of the Group at the time was trading at a significant discount to the underlying intrinsic value of the operating entities when viewed as a whole. It is within this context that the Disposal has been concluded.

4. SALIENT TERMS AND CONDITIONS

4.1. The Purchase Price

The Purchase Price will be calculated as set out below. It is currently expected that the Purchase Price will amount to approximately R197 million, excluding: 1) the successful payment of a receivable in the amount of R2.56 million by a customer of Etion Create prior to closing of the Disposal, and 2) interest to be accrued on the Purchase Price from the Effective Date (as defined in paragraph 4.5 below) to closing date (as defined below). The maximum Purchase Price will not exceed R210 million.

The Purchase Price will be finally determined as set out below, ten business days prior to the Closing Date, being the first business day in the month following the month in which the last of the conditions precedent (as set out in paragraph 4.4 below) ("**Conditions Precedent**") has been fulfilled, or such later date as may be provided for in the Agreement.

- 4.1.1. The enterprise value of the Sale Shares as at the Effective Date is initially agreed to be the amount of R168 million, being the assumed value of the entire issued share capital of Etion Create, on a cash-free and debt-free basis ("**Initial Enterprise Value**").
- 4.1.2. The Initial Enterprise Value shall be increased or reduced (as the case may be) by certain net debt and net working capital adjustments. The net debt adjustment will be determined using the debt less cash and cash equivalents as reflected in the audited annual financial statements of Etion Create for the financial year ending on 31 March 2022 ("**2022 Accounts**"). The net working capital adjustment will be determined using the final audited net working capital as at 31 March 2022 less the normalised net working capital peg for the proceeding financial year ("**Final Enterprise Value**").
- 4.1.3. The purchase price payable by the Offeror will be the Final Enterprise Value, as further increased or reduced (as the case may be) by certain payments and receivables between the effective date and Closing Date ("**Purchase Price**").
- 4.1.4. Ten business days prior to the Closing Date, the Company shall provide the Offeror with the purchase price calculation ("**Closing Date Purchase Price Calculation**"). The Offeror will have five business days to review the Closing Date Purchase Price Calculation and notify the Company whether it agrees with the Closing Date Purchase Price Calculation or not.
- 4.1.5. If the Offeror is in agreement with the Closing Date Purchase Price Calculation, the Offeror shall make payment of the Purchase Price as contemplated in paragraph 4.2 below.
- 4.1.6. If the Offeror is not in agreement with the Closing Date Purchase Price Calculation, it will provide the Company with its calculation of the Purchase Price whereafter the parties will try to resolve the differences within the ensuing 5 (five)

business days. If unresolved, the matter will be referred to an independent expert ("**Independent Expert**") for final determination.

4.2. Payment of the Purchase Price

Once the Purchase Price has been agreed or determined as set out above, on the Closing Date:

- 4.2.1. The Offeror shall pay the "**Initial Purchase Price**" (being the Purchase Price less the Retention Amount (defined in paragraph 4.2.2 below), in cash to the Company; and
- 4.2.2. an amount of R5 million (the "**Retention Amount**") will be paid into a trust account to satisfy any warranty claims instituted by the Offeror. The Retention Amount will be paid to the Company on or about the second anniversary of the Effective Date, less any legitimate warranty, indemnity and/or other potential claims under the Agreement which are accepted and conceded by the Company.

4.3. Application of the Purchase Price

It is envisaged that, subsequent to the review and consideration of operational cash requirements and a comprehensive review of the Company's remaining known obligations and liquidity position, the net proceeds less the Retention Amount will be made available for distribution to the Company's shareholders.

4.4. Conditions Precedent

The Disposal is subject to the fulfilment (or, where applicable, waiver) of the following outstanding Conditions Precedent by no later than 20 November 2022, being the sixth month anniversary of the signature date of the Agreement ("**Signature Date**"), or such date as may be agreed in writing by the parties:

- 4.4.1. the Company shall have delivered to the Offeror an ordinary resolution of the shareholders of the Company approving the conclusion of the Agreement pursuant to the JSE Listings Requirements;
- 4.4.2. the Company shall have delivered to the Offeror a special resolution of the shareholders of the Company approving the conclusion of the Agreement and the transactions contemplated in the Agreement in terms of section 112 read with section 115 of the Companies Act;
- 4.4.3. Etion Create shall have provided to the Offeror a letter from Nedbank Limited, or any of its other funders, in terms of which Nedbank Limited or such other funders release Etion Create from, and terminates any cross-suretyships, cession and pledge of debtors books, guarantees and any and all security arrangements, including encumbrances and any other contractual commitments but excluding any permitted encumbrances (defined as encumbrances in the ordinary course of business), given by, the Company and/or Etion Create in favour of Nedbank Limited or such other funders or person;
- 4.4.4. the Company and/or Etion Create shall have obtained all necessary written consents and waivers (for the avoidance of doubt, this shall include, without limitation, waivers in respect of any termination rights provided for under defined material contracts on an unconditional basis, and shall have provided the requisite notices to the relevant counterparties, pursuant to any change in control provisions, B-BBEE or any other provisions requiring such notification and/or consent, in terms of the defined material contracts);
- 4.4.5. the Company and/or Etion Create shall have provided written confirmation to the Offeror that all intra-group and related party arrangements and agreements

are terminated and all intra-group receivables owing to Etion Create are settled in full;

- 4.4.6. the Company shall have obtained all necessary consents required to assign and/or transfer all the intellectual property held by the Company and as may be required to conduct the business of Etion Create, to the Offeror and shall have transferred such intellectual property to Etion Create on or about the 31 March 2022;
- 4.4.7. Etion Create shall have negotiated and concluded employment contracts with certain key personnel within ninety days of the Signature Date, on terms satisfactory to the Offeror, including appropriate restraint of trade provisions;
- 4.4.8. Etion Create shall deliver and release to the Company and the Offeror the 2022 Accounts;
- 4.4.9. no material adverse change (defined as a material adverse change in the condition (financial, trading or otherwise), prospects, results of operations, business or general affairs of the Company, including the cancellation of a Material Contract) shall have occurred between the Signature Date and the Closing Date;
- 4.4.10. Etion Create shall have received the outstanding contracting and export permits relating to two export contracts;
- 4.4.11. the parties shall have obtained the approval of the Competition Authorities; and
- 4.4.12. other conditions precedent that are customary for a transaction of this nature.

4.5. Effective Date of the Disposal

Subject to the Conditions Precedent being fulfilled or waived (where applicable), the Disposal will be implemented on the Closing Date. Notwithstanding this, subject to the payment by the Offeror of the Purchase Price on the Closing Date, i) all risks in and benefits arising out of the Disposal shall be deemed to have passed to the Offeror with effect from 1 April 2022 ("**Effective Date**"), and ii) ownership of the Sale Shares shall pass to the Offeror on the Closing Date. The Disposal may not be implemented until the TRP has issued a compliance certificate in terms of regulation 102(13)(b) of the Companies Regulations.

4.6. Warranties and Other Significant Terms of the Agreement

The Agreement contains indemnities and warranties given by the Company in favour of the Offeror which are standard for a transaction of this nature.

5. FINANCIAL INFORMATION

The value of the net assets of Etion Create as at 30 September 2021, being the date of the Company's most recent interim financial results, was R159.4 million.

The profits attributable to Etion Create for the six months ended 30 September 2021 was R15.7 million, based on the interim financial results for the Company.

The aforementioned interim financial statements are unreviewed and unaudited and were prepared in terms of International Financial Reporting Standards (IFRS).

6. INDEPENDENT BOARD

The Company has constituted an independent board which consists of Martie Janse van Rensburg, Steve Naude and Zuziwe Ntsalaze ("**Independent Board**"). The Independent Board will appoint an Independent Expert in order to, *inter alia*, prepare a fair and

reasonable opinion for the Company's shareholders. The Independent Expert's fair and reasonable opinion, as well as the Independent Board's recommendation to the Company's shareholders in relation to the Disposal, will be set out in the circular referred to in paragraph 7 below to be distributed to the Company's shareholders as required in terms of the Companies Act and the Companies Regulations.

7. POSTING OF CIRCULAR AND NOTICE OF GENERAL MEETING

The information contained in this Firm Intention Announcement should be read in conjunction with the terms of, and subject to, the full details of the Disposal and disclaimers to be contained in the circular to the Company's shareholders, incorporating a notice convening the required general meeting of the shareholders in order to consider and, if deemed fit, to pass, with or without modification, the resolutions approving the Disposal set out therein ("**Circular**"). The salient dates and times of the Disposal will be announced on SENS when the Circular is distributed.

The Circular is anticipated to be distributed to the Company's shareholders on or about 1 August 2022. A copy of the Circular will also be made available on the Company's website (<http://www.etion.co.za>) and the registered offices of the Company from the date of distribution.

8. RESPONSIBILITY STATEMENT

The Independent Board individually and collectively accepts full responsibility for the accuracy of the information contained in this Firm Intention Announcement. In addition, the Independent Board certifies that to the best of its knowledge and belief, the information contained in this Firm Intention Announcement solely pertaining to the Company is true and, where appropriate, does not omit anything that is likely to affect the importance of the information contained herein, and that all reasonable enquiries to ascertain such information have been made.

9. CONCERT PARTIES

- 9.1. The Company has confirmed that there is no beneficial interest in the Company (i) held or controlled, directly or indirectly by the Offeror, persons acting in concert with the Offeror, or by persons in respect of which the Offeror has received irrevocable commitments to accept or vote in favour of the Disposal; (ii) in respect of which the Offeror holds an option to purchase; or (iii) in respect of which a person acting in concert with the Offeror holds an option to purchase.

8 June 2022

Transactional Sponsor and Designated Adviser

PSG Capital



PSG CAPITAL