

CHOPPIES ENTERPRISES LIMITED
(Incorporated in the Republic of Botswana)
Registration number: BW00001142508
ISIN: BW0000001072
BSE SHARE CODE: CHOPPIES
JSE SHARE CODE: CHP
Tax Reference Number: C08710401018
("Choppies" or the "Company")



CATEGORY 2 ACQUISITION ANNOUNCEMENT - KAMOSO AFRICA ("KAMOSO") ACQUISITION AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

INTRODUCTION

In terms of the Listings Requirements of the Botswana Stock Exchange ("BSE"), Choppies shareholders ("Shareholders") are hereby advised of the acquisition by Choppies Distribution Centre (Pty) Ltd, of a controlling stake of 76% of the issued shares of Kamoso as set out in the agreement ("Agreement") concluded between Choppies and the sellers on 9th June 2023 (the "Kamoso Acquisition" or "Proposed Transaction").

As required in terms of the Listings Requirements of the BSE, the Choppies board of directors ("Board") confirms that the Company's Audit Committee has approved the Kamoso Acquisition and determined that the terms of the Proposed Transaction are fair insofar as shareholders of Choppies are concerned.

The fairness opinion prepared by the Audit Committee will lie for inspection at the Company's registered office for a period of 28 days from the date of this announcement. The fairness opinion prepared by the Audit Committee is also available on the Investors section of the Choppies website.

DIRECTOR'S RESPONSIBILITY FOR THE CATEGORY 2 ACQUISITION ANNOUNCEMENT

The directors are responsible for the preparation of this announcement in accordance with BSE Listings Requirements.

CLASSIFICATION OF THE ACQUISITION

The Acquisition constitutes a category 2 Small Related Party Transaction in terms of the BSE Listing Requirements.

PURCHASE CONSIDERATION AND MATERIAL TERMS

Pursuant to the Proposed Transaction, Choppies, through its wholly owned subsidiary Choppies Distribution Centre (Pty) Ltd, intends to acquire 76% (seventy six percent) of the issued ordinary shares Kamoso Group for P2.00 (two Pula) and take cession of the existing shareholders loans to the value of approximately P28 million at the proposed acquisition date.

The parties to the Proposed Transaction considered the net asset value of the Kamoso group as key factor in arriving at the consideration. Ultimately the consideration was a negotiated outcome between the parties. The consideration will be settled from cash resources on the Closing Date

There are no put, call or other options relating to the Proposed Transaction.

At this stage we have not identified any new directors to be appointed to Kamoso. Once we do identify and appoint directors, their service contracts will be on the same basis as the existing Kamoso directors.

We confirm that Kamoso's constitution will be amended to conform to Appendix 3C of the BSE Listings Requirements.

The Botswana Development Corporation ("BDC") will retain its 24% shareholding in Kamoso Group following the Proposed Transaction.

The Proposed Transaction has been approved by the Competition and Consumer Authority (CCA), and the Choppies Lenders Consortium. The BSE has reviewed the transaction compliance with the BSE Equity Listing Requirements.

All other conditions precedent to the Transaction have been fulfilled.

The closing date of the Proposed Acquisition is expected to be the 19th of July 2023.

Grant Thornton Capital Advisors (Pty) Ltd was appointed to conduct an integrated financial and tax due diligence and business valuation of Kamoso Group, which was completed in January 2023. Osei-Ofei Swabi & Co. carried out legal due diligence on Kamoso Group at the same time.

The shareholders are IAPF2 RMBV7 Kamoso Limited, Newshelf 1392 (Pty) Ltd, BDC, the Choppies CEO and N Ottapathu. Post-acquisition Choppies will own 76% and BDC 24%.

DESCRIPTION OF THE KAMOSO GROUP

The current trading divisions of the Kamoso Group are detailed below. These divisions sit in 12 separate legal entities, all wholly owned except for a small liquor business in South Africa, which is 51% owned.

Business	Location	Nature of business
Milling businesses	Botswana	Milling and distribution of sorghum, white maize meal, samp, animal feed mix, packing of rice, spices, and pulses
Keriotic Investments	Botswana	Imports value for money food and non-food FMCG products
Mediland	Botswana	Distribution of diagnostic medical equipment and consumables, as well as distribution of pharmaceutical products to local hospitals
Tissue packaging	Botswana	Manufacturer of private label and institutional toilet tissue
Water bottling	Botswana	Manufacturing of plastics and bottling of drinking water
Builders Mart	Botswana	Retail of building materials and supplies to consumers and SMEs. Extremely focused on DIY market - 27 stores
Skywalker	South Africa	Retail of alcoholic beverages - 10 stores
Liquorama	Botswana	Retail & wholesale of alcoholic beverages - 68 stores
Group	Botswana	Private management and holding company

RATIONALE FOR THE PROPOSED ACQUISITION

Kamoso has a well-established and dominant liquor business. Choppies Botswana is the only one of the 4-countries that does not have a liquor business and is the only major grocery retailer in Botswana without a liquor business.

The retail businesses of Kamoso includes a well-established hardware business and this integrates into our current strategy of expanding into hardware. There is rapid urbanization resulting in the demand for housing and infrastructure increasing exponentially within Africa. Africa also has an expanding middle class. A significant majority of Africans in the middle class

hold salaried jobs or own a small business. Many of them have access to mortgage loans and are building their own properties and homes. A lot of them also invest in real estate projects and have become landlords. This demand provides a lucrative potential to grow the Builders Mart footprint in Botswana as well as the other three-countries in which Choppies operates in.

The tissue business is a key supplier to Choppies for our house brands.

The milling businesses are either manufacturing or wholesale and while this is not part of our strategic intent as a retailer, there is significant benefit from backward vertical integration. These three businesses collectively have Choppies Botswana as a customer making up around 60% of total revenues.

Kamoso milling does not have the capacity to supply Choppies fully and we would want to keep competitive tension with having more than one supplier to mitigate risk.

The Kamoso Group has a number of well-known brands or branded products.

BUSINESS VALUATION

Grant Thornton Capital Advisors performed business valuations in conjunction with Kamoso management. These valuations are the sum of individual valuations for each business unit using appropriate valuation methodology viz., Discounted cash flow/ Net asset value / Relative valuation.

Kamoso Group		Grant Thornton 18% discount rate
Valuation summary		
Enterprise value		340
Less net debt		(161)
Equity value (Pre-Discount for lack of marketability)		179
Discount for lack of marketability		(27)
Equity value of business – January 2023		152
Choppies share at 76%		116

IMPACT ON CHOPPIES GROUP'S PROFIT OR LOSS AND FINANCIAL POSITION

The table below details the impact of consolidating the Kamoso Group on the June 2022 Statement of Financial Position after considering the fair value adjustments and sale of certain businesses. There will be goodwill of P81m. The P81m may change depending on the final adjustments at acquisition date.

	Choppies	Kamoso	Inter-co	Fair value goodwill	Pro-forma
Statement of profit or loss					
Sales	6,042	1,153	(288)		6,906
EBITDA after IFRS16	520	66			586
Profit before Tax	180	(9)			171
Earnings per share & diluted earnings per share	10.7	(0.5)			10.2
Statement of financial position					
Non-current Assets	1,147	104			1,251
Goodwill	48	39		81	168
Current Assets	606	172	28		806
Cash	85	40			125
Equity	341	81		(81)	341
Borrowings	(530)	(51)			(581)
IFRS16 Leases	(561)	(73)			(634)
Finance leases	(26)				(26)
Non-current Liabilities	(16)	0			(16)
Current Liabilities	(939)	(159)	(28)		(1,126)
Short term borrowings	(87)				(87)
Overdraft	(68)	(153)			(221)
Net cash	17	(113)			(96)
Net debt	(626)	(164)			(790)

Kamoso as a group will be shown as a separate segment. Other than Liquorama, no other sub-segment within Kamoso will exceed 10% of the Group. Liquorama will qualify as a separate segment i.e., it will meet the qualitative measure of more than 10% of total sales. So, post-acquisition we will have six reporting segments – Botswana, Namibia, Zambia, Zimbabwe, Kamoso Group, Liquorama.

Net debt will increase by P164m (excluding IFRS16 leases). Net debt includes interest-bearing banking loans of P140m and interest-bearing shareholders loans including those owing to the BDC totaling P79m.

There will be no impact on existing covenants as the Kamoso debt is ring fenced outside of Choppies Botswana debt for the purposes of calculating the covenant ratios. We have agreed with the Lenders that Choppies Botswana will not provide financial support to Kamoso without the permission of the Choppies Lenders.

The table below details the impact of owning Kamoso on the related party disclosures (note thirty-nine of Choppies FY'22 Group financials).

FY2022 proforma related party sales, purchases & rent	<u>Pm</u>
Sales to related parties	39
Less Kamoso	(15)
Proforma sales to all related Parties	23
Purchases from all related parties	499
Purchases from Kamoso	(216)
Proforma purchases from all related parties	283
Rent with FAR Property	
Choppies	62
Kamoso	8
Proforma rent to FAR Property	70

This acquisition will go a long way to reduce our dependence on related parties.

KAMOSO THREE-YEAR PROFIT OR LOSS & STATEMENT OF FINANCIAL POSITION

The table below details Kamoso Earnings before interest and tax and financial position over the last three years.

Abridged Profit or Loss	Jun-23	Jun-22	Jun-21
Sales	1,018	1,157	1,200
Sales growth	(12%)	(4%)	(4%)
Gross Profit	142	161	172
Gross Profit %	14%	14%	14%
Earnings before interest and tax (EBIT)	(83)	(66)	(167)
Interest	(23)	(17)	(14)
Tax	(3)	(3)	(7)
Profit after tax	(109)	(86)	(188)

Abridged Financial Position	Jun-23	Jun-22	Jun-21
Plant & Equipment	82	92	109
Right of Use Assets	101	67	83
Deferred Tax Assets	6	9	8
Inventories	123	161	177
Receivables	103	173	142
Current Tax Assets	13	13	13
Cash and cash equivalents	31	27	19
Borrowings	(79)	(72)	(24)
Lease liabilities	(114)	(78)	(96)
Deferred tax liabilities	(1)	(1)	(1)
Payables	(163)	(168)	(203)
Current tax liabilities	(3)	(3)	(6)
Bank overdraft	(131)	(129)	(120)
Net (liability)/asset value	(32)	91	101

Net (overdraft)/cash	(100)	(102)	(101)
Gross debt - excluding IFRS16 Leases	(210)	(201)	(144)
Net debt	(179)	(174)	(125)
Capex cash spend	(12)	(6)	(21)

The Group incurred losses during the last three years because of the following issues:-

- negative financial impact of Covid on the Group and its major customers
- a demanding economic environment characterised by stubbornly high inflation, higher interest rates and unemployment, all of which continue to constrain consumer spending impairments
- impairments relating to trade receivables, inventory, and goodwill
- cash flow constraints in the business

The Kamoso Group, when part of Choppies, will be able to achieve synergies in the short term which will allow the Group to return to profitability and achieve EBITDA margins of 4% to 6%, as achieved during FY2017 to FY2020, just before Covid began to affect the economy.

WITHDRAWAL OF CAUTIONARY

Shareholders are referred to the Company's cautionary announcement released on X-News and SENS on 23rd January 2023 and the further cautionary announcement renewed on X-News and SENS on 25th May 2023 and 07th July 2023.

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

The Company's primary listing is on the BSE and its secondary listing is on the JSE Limited.

11th July 2023

BSE Sponsoring Broker
Stockbrokers Botswana Limited

JSE Sponsor
PSG Capital

