

## **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")

# **ETION**

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## **CATEGORY 1 DISPOSAL ANNOUNCEMENT AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

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### **1. INTRODUCTION**

Shareholders are advised that the Company has entered into an agreement ("**Agreement**") with, inter alios, Reunert Applied Electronics Holdings Proprietary Limited ("**the Purchaser**"), in terms of which Etion will sell 100% of the issued shares in Etion Create Proprietary Limited ("**Etion Create**") ("**Sale Shares**") to the Purchaser for the Purchase Price set out in paragraph 4 below ("**Disposal**").

### **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; Defense and Aerospace; Internet of Things (IoT) and Sensors; and Cyber Security.

### **3. RATIONALE FOR THE DISPOSAL**

The strategy of the Company's Board as adopted in 2020 was to unlock shareholder value by selling off the operating entities 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. 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 mil by a customer of Etion Create prior to closing and 2) interest to be accrued on the Purchase Price from the Effective Date to Closing Date (as defined in paragraphs 7 and 4.1 respectively). The maximum price purchase price will not exceed R210 million.

#### **4.1. Determination of the Purchase Price:**

The Purchase Price will be finally determined as set out below ten business days prior to the Closing Date. "**Closing Date**" refers to the first business day in the month

following the month in which the last of the Conditions Precedent (as set out below) 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 (as defined in paragraph 7 below) 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 preceding financial year (“**Final Enterprise Value**”).
- 4.1.3. The Purchase Price payable by the Purchaser 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 Purchaser with the purchase price calculation (“**Closing Date Purchase Price Calculation**”). The Purchaser 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 Purchaser is in agreement with the Closing Date Purchase Price Calculation, the Purchaser shall make payment of the Purchase Price as contemplated in paragraph 4.2 below.
- 4.1.6. If the Purchaser 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 Purchaser shall pay the “**Initial Purchase Price**” (being the Purchase Price less the Retention Amount referred to in the paragraph below), in cash directly to the Company; and
- 4.2.2. an amount of R5 million (the “**Retention Amount**”) will be paid into a trust account in order to satisfy any warranty claims instituted by the Purchaser. 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 other potential claims under the Agreement which are accepted and conceded by the Company.

#### **5. 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 shareholders.

## 6. CONDITIONS PRECEDENT

The Disposal is subject to the fulfilment (or, where applicable, waiver) of the following outstanding conditions precedent ("**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:

- 6.1.1. the Company shall have delivered to the Purchaser an ordinary resolution of the shareholders of the Company approving the conclusion of this Agreement pursuant to the JSE Listings Requirements;
- 6.1.2. the Company shall have delivered to the Purchaser a special resolution of the shareholders of the Company approving the conclusion of this Agreement and the transactions contemplated in this Agreement in terms of section 112 read with section 115 of the Act;
- 6.1.3. Etion Create shall have provided to the Purchaser a letter from Nedbank Limited, or any of its other funders, in terms of which Nedbank Limited or such other funders releases 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;
- 6.1.4. 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);
- 6.1.5. the Company and/or Etion Create shall have provided written confirmation to the Purchaser 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;
- 6.1.6. 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 Purchaser and shall have transferred such Intellectual Property to Etion Create on or about the 31 March 2022;
- 6.1.7. 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 Purchaser, including appropriate restraint of trade provisions;
- 6.1.8. Etion Create shall deliver and release to the Company and the Purchaser the 2022 Accounts;
- 6.1.9. 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;
- 6.1.10. Etion Create shall have received the outstanding contracting and export permits relating to two export contracts;
- 6.1.11. the Parties shall have obtained the approval of the Competition Authorities; and
- 6.1.12. other conditions precedent that are customary for a transaction of this nature.

## **7. 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 Purchaser 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 Purchaser with effect from 1 April 2022 ("**Effective Date**"), and ii) ownership of the Sale Shares shall pass to the Purchaser on the Closing Date.

## **8. 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 IFRS.

## **9. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT**

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

## **10. CLASSIFICATION OF THE DISPOSAL**

As the value of the Disposal exceeds 50% of the Company's market capitalisation as at the Signature Date, it meets the definition of a category 1 transaction as contemplated in section 9 of the JSE Limited Listings Requirements. As such, the Disposal is required to be approved by an ordinary resolution of the Company's shareholders, which will require the support of more than 50% (fifty per cent) of the votes exercised on it.

In addition, 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. As such, the Disposal required to be approved by way of a special resolution of the Company's shareholders, which will require the support of at least 75% (seventy-five per cent) of the votes exercised on it.

## **11. INDEPENDENT BOARD**

The Company has constituted an independent board which consists of Martie Janse van Rensburg, Steve Naude and Zuziwe Ntsalaze ("the **Independent Board**"). The Independent Board will appoint an independent expert to provide the Independent Board with external advice regarding the Disposal and to compile a fair and reasonable opinion on the Disposal in terms of the Companies Regulations, 2011.

## **12. CIRCULAR**

A circular containing the full details of the Disposal and 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.

## **13. WITHDRAWAL OF CAUTIONARY**

Shareholders are referred to the Company's cautionary announcement on 17 February 2022, as renewed on 1 April 2022.

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

## **14. INDEPENDENT BOARD RESPONSIBILITY STATEMENT**

The Independent Board of the Company:

- 14.1. have considered all statements of fact and opinion in this announcement;
- 14.2. accept, individually and collectively, full responsibility for the accuracy of the information given;
- 14.3. certify that, to the best of their knowledge and belief, there are no omissions of material facts or considerations which would make any statement of fact or opinion contained in this document false or misleading;
- 14.4. have made all reasonable enquiries in this regard; and
- 14.5. confirm that this announcement contains all information required by the Takeover Regulations set out in Chapter 5 of the Companies Act.

20 May 2022

Transactional Sponsor and Designated Adviser

PSG Capital



PSG CAPITAL