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Shareholder update: EOH strategy, strategic partnership with Lebashe, including a R3.25 bn growth funding facility

EOH HOLDINGS LIMITED

Incorporated in the Republic of South Africa

(Registration number 1998/014669/06)

Share code: EOH ISIN: ZAE000071072

("EOH" or the "Company")

SHAREHOLDER UPDATE: EOH STRATEGY, STRATEGIC PARTNERSHIP WITH LEBASHE, INCLUDING A R3.25 BILLION GROWTH FUNDING FACILITY, BLACK ECONOMIC EMPOWERMENT TRANSACTION AND CAUTIONARY ANNOUNCEMENT

## 1. EOH STRATEGY

EOH has grown significantly over the past 20 years, now employing approximately 13 000 people and servicing over 5 000 large customers. EOH has evolved into the largest multidisciplinary technology services group in Africa comprising diversified businesses across a large number of sectors and markets.

Following a strategic review of its business, EOH has decided that for the long-term benefit of all stakeholders it shall form two independent businesses within EOH, each of which will have its own:

- Brand and identity.
- Growth strategy.
- Go to market approach.
- Business model.
- Culture.

The two independent businesses will be branded as follows:

- one will continue to trade under the EOH brand; and
- the second business ("NewCo") shall create and launch its own brand and identity within the following two months.

This will achieve the following:

- Better managed business diversity.
- Full realisation of each business' potential.
- Clarity of brand identity.
- The appropriate business model for each business.
- Simplified business processes.
- Reduced complexity.
- Reduced management span of control.
- Greater oversight and stronger governance.
- Increased agility.
- Reversal of diseconomies of scale.
- Unlocking of shareholder value.

The key characteristics of the business continuing under the EOH brand are:

- End-to-end information communication technology (ICT) offering.
- Integrated go to market strategy.
- Cross-industry intellectual property ("IP").
- Growth is mainly organic.
- Cross-selling opportunity with existing customers.
- Highly proficient system integration as a market differentiator.
- New generation digital technologies driving growth.

Approximately 55% of EOH's group revenue is currently generated by this business.

The key characteristics of the business to trade under the "NewCo" brand are:

- High degree of specialisation in each of the businesses.
- Deep levels of expertise.
- Domain specific IP.
- Growth driven equally by acquisitions and organically.
- Business units operate relatively autonomously.
- Differentiated by vertical specific offering.
- Operates in high growth industries.

Approximately 45% of EOH's group revenue is currently generated by NewCo's business.

This strategy will form the backbone of a new phase in EOH's growth and development.

## 2. LONG-TERM STRATEGIC PARTNERSHIP WITH LEBASHE, R3.25 BILLION FUNDING FACILITY AND BLACK ECONOMIC EMPOWERMENT ("BEE") TRANSACTION

### 2.1. Introduction to Lebashe

EOH and Lebashe Investment Group Proprietary Limited, acting through its Lebashe Financial Services division, ("Lebashe") (collectively, the "Parties") have identified significant synergistic mutual growth opportunities and, in order to access these opportunities, resolved to form a long-term strategic partnership.

Lebashe is an established, 100% black-owned investment holding company with a variety of interests in the South African financial and technology sectors holding interests in, inter alia, Capitec Bank Holdings Limited, Aluwani Capital Partners Proprietary Limited, 4 Africa Exchange Proprietary Limited as well as various other entities operating within its chosen sectors. Furthermore, Lebashe shares common management and ownership with entities holding significant investments in a variety of African infrastructure, energy and technology assets.

The strategic alignment of Lebashe and EOH's interests through the Transaction presents an opportunity for the Parties to further cooperate and pursue growth opportunities and synergies between the business interests of the Parties, which shall be accelerated through an upfront

equity capital injection by Lebashe into EOH and further supported by the provision of a new funding facility by Lebashe to EOH, as set out below.

## 2.2. Agreement with Lebashe

EOH shareholders ("Shareholders") are hereby informed that EOH has entered into a framework agreement with Lebashe pursuant to which the Parties have agreed, subject to the fulfilment of certain conditions precedent, to conclude a transaction in terms of which EOH:

- will establish a long-term strategic partnership with Lebashe;
- Lebashe will subscribe for new ordinary EOH shares ("EOH Shares") for R250 million; and
- EOH will have access to a funding facility for growth in an amount of up to an additional R3 billion, whilst significantly enhancing EOH's BEE ownership credentials over a period of ten years, at a minimum of 20.3% for five years (collectively, the "Transaction").

## 3. SALIENT TERMS OF THE TRANSACTION

The Transaction comprises, inter alia:

- the issue, subject to such further terms and conditions customary to a transaction of this nature, of new EOH Shares at a 10% discount to the volume weighted average price of an EOH Share on the exchange operated by the JSE Limited ("JSE") for the 30 trading days immediately preceding the issue of the EOH Shares ("30 Day VWAP"), ("Initial Subscription");
- the provision by Lebashe of a R3 billion funding facility to EOH ("Lebashe Facility") over a period of five years from the date of the Initial Subscription ("Transaction Term") which EOH can access through the issue of new unsecured domestic medium term notes ("EOH Notes") to Lebashe; and
- the creation and issue of 40 million new unlisted redeemable A shares in EOH ("A Shares") to Lebashe ("A Share Issue") to be held by Lebashe as EOH's BEE partner throughout the Transaction Term, thereby further increasing EOH's BEE ownership credentials over a period of ten years, with a minimum of 20.3% for the first five years.

The table below presents, for illustrative purposes, the potential Shareholder dilution that may result from the A Share Issue:

Future EOH share price (Note 1)	Potential Shareholder dilution (Note 2)	Implied compound annual growth rate of EOH share price over Transaction Term (Note 3)
R112.00	-	10.9%
R125.00	2.65%	13.4%
R150.00	6.23%	17.6%

### Notes:

1. Illustrative future EOH 30 Day VWAP to be utilised for purposes of the A Share Formula (as set out in more detail in paragraph 3.2 below).
2. Calculated assuming no dividends paid or shares issued by EOH during the Transaction Term.
3. Calculated using the future EOH share price (set out in column 1) and the EOH 30 Day VWAP on Friday, 9 March 2018 (i.e. R66.75).

Implementation of the Initial Subscription, the A Share Issue and the Lebashe Facility will be inter-conditional and subject to certain suspensive conditions, including Shareholder approval.

### 3.1. Initial Subscription

Upon implementation of the Transaction, Lebashe has agreed to subscribe for new EOH Shares at a subscription price equal to a 10% discount to the 30 Day VWAP for a total cash consideration of R250 million ("Initial Subscription Amount").

In order to secure the BEE ownership credentials which shall accrue to EOH pursuant to the Initial Subscription, for the duration of the Transaction Term Lebashe will undertake not to dispose of the EOH Shares received pursuant to the Initial Subscription.

Should the Transaction not be implemented for any reason not attributable to Lebashe, the origination and structuring fee associated with the procurement of the Initial Subscription Amount and the Lebashe Facility, calculated as 0.5% of the aggregate value of these amounts shall be payable by EOH to Lebashe.

### 3.2. A Share Issue

EOH will create new unlisted A Shares for purposes of the Transaction for issue to Lebashe. During the Transaction Term, each A Share shall rank pari passu with an EOH Share in respect of voting rights but each A Share will only receive cash dividends in an amount equal in value to 15% of cash dividends paid in respect of an EOH Share ("Reduced Dividend Right"). Upon implementation of the A Share Issue, 40 million A Shares will be issued to Lebashe for a nominal subscription price. As a result of the A Share Issue, BEE ownership in EOH will further increase by approximately 20.3%. In order to secure this increased BEE ownership in EOH, for the duration of the Transaction Term Lebashe will not be entitled to dispose of nor encumber the A Shares acquired pursuant to the A Share Issue.

At the end of the Transaction Term, EOH will, pursuant to an A Share capitalisation issue, issue such number of EOH Shares Lebashe as determined in accordance with a formula ("A Share Formula").

The A Share Formula determines the number of EOH Shares to be issued to the holders of A Shares as:

- the amount by which the 30 Day VWAP of an EOH Share at the end of the Transaction Term ("Calculation Date") exceeds an amount of R112.00 per EOH Share; plus
- the aggregate value of the dividends not paid in respect of the A Shares pursuant to the Reduced Dividend Right over the Transaction Term ("Sacrificed Dividends"); collectively divided by
- the 30 Day VWAP of an EOH Share as at the Calculation Date.

The A Share Formula is set out below:

$$A = \frac{[B \times (C + D)]}{E}$$

where:

- A = Number of EOH Shares to be issued in respect of the A Shares.
- B = Number of A Shares in issue as at the Calculation Date.
- C = 30 Day VWAP of an EOH Share on the Calculation Date less R112.00, subject to a minimum of zero.
- D = The amount of Sacrificed Dividends over the Transaction Term, being 85% of all dividends paid in respect of EOH Shares during Transaction Term.
- E = 30 Day VWAP of an EOH Share on the Calculation Date.

### 3.3. Lebashe Facility and DMTN Programme

EOH will establish a R5 billion domestic medium term note programme ("DMTN Programme") pursuant to which EOH Notes shall be issued by EOH and listed on the interest rate market of the JSE. Pursuant to the Lebashe Facility, Lebashe shall undertake to subscribe, at EOH's request, for EOH Notes up to an aggregate nominal value of R3 billion, subject to the terms and conditions of the Lebashe Facility which would include, inter alia, compliance by EOH with financial covenants and other terms customary to a facility of this nature.

### 4. FURTHER INFORMATION

Further details regarding the Transaction, the Transaction circular and the related salient dates and times pertaining to the Transaction will be published on SENS in due course.

### 5. CAUTIONARY ANNOUNCEMENT

EOH's board of directors is in the process of preparing the pro forma financial effects of the Transaction. Accordingly, Shareholders are advised to exercise caution when dealing in the Company's securities until a further announcement in this regard is made.

Johannesburg  
12 March 2018

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