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ReadyTech Holdings Limited

ABN 25 632 137 216

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FOR IMMEDIATE RELEASE

ReadyTech to expand into a third vertical with proposed acquisition of Open Office

- ReadyTech's strategy is to provide mission critical Software-as-a-Service (SaaS) to targeted markets leveraging its modern technology platforms, all underpinned by its best practices approach to deploying customer-centric software. The strategy has also been focused on identifying new and attractive verticals to continue its successful track record of expanding into new markets
- On 6 November 2020, ReadyTech announced it had executed a Heads of Agreement and an Exclusivity Agreement providing the opportunity to acquire leading software provider, Open Office and McGirr (collectively Open Office), which services the government and justice sectors
- ReadyTech has now entered into a binding Share Sale Deed with shareholders of Pentagon Holdco Pty Ltd ACN 626 389 428 (**Pentagon**) (which owns Open Office Holdings Pty Ltd and McGirr Holdings Pty Ltd as well as other subsidiaries) (collectively **Open Office**) to acquire (subject to certain conditions precedent) Open Office for Upfront Consideration of $54 million and Earn Out Consideration of up to an additional $26 million (the **Proposed Transaction** or **acquisition**)
- Open Office has been shortlisted for a key government contract subsequent to entering into the Heads of Agreement on 6 November 2020. The Earn Out Consideration now includes an additional $8 million cash earn out in connection with Open Office's Government Licensing Project (**Government Licensing Project Earn Out**). This updates the description of the Earn Out Consideration of $18 million in the 6 November 2020 announcement, as outlined below
- The acquisition, if completed, provides ReadyTech with the opportunity to add a new and attractive vertical with entry into the local and state government and justice sectors while securing new recurring revenue streams
- The acquisition, if completed, is anticipated to be low double-digit EPS accretive in FY21[1] on a pro-forma basis before synergies and excluding integration costs
- Attractive transaction multiples of approximately 3.2x FY21 forecast revenue multiple and approximately 8.7x FY21 forecast EBITDA multiple (based on Upfront Consideration only)
- The sellers affiliated with Pemba Capital[2] (that are the majority shareholders in Pentagon) also form part of the majority holding of Pemba in ReadyTech. In recognition of this, ReadyTech formed an Independent Board Committee (**IBC**), headed by Independent

[1] Basic EPS basis based on 100,700,592 ordinary shares

[2] Being Pemba Capital Partners Fund 1 Partnership, LP and Pemba Capital Partners Pty Ltd ACN 121 906 045 as trustee for the Pemba Capital Co-investment Trust

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Chairman, Tony Faure, and comprising only independent directors and the Managing Director, to separately consider and approve the entry into the Share Sale Deed

- The Proposed Transaction is subject to a number of conditions precedent including regulatory approvals, ReadyTech shareholder approval and an independent expert's report concluding the Proposed Transaction is fair and reasonable to ReadyTech shareholders who are not associated with the sellers. The conditions precedent and termination rights are summarised in the Appendix to this announcement. There is no certainty that the Proposed Transaction will complete
- The Proposed Transaction would involve the creation of two new classes of redeemable preference shares (described below).

Transaction structure and consideration

- An initial upfront consideration of $54 million (**Upfront Consideration**) payable at completion in a mixture of cash of approximately $40.1 million and approximately $13.9 million in ReadyTech ordinary shares at $1.88 per share (share price equal to the price of the Placement conducted in November 2020). The sellers could elect to receive the Upfront Consideration in cash, shares or a combination of cash and shares. The sellers affiliated with Pemba Capital have elected to receive $38.2 million in cash and will not receive any ordinary shares as part of the Upfront Consideration
- Further consideration of $9 million (**Earn Out Consideration Tranche A**) is payable if at any time within 4.5 years of completing the acquisition, Open Office achieves on a 12-month trailing basis at least $18.26 million of revenue and $11.35 million of recurring revenue. Revenue and recurring revenue for the purposes of Earn Out Consideration Tranche A excludes recurring revenue in the 12-month period in excess of $1 million which is associated with the Government Licensing Project (as described below)
- Additional consideration of $9 million (**Earn Out Consideration Tranche B**) is payable if at any time within 4.5 years of completing the acquisition, Open Office achieves on a 12-month trailing basis at least $22 million of revenue and $15.25 million of recurring revenue. Revenue and recurring revenue for the purposes of Earn Out Consideration Tranche B, as with Tranche A, also excludes recurring revenue in the 12-month period in excess of $1 million which is associated with the Government Licensing Project contract (as described below)
- Additional consideration of $8 million (**Government Licensing Project Earn Out**) is payable if the following is met within 4.5 years of completion of the acquisition: (a) Earn Out Consideration Tranche B has been satisfied; (b) the key potential new Government Licensing Project contract has been executed within two years of completion of the Proposed Transaction; and (c) the Government Licensing Project achieves on a 12-month trailing basis at least $5 million of recurring revenue[3]. The 12-month trailing basis must end after satisfying the revenue and recurring revenue Trigger Events of Earn Out Consideration Tranche B (but may otherwise overlap with the 12-month period relating to Earn Out Consideration Tranche B).

Earn Out Consideration Tranches A and B will take the form of two classes of redeemable preference shares (**Performance Shares**, Class A for Tranche A and Class B for Tranche B) and will be issued to

[3] For a Seller to be entitled to the Government Licensing Project Earn Out, if applicable, they must also have met the Retention Criteria in respect of the Earn Out Consideration Tranche B.

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the sellers on completion of the Proposed Transaction. The '**Trigger Event**' for each class of Performance Shares requires meeting the revenue and recurring revenue milestones referred to above and, for certain sellers, meeting the requirement that any associated executive employee remain an employee of Open Office at the end of the relevant 12 month earn-out period (subject to limited resignation rights) (**Retention Criteria**). In addition:

- If the Trigger Event does not occur within 4.5 years after completion of the Proposed Transaction for a class of Performance Shares, those Performance Shares will be redeemed, bought-back, cancelled or acquired for nil or nominal consideration
- If the Trigger Event does occur within 4.5 years after completion of the Proposed Transaction for a class of Performance Shares, those Performance Shares may be redeemed for cash, converted into ReadyTech ordinary shares (at specified pricing) or a combination of such redemption and conversion (in each case, as elected by the holder of the shares)
    - The conversion price for ReadyTech ordinary shares will be $2.00[4] for Earn Out Consideration Tranche A (being the closing price immediately before announcement of the proposed acquisition on 6 November 2020) and will be based on a 6 month VWAP to the end of the 12 month earn-out period in connection with Earn Out Consideration Tranche B (with a floor price of $2.00 (i.e. the pricing for Tranche A))
    - The 12 month trailing basis for determining whether the revenue and recurring revenue aspect of the Trigger Event has been met includes revenue and recurring revenue from the period prior to completion of the Proposed Transaction.

The Government Licensing Project Earn Out is only payable in cash.

Further details of the Proposed Transaction structure and terms (including the Performance Share terms) will be contained in an Explanatory Memorandum which is expected to be sent to shareholders in February (including escrow terms that may apply to certain management sellers).

Exclusivity

The sellers have agreed to apply the exclusivity obligations in connection with the acquisition (including no-shop, no-talk and no-due diligence provisions) in favour of ReadyTech until completion or valid termination of the Share Sale Deed.

Acquisition Funding

The acquisition funding of the Upfront Consideration is comprised of:

- The fully underwritten institutional placement (**Placement**) of approximately $25 million at an Offer Price of $1.88 completed in November 2020
- Through a combination of scrip (per the Proposed Transaction structure and consideration above), cash on ReadyTech's balance sheet and debt. ReadyTech will put in place refinanced banking facilities on completion of the transaction and has sized debt funding associated with the transaction to 1.5x (FY20A RDY EBITDA + FY21B Open Office EBITDA) in order to retain a conservative balance sheet position post transaction (**New Debt Arrangement**).

[4] This price may be reduced based on a formula if ReadyTech undertakes a renounceable rights issue at a discount of more than 15% to the prevailing market price prior to conversion of the Class A Performance Shares.

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Pro forma financial statements for ReadyTech, reflecting the Open Office acquisition and associated funding of the Upfront Consideration will be provided in the Explanatory Memorandum to ReadyTech shareholders.

The cash component of Earn Out Consideration (if the Earn Out conditions of the relevant earn out are met) is intended to be funded at a future time via ReadyTech's available cash and additional debt (to the extent required).

Pemba Capital participation

The Placement resulted in Pemba Capital's, ReadyTech's largest shareholder, reducing its relevant interest in ReadyTech to 37%. Pemba remains committed to ReadyTech having confirmed that they will not dispose of any shares prior to release of ReadyTech's half year results for 31 December 2020 (subject to stated exceptions)[5].

Independent Expert, Explanatory Memorandum and Extraordinary General Meeting

An Extraordinary General Meeting of ReadyTech shareholders will be called to consider and approve resolutions in connection with the Proposed Transaction, including the acquisition of shares in Pentagon Holdco Pty Ltd from sellers associated with Pemba Capital and the creation of the new classes of Performance Shares. Certain of the resolutions (including an amendment to the constitution of ReadyTech) will require approval as a special resolution by eligible shareholders. Pemba Capital and its associates are not entitled to vote.

An Independent Expert has been appointed to opine on whether the acquisition is fair and reasonable. The Independent Expert's opinion will be included in the Explanatory Memorandum which is expected to be sent to ReadyTech shareholders in February for the purpose of seeking shareholder approval. The Explanatory Memorandum will also contain more information about the Proposed Transaction structure and terms, and contain a recommendation from each member of the IBC to shareholders in relation to the resolutions to be considered at the Extraordinary General Meeting.

Advisers

Highbury Partnership Pty Limited is acting as financial adviser to ReadyTech and Jones Day is acting as legal adviser.

This announcement has been approved by the Independent Board Committee of ReadyTech Holdings Limited.

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Important Notice

Certain statements made in this release are forward-looking statements. These forward-looking statements are not historical facts but rather are based on ReadyTech's current expectations, estimates and projections about the industry in which ReadyTech operates, and beliefs and assumptions. Forward looking statements can generally be identified by the use of forward looking words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend',

[5] Refer to the ASX announcement dated 22 October 2020 containing a letter from Pemba for further details.

'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on future earnings, distributions or financial position or performance are also forward looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the control of ReadyTech and Open Office, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward -looking statements. ReadyTech cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of ReadyTech only as of the date of this release. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements. The forward-looking statements made in this release relate only to events as of the date on which the statements are made. ReadyTech will not undertake any obligation to release publicly any revisions or updates to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this release except as required by law or by any appropriate regulatory authority.

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APPENDIX

Summary of conditions precedent and termination rights in the Share Sale Deed are set out below.

Conditions Precedent

1. (**Material Adverse Change**) no loss of contracted revenue (including by way of a notice of termination, notice of reduction of services, non-renewal or non-extension of a contract or notice of non-renewal or non-extension) occurs for one or more contracts of the Open Office Group which, when considering their aggregate impact on recurring revenue on an annualised basis, would reduce annual recurring revenue by more than $1.1347 million.
2. (**Independent Expert conclusion**) The Independent Expert concludes that the Transaction is fair and reasonable to ReadyTech Shareholders whose votes are not to be disregarded, and the Independent Expert does not revoke, withdraw or adversely modify this conclusion before Completion.
3. (**ReadyTech shareholder approval**) ReadyTech shareholders approving the relevant resolutions at an Extraordinary General Meeting. Certain of the resolutions (including an amendment to the constitution of ReadyTech) will require approval as a special resolution by eligible shareholders. Pemba Capital and its associates are not entitled to vote.
4. (**Other approvals**) Receipt of other regulatory approvals, consents, waivers, modifications required to complete the Proposed Transaction including from ASIC and ASX.
5. (**Consent contracts**) Consent to the Proposed Transaction from counterparties of relevant material contracts which have change of control provisions.
6. (**Continued employment**) Phillip Simone and Peter Nanayakkara each remain employed by Open Office and neither of them have been issued or have received a notice of termination or resignation of their employment.
7. (**Seller warranties**) each seller warranty set out in the Share Sale Deed is true and correct and not inaccurate or misleading if deemed repeated on each day between the date of the share sale deed and Completion;
8. (**No legal impediment**) No temporary restraining order, preliminary or permanent injunction or other order is issued by a court of a competent jurisdiction or government agency or other material legal restraint or prohibition, preventing or delaying completion of the Proposed Transaction.
9. (**Intellectual Property**) Certain intellectual property (for example trademarks, business names and domain names) not registered in the name of the Open Office group is transferred to the Open Office group.
10. (**Debt funding**) ReadyTech secures the New Debt Arrangement.

Certain of these conditions precedent may be waived by ReadyTech and certain require the agreement of the sellers for a waiver. Some conditions (eg 'ReadyTech shareholder approval' and 'No legal impediment') cannot be waived.

Termination rights

ReadyTech has limited termination rights including if an insolvency event occurs in respect of a seller or an entity in the Open Office group or there is a material breach of the conduct of business provision (applying between signing and completion) which is not remedied (if capable of remedy). ReadyTech also has a termination right in the event that a director in the IBC changes their recommendation supporting the Proposed Transaction or to shareholders to vote in favour of the related shareholder resolutions (**Recommendation Change**). A 1% break fee equal to $540,000 (i.e.

based on the Upfront Consideration) is payable if ReadyTech terminates the Share Sale Deed due to a Recommendation Change (as opposed to another termination right).

The sellers may terminate the Share Sale Deed if an insolvency event occurs in relation to ReadyTech or ReadyTech Pty Ltd (the entity that will acquire the shares pursuant to the Proposed Transaction).

A party may also terminate the deed if the conditions precedent are not satisfied by a cut-off date (30 April 2021 or as extended by agreement) or become incapable of being satisfied.

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