

14 August 2020

WEBCENTRAL GROUP LIMITED (ASX: WCG)

Market update on H1 2020 financial results and scheme of arrangement

MARKET UPDATE ON H1 2020 FINANCIAL RESULTS

Webcentral Group Limited (**Webcentral**) announces that it currently expects the following results for the half year ended 30 June 2020:

- SMB Core operating revenue in the range of **\$29.0m - \$30.0m** (decline of 13% - 15% from p.c.p¹).
- SMB Core Underlying EBITDA² (before corporate and unallocated costs) in the range of **\$3.5m - \$4.5m** (decline of 18% - 22% from p.c.p).
- SMB Core Underlying EBITDA (after corporate and unallocated costs) in the range of **\$0.2m - \$0.6m** (decline of 80% - 90% from p.c.p).
- Net Cash Outflow from Operating Activities of **\$9-\$10m** due to expenditure on working capital payments required upon sale of the Enterprise business, interest and bank fees, and costs associated with delivering the cost out program. In addition, there are material Cash Outflows related to Investing Activities being Advisor Fees associated with the strategic review process.
- Group Statutory Loss After Tax being incurred after adjusting for the final loss on disposal of the former Enterprise division (discussed below), subject to any further adjustments arising from the completion of the Group's review of the carrying value of goodwill to reflect factors including the value of the business implied by the consideration payable under the proposed scheme of arrangement with Web.com Group, Inc. (Web.com) announced on 13 July 2020 (Scheme) and the impacts of the COVID-19 pandemic.

Webcentral will publicly release its H1 2020 accounts in late August 2020. Shareholders are encouraged to read those accounts when they are published on the ASX before deciding how to vote on the Scheme.

The above results are preliminary and include the impact of AASB 16 *Leases*. Webcentral's statutory H1 2020 results are subject to finalisation following the completion of the independent auditor's review and the Webcentral Board's review and approval of Webcentral Group's H1 2020 financial statements. The final results could differ from these preliminary results.

These numbers should not be taken as guidance, or relied upon in any other way, in respect of the expected performance of Webcentral during H2 2020. In particular, the challenges that arose midway through H1 2020 as a result of the COVID-19 pandemic continue to affect Webcentral's business and to reduce its cash receipts to a far greater extent than its costs. Webcentral continues to observe a sustained reduction in small business spend away from digital marketing and online business promotion. These impacts are expected to continue throughout H2 2020, and the uncertainty of the situation means no reliable forecast can be provided at this time.

¹ Prior comparative period (p.c.p.), being the half year ended 30 June 2019.

² EBITDA = earnings before interest, tax, depreciation and amortisation. Underlying EBITDA is derived after adjusting for non-recurring and unusual items affecting comparability between financial periods, such as costs associated with the sale of business units, restructuring costs etc. The Webcentral Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Webcentral Group's underlying performance.

Accordingly, H1 2020 earnings should be not utilised as a proxy by shareholders for H2 2020 earnings, and it is likely that the performance in the second half of the year will be worse than that in H1 2020.

The Webcentral Group also notes that subsequent to the half year ended 30 June 2020, the completion accounts for the sale of Webcentral's former Enterprise business were finalised. This finalisation resulted in an aggregate amount of \$1,559,485 becoming payable by Webcentral to the purchasing consortium. The parties agreed that, given Webcentral's cash flow position, rather than Webcentral making an immediate payment in full, Webcentral will make monthly payments to the consortium of \$259,914 between July 2020 and December 2020 (inclusive) in respect of that amount.

INFORMATION ON WEBCENTRAL DEBT FACILITIES AND FUNDING

Existing debt facilities

The Webcentral Group continues to require the ongoing support of its existing financiers, and its existing debt facilities, to enable it to continue as a going concern. While the existing financiers have provided support to Webcentral through its strategic review process, they currently have the right to cancel, and demand repayment of, the amounts outstanding under Webcentral's debt facilities upon 60 days' written notice. In the event the Scheme (discussed below) is not implemented, there can be no assurance that the existing financiers will remain supportive of Webcentral.

As at 31 July 2020, the total amount drawn under the debt facilities was approximately \$47.6 million. The total amount drawn under the debt facilities matures on 2 July 2021 (other than \$2.5 million which matures on 30 November 2020). These debt facilities are now classified as current liabilities. Net debt as of 31 July 2020 (excluding bank guarantees, merchant facilities and credit card facilities) was approximately \$39.5 million.

Upon implementation of the Scheme, Web.com will ensure the full and final repayment by Webcentral of its existing debt facilities. In that regard, Webcentral notes that, prior to the announcement of the Scheme, it received a number of non-binding indicative proposals to acquire Webcentral, from parties other than Web.com. Certain of those proposals required Webcentral's existing financiers to extend the maturity date of the debt facilities and/or to compromise part of the principal amount outstanding under the debt facilities. Neither of these conditions were acceptable to the existing financiers, whose fundamental requirements are to be repaid in full. The enterprise value of the Web.com Scheme supports a valuation which provides no basis for the existing financiers to consider compromising their indebtedness. Further, certain proposals were also insufficiently constructed at the time of submission and did not have committed financing to enable the debt facilities to be repaid in full upon implementation of the proposals, which again was not acceptable to the existing financiers.

Further funding requirements

As noted in Webcentral's announcement of 3 August 2020, during the period until the Scheme is implemented Webcentral expects to require additional short-term funding, as well as the continued support of its existing financiers to continue as a going concern. In the event the Scheme is not approved by shareholders, it is likely that Webcentral will have insufficient available liquidity to meet the amount due to the existing financiers on 30 November 2020. However, until such time, Webcentral remains committed to delivering superior service to its customers throughout the COVID-19 pandemic and post implementation of the Scheme.

Future for Webcentral and its shareholders if the Scheme is not implemented

If the Scheme is not implemented – including if it is not approved by Webcentral shareholders at the Scheme Meeting – Webcentral shareholders will not receive the scheme consideration of \$0.10 per Webcentral share

and will instead retain their Webcentral shares. Webcentral will continue to be prohibited from making distributions to Webcentral shareholders³, and shareholders will remain exposed to various risks associated with Webcentral and its business.

These risks include that the existing financiers may cease to provide the support that Webcentral requires to continue as a going concern, and may exercise their right to cancel, and demand repayment of, the total amount outstanding under Webcentral's debt facilities of approximately \$47.6 million upon 60 days' written notice. In that event, Webcentral expects it to be challenging to find an alternative refinancing solution on terms that are commercially reasonable or at all, noting in particular its decreasing cash receipts, committed costs and existing high net leverage ratio. As noted above, \$2.5 million of the amount outstanding under the existing debt facilities matures on 30 November 2020 which, absent the Scheme, Webcentral currently has no clear path to repaying.

Additionally, even if the existing financiers continue to provide the existing debt facilities to Webcentral, absent the Scheme, Webcentral may require additional funding. Accordingly, absent such additional funding, there is real risk that Webcentral will have insufficient liquidity to meet its debts as and when they fall due.

Accordingly, absent the Scheme, the Webcentral Directors may need to consider the appointment of a voluntary administrator on the basis that Webcentral may be insolvent or likely to become insolvent in the near future.

UPDATE ON SHARE TRADING ACTIVITY

Webcentral refers to its announcement of 3 August 2020, in which it noted that Keybridge Capital Limited (**Keybridge**) had acquired a 5.47% economic interest in Webcentral shares.

Webcentral notes that, on 10 August 2020, Keybridge filed a further notice with the ASX advising that Keybridge had a relevant interest in 9.241% of Webcentral shares.

Webcentral notes that also on 10 August 2020, Merchant Funds Management Pty Ltd as manager of the Merchant Opportunities Fund (**Merchant**) filed a notice with the ASX advising that Merchant had acquired a relevant interest in 8.84% of Webcentral shares. On 13 August 2020, Merchant filed a further notice with the ASX advising that Merchant Leaders Fund had acquired a relevant interest in Webcentral Shares, giving Merchant a total relevant interest in 10.07% of Webcentral shares.

Since the announcement of the Scheme on 13 July 2020, neither Keybridge nor Merchant has presented Webcentral with an alternative proposal to the Scheme.

UPDATE ON SCHEME AND NEXT STEPS

The Webcentral Board continues to unanimously recommend that Webcentral shareholders vote in favour of the Scheme, in the absence of a Superior Proposal⁴ and subject to the independent expert concluding in its independent expert report (and continuing to conclude) that the Scheme is in the best interests of Webcentral shareholders.

Subject to those same qualifications, the Webcentral directors, who collectively have a relevant interest in approximately 24% of the total number of Webcentral shares on issue, intend to vote or procure the vote of all those Webcentral shares in favour of the Scheme.

³ Webcentral may make distributions with the prior written consent of the existing financiers. If the Scheme is not implemented, it is expected to be very challenging for Webcentral to agree a solution with the existing financiers under which distributions to Webcentral shareholders would be permitted.

⁴ In this announcement, "Superior Proposal" has the same meaning as given in the Scheme Implementation Deed.

Webcentral shareholders do not need to take any action at the present time.

As set out in Webcentral's announcement on 3 August 2020, the scheme booklet containing information relating to the Scheme, the independent expert's report on whether the Scheme is in the best interests of Webcentral shareholders, the reasons for the Webcentral directors' unanimous recommendation and details of the Scheme Meeting is currently expected to be sent to Webcentral shareholders by the end of August 2020. The scheme meeting, at which Webcentral shareholders will have the opportunity to vote on the Scheme, is currently expected to be held in late September 2020.

Subject to the various approvals being obtained and other conditions of the Scheme being satisfied or waived (if applicable), the Scheme is currently expected to be implemented in October 2020.

These dates are indicative and subject to change.

FURTHER INFORMATION

Please contact Ms Emma Jewell of Red Agency for any media enquiries or Mr Andrew Reitzer for any investor queries.

Ms Emma Jewell
Red Agency
P: 0408 199 396
E: emma.jewell@redhavas.com

Mr Andrew Reitzer
Chairman
0417 275 806

ENDS.

The release of this announcement to the ASX was authorised by the Webcentral Board of Directors

About Webcentral Group Ltd

Webcentral Group Ltd is Australia's largest full-service digital services partner for small and medium businesses - fuelling the growth of local businesses from inception to acceleration.

Since its founding in 1996, Webcentral Group Ltd (previously Melbourne IT Group and Arq Group) has helped fuel the digital success of more than one million Australian small to medium businesses. With roots in domain name and hosting, Webcentral Group Ltd are the small and medium business digital growth solution experts helping businesses get online, improve their online performance, and protect their online presence.

Webcentral Group Ltd consists of the brands Netregistry, WME, Melbourne IT, and Domainz. The Webcentral Group Ltd Enterprise division was divested March 2020.