

20 August 2020

WEBCENTRAL GROUP LIMITED (ASX: WCG)

## Update on scheme of arrangement Settlement of Customer Dispute

Webcentral Group Limited (**Webcentral**) provides the following update in relation to the status of the conditions to implementation of the proposed scheme of arrangement announced on 13 July 2020 (**Scheme**), under which Web.com Group, Inc. (**Web.com**) proposes to acquire 100% of the share capital of Webcentral.

### Customer dispute condition

As noted in Webcentral's announcement dated 13 July 2020, the implementation of the Scheme is subject to a number of conditions precedent. One of those conditions precedent is the settlement (or the final determination by a court of competent jurisdiction, with all avenues of appeal having been exhausted) of the customer dispute referred to in Webcentral's annual report for the year ended 31 December 2019 (including all relevant claims and cross-claims), on terms and conditions that are acceptable to Web.com acting reasonably.

Given the uncertainty that such litigation creates Web.com was only willing to proceed with the Scheme subject to the inclusion of the condition described above.

While Webcentral continued to believe there were strong prospects of its claim succeeding and of the cross-claim being dismissed, in reaching their recommendation in favour of the Scheme, the Webcentral Directors had regard to various factors. These include: the significant costs involved in litigation and the quantum of the cross-claim (approximately A\$28.8 million (plus interest)) (notwithstanding Webcentral's views on its prospects), the potential business and management distraction of a lengthy litigation process, the outstanding debt of the Webcentral Group, the repeated breaches of covenants in the Webcentral Group's existing debt facilities, and Web.com's commitment to repay the Webcentral Group's existing debt facilities in full upon implementation of the Scheme. There is no other clear path to repayment of the existing debt facilities, creating an uncertain future for the Webcentral Group in the absence of the Scheme.

To this end, Webcentral made several attempts to settle the customer dispute, and today announces that its subsidiary, Webcentral Pty Ltd, has entered into a release and settlement agreement (**Settlement Agreement**) pursuant to which this customer dispute has been settled. Web.com has confirmed to Webcentral that the terms and conditions of the Settlement Agreement are acceptable to Web.com and that, accordingly, the condition precedent relating to the customer dispute has been satisfied.

The terms of the Settlement Agreement provide for the release by both parties of any and all claims they may have in relation to the subject matter of the customer dispute. There is no payment to be made by either party to the other. Under the Settlement Agreement, the Webcentral Group has agreed to provide the customer with certain services free of charge until 31 December 2020. The parties have agreed to use all reasonable endeavours to terminate those services by 31 December

2020, and that the Webcentral Group's obligations in relation to those services shall in any event terminate on or before 31 March 2021.

### **Impact of the settlement**

The settlement of the customer dispute does not affect the amount of the scheme consideration. If the Scheme is implemented, Webcentral shareholders will receive A\$0.10 in cash per Webcentral share.

As noted in Webcentral's 2019 annual report, Webcentral recorded a trade receivable of A\$10,006,000 in respect of the customer dispute in its financial statements for the year ended 31 December 2019. Following entry into the Settlement Agreement, this amount will be written down to nil in all future financial statements, including in Webcentral's financial statements for the half year ended 30 June 2020.<sup>1</sup> Accordingly, Webcentral's net assets will be reduced by the same amount.

Webcentral currently expects to release to the ASX its finalised, reviewed financial statements for the half year ended 30 June 2020 in late August 2020.

### **Remaining conditions**

Satisfaction of the customer dispute condition precedent is a significant step towards implementation of the Scheme. The Scheme remains subject only to limited conditions precedent, which include:

- the approval of the Scheme by Webcentral shareholders and the Court;
- no material adverse change or prescribed occurrences occurring in respect of Webcentral; and
- Web.com obtaining the approval of Australia's Foreign Investment Review Board.

Full details of the conditions precedent to the Scheme are set out in the scheme implementation deed (a copy of which was attached to Webcentral's announcement dated 13 July 2020).

### **Webcentral Board recommendation**

The Webcentral Board continues to unanimously recommend that Webcentral shareholders vote in favour of the Scheme, in the absence of a Superior Proposal<sup>2</sup> 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 directors of Webcentral, who collectively have a relevant interest in approximately 19% 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.

Mr Larry Bloch, a former director of Webcentral who has a relevant interest in approximately 4.96% of the Webcentral shares, has confirmed to Webcentral that he intends to vote or procure the vote of all the Webcentral shares in which he has a relevant interest at the time of the scheme meeting in favour of the Scheme, in the absence of a superior proposal (as determined by Mr Bloch acting reasonably) 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.

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<sup>1</sup> Webcentral's interim financial statements for the half year ended 30 June 2020 will therefore include an impairment of the full amount of the receivable, resulting in the same reduction in gross and net assets of the Webcentral Group.

<sup>2</sup> In this announcement, "Superior Proposal" has the same meaning as given in the scheme implementation deed.

## **NEXT STEPS**

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

As set out in Webcentral's announcements on 3 and 14 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.