

ReadyTech Holdings Limited

ABN 25 632 137 216

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FOR IMMEDIATE RELEASE

ReadyTech looks to expand into a third vertical with a new acquisition opportunity

- 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-centred software. The strategy has also been focused on identifying additional technologies to expand its reach into different vertical markets to continue its successful track record of expanding into new markets. ReadyTech announces a major progression of that strategy
- ReadyTech has executed a Heads of Agreement and an Exclusivity Agreement providing the opportunity to acquire leading government based software provider, Open Office, and McGirr, a justice case management software provider (collectively **Open Office**), for Upfront Consideration of \$54M and Earn Out Consideration of up to an additional \$18M
- The proposed acquisition provides ReadyTech with the opportunity to add a new and attractive vertical with entry into the local and state government and justice sectors while adding additional recurring revenue streams
- The acquisition opportunity is subject to finalisation of ReadyTech's due diligence, agreement of transaction documentation and final approval of ReadyTech's Independent Board Committee (**IBC**). There is no certainty that transaction documents will be agreed and executed nor that any transaction will result
- Open Office is currently majority owned by funds managed by ReadyTech's largest shareholder, Pemba Capital. In recognition of this, ReadyTech formed an IBC, headed by Independent Chairman, Tony Faure, to separately consider the proposal. The IBC unanimously support the proposed acquisition pending final due diligence
- If transaction documents are executed, the acquisition will be subject to a number of conditions including regulatory approvals, ReadyTech shareholder approval (including to approve the related party transaction) and an independent expert's report concluding the transaction is fair and reasonable to ReadyTech shareholders who are not associated with the sellers
- The acquisition, if completed, is anticipated to be low double-digit EPS accretive in FY21 on a pro-forma basis before synergies and excluding integration costs (based on due diligence conducted to date which is still in progress)
- A fully underwritten institutional Placement is being undertaken to provide certainty to ReadyTech to finalise its due diligence and enter into binding transaction documents

- If the proposed acquisition of Open Office does not proceed, ReadyTech, will use the proceeds from the Placement to fund other growth opportunities, including potential M&A consistent with its stated strategy
- ReadyTech reaffirms FY21 guidance with FY21 Q1 trading in line with guidance assumptions. Revenue retention for FY21 Q1 is maintained at 95%

Acquisition opportunity

ReadyTech Holdings Limited (ASX:RDY) has entered into a Heads of Agreement and an Exclusivity Agreement with Pentagon Holdco Pty Ltd ACN 626 389 428 (which owns Open Office Holdings Pty Ltd and McGirr Holdings Pty Ltd) (collectively **Open Office**) for a maximum consideration of up to \$72M consisting of a combination of cash and shares.

Open Office is a leading government and justice case management SaaS software provider with a customer base in Australia and the United Kingdom. The acquisition opportunity is consistent with ReadyTech's strategy to acquire complementary technologies, focus on new and attractive verticals and target higher value customers. The acquisition would provide ReadyTech with an important opportunity to enter local and state government sectors and the justice sector with expansion opportunities in the United Kingdom.

Open Office is majority owned by funds managed by Pemba Capital. As such, the acquisition opportunity, if executed, will require various approvals including from ReadyTech shareholders at an Extraordinary General Meeting (further details below).

ReadyTech is a leading SaaS provider of mission critical people management systems across the education and employment segments. The acquisition would represent entry into a third vertical, being the local and state government and justice sectors. The acquisition of Open Office extends ReadyTech's existing government customer footprint, which includes the AVETARS platform for the ACT State Government.

Indicative transaction structure and consideration

ReadyTech has entered into a Heads of Agreement and an Exclusivity Agreement which provides an opportunity to acquire Open Office, with consideration payable as follows:

- An initial upfront payment of \$54M (**Upfront Consideration**) payable in a mixture of cash of approximately \$40.1M and approximately \$13.9M in ReadyTech ordinary shares at a share price equal to the price of the Placement. The sellers could elect to receive upfront consideration in cash, shares or a combination of cash and shares. Pemba Capital has elected to receive \$38.2M cash and will not receive any ordinary shares as part of the Upfront Consideration.
- A further payment of \$9M (**Earn Out Consideration Tranche 1**) is payable provided that at any time within 4.5 years of completing the acquisition, Open Office achieves on a 12-month trailing basis at least \$18.26M of revenue and \$11.35M of recurring revenue.
- An additional further payment of \$9M (**Earn Out Consideration Tranche 2**) is payable provided that at any time within 4.5 years of completing the acquisition, Open Office achieves on a 12-month trailing basis at least \$22M of revenue and \$15.25M of recurring revenue.

The earn-out consideration may be paid in cash, ReadyTech ordinary shares (at specified pricing) or a combination of cash and ReadyTech ordinary shares. The share price for ReadyTech ordinary shares will be \$2.00 for Earn Out Consideration Tranche 1 (being the closing price immediately before announcement of the proposed acquisition) 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 2 (with a floor price of \$2.00 (i.e. the pricing for Tranche 1)). The 12 month trailing basis for determining whether the earn-out condition is met includes the period prior to completion. Further details of the indicative Transaction Structure are contained in the accompanying Investor Presentation (including escrow terms that may apply and requirements that any associated executive employee remain an employee of ReadyTech at the end of the relevant 12 month earn-out period in order to be entitled to each earn out, subject to limited termination and resignation rights).

The Heads of Agreement does not comprehensively set out all of the transaction terms and aspects of the terms may change depending on the outcome of due diligence and other factors.

Execution of transaction documents is subject to finalisation of ReadyTech's due diligence, approval of ReadyTech's IBC and negotiation of and entry into appropriate transaction documentation. Completion of the transaction will be subject to a variety of conditions, including ReadyTech shareholder approval (including to approve related party transactions), an independent expert concluding the transaction is fair and reasonable to ReadyTech shareholders who are not associated with the sellers and Foreign Investment Review Board (**FIRB**) approval. There is no certainty that binding transaction documentation will be agreed and executed nor that any transaction will result.

Pentagon Holdco Pty Ltd (the parent entity of the Open Office Group) together with its shareholders have entered into an exclusivity deed (**Exclusivity Agreement**) with ReadyTech pursuant to which they agree to certain exclusivity obligations in connection with the proposed acquisition (including no-shop, no-talk and no-due diligence provisions) in favour of ReadyTech until 24 December 2020. The Exclusivity Agreement will expire if ReadyTech ceases to actively pursue the acquisition opportunity (including if the IBC resolves to cease work on it).

Strategic rationale

ReadyTech Chief Executive Officer, Marc Washbourne, said the acquisition opportunity is strategically compelling for ReadyTech, enabling the company to accelerate growth through entry into government and justice case management markets.

"Open Office is a high-quality business, providing solutions to 130 government and global justice clients, with a client retention rate of approximately 95%. It is a resilient market, with long term government funding.

Gaining access to government and justice clients allows ReadyTech to unlock the potential of servicing a new market and adding a third pillar to our operations. We would leverage their experienced management team and capabilities to increase our market share in new markets.

The acquisition opportunity would also deliver incremental recurring revenue to ReadyTech's existing strong subscription revenue streams.

Open Office operates through two segments: Open Office, which provides complex software solutions for local and state governments across financial, asset, community and compliance management; and McGirr which provides a SaaS case management offering to the justice sector.

The Open Office acquisition provides ReadyTech with an opportunity to secure a strong foothold into all levels of government in Australia, with the benefits of long-term, sustainable client base with strong barriers to entry., Entering a market of this type requires the type of expertise for which ReadyTech is renowned.”

Independent Board Committee

An Independent Board Committee (**IBC**) has been established to oversee the process and negotiations and consider whether to approve the potential transaction. The IBC is chaired by Tony Faure (Independent Chairman) and also comprises Elizabeth Crouch AM (Independent NED), Timothy Ebbeck (Independent NED) and Marc Washbourne (CEO).

The IBC engaged financial and legal advisers to assist ReadyTech in assessing the transaction and negotiate transaction terms with Pemba and Open Office management shareholders. The acquisition opportunity remains subject to the unanimous approval by the IBC.

The IBC was unanimously supportive of entering into the Heads of Agreement and the Exclusivity Agreement given:

- Strong strategic rationale offering ReadyTech a potential new and attractive vertical with entry into local and state government and the justice sectors while adding to its client portfolio with recurring revenue streams
- Open Office represents a scale acquisition opportunity with avenues to explore further international expansion
- Attractive agreed transaction multiples of:
 - Upfront Consideration: approximately 3.2x FY21 forecast revenue multiple and approximately 8.7x FY21 forecast EBITDA multiple (based on due diligence conducted to date which is still in progress)
 - Earn Out Consideration: if both Tranches 1 and 2 are paid, an approximate forecast LTM revenue multiple of 3.3x
- Retention of, and alignment with Open Office’s management team
- The transaction, if completed, is anticipated to be EPS low double-digit accretive in FY21 on a pro-forma basis before synergies and excluding integration costs (based on due diligence conducted to date which remains in progress); and
- The Earn Out Consideration structure assisting in de-risking the transaction for ReadyTech shareholders

Trading Update - Q1 and FY2021

- ReadyTech reaffirms FY21 guidance with FY21 Q1 trading in line with guidance assumptions. Revenue retention for FY21 Q1 maintained at 95%
- Gross new business pipeline maintained at \$14.0M
- Continued growth in Sales and Marketing investment to drive top line revenue. ReadyTech secured experienced Heads of Marketing for each of our Education and Workforce Solutions segments. ReadyTech established a “deal desk” and are rolling out best-of-breed customer relationship management (CRM)
- ReadyTech is well positioned to support the back-to-work and skills sectors and considers skills for the future to be a key plank of economic recovery. We are encouraged by the ability of our software to assist businesses to facilitate the provision of training and services

as part of the Federal Government's \$2 billion JobTrainer Skills package which aims to deliver 340,000 new training places.

Equity raising

To help fund the acquisition opportunity, ReadyTech today has announced a fully underwritten institutional placement ("Placement") of at approximately \$25M at a fixed Offer Price of \$1.88 per new share ("New Share"). The Offer Price represents a 6.2% discount to the 3 trading day volume weighted average price of ReadyTech's shares as at 5 November 2020. The Placement is fully underwritten by Lead Manager and bookrunner, Wilsons Corporate Finance Limited.

Final allocation decisions will be determined by the Lead Manager in consultation with the IBC on behalf of ReadyTech. New Shares issued under the Placement will rank equally with ReadyTech's existing ordinary shares.

Settlement of the Placement is expected to occur Wednesday, 11 November 2020.

No shareholder approval is required for the Placement, as ReadyTech will utilise its existing placement capacity under ASX Listing Rule 7.1 and, in accordance with the approval obtained at ReadyTech's 2019 AGM, under ASX Listing Rule 7.1A. ReadyTech may seek to issue equity securities using its listing rule 7.1A capacity towards an acquisition of new assets or investments, continued development of the company's current assets and/or general working capital. ReadyTech confirms in relation to the Placement that it is not using any of the emergency capital raising measures introduced by ASX in connection with COVID-19.

ReadyTech shares will remain in a trading halt while the Placement is conducted. Normal trading in ReadyTech shares is expected to resume on Monday, 9 November 2020 or such other time as the completion of the Placement is announced to the market.

ReadyTech's largest shareholder Pemba Capital will still be ReadyTech's largest shareholder after the Placement with a relevant interest in approximately 34.5m ReadyTech shares (37% of the shares on issue following completion of the Placement) and remain committed to ReadyTech having confirmed that they will not dispose of any shares prior release of ReadyTech's half year results for 31 December 2020 (subject to stated exceptions).

If the acquisition of Open Office does not proceed, ReadyTech will use the proceeds from the Placement to fund other growth opportunities, including potential M&A, consistent with its stated strategy.

Potential share purchase plan

ReadyTech announces a share purchase plan (SPP) scheduled to be conducted in 2021 in connection with the potential completion of the acquisition of Open Office to allow eligible ReadyTech shareholders an opportunity to acquire additional shares in ReadyTech. The SPP will not be underwritten. If the Open Office transaction takes place, the SPP would be conducted having regard to the likely timing for completion of the transaction (the actual timing of completion will depend on the timing to satisfy conditions precedent, including receiving Foreign Investment Review Board approval). However, ReadyTech may determine in its absolute discretion to withdraw the SPP or to proceed with it irrespective of whether the Open Office transaction occurs.

If the SPP proceeds, eligible shareholders on the ReadyTech register at 7:00pm (Sydney time) on 5 November 2020 (Record Date)¹, with a registered address in Australia or New Zealand will have the opportunity to subscribe for up to \$10,000 worth of ReadyTech shares through the SPP, subject to eligibility criteria and other terms and conditions of the SPP which will be set out in the SPP booklet and despatched to eligible shareholders if the SPP proceeds. The intention of the SPP would be to give a participation opportunity to retail shareholders on the register around the time of the Placement. Shares issued under the SPP will rank equally with existing shares of ReadyTech.

ReadyTech is aiming to raise approximately \$4 million under the SPP if it proceeds. ReadyTech may decide to accept applications (in whole or in part) that result in the SPP raising more or less than \$4 million in its absolute discretion. If a scale back is applied, this means that an eligible shareholder may be allocated fewer ReadyTech shares than they apply for under the SPP. If ReadyTech decides to conduct any scale back, it will apply the scale back having regard to the size of the existing shareholdings of the applicants as at the Record Date.

New Shares under the SPP are to be issued at the lower of the price paid by investors under the Placement, and a 1% discount to the 5-day VWAP of ReadyTech shares up to the SPP closing date².

There is no certainty that the SPP will proceed.

Advisers

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

Wilsons Corporate Finance Limited is acting as Lead Manager and Underwriter to the Placement.

This announcement has been approved by the Independent Board Committee.

For more information please contact:

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About ReadyTech

ReadyTech is a leading provider of SaaS technology that helps providers of education and employment manage the increasingly complex human journey through study, work and career transitions. ReadyTech provides people management software to over 3,600 educators, employers and facilitators of work transitions. Bringing together the best in student management, apprenticeship management, payroll and HR admin, employment services and behavioural science technology, ReadyTech supports the development and success of tomorrow's workforce.

Important Notice

¹ This Record Date is subject to ASX approval.

² Subject to the ASX listing rules, including any minimum price required by the ASX listing rules.

Nothing contained in this Announcement constitutes investment, legal, tax or other advice. You should make your own assessment and take independent professional advice in relation to the information and any action on the basis of the information.

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

This release does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or any other jurisdiction in which such an offer would be illegal. The new shares of ReadyTech have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state or other jurisdiction of the United States. Accordingly, the new shares may not be offered or sold, directly or indirectly, to persons in the United States except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable securities laws of any state or other jurisdiction of the United States.

Summary information

The information contained in this release is of a general nature and no representation or warranty, express or implied, is provided in relation to the accuracy or completeness of the information. Neither Wilsons Corporate Finance Limited (ABN 65 057 547 323) (the **Lead Manager**), nor any of its affiliates, related bodies corporate (as that term is defined in the Corporations Act 2001 (Cth) (**Corporations Act**)), or their respective directors, employees, officers, representatives, agents, partners, consultants and advisers (together the **Lead Manager Parties**), nor the advisers to ReadyTech nor any other person including clients named in this document, have authorised, permitted or caused the issue, submission, dispatch or provision of this Announcement and, except to the extent referred to in this Announcement, none of them makes or purports to make any statement in this Announcement and there is no statement in this Announcement which is based on any statement by any of them. Statements in this Announcement are made only as of the date of this Announcement unless otherwise stated and the information in this Announcement remains subject to change without notice.

The historical information in this Announcement regarding ReadyTech is, or is based upon, information that has been released to the market. It should be read in conjunction with ReadyTech's other periodic and continuous disclosure Announcements to ASX available at www.asx.com.au. The information in this announcement regarding Open Office is based on information supplied to ReadyTech by the vendor and due diligence conducted by ReadyTech on Open Office which is still in progress and, after being complete, may result in changes to the information.

Financial information

All dollar values are in Australian dollars (A\$) and financial data is presented as at, or for the period ended, 30 June 2020 unless stated otherwise. ReadyTech's results are reported under Australian International Financial Reporting Standards, or AIFRS. The historical information included in this announcement regarding ReadyTech is based on information that has previously been released to the market. Investors should also be aware that certain financial data included in this announcement may be 'non-IFRS financial information' under Regulatory Guide 230 Disclosing non-IFRS financial information published by the Australian Securities and Investments Commission or 'non-GAAP financial measures' under Regulation G of the US Securities Exchange Act of 1934. The non-IFRS financial information and these non-GAAP financial measures do not have a standardised meaning prescribed by AIFRS and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AIFRS. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial measures included in this announcement.

Forward Looking Statements

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', 'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include statements regarding outcome and effects of the capital raising. 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, 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.

Disclaimer

No party other than ReadyTech has authorised or caused the issue, lodgement, submission, dispatch or provision of this Announcement, or takes any responsibility for, or makes or purports to make any statements, representations or undertakings in this Announcement. No person is authorised to give any information or make any representation in connection with the Capital Raising which is not contained in this Announcement. Any information or representation not contained in this Announcement may not be relied upon as having been authorised by ReadyTech in connection with the Capital Raising.

To the maximum extent permitted by law, ReadyTech, the Lead Manager Parties and their respective directors, employees, officers, representatives, agents, partners, consultants and advisers (**Disclaiming Parties**) disclaim all liability for any expenses, losses, damages or costs incurred by you as a result of your participation in the Capital Raising and the information in this Announcement being inaccurate or due to information being omitted from this Announcement, whether by way of negligence or otherwise; make no representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of the information in this Announcement; and take no responsibility for or liability (including, without limitation, any liability arising from fault or negligence on the part of any person) for any direct, indirect, consequential or contingent loss or damage whatsoever arising from the use of any part of this Announcement or otherwise arising in connection with it. No recommendation is made by any of the Disclaiming Parties as to whether you, your associates or your related parties should participate in the Capital Raising nor do they make any representations or warranties, express or implied, to you concerning this Capital Raising or any such information, and You represent, warrant and agree that you have not relied on any statements made by the Disclaiming Parties in relation to the New Shares or the Capital Raising generally.

The information in this Announcement remains subject to change without notice. The Open Office proposal is early stage, incomplete and highly conditional (including conditions as to due diligence, full documentation, regulatory clearances, independent expert's assessment and ReadyTech shareholder approval). There is no assurance that any final documentation will be entered into (or that it will be entered into on terms anticipated at this time), nor that any transaction will result. It is not the sole purpose for the Capital Raising. ReadyTech reserves the right to withdraw or vary the timetable for the Capital Raising without notice.