

The Board of Directors
AYO Technology Solutions Limited
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8001

20 May 2024

Dear Sirs

FAIRNESS OPINION IN RESPECT OF A SPECIFIC REPURCHASE FROM A RELATED PARTY

Introduction

On 31 May 2019, AYO Technology Solutions Limited (“**AYO**”) received a summons issued by the Public Investment Corporation SOC Limited (“**PIC**”) and the Government Employees Pension Fund (“**GEPF**”). The summons sought a declaration that the subscription agreement entered into by the PIC on behalf of the GEPF with AYO be declared unlawful and set aside and that AYO be ordered to pay the PIC R4.3 billion, together with interest of 10.25% per annum accrued from 22 December 2017 to date of final payment. AYO had instructed its attorneys to oppose the action.

The ongoing litigation with the PIC and the GEPF, as well as the PIC voting against special resolutions to provide financial assistance to Subsidiaries affected AYO’s ability to fund its Subsidiaries’ growth initiatives and resulted in the loss of a contract with a multinational. Furthermore, the negative media and PIC litigation also impacted AYO’s ability to implement its acquisitive growth strategy.

Legal proceedings pursuant to the aforementioned matter, which commenced on Tuesday, 7 March 2023, ceased on Tuesday, 23 March 2023 following the amicable conclusion of the Settlement Agreement between AYO, the PIC and the GEPF (“**the Settlement Agreement**”), thus ending the prolonged litigation. The Settlement Agreement was subsequently made an order of court on Friday, 24 March 2023.

Although the Board and management were of the view that AYO would have been successful in the proceedings, the Board was also mindful that in such a scenario, it could risk the possibility of an appeal, ongoing legal costs over a protracted period and a hostile Shareholder. Alternatively, the risk of a negative outcome would potentially have resulted in the liquidation of AYO. In the Board’s view, both scenarios would have resulted in further destruction of Shareholder value and the erosion of Subsidiaries’ value over time. It was therefore deemed prudent to settle with the PIC when the opportunity arose, which was aligned to the proposals made during the mediation process with the PIC and the GEPF.

In terms of the Settlement Agreement, AYO will repurchase 17 202 756 AYO ordinary shares (“**Repurchase Shares**”) from the GEPF for an aggregate consideration of R619 423 100 (“**Repurchase Consideration**”) (“**Initial Specific Repurchase**”). The Initial Specific Repurchase represents 4.999% of the issued ordinary share capital of AYO.



In terms of paragraph 10.1(b) of the JSE Listings Requirements, the PIC and the GEPF are classified as related parties to AYO. Therefore, in terms of paragraph 5.69(e) of the JSE Listings Requirements the Initial Specific Repurchase constitutes a specific repurchase of shares from a related party.

The Initial Specific Repurchase is being undertaken at a price of R36.00720 per Repurchase Share, which price is at a premium to the 30-day VWAP at which AYO Shares traded on the JSE prior to 23 March 2023, being the Signature Date. Therefore, in compliance with the provisions of paragraph 5.69(e) of the JSE Listings Requirements, AYO is required to obtain a fairness opinion from an independent expert in respect of the share repurchase.

Merchantec Proprietary Limited ("**Merchantec Capital**") has been appointed by AYO to independently determine whether, by using the information and assumptions available, the terms and conditions of the Initial Specific Repurchase are fair to AYO shareholders.

On 28 July 2023, a circular was distributed to shareholders which set out the details of the Initial Specific Repurchase, including the terms thereof as outlined in the announcement released on SENS on 18 May 2023 ("**Terms of Settlement Agreement Announcement**"), and incorporating a notice of a General Meeting to be held on 28 August 2023 ("**Circular**"), the purpose of which was to consider and, if deemed fit, to pass, with or without modification, the resolutions required to approve the Initial Specific Repurchase. Shareholders were subsequently advised of the postponement of the aforementioned General Meeting as a result of the Company being in a prohibited period and being unable to convene such meeting to approve the Initial Specific Repurchase during this period.

AYO, the GEPF and the PIC have subsequently entered into an addendum to the Settlement Agreement ("**Addendum**") incorporating the proposed amendments to the Memorandum of Incorporation ("**MOI**"), which will have no effect on the terms of the Initial Specific Repurchase as disclosed in the Terms of Settlement Agreement Announcement. Given the time delay between the distribution of the Circular and the signing of the Addendum, this fairness opinion is to update and replace the opinion provided in the Circular.

Definition of the term "fair"

The assessment of fairness is primarily based on quantitative issues. A transaction will typically be considered fair to a company's shareholders if the benefits received by shareholders, as a result of a corporate action, are equal to or greater than the value ceded by a company.

The Initial Specific Repurchase may be said to be fair if the value of the Repurchase Shares is greater than or equal to the Repurchase Consideration paid by AYO or unfair if the value of the Repurchase Shares is less than the Repurchase Consideration paid by AYO.

Responsibility and scope

The responsibility of Merchantec Capital is to prepare a report in respect of the fairness of the Initial Specific Repurchase and the report must at a minimum satisfy the requirements set out in Schedule 5 of the JSE Listings Requirements.

Compliance with the JSE Listings Requirements is the responsibility of the directors of AYO. Our responsibility is to report on whether or not the terms and conditions of the Initial Specific Repurchase, as they relate to the AYO shareholders, are fair.

Fairness opinion required in terms of the JSE Listings Requirements

In terms of paragraph 5.69 of the JSE Listings Requirements the Directors are required to include a statement as to whether the repurchase is fair insofar as the shareholders (excluding the related parties) of AYO are concerned and that the Board has been so advised by an independent expert acceptable to the JSE. The Board must obtain a fairness opinion (which must be included in the circular) prepared in accordance with Schedule 5 before making this statement.

Information and sources of information

In the course of our analysis, we relied upon financial and other information obtained from AYO, together with other information available in the public domain. Our conclusion is dependent on such information being accurate in all material respects. The information has, however, been tested for reasonableness to market-related inputs at the date of the opinion.

The principal sources of information used in formulating our opinion regarding the Initial Specific Repurchase which are relevant to AYO include:

- Historic financial statements for Health System Technologies Proprietary Limited (“**Health System Technologies**”) for the years ended 31 August 2016 to 2023;
- Historic financial statements for Kalula Communications Proprietary Limited (“**Kalula Communications**”) trading as Headset Solutions for the years ended 31 August 2016 to 2023;
- Historic financial statements for Digital Matter Proprietary Limited (“**Digital Matter**”) for the years ended 31 August 2016 to 2023;
- Historic financial statements for Afrozaar Proprietary Limited (“**Afrozaar**”) for the years ended 31 August 2016 to 2023;
- Historic financial statements for Sizwe Africa IT Proprietary Limited (“**Sizwe Africa IT**”) for the years ended 30 June 2019 to 2023;
- Historic financial statements for Bamblela Capital Proprietary Limited (“**Bamblela Capital**”) for the six months ended 31 August 2023;
- Historic financial statements for Vunani Fintech Fund Proprietary Limited (“**Vunani Fintech Fund**”) for the year ended 31 August 2023;
- Historic financial statements for SGT Solutions Proprietary Limited (“**SGT Solutions**”) for the years ended 31 December 2015 to 2019;
- Historic financial statements for SGT Solutions for the years ended 31 August 2020 to 2023;
- Historic financial statements for Global Command and Control Technologies Proprietary Limited (“**GCCT**”) for the year ended 31 August 2023;
- Historic financial statements for Kathea Communication Solutions Proprietary Limited (“**Kathea Communication**”) for the years ended 31 August 2017 to 2023;
- Historic financial statements for 4 Plus Technology Venture Fund Africa Proprietary Limited (“**4 Plus**”) for the year ended 31 August 2023;
- Forecast financial information for Health Systems Technologies for the years ending 31 August 2024 to 2028;
- Forecast financial information for Kalula Communications for the years ending 31 August 2024 to 2028;
- Forecast financial information for Sizwe Africa IT for the years ending 30 June 2024 to 2028;

- Forecast financial information for Digital Matter for the years ending 31 August 2024 to 2028;
- Forecast financial information for Afrozaar for the years ending 31 August 2024 to 2028;
- Forecast financial information for SGT Solutions for the years ending 31 August 2024 to 2028;
- Forecast financial information for Kathea Communication for the years ending 31 August 2024 to 2029;
- Board pack for Health System Technologies dated 26 July 2023;
- Board pack for Vunani Fintech Fund dated 8 December 2023;
- Discussions with the directors and management of AYO on the rationale for the Initial Specific Repurchase;
- The circular to be issued to shareholders;
- The Settlement Agreement, and the addendum thereto dated 25 March 2024, entered into between AYO, the PIC and the GEPF regulating, *inter alia*, the Initial Specific Repurchase dated 23 March 2023;
- The terms and conditions set out in the signed agreements; and
- Publicly available information relating to AYO and the industry that we deemed to be relevant.

Procedures performed

In arriving at our opinion, amongst other things, we have undertaken the following procedures in evaluating the fairness of the Initial Specific Repurchase:

- Reviewed terms and conditions set out in the signed agreement and addendum;
- Considered the underlying rationale for the Initial Specific Repurchase being, although the Board and management were of the view that AYO would have been successful in the legal proceedings, the Board was also mindful that in such a scenario, the PIC would potentially have appealed, resulting in increased legal costs over a protracted period and a hostile shareholder. Alternatively, the risk of a negative outcome would potentially have resulted in the liquidation of AYO. In the Board's view, both scenarios would have resulted in further destruction of shareholder value and the erosion of subsidiaries' value over time. It was therefore deemed prudent by the Board to settle with the PIC when the opportunity arose, which was aligned to the proposals made during the mediation process with the PIC and the GEPF;
- Analysed historic financial statements for Health System Technologies for the year ended 31 August 2016 to 2023;
- Analysed historic financial statements for Kalula Communications, Digital Matter and Afrozaar for the year ended 31 August 2016 to 2023;
- Analysed historic financial statements for Sizwe Africa IT for the year ended 30 June 2019 to 2023;
- Analysed historic financial statements for Vunani Fintech Fund, GCCT and 4 Plus for the year ended 31 August 2023;
- Analysed historic financial statements for Sizwe Africa IT for the year ended 30 June 2019 to 2023;
- Analysed historic financial statements for SGT Solutions for the year ended 31 December 2015 to 2019;
- Analysed historic financial statements for SGT Solutions for the year ended 31 August 2020 to 2023;

- Analysed historic financial statements for Kathea Communication for the year ended 31 August 2017 to 2023;
- Analysed management accounts for Babelela Capital for the period ended 31 August 2023;
- Analysed and reviewed forecast financial information for Health Systems Technologies, Kalula Communications, Digital Matter, Afrozaar and SGT Solutions, GCCT for the year ending 31 August 2023 to 2028;
- Analysed and reviewed forecast financial information for Sizwe Africa IT for the year ending 30 June 2023 to 2028;
- Analysed and reviewed forecast financial information for Kathea Communication for the years ending 31 August 2023 to 2029;
- Reviewed and obtained an understanding from management as to the assumptions in the forecast financial information as set out above and assessed the achievability thereof by considering historic information as well as macro-economic and sector-specific data;
- Reviewed the board pack for Health System Technologies dated 26 July 2023;
- Based on the above, performed a sum-of-the-parts valuation of AYO. We valued Health Systems Technologies, Kalula Communications, Digital Matter, Sizwe Africa IT, SGT Solutions and Kathea Communication using the income approach (Discounted Cash Flow (“**DCF**”)) as AYO has a controlling interest in these entities and therefore has influence over the future cashflows. We valued Bamebelela Capital, Vunani Fintech Fund, GCCT and 4 Plus using a relative valuation approach (Multiple Valuation) as AYO has a minority interest in these entities.
- Sensitivity analyses were performed considering key assumptions, key internal and external valuation drivers in arriving at a valuation range. Key internal valuation drivers for the valuation include: revenue growth rates, gross and operating margins. A 1% increase in the revenue growth rates resulted in a 0.60% increase in the overall value, being the most sensitive internal valuation driver. Similarly, a 1% decrease in the revenue growth rates resulted in a 0.30% decrease in the overall value. Key external valuation drivers include the discount rate; interest rates; exchange rates; economic conditions and overall market sentiment. A 0.5% increase in the discount rates resulted in a 0.98% decrease in the overall value, being the most sensitive external valuation driver. Similarly, a 0.5% decrease in the discount rates resulted in a 1.00% increase in the overall value. The technology industry has seen a significant increase in the prices of inputs due to the depreciating Rand. The industry has also suffered from various shortages of microchips and other key components as well as delays in the supply chain. Due to tough economic conditions worldwide, there has been a decrease in customer spend for IT equipment and the decline is expected to persist as high interest rates and elevated cost of living becomes commonplace; and
- Performed a relative valuation (multiple valuation) on AYO at a holding level as a secondary valuation methodology.

Assumptions

Our opinion is based on the following key assumptions:

- Current economic, regulatory and market conditions will not change materially;
- None of the entities valued are involved in any material legal proceedings;
- There are no known undisclosed contingencies that could have a material effect on the value of the entities that have been valued;
- For the purposes of this engagement, we assumed the future business of the valued entities to be ongoing under current business plans, expected life and management;

- That the Initial Specific Repurchase will have the legal, accounting and taxation consequences as described in discussions with, and materials furnished to us by the representatives and advisors of AYO; and
- Relied on the assumptions in the information available made by AYO's representatives during the course of forming this opinion.

Limiting conditions

This report and opinion are provided to the board of directors of AYO in connection with and for the purposes of the Initial Specific Repurchase. The opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of AYO's shareholders. Should any shareholder be in doubt as to what action to take, he or she should consult an independent advisor.

We have relied upon and assumed the accuracy of the information used by us in deriving our opinion. While our work has involved an analysis of, inter alia, the historical financial information, financial forecasts and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with International Standards on Auditing, this information has, however, been tested for reasonableness.

Where relevant, forward-looking information AYO relates to future events and is based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We accordingly express no opinion as to how closely actual results will correspond to those forecasted.

We have also assumed that the Initial Specific Repurchase will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives of AYO and we express no opinion on such consequences. We have assumed that all agreements that have been entered into in regard to the Initial Specific Repurchase will be legally enforceable.

None of the statements above invalidate the work done as per this opinion and the conclusion of the fairness opinion below.

Independence

In terms of Schedule 5.1(a) of the JSE Listings Requirements, we confirm that we have no material direct or indirect interest in AYO.

Furthermore, we confirm that our professional fees are not contingent upon the success of the Initial Specific Repurchase.

Opinion

Notwithstanding the underlying rationale, Merchantec Capital has considered the terms and conditions as well as the material effects and adverse effects of the Initial Specific Repurchase. Based on the valuations performed above, the fair value range per AYO share is between R4.94 and R5.04. The Repurchase Consideration of R36.00720 per Repurchase Share falls outside of this range and therefore the Initial Specific Repurchase is unfair to AYO shareholders.

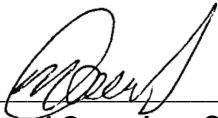
Immediately following the Initial Specific Repurchase, a reduction in AYO's 'other prepayment' balances relating to funds paid to the PIC and the cancellation of the Initial Specific Repurchase shares will result in a post-transaction fair value range per AYO share of between R3.30 and R3.40.

Subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Consent

We consent to the inclusion of this letter and reference to our opinion in the Supplementary Circular to be issued to shareholders of AYO in the form and context in which it appears and in any required regulatory announcement or documentation.

Yours faithfully



Marcel Goncalves CA(SA)
Director

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