HWL EBSWORTH
LAWYERS

7 September 2021

The Manager
Market Announcements Office
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

Cirrus Networks Holdings Limited (ASX: CNW) - Takeover bid by Webcentral Group Limited (ASX: WCG) - Supplementary Target's Statement

We act for Cirrus Networks Holdings Limited (ACN 103 348 947) (**Cirrus**).

We refer to the on-market takeover offer by Webcentral Group Limited (ACN 073 716 793) (**Webcentral**) under Chapter 6 of the *Corporations Act 2001* (Cth) (**Corporations Act**) for all the shares in Cirrus which Webcentral does not already own (**Offer**).

We attach, by way of service pursuant to section 647(3)(b) of the Corporations Act, a copy of the supplementary target's statement of Cirrus in respect of the Offer (**Supplementary Target's Statement**), which supplements Cirrus' original target's statement dated 11 August 2021.

The Supplementary Target's Statement includes an Independent Expert's Report opining as to whether the Offer is fair and reasonable to Cirrus shareholders.

The Supplementary Target's Statement will today be lodged with the Australian Securities and Investments Commission and sent to Webcentral.

Yours faithfully

[sent electronically without signature]

Oliver Carrick
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HWL Ebsworth Lawyers

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Associate
HWL Ebsworth Lawyers

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SUPPLEMENTARY TARGET'S STATEMENT

Issued by **Cirrus Networks Holdings Limited**
ACN 103 348 947

In relation to the on-market takeover bid made by **Webcentral Group Limited** ACN 073 716 793 for all the ordinary shares on issue in Cirrus Networks Holdings Limited (ASX:CNW)

Cirrus Networks Holdings Limited's Directors unanimously recommend that you

REJECT

Webcentral Group Limited's Offer

BY TAKING NO ACTION

THIS DOCUMENT CONTAINS IMPORTANT INFORMATION AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to how to deal with this document, you should consult a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser immediately.

If you require further information or have questions in relation to the Offer, please contact Cirrus' Chief Financial Officer on +61 8 6180 4231 between 9.00am and 5.00pm (Perth time) Monday to Friday.

Legal adviser

HWL EBSWORTH LAWYERS

Corporate adviser

Azure Capital

Supplementary Target's Statement

This document is a supplementary target's statement pursuant to section 644 of the *Corporations Act 2001* (Cth). It is the first supplementary target's statement (**First Supplementary Target's Statement**) issued by Cirrus Networks Holdings Limited (ACN 103 348 947) (ASX: CNW) (**Cirrus** or **Company**) in response to the unsolicited, on-market takeover bid made by Webcentral Group Limited (ACN 073 716 793) (ASX: WCG) (**Webcentral**) for all the ordinary shares on issue in Cirrus (**Shares**) (**Offer**).

This First Supplementary Target's Statement supplements, and should be read together with, the target's statement dated 11 August 2021 (**Target's Statement**). This First Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

Important Notices

A copy of this First Supplementary Target's Statement was lodged with ASIC and given to ASX on 7 September 2021. Neither ASIC or ASX nor any of their respective officers take any responsibility for the content of this First Supplementary Target's Statement.

Capitalised terms that are not otherwise expressly defined in this First Supplementary Target's Statement have the meaning given in Section 12.1 of the Target's Statement. The rules of interpretation in Section 12.2 of the Target's Statement also apply to this First Supplementary Target's Statement.

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Important Dates

Event	Date
Announcement date of the Offer	30 July 2021
Webcentral's appointed Broker commences standing in the market to purchase Shares at the Offer Price	30 July 2021
Date of Bidder's Statement	30 July 2021
Date of Target's Statement	11 August 2021
Offer Period commenced	16 August 2021
Requisition NOM lodged with ASX	3 September 2021
Supplementary Target's Statement (including release of the Independent Expert's Report)	7 September 2021
Scheduled Close of the Offer Period (unless extended or withdrawn)	4.00pm (Melbourne time) on 16 September 2021
Requisition Meeting	9.30am on 15 October 2021

Note:

The above dates are indicative only and may change without notice in accordance with the Corporations Act and Listing Rules.

1. Unanimous Directors' Recommendation

The Cirrus Directors continue to unanimously recommend that you **REJECT the Offer by DOING NOTHING** and **TAKING NO ACTION** with respect to your Cirrus Shares, for the reasons set out in Section 2.1 of the Target's Statement and supplemented by the reasons outlined below in this Supplementary Target's Statement.

If Shareholders have any queries in relation to the Offer, they may call the Company on +61 8 6180 4231 on weekdays between 9.00am and 5.00pm (Perth time) or visit Cirrus' website at www.cirrusnetworks.com.au.

2. Independent Expert's Report

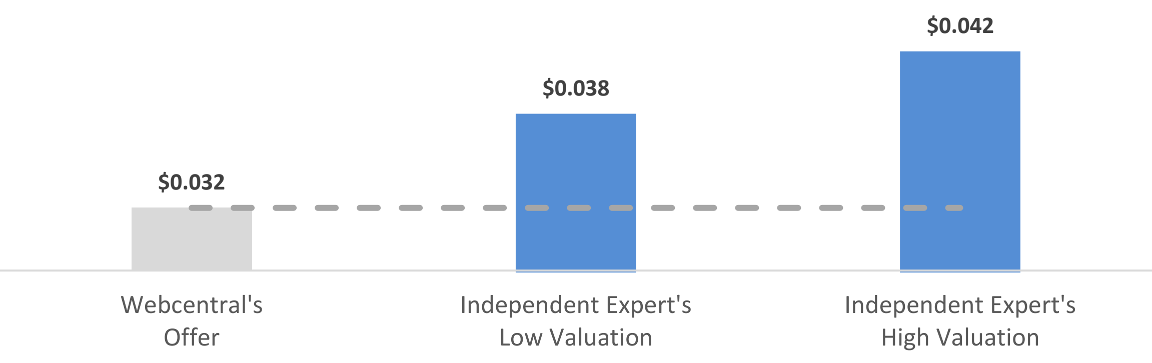
The Directors appointed Lonergan Edwards to prepare an Independent Expert's Report opining on whether the Offer is fair and reasonable to Shareholders.

Lonergan Edwards has now provided Cirrus with its Independent Expert's Report, which concludes that **the Offer is NEITHER FAIR NOR REASONABLE** and that the Offer of $0.032 per Share falls below the bottom end of Lonergan Edwards' assessed valuation range for Cirrus Shares.

The Independent Expert has determined the value of a Share on a controlling interest basis to be in the **range of $0.038 to $0.042 per Cirrus Share.**

A copy of the Independent Expert's Report is attached as Appendix 1.

Figure 1. Independent Expert's assessed value range compared to the Offer Price



The Company continues to believe that it remains very well placed for organic growth through a focus on improved earnings from revenues generated by higher margin services contracts and disciplined overhead cost controls. The Company's diversified geographic base is also expected to provide a platform for further expansion. Consistent with its growth aspirations, the Company continues its active pursuit of complementary acquisition targets.

3. Shareholder Requisition

On 17 August 2021, the Company announced to ASX that it had received a request pursuant to sections 203D and 249D of the Corporations Act from Webcentral to convene an extraordinary general meeting of the Company (**Shareholder Requisition**). The Shareholder Requisition requires the Company to hold the Requisition Meeting in order for Shareholders to consider:

(a) the removal of Mr Andrew Milner as a Director;

(b) the removal of Mr Matthew Sullivan as a Director; and

(c) the removal of Mr Daniel Rohr as a Director,

(together, **Requisitioned Directors**);

(d) the appointment of Mr Joe Demase as a Director (who is Managing Director of both Webcentral and 5GN); and

(e) the appointment of Mr Michael Wilton as a Director (who is General Counsel and Joint Company Secretary of both Webcentral and 5GN).

As set out in the Company's notice of meeting convening the extraordinary general meeting (**Requisition Meeting**) dated 3 September 2021 (**Requisition NOM**):

(a) the Requisition Meeting requires Shareholders to make an important decision that could trigger an unprecedented change to Cirrus' strategy and halt the encouraging progress being made by the Company during recent years, affecting the future of your investment in Cirrus;

(b) the Cirrus Board has well-founded concerns that:

   (i) failing to vote **AGAINST** the Resolutions at the Requisition Meeting may negatively impact Shareholders' ability to realise the maximum possible return on their investment in Cirrus, in circumstances where an alternative proposal at a premium to the Offer is received, either as a result of discussions the Board is currently engaged in with various counterparties, or at some other point in the future; and

   (ii) if the Requisitioning Shareholder (an 8.85% shareholder in Cirrus) is successful in carrying the Resolutions it will gain control of the Company by appointing two Webcentral nominee directors, representing a majority on the Board, without paying an appropriate premium to their fellow Shareholders to acquire such control.

(c) the Requisitioned Directors have provided a joint statement to the Company which is annexed to the Requisition NOM which Cirrus shareholders are directed to consider for further background to the Requisition Meeting; and

(d) the Board – including Mr Paul Everingham, whom the Requisitioning Shareholder does not propose to remove – unanimously agrees that the proposed resolutions are not in the best interests of all Shareholders (excluding Webcentral).

Accordingly, the Requisition NOM contains a unanimous recommendation from the Board to **vote AGAINST** the resolutions to be put to Shareholders at the Requisition Meeting and intends to vote all Shares they hold or control **AGAINST** the resolutions.

Cirrus director, Mr Paul Everingham, whom Webcentral does not propose to remove pursuant to the Requisition NOM, has advised the Board of a current intention to resign from the Board immediately following close of the Requisition Meeting if both of Webcentral's nominee directors, Messrs Joe Demase and Michael Wilton, are appointed to the Cirrus Board. This may result in the Company being without any independent governance until the Board is refreshed and would result in Cirrus (as controlled by Webcentral's nominee directors) needing to appoint another director to comply with the minimum company director obligations under the Corporations Act, in the event of all resolutions being carried.

Further details in respect of the Shareholder Requisition are set out in the Requisition NOM, which the Directors encourage Shareholders to read carefully and in its entirety.

4. Bidder's Revised Intentions

On 13 August 2021, Webcentral announced a second supplementary bidder's statement (**Second Supplementary Bidder's Statement**) in respect of the Offer.

The Second Supplementary Bidder's Statement sets out revised intentions from Webcentral in respect of Cirrus (which supplements Webcentral's intentions as previously set out in Section 10.1 of the Bidder's Statement):

(a) to remove the Requisitioned Directors as directors of Cirrus as expeditiously as possible;

(b) to give notice to Cirrus of its intention to move resolutions for the removal of the Requisitioned Directors;

(c) to give a notice under section 249D of the Corporations Act requesting the Directors convene a general meeting of Cirrus; and

(d) once the Requisitioned Directors had been removed, Webcentral would then replace them with persons it nominated, such that the new Cirrus Board would then:

    (i) firstly, urgently undertake a strategic and operational review of Cirrus' business and financial performance; and

    (ii) secondly, quickly and effectively implement remedies and strategies identified by that review to improve Cirrus' financial performance, prospects and profitability.

Further details in respect of Webcentral's revised intentions in respect of Cirrus are set out in Section 2.3 of the Second Supplementary Bidder's Statement.

As at the date of this First Supplementary Target's Statement, Webcentral has undertaken steps 4(b) and 4(c) above, in connection with the Requisition Meeting.

On 3 September 2021, Webcentral announced to ASX:

(a) the 1 month Offer Period is set to expire on Thursday, 16 September 2021 and that the last date for Webcentral to increase or extend its takeover bid is Wednesday, 8 September 2021; and

(b) that Webcentral does not currently propose to extend the Offer Period (though it reserves its right to do so) and, subject to the Corporations Act, the Offer Period will therefore close on Thursday, 16 September 2021.

5. Funding Capacity Update

On 3 September 2021, Webcentral announced it had now entered into formal documentation with CBA for the $10.5 million bridge facility to support Webcentral's funding for its Offer (**Bridge Facility**) which is stated to provide Webcentral and its appointed Broker with the ability to pay Cirrus Shareholders who accept the Offer within 2 trading days of the acceptance.

Webcentral also stated, if it had the opportunity to review and consider due diligence information provided by Cirrus, it would make an assessment as to whether or not it would revise the terms of its Offer.

The Cirrus Board, via its advisers, has been in correspondence with Webcentral, via its advisers, both prior and subsequent to Webcentral's ASX announcement on 3 September 2021 to:

(a) enquire about the ability of Webcentral to improve the terms of the Offer, given Cirrus' concerns as to Webcentral's capacity to fund an increase to the Offer from the existing Offer funding level of approximately $27.1 million; and

(b) request further details in respect of what information Webcentral would require in order to improve its Offer, so that Cirrus could take steps to collate the information for Webcentral and consider the terms of a confidentiality deed to be entered into between the parties.

As at the date of this First Supplementary Target's Statement, Cirrus has not received a satisfactory response to its enquiries of Webcentral to warrant the grant of due diligence access to Webcentral.

6. Other Updates

On 3 September 2021, Mr Matthew Green and Mrs Natalie Green (as trustees for the Green Future Fund Trust) (being an entity controlled by Mr Matthew Green, a key member of Management) exercised 862,500 options to acquire 862,500 Shares at a price per security of $0.035 per Share.

Accordingly, when aggregated with the Shares in which Directors (or their Associates) and key members of Management (or their Associates) have a relevant interest, these Shares are equal to 16.66% of the Shares (increased from 16.59% as disclosed in Section 2.1(e) of the Target's Statement).

This is on the basis that the key members of Management and their Associates who have confirmed to the Board that they will not accept the Offer at the Offer Price have a relevant interest in an aggregate of 4.87% of the Shares (increased from 4.78% as disclosed in Section 2.1(e) of the Target's Statement).

On that basis, Webcentral will be unable to meet the 90% compulsory acquisition threshold pursuant to the current terms of the Offer.

7. Further developments

Should there be any developments during the Offer Period which would alter the Directors' recommendations in relation to the Offer, you will be notified through an ASX announcement and/or a supplementary target's statement.

8. Consents

The following persons have given, and have not before the date of issue of this Supplement Target's Statement withdrawn, their consent to:

(a) be named in this Target's Statement in the form and context in which they are named; and

(b) the inclusion of other statements in this Target's Statement which are based on or referable to statements made in the reports or statements noted next to their names, or which are based on or referable to other statements made by those persons, in the form and context in which they appear:

Name of Person	Capacity	Reports or Statements
Lonergan Edwards	Independent Expert	Independent Expert's Report

Each of the persons named above:

(a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and

(b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom such statements are attributed to is not required for the inclusion of those statements in the Target's Statement.

Any Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to ASIC Class Order 13/521 may obtain a copy free by writing to Cirrus' Chief Financial Officer.

Copies of all announcements by Cirrus may also be obtained from its website at www.cirrusnetworks.com.au or from ASX's website www.asx.com.au under the code "CNW".

Additionally, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by statements:

(a) fairly representing a statement by an official person; or

(b) from a public official document or a published book, journal or comparable publication.

Pursuant to that instrument, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

9. Authorisation

Mr Andrew Milner, the Non-Executive Chairman of Cirrus, is authorised to sign this First Supplementary Target's Statement pursuant to a resolution passed by the Directors on 7 September 2021.

Mr Andrew Milner
Non-Executive Chairman
Dated: 7 September 2021

Appendix 1 - Independent Expert's Report

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AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Directors
Cirrus Networks Holdings Limited
Level 28
108 St Georges Terrace
Perth WA 6000

7 September 2021

Subject: Takeover offer for Cirrus Networks Holdings Limited

Dear Directors

Introduction

1 On 30 July 2021, Webcentral Group Limited (Webcentral) announced an unsolicited on-market takeover bid to acquire all the shares in Cirrus Networks Holdings Limited (Cirrus or the Company) that it does not already own[1] at an offer price of $0.032 cash per share (the Offer).

2 The Offer values the total equity in Cirrus at approximately $30 million and is unconditional. Effective 30 July 2021, Webcentral's appointed broker commenced standing in the market to purchase Cirrus shares at the Offer price. However, we have been advised that at the date of this report, the appointed broker has not acquired any further shares in Cirrus on behalf of Webcentral.

3 While there is no statutory requirement for Cirrus to obtain an independent expert's report (IER), the Directors of Cirrus have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

4 LEA is independent of Cirrus and Webcentral and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

5 LEA has concluded that the Offer is neither fair nor reasonable. We have arrived at this conclusion for the reasons set out below.

[1] On 28 July 2021, Webcentral announced a relevant interest in 82,323,375 Cirrus shares, which represents 8.85% of the fully paid ordinary shares on issue.

Valuation of Cirrus

6 LEA has valued 100% of the ordinary shares in Cirrus at between $0.038 and $0.042 per share, as summarised below:

Valuation of Cirrus	Low \$m	High \$m
Enterprise value	30.0	32.5
Add net cash	4.0	4.0
Add value of tax losses	1.6	2.3
Add cash from exercise of "in the money" options	0.5	0.5
Equity value	36.1	39.3
Fully diluted shares on issue (million)	944.4	944.4
Value per share (\$)	\$0.038	\$0.042

Assessment of fairness

7 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

8 This comparison is shown below:

Cirrus – assessment of fairness	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	0.032	0.032	0.032
Value of 100% of ordinary shares in Cirrus	0.038	0.042	0.040
Extent to which the Offer consideration is less than the value of the ordinary shares in Cirrus	0.006	0.010	0.008

9 As the consideration offered by Webcentral of $0.032 cash per share is less than our assessed value of the ordinary shares in Cirrus on a 100% controlling interest basis, in our opinion, the Offer is not fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

10 We have concluded that the Offer is also not reasonable. We are of this opinion primarily because the Offer consideration of $0.032 per share is significantly lower than our assessed valuation range for Cirrus shares when assessed under the guidelines set out in RG 111.

Other considerations

11 In considering the merits of the Offer we recommend that Cirrus shareholders also have regard to the following:

(a) the Offer consideration of $0.032 per share would require a significant increase of $0.008 per share (25%) to be consistent with the mid-point of our assessed valuation range of $0.040 per share

(b) the Offer implies a control premium that is significantly lower than observed premiums generally paid in comparable circumstances

(c) in our opinion, most potential acquirers of Cirrus could achieve significant cost savings, a high proportion of which could be achieved relatively easily. The Offer price does not reflect an appropriate share of the value benefit associated with the synergies that are expected to arise

(d) Cirrus Directors and key management with an aggregate relevant interest in 16.66% of the issued capital of Cirrus have stated an intention not to accept the Offer. However, as the Offer is unconditional, Webcentral can potentially acquire control of Cirrus irrespective of the intention of Cirrus Directors and key management not to accept the Offer

(e) trading subsequent to the announcement of the Offer reflects share prices that exceed the Offer consideration of $0.032 per share.

General

12 In preparing this report we have considered the interests of Cirrus shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

13 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

14 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

15 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

16 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Cirrus shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Jorge Resende
Authorised Representative

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Appendices

A	Financial Services Guide
B	Qualifications, declarations and consents
C	Listed company descriptions
D	Australian IT services transaction company descriptions
E	Glossary

I Outline of the Offer

17 On 30 July 2021, Webcentral Group Limited (Webcentral) announced an unsolicited on-market takeover bid to acquire all the shares in Cirrus Networks Holdings Limited (Cirrus or the Company) that it does not already own[2] at an offer price of $0.032 cash per share (the Offer).

18 The Offer values the total equity in Cirrus at approximately $30 million. Effective 30 July 2021, Webcentral's appointed broker commenced standing in the market to purchase Cirrus shares at the Offer price. However, we have been advised that at the date of this report, the appointed broker has not acquired any further shares in Cirrus on behalf of Webcentral.

Conditions

19 The Offer is unconditional. Further detail on the Offer is set out in the Bidder's Statement dated 30 July 2021.

2 On 28 July 2021, Webcentral announced a relevant interest in 82,323,375 Cirrus shares, which represents 8.85% of the fully paid ordinary shares on issue.

II Scope of our report

Purpose

20 While there is no statutory requirement for Cirrus to obtain an IER, the Directors of Cirrus have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

21 This report has been prepared to assist the Directors of Cirrus in making their recommendation to Cirrus shareholders in relation to the Offer and to assist the shareholders of Cirrus assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.

22 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

23 Our report has been prepared as if it was required under s640 of the *Corporations Act 2001* (Cth) (Corporations Act). Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.

24 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company

(b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

25 Based on our understanding of ASIC's policy intent, it should also be noted that:

(a) when assessing the fairness of a transaction the expert must determine the full underlying value of the company's shares without applying any discount due to company specific factors (such as excess gearing or the need to undertake a significant equity raising) which may impair the company's ability to realise full underlying value

(b) company specific factors which may impair a company's ability to realise full underlying value should only be taken into account when assessing the reasonableness of a transaction.

26 Our report will therefore consider:

Fairness

(a) the market value of 100% of the shares in Cirrus

(b) the value of the consideration under the Offer

(c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

(d) the extent to which a control premium is being paid to Cirrus shareholders

(e) the extent to which a share of the synergies likely to arise upon an acquisition of Cirrus are being shared with Cirrus shareholders

(f) the listed market price of Cirrus shares both prior to the announcement of the Offer and during the Offer period

(g) the likely market price of Cirrus shares if the Offer is not successful

(h) Webcentral's current shareholding in Cirrus

(i) the value of Cirrus to an alternative Offeror and the likelihood of an alternative Offer emerging, either prior to the close of the Offer, or sometime in the future

(j) other risks, advantages and disadvantages.

Limitations and reliance on information

27 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

28 Our report is also based upon financial and other information provided by Cirrus and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

29 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Cirrus securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

30 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the

proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.

31 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

32 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

III Profile of Cirrus

Overview

33 Cirrus is an Australian information technology (IT) solutions provider focused on designing, building and managing IT infrastructure for small to medium enterprises, large corporations and government entities. The Company provides bespoke technology solutions that are both cost effective and provide long term benefits. Its range of IT solutions includes advisory services, integration services and managed services.

History

34 Cirrus was established in Perth, Western Australia in 2013 and listed on the Australian Securities Exchange (ASX) in July 2015. The Company initially focused on building and managing IT infrastructure, before pivoting to focus on higher margin professional and managed services following a number of acquisitions. A summary of these acquisitions is as follows:

Cirrus – acquisitions

Date[1]	Company	Consideration $m	Operations
Dec 15	L7 Solutions	0.5	An IT services company specialising in the provision of IT integration solutions and managed services
Mar 17	NGage Technology Group	2.5	A Melbourne based end-to-end IT solutions provider, delivering IT hardware and software, managed services and professional services. The company had revenue exceeding $25 million in 2016
Nov 17	Correct Communications	5.0	A Canberra based IT solutions provider specialising in networking, storage, security and unified communications infrastructure. Revenue for the year to 30 June 2017 (FY17) was approximately $11.5 million

Note:
1 Date of transaction announcement.

35 The Cirrus offering was strengthened in 2015 with the acquisition of Perth-based L7 Solutions. The acquisitions of Melbourne based IT provider NGage Technology Group, and Canberra IT services company Correct Communications, enabled Cirrus to establish a presence on the east coast of Australia.

36 The Correct Communications business was combined with the Company's existing operations at the time, which added greater scale, services and expertise and created a full service IT solutions and managed services provider.

37 Cirrus provides a range of professional services as well as managed services contracts (the latter of which are often delivered over a number of years). A summary of the key contracts won by the Company since 1 January 2019 is set out below:

Cirrus – key contracts	
Date	**Description**
Jan 19	• Entered into a three year contract worth $5 million to design, implement and support data storage for a Federal Government agency
Aug 19	• Secured a three year contract with the Australian Capital Territory (ACT) Government worth $5 million for the maintenance and support of Cisco infrastructure • Secured two significant Western Australian Government contracts worth $5.5 million
Nov 19	• The Melbourne office secured three separate contracts worth in excess of $2.5 million, two with the Metropolitan Fire and Emergency Services Board to provide networking equipment, flash storage and associated migration professional services, with the other a contract with a client in the education sector providing network, voice and other services • Won a three year IT infrastructure contract with Rio Tinto
Jul 20	• Announced it had recently won six contracts worth in excess of $10 million, four with Federal Government agencies as well as two with leading Western Australian resources companies
Nov 20	• Won a 12 month contract with the Department of Defence worth $1 million to provide the architecture, testing and implementation of an integrated continuous assurance system • Successfully tendered a 12 month, $3.5 million contract with Services Australia for the supply, licensing and maintenance of security software
Mar 21	• Won its largest managed services contract (worth $13 million), with Geoscience Australia. The contract is over a three year term and covers a range of IT and information and communications technology services

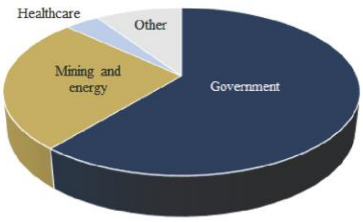
38 The Geoscience Australia contract was the Company's first significant managed services contract following the completion of Cirrus' state of the art Network Operations Centre within its Canberra office. The Network Operations Centre is the cornerstone of Cirrus' managed services offering and the facility provides a platform for future growth.

Current operations

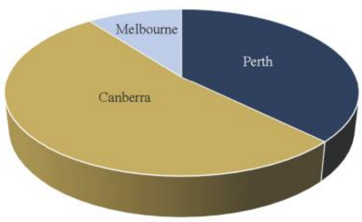
39 Cirrus operates from a Perth head office and employs approximately 200 staff across its offices in Perth, Melbourne and Canberra. The Company derives the majority of revenue from its Canberra and Perth offices and provides services to a range of clients, most of which are government entities, as shown below:

Cirrus – revenue by client diversity and geographical presence

Industry exposure (FY21)[1]



Revenue by location (FY21)



Note:
1 Revenue from clients with revenue in excess of $1 million.

40 Cirrus groups its revenue by three income streams, being enterprise product sales, professional services and managed services. A description of each of these is as follows:

(a) enterprise product sales – revenue is generated from the sale of enterprise level IT products from tier-one vendors such as Cisco Systems. Gross margins for these sales are generally in the order of 10% to 15%

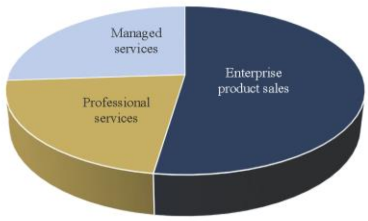
(b) professional services – including IT consulting, integration and support services. Revenue is billed based on either fixed prices, hourly charge-out rates or bundled professional services. Gross margins for professional services are typically around 20% to 25%

(c) managed services – covering the supply of cloud, niche managed services, outsourcing and a range of other IT services. This is the Company's highest margin business, with average gross margins of around 35% to 40%. Contracted managed services are provided over periods of up to three years and can include options to extend.

41 A summary of the FY21 revenue and gross profit contribution by income stream is as follows:

Cirrus – contribution by income stream

Revenue (FY21) | **Gross margin (FY21)**



42 As shown in the charts above, enterprise product sales represented three quarters of revenue in FY21, with professional services and managed services accounting for 15% and 10% of sales respectively. Enterprise product sales are lower margin, which resulted in a lower contribution to gross margin than its sales contribution. As indicated above, Cirrus' professional services and managed services are both significantly higher margin than enterprise product sales (managed services in particular).

43 Cirrus groups its IT services under the advisory, integration and managed services business units, which are summarised below:

(a) advisory services – business and technology consulting to provide fit for purpose solutions and strategies, including:

(i) strategy – development of information and communications technology strategic plans aligned to business requirements

(ii) architecture – technical and enterprise architecture services including platform and product assessments and implementation planning

(iii) governance – design and implementation of governance frameworks to drive successful contract measurement and outcomes

(iv) procurement – includes end-to-end tender packs, pricing requirements, scope of work definition and response reviews and assessments

(v) cloud – development of cloud assessment and suitability strategies, workload placement, hybrid environment design and planning, cloud vendor selection and cost optimisation

(vi) internet of things – increasing automation through capture, measurement, data analysis, rule development and implementation

(vii) program management – design and implementation of program management services including Prince2, Agile and client methodologies and frameworks

(viii) asset management – monitoring, capturing and maintaining assets through discovery, storage, management and support co-terming

(b) integration services – design and integration of projects across on-premise, hybrid, public and private cloud environments, including:

(i) connectivity – solutions for end-to-end network design and implementation services encompassing wide area networks, local area networks, security, wireless and optimisation

(ii) data centre – fit for purpose compute, storage and backup solutions, which support the complete data management lifecycle

(iii) collaboration – design and implementation of end-to-end collaboration solutions to support meetings, data sharing, education and contact centres

(iv) security – infrastructure security solutions including authentication, network security, end-point security, internet content filtering and data management

(v) project management and people services – understanding underlying business drivers and operational impacts to deliver successful project outcomes

(c) managed services – incorporates all the operational activities required to proactively ensure availability and performance across client platforms, including the Company's National Operations Centre:

(i) managed services – including 24 hours a day, seven days a week call centre access, service desk access, monitoring and alerting, capability and availability management, patching and concurrency, information and communication technology services, networking, and other support services

(ii) infrastructure services – offering a range of "as-a-service" outcomes from niche to complete platform services spanning across financed infrastructure, hybrid cloud infrastructure solutions or combinations thereof.

Financial performance

44 We set out below a summary of the historical financial performance for Cirrus for the four years ended FY21:

Cirrus – financial performance(1)	FY18 $000	FY19 $000	FY20 $000	FY21 $000
Enterprise product sales revenue	57,504	62,800	66,094	79,984
Professional services revenue	13,454	15,439	17,266	15,483
Managed services revenue	5,135	9,799	11,776	10,874
Total revenue	**76,093**	**88,038**	**95,136**	**106,341**
Purchase of goods and other cost of sales	(64,407)	(72,165)	(78,195)	(91,536)
Enterprise product sales gross margin	7,607	8,533	8,499	7,748
Professional services gross margin	2,754	3,623	3,880	3,195
Managed services gross margin	1,325	3,717	4,562	3,862
Total gross margin	**11,686**	**15,873**	**16,941**	**14,805**
Operating expenses	(10,664)	(13,688)	(13,980)	(11,835)
Underlying EBITDA(2)	**1,022**	**2,185**	**2,961**	**2,970**
Depreciation and amortisation	(466)	(663)	(741)	(711)
Underlying EBIT(2)	**556**	**1,522**	**2,220**	**2,259**
Net interest income / (expense)	19	(175)	(528)	(576)
Significant items(3)	(228)	(268)	(73)	(276)
Share based payments	(226)	(303)	(398)	(464)
Net profit before tax(1)	**121**	**776**	**1,221**	**943**
Enterprise product sales gross margin	*13.2%*	*13.6%*	*12.9%*	*9.7%*
Professional services gross margin	*20.5%*	*23.5%*	*22.5%*	*20.6%*
Managed services gross margin	*25.8%*	*37.9%*	*38.7%*	*35.5%*
Total gross margin	*15.4%*	*18.0%*	*17.8%*	*13.9%*

Note:

1 The FY20 and FY21 results have been adjusted to exclude the impact of changes required under the lease accounting standard AASB 16. In summary, the adoption of Australian Accounting Standards Board standard AASB 16 – *Leases* (AASB 16) increased reported EBITDA by approximately $0.7 million in FY20 and FY21, as rent expenses were replaced by amortisation charges (of the right of use asset) and notional interest expenses (on operating lease liabilities). However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of Cirrus. A reconciliation of the net profit before tax shown above with those reported by Cirrus under AASB 16 is set out below:

Net profit before tax as above (pre AASB 16)	121	776	1,221	943
AASB 16 rent adjustment	-	-	715	673
AASB 16 amortisation of right of use assets	-	-	(757)	(739)
AASB 16 notional interest on lease liabilities	-	-	(57)	(64)
Reported net profit before tax (post AASB 16)	121	776	1,122	845

2 Earnings before interest, tax, depreciation and amortisation (EBITDA) and earnings before interest and tax (EBIT) before significant items and share based payments. Includes JobKeeper subsidies of $1.635 million in FY21.

3 Predominantly restructure and redundancy costs. Notwithstanding that these costs have been incurred in each of the above years, these expenses relate to distinct one off items.

45 Below is a summary of the factors impacting the annual financial performance of Cirrus in the four years to FY21.

FY18 results

46 Revenue increased 41% to $76.1 million in FY18, reflecting (in particular) significant contributions from the acquisitions of Correct Communications (in November 2017) and NGage Technology Group (in March 2017). These acquisitions increased the scale of the

Company and expanded the number of office locations to three (Perth, Canberra and Melbourne).

47 Notable contract wins during FY18 included those for the Pilbara Ports Authority, Deakin University in Victoria, the Peter MacCallum Cancer Centre and Austrade.

FY19 results

48 FY19 revenue increased by 16%, reflecting both organic growth and the first full-year contribution from Correct Communications. However, enterprise product sales revenue was lower than expected, which was primarily due to a number of significant contracts being delayed[3].

49 Notable contract wins during FY19 included:

(a) managed services contracts with Crown Resorts (around $2.5 million in total contract revenue) and the University of Western Australia (approximately $2 million in total contract revenue)

(b) a cyber-resilience contract with Woodside Petroleum (around $3 million in total contract revenue)

(c) a data storage contract with Federal Government agencies (for in excess of $5 million in total contract revenue).

50 FY19 underlying EBITDA margins increased to around 2.3% (from 1.1% in FY18). This reflected growth in revenue from both professional services and managed services (which have significantly higher gross margins than enterprise product sales), as well as the benefits of increased scale. Notwithstanding this increase, EBITDA margins for the Company remained relatively low.

FY20 results

51 Revenue in FY20 increased by approximately 8%, with the Company's focus on its higher margin professional services and managed services businesses resulting in revenue growth for these segments of 12% and 20% respectively. Revenue for enterprise product sales increased by 5% in FY20.

52 Contract wins during FY20 included:

(a) a three-year network maintenance and support contract with the ACT Government (around $5 million in total contract revenue)

(b) two separate contracts with the Western Australian Government (for in excess of $5.5 million in total contract revenue)

(c) a contract with Rio Tinto, which provides Cirrus with the opportunity to bid for IT infrastructure services against a limited number of other pre-qualified providers.

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3 On 24 July 2019 Cirrus announced that $9 million in product contracts had been secured since 1 July 2019.

53 We understand that the impact of the COVID-19 pandemic on operations was minimal in FY20[4]. As a result, Cirrus did not qualify for any Government subsidies (such as JobKeeper) in FY20.

FY21 results

54 Cirrus achieved record revenue of $106.4 million in FY21, representing an increase of 12% on FY20. However, the Company's financial performance varied materially by region, as summarised below:

(a) the Canberra operations achieved revenue of $55 million in FY21, which was 94% higher than FY20. This reflected, inter-alia, continued contract wins with Federal Government departments and agencies

(b) revenue generated by the Victorian operations fell approximately 21% year on year, as the operations were adversely impacted by lockdowns associated with COVID-19

(c) revenue generated by the Western Australian operations fell approximately 24% year on year, which Cirrus management attributed to (inter-alia) project deferrals and revenue reductions associated with COVID-19, increased staff turnover and a relatively tight labour market.

55 Whilst FY21 enterprise product revenue increased 21% year on year (primarily due to the significant growth in revenue for the Canberra operations), revenue for both professional services and managed services declined due to the negative impact of uncertainty associated with the COVID-19 pandemic. In particular, we note that:

(a) revenue for two large managed services contracts temporarily reduced during FY21 as a direct result of COVID-19 related lockdowns. These revenue reductions reduced the FY21 gross margin by some $0.6 million

(b) professional services revenue reduced by 10% in FY21, which Cirrus management attribute to project delays due to COVID-19, tight labour markets and limited onsite work due to lockdowns. As a result, the gross margin for professional services declined by approximately $0.7 million in FY21. However, absent COVID-19 impacts, Cirrus management believes that professional services revenue (and related gross margin) would have increased at levels consistent with the experience in FY19 and FY20, rather than declined. Whilst it is difficult to reliably quantify the impact of COVID-19 on professional services revenue (and this income stream generally), the potential impact of COVID-19 on the professional service gross margin was at least $0.7 million

(c) Cirrus management consider that the total impact of COVID-19 in FY21 was at least equal to the level of JobKeeper subsidies received in the year (of $1.635 million).

56 Given the above, we have not excluded the JobKeeper subsidies received in FY21 when determining underlying EBITDA (as set out in the table above).

[4] Source: Cirrus FY20 investor presentation dated August 2020, page 11.

FY22 outlook

57 On 11 August 2021, Cirrus management provided the following FY22 outlook for the Company:

"With a solid backorder and a strong pipeline of opportunities, including the three significant contracts temporarily delayed, the Company is optimistic about the outlook for FY22. While the FY21 EBITDA result was below expectations, the Company remains very well placed for organic growth through a focus on improved earnings from revenues generated by higher margin services contracts. In fact, the business has concluded FY21 with the largest recurring revenue run rate in its history, following the commencement of the Geoscience Managed Services contract."

58 As stated in paragraph 37, in March 2021 Cirrus won its largest managed services contract to date with Geoscience Australia. This contract did not materially contribute to the FY21 results, but is expected to generate total revenues in excess of $13 million over the initial three-year contract term.

Financial position

59 The financial position of Cirrus as at 30 June 2020 and 30 June 2021 is set out below:

Cirrus – statement of financial position[1]	30 Jun 20 $000	30 Jun 21 $000
Cash and cash equivalents	6,163	7,744
Debtors and prepayments	18,074	24,180
Inventories	197	122
Creditors, accruals and provisions	(22,398)	(28,355)
Net working capital (including cash)	2,036	3,691
Property, plant and equipment	518	630
Intangible assets (including goodwill)	8,305	8,140
Deferred tax assets	4,450	4,046
Non-current receivables / net of non-current payables	23	38
Right of use assets / net of associated lease liabilities	(99)	(181)
Non-current provisions	(74)	(127)
Interest bearing liabilities	(595)	-
Net assets attributable to Cirrus shareholders	14,565	16,237

Note:
1 Rounding differences exist.

Net working capital

60 Consistent with the Company's operations, Cirrus' working capital position can vary materially during the financial year due to the timing of product sales, the receipt of cash for these sales and payments to suppliers.

Cash position

61 As at 30 June 2021, Cirrus had cash of $7.7 million, with no outstanding interest bearing debt. However, Cirrus incurs interest costs associated with an arrangement with an external funding partner which allows the Company to offer customers of its enterprise product sales business

the ability to pay for IT products and software licenses over time (e.g. over 12 to 24 months). This "buy now pay later" (BNPL) option is attractive to a small proportion of the Company's customers and therefore assists with securing some sales.

Tax losses

62 As at 30 June 2021, Cirrus had deferred tax assets of $4.0 million, of which some $3.3 million relates to carried forward tax losses[5].

Share capital and performance

63 As at 6 September 2021, Cirrus had 930.0 million fully paid ordinary shares on issue. In addition, the Company had 86.2 million options on issue at varying exercise prices and expiry dates.

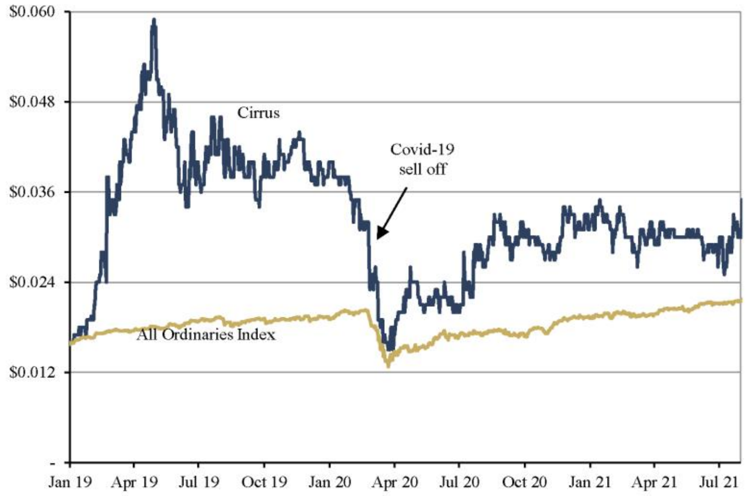
Significant shareholders

64 As at 6 September 2021, the only significant shareholder in Cirrus was Webcentral, with 8.85% of the shares on issue.

Share price performance

65 The following chart illustrates the movement in the share price of Cirrus from 1 January 2019 to 30 July 2021[6]:

Cirrus – share price history[(1)]
1 January 2019 to 30 July 2021



Note:
1 Based on closing prices. The All Ordinaries Index has been rebased to Cirrus' last traded price on 1 January 2019.
Source: Bloomberg and LEA analysis.

5 Noting that deferred tax assets and liabilities (including tax benefits) are not recognised on a present value basis in the financial statements.

6 Being the last trading day prior to the announcement of the Offer. Whilst the Offer was announced on 30 July 2021, this was after the close of market trading.

66 Over the period from January 2019 to February 2020, the Cirrus share price outperformed the All Ordinaries Index, albeit with significantly more volatility. Following the COVID-19 related sell off in equities in Australia (and globally), which negatively impacted the Cirrus share price, the Cirrus share price has generally outperformed the All Ordinaries Index.

Liquidity in Cirrus shares

67 The liquidity in Cirrus shares based on trading on the ASX over the 12 month period prior to 30 July 2021[7] is set out below:

Cirrus – liquidity in shares(1)

Period	Start date	End date	No of shares Traded 000	WANOS(2) outstanding 000	Implied level of liquidity Period(3) %	Annual(4) %
1 month	1 Jul 21	30 Jul 21	103,315	928,715	11.1	133.5
3 months	1 May 21	30 Jul 21	166,881	919,151	18.2	72.6
6 months	1 Feb 21	30 Jul 21	311,942	910,768	34.3	68.5
1 year	1 Aug 20	30 Jul 21	520,865	898,992	57.9	57.9

Note:
1 Webcentral acquired 34.1 million Cirrus shares from Wilson Asset Management Microcap Limited on 28 July 2021 in a block trade. This block trade has been excluded from the above liquidity analysis.
2 Number of shares traded during the period divided by the weighted average number of shares outstanding (WANOS).
3 Number of shares traded during the period divided by WANOS.
4 Implied annualised figure based upon implied level of liquidity for the period.

68 As indicated in the table above, total share turnover (on an annualised basis) in Cirrus shares has been in excess of 58% of the total number of shares issued, indicating a high level of market liquidity for a company of its size.

7 Being the last trading day prior to the announcement of the Offer. Whilst the Offer was announced on 30 July 2021, this was after the close of market trading.

IV Industry overview

Overview

69 Cirrus is an Australian IT solutions provider focused on designing, building and managing IT infrastructure for small to medium enterprises, large corporations and government entities. Cirrus' primary operations fall within the IT services segment of the broader IT industry, however the Company also provides traditional services that span across all industry subsectors.

IT industry

70 IT is the use of computers to store, retrieve, transmit and manipulate data or information, often in the context of a business or other enterprise. IT, and the hardware and software associated with the IT industry, is an integral part of nearly every major global industry, and plays a key role in driving economic growth by increasing productivity. The IT industry can be broadly divided into:

(a) **infrastructure** – hardware networks, data centres, facilities and related equipment used to develop, test, operate, monitor, manage and/or support IT services

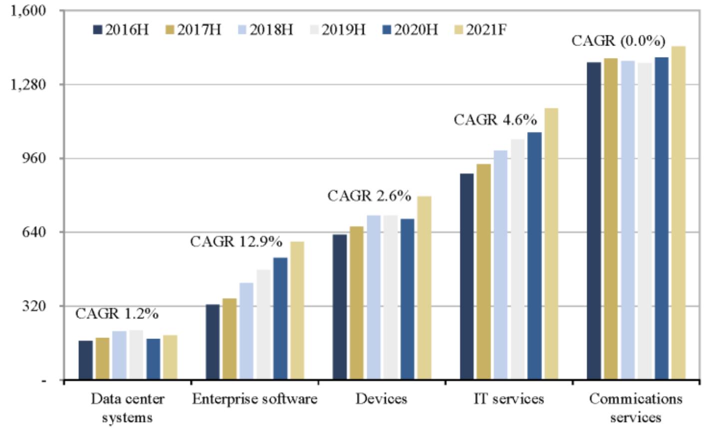
(b) **software** – system software such as operating systems and application software that performs specific functions separate from the computer itself

(c) **services** – including consulting, implementation of hardware and software, IT outsourcing, user experience, infrastructure support and managed services.

Global IT industry

71 Over the four years to 2020, global IT spend grew at a compound annual growth rate (CAGR) of 3.3% to US$3.9 trillion. However, certain sectors outperformed others, with enterprise software the standout with a CAGR of 12.9% over the four years to 2020, and IT services growth also relatively strong with a CAGR of 4.6% over the same period.

Global IT spending
US$billion



Source: Gartner (2017 to 2021): IT spending forecast press releases. The above CAGRs represent the four years to 2020.

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72 Global IT spending is projected to increase some 8.6% to US$4.2 trillion in 2021, recording the highest annual growth in over five years. The global IT industry is expected to benefit from increased expenditure across all categories in 2021 due to, inter alia:

(a) increased expenditure on IT services from enterprises aiming to gain a competitive advantage through technological innovation, or close the IT gap with competitors that outperformed during the COVID-19 pandemic. An expected boost in infrastructure-as-a-service spending is a key theme within the IT services segment, as businesses' digital transformation objectives focus on reducing fixed costs whilst still supporting mission critical workloads

(b) government organisations accelerating IT spending on digital public services, public health, social services, education, and workforce reskilling in support of individuals, families and businesses that are heavily impacted by COVID-19[8] lockdowns and other restrictions

(c) a global shortage of microchips, which has driven up unit costs for devices and resulted in some organisations pre-ordering IT hardware and bringing forward a proportion of future IT expenditure into 2021[9]

(d) a boost in consumer expenditure on software and devices due to higher levels of remote working and remote education services. Business expenditure is also expected to increase across these two categories due to organisations shifting their focus towards providing a more comfortable, innovative, and productive environment for their workforce.

73 More broadly, future growth is expected to be driven by the continued investment in digital business, blockchain, the "internet of things", cloud applications and the progression from big data and algorithms to machine learning and artificial intelligence.

IT services

74 IT services companies offer a range of service lines and specialisations, from installation and implementation of IT systems, to providing fully outsourced IT operations for businesses. Some of the key service lines are described below:

(a) infrastructure-as-a-service – a standardised, highly-automated product in which computing hardware, complemented by storage and networking capabilities, is owned by a service provider and offered to customers on-demand, usually via the internet

(b) business process outsourcing services – classified as either traditional (the delegation of one or more IT-intensive business processes to an external provider) or the delivery of business process outsourcing services via the internet to multiple customers

(c) consulting services – analysing and improving the efficacy of business and technology strategies and operations. The main sub-segments are business consulting services and technology consulting services

8 https://ia.acs.org.au/article/2020/government-it-spend-to-slump.html.

9 https://www.forbes.com/sites/martingiles/2021/07/14/cios-accelerating-global-it-spend/?sh=409ad02f682b.

(d) user experience services – services related to the design and development of software products, websites and applications that focus on optimising the end-user experience, such as user interface design, usability testing and design thinking

(e) implementation services – usually project-based services, to install, develop and customise IT solutions, assets and processes, and to integrate them with established applications, infrastructure and processes

(f) application managed services – include annual or longer term contracts that provide services, processes and methodologies for maintaining, improving and managing enterprise application environments. Services may be provided onsite or offsite and cover customised and off-the-shelf software, software-as-a-service applications and platform-as-a-service applications

(g) infrastructure managed services – the provision of outsourced asset-based IT infrastructure services

(h) hardware support services – these services are typically contract based (usually for one or three years) and may cover hardware replacement, onsite field engineering, technical support and proactive monitoring.

IT services market growth drivers

75 Key factors that are driving demand for IT services include:

(a) increasing connectivity – broadband and mobile internet connections have been widely adopted over the past 15 years, reflecting a range of factors including improved broadband access and performance, increasing adoption and use of smartphones and the increasing proportion of business transactions conducted online

(b) the rise of big data – rising business and consumer internet usage has created an abundance of data available for businesses to analyse, which enables the study of consumer spending, behaviours and patterns. This has contributed to a greater number of businesses outsourcing data processing activities to IT service providers

(c) capital expenditure – IT expenditure is influenced by cyclical and structural factors. Businesses tend to implement new IT systems during periods of high levels of business confidence and strong economic performance, and defer or cancel technology upgrades during the converse. Likewise, in periods of structural change such as technological advancement (e.g. cloud computing), IT expenditure requirements tend to be greater

(d) increased demand from key sectors – for instance, clients in the government sector have considerable data and transaction requirements, and have increasingly outsourced their data processing needs, particularly in areas such as healthcare. Other key sectors that are increasing their IT outsourcing include finance, insurance, information media and telecommunications

(e) digital transformation – enterprises are increasingly focused on integrating technology to improve productivity and remain competitive in a rapidly growing digital economy. In most cases, this involves a fundamental change in one or more business processes that require specialist IT services for the design, implementation and support of new systems

(f) security – IT security is a growing service area and has become a key priority for most medium to large organisations. Security concerns arise from the use of the internet to store and access information and from enterprises increasingly allowing employees to access company information and applications on their own mobile devices. Growth in the "internet of things" has specific security issues as organisations often do not have control over the source and nature of the software and hardware being used by devices connected via the internet.

76 Gartner expects total IT spending to increase in 2022, led by strong growth in enterprise software, IT services and data centre systems, which are expected to grow by 11.7%, 8.5% and 5.2% in 2022 respectively[10]. Growth is expected to be driven by businesses continuing to accelerate digital transformation plans that involves permanently higher adoption of remote working and digital touchpoints.

Australian IT industry

77 The Australian IT industry has expanded rapidly over the past five years due to regular upgrades and enhancements and increasing levels of outsourcing of non-essential systems operations. Industry growth has also been driven by increased online connectivity and cloud based applications.

78 IT services is the largest sector of the Australian IT market, whilst software is the fastest growing market segment (and one of the few market sectors that exhibited growth in 2020 despite a decrease in total IT spending due to the impacts of COVID-19). According to Gartner, Australian IT spending is expected to increase 6.4% to $102.6 billion in 2021, as the industry returns to growth following disruptions caused by COVID-19 in 2020.

Australian IT spending

	2019 (historical)		2020 (historical)		2021 (forecast)	
	Revenue $bn	Growth %	Revenue $bn	Growth %	Revenue $bn	Growth %
IT services	35.8	10.2	35.3	(1.5)	37.0	4.9
Communications services	24.2	(5.3)	23.7	(2.2)	23.6	(0.4)
Software	19.9	24.5	20.3	1.9	23.0	13.3
Devices	14.5	1.2	14.6	0.2	16.4	12.7
Data centre systems	2.9	(9.7)	2.6	(8.9)	2.6	(1.4)
Total end-user spend	97.4	6.3	96.5	(1.0)	102.6	6.4

Source: Gartner (2019 to 2021): Australia IT spending forecast press releases, LEA analysis.

79 Consistent with global data, growth expectations for Australian IT industry for 2021 are highest for the software and devices sectors and are expected to increase by 13.3% and 12.7% respectively[11]. This growth is being driven by a combination of the continuation of remote education across a number of regions (increasing demand for tablets and laptops), and enterprises expanding and improving remote work conditions for employees. Increased

10 Gartner (2021): *Gartner Forecasts Worldwide IT Spending to Grow 9% in 2021*.

11 https://www.arnnet.com.au/article/689818/australian-it-spending-grow-by-6-4-103b/.

spending from the public sector is also expected to contribute to growth in 2021, as government agencies continue to embrace remote working and connected public services.

80 According to forecasts provided by Gartner, Australian IT spend is expected to continue to grow in 2022, driven by strong growth in software and IT services, and a moderate increase in communication services spending[12].

[12] Gartner (2021): *Gartner Forecasts Technology Spending in Australia to Grow 4%; Global Spending up 6.2% in 2021.*

V Valuation methodology

Valuation approaches

81 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

82 Under the DCF methodology the value of the business is equal to the net present value of the estimated future cash flows including a terminal value. In order to arrive at the net present value the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

83 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

84 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation of acquired intangibles, EBIT or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

85 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no

longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

86 Our assessment of the market value of Cirrus shares reflects the value of the Cirrus business (on a cash and debt free basis) plus net cash. The value of the Cirrus business has been made on the basis of market value as a going concern. The primary valuation methodology used is the capitalisation of future maintainable earnings approach (using EBITDA). Under this methodology, the underlying EBITDA of the business (prior to non-recurring items) is capitalised at an EBITDA multiple that reflects the risk and growth prospects of the business.

87 In our opinion, the capitalisation of EBITDA method is the most appropriate methodology for Cirrus' business. This is because:

(a) Cirrus' business has well established market positions and a demonstrated history of profitability, which is expected to continue

(b) there are no long term cash flows available to enable a DCF methodology to be undertaken

(c) the EBITDA multiples for listed companies exposed to similar industry sectors as Cirrus' business can be derived from publicly available information

(d) transaction evidence in the sector is generally expressed in terms of EBITDA multiples

(e) no significant capital expenditure is required for the business operations.

88 In order to cross-check our valuation range we have considered the listed market price of Cirrus shares adjusted for a premium for control.

VI Valuation of 100% of Cirrus

Valuation methodologies

89 As stated in Section V, we have adopted the capitalisation of EBITDA method as our primary valuation method for the Cirrus business. Under this method the underlying EBITDA (before significant / non-recurring items) of the business is capitalised at an EBITDA multiple that reflects the risk and growth prospects of that business. The market value of Cirrus shares reflects the value of the Cirrus business plus net cash.

90 The resulting values have been cross-checked by reference to the share market trading in Cirrus shares prior to the announcement of the Scheme, adjusted for a premium for control.

Underlying EBITDA

91 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and forecast results of Cirrus, and have discussed the recent financial performance, operating environment and prospects with Cirrus management.

Historical results

92 We set out below a summary of the historical financial performance for Cirrus for the four years to FY21:

Cirrus – financial performance[1]

	FY18 $000	FY19 $000	FY20 $000	FY21 $000
Enterprise product sales revenue	57,504	62,800	66,094	79,984
Professional services revenue	13,454	15,439	17,266	15,483
Managed services revenue	5,135	9,799	11,776	10,874
Total revenue	**76,093**	**88,038**	**95,136**	**106,341**
Purchase of goods and other cost of sales	(64,407)	(72,165)	(78,195)	(91,536)
Enterprise product sales gross margin	7,607	8,533	8,499	7,748
Professional services gross margin	2,754	3,623	3,880	3,195
Managed services gross margin	1,325	3,717	4,562	3,862
Gross margin	**11,686**	**15,873**	**16,941**	**14,805**
Operating expenses	(10,664)	(13,688)	(13,980)	(11,835)
Underlying EBITDA[2]	**1,022**	**2,185**	**2,961**	**2,970**
Gross margins:				
Enterprise product sales gross margin	*13.2%*	*13.6%*	*12.9%*	*9.7%*
Professional services gross margin	*20.5%*	*23.5%*	*22.5%*	*20.6%*
Managed services gross margin	*25.8%*	*37.9%*	*38.7%*	*35.5%*
Total gross margin	*15.4%*	*18.0%*	*17.8%*	*13.9%*
Underlying EBITDA margin	*1.3%*	*2.5%*	*3.1%*	*2.8%*

Note:
1 The FY20 and FY21 results have been adjusted to exclude the impact of changes required under the lease accounting standard AASB 16. In summary, the adoption of AASB 16 increased reported EBITDA in FY20 and FY21 by approximately $0.7 million in each year, as rent expenses were replaced by amortisation charges (of the right of use asset) and notional interest expenses (on operating lease liabilities). However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of Cirrus.
2 EBITDA before significant items and share based payments (refer paragraph 44 for additional details regarding underlying EBITDA). Includes JobKeeper subsidies of $1.635 million in FY21.

93 In relation to the above historical results[13] we note that:

(a) the large majority of revenue (71.8% in FY21) is derived from enterprise product sales, which have relatively low gross margins. As a result total EBITDA margins for the Company are low

(b) the proportion of revenue from professional services and managed services contracts (which typically have contract terms of up to three years, with options to extend) has increased over the period. This reflects management's focus on these significantly higher gross margin revenue streams.

COVID-19 impact

94 The COVID-19 pandemic did not materially impact Cirrus' results in FY20. However, revenue for both professional services and managed services declined in FY21 due to the negative impact of uncertainty associated with the COVID-19 pandemic (refer paragraph 55 for further details). Further, we note that COVID-19:

(a) impacted gross margins by approximately $0.6 million for managed services contracts

(b) had a potential negative impact on the professional service gross margin of at least $0.7 million.

95 Cirrus management consider that the impact of COVID-19 was at least equal to the level of JobKeeper subsidies received in the year (of $1.635 million). As a result we have not excluded the JobKeeper subsidies received in FY21 from underlying EBITDA (as shown in the table above).

FY22 outlook

96 On 11 August 2021, Cirrus management provided the following outlook for the business in FY22:

"With a solid backorder and a strong pipeline of opportunities, including the three significant contracts temporarily delayed, the Company is optimistic about the outlook for FY22. While the FY21 EBITDA result was below expectations, the Company remains very well placed for organic growth through a focus on improved earnings from revenues generated by higher margin services contracts. In fact, the business has concluded FY21 with the largest

13 Further commentary on the historical results by year is set out in Section III.

recurring revenue run rate in its history, following the commencement of the Geoscience Managed Services contract."

97 Further information on the managed services contract awarded by Geoscience Australia in March 2021 (and its treatment for valuation purposes) is discussed below (refer paragraph 107).

EBITDA adopted for valuation purposes

98 For valuation purposes we have adopted EBITDA (net of AASB 16 adjustments) of $5 million. This reflects standalone EBITDA of $3.5 million plus a share of potential head office cost savings available to potential acquirers of $1.5 million.

Standalone EBITDA

99 Our standalone EBITDA of $3.5 million takes into account the following.

Allowance for BNPL funding costs

100 Cirrus has a BNPL arrangement with an external funding partner which allows it to offer customers of its enterprise product sales business the ability to pay for IT products and software licenses over time. This arrangement assists with securing sales for a small proportion of the Company's customers.

101 Cirrus incurs funding costs under this arrangement which are reported as interest expenses. A summary of these costs is as follows:

Cirrus – BNPL funding costs	FY18 $000	FY19 $000	FY20 $000	FY21 $000
BNPL funding costs	-	-	238	532

102 As these expenses are reported within interest costs (i.e. below the EBITDA line), they have not been factored into underlying EBITDA. However, given that these funding costs[14] effectively represent a discount to the selling price achieved and have been incurred to secure the respective sales, in our opinion, they should be regarded as a cost of sales.

103 Accordingly, we believe that it is appropriate to deduct these funding costs when assessing the level of EBITDA to be adopted for valuation purposes.

Share based remuneration

104 Share option expenses associated with the issue of options to employees and senior executives over recent years are set out below:

Cirrus – share option expenses	FY18 $000	FY19 $000	FY20 $000	FY21 $000
Share option expenses	226	303	398	464

[14] The underlying liabilities associated with this arrangement are not included in the Cirrus balance sheet.

105 The above share option expenses have not been taken into account in the underlying EBITDA set out in the table in paragraph 92. Accordingly, when assessing the level of EBITDA to adopt for valuation purposes we have made an allowance for such costs to the extent that they are representative of the ongoing expenses likely to be incurred.

106 In this regard we note that:

(a) under accounting standards, the "fair value" of options granted to employees and senior executives is treated (in economic substance) as part of their remuneration (hence the need to treat the value of options granted as an expense over the service / vesting period)

(b) the level of share option expenses incurred by Cirrus is high relative to the underlying profitability of the business. Further, we understand that a significant number options were issued to employees in April 2020 as a retention and cost mitigation strategy in response to COVID-19[15]

(c) further grants of share options to employees and senior executives under the Cirrus employee option plan will no longer occur if 100% of Cirrus is acquired. However, an acquirer of Cirrus may implement a replacement employee incentive plan, or instead pay cash bonuses to employees and senior executives (i.e. in lieu of receiving options)

(d) Cirrus management have advised that future share option expenses (in the absence of the Offer or a similar change of control transaction) are expected to be significantly less than the amounts incurred in recent years.

Geoscience Australia managed services contract

107 In March 2021, Cirrus won its largest managed services contract to date with Geoscience Australia. This contract did not materially contribute to the FY21 results, but is expected to generate total revenues in excess of $13 million over the initial three-year term of the contract[16]. Given the significance of this contract, we have incorporated our assessment of the expected pro forma earnings from the contract into EBITDA for valuation purposes.

108 The terms of the Geoscience Australia contract are confidential and accordingly we are restricted from disclosing the specific revenues and profitability expected to be generated from the contract. However, as noted in the table at paragraph 92, managed services contracts on average generate relatively high gross margins (of around 35% to 39% of revenue). Further, over the three-year period to FY21, managed services revenue has increased by $5.7 million and the related gross margin has increased by $2.5 million. The incremental gross margin on managed services contracts over the three-year period was therefore 44% (being $2.5 million divided by $5.7 million).

109 Notwithstanding this increase, the underlying EBITDA margin for Cirrus is relatively low, indicating that the incremental EBITDA margins for the Geoscience Australia contract are likely to be lower than its incremental gross margin contribution. Whilst this may be the case, as the level of operating expenses (excluding depreciation and amortisation) is also relatively

15 Salaries were reduced by 10% and employees were issued with an equivalent dollar value of options.

16 Whilst the initial term is three years, Geoscience Australia has two one-year options to extend the contract.

low[17], a significant proportion of the gross margin from the Geoscience Australia contract could be expected to flow through to EBITDA.

Corporate cost savings

110 Given the relatively small size of Cirrus, the level of corporate costs incurred (including costs associated with being a publicly listed company[18]) are high compared to reported profitability. A summary of the FY21 corporate expenses for the Company is as follows:

Cirrus – FY21 corporate costs	
	$000
Board and key management personnel	
Managing Director	322
Chief Operating Officer	332
Chief Financial Officer	276
Chairman	110
Non-exec director (two at $78,000 each)	156
Total Board and key management personnel costs	1,196
Other corporate costs	
Insurance	150
Audit	60
Professional fees	70
Listing fees	120
Other head office costs	430
Systems / software	50
Total other corporate costs	880
Total corporate costs	2,076

111 There are also a number of other potential cost savings not indicated in the above from the amalgamation of sales teams with an existing IT services business and other back-office expenses (e.g. rent cost savings) that could be eliminated from the Cirrus cost base.

112 In our opinion, this provides a significant opportunity for potential acquirers with similar operations (and/or an existing corporate office in Australia) to improve the underlying profitability of Cirrus through, inter-alia:

(a) the elimination of costs associated with being a publicly listed company

(b) the rationalisation of other head office costs; and

(c) the rationalisation of other duplicated costs.

113 As most potential acquirers could achieve significant cost savings in the above areas, and a high proportion of such costs could be achieved relatively easily (including costs associated with being a publicly listed company), in our opinion a high proportion of the value benefit

17 Operating expenses were 11.1% of revenue in FY21 and between 14% and 15.5% of revenue over FY18 to FY20.

18 For example, listing and share registry fees, shareholder communication costs etc.

associated with the above cost savings / synergies should be factored into the valuation of the Cirrus.

114 Accordingly, for valuation purposes we have assumed that $1.5 million in corporate and listed / public company costs could be eliminated by a potential acquirer of 100% of Cirrus. As indicated above, this amount does not reflect the full costs savings that a potential acquirer could obtain from the acquisition of Cirrus.

EBITDA multiple

115 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- The stability and quality of earnings
- The quality of the management and the likely continuity of management
- The nature and size of the business
- The spread and financial standing of customers
- The financial structure of the company and gearing level
- The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors
- The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors
- The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc.
- The cyclical nature of the industry
- Expected changes in interest rates
- The asset backing of the underlying business of the company and the quality of the assets
- The extent to which a premium for control is appropriate
- Whether the assessment is consistent with historical and prospective earnings

116 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for Cirrus.

Listed company multiples

117 The EBITDA multiples for selected Australia IT services companies[19] are as follows, with company descriptions set out in Appendix C:

Listed company trading multiples(1)			
	Enterprise value(2)	EBITDA multiples FY21(4)	FY22(5)
	$m	x	x
Data#3	615	15.9	13.8
COSOL	92	16.3	11.7
MOQ	37	10.2	na

19 Webcentral has also been considered for the purpose of calculating an EBITDA multiple. However, there are a number of issues that complicate this calculation, including the current merger with 5G Networks, the company's recent restructuring, the 18 month reporting period in its latest financial report and the significant losses incurred over this period, and the lack of availability of analyst forecasts. As a result, we have not been able to accurately determine an implied EBITDA multiple (either historical or forecast) for Webcentral.

Note:
1 Enterprise value and earnings multiples calculated as at 3 September 2021.
2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), net derivative liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks, and excludes surplus assets.
3 The EBITDA multiples have been adjusted to remove the impact of AASB 16.
4 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses and restructuring charges.
5 Forecast earnings are based on Bloomberg average analyst forecasts (excluding outliers and outdated forecasts).
na – not available.
Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements and LEA analysis.

118 In relation to the above, we note that:

(a) the listed company multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)[20]. This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company

(b) the Australian IT services companies EBITDA multiples are high, noting that:

(i) Data#3 has reported significant earnings growth in recent years (which is expected to continue) and also provides a range of software services including a large proportion of cloud based revenues (implied EBITDA multiples for software companies are typically higher than for IT services businesses)

(ii) COSOL has grown revenue and profits significantly in the last three years (which is expected to continue), and in our opinion, its high EBITDA multiple is a reflection of this

(iii) MOQ's underlying EBITDA increased by 86% in FY21, and in our opinion, its relatively high EBITDA multiple reflects this

(c) two of the three selected Australian ASX listed companies are significantly larger than Cirrus. Smaller listed companies (such as Cirrus) often trade on lower multiples than larger listed companies provided other variables such as expected earnings growth are similar[21].

[20] LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2019. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

[21] As one of Australia's leading valuation firms, LEA has an extensive database of Australian company transactions, including details of prices paid, implied enterprise values and earnings multiples. This evidence indicates that:

119 Given the substantial size differences and strong historical growth profiles for two of the three identified ASX listed companies, as well as the limited sample, we have had primary regard to the EBITDA multiples implied by recent transaction evidence (which is set out below).

Transaction evidence

120 There have been a number of Australian transactions in the IT services sector over recent years, the acquisition terms and related EBITDA multiples for which are readily available. A summary of these transactions (with a value greater than or around $20 million) is set out below, with a description of the target companies provided in Appendix D:

Transaction multiples

Date[(1)]	Target	Acquirer	Interest %	Enterprise value[(2)(3)] $m	EBITDA multiples[(4)] x
Jul 21	Empired[(5)]	Capgemini	100	233	9.6 F
Mar 21	Secure Logic	Tesserent	100	22	5.3 H
Dec 20	Intalock	Spirit Technology Solutions	100	19	8.2 H
Nov 20	RXP Services	Capgemini	100	106	7.6 F
Oct 20	Digital Sense	Over the Wire	100	33	6.1 H
Sep 20	DWS	HCL Technologies	100	200	7.7 H
Sep 20	Citadel Services[(6)]	Pacific Equity Partners	100	-[(6)]	7.0 F[(6)]
Oct 18	Comlinx	Over the Wire	100	21	6.4 H
Jun 18	Project Assured	DWS	100	37	5.5 H
Jan 18	Bulletproof	AC3	100	28	6.2 H
Aug 17	The Works	RXP Services	100	33	6.4 F
May 17	SMS Management & Technology	Nomura Research Institute	100	132	14.2 H
May 17	WME Group	Melbourne IT	100	39	5.6 F
Sep 16	ASG Group	Nomura Research Institute	100	348	10.6 F
Oct 15	UXC	CSC	100	470	9.9 F
Aug 15	Phoenix IT&T Consulting	DWS	75	26	5.2 F
Jun 15	Outware Mobile	Melbourne IT	100	67	8.6 F
Aug 14	Oakton	Dimension Data Holdings	100	171	10.6 F

Note:

1 Date of announcement.
2 Enterprise value on a 100% basis.
3 Where deferred consideration is payable contingent on financial performance targets, a consistent assumption of 50% of the contingent amount payable has been included in the enterprise value and EBITDA multiple calculations.
4 H – multiple based on historical EBITDA. F – multiple based on forecast EBITDA.
5 As at the date of this report, the transaction had not completed.
6 The Citadel Group Limited (Citadel) comprised a Software division and a (smaller) Services division (which provided technology and professional consulting services and is referred to as Citadel Services). The EBITDA multiple for Citadel Services of 7.0 is based on our best estimate of the relative value of both divisions implied by the offer consideration for Citadel.

Source: LEA analysis using data from ASX announcements, analyst reports and company annual reports.

(a) small companies generally trade on significantly lower earnings multiples than larger companies (provided other variables such as expected earnings growth are similar); and

(b) investors usually require a higher rate of return to compensate for the additional risks associated with small companies compared to larger ones.

121 In relation to the transaction evidence, we note that:

(a) except where indicated, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control

(b) the companies acquired differ in terms of their size and nature of operations. Accordingly, in our view, the median or average multiples implied by these transactions are not necessarily representative of the multiple which should be applied to Cirrus

(c) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings

(d) some transactions may reflect a strategic premium.

122 None of the above companies are directly comparable to the Cirrus business, however a number of the companies that are the subject of recent transactions provided similar services or targeted similar clients to the Company, including:

(a) Secure Logic, which provided managed services with a focus on IT security services. Its primary clients were also government entities

(b) Project Assured, which was a professional services business based in Canberra, servicing both government and other ACT-based clients

(c) Bulletproof, which provided a range of cloud and other professional services.

123 The most recent transaction involving an ASX listed IT services company was the proposed acquisition of Empired by Capgemini, announced in July 2021. Empired provided a range of IT services including professional services and managed services. The implied EBITDA multiple for this transaction was 9.6 times forecast EBITDA. This EBITDA multiple represented a premium to other recent ASX listed company transactions (being RXP Services, DWS and Citadel Services, which were acquired on implied EBITDA multiples within a range of 7.0 to 7.7 times). This premium reflected the high revenue and earnings growth prospects of Empired at the time, due to the award of a number of large managed services contracts leading up to the date of acquisition. In addition, Cirrus is significantly smaller than Empired, RXP Services, DWS and Citadel Services (and all things equal, larger companies tend to trade on or transact at higher implied EBITDA multiples).

124 A summary of the implied EBITDA multiples for the Australian transactions with business values of around \$20 million to \$40 million[22] (i.e. of a more comparable size to Cirrus) is set out below:

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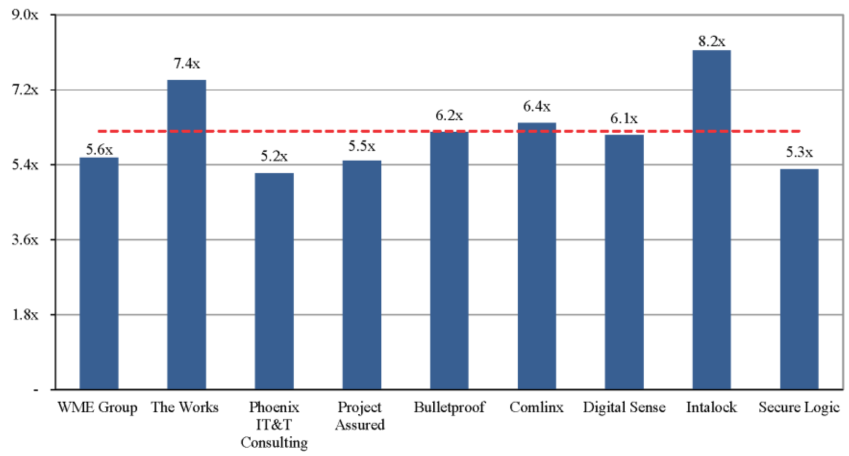
[22] Ideally, the value range would be up to \$50 million, however there are no relevant transactions that had a value of between \$40 million and \$50 million.

Transaction summary – implied EBITDA multiples
Business values of around $20 million to $40 million



125 Regarding the implied EBITDA multiples for the above transactions we note that:

(a) the average EBITDA multiple (the red line in the chart) for the nine transactions is 6.2 times, whilst the median EBITDA multiple is 6.1 times

(b) there are instances, for example The Works and Intalock transactions, where a materially higher multiple was implied by the transaction. We understand that this was attributable to the greater levels of expected synergies available to the acquiring entity

(c) from a revenue perspective, the above companies were all significantly smaller than Cirrus, however, they typically derived higher earnings margins.

Premium for control

126 As noted above, the listed company multiples reflect the value of each company on a portfolio or minority interest basis and therefore do not incorporate a takeover premium (or premium for control), whereas the EBITDA multiples implied by the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control.

127 One of the key reasons why control premiums are paid is the existence of potential synergy benefits. In the case of listed companies such as Cirrus, such potential synergy benefits generally include corporate cost savings. As noted above, we have allowed for a proportion of the corporate costs savings available to potential purchasers of Cirrus when assessing the level of EBITDA adopted for valuation purposes.

128 We note however that potential purchasers may also be able to generate other synergy benefits from an acquisition of Cirrus (such as additional cost savings from sales team amalgamations, benefits arising from the cross-selling of services to respective clients and the reduction of other back-office expenses), which have not been allowed for in the level of EBITDA adopted for valuation purposes.

129 Accordingly, in our opinion, the EBITDA multiple applied when valuing Cirrus should reflect a balance between the earnings attributable to synergy benefits both included and excluded from the level of EBITDA adopted for valuation purposes.

130 In our opinion therefore, in the case of Cirrus, the appropriate EBITDA multiple to apply to the EBITDA adopted for valuation purposes (which includes a proportion of corporate office cost savings), should be lower than that generally implied by the transaction evidence (which is based on EBITDA generated by the target companies on a standalone basis, i.e. excluding any synergies).

EBITDA multiple adopted for valuation purposes

131 Having regard to the analysis above, we have adopted an EBITDA multiple of 6.0 to 6.5 times for Cirrus. This range is broadly consistent with the transaction evidence shown for companies of a similar transaction size (around $20 million to $40 million), noting that:

(a) Cirrus derives significantly higher revenues and is more diversified than the majority of the target companies set out in the chart in paragraph 124. Further, whilst enterprise product sales represent the majority of the Company's revenue, these sales provide a consistent source of revenue (albeit at a relatively low margin) and hence serve to reduce sales volatility of the Company. These factors, inter-alia, would imply a higher EBITDA multiple for Cirrus, all other things equal, than the transaction evidence for this cohort

(b) there were two transactions with material synergies envisaged (The Works with cost synergies and Intalock with revenue synergies) and the implied EBITDA multiples for these companies (i.e. 7.4 times and 8.2 times EBITDA respectively) were materially higher than the EBITDA multiples for the other transactions.

Enterprise value

132 On this basis, the value of Cirrus' business (on a cash and debt free basis) is as follows:

Enterprise value	Low $m	High $m
EBITDA	5.0	5.0
EBITDA multiple (x)	6.0	6.5
Enterprise value	30.0	32.5

Net cash

133 As at 30 June 2021, Cirrus had net cash (excluding AASB 16 operating lease liabilities[23]) of $7.7 million and no borrowings[24], following the full repayment of an acquisition debt facility in December 2020. Cirrus' net cash position can vary materially within the month and during the financial year due to the timing of product sales.

23 As stated in paragraph 44, we have reversed the impact of AASB 16 accounting entries as they have no impact on the underlying cash flow, profitability or value of Cirrus.

24 As noted in paragraph 100, Cirrus has an arrangement with an external funding partner which allows it to offer customers of its enterprise product segment the ability to pay for IT products / software licenses over time (e.g. over 12 to 24 months).

134 Given the above, we have considered (inter-alia) the Company's average net cash together with its working capital position over a 12 month period, as well as Cirrus management's forecast net cash and working capital position. Based on this review, we have adopted a net cash position for valuation purposes of $4.0 million.

Other assets / liabilities

135 We are not aware of any assets which are surplus to the business operations of Cirrus, nor any other liabilities which should be deducted from our assessed business value. In addition, Cirrus had no deferred or contingent consideration payments due in relation to past acquisitions as at 30 June 2021.

Tax losses

136 As set out in Section III, Cirrus has significant tax losses, of which some $3.3 million have been recognised as an asset in the financial statements for Cirrus as at 30 June 2021[25].

137 For valuation purposes we have valued the tax losses at $1.6 million to $2.3 million. In determining this value range we have considered:

(a) the extent to which the tax losses could be utilised, based on pro forma earnings (prior to taking into account corporate cost savings available to a purchaser)

(b) the time period over which any utilisation of these tax assets could reasonably occur

(c) the reluctance by purchasers generally to pay significant value for tax losses due to, inter-alia, the uncertainty associated with their ability to utilise the tax losses (in particular following a change of control).

Shares on issue

138 Cirrus has 930.0 million fully paid ordinary shares on issue. In addition, there are 86.2 million options on issue which are exercisable at the following exercise prices:

Cirrus – options outstanding

Number grouped by exercise price	Exercise price	In the money at assessed valuation range	Expiry date (range)
14,371,429	0.035	Yes	22 November 2021 to 31 December 2023
36,412,500	0.045	No	22 November 2021 to 30 June 2024(1)
1,500,000	0.050	No	30 June 2023
25,350,000	0.060	No	31 December 2022 to 18 November 2024(1)
2,750,000	0.070	No	30 June 2023 to 11 November 2023
4,600,000	0.080	No	31 December 2022
1,250,000	0.090	No	11 November 2023

Note:
1 Also includes options that expire five years from the vesting date.

25 It should be noted that deferred tax assets and liabilities (including tax benefits) are not recognised at their present value in financial statements.

139 At our assessed valuation range the majority of the options are out of the money and hence would not be exercised. However, we have assumed that Cirrus would allow all the "in the money" options (including unvested options) to be exercised in the event of a change of control transaction.

140 We have therefore adopted 944.4 million fully diluted shares on issue, which includes the 14.4 million options exercisable at $0.035 per share.

Valuation summary

141 Based on the above, the value of 100% of Cirrus on a controlling interest basis is as follows:

Valuation of Cirrus	Low $m	High $m
Enterprise value	30.0	32.5
Add net cash	4.0	4.0
Add value of tax losses	1.6	2.3
Add cash from exercise of "in the money" options	0.5	0.5
Equity value	36.1	39.3
Fully diluted shares on issue (million)	944.4	944.4
Value per share ($)	$0.038	$0.042

Comparison with listed market price

142 Empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)[26].

143 In both the one and three month periods prior to the announcement of the Offer (on 30 July 2021)[27], the volume weighted average price (VWAP) of Cirrus shares was approximately $0.029 per share.

144 Adjusting this VWAP for a 30% to 35% control premium would therefore result in a "theoretical" control value of $0.038 to $0.039 per share. This is consistent with the low end, but is below the high end, of our assessed valuation range. In this regard we note that in circumstances such as those applicable to Cirrus (where the level of potential synergy benefits an acquirer providing similar services is able to obtain is relatively high) it is not uncommon for implied control premiums to exceed the average observed range[28].

145 We therefore consider that our valuation range is reasonable and appropriate.

26 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2019. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

27 We note that the value of Cirrus shares traded during the one-month and three-month period was $3.9 million and $5.8 million respectively.

28 By way of example, the recent acquisitions by Capgemini of RXP Services and Empired (being transactions with which LEA has detailed knowledge, having prepared the related IERs) both implied control premiums in excess of 60% relative to recent share market trading in the respective companies.

VII Evaluation of the Offer

Summary of opinion

146 LEA has concluded that the Offer is neither fair nor reasonable. We have formed this opinion for the following reasons.

Assessment of fairness

147 Pursuant to RG 111, an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

148 This comparison is shown below:

Comparison of Offer consideration and Cirrus share value	Low $ per share	High $ per share	Mid-point $ per share
Value of Offer consideration	0.032	0.032	0.032
Value of 100% of shares in Cirrus	0.038	0.042	0.040
Extent to which the Offer consideration is less than the value of the shares in Cirrus	0.006	0.010	0.008

149 As the consideration offered by Webcentral of $0.032 cash per share is less than our assessed value of the ordinary shares in Cirrus on a 100% controlling interest basis, in our opinion, the Offer is not fair when assessed under the guidelines set out in RG 111.

Assessment of reasonableness

150 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

151 In assessing whether the Offer is reasonable LEA has considered:

(a) the extent to which a control premium is being paid to Cirrus shareholders

(b) the extent to which a share of the synergy benefits likely to arise upon an acquisition of Cirrus by Webcentral is being paid to Cirrus shareholders

(c) the listed market price of Cirrus shares both prior and subsequent to the announcement of Webcentral's intention to make the Offer

(d) Webcentral's current shareholding in Cirrus and the potential for Webcentral to control Cirrus pursuant to the Offer

(e) the value of Cirrus to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(f) the likely market price of Cirrus shares if the Offer is not successful

(g) other risks, advantages and disadvantages.

152 These issues are discussed in detail below.

Extent to which a control premium is being paid

153 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

154 We have calculated the premium implied by the Offer consideration of $0.032 per share by reference to the market prices of Cirrus shares up to 30 July 2021, being the last day of trading prior to the receipt of the Offer by Cirrus and Webcentral's appointed broker standing in the market to acquire Cirrus shares. The implied offer premium relative to recent Cirrus share prices is shown below:

Implied offer premium relative to recent Cirrus share prices

	Cirrus share price $	Implied control premium %
Closing share price on 30 July 2021[1]	0.0300	6.7
1 month VWAP to 30 July 2021	0.0287	11.4
3 months VWAP to 30 July 2021	0.0289	10.6

Note:
1 Being the last full day of trading prior to the receipt of the Offer.

155 In our opinion, more regard should be had to the VWAPs above rather than the share price on a single day. Notwithstanding, based on each of the three comparison metrics, we note that the Offer provides Cirrus shareholders with a premium that is significantly lower than observed premiums generally paid in comparable circumstances.

156 Accordingly, in our view, Cirrus shareholders are not being appropriately compensated for the fact that control of Cirrus will pass to Webcentral if the Offer is successful (and could potentially pass if the Offer is only partially successful)[29].

Extent to which Cirrus shareholders are being paid a share of synergies

157 Webcentral has stated in its Bidder's Statement that if it is able to acquire control of Cirrus, it intends to conduct a general review of the Cirrus business (from both a strategic and operational perspective), which will include an assessment of whether existing management and employee staffing arrangements are appropriate. However, Webcentral has not quantified the level of synergy benefits or cost savings it expects to be able to achieve if it acquires control of Cirrus.

158 As noted in Section V, we consider that there is a significant opportunity for potential acquirers with similar operations (and/or an existing corporate office in Australia) to improve the underlying profitability of Cirrus through, inter-alia:

(a) the elimination of costs associated with being a publicly listed company

(b) the rationalisation of other head office costs; and

(c) the rationalisation of other duplicated costs.

159 In our opinion, most potential acquirers of Cirrus could achieve significant cost savings in the above areas, and a high proportion of such costs could be achieved relatively easily (including costs associated with being a publicly listed company). Accordingly, we have factored an appropriate proportion of the value benefit associated with the above cost savings / synergies into our assessed valuation of Cirrus.

160 As noted above, the consideration offered by Webcentral of $0.032 cash per share is significantly less than our assessed value of the ordinary shares in Cirrus on a 100% controlling interest basis. It follows therefore that the Offer price does not reflect an appropriate share of the value benefit associated with the synergies that are expected to arise.

Webcentral's current shareholding in Cirrus

161 At the date of the announcement of the Offer, Webcentral held a relevant interest of 8.85% in the issued capital of Cirrus pursuant to both an agreement with WAM Microcap Limited entered into on 28 July 2021, together with earlier on market purchases during July 2021.

162 Effective 30 July 2021, Webcentral's appointed broker commenced standing in the market to purchase shares at the Offer price. We have been advised that at the date of this report, the appointed broker has not acquired any further shares in Cirrus on behalf of Webcentral.

Likelihood of an alternative offer

163 We have been advised by the Directors of Cirrus that, at the date of this report, no formal alternative offers have been received subsequent to Webcentral's announcement of its intention to make the Offer on 30 July 2021.

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[29] Whilst the Offer is for all the shares in Cirrus not currently owned by Webcentral, the Offer is unconditional and therefore control of Cirrus could effectively pass to Webcentral even if the Offer is only partially successful.

164 However, as announced by Cirrus on 30 August 2021, since the announcement of Webcentral's Offer the Cirrus Board has been in discussions with various counterparties regarding the potential for an alternative proposal at a premium to the Offer. These discussions are preliminary and non-binding, and shareholders should be aware they may not result in a formal, binding offer.

Recent share prices subsequent to the announcement of the intention to make the Offer

165 Subsequent to the announcement of the Offer up to 6 September 2021, shares in Cirrus have traded in the range of \$0.033 to \$0.037 per share, with a VWAP of \$0.034 per share. We note that this trading reflects share prices that exceed the Offer consideration of \$0.032 per share.

Likely price of Cirrus shares if the Offer is not successful

166 In our opinion, if the Offer lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short term) that Cirrus shares will trade at or around the Offer price[30]. In the absence of the Offer or an alternative proposal, we therefore expect Cirrus shares to trade at a discount to our valuation (consistent with the difference between the value of Cirrus on a portfolio basis and the value on a 100% controlling interest basis).

Other matters

167 Cirrus Directors and key management with an aggregate relevant interest in 16.66% of the issued capital of Cirrus have stated an intention not to accept the Offer.

168 On this basis Webcentral will be unable to meet the 90% compulsory acquisition threshold pursuant to the current terms of the Offer. However, as noted above, the Offer is unconditional and Webcentral can potentially acquire control of Cirrus irrespective of the intention of Cirrus Directors and key management not to accept the Offer.

Conclusion

169 Based on the above we have concluded that the Offer is also not reasonable. We are of this opinion primarily because the Offer consideration of \$0.032 per share is significantly lower than our assessed valuation range for Cirrus shares when assessed under the guidelines set out in RG 111.

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[30] Cirrus shares last traded at \$0.031 per share on 29 July 2021 (being the day prior to receipt of notification of the Offer).

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Cirrus shareholders in connection with the Offer.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $110,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Mr Craig Edwards and Mr Jorge Resende, who are each authorised representatives of LEA. Mr Edwards and Mr Resende have over 27 years and 20 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of Cirrus to accompany the Target Statement to be sent to Cirrus shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Cirrus.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Resende have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Cirrus agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Cirrus which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in Cirrus' Target Statement.

Appendix C

Listed company descriptions

Data#3 Limited

1 Data#3 is an Australian IT company that delivers an integrated array of solutions spanning cloud, mobility, security, data and analytics and IT lifecycle management through two segments, being Product and Services. The Product segment is engaged in providing hardware and software licenses for its customers' desktop, network and data centre infrastructure. The company's Services segment provides consulting, procurement, project services, resourcing and managed services.

COSOL Ltd

2 COSOL is a global provider of digital and IT solutions, partnering with asset intensive businesses in the mining, utility, defence and public infrastructure industries to drive business improvements through the enhanced use of data and data analysis. The company's proprietary digital solutions include enterprise asset management and enterprise resource planning systems, data management platforms, subscription based solutions designed to keep enterprise systems current and business productivity tools associated with bulk data management.

MOQ Ltd

3 MOQ is focused on developing, building and acquiring complementary cloud focused technology businesses. It provides a range of services and solutions to enable digital business transformation including consulting, integration and managed services across applications, data and infrastructure platforms. The company primarily services clients in Australia, with support from Sri Lanka and New Zealand.

Appendix D

Australian IT services transaction company descriptions

Empired

1 Empired is an IT services provider focused on delivering enterprise digital solutions for medium to large corporate and government organisations within key industries, including public sector, energy and natural resources, financial services and insurance, utilities and transport. The company offers end-to-end business solutions, including managed services and digital transformation, consulting services, system integration, digital customer relationship management and engagement strategies, and IT security.

Secure Logic

2 Secure Logic is a managed security services firm headquartered in Sydney, with additional sales offices located in Singapore, Kuala Lumpur and Bangalore. The firm operates a 24 hour a day, seven days a week security operations centre located in Sydney. It works predominantly with New South Wales State Government and Federal Government departments and agencies, as well as a range of international and domestic corporate and financial institutions.

Intalock

3 Founded in 2010, Intalock is a managed cyber security services firm which offers a full range of advisory, technical services, software licensing and managed services. It operates a market leading security operations centre, providing 24 hours a day, seven days a week monitoring, technical services and support.

RXP Services

4 RXP Services was an Australian digital services consultancy business specialising in providing digital expertise and support across current and emerging channels. The company offered end-to-end solutions from the initial design phase through to the final build and implementation stage. RXP Services also provided digital marketing services and assisted organisations with innovation by fusing brand, insight, design and technology.

Digital Sense

5 Digital Sense was headquartered in Brisbane and employed approximately 40 staff. The company was a cloud business that provided a customisable and scalable cloud offering to enterprise and government customers. Digital Sense also owned and operated a data centre facility in Brisbane.

DWS

6 DWS was a professional services company which provided IT consulting services to large corporate entities and Australian Government agencies. Services provided included consulting, digital advisory, program and project management, and managed application services. At the time of the acquisition, DWS employed over 750 staff and contractors and had offices in Melbourne, Sydney, Brisbane, Adelaide and Canberra.

Appendix D

Citadel Services

7 Citadel Services was a division of The Citadel Group. The division had two key verticals, being Technology and Professional Services. The Technology vertical designed, supplied and implemented technology systems to meet business and government requirements. The Professional Services vertical was an advisory business that offered strategic advice, improved practice methodology, technologies and managed services to large enterprises and government departments.

Comlinx

8 Comlinx was a provider of IT managed solutions to corporate, enterprise and government customers. The company was established in 2006 and was headquartered in Brisbane, with approximately 20 staff. At the time of acquisition, Comlinx had approximately 100 clients with high levels of customer retention and long tenure of relationships with major customers.

Project Assured

9 Project Assured was a Canberra based strategic management and IT consulting business servicing the Federal Government and other Canberra based clients. At the time of the acquisition the company had been operating in the ACT market for four years.

Bulletproof

10 Bulletproof provided managed cloud, hosting and professional services primarily for corporate and enterprise customers in Australia and New Zealand. The company had three business units at the time of acquisition, including Public Cloud (Amazon Web Services and Microsoft Azure Cloud Services), Private Cloud and Professional Services (including cloud software engineering and migration, cloud security services, consulting services, digital strategy and application migration services).

The Works

11 Established in 2002, The Works was a digital and creative agency that provided digital and technical services (user experience, user interface, online and mobile devices) as well as strategy and consulting. At the time of acquisition, The Works employed 61 staff and was based in Sydney.

SMS Management & Technology

12 SMS Management & Technology was an IT services company, providing business and IT advisory, technology solutions, managed services and recruitment to a range of large corporations and government bodies. Around the time of the acquisition, the company employed over 1,300 professional staff (including contractors) predominantly in Australia, with a presence in Hong Kong, Singapore and the Philippines. It consisted of two businesses, SMS Consulting and M&T Resources.

WME Group

13 WME Group was a leading provider of end-to-end digital marketing solutions including search engine optimisation, search engine advertising and web design. The company's market-facing brands included WME, Nothing But Web and Results First. The company had offices in Melbourne and Auckland, New Zealand.

ASG Group

14 ASG Group specialised in the provision of professional IT business solutions to medium to large-scale enterprises and had expertise and experience in IT outsourcing, computer infrastructure, application development, systems integration and the provision of specialist technical services and support. The company was founded in 1996 and was also an accredited partner of Oracle and SAP.

UXC

15 UXC provided integrated services across the IT value chain from design to implementation and enhancement, and operation and management of IT systems. It operated three divisions, being Advisory and Consulting, Enterprise Applications (by far the largest business unit) and IT Infrastructure. It employed 2,300 staff in offices in Brisbane, Sydney, Canberra, Melbourne, Hobart, Adelaide and Perth, and supported around 2,500 clients in Australia and internationally.

Phoenix IT&T Consulting

16 Phoenix IT&T provided managed IT infrastructure support services, including systems management, communications, remote telephone support, high-touch field services, project and consultancy services, and business continuity and disaster recovery services. The company employed 200 staff at the time of acquisition and its clients included a number of government agencies and blue chip companies.

Outware Mobile

17 Outware Mobile was a leading mobile application developer for the enterprise and government markets. The company had key competencies in the rapidly emerging mobile application development market and was a national leader for mobile strategy, user experience and design, and mobile application development.

Oakton

18 Oakton was a consulting and technology firm, which worked with its clients to develop a broad range of solutions leveraging business and industry insight, intellectual property, the latest technologies and partnerships with cloud-based infrastructure and software providers. Oakton generated revenue through rate per hour roles and project based engagements, which focused on the delivery of particular aspects of an in-house IT department's IT capital expenditure requirements.

Appendix E

Glossary

Term	Meaning
AASB	Australian Accounting Standards Board
AASB 16	AASB 16 – *Leases*
ACT	Australian Capital Territory
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
BNPL	"buy now pay later"
CAGR	Compound annual growth rate
Cirrus / the Company	Cirrus Networks Holdings Limited
Citadel	The Citadel Group
Citadel Services	Services division of Citadel
Corporations Act	*Corporations Act 2001 (Cth)*
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
IT	Information technology
LEA	Lonergan Edwards & Associates Limited
Offer	The unsolicited on-market takeover offer by Webcentral to acquire all of the shares in Cirrus that it does not already own for an offer price of $0.032 cash per Cirrus share
RG 111	Regulatory Guideline 111 – *Content of expert reports*
VWAP	Volume weighted average price
WANOS	Weighted average number of shares outstanding
Webcentral	Webcentral Group Limited

Appendix 2 - Recent ASX Announcements

A list of documents filed with ASX by or concerning Cirrus since its last Annual Report until 7 September 2021 (being the last practicable date prior to finalising the Supplementary Target's Statement) is set out in the table below:

Date	Announcement
11 August 2021	Corporate Governance Statement
11 August 2021	Appendix 4G
11 August 2021	FY21 Results – Record Revenue & Cash
11 August 2021	Target Statement to Reject Offer
13 August 2021	WCG: Second Supplementary Bidder's Statement – CNW
13 August 2021	Dispatch of Target Statement to Shareholders
17 August 2021	WCG: Despatch of Bidder's Statement – CNW
17 August 2021	WCG: Proposal to Alter Board of Cirrus Networks Holdings Ltd
17 August 2021	Receipt of 249D Notice & Response
19 August 2021	Notification of cessation of securities – CNW
27 August 2021	WCG: Takeover Update Cirrus Networks Holdings Limited
30 August 2021	Response to Update on On-market Takeover Offer
3 September 2021	EGM Proxy
3 September 2021	Notice of s249D EGM
3 September 2021	WCG: CNW Takeover update
6 September 2021	Application for quotation of securities – CNW