

# Update to Webcentral Shareholders: Webcentral's Investment in Cirrus

ASX Announcement 7 October 2021



## Takeover Bid and Cirrus Shareholding

On 29 September 2021, Webcentral Group Limited (ASX:WCG) (**Webcentral**) provided an update to Webcentral shareholders on its on-market takeover bid for and shareholding in Cirrus Networks Holdings Limited (ASX:CNW) (**Cirrus**) and subsequent events.

Since that time, there have been the following developments:

- Webcentral lodged, on 30 September 2021, a substantial holder notice noting an increase in its shareholding in Cirrus to 17.96%. Webcentral's shareholding in Cirrus currently stands at 18.04%.
- The incumbent Cirrus Board issued a Business Update on 1 October 2021.
- The incumbent Cirrus Board sent a Letter to Shareholders on 4 October 2021.

Webcentral wishes to update its shareholders and the market generally on these and other developments.

This Update includes corrections of a number of inaccurate statements made by the incumbent Cirrus Board in its ASX announcement on 1 October 2021. Without correction, Webcentral believes those statements will have the effect of misleading not only Cirrus shareholders but also Webcentral shareholders in relation to the performance of Cirrus and the issues to be considered at the extraordinary general meeting of Cirrus shareholders to be held on 15 October 2021.

## Increase in Webcentral Shareholding

On 29 September 2021, Webcentral announced that it had increased its shareholding in Cirrus to 157 million shares or 16.81%. Since then, it has increased to 18.04%. Webcentral intends to continue acquiring additional shares in Cirrus up the statutory limit of 20% provided it can acquire them for no more than 3.2 cents per share. For reasons it has explained previously, Webcentral is not prepared, in the present circumstances and based on the information currently available to it, to pay more than 3.2 cents per share.

While circumstances may change, the incumbent Cirrus Board has done little to genuinely engage with Webcentral to achieve an outcome in the best interests all Cirrus shareholders.

## Cirrus Business Update Of 1 October 2021

On 1 October 2021, the incumbent Cirrus Board issued a Cirrus Business Update.

The Update announced the appointment of COO and acting CEO Chris McLaughlin as Managing Director and CEO on a permanent basis. The Update adds further to the announcement on 13 September 2021 that Managing Director, Matthew Sullivan would take a leave of absence for personal and family reasons.

The Update announced this new appointment following the completion of a previously unannounced "comprehensive review and restructure of the business". This "comprehensive review" was not referred to when Cirrus announced its FY21 financial results on 11 August 2021. Nor was the strategic review carried out in H2 FY21 mentioned in the Update. No "comprehensive review" was announced when the \$4.2m to \$4.6m adjusted EBITDA (pre-options) announced by the incumbent Board on 17 February 2021 was downgraded to just \$2m adjusted EBITDA (pre-options) on 5 July 2021. No adequate explanation has been given as to what happened to the "Continued Growth Drives Record H1" in the February 2021 announcement.

Nevertheless, as Cirrus' largest shareholder, Webcentral supports the cost savings referred to in the Update. Webcentral has always held the view that Cirrus was labouring under unsustainable overhead costs.

The Update went on to assert that the Webcentral update of 29 September 2021 "contained multiple factual inaccuracies" and appeared to be "a clear and deliberate act to mislead Cirrus shareholders". Webcentral shareholders should note that it categorically disagrees with those unfounded assertions.

### Loneragan Edwards valuation

The incumbent Cirrus Board correctly notes that Lonergan Edwards valued Cirrus shares at between 3.8 and 4.2 cents but misquoted Webcentral by saying Webcentral asserted Lonergan Edwards valued Cirrus at 2.7 to 2.9 cents.

What Webcentral actually said was that "Webcentral believes that that the Lonergan Report effectively values Cirrus at 2.7 to 2.9 cents per share".

Webcentral 100% stands by this statement. If the “synergies” of \$1.5m are removed from adjusted EBITDA (synergies should never been included in a valuation of this type) and the Lonergan Edwards valuation had been based on actual EBITDA (after usual normalisation adjustments) of \$2.0m (as announced by Cirrus itself on 11 August 2021), the valuation range would have been 2.7 to 2.9 cents per share.

### Trading price of CNW shares

The incumbent Cirrus Board asserts that Cirrus shares did not trade below 3.0 cents since the close of the Webcentral takeover bid on 16 September 2021. While this is true, it is below the 3.2 cents per share bid price offered by Webcentral under its takeover bid and substantially below the 3.8 and 4.2 cents per share set out in the Lonergan Edwards valuation.

### Access to due diligence material

The incumbent Cirrus Board asserts that it provided “multiple invitations to Webcentral to engage on terms that are considered reasonable by Cirrus” to obtain due diligence information. Webcentral does not consider those terms reasonable nor Webcentral believes would any market participant (or it would have accepted them).

The terms sought by Cirrus cannot be regarded as reasonable or in line with reasonable market practice. The incumbent Board should be focussing on engaging with Webcentral with a view to achieving an outcome in the best interest of all Cirrus shareholders rather than the incumbent Board.

### Webcentral Objectives With Respect To Cirrus

As the largest shareholder in Cirrus, Webcentral has a significant vested interest in the success and profitability of Cirrus.

The Webcentral executive team has confidence in the Cirrus business. As an industry participant and long-term investor in Cirrus, Webcentral knows and understands the IT services business undertaken by Cirrus and believes the Cirrus business can be turned around and operated more profitably and on a maintainable basis.

Webcentral has a clear plan to turn around Cirrus. Webcentral has spent \$5m to date acquiring its stake in Cirrus and intends to see through its turnaround plan.

Further details about Webcentral’s shareholding in Cirrus and its responses to the Cirrus Board are set out in a letter to Webcentral shareholders which can be viewed at <https://www.webcentral.com.au/corporate/investors/>.

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### About Webcentral

Webcentral is an Australian owned digital services company who empower more than 330,000 customers to grow and thrive in the online world. Our portfolio of digital services is extensive, with market leading offers across domain management, website development and hosting, office and productivity applications and online marketing.

Our customer focussed heritage has been built on expertise, innovation and personalised service; critical attributes delivered through our culture and embraced by our people. This is demonstrated through more than 25 years of online industry leadership across Australia’s digital foundation brands such as Melbourne IT, Netregistry and WME.

The Webcentral mission is dedicated to leading online success for our customers. We achieve this by building trusted and valued client relationships which convert successful business outcomes at each milestone across the customers’ digital journey.