

DATATEC LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1994/005004/06)
ISIN: ZAE000017745
Share Code: DTC

Datatec Westcon-Comstor \$830 million transaction – withdrawal of cautionary

Datatec to sell Westcon-Comstor North America and Latam operations for up to \$800 million and 10% of rest of Westcon-Comstor for \$30 million to SYNEX

Datatec Limited (JSE/AIM: DTC, “Datatec” or “the Group”), the international Information and Communications Technology (ICT) Company, has entered into a definitive agreement (the “Transaction Agreement”) to dispose of its Westcon-Comstor business in North America and Latin America (“Westcon Americas”) to SYNEX Corporation (NYSE: SNX) (“SYNEX”) for a maximum consideration of \$800 million and to sell 10% of the remaining part of Westcon (“Westcon International”) to SYNEX, for \$30 million, together “the Transaction”.

The maximum consideration of \$830 million equates to an equity valuation of the total Westcon-Comstor division of \$1.1 billion.

Highlights

- SYNEX to acquire 100% of Westcon Americas for up to \$800m
- SYNEX to also acquire 10% of Westcon International for \$30m
 - o Option to acquire further 10% interest of Westcon International for \$30 million
- Consideration of maximum \$830 million terms:
 - o \$630 million on closing: made up of \$500 million in SYNEX shares and \$130 million in cash
 - o Additional \$200 million cash earn-out payment subject to FY18 Westcon Americas performance
- SYNEX can elect to settle the share component in cash
- Jens Montanana will be appointed to SYNEX’s board
- Excellent value crystallisation
- Creates major player in North American technology distribution market
- Complementary partnership provides significant growth opportunities for both businesses

The Transaction provides a unique opportunity for Datatec to partner with a leading distribution business in North America and benefit from its significant scale. The Transaction also enables Westcon International to complete its transformation process and improve operating efficiency, so enhancing its value in the medium term.

Closing of the Transaction is subject to a number of conditions including shareholder and regulatory approvals. A circular to shareholders of Datatec containing full details of the Transaction, and convening a general meeting of the shareholders to approve the Transaction as a category 1 transaction, will be sent to shareholders in due course and the salient dates and times of the Transaction, including the date of the general meeting, will be announced on SENS once the circular has been posted.

Jens Montanana, Datatec CEO, said:

“This exciting industry-transforming opportunity to partner with a strongly-growing, well respected Fortune 500 corporation makes sense from both a supplier and customer value perspective.

“Westcon-Comstor North America will benefit substantially from being part of a bigger business with a much larger addressable market – and so will our shareholders with our stake in SYNEX.

“The transaction also realises value for our shareholders as a result of the strategic relationship with SYNEX through its shareholding in Westcon International – a business which is yet to benefit from the ERP and BPO transformation programmes currently being implemented.

“Post-transaction, the Westcon-Comstor businesses will work seamlessly together for our vendors and customers globally, enabling us to unlock further potential for Westcon International.”

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Background and rationale for the Transaction

Datatec’s technology distribution division, Westcon-Comstor, is nearing the end of a multi-year business transformation aimed at improving operating efficiencies and modernising its global IT systems and commercial supply chain.

There is strong industrial logic for the combination of the two businesses, which are highly complementary in North America. Westcon-Comstor’s specialisation and expertise in security, unified communications and collaboration (UCC) and networking combined with SYNEX’s significant North American presence, extensive product line and large customer base will provide for greater scale in services and capabilities for its partners.

The partnership with SYNEX will provide significant opportunity for growth across all of Westcon-Comstor.

Receiving SYNEX shares as part of the consideration will provide Datatec’s shareholders with a material investment in this Fortune 500 company. The Board sees significant potential for growth in the value of Datatec’s investment in the technology distribution sector through the 10.25% holding in SYNEX and the operational synergies of the enlarged SYNEX business. SYNEX can elect to settle the share consideration due on closing in cash.

Westcon International’s financial and operational performance has been materially affected in the last financial year by the roll out of the SAP ERP system and business process outsourcing (“BPO”) across its operations in EMEA and Asia-Pacific. The Board does not therefore consider it an optimal time to sell Westcon International but, with SYNEX as a partner, the Transaction enables Datatec to focus on improving the financial performance

of Westcon International which will enhance its value in the longer term.

Furthermore, there is potential to enhance the growth and consequently the value of Westcon International with SYNEX as a minority partner.

The SYNEX shares to be received as consideration (constituting 10.25% of SYNEX's total capital based on SYNEX's 20 day volume weighted average share price of \$109.67 up to and including 1 June 2017) represents excellent value crystallisation for the business at an opportune time.

The Transaction will see Datatec gain representation on the board of SYNEX if shares are part of the consideration through the appointment of Jens Montanana as a non-executive director. SYNEX will have the right to representation on the board of Westcon International.

About SYNEX

SYNEX Corporation (NYSE:SNX) is a Fortune 500 corporation and a leading business process services company, providing a comprehensive range of distribution, logistics and integration services for the technology industry and providing outsourced services focused on customer engagement strategy to a broad range of enterprises.

SYNEX distributes a broad range of information technology systems and products, and also provides systems design and integration solutions. Concentrix, a wholly-owned subsidiary of SYNEX Corporation, offers a portfolio of strategic solutions and end-to-end business services around customer engagement strategy, process optimization, technology innovation, front and back-office automation and business transformation to clients in ten identified industry verticals.

Founded in 1980, SYNEX Corporation operates in numerous countries throughout North and South America, Asia-Pacific and Europe. Additional information about SYNEX may be found online at www.synex.com.

SYNEX's current market capitalisation is approximately \$4.5 billion and in its last financial year (FY16) it reported revenue of \$14.1 billion and EBITDA of \$516 million.

Description of Westcon Americas and Westcon International

Westcon-Comstor is an international group 100% owned by Datatec. It is a value-added distributor of category leading security, unified communications and collaboration (UCC), network infrastructure and data centre solutions with a global network of speciality resellers. It also has strong capabilities in cloud distribution, technical services and global deployment solutions.

For the purpose of the Transaction, Westcon-Comstor's business operations described above have been separated geographically into a Westcon Americas business comprising North and Latin America and a Westcon International business comprising Europe, Middle East, Africa and Asia Pacific operations. The Westcon-Comstor group head office and non-operational costs - termed global support costs - are all being retained by the Westcon International business.

Westcon Americas constituted 48% of Westcon-Comstor's global revenue in FY17 with 52% of the global revenue in the regions within Westcon International.

Particulars of the Transaction

Under the terms of the Transaction, SYNEX will acquire 100% of Westcon Americas and a 10% equity interest in Westcon International with an option to acquire a further 10% of Westcon International within 12 months after completion of the Transaction.

Together, 100% of the Westcon Americas operations and the 10% equity stake in Westcon International, constitute the subject of the Transaction or the "Disposal Group". The Disposal Group is therefore determined by geography of operations and not by nature of its business which is the same as that of Westcon-Comstor prior to the Transaction.

Financial Information

Westcon-Comstor's results and net assets for the financial year ended 28 February 2017 ("FY17") are shown in the table below split into the two components, Westcon Americas and Westcon International:

	Westcon Americas \$million	Westcon International \$million	Westcon Total \$million
FY17 revenue*:			
North America	1 662		1 662
Latin America	518		518
Europe		1 484	1 484
Middle East and Africa		380	380
Asia-Pacific		488	488
Total Revenue	2 180	2 352	4 532
FY17 EBITDA	89	(35)**	54
FY17 Profit / (loss) after tax ("PAT")***	23	(33)	(10)

* Excluding intercompany revenue with other Datatec subsidiaries

** The Westcon International FY17 EBITDA figure includes \$63m of global support costs.

***The PAT figures above include management fee charges incurred by Westcon Americas in favour of Westcon International and corresponding management fee income in Westcon International. Management fees charged to Westcon-Comstor by Datatec Group are not included in the PAT figures above.

FY17 Net Assets:	Westcon Americas \$million	Westcon International \$million	Westcon Total \$million
Total Net Assets attributable to the parent^	168	317	485
Which includes net debt:	(115)	(288)	(403)

^ Excluding Datatec consolidation journal entries relating to goodwill

The net assets that are the subject of the transaction and the profits attributable to these assets, shown as EBITDA are set out in the tables below:

The Transaction	Westcon Americas 100% \$million	Westcon International 10% \$million	Disposal Group Total \$million
Net assets	168	32	200
EBITDA	89	(4)	85
PAT	23	(3)	20
Consideration	800	30	830

The consideration for Westcon Americas includes a contingent element of up to \$200 million payable in cash after determination of the results for the financial year ending 28 February 2018, dependant on the achievement of certain gross profit targets for the Westcon North and Latin America businesses in the financial year ending 28 February 2018.

The Transaction provides for a transitional services agreement to be entered into between Westcon International and SYNEX whereby Westcon-Comstor group services (included in global support costs within the Westcon International EBITDA noted above) will continue to be provided to Westcon Americas for up to one year after completion.

Application of sale proceeds

On closing, the proceeds of the Transaction will either:

- comprise \$130 million in cash and SYNEX shares worth \$500 million based on a 20 day VWAP of \$109.67 per share. The Board intends to retain the cash proceeds within the Group for various operational and working capital funding purposes.

Or if SYNEX elects to settle the consideration due on closing all in cash:

- comprise \$630 million of cash in which case the Board intends to retain \$130 million within the Group for various operational and working capital funding purposes and will advise shareholders of its proposal for the other \$500 million of cash in the circular referred to below.

Datatec anticipates that the deferred and contingent cash payment of up to \$200 million will be returned to shareholders in due course.

In the event that SYNEX shares are received, they will be subject to restrictions preventing their sale. 25% of the shares may be sold within one year after completion, a further 25% within two years after completion and the remainder thereafter. Any sale of SYNEX shares will also be subject to the Exchange Control Regulations of the South African Reserve Bank.

Conditions precedent to completion

The corporate structure of Westcon-Comstor is complex, having grown by acquisition over many years, and accordingly a significant internal reorganisation is required to ensure the separation of the entities into the two groups explained above, Westcon Americas and Westcon International.

As well as the legal structure, there are many international agreements with vendors, suppliers and customers which need to be amended.

The implementation of the Transaction is both subject to and conditional on the fulfilment of conditions precedent customary for a transaction of this nature and include, inter alia, the following specific conditions precedent:

- certain material commercial approvals shall have been obtained
- all necessary Competition authority approvals shall have been obtained
- the approval of the South African Reserve Bank as required in accordance with the Exchange Control Regulations of South Africa shall have been obtained
- approval by the JSE Limited ("JSE") of the circular
- Datatec shareholder approval of the Transaction as a category 1 transaction (majority of votes cast) shall have been obtained in a shareholders general meeting convened in accordance with its memorandum of incorporation and the JSE Listings Requirements
- Datatec shareholder approval of the Transaction as a Fundamental change of business under Rule 15 of the AIM Rules.
- from the date of signature of the Transaction Agreement, there shall not have occurred any material adverse effect to SYNEX's business, financial condition or results of operations which is continuing as of the closing date of the Transaction
- from the date of signature of the Transaction Agreement, there shall not have occurred any material adverse effect to the business, financial condition or results of operations of the Disposal Group which is continuing as of the closing date of the Transaction

Transaction Agreement

The Transaction Agreement provides for terms customary in agreements of this nature and includes (i) a non-solicitation covenant on the part of Datatec, subject to customary "fiduciary out" provisions; (ii) payment to SYNEX of a termination fee equal to 3% of the maximum consideration payable in certain circumstances, including if the board of directors of Datatec does not unanimously recommend the Transaction; (iii) reimbursement to SYNEX of its transaction expenses in a maximum amount of \$3 million in certain circumstances and (iv) provisions governing the operation of Westcon Americas and Westcon International during the interim period.

Categorisation of the Transaction and Circular to shareholders

As the value of the Transaction exceeds 30% of Datatec's market capitalisation, it meets the definition of a category 1 transaction as contemplated in section 9 of the JSE Listings Requirements and accordingly is required to be approved by an ordinary resolution of the shareholders of Datatec.

Accordingly a Circular will be sent to shareholders in due course setting out the information required by the JSE Listings Requirements and the AIM Rules for the Transaction and convening a meeting of shareholders to consider, and if deemed fit, pass the ordinary resolution referred to above. The Transaction will be classified as a Fundamental change of business under Rule 15 of the AIM Rules.

Closing

Subject to the conditions precedent, including shareholder approval, being satisfied the expected date for completion of the transaction is towards the end of the third calendar quarter of 2017. Shareholders will be advised when completion occurs and this date will become the effective date for the Transaction.

Cautionary

Datatec shareholders are referred to the cautionary announcement released by Datatec on SENS on 25 January 2017 which was last renewed on 22 May 2017 and are advised that, as the particulars of the Transaction have now been announced, caution is no longer required to be exercised by shareholders when dealing in Datatec shares.

Conference call

Jens Montanana, Chief Executive and Ivan Dittrich, Chief Financial Officer, will host a conference call to discuss the Transaction and will also participate in a Q&A session.

The call will begin at 10.00 SA time/09.00 UK time today 6 June 2017.

Please dial 0800 982 814 from South Africa and 0844 571 8980 from the UK or for all other participants please dial +44 (0)1452 557851. The conference ID and passcode is: 35389354.

A playback facility will be available for seven working days following the announcement. Please dial +44 (0)1452550000 (playback code: 35389354#).

Ends.

Sponsor
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6 June 2017