

13 July 2018

Sale of Customer Contracts, Substantial Cost Reductions and Board Changes

The Company refers to its request for voluntary suspension dated 12 July 2018 and gives the following update

- The Company has agreed to sell the customer book of its “Velpic” business to an existing partner, GO1 Pty Ltd (“Purchaser”)
- The relevant Agreement provides for consideration based on 3 times the total annual revenue received by the Purchaser from the date of Completion from all Velpic customer contracts assigned over the three years following the date of Completion, anticipated to be circa \$2.4million (detail below)
- The Board of Directors has determined that a sale of the Velpic customer book on these terms offers the best value for Shareholders
- An Extraordinary General Meeting (“EGM”) of Shareholders will be convened to seek approval for the proposed sale, under ASX Listing Rule 11.2
- The majority of the Company’s staff have been made redundant, substantially reducing cash burn in the interim. Staff remaining with the Company will continue to work on the Dash Digital and Now Force divisions of the Company’s business
- Managing Director Russell Francis steps down as Managing Director
- New Director Chris Mews appointed, effective immediately
- The Board is actively seeking new investments that will bring substantial shareholder value, and also seeking out opportunities for the sale of its other divisions and investments.

Velpic Limited (ASX: VPC) (the “Company”) has received an offer to purchase the Company’s “Velpic” customer contracts (“Proposed Transaction”). This business is separate to the Company’s Dash Digital business and investment in Now Force.

The Company’s Chairperson Leanne Graham commented: *“We are pleased to have received this offer and the Board has determined that in the absence of a higher offer, this deal is in the*

best interests of all Shareholders. Following completion of the Proposed Transaction, the Board intends to seek new investments in high growth industries to seek to drive strong Shareholder value.”

It is anticipated that the required EGM will be held towards the end of August and will involve an ordinary resolution under Listing Rule 11.2, namely approval of the disposal of the Company's main undertaking. A more detailed timetable is set out below.

Due to the reduced number of staff, the Company's operating costs will be substantially reduced, allowing for cash to be conserved and directed towards a new business that will bring substantial Shareholder value.

Details of the Proposed Transaction

The key terms and impact of the Proposed Transaction are as follows:

1. Completion of the Proposed Transaction is subject to a number of conditions precedent, including:
 - (a) The Company obtaining all necessary regulatory and shareholder approvals, including approval for the Transaction pursuant to ASX Listing Rule Chapter 11;
 - (b) The Company obtaining all necessary consents from counterparties to material contracts; and
 - (c) The Company not receiving a superior offer for the Velpic business prior to the date of the receipt of consents referred to in (b) above (see para 7 below for further information on the receipt of a superior offer) (“Conditions Precedent”).
2. The terms relating to consideration are as follows:
 - (a) The consideration for the Proposed Transaction is the total annual revenue (“Revenue”) received by the Purchaser from the date of Completion from all Velpic's platform clients (“Key Clients”) over the three years following the date of Completion capped at the current contract value of those customers per year as at the date of the agreement (“Consideration”);
 - (b) The Consideration is payable Quarterly at the end of each calendar quarter after the Revenue is earned; and
 - (c) Notwithstanding (b) above, the Purchaser has the right to pay out any remaining Consideration by making a one-off cash payment at any time to Velpic of an amount agreed with Velpic, equal to the expected or budgeted Revenue to be received from the Key Clients.

3. The Company anticipates that the value of the Consideration is around \$2.4 million. This amount cannot be guaranteed, however, and the following assumptions need to be borne in mind:

- a. This amount is based on recurring (unaudited) Velpic related revenue as of 30 June 2018, times 3; and
- b. The revenue increases and decreases on future support, training or upgrades cannot be predicted, nor can the amount of any customer churn;

4. The Company will grant a licence of the “Velpic” IP to the Purchaser to allow all Velpic customer contracts to be serviced;

5. Core staff will be retained by the Company to manage the Dash Digital and Now Force businesses, with any additional staff needed contracted back to the Company from the Purchaser, who will also go to supporting Velpic customers during this transition period;

6. Completion of the sale will take place no later than 5 business days after the satisfaction of the last of the Conditions Precedent (with the agreement being terminated if these Conditions are not satisfied by 31 August, or such later date as agreed); and

7. The Agreement gives the Company the right to market and sell the same to third parties if the Purchaser is not willing to match any third-party price negotiated. If this occurs, the proposed EGM will be vacated and a new one convened to deal that third-party transaction.

ASX Requirements

As required by ASX Guidance Note 12 para 2.8, the Company provides the following additional information:

1. Information about the likely effect of the transaction on the Company’s assets, equity interests, annual revenue, EBITDA and annual profit before tax: See Annexure A
2. No aspect of the Proposed Transaction will involve any change to the issued capital of the Company;
3. No funds are proposed to be raised. The Proposed Transaction is seeking to significantly reduce the cash burn of the Company while other options are explored;
4. Managing Director Russell Francis steps down from his role as Managing Director.. Mr Chris Mews has been appointed as a non-executive Director – see further details about Mr Mews below; and

5. The timetable for implementing the transaction is as follows. This may be subject to change due to matters out side the control of the Company:

Event	Anticipated Date
Announce transaction to the market	11 July
Submit draft NOM to ASX for approval	13 July
Print and dispatch NOM after ASX approval	20 July
Shareholders Meeting	24 August
Completion of disposal of Assets (if to Purchaser)	29 August

Information on New Director, Chris Mews

Chris is a CPA and holds a Bachelor of Business degree (Accounting) and is a Chartered Company Secretary. He has been in financial services for over 20 years and is experienced in the financial operation, governance and compliance of Managed Investment Schemes, ASX listed companies and unlisted companies.

Chris has held senior positions in finance, corporate secretarial and compliance. In these roles he has been a member of senior management and participated in the due diligence and acquisition of Managed Investment Schemes and participated in various capital raisings for Managed Investment Schemes, ASX listed companies and unlisted companies.

Further Information

For further information please contact Chairperson Leanne Graham on leanne.graham@velpic.com, or Company Secretary Catherine Anderson on catherine.anderson@velpic.com

Annexure A – Pro-forma Consolidated Group Balance Sheet

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2017			
		Consolidated (Audited)	Consolidated w/ LMS Sale
Assets			
Current Assets			
Cash and cash equivalents		3,250,134	3,250,134
Trade and other receivables		437,589	437,589
LMS Current Receivable	Note 1		823,384
Other current assets		40,066	40,066
Total Current Assets		3,727,789	4,551,173
Non-Current Assets			
Property, Plant & Equipment		71,082	71,082
LMS Non-Current Receivable	Note 1		1,646,769
Intangible Asset		23,662	23,662
Goodwill		4,940,017	4,940,017
Total Non-Current Assets		5,034,761	6,681,530
Total Assets		8,762,550	11,232,703
Liabilities			
Current Liabilities			
Trade and other payables		712,378	712,378
Provisions	Note 2	31,267	243,436
Total Current Liabilities		743,645	955,814

Non Current Liabilities			
Provisions	Note 3	52,869	0
Total Non Current Liabilities		52,869	0
Total Liabilities			
		796,514	955,814
Net Assets			
		7,966,036	10,276,889
Equity			
Contributed Equity		29,068,461	29,068,461
Reserves		3,662,041	3,662,041
Retained Earnings / (Loss)	Note 4	(24,764,466)	(22,453,613)
Total Equity		7,966,036	10,276,889
<p>Note 1 - LMS sale is deemed to occur on last day of financial year. LMS Receivable is over three years. Estimate \$832,384 within the first 12 months (current) and the remaining estimate of \$1,646,769 will be received over the remaining two years.</p>			
<p>Note 2 - Original amount is current long service liability to be paid out to employees who already reached entitlement. Entity will no longer have employees so redundancy of \$212,169 is accrued to be paid in the month following financial year end. Notice period will not need to be accrued because employees start with LMS Buyer on the first day of the month following financial year end.</p>			
<p>Note 3 - Entity will no longer have employees so accrued long service leave for employees who have not reached their entitlement will no longer need to be accrued. Other employee accruals such as annual leave and superannuation will still be paid in the month following financial year end and are in Trade and other payables.</p>			
Note 4 - Changes to Retained Earnings			
Original Retained Earnings / (Loss)			(24,764,466)
LMS Sale			2,470,153
Redundancy			(212,169)
Reversal of accrued long service leave expense			52,869
Retained Earnings / (Loss) after LMS Sale			(22,453,613)