



Acquisition of Umongo Petroleum

11 May 2017

- Omnia Group Proprietary Limited, an Omnia Holdings Limited (“Omnia”) subsidiary, has entered into a sale of shares agreement to acquire 90% of the ordinary shares of Umongo Petroleum Proprietary Limited (“Umongo”) for a maximum aggregate consideration of ZAR780 million (the “Transaction”), comprising:
 - Upfront cash payment of ZAR618.5 million
 - Earn-out cash payment of up to a maximum aggregate amount of ZAR121.5 million payable over a three year period
 - Retention amount of ZAR40 million, of which ZAR25 million will be retained for at least three years and ZAR15 million payable over a four year period ending 30 June 2021
- Omnia will retain a call option and Autumn Storm a put option over the remaining 10% shareholding in Umongo with a maximum settlement consideration of ZAR115 million
- Mr Boston Moonsamy will remain as CEO for five years and Mr Mahmoud Hodayoun (founder and chairman) will remain involved in Umongo as a member of the board and a specialist advisor for four years
- The Transaction represents a Cat 2 transaction in terms of the Listings Requirements of Johannesburg Stock Exchange Limited and therefore does not require Omnia shareholder approval

- The Transaction represents a compelling acquisition opportunity for Omnia:
 - Protea Chemicals, Omnia's Chemicals business, has a wealth of experience and a reputation for excellence in the distribution of specialty, functional effect chemicals and polymers in sub-Saharan Africa in countries such as South Africa, Namibia and Kenya
 - There are significant potentially attractive and synergistic opportunities to service customers in South Africa and across the African continent, leveraging the combined presence in complementary operating regions and providing opportunities for expansion into unpenetrated frontier regions
 - Umongo is a market leading business which is complementary to Protea Chemicals and which will contribute to its product and market strategy
 - The addition of a bulk volume base oil, additive and lubricant business to Protea Chemicals, will broaden its current product offering and create new opportunities to grow the business in South Africa as well as sub-Saharan Africa

Distributor of Chevron additives and Chevron base oils

- Leading distributor of Chevron Oronite additives and Chevron base oils in South Africa and sub-Saharan Africa
 - Base oils and additives are predominantly used in the production of lubricants for both automotive and industrial applications
 - Chevron's focus is primarily on Group 2 base oils which are more environmentally friendly than Group 1 base oils
 - Global emission standards and OEM automotive requirements driving a shift from Group 1 to Group 2 base oils, of which Chevron is a significant producer and supplier

Comprehensive non-automotive additive and base oil portfolio

- Umongo's other key supplier relationships include:
 - BASF for lubricant additives and base stock
 - Evonik for oil additives
 - Ergon for transformer oil and bright stock

Orbichem acquisition

- Umongo has concluded an agreement to acquire 100% of Orbichem Petrochemicals (Pty) Limited ("Orbichem"), the distributor of the Ergon ("Ergon") range of products in South Africa and sub-Saharan Africa
- Ergon is a leading global producer of specialty naphthenic oils with a product range focussed on insulating oils (transformer oils), base oils (bright stock to enhance viscosity) and process oils (rubber processing)

Umongo investment highlights



Leading South African distributor of additives and base oils

- Leading and prominent supplier of group 2 base oils and additives into the South African and sub-Saharan African markets
- Product portfolio spans both automotive and industrial segments

Reliable supply and distribution agreements

- Distributor of the Chevron Oronite additives and Chevron base oil products in South Africa and several countries in sub-Saharan Africa
- Through Orbichem, Umongo is the distributor of the Ergon range of products, including transformer oils and bright stock, in South Africa and sub-Saharan Africa
- Umongo also represents other global chemical companies specializing in additives and base oils for non-automotive applications

Attractive market fundamentals and dynamics

- Trend towards switching from group 1 to group 2 base oils which is driven by requirements to reduce carbon and sulphur emissions
 - The trend is such that most OEM producers now only specify group 2 base oil lubricants
 - Umongo is well placed as one of the suppliers of group 2 base oils

Entrenched customer base with customer relationships spanning many years

- Umongo has supplied several of the largest lubricant, oil and petroleum companies operating in South Africa, with base oils, additives and technical support for many years
- Customers develop lubricant products based on formulations and have configured their production lines and brands around the technical attributes of the base oil and additive products

Unique logistics platform

- Access to various storage tanks and facilities
- Fully outsourced supply chain and logistics business model

Platform for African growth

- Established South African footprint with exports to a number of countries in sub-Saharan Africa
- Relative underpenetration of additives use in lubricants in sub-Saharan Africa as well as transition to group 2 base oils creates opportunity for Umongo

Umongo – key financial statistics and implied multiples



Financial	FY17 ¹	FY16 ¹
Revenue (R million)	1 005	861
EBITDA (R million)	101.3	95.8
EBITDA margin	10%	11%
Normalised net profit after tax (R million) ²	77.4	71.9
Normalised net profit after tax margin	8%	8%

Implied multiple ³	FY17 ¹	FY16 ¹
EV / EBITDA	7.2	7.6
PE	9.4	10.2

1. Year ended February

2. Excludes impact of realised and unrealised foreign exchange net gain or loss as follows: FY16 : R47.4 million (gain) and FY17 : R34.0 million (loss)

3. Based on an implied purchase price of R730m for 100% of Umongo comprising a base purchase price of R715m and a R15m retention. R715m x 90% = R643.5m, of which R25m is a further retention amount and R618.5m the upfront cash payment

Application overview – base oils, additives and lubricants

1 Base oils

- Base oils are used in the production of an extensive array of lubricant products
- There are 5 groupings of base oils ranging from group 1 through group 5
- The lubricant market in South Africa has historically utilised group 1 base oils however with the clean air regulations in international markets, group 2 base oils are increasingly being utilised

2 Additive applications

- Additives are combined with base oils to form lubricant products, contributing beneficial features to the lubricant which could include:**
- Detergent additives, are used to neutralise oil impurities which could cause deposits on vital engine parts
 - Corrosion or rust inhibiting additives retard the oxidation of metal inside an engine
 - Antioxidant additives retard the degradation of the stock oil
 - Metal deactivators create a film on metal surfaces to prevent the metal from causing the oil to be oxidized
 - Viscosity modifiers improves the viscosity index of a lubricant
 - Friction modifiers are used for increasing fuel economy by reducing friction between moving parts
 - Anti-wear additives or wear inhibiting additives cause a film to surround metal parts, helping to keep them separated
 - Dispersants keep contaminants (e.g. soot) suspended in the oil to prevent them from coagulating
 - Anti-foam agents (defoamants) inhibit the production of air bubbles and foam in the oil which can cause a loss of lubrication, pitting, and corrosion
 - Anti-misting agents prevent the atomization of the oil
 - Extreme pressure agents bond to metal surfaces, keeping them from touching even at high pressure

3 Lubricant applications

Lubricant products are utilised in many applications such as the examples listed below:

Automotive	Industrial	Aviation	Marine
<ul style="list-style-type: none"> • Engine oils (petrol and diesel) • Automatic transmission fluid • Gearbox fluids • Brake fluids • Hydraulic fluids 	<ul style="list-style-type: none"> • Hydraulic oils • Air compressor oils • Food grade lubricants • Gas compressor oils • Gear oils • Bearing and circulating system oils • Refrigerator compressor oils • Steam and gas turbine oils 	<ul style="list-style-type: none"> • Gas turbine engine oils • Piston engine oils 	<ul style="list-style-type: none"> • Crosshead cylinder and crankcase oils • Trunk piston engine oils • Stern tube lubricants

Key transaction terms

- Omnia Group Proprietary Limited, an Omnia subsidiary, will acquire 90% of the ordinary shares of Umongo for a maximum aggregate acquisition consideration of ZAR780 million on a debt free, cash free basis
 - The remaining 10% shareholding in Umongo will continue to be held by Autumn Storm, an entity in which the current Chief Executive Officer, Mr Boston Moonsamy, is a shareholder
- The purchase consideration, for a 90% interest, is apportioned as follows:
 - Upfront cash payment of ZAR618.5 million
 - Earn-out cash payment of up to a maximum aggregate amount of ZAR121.5 million (with a maximum of R40.5 million each in years 1 and 2) payable over a three year period ending 28 February 2020
 - The earn-out is directly linked to the achievement of performance milestones over the three-year period
 - Of the ZAR121.5 million earn-out payment, the first ZAR45 million will be retained in respect of various warranties and indemnities
 - A further retention amount of ZAR40 million, of which ZAR25 million will be retained for at least three years and ZAR15 million payable over a four year period ending 30 June 2021
- Omnia will retain a call option and Autumn Storm a put option over the remaining 10% shareholding in Umongo
 - The call/put options will be exercisable five years after the closing date of the Transaction and will be subject to a revised valuation undertaken at that point in time
 - The call/put options will have a maximum settlement consideration of ZAR115 million, with no minimum amount applicable
- Omnia will fund the Transaction through its existing general borrowing facilities
- Following the implementation of the Transaction, Umongo will become a subsidiary of Omnia and report under the Chemicals division in the consolidated results
 - Umongo will continue to operate as a separate stand-alone entity within Omnia
- Mr Boston Moonsamy will remain as CEO for five years and Mr Mahmoud Homayoun (founder and chairman) will remain involved in Umongo as a member of the board and a specialist advisor for four years

Conditions precedent and next steps

- The key conditions precedent for the conclusion of the Transaction are as follows:
 - Umongo obtaining the written consent from third parties, including various Chevron group entities and Ergon, with respect to change of control consent for material contracts
 - Umongo entering into replacement service level agreements with certain suppliers
 - The approval of the Transaction by various competition law authorities, including the South African Competition Authorities in terms of the Competition Act, 1998 (Act 89 of 1998), as amended from time to time
- Expected timing for completion of circa 3 to 4 months
- Transaction effective 1 March 2017
- Consolidated into income statement from closing date