



Opportunity to acquire Malware Pty (Australia) Project “Koala”, by CEO, Mr. C. K. Tang

I apologise for the short notice and the lack of detail in the following paper but events have been moving very quickly.



As at today CITRINE division represents some 50% by revenue of our group. As the Board is aware, despite its considerable success, we have so far been unsuccessful in penetrating the Australian market.

Our forecasts for the growth of the Australian market for cyber security services (confirmed by Guess Consulting, 23rd June 2020) show in excess of 40% over the next three years.

Malware Pty, a consultancy in cyber security with around 60 consultants and stable fee income of Doz 11.1m for the past three years, was to have been acquired by XP-END Ltd following a sale process by HE-L Private Equity (“HE-L/P-E”) out of London. You may recall, we were very late to learn of that opportunity and missed the opportunity to participate in the process. That sale has now fallen through. We know that XP-END’s recent trading has been poor after the hacking event of last July, but we do not know the precise reason for their withdrawal.



As a result, through its bank advisers Green Bank, HE-L/P-E has indicated that it will entertain bids in excess of Doz 110m from interested parties with the intention to gain exclusivity with a successful bidder by 29th October 2022. We are led to believe that two private equity firms may be interested and we think we are the only corporate buyer in the new process. Green Bank has indicated that XP-END’s agreed price was above Doz 118m.

Margins* have been a little under pressure in Malware Pty, having fallen from 52.2% to 39.3% as a result of an increase in costs associated with a major upgrade to their core IT system that took 14 months longer to complete than anticipated. The new system incorporates AI algorithms that were uniquely developed in-house. The upgrade was undertaken by ZED Associates (you may recall the difficulties we had with them in 2018!) and Malware has initiated a legal action against ZED claiming contractual issues and damages of Doz 22m. We have not seen the contract



and have no present way to estimate the probability of success of the action. The Board should be aware that the core systems used by Malware Pty are not compatible with our own SH5 system, and a decision will need to be taken about the future of core IT, and indeed which system to retain.

*Reported margins in the Australian business are different from our CITRINE division as a result of a different remuneration model. We are also trying to better understand the revenue recognition policies of Malware, which look a little more aggressive than ours. The difference in margins may be explained by a combination of these factors.

MANAGEMENT



The CEO of Malware Pty, Dianne Firewall (40), is known to us and has indicated privately to me that she would prefer JEWELL to be the acquirer. She would stay with the business with a likely three years earn-out. She has a mixture of Malware shares and options in total of 12% of the company, so she is heavily in the money. She has a very capable zic who focusses on operations and execution.

The Board has expressed concerns that I am spread too thinly across the company and whilst I don't see this as a problem, no doubt as CITRINE grows, it will require more management time, so I see Ms Firewall would become MD CITRINE group.

There is also a strong COO at Malware, Si Burgh, who is in the late 30s and a dynamo with very strong commercial experience and skills. Si would bring strength to our commercial team in Citrine, and I believe would head up the BD function reporting to Kully Kaur, COO in the new merged business.

FINANCING

I propose to finance the acquisition through a subordinated secured loan of cDoz 35m on the real estate portfolio and have confirmed access upto Doz 90m of unsecured bank debt at MIBOR + 4%. I will personally provide the subordinated secured loan as an addition to my current loan and on parallel terms. This financing structure will fully utilize our available headroom for floating rate debt. I have asked Mrs. Wang to investigate the options to secure market funding to refinance the bank debt in due course.

EFFECT ON PLAN (assumes completion by March 1 2023*, for start of Q2)

Doz m	FY2022	FY2023	FY2024
Revenue			
JADE	8.2	7.4	12.3
CITRINE combined	21.92	28.01	32.04
Citrine	13.6	15.8	18.0
Malware	8.32*	12.21	14.04
DIAMOND HILLS	6.2	6.4	6.9
TOTAL	36.32	41.81	51.24

COSTS			
JADE	7.8	8.8	10.0
CITRINE combined	11.2	11.9	13.1
Citrine	4.6	4.9	5.3
Malware	5.06*	7.17	7.96
DIAMOND HILLS	8.0	10.3	10.4
TOTAL	27.0	31.0	33.5
OPERATING PROFIT	9.32	10.81	17.74
FREE CASH FLOW			
From operations			
JADE	-0.1	-2.1	0.3
CITRINE	7.8	9.9	13.4
DIAMOND HILLS	0.3	-1.0	-0.7
TOTAL	8.0	6.8	13.0
Bank interest	6.1	6.0	5.5
Dividends	3.0	3.0	3.0

Note 1.

Plan assumes growth of Malware component by 10% in 2024, and just over 15% in 2025.

Malware costs will improve by 5% pa from 2024 to margins of 41.26 and 43.32 %

*75% of revenue/costs due to Q2 start

Note: As previously, the interest costs of my loan to the company have been charged to DIAMOND HILLS and treated as though they were operating costs.

Finally, although dividends will not be covered by free cash flow in 2022, I believe it is important to take the long view and maintain the distribution. The company will return to its long-term dividend policy of approximately 2x cover in 2023/4.

CONCLUSION



This is a unique opportunity to acquire a major asset in this industry, in a market we really wish to develop.

It is highly strategic for JEWELL, and the CITRINE Division.

Whilst the cost of purchase is high, the benefits are substantial and we should push forward with project Koala.

Our advisers, Silverman Fox inform us that competing bids are expected to be around Doz 120m and therefore I seek **APPROVAL** to make a non-binding offer of **Doz 124.28m** (=24x 2022 EBITDA). A fuller paper will be prepared should we succeed in obtaining exclusivity but I may need some delegated authority depending on the information flow from the bidding process.

I believe this is a life changing moment for JEWELL and one the company cannot afford to miss. I commend it to the Board.

C.K. Tang
Chief Executive

