

This announcement contains inside information

cloudBuy plc

Proposed issue of up to £3.4m convertible secured loan notes

8 December 2017

cloudBuy plc (“cloudBuy” or “Company”) is pleased to announce that Mr Roberto Sella, who has already provided significant financial support to the Company, has agreed to subscribe for up to a further £3,400,000 nominal value loan notes similar to those issued by the Company in April 2016 (the “Financing”)

On 26 April 2016, the Company created secured loan notes in the aggregate principal amount of £5.75 million. It is now proposed that new convertible secured loan notes of £1.00 par value each in the aggregate principal amount of £3.4 million will be created (“New CLS”) and an initial tranche in the principal amount of £1.7 million issued. The New CLS attract an annual interest charge of 2.33 per cent., which can be met in cash or by the issue of additional New CLS (“PIK Notes”) and will be convertible at a price of 2p per share into new Ordinary Shares.

The proceeds of the Financing will be used to provide working capital to the business.

Mr. Sella, who is solely participating in the issue of New CLS, is considered to be acting in concert with Mr. Michael Pasternak, an existing Shareholder and a non-executive director of the Company, for the purposes of the City Code (together the “Concert Party”).

The Directors currently believe that the initial issue of £1.7m nominal value New CLS will be sufficient to take the Company to profitability.

In the event that no further New CLS are issued for cash beyond the initial £1.7m, both the existing and new loan notes are converted on their final redemption dates (being 10 years after issue), all future interest payments are satisfied by the issue of PIK Notes and the Existing CLS and New CLS are converted at 6.5p and 2p respectively, the holding of the Concert Party would increase to 63.34 per cent. of the issued share capital and voting rights of the Company.

In the event that the full £3,400,000 New CLS are issued, all future interest payments are satisfied by the issue of PIK Notes but the Company is in default on both Existing and New CLS 10 years after initial issue, whereby the exercise price for both Existing CLS and New CLS reduces to 1p, the holding of the Concert Party would increase to 89.0 per cent. of the issued share capital and voting rights of the Company.

Due to the increase in the potential holding of the Concert Party, Shareholder consent is required for the Financing. A shareholder meeting will be held on 27 December 2017 which should allow the initial £1,700,000 to be received by 31 December 2017, thus significantly strengthening the Company’s year end balance sheet.

Background to and reasons for the Financing

On 26 April 2016, the Company completed a financing of £5.75 million in the form of a loan note instrument (the “Existing Loan Notes”) which were subscribed by Roberto Sella, an existing shareholder in the Company. The Existing Loan Notes were divided into £4.17 million convertible notes (at 6.5 pence per share) (“Existing CLS”) and £1.58 million non-convertible notes (“Existing LS”). The Existing Loan Notes attract an annual interest charge of 2.33 per cent. The Existing Loan Notes are secured by a debenture entered into between the Company and Roberto Sella. In addition, Roberto Sella was granted the right, but not the obligation, to

participate in future equity financings at 80 per cent. of the price of other investors up to 26 April 2026 (being the term of the Existing Loan Notes). The final tranche of the Existing Loan Notes was drawn down by the Company on 25 May 2017.

The Existing Loan Notes were issued to provide working capital whilst the Company's business model was transitioned to focus new customer leads globally and to allow time for existing contracted marketplaces to be developed and generate transaction revenue.

From the second half of 2016, the Company's focus has been on revenue generation from existing contracts and identifying which of its new opportunities would deliver material levels of future revenue. A rigorous cost reduction plan has been implemented, including a significant reduction in staff numbers and withdrawing from a number of countries, so that the Company now only has costs in countries where there is ongoing revenue. The company has also focussed resource on the PHBChoices UK care marketplace through its customer NHS Shared Business Services Limited.

Although much progress has been made, the Company requires additional financing in order to continue the development of its technologies and allow time for the growth in PHBChoices. Roberto Sella believes that the Company has now adopted a focused strategy that will deliver returns to Shareholders which is why he has agreed to provide the additional Financing from his personal resources.

The Board consider it important that the balance sheet is strengthened by this financing before the year end of 31 December 2017 to assist with the going concern review to be carried out as part of the audit and also to improve the company's rating by credit agencies.

The Board further believe that the initial proceeds of the issue of New CLS, being £1.7 million before expenses, will be sufficient to take the business of the Company to profitability.

The timing of this financing and shareholder meeting should allow the initial funding of £1,700,000 to be received before 31 December 2017

The Directors believe that the Group has a positive future. However, if the issue of the New CLS is not approved by shareholders, then the Company is likely to become insolvent in the future unless alternative funding can be obtained, and may receive a qualified audit report for the year ended 31 December 2017 on the basis of going concern.

Terms of the Financing and associated security

Pursuant to the terms of the subscription agreement entered into between the Company and Roberto Sella dated 8 December 2017 ("Subscription Agreement"), conditional on the satisfaction of certain conditions, including the passing of the resolutions to be proposed at the general meeting of the Company being convened for 27 December 2017 ("General Meeting"), Mr. Sella has:

- subscribed for and the Company has agreed to issue 1,700,000 of the New CLS in the aggregate principal amount of £1,700,000 for cash; and
- been granted the right (but has no obligation), upon receiving a written request for further investment from the Company at any time prior to 27 December 2027 ("New CLS Final Redemption Date"), to subscribe for up to a further 1,700,000 New CLS in the aggregate principal amount of £1,700,000. Under the terms of the Subscription Agreement, the Company is obliged to invite Roberto Sella to subscribe for the balance of New CLS not then issued prior to approaching any other investor. This right will remain in place until the earlier of the New CLS Final Redemption Date and the date upon which the New CLS have been issued in full.

Until the New CLS are converted into Ordinary Shares interest shall accrue and be paid on the principal

amount of the New CLS outstanding at a rate of 2.33% per annum and shall become due and payable by the Company to Mr. Sella on each 6-month anniversary of the date of issue of the New Loan Note Instrument. If the Company fails to pay redemption monies or interest when due on the New CLS, interest shall continue to accrue on the unpaid amount at a rate of 2.33% per annum.

On any date on which interest on the New CLS is payable, the Company may, at its own option, issue to Mr. Sella that number of additional New CLS (in satisfaction of the Company's obligation to pay interest on any such date) of £1.00 nominal amount that equals every £1.00 of interest due to him in full or partial satisfaction of interest that has accrued in respect of the New CLS up to that date ("New PIK CLS"). No interest accruing after the New CLS Final Redemption Date shall be capable of being satisfied via New PIK CLS.

Under the terms of the Subscription Agreement Mr. Roberto Sella will have the right but not the obligation to appoint up to (but not more than) 40 per cent. of the total number of directors on the Company's board of directors from time to time and from time to time to remove any such director appointed by him and appoint another in his place. For these purposes Michael Pasternak is deemed to be one such director. Any appointment or removal of a director by Mr. Roberto Sella shall be subject to the prior approval of the Company's nominated adviser following all such due diligence as it deems appropriate in order to assess the ongoing appropriateness of the Company for admission to trading on AIM.

The New CLS will be secured on the assets of the Company under a new debenture, the terms of which are similar to those of the existing debenture.

Shareholders are reminded that the Company has previously agreed that Mr. Roberto Sella shall have the right, but not the obligation, during the term of the Existing Loan Notes to participate in any equity financing exercise it carries out at a subscription price that is 80 per cent. of the issue price to be offered to the other Shareholders or other new investors in the Company who participate in any equity financing.

Upon conversion of the New CLS (including any New PIK CLS issued), application will be made for the applicable number of new ordinary shares of 1p each in the Company ("Ordinary Shares") to be admitted to trading on AIM, and the Company will provide the relevant notifications to the market setting out the number of New CLS held by the Concert Party, the Concert Party's interest in voting rights, and the total number of Ordinary Shares that could be issued on future conversions.

Use of proceeds of the Financing

The net proceeds of the Financing will be applied towards working capital purposes and in particular to continue with investment to drive revenue growth in PHBChoices and support revenue generation from existing contracts and focussed new revenue opportunities.

The City Code on Takeovers and Mergers

The Financing gives rise to certain considerations under the City Code. Brief details of the Takeover Panel, the City Code and the protections they afford are described below.

The City Code is issued and administered by the Takeover Panel. The City Code applies to all takeover and merger transactions, however effected, where the offeree company is, inter alia, a listed or unlisted public company resident in the United Kingdom (and to certain categories of private limited companies). The Company is an AIM quoted public company and its Shareholders are entitled to the protections afforded by the City Code.

Under Rule 9 of the City Code, where any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares already held by him and an

interest in shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, that person is normally required to make a general offer to all the holders of any class of equity share capital or other class of transferable securities carrying voting rights in that company to acquire the balance of their interests in the company.

Rule 9 of the City Code also provides that, among other things, where any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company which is subject to the City Code, and such person, or any person acting in concert with him, acquires an additional interest in shares which increases the percentage of shares carrying voting rights in which he is interested, then such person is normally required to make a general offer to all the holders of any class of equity share capital or other class of transferable securities carrying voting rights of that company to acquire the balance of their interests in the company.

Under the City Code, a concert party arises when persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of that company. Under the City Code, control means an interest, or aggregate interests, in shares carrying 30 per cent. or more of the voting rights of a company, irrespective of whether the interest or interests gives de facto control.

An offer under Rule 9 must be in cash (or with a cash alternative) and at the highest price paid within the preceding 12 months for any shares in the company by the person required to make the offer or any person acting in concert with him.

Rule 9 of the City Code further provides, among other things, that where any person who, together with persons acting in concert with him is interested in shares carrying over 50 per cent. of the voting rights of a company, acquires an interest in shares which carry additional voting rights, then they will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares.

Mr. Roberto Sella and Mr. Michael Pasternak are treated as acting in concert under the City Code.

Following approval of the Financing, Roberto Sella and Michael Pasternak will in aggregate hold 16,850,000 Ordinary Shares and a maximum of £11,473,155 Loan Notes, of which £8,979,820 will be convertible into Ordinary Shares.

Assuming no other person has exercised any option or any other right to subscribe for shares in the Company following the date of this announcement and there has been no further issues of Ordinary Shares, upon full conversion of the New CLS and the Existing CLS, and assuming that the Company converts such Loan Notes and all applicable interest on or prior to the respective final redemption dates of the loan note instruments, the Concert Party will be interested in 303,354,965 Ordinary Shares carrying a maximum 72.8 per cent. of the voting rights of the Company. Without a waiver of the obligations under Rule 9 of the City Code, this would oblige the Concert Party to make a Rule 9 Offer.

In the event that any Existing CLS or any accrued but unpaid interest thereon is not repaid or converted into Ordinary Shares on or before the Existing Loan Notes' final redemption date of 26 April 2026 and the Company is therefore in default, the conversion price for each Existing CLS share will fall to 1 penny. In the event that any New CLS or any accrued but unpaid interest thereon is not repaid or converted into Ordinary Shares on or before the New CLS Final Redemption Date and the Company is therefore in default, the conversion price per New CLS share will reduce to 1 penny. As a result, assuming no further issues of Ordinary Shares, the maximum interest of the Concert Party upon full conversion of the New CLS and Existing CLS in such a default situation would be 914,832,000 Ordinary Shares representing 89.0 per cent. of the voting rights of the Company.

Shareholders should note that:

Assuming full subscription and conversion of the Loan Notes, the Concert Party may come to hold shares carrying more than 50 per cent. of the total voting rights of the company. If the Concert Party obtains more than 50 per cent. of the total voting rights they will be able to acquire further interests in Ordinary Shares without incurring any further obligation to make a general offer, subject to the individual limits of the City Code described above.

Assuming full subscription and conversion of the Loan Notes, Roberto Sella may come to hold shares carrying more than 50 per cent. of the total voting rights of the company. If Roberto Sella obtains more than 50 per cent. of the total voting rights he will be able to acquire further interests in Ordinary Shares without incurring any further obligation to make a general offer.

Dispensation from General Offer

Under Note 1 of the Notes of the Dispensations from Rule 9 of the City Code, the Takeover Panel will normally waive the requirement for a general offer to be made in accordance with Rule 9 of the City Code if, inter alia, the shareholders of the company who are independent of the person who would otherwise be required to make an offer and any person acting in concert with him pass an ordinary resolution on a poll at a general meeting approving such a waiver.

The Takeover Panel has agreed to such waiver in relation to the Financing, subject to a specific resolution to be proposed at the General Meeting (“Whitewash Resolution”) being passed on a poll.

The Concert Party will not vote on the Whitewash Resolution. The Concert Party or any member of the Concert Party will not be restricted from making an offer for the Ordinary Shares which it will not own post-Completion.

Related Party Transactions

Owing to Roberto Sella holding 11.27 per cent. of the issued share capital of the Company, together with the fact that he is deemed to be acting in concert with Michael Pasternak, the Financing will constitute a related party transaction for the purposes of Rule 13 of the AIM Rules for Companies. The Directors (other than Michael Pasternak), consider, having been so advised by Arden Partners plc, the Nominated Adviser to the Company, that the terms of the Financing and the Rule 9 waiver are fair and reasonable insofar as its shareholders are concerned. In providing advice to the independent Directors, Arden has taken into account the commercial assessments of the independent Directors.

General Meeting and importance of the vote

A circular setting out further details of the Financing, the Concert Party and the Rule 9 waiver is being posted to shareholders in the Company today and will be available on the Company’s website www.cloudbuy.com (the “Circular”).

The Circular contains a notice convening the General Meeting, to be held at 10:00 a.m. on 27 December 2017 at the registered office of cloudBuy, 5 Jupiter House, Calleva Park, Aldermaston, Reading, RG7 8NN. The General Meeting will be held to consider and, if thought appropriate, pass the resolutions necessary to enact the Rule 9 waiver and issue the New CLS.

Shareholders should be aware that if any of the Resolutions are not approved by Shareholders at the General Meeting, the Financing will not proceed as currently envisaged and, as a consequence, the anticipated net proceeds of the Financing will not become available to fund the Company’s working capital and the Company will be unable to achieve the objectives set by the Board. Accordingly, the

