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17 August 2018

SHEARWATER GROUP PLC

Proposed £30.3 million Acquisition

Proposed Placing, Open Offer and Suspension of trading

Shearwater Group plc (AIM: SWG) ("**Shearwater**", the "**Company**" or the "**Group**"), the digital resilience group, has today entered into a conditional agreement to acquire the entire issued share capital of Brookcourt Solutions Limited ("**Brookcourt**"), a leading independent UK-based cyber security solutions company, for total consideration of £30.3 million (the "**Proposed Acquisition**").

Highlights

- Established in 2005, Brookcourt specialises in the provision of cyber security and network solutions within complex, advanced threat landscapes
- Winning over 20 industry awards to date, Brookcourt has longstanding customer relationships with multiple FTSE 100 and FTSE 250 companies across a variety of industry sectors
- Brookcourt has a strong track record of profitable performance and cash generation – for the financial year ended 31 March 2017, Brookcourt generated unaudited revenue of £22.2 million and £2.8 million of EBITDA
- Proposed Acquisition represents a transformational deal for Shearwater:
 - substantially broadens the Group's cyber security solutions and services capability, facilitating access to a complementary, large enterprise client base
 - creates a strong platform to drive organic and acquisitions growth, within a fragmented cyber security services and solutions market
 - access to a highly experienced management team remaining with the Group to lead the expansion of Brookcourt, and support the further development of the business into cyber security and managed service solutions
- Enlarged Group expected to be cashflow positive following acquisition
- Total consideration of £30.3 million, payable £22.95 million in cash and £7.35 million in Consideration Shares
- Proposed placing of between approximately £25 million and £30 million and open offer of up to £1 million to fund the Proposed Acquisition and provide additional working capital for the Enlarged Group

David Williams, Chairman of Shearwater, said:

"This transformational acquisition provides us with a substantial platform from which we can grow organically and by further acquisitions.

"One of the key elements of our buy and build strategy is that the management teams stay with the business and become active parts of the enlarged group – I am therefore delighted that Phil, Dene and the Brookcourt team are joining us.

"As well as being strategically and operationally a major development for us, this transaction will also bring a step change in our scale and breadth of offering, and notably it will make us cashflow positive following completion."

Phil Higgins, Co-founder and Chief Executive Officer of Brookcourt, said:

"We had a number of options to develop and grow our business, but were very much drawn to joining Shearwater owing to our shared vision and the real opportunity to be part of a rapidly growing PLC. This unity provides us with the resources, additional industry expertise and support to scale the business in delivering a broader solutions offering to our existing and prospective customers.

"We are delighted to be joining Shearwater at such a pivotal time in Brookcourt's development and we very much look forward to realising our ambitions for the business as part of the wider group."

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Acquisition Agreement

The Company has today entered into a conditional agreement to acquire the entire issued share capital of Brookcourt for total consideration of £30.3 million. The Proposed Acquisition will be subject, *inter alia*, to shareholder approval at a general meeting, raising the funds necessary to finance the Proposed Acquisition through the Proposed Placing and Proposed Open Offer and Admission (all as defined below).

The total consideration of £30.3 million will be satisfied by cash consideration of £22.95 million with the balance of £7.35 million to be satisfied by the issue of new ordinary shares in the capital of the Company ("**Ordinary Shares**") at the placing price (the "**Consideration Shares**"). The Consideration Shares will be subject to a lock in arrangement for a period of 12 months following completion of the Proposed Acquisition, and customary orderly market provisions for a further 12 months following the expiry of the lock in arrangement.

Information on Brookcourt Solutions Limited

Brookcourt was established in 2005 by the current management team with the aim of providing secure networking and cyber security solutions to UK-based corporate and public sector customers. Building upon their prior experience of working within software vendors, hardware resellers and network solution providers, management believed there was an opportunity to create a leading secure networking and cyber security solutions business, which could challenge the market leading solution providers and traditional resellers, through a differentiated customer service proposition, which was more creative and agile, held service delivery management at the core of the offering, and was able to access "best in breed" technology solutions in order to meet a customer's secure networking requirements.

Initially focused on the financial services sector, Brookcourt has since expanded its customer base and now serves a variety of clients within technology, media, telecoms, retail, energy and utilities, healthcare, transport and logistics, industrial manufacturing, public sector and insurance markets.

Over the past 13 years, Brookcourt's secure networking and cyber security solutions proposition has grown substantially and has developed a reputation for high levels of customer service which has enabled it to build long standing relationships with its client base. The business has won 20 industry awards, including Security Service Provider of the Year, Customer Service Provider of the Year, Security Reseller of the Year, and has been included within the London Stock Exchange's top 1000 companies to Inspire Britain 2017.

The Company believes that the Proposed Acquisition represents a transformational deal, with the Enlarged Group expected to be cashflow positive following completion of the Proposed Acquisition. The Proposed Acquisition would substantially broaden Shearwater's cyber security solutions and services capability, provide access to a complementary client base aligned to larger enterprises, and creates a strong platform of scale to effect consolidation at the portfolio company level.

Brookcourt has a strong track record of profitable performance and cash generation. For the financial year ended 31 March 2017, Brookcourt generated unaudited revenue of £22.2 million and £2.8 million of EBITDA. For the financial year ended 31 March 2018, Brookcourt generated unaudited revenue of £20.9 million and an adjusted EBITDA of £2.0 million, as a result of increased business development activity during the year, which has resulted in a number of significant new customer contract wins falling into financial year ending 2019.

Proposed placing and open offer

In order to finance in part the Proposed Acquisition and to provide additional working capital for the enlarged Group (the "**Enlarged Group**") following the Proposed Acquisition, the Company is proposing to raise between approximately £25 million and £30 million (before expenses) through a placing of new Ordinary Shares (the "**Placing Shares**") (the "**Proposed Placing**"). The Company is also proposing to raise up to a further £1 million by way of an open offer of new Ordinary Shares (the "**Open Offer Shares**") to existing qualifying shareholders of the Company (the "**Proposed Open Offer**").

The Proposed Acquisition would constitute a reverse takeover under rule 14 of the AIM Rules for Companies (the "**AIM Rules**") and will therefore be conditional upon, *inter alia*, shareholder approval at a general meeting, no material adverse change having occurred in respect of Brookcourt and the admission of the Placing Shares and the Consideration Shares and admission of the Enlarged Group to trading on AIM ("**Admission**").

As such, there can be no certainty that the Proposed Acquisition will proceed. The Company intends to publish a combined shareholder circular and AIM admission document (the "**Circular**") in relation to the Proposed Acquisition and the Enlarged Group in due course.

The Company will make a further announcement in due course.

Suspension of trading

In accordance with rule 14 of the AIM Rules, the Company's Ordinary Shares will be suspended from trading on AIM with effect from 7:30 a.m. today. The Ordinary Shares will remain suspended until such time that either the Circular has been published or an announcement has been released confirming that the Proposed Acquisition shall not proceed.

Group Strategy

The Group is focused on building a UK-based group providing digital resilience solutions and services. Through the application of its "buy, focus, grow" strategy, the Group aims to identify investment and acquisition opportunities where the target company has a leading product, solution, service or consulting capability whose potential can be unlocked through active management and capital investment.

Through recent acquisitions and a number of organic growth initiatives, the Group is at the early stages of building a broad portfolio of information security, governance, risk and compliance, cyber and cyber security platforms, which aim to meet the ever-increasing digital resilience demands from the Group's customers. This will provide the Group's current and prospective shareholders with exposure to a large and rapidly growing sector through a portfolio approach, which aims to balance risk and return in a highly dynamic and often unpredictable operating environment.

Management and Board

The Board of Directors of Shearwater will remain unchanged following completion of the Proposed Acquisition and Admission.

Brookcourt's two co-founders, Phil Higgins and Dene Stacey, operate as Chief Executive Officer and Chief Operating Officer of Brookcourt respectively, and will remain in their current positions, reporting directly to Shearwater as the parent company.

Important notice

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consult with an independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended ("**FSMA**"), who specialises in advising on the acquisition of shares and other securities, if that person is in the United Kingdom, or any appropriately authorised person under applicable laws, if that person is located in any other jurisdiction. The information contained in this announcement is not for release, publication or distribution to persons in any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

This announcement has been issued by and is the sole responsibility of the Company. The information contained in this announcement is for background purposes only and does not purport to be full or complete. The information in this announcement is subject to change without notice.

Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain. If you have any queries on this, then please contact David Williams, Chairman of the Company (responsible for arranging release of this announcement) via Instinctif.

This announcement may contain and the Company may make verbal statements containing "forward-looking statements" with respect to certain of the Company's plans and its current goals and expectations relating to its future financial condition, performance, strategic initiatives, objectives and results. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "seek", "may", "could", "outlook" or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the control of the Company, including amongst other things, United Kingdom domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of governmental and regulatory authorities, the effect of competition, inflation, deflation, the timing effect and other uncertainties of future acquisitions or combinations within relevant industries, the effect of tax and other legislation and other regulations in the jurisdictions in which the Company and its affiliates operate, the effect of volatility in the equity, capital and credit markets on the Company's profitability and ability to access capital and credit, a decline in the Company's credit ratings; the effect of operational risks; and the loss of key personnel. As a result, the actual future financial condition, performance and results of the Company may differ materially from the plans, goals and expectations set forth in any forward-looking statements. Any forward-looking statements made in this announcement by or on behalf of the Company speak only as of the date they are made. Except as required by applicable law or regulation, the Company expressly disclaims any obligation or undertaking to publish any updates or revisions to any forward-looking statements contained in this announcement to reflect any changes in the Company's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

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Cenkos, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority is acting as nominated adviser and broker to Shearwater in connection with the Proposed Acquisition and the Proposed Placing. Cenkos is acting exclusively for Shearwater and no one else in connection with the Proposed Acquisition and the Proposed Placing and will not be responsible to anyone other than Shearwater for providing the protections afforded to clients of Cenkos or for providing advice in relation to the Proposed Acquisition and the Proposed Placing or the contents of this announcement or any transaction, arrangement or matter referred to herein.

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