GILBERT + TOBIN

DEAL REPORT: RETAIL FOOD GROUP CAPITAL RAISING & RECAPITALISATION

This edition of Deal Report is the first in a series of reports which will focus on restructuring and recapitalisation transactions which have been completed or announced in the last 12 months.

Should you require further details on any of them, please do not hesitate to contact the authors.

MARCH 2020

TRANSACTION SNAPSHOT

The transaction (**Transaction**) involved a proposal by RFG for a $190 million capital raising of additional ordinary shares to be undertaken by way of:

+ a fully underwritten $170 million placement to sophisticated and institutional investors (**Placement**); and
+ a share purchase plan, which was not underwritten, granting eligible shareholders the right to apply for up to $30,000 of shares in RFG (**SPP**) with an aggregate cap of up to $20 million,

(together, the **Capital Raising**).

On its initial announcement, the Capital Raising was not underwritten and was proposed to take the form of a $150 million placement and $10 million SPP, with ability to accept oversubscriptions of up to $20 million. The Capital Raising was subsequently upsized and underwritten to the aggregate $190 million proposal outlined above.

The Capital Raising was undertaken as part of a broader recapitalisation of RFG which involved:

+ the partial repayment of existing senior debt facilities in an amount equal to $118.5 million;
+ the agreement by the Lenders to write-off $71.8 million of debt owing under the existing senior debt facilities; and
+ the provision by the Lenders of a new $75.5 million debt facility maturing in November 2022 to refinance the remaining senior debt,

(together, the **Recapitalisation**).

The Capital Raising and Recapitalisation followed various debt reduction options explored by RFG throughout the 2019 financial year, including a proposed $160 million capital contribution from Soliton Capital Partners (**Soliton**). RFS granted Soliton an exclusivity period to undertake due diligence, although no binding offer was subsequently submitted.

TRANSACTION HIGHLIGHTS

The Recapitalisation involved a reduction in the net debt of RFG from $260 million to $54.6 million through the application of the proceeds of the Capital Raising to retire debt and a write-off of a portion of that same debt. The transaction represented a reduction in RFG's forecast leverage ratio from c.6.0 times forecast FY20 EBITDA to c.1.2 times.

As part of the Recapitalisation, the lenders to RFG (NAB and Westpac) agreed to write-off $71.8 million of existing debt (representing a write-off of 27 cents in the dollar).

The Capital Raising included a "top-up right" which granted Invesco (a holder of 19.9% of the shares following completion of the Placement) to allow it to maintain that proportionate shareholding following completion of the SPP. RFG raised an additional $4.68 million from Invesco exercising this right.

PARTIES

Company: Retail Food Group Limited (**RFG**).

JLMs and underwriters: Petra Capital Pty Ltd and Shaw & Partners Limited (**JLMs**)

Lenders: National Australia Bank Limited and Westpac Banking Corporation (**Lenders**)

PRICING

The share price for the Placement and the SPP was $0.10 per share which represented:

- a 41.2% discount to RFG's closing share price on the day prior to announcement; and
- a 43.3% discount to the 15 day VWAP.

LEVEL OF SHAREHOLDER SUPPORT

Completion of the transaction was conditional on the receipt of shareholder approval for the Placement.

- The Placement was approved by 93.77% of votes cast on the resolution.

TOP-UP ISSUANCE

In addition to the Placement and the SPP, RFG agreed to make an additional top-up issuance to Invesco (which held 19.9% of the shares following completion of the Placement) to ensure that it retained that proportionate holding following completion of the SPP (**Top-Up Issuance**). The amount of that Top-Up Issuance was subject to the final amount raised under the SPP and resulted in a further $4.68 million being raised from Invesco following the raising of $18.84 million through the SPP.

SOURCES AND USES

The proceeds of the Placement were to be applied in the following manner:

Source of funds	$m	Use of funds	Sm
Placement proceeds	170.0	Debt repayment	118.5
Cash	7.8	Working capital	46.8
		Transaction costs	12.5
Total	**177.8**		**177.8**

Any additional proceeds raised under the SPP or Top-Up Issuance (net of transaction costs) were to be applied in further repayment of the existing debt facilities, reducing the amount to be drawn under the new debt facility.

REVISED FINANCING ARRANGEMENTS

The Lenders agreed to provide a new debt facility of the following terms:

- a new term facility of $75.5 million which will be fully or partially drawn to refinance the balance of the existing facilities;
- 3 year maturity date;
- floating interest rate comprising BBSY and an agreed margin payable on the drawn balance; and
- the inclusion of financial covenants in relation to interest coverage (EBITDA / total interest expense) and leverage (net debt / EBITDA).

The Lenders also agreed to an extension of the existing debt facilities (which matured on 31 October 2019) through to 28 February 2020 to provide RFG with a period to complete the transaction.

UNDERWRITING

The JLMs agreed to underwrite the Placement subject to the inclusion of typical termination rights and additional termination rights relating to the ineffectiveness or invalidity of the debt write-off or the new facility not being entered into.

The JLMs received the following fees in connection with the Capital Raising:

- an underwriting fee of 3.25% of the proceeds of the Placement; and
- a management fee of 1.00% of the proceeds of the Capital Raising.

333Capital acted as Financial Adviser to RFG.

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