
Transformational acquisition of Broadway and \$7 million placement

Highlights

Acquisition of affiliated inbound Chinese tourist retailer network (“Broadway”)

- Eight (8) stores across the east coast of Australia and New Zealand, increasing AuMake’s total retail footprint to twenty-five (25) offline stores
 - Retention of highly skilled management team with over 20 years of experience in the Australian Chinese tourism industry
 - Strong financial performance with growth opportunities and synergies with existing AuMake business
 - Highly attractive acquisition terms that aligns Broadway with existing AuMake shareholders
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Financial and Operational commentary

- Significant opportunities to materially increase sales and profitability for FY20, including:
 - > **Implementation of online sales functionality** – Broadway currently does not provide online sales functionality to its 30,000 customers p.a.
 - > **Increase in owned brand product sales** – Capitalising on Chinese tourists’ appetite for new brands and products which carry high gross margins
 - > **Increased number of Chinese tourists visiting Broadway affiliated and AuMake stores (both offline and online)** – Aspirational target of 70,000 Chinese tourists for FY20 (35,000 FY19)
 - > **Decreased operational costs and cost of goods sold** as a result of synergies and increased purchasing power
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AuMake International Limited (“AuMake” or the “Company”) is pleased to announce that it has executed a binding agreement to acquire 100% of the business assets of affiliated inbound Chinese tourist retail network (“Broadway”) for total consideration of \$14.2 million (plus GST and stock) (**Acquisition**).

The Company has completed a heavily oversubscribed placement to Institutional and Sophisticated investors to raise A\$7 million (“**Equity Raising**”) to fund the Acquisition and provide additional working capital. Ashanti Capital acted as Lead Manager for the placement.

Overview of Broadway

Broadway is a leading group of retailers with eight store (8) locations across the east coast of Australia and New Zealand (“ANZ”) focused on inbound Chinese tourists. The highly skilled Broadway management team have over 20 years’ experience in tourism and extensive networks in both ANZ and China.

Broadway primarily focuses on the sale and distribution of products similar to AuMake, including health supplements, infant formula, wool, food products (including honey) and other consumables. Broadway predominantly service Chinese tourists but has recently engaged with exciting new markets in Japan and Korea.



Transaction overview

AuMake will acquire 100% of the business assets of the Broadway affiliated retail stores for total consideration of \$14.2 million (plus GST and stock).

Consideration

The consideration is to be satisfied by a combination of cash and scrip both at settlement and on a deferred basis as set out below:

- **\$5.6 million – upfront at settlement (40% of total consideration)**
 - > \$2.8 million payable in cash and \$2.8 million to be satisfied by the issue of fully paid ordinary shares in the capital of the Company (AU8 Shares) at 90-day VWAP
- **\$4.3 million – deferred cash consideration (30% of total consideration)**
 - > \$4.3 million payable in cash in eight (8) equal quarterly instalments from the date of settlement
- **\$4.3 million – deferred equity consideration (30% of total consideration)**
 - > \$2.3 million to be satisfied by the issue of AU8 Shares at 90-day VWAP on the date that is twelve (12) months from the date of settlement
 - > \$2.3 million to be satisfied by the issue of AU8 Shares at 90-day VWAP on the date that is twenty four (24) months from the date of settlement

All AU8 Shares issued in consideration for the Acquisition will be subject to a 24-month escrow period from the date of issue.

Conditions precedent

The Acquisition is subject to and conditional upon satisfaction of the following remaining conditions precedent:

1. The Company's shareholders approving the issuance of all three tranches of the consideration shares to the Broadway vendors under LR 7.1 and any relevant shareholder approvals required to complete the transactions contemplated by the Acquisition;
2. Broadway obtaining the consent to assign or otherwise transfer all leases and material contracts relevant to the business operations of Broadway; and
3. Execution of formal Contract of Sale agreements.

Financial commentary

With this highly accretive acquisition, AuMake expects material improvements in financial performance for FY20. The Company will initially focus on the following key value drivers;

1. The conversion of Broadway offline customers to online, increasing repeat sales and higher margin opportunities;
2. Increasing sales of owned brand products due to Chinese tourist appetite for new, lesser known, high margin products; and
3. Increasing the number of tourists visiting Broadway and AuMake offline stores by using the additional available working capital and Broadway's influential relationships in the Chinese tourism market.

Following the completion of the Acquisition and Equity Raising, the Company will be sufficiently capitalised to execute these objectives in FY20.

Broadway FY19 revenue is estimated to be \$30 million at a gross margin of 30%. For further information relating to the financial performance of Broadway and metrics for the Acquisition, please refer to the Investor Presentation dated 17 April 2019.



Operational commentary

In addition to Broadway's traditional offline store sales, AuMake has identified significant growth opportunities for the incoming business.

Currently, Broadway does not provide online sales functionality to its customers. AuMake will provide online sales functionality (currently 30% of AuMake total sales) to Broadway customers.

Similarly, in excess of 25% of Broadway sales are owned brand products. AuMake will transition AuMake owned brand products into the existing Broadway store product mix.

The combination of these two initiatives is anticipated to materially increase EBITDA as a % of sales given:

1. Growth in online revenue can occur exponentially without the need to increase the fixed cost basis (AuMake has the existing infrastructure to service Broadway's forecast online demand)
2. Increasing AuMake owned brand sales increases profitability given the high gross margin attached to AuMake's owned brand products (50%+)

The Company also anticipates significant operational synergies to decrease total operational costs and cost of goods sold (COGS) as a result of the increased purchasing power of the combined businesses.

Importantly, given Broadway's strong relationships with Chinese travel agencies and tour guides, AuMake will have an opportunity to significantly increase the number of Chinese tourists visiting offline stores due to the availability of working capital for marketing purposes.

Following completion of the Acquisition, AuMake will have a presence in all strategically important Chinese tourist locations across ANZ.

All key Broadway management and staff will be retained.

Capital Structure post completion of the Acquisition

INDICATIVE CAPITAL STRUCTURE (minimum, post placement)			
	Shares	Options and Performance Shares	Cash (A\$m)
Current issued capital in the Company	271,454,202	60,750,000 ¹	8.0 (31 Dec 2018)
Initial Consideration Shares – Broadway Group	17,725,000		
New Equity Raising Shares	43,750,000		7.0
Total	332,929,202	60,750,000	15.0

Note 1.

5m unlisted options (ex. Price \$0.20 exp. 12 Sept 2022) 2m unlisted options (ex. Price \$0.20 exp. 22 Jan 2023)

3.75m unlisted options (ex. Price \$0.20 exp. 22 Jan 2023) 50,000,000 (Performance Shares)

The Company has completed a placement to Institutional and Sophisticated Investors to raise A\$7 million at an issue price of \$0.16 per share. As part of the placement, the company received significant support from the Company's Board, management and staff. The company will seek shareholder approval to issue 3,125,000 shares to Mr Quentin Flannery (or his related entities).

The placement was completed using the Company's capacity under ASX Listing rule 7.1.

Indicative timetable

Event	Date
ASX trading halt	15 April 2019
ASX announcement of the proposed transaction and capital raising	17 April 2019
Appendix 3B, cleansing notice and issue of placement shares	30 April 2019
Notice of meeting seeking approval for issue of shares as consideration for the proposed transaction	End April 2019
Shareholder meeting	Late May 2019
Satisfaction (or waiver) of all conditions precedent to proposed transaction	Late May 2019
Completion of proposed transaction	Late May 2019
Appendix 3B and issue of Initial Consideration Shares	Late May 2019



Summary

Keong Chan, Executive Chairman, states:

“This acquisition is transformative for AuMake and a turning point in our evolution as a Company.

The dynamic combination of AuMake and Broadway, will create the leading brand in the cross border and Chinese tour group markets, which we estimate to be worth over \$4.5 billion in Australia and New Zealand.

Over the past 18 months AuMake has been investing in, and refining its business model and expertise in the cross-border market, which allows us to identify and leverage unique growth opportunities. Our ability to now readily apply this model to Broadway will result in significant improvement in online and owned brand sales.

Importantly, this acquisition will allow us to materially increase the number of consumers (and particularly tourists) visiting AuMake and Broadway’s network of 25 offline stores by leveraging off Broadway’s deep relationships with Chinese tour operators. The increased customer base is expected to improve the financial performance of the business across all metrics. However it is not expected to raise fixed costs given the substantial infrastructure and investment to date in the AuMake business which Broadway will be integrated with, including warehousing, logistics, marketing, IT, procurement and other head office support.

We will continue to build on our strategic relationship with JD.Com and are confident that further, exciting and highly lucrative opportunities from China will avail themselves as our brand equity continues to grow.

I would like to personally welcome Broadway into the AuMake business. We are extremely excited by the future and opportunities that lie ahead for us and look forward to executing on our corporate strategies and delivering for our shareholders, customers and employees.”

–Ends–

About AuMake

AuMake International Limited is an ASX listed retail company connecting Australian suppliers directly with daigou and Chinese tourists.

AuMake engages with the growing and influential daigou and Chinese tourist markets, by offering a one-stop-shop retail network. This includes a range of Australian products across four main categories including:

- healthcare (supplements and food)
- skin, body care and cosmetics
- dairy products and baby food (including infant formula)
- wool and leather products.

Customers of AuMake value the full service offering which includes knowledgeable bilingual staff, multiple payment options (including WeChat, Alipay and UnionPay) and an in-store logistics service for the delivery of products to anywhere in the world including China.

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