

Market release

SILK undertakes a \$52 million strategic acquisition of Australian Skin Clinics and The Cosmetic Clinic in New Zealand, launches \$20 million equity raising

Clinic footprint expands to 117 with strong foothold on Australian East Coast and scaled entry into Victorian and New Zealand markets

Highlights:

- Binding agreement signed to acquire Australian Skin Clinics and The Cosmetic Clinic in New Zealand for an upfront cash consideration of \$47.0 million and up to an additional \$5.0 million earn-out in scrip subject to certain conditions; completion expected by end of August 2021
- To partially fund the transaction, SILK is raising \$20.0 million through a fully underwritten institutional placement (the "Placement")
- The balance will be funded through drawn debt of \$22.5 million of a newly established \$30.0 million debt facility and from existing cash on the balance sheet
- Acquisition adds 56 clinics to SILK's existing network of 61 clinics, bringing SILK closer to achieving the Company's network plan of 150 clinics in the medium term
- Complementary network with limited crossover in terms of clinic locations – SILK can leverage ASC Group's brand strength on the Australian East Coast whilst capitalising on SILK's brand strength in Central and Western Australia
- International expansion with a strong position in the New Zealand market

Adelaide, South Australia: 18 June 2021 – SILK Laser Australia Limited (ASX:SLA) ("SILK" or the "Company"), one of Australia's largest specialist clinic networks offering a range of non-surgical aesthetic products and services, is pleased to announce it has entered into a binding agreement to acquire 100% of Beauty Services Holdings Pty Ltd, LMD2 Pty Ltd and their broader group of entities (which together operate Australian Skin Clinics in Australia and The Cosmetic Clinic in New Zealand) ("ASC Group") on a cash and debt free basis and assuming a normal level of working capital for upfront cash consideration of \$47.0 million and up to an additional \$5.0 million earn-out in scrip based on the opening of certain new clinics¹, excluding transaction costs (the "Acquisition").

Acquisition overview

The acquisition of ASC Group solidifies SILK's position as the #2 player in the Australian non-surgical aesthetic industry and is consistent with SILK's growth strategy. The strategic rationale behind the acquisition includes:

- ASC Group aligns with SILK's existing service offering which reduces complexity and category management requirements;
- Capital lite expansion model through the deployment of predominantly traditional franchise clinics;
- SILK will continue to leverage ASC Group's brand strength on the Australian East Coast whilst capitalising on SILK's brand strength in Central and Western Australia;
- Solidifies SILK's market leadership as #2 player in Australia and provides scaled entry into Victoria and New Zealand;
- Provides immediate scale operations in metro Brisbane, Victoria and New Zealand;

¹ As at the date of this announcement 4 new clinics have opened triggering \$3.3 million of the earn-out

- Scale provides opportunity for further investment in brand awareness, customer experience, business intelligence and systems / training to reinforce competitive advantage; and
- Synergies are expected to be realised through combined scale as well as introduction of exclusive SILK brands in the ASC Group network.

Based on expected earnings in the first full year of ownership adjusted for corporate clinics recently closed or transferred to franchisees, including full-year run-rate of new clinic openings and limited immediate cost savings ("Pro Forma EBITDA"), the Acquisition implies multiples of:

- EV / Pro Forma EBITDA pre AASB 16 of 10.6x before synergies and 9.6x including synergies^{2 3 5}
- EV / Pro forma EBIT pre AASB 16 of 11.1x before synergies and 10.0x including synergies^{2 4 5}

Synergies from the acquisition are estimated to be approximately \$0.5 million per annum to be realised after a one-year implementation period (excluding limited immediate cost savings included in Pro Forma EBITDA), with additional synergies and value creation opportunities anticipated over the medium term. These synergies are expected to predominantly comprise savings from transitioning products to existing suppliers and in-house brands, streamlining support across brands and marketing and investing in procurement to support a larger business.

Commenting on the news, SILK CEO and Co-Founder Martin Perelman said: *"We are excited to welcome Australian Skin Clinics and The Cosmetic Clinic to the SILK family. Together, we will be one of the leading chains in the Australia market, giving our clients more choice, more innovation and most importantly, better service and results."*

"The ASC Group acquisition is an exciting opportunity for SILK and delivers on our growth strategy. ASC Group is well aligned to our existing service offering and complements our existing network, whilst providing scaled entry into Victorian and New Zealand markets. The acquisition solidifies our market leadership as a major player in Australia with 103 clinics and entry into New Zealand with 14 clinics. This increased scale provides opportunity for further value creation through synergies and further investment in our brand and customer experience."

"SILK and ASC Group are already very aligned when it comes to business philosophies. Both brands believe that strong financially healthy franchise partners and happy clients drive strong results."

The acquisition is expected to be >20% EPS accretive in the first full year of ownership⁶ on a pro forma basis before synergies and excluding transaction and integration costs.

The upfront cash consideration and transaction costs will be funded by:

- Debt of \$22.5 million from a newly established debt facility;
- Fully underwritten Placement of \$20.0 million; and
- Existing cash from the balance sheet of \$7.5 million.

² Enterprise value based on \$52.0 million including \$5.0 million earn-out

³ Pro Forma EBITDA of \$4.9 million pre AASB16

⁴ Pro forma EBIT of \$4.7 million pre AASB16

⁵ Estimated synergies of \$0.5 million per annum to be realised after a one-year implementation period (excluding limited immediate cost savings included in the Pro Forma EBITDA)

⁶ EPS refers to earnings per share and is calculated on a full year basis as if the acquisition occurred on 1 July 2021 using SILK's FY22F broker consensus NPAT and ASC Group's earnings in the first full year of ownership adjusted for corporate clinics recently closed or transferred to franchisees, including full-year run-rate of new clinic openings and limited immediate cost savings (excludes synergies)

The earn-out amount of up to \$5.0 million is payable in ordinary shares in SILK (issued at 5-day volume weighted average price "VWAP" immediately prior to signing binding agreements, being \$4.38). At least \$3.3 million under the earn-out will be paid based on clinics opened as at the date of this announcement.

SILK is today launching a fully underwritten Placement of approximately 4.7 million shares, the "Placement Shares", to raise approximately \$20.0 million at a fixed offer price of \$4.30 per new share to partly fund the Acquisition.

Completion of the Acquisition is expected by the end of August 2021. The ACCC has confirmed it does not intend to conduct a public review of the proposed Acquisition. The Acquisition is not subject to FIRB approval and does not require approval from the Overseas Investment Office of New Zealand.

About ASC Group

ASC Group is a leading provider of non-surgical aesthetic products and services, operating in Australia as 'Australian Skin Clinics' and in New Zealand as 'The Cosmetic Clinic'. ASC Group provides SILK with scaled entry into Victorian and New Zealand markets whilst aligning across core treatments and products of:

- Cosmetic injectables
- Skin treatments
- Hair removal
- Fat reduction and body contouring
- Skin care products

Currently the ASC Group operates 56 clinics across Australia and New Zealand⁷:

- 42 clinics in Australia: 35 traditional franchise clinics, 4 corporate clinics and 3 joint venture clinics; and
- 14 clinics in New Zealand: traditional franchise clinics all operated under a Country Development License which reduces support office requirements.

As part of the due diligence process, SILK conducted a survey of the ASC Group network which indicated high franchisee satisfaction, a healthy network and 100% indication of franchisee renewal amongst franchisees who filled out the survey.

On a standalone basis, ASC Group is expected to contribute Pro Forma EBITDA in the first full year of ownership of \$4.9 million pre AASB 16 and pro forma EBIT in the first full year of ownership of \$4.7 million pre AASB 16.

Placement

SILK has launched a fully underwritten Placement to eligible institutional investors, of approximately 4.7 million shares to raise approximately \$20.0 million to partially fund the Acquisition.

The Placement is underwritten by Wilsons Corporate Finance Limited and Ord Minnett Limited at an offer price of \$4.30 per new share, which represents:

- 5.1% discount to the last close price of SILK shares as at 17 June 2021; and
- 1.8% discount to the 5 day VWAP of SILK shares as at 17 June 2021.

⁷ Includes 4 opened ASC Group clinics captured under the earn-out mechanism

The Placement Shares will represent approximately 9.9% of SILK's issued share capital after the Placement has been completed. New shares issued under the Placement will rank equally with existing SILK shares on issue.

Due to its investment mandate, Advent Partners ("Advent") will not be participating in the Placement. However, Advent are highly supportive of the Acquisition and the wider SILK business.

The Placement is expected to settle on 23 June 2021 and the Placement Shares will be allotted on the following business day, 24 June 2021. No shareholder approval is required for the Placement, as SILK will utilise, in part, its placement capacity under Listing Rule 7.1.

SILK's shares will remain in trading halt while the Placement is conducted. SILK shares are expected to recommence normal trading on 21 June 2021, or such other time as the completion of the Placement is announced to the market.

Trading commentary

SILK has continued its strong momentum and reconfirms its upgraded forecasts for FY21 per the H1 FY21 results announcement.

Clinic openings for the existing SILK clinic network are on track to surpass full year forecast with management expecting 62 clinics to be opened by the end of FY21.

This announcement has been authorised for release by SILK's Company Secretary, Richard Willson.

—ENDS—

Further information:

Further details of the Acquisition and the Placement are set out in the Investor Presentation also provided to the ASX today. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Offer.

Highbury Partnership is acting as financial adviser to SILK. Wilsons Corporate Finance Limited and Ord Minnett Limited are Joint Lead Managers and underwriters to the Placement. Kain Lawyers is acting as legal advisor to SILK.

Investors

Heidi Lord
Investor Relations
M: +61 404 216 403
E: heidi.lord@marketeye.com.au

Media

Alex Beashel
Corporate Communications
M: +61 466 308 667
E: ab@alexbeashel.com

About SILK Laser

Founded in 2009, SILK is one of Australia's largest specialist clinic networks, offering a range of non-surgical aesthetic products and services. SILK's five core offerings comprise laser hair removal, cosmetic injectables, skin treatments, body contouring and fat reduction services and skincare products. SILK has 61 clinics in its network throughout metropolitan and regional Australia. Visit: www.silk laser.com.au/investors.

Important notices

Not for release to U.S. wire services or distribution in the United States

This announcement has been prepared for publication in Australia and may not be released to U.S. wire services in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction in which such an offer would be illegal. Any securities described in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933 ("U.S. Securities Act") as amended or the securities laws of any state or other jurisdiction of the United States. Accordingly, no securities described in this announcement may be offered or sold, directly or indirectly, in the United States or to a person acting for the account or benefit of a person in the United States, unless they have been registered under the U.S. Securities Act (which SILK has no obligation to do or procure), or are offered and sold in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any applicable U.S. state securities laws.

Forward looking statements

This announcement may contain "forward looking statements", including but not limited to projections, guidance on future revenues, earnings, other potential synergies, estimates, the timing and outcome of the Acquisition, the outcome and effects of the Placement and the use of proceeds, and the future performance of SILK and ASC Group post-Acquisition. Forward looking words such as "anticipate", "expect", "should", "could", "may", "predict", "plan", "project", "will", "believe", "opinion", "forecast", "aim", "estimate", "outlook", "guidance", "potential", "target", "likely", "intend", "propose" and other similar expressions are intended to identify forward looking statements.

Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of SILK, and SILK's affiliates, related bodies corporate, directors, officers, partners, consultants, employees, agents and advisers, that may cause actual results to differ materially from those expressed or implied in such statements. Actual results, performance or outcomes may differ materially from any projections and forward looking statements and the assumptions on which those statements are based. These statements may assume the success of SILK's business strategies. The success of any of those strategies will be realised in the period for which the forward looking statement may have been prepared or otherwise.

Forward looking statements are provided as a general guide only and there can be no assurance that actual outcomes will not differ materially from these statements. Neither SILK, nor any of its affiliates, related bodies corporate, directors, officers, partners, consultants, employees, agents or advisers, gives any representation, warranty, assurance or guarantee that the occurrence of the events, expressed or implied, in any forward looking statement will actually occur.

Readers are cautioned not to place undue reliance on forward looking statements. The forward looking statements are based on information available to SILK as at the date of this announcement. Except as required by law or regulation, neither SILK, nor any of its affiliates, related bodies corporate, directors, officers, partners, consultants, employees, agents or advisers, assumes any obligation to update these forward looking statements.

Financial information

Unless otherwise stated, all dollar values in this announcement are Australian dollars (A\$m). Readers should note that this announcement contains pro forma historical and forward looking financial information. The pro forma and forward looking financial information, and the historical information, provided in this announcement is for illustrative purposes only and is not represented as being indicative of SILK's views on its future financial condition and / or performance. Readers should note that the pro forma financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the US Securities and Exchange Commission ("SEC").

The pro forma financial information in this announcement has been prepared by SILK in accordance with the recognition and measurement principles of the Australian Accounting Standards. Financial information for the ASC Group contained in this announcement has been derived from unaudited management accounts and other financial information made available by the ASC Group in connection with the Acquisition. SILK has not been able to verify, and accordingly does not take responsibility for, the accuracy, reliability or completeness of such financial information.

Readers should be aware that certain financial measures included in this announcement are 'non-IFRS financial information' under ASIC Regulatory Guide 230: 'Disclosing non-IFRS financial information' published by ASIC and also 'non-GAAP financial measures' within the meaning of Regulation G under the US Securities Exchange Act of 1934, as amended, and are not recognised under Australian Accounting Standards ("AAS") and International Financial Reporting Standards ("IFRS"). The non-IFRS financial information / non-GAAP financial measures include Enterprise Value, EBITDA and EBIT. The disclosure of such non-GAAP financial measures in the manner included in this announcement would not be permissible in a registration statement under the US Securities Act. Such non-IFRS financial information / non-GAAP financial measures do not have a standardised meaning prescribed by AAS or IFRS. Therefore, the non-IFRS financial information may not be comparable to similarly titled measures presented by other entities, and should not be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Although SILK believes these non-IFRS financial measures provide useful information to investors in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-IFRS financial information / non-GAAP financial measures included in this announcement.