

GODFREYS GROUP LIMITED (ASX: GFY)

ASX/Media Release

9 May 2018

TRADING UPDATE AND FURTHER DEBT FACILITY WAIVER

Godfreys Group Limited (**Godfreys** or the **Company**) provides the following update in relation to recent trading and the senior debt facility (**the Facility**), provided by 1918 Finance Pty Ltd (**Lender**) under the terms of the Facility Agreement between Godfreys and the Lender dated 29 May 2017 (**Facility Agreement**).

In the two weeks since the trading update on 23 April 2018, like for like sales have reduced 27% compared to the same time last year, continuing what was a poor start to April. Year to date like for like sales are currently down by 7.8% compared to last year.

The decline is largely attributable to changes made to the television advertising campaigns in April and May which were designed to reduce the Company's reliance on the current discount and sale based approach by focusing more on product features and benefits. These changes have not resonated with Godfreys existing customer base and as such the Company has reverted to the previous television advertising approach for this segment of the market. Godfreys will continue to test refinements to the product feature and benefits approach through digital channels to target a broader customer base that the Company is currently not attracting.

The profitability of the business is highly sensitive to changes in sales revenue and these lower sales are expected to have a material impact on Godfreys April and May result, and the EBITDA expectation for the balance of the FY18 year.

Godfreys now expects underlying EBITDA for FY18, before restructuring and one-off costs, to be approximately \$3.5 million. Should like for like sales continue to decline in excess of year to date performance, the final EBITDA result for FY18 could be below this expectation.

As a result of this earnings decline, Godfreys considers it likely that it will be in breach of both the Leverage Ratio covenant and Fixed Cover Charge Ratio covenant under the Facility Agreement for the financial year ending 29 June 2018. The Lender has previously agreed to waive its rights under the Facility Agreement should a breach of the Leverage Ratio covenant occur (as announced by the Company on 23 April 2018), and has now also agreed to waive its rights under the Facility Agreement should a breach of the Fixed Cover Charge Ratio covenant occur.

The waiver in relation to the Fixed Cover Charge Ratio covenant is subject to the condition that Godfreys agrees to hold negotiations with the Lender (in good faith and using all reasonable endeavours) regarding suitable debt reduction strategies, including (but not limited to) a debt for equity conversion, with such negotiations to commence by no later than Friday 11 May 2018. Any agreement regarding any debt reduction would need to be the subject of mutually agreed terms and documentation and subject to all required approvals.

Given its current trading performance, Godfreys currently believes it will be difficult to satisfy the Facility Agreement's covenant requirements as at 28 December 2018, being the next testing date after 29 June 2018. Godfreys' failure to do so would constitute an event of default under the Facility Agreement. In such circumstances, pursuant to the terms of the Facility Agreement, the Lender is entitled to cancel all commitments under the Facility Agreement, require immediate repayment of outstanding amounts (including interest and costs) under the Facility Agreement, and enforce its rights under the applicable security arrangements.

In relation the takeover proposal from Arcade Finance Pty Ltd, Godfreys confirms the Target Statement will be lodged with ASIC and ASX, and dispatched to shareholders today, Wednesday 9 May 2018.

-ENDS

For further information, please contact:

Analysts/investors:

Andrew Ford | CFO | Godfreys

P: +61 (0)3 8514 5521 | E: aford@godfreys.com.au

Media:

John Fergusson

P: 0407 826 952 | E: john.fergusson@daymark.com.au

About Godfreys

Godfreys Group (ASX: GFY) listed on the ASX in 2014 and is Australia's largest speciality retailer of domestic and commercial floorcare and associated cleaning products, offering an extensive range of company-owned brands, an exclusively licensed brand (Hoover) and a number of third party brands. Godfreys is regarded by Australians as the 'experts' in vacuum cleaners and cleaning products, accommodating consumers at all price points. Godfreys has its head office and a company-operated warehouse located in Victoria. Godfreys' multichannel offering is distributed via over 200 branded retail stores located across Australia and New Zealand in standalone 'superstores', and shopping centres and retail shopping strips.