

Our Ref: rkb:jl:180298

17 May 2018



The Manager
Australian Securities Exchange Ltd
Market Announcements Office

ASX Online

Dear Sir/Madam

**OFF-MARKET TAKEOVER SUPPLEMENTARY BID BY ARCADE FINANCE PTY LTD FOR
GODFREYS GROUP LIMITED (ASX:GFY)**

We refer to the bidder's statement issued by Arcade Finance Pty Ltd ABN 66 149 252 719 (**Arcade**) dated 9 April 2018 in relation to its off-market takeover offer for all of the ordinary shares in Godfreys Group Limited ABN 35 602 722 985 that Arcade does not presently own, Arcade's first supplementary bidder's statement dated 17 April 2018, and Arcade's replacement bidder's statement dated 24 April 2018.

We enclose, by way of service pursuant to paragraph 647(3)(b) *Corporations Act 2001* (Cth) (**Corporations Act**), Arcade's second supplementary bidder's statement dated 17 May 2018.

We also enclose:

- (a) a notice of variation of Arcade's takeover offer pursuant to section 650D of the Corporations Act dated 17 May 2018; and
- (b) a notice freeing Arcade's takeover offer of certain defeating conditions pursuant to section 650F of the Corporations Act dated 17 May 2018.

Yours faithfully
COWELL CLARKE

Per:

A handwritten signature in blue ink, appearing to read "R. K. Beissel", written over a horizontal line.

RICHARD BEISSEL

Partner

RBeissel@cowellclarke.com.au

SECOND SUPPLEMENTARY BIDDER'S STATEMENT

Arcade Finance Pty Ltd

ABN 66 149 252 719

In relation to the Offer for all of your shares in

Godfreys Group Limited

ABN 35 602 722 985

- ▶ **OFFER PRICE INCREASED TO 33.5 CENTS**
- ▶ **GODFREYS BOARD RECOMMENDS
ACCEPTANCE**
- ▶ **INDEPENDENT EXPERT CONCLUDED OFFER IS
FAIR AND REASONABLE**
- ▶ **OFFER PERIOD EXTENDED TO 7 JUNE 2018**

ACCEPT THE INCREASED CASH OFFER

This is an important document and requires your immediate attention. If you are in any doubt as to how to deal with this document, you should consult your financial, legal or other professional adviser as soon as possible.

 **Cowell Clarke**
COMMERCIAL LAWYERS

 **TAYLOR COLLISON**

Introduction

This Second Supplementary Bidder's Statement (**Second Supplementary Bidder's Statement**) is given by Arcade Finance Pty Ltd ABN 66 149 252 719 (**Arcade**) to Godfreys Group Limited ABN 35 602 722 985 (**Godfreys**) under section 643 of the Corporations Act and sets out details in relation to the offer price as stated in the Original Bidder's Statement dated 9 April 2018 (**Original Bidder's Statement**) as amended by the Supplementary Bidder's Statement dated 17 April 2018 (**Bidder's Statement**).

This Second Supplementary Bidder's Statement is dated 17 May 2018. This Second Supplementary Bidder's Statement should be read together with the Bidder's Statement. This document will prevail in the event of any inconsistency with the Bidder's Statement.

A copy of this Second Supplementary Bidder's Statement was lodged with ASIC and ASX on 17 May 2018. None of ASIC, ASX nor any of their officers takes any responsibility for the content of this Second Supplementary Bidder's Statement.

Unless the context requires otherwise, terms defined in the Bidder's Statement have the same meaning where used in this document.

Where a section of the Bidder's Statement is intended to be amended, the amendment is noted below.

Offer Price

Notice Increasing Arcade's Offer Price

Having reviewed the Target's Statement released by Godfreys on 9 May 2018 (**Target Statement**), which recommends acceptance of the Offer, Arcade is seeking to finalise the Offer it has made for all of your shares in Godfreys as soon as possible.

Arcade is concerned that the disappointing recent financial performance of Godfreys, and the lack of positive impact from the turnaround strategy, will damage Godfreys' future business prospects. As such, Arcade is willing to offer improved terms in order to encourage a speedy completion of its Offer and enable Arcade to control future business strategy and decision making.

To this end, Arcade gives notice that it varies the Offer by increasing the consideration offered for the Godfreys Shares from the original offer of \$0.32 per share (**Original Offer Price**) under the Offer contained in the Bidder's Statement dated 24 April 2018, to \$0.335 for each Godfreys Share you hold (**New Offer Price**).

The Board of Godfreys has unanimously recommended that you accept the Offer from Arcade, in the absence of a superior proposal, and did so on the basis set out in the Bidder's Statement, including recommending that you accept the Offer at the Original Offer Price.

Arcade is now offering an increased price for each of your Godfreys Shares.

It is Arcade's intention to support the Godfreys business, and Arcade considers that it is in the best interests of the company to finalise the Offer, and allow Arcade to move on with improving the business as quickly as possible, which Arcade believes is better done in a private company environment.

The increased New Offer Price of 33.5 cents cash per Godfreys Share represents a significant premium to the trading price of Godfreys Shares prior to announcement of the Offer, being a premium of:

- (a) 63.4% to the closing price of Godfreys Shares on 6 April 2018, being the last trading day before the Announcement Date.
- (b) 21.4% to the VWAP of Godfreys Shares since 20 February 2018, being the date on which Godfreys released its 1H18 Results to 6 April 2018.
- (c) 31.7% to the one-month VWAP of Godfreys Shares up to and including 6 April 2018, being the last trading day before the Announcement Date.

In accordance with Section 650B(2) of the Corporations Act, Godfreys Shareholders who have already accepted the Offer will be entitled to receive the increased consideration offered under the varied Offer (the New Offer Price). The consideration for the acquisition of the Godfreys Shares to which the Offer relates will be satisfied wholly in cash. If every Godfreys Shareholder accepts the Offer, the maximum cash consideration payable by Arcade to Godfreys Shareholders will be \$10,222,257.67.

Arcade as trustee of the Johnston Investment Trust will fund the cash consideration for its improved Offer from the existing cash reserves of the Trust (as detailed in Section 6 of the Bidder's Statement).

Godfreys Shareholders wishing to accept the offer for all of their shares should follow the instructions in the Bidder's Statement.

Offer Conditions - Status

Waiver or fulfilment of Defeating Conditions

In accordance with section 650F of the Corporations Act, Arcade declares all Offers contained in the Bidder's Statement free of all Defeating Conditions set out in Schedule 2 of the Bidder's Statement except for Condition 1 (minimum acceptance) (**Minimum Acceptance Condition**).

The current voting power of Arcade as at 4:00 pm (Perth time) on 16 May 2018, is 37.6% (comprising 15,392,096 shares out of a total of 40,922,585 Godfreys Shares currently on issue.)

Payment of Consideration

Arcade gives notice that the payment terms of its Offer contained in the Bidder's Statement are varied by varying the date by which the consideration will be paid.

If the Offer becomes unconditional, provided that the necessary transfer documents accompany the Acceptance Form, Arcade will pay the cash Offer Price to Godfreys Shareholders who accept the Offer within 7 days of acceptance.

Clause 5.2 of the Terms of the Offer (as set out in Schedule 1 of the Bidder's Statement) is deleted, and clause 5.1 substituted with the following:

"5.1 Subject to clause 5.3 of this Schedule 1, you will be paid the consideration you are entitled to within seven days of the later of:

5.1.1 the date you accept the Offer; and

5.1.2 the date the Offer becomes unconditional."

All other references to the date for payment are amended to reflect this variation.

A formal notice under section 650D of the Corporations Act in connection with the variation of the payment terms is attached as Annexure A.

Offer Period

Extension of Offer Period

Arcade gives notice that the Offer Period is extended for a two week period, so that the Offer remains open for acceptance until 7 June 2018. The Offer closing time is now **6.30pm** (Adelaide time) on **Thursday, 7 June 2018** (unless extended or withdrawn).

In accordance with sections 650D and 630 of the Corporations Act, Arcade gives notice that the date for giving notice of the status of the remaining Defeating Conditions (being the Minimum Acceptance Condition) pursuant to section 630(3) of the Corporations Act has been postponed by the operation of section 630(2). The new date for giving notice of the status of the Minimum Acceptance Condition is Thursday 31 May 2018, subject to variation in accordance with section 630(2) of the Corporations Act.

A formal notice under section 650D of the Corporations Act in connection with the extension of the Offer Period is attached as Annexure A.

Response to Independent Expert's Report

Arcade's response to BDO's Independent Expert's Report (IER)

After careful consideration of the Target Statement and the associated IER, Arcade and its advisors are concerned the valuation analysis conducted by the Independent Expert does not adequately reflect some of the key issues facing Godfreys' business or its position relative to its true peer group.

The Independent Expert's valuation range of \$0.25 to \$0.42 per Godfreys Share is generated using a Capitalisation of Earnings (**COE**) method, which relies on two primary assumptions:

- Future Maintainable Earnings (**FME**) of **\$5.0 million** (section 6.3); and
- Base Multiple Range of **6.5x to 7.5x** (section 6.4.4).

Under the COE method, and as a result of Godfreys' leverage, Godfreys' valuation range is highly sensitive to any reductions in the FME and capitalisation multiples assumptions outlined above. Arcade's comments on those two assumptions are outlined below.

1. Future Maintainable Earnings (FME)

Under section 6.3 of the IER, the Independent Expert has used FME of \$5.0 million. Arcade considers this assumption to be too unrealistic and inappropriate given the circumstances. Specifically:

- Godfrey's updated FY18 guidance is \$3.5m, in relation to which it has warned there is also a risk that this level of earnings will not be achieved given the trend in performance.
- Given 1H FY18 EBITDA was \$3.6m, this suggests that Godfreys will run at a loss for 2H FY18. To suggest Godfreys will go from a loss-making business forecasting \$3.5m EBITDA, to a sustainable \$5.0m EBITDA business, in the context of all the risks to earnings disclosed in the Target Statement, appears to be an unrealistic assumption.
- Godfreys' Board and management has made it clear, both within the Target Statement and in other ASX releases, that business performance is deteriorating, that the turnaround strategy has not improved financial performance, and that there is a risk that it will not achieve an improvement in the foreseeable future.
- The Independent Expert gave significant weighting to the last 12 Months EBITDA of \$6.1m (up to April 2018) without sufficient justification. Godfreys has had several profit downgrades in the last 3 years, so it is challenging to see why the Independent Expert has assumed such a turnaround.

Given Godfreys' updated FY18 earnings guidance and the risk that Godfreys' turnaround strategy will not result in near term financial improvement, Arcade emphasises an important conclusion within the Independent Expert's Report at section 7.1.1:

- *"...if FME was based exclusively on management's most recent earnings guidance of \$3.5 million (i.e. if management is not able to successfully implement the turnaround strategy), the value per Godfrey share would be \$nil to \$0.03 (all else equal)"*

2. Base Multiple Range

Under section 6.4.4 of the IER, the Independent Expert has used a base multiple range of **6.5x to 7.5x** FME (EBITDA) on a minority basis. Given the results of the Independent Expert's analysis of both comparable trading multiples and Godfreys' historical multiples in the preceding sections of its report, there is no proper basis for the use of this high multiple range by the Independent Expert.

In section 6.4.1 of the IER, the Independent Expert analyses the EBITDA multiples for comparable trading companies. The Independent Expert specifically highlights a number of data points as being particularly relevant, as follows:

- For companies of comparable **size**, a range of **2.9x to 3.2x** is observed.
- For companies with **earnings decline**, the average multiple is **3.5x**.
- The two “**most comparable**” companies identified were Shaver Shop and PAS Group, where a multiple of **3.2x** is observed.

In section 6.4.3, the Independent Expert observes Godfreys’ historical multiple over a 3 year period as being **4.3x to 4.7x**.

The relevant data points, as highlighted by the Independent Expert, all fall within the range of **2.9x to 4.7x** EBITDA. As such, Arcade finds it difficult to understand how the Independent Expert justifies using a range of 6.5x to 7.5x in its valuation. Furthermore, Arcade considers that the Independent Expert should have provided Godfreys Shareholders with the relevant valuation of Godfrey Shares had it used a capitalisation assumption in line with the data points highlighted above.

If the Independent Expert had used a base capitalisation multiple of anything lower than **5.0x** (all other assumptions remaining unchanged, including the Independent Expert’s \$5.0m FME assumption), **Godfreys would have a nil equity value**. Arcade notes that the data points highlighted above are all below **5.0x**.

Further Information

For further information, you may call the Arcade Offer Terms Information Line on:

**1300 362 398 (from within Australia) or
+612 8355 1004 (from outside Australia)**

from Monday to Friday between 9.00am and 5.00pm (Sydney time).

Approval of Second Supplementary Bidder’s Statement

The copy of this Second Supplementary Bidder’s Statement that is to be lodged with ASIC has been approved by a resolution passed by the Directors of Arcade on 16 May 2018.

Signed by Grant Hancock, Director of Arcade, in accordance with section 351 of the Corporations Act.



**Director
Arcade Finance Pty Ltd**

Annexure A

ARCADE FINANCE PTY LTD

A.B.N. 66 149 252 719

as trustee for

Johnston Investment Trust

A.B.N. 42 298 843 649

Notice of Variation of Offer – section 650D & 650F of the Corporations Act

TO: AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (**ASIC**)

GODFREYS GROUP LIMITED (ACN 602 722 985) (**GODFREYS**)

ASX LIMITED

EACH PERSON TO WHOM OFFERS WERE MADE UNDER THE BIDDER'S STATEMENT DATED 24 APRIL 2018 TO ACQUIRE SHARES IN GODFREYS

17 May 2018

Notice Increasing Arcade's Offer Price –Bidder's Statement

Arcade Finance Pty Ltd (**Arcade**) gives notice that its Offer contained in the Bidder's Statement dated 24 April 2018, as varied or supplemented (**Bidder's Statement**), relating to its off-market takeover bid for all of the shares in Godfreys is varied by increasing the consideration from \$0.32 per share to \$0.335 per share (**Offer Price**).

Notice Varying Arcade's Payment Terms

Arcade gives notice that the payment terms of its Offer contained in the Bidder's Statement are varied by varying the date by which the consideration will be paid.

Clause 5.2 of the Terms of the Offer (as set out in Schedule 1 of the Bidder's Statement) is deleted, and clause 5.1 substituted with the following:

"5.1 Subject to clause 5.3 of this Schedule 1, you will be paid the consideration you are entitled to within seven days of the later of:

5.1.1 the date you accept the Offer; and

5.1.2 the date the Offer becomes unconditional."

All other references to the date for payment are amended to reflect this variation.

Notice Extending the Offer Period

Arcade has extended the Offer Period by two weeks. Arcade's conditional Offer now closes **at 6:30pm** (Adelaide time) **on Thursday, 7 June 2018**.

In accordance with sections 650D and 630 of the Corporations Act, Arcade gives notice that the date for giving notice of the status of the Defeating Conditions pursuant to section 630(3) of the Corporations Act has been postponed by the operation of section 630(2). The new date for giving notice of the status of the Minimum Acceptance Condition is Thursday 31 May 2018, subject to variation in accordance with section 630(2) of the Corporations Act.

Notice Freeing the Offer of Defeating Conditions other than the Minimum Acceptance Condition

In accordance with section 650F of the Corporations Act, Arcade gives notice that its Offer is free of all Defeating Conditions set out in Schedule 2 of the Bidder's Statement, except for Condition 1 (minimum acceptance) (**Minimum Acceptance Condition**).

The current voting power of Arcade as at 4:00 pm (Perth time) on 16 May 2018, is 37.6% (comprising 15,392,096 shares out of a total of 40,922,585 Godfreys Shares currently on issue.)

Yours faithfully



Grant Hancock
Director
Arcade Finance Pty Ltd

A copy of this notice was lodged with ASIC on 17 May 2018.

ASIC takes no responsibility for the contents of this notice.