



14 April 2021

## **Candy Club successfully raises A\$20.54 million via private placement and debt funding facility**

### **Key highlights:**

- Successful completion of institutional placement, from the issue of 48.6 million fully paid ordinary shares at \$0.22 per share to raise approximately A\$10.7 million before costs
- In addition to the Placement, CLB's wholly owned US subsidiary, Candy Club Holdings Inc., has secured US\$7.5 million (A\$9.84\* million) in debt funding from Venture Lending & Leasing IX Inc, which is a part of a leading Silicon Valley equity/debt venture firm, Western Technology Investment (WTI)
- The debt funding includes a Warrant proposed to be issued to WTI or nominee entity (subject to shareholder approval), to purchase up to AUD\$1,959,990 worth of CLB shares at A\$0.237 per share (or at a subsequent CLB capital raising price which may be lower than A\$0.237),
- If the Warrant is not approved by CLB shareholders and issued to WTI then CLB shall be required to pay a break fee estimated at USD\$2.1m (assuming full US\$7.5m is advanced under the debt facility)
- The Placement was strongly supported by new and existing investors
- Capital raised to be invested in considerably scaling the business

**Melbourne, Australia** – Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") has completed a A\$10.7 million placement to institutional and sophisticated investors at an issue price of \$0.22 per share ("**Placement**").

The total placement of A\$10.7 million includes participation from Candy Club directors – Mr James Baillieu and Mr Kan Tang – of A\$3.0 million collectively to be issued subject to shareholder approval for the purposes of ASX Listing Rule 10.11. These 13.6 million shares will be issued to Mr James Baillieu and Mr Kan Tang for cash consideration raising \$3.0 million (subject to shareholder approval).

Candy Club received strong demand from a large group of new and existing institutional and sophisticated investors.

In addition, Candy Club has secured US\$7.5 million debt funding from Venture Lending & Leasing IX Inc, which is a part of WTI, a top tier US Venture Capital firm.

James Baillieu, Chairman of Candy Club states: *"By bundling the WTI debt deal with the Placement, we substantially reduced the amount of shareholder dilution to reach our new capital target, as well as raising from institutions and sophisticated investors a large amount of equity successfully at only a small discount to market price."*

### **About the Placement**

The Company will issue 48.6 million fully paid ordinary Candy Club shares pursuant to the Placement. 13.6 million shares collectively will be issued to Company Directors Mr James Baillieu and Mr Kan Tang subject to shareholder approval at the Company's AGM, while the balance of 35 million shares will be issued to institutional and sophisticated investors without prior shareholder approval utilising part of the Company's placement capacity under Listing Rules 7.1 and 7.1A (see Table 1).

The issue price of \$0.22 per share represents a 4.3 per cent discount to the previous closing price (23 cents) on 1 April 2021 and an 8.3% discount to the 15-day Volume Weighted Average Price ("VWAP") of 24 cents.

The funds raised under the Placement will be used for:

- Acquisition of Inventory - \$4.4m
- Customer Acquisition Lead Generation campaigns - \$1m
- CAPEX - \$500k
- Increased Sales Staff - \$500k
- General Working Capital - \$3.8m
- Costs of the offer - \$500k

**Table 1: Summary of Share Placement**

ASX Listing Rule	Placement Capacity	Shares to be Placed
LR 7.1	41,014,800	4,184,257
LR 7.1A	30,815,742	30,815,742
LR 10.11	-	13,636,365
<b>Total</b>	<b>71,830,542</b>	<b>48,636,364</b>

The issue of 35 million shares to non-related party participants under the Placement is expected to occur on or around 16 April 2021.

#### **Debt Facility**

In addition, Candy Club has secured a new debt facility from WTI, a leading US Venture firm. The deal provides for a US\$7.5 million facility in two tranches ("**Debt Capital**") at an interest rate of 12% per annum, with such debt provided on more favorable terms than Candy Club's existing debt lender.

The Company's existing facility with Crossroads Financial LLC ("**Crossroads**") is a secured loan facility for a maximum of US\$2 million based on inventory value, which the Company is currently eligible to drawdown US\$1.7 million and interest is charged at a rate of 19% per annum paid monthly. The Crossroads facility enables the Company to borrow against inventory, based on certain percentages for candy and finished products (not packaging), amounting to approximately 45% of inventory value, and which therefore currently equates to US\$1.7m.

The Company evaluated multiple term sheets received from other potential third party lenders and concluded that the WTI proposal was better terms for the Company than its existing debt facility with Crossroads and the other third party proposals, having regard to key factors such as the applicable interest rate and line size for the facility. The Company also determined that obtaining the WTI debt facility was more advantageous than raising further equity capital given the further dilution that further equity capital would cause to existing CLB shareholders. The structure of the Crossroads facility was limited to inventory value as noted above, and does not allow for funding against inventory in transit which provided constraints on cash flow. The WTI facility does not have such restrictions and limitations which is a further reason it was considered preferable to the Crossroads facility.

New Debt Capital being raised will allow Candy Club to accelerate its growth further by allowing for the investing in hiring of additional staff, marketing campaigns, the acquisition of inventory and the increase in its working capital facilities.

The WTI facility will also be used to payout the Crossroads facility which is approximately US\$1.75m. of which US\$80,000 relates to an early termination fee. There are no other default payments / penalties payable in relation to the Crossroads facility. Therefore, from the initial US\$5 million drawdown on the WTI facility, Candy Club will receive US\$3.16m after paying out the Crossroads facility and payment of WTI legal fees and other facility establishment fees.

With the Equity Capital and Debt Capital, Candy Club will secure approximately A\$20.54\* million before costs and repayment of the Crossroads facility, providing the working capital required to considerably scale the business' annual revenue run-rate. The amount that will be available for working capital and intended use of proceeds towards business activities after such payments will be up to approximately A\$17.6m.

*Keith Cohn, CEO of Candy Club said: "WTI has a strong reputation in the market for providing founder friendly debt capital and has done US\$6 billion worth of deals over 40 years, The Candy Club Board is thrilled that WTI has decided to partner with us in our next stage of growth in the US market."*

Summary terms of the Debt Offer	
Overview	<p>A commitment of US\$7.5 million in two tranches by Western Technology Investment.</p> <p>First drawdown is for US\$5 million, available immediately and the second drawdown is for US\$2.5 million, available if the business meets key performance indicators by August / September 2021, these key performance indicators include reaching agreed B2B revenue projections and not exceeding agreed operating expenditure. The Company considers it is currently on track to exceed the agreed B2B revenue projection and to not exceed the agreed operating expenditure. The Company are under no obligation to drawdown the second tranche.</p>
Use of funds	General purposes, unrestricted
Ranking and Security	This debt will rank as first priority lien and be secured by all of CLB's assets
Interest rate	12% per annum paid monthly
Term	42 months (12 months IO and 30 months P&I)
Other details	
Proposed Warrant	<p>As part of the debt facility, it is proposed that WTI be granted a Warrant to purchase up to AUD\$1,959,990 worth of either (i) CLB ordinary shares or (ii) CLB ordinary shares in a subsequent financing round undertaken by CLB.</p> <p>Proposed terms of the Warrant include:</p> <ul style="list-style-type: none"> <li>• Exercise price A\$0.237 per share, or at subsequent round prices if exercised at that time.</li> <li>• Value of Warrant exercisable into CLB ordinary shares shall vest 50% upon closing and 50% ratably on draws made under the debt facility</li> <li>• Expiry date 31 October 2026.</li> </ul> <p>CLB considered it appropriate to agree to the issue of the Warrant to WTI as part of the debt facility. CLB evaluated multiple term sheets from other third party lenders and considers the WTI debt facility to be on more favourable overall terms to CLB (including interest rate and line facility size) than that offered by such other third parties. CLB is growing its business at a fast rate, and in such circumstances, line facility size to enable cash for growth was an important consideration for CLB.</p> <p>CLB considers the terms of the Warrant to be fair and commensurate to the lender risk and security profile taken by WTI in connection with the debt facility. CLB is currently loss making, and given the nature of its business operations has limited hard assets to provide for security (other than inventory). In light of this, WTI is taking equity-like risk under the debt facility and it was therefore considered reasonable for WTI to be granted equity compensation in the form of the Warrant.</p> <p>The stated exercise price of the Warrant at \$A0.237 per share is an 8% premium to the Placement offer price of A\$0.22 per share. This is not a significant premium to the Placement price and recent CLB trading price,</p>

	<p>however was considered fair by the parties having regard also to the quantum of the Warrant value available for exercise. It has been agreed with WTI that if future subsequent capital raising rounds are undertaken at a lower price than A\$0.237 per share then WTI could exercise the Warrant at such lower price so that they can exercise at prevailing market pricing at the relevant time. These terms were reached by commercial arms' length negotiation between the CLB and WTI.</p> <p>Based on the full drawdown of US\$7.5m on the debt facility and exercise price of A\$0.237, the number of CLB shares issuable on exercise of the Warrant would be 8,270,000.</p> <p>In the event that the Warrant is exercisable into a subsequent round of financing, the Warrant could be exercisable at a lower price per share as based on the issue price for the subsequent round. For example:</p> <ul style="list-style-type: none"> <li>• if the subsequent round was priced at \$A0.20 per share, then the Warrant could be exercisable into 9,799,950 CLB shares</li> <li>• if the subsequent round was priced at \$A0.15 per share, then the Warrant could be exercisable into 13,066,600 CLB shares</li> </ul> <p>The current estimated value of the proposed Warrant is A\$1,385,274, comprising:</p> <ul style="list-style-type: none"> <li>• Value of Warrant based on initial US\$5m drawdown is A\$1,154,349</li> <li>• Value of Warrant based on full US\$7.5m drawdown is A\$1,385,275 (comprising additional value of A\$230,925 from the further US\$2.5m drawdown)</li> </ul> <p>This estimated value of the Warrant is calculated based on a Black Scholes valuation methodology.</p>
Other terms	<p>"Late charge fee" of 5% of the instalment due is payable by the Company if it is late in making any payment by more than 5 days</p> <p>If Keith Cohn ceases for any reason to serve actively as Chief Executive Officer of the Borrower ("Key Man Event") then the Borrower must deposit US\$1m into an escrow account controlled by WTI. If the Borrower fails to pay the US\$1m into the escrow account within 30 days of such Key Man Event, then that will constitute an Event of Default under the terms of the debt facility.</p> <p><b><i>Right to Purchase Securities in Future Financings</i></b></p> <p>Under the terms of the Warrant, in connection with a future equity or convertible debt securities offer by the Company, WTI shall have the right to invest up to a greater of (a) A\$1,306,660 and (b) such amount of cash as required to enable WTI to acquire such equity or convertible debt securities to hold the same percentage of securities of the Company as WTI held prior to the commencement of such new offer.</p> <p><b><i>Break Fee</i></b></p> <p>If shareholder approvals for the grant of the Warrant are not obtained by 31 August 2021, WTI shall be entitled to a cash fee in lieu of the Warrant up to an estimated amount of US\$2.1m (assuming full US\$7.5m advanced). In the event that only the first tranche of US\$5m is drawn down on the facility, the break fee is estimated at US\$1.75m. The break fee has been negotiated on arms' length commercial terms with WTI. The Company considers that the break fee is appropriate and acceptable as it provides compensation to WTI in the event that the Company's shareholders do not approve the issue of the Warrant.</p>

	<p>In its financial statements, the Company will recognise a finance cost for the value of Warrant as an expense. Should the Warrant not be granted by the time of finalising its next financial statements, a contingent liability would be disclosed for the value of the break fee.</p> <p><b>Success Bonus</b></p> <p>WTI can exchange the Warrant for a Success Bonus of US\$2m upon CLB undergoing a Change of Control event or on expiry of 30 June 2026 if Warrant not exercised by that time. This date is 3 months prior to the debt facility expiry date, as a compromise reached with WTI on the basis that the debt facility is being entered now but the grant of the Warrant shall be delayed pending required CLB shareholder approvals being obtained by 31 August 2021.</p> <p>CLB considers the Success Bonus acceptable and appropriate in the circumstances, having regard to WTI being a leading US Venture Capital firm that provides working capital loans for borrowers that do not qualify for traditional debt facilities. The Company understands that a success bonus fee payment structured in this manner is standard for WTI's debt funding deals for other early stage and emerging companies.</p> <p>The Success Bonus will be disclosed as a contingent liability in the disclosures forming part of the Company's financial statements.</p>
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The issue of warrants pursuant to the debt facility are subject to execution of Warrant documents by the parties and Candy Club obtaining any shareholder approvals required for the grant of the Warrant.

Bell Potter acted as Lead Manager to the Placement.

This announcement has been approved for release by the Company's Board of Directors.

\* Assuming USD/AUD = \$1.31

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## **About Candy Club**

Candy Club Holdings Limited (Candy Club) is a leading specialty market confectionery company which operates a business-to-business (B2B) and business-to-customer (B2C) segment in the United States of America.

Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

Founded in 2015 by serial entrepreneur Keith Cohn, Candy Club executes an omnichannel strategy with a vision to become the world's leading specialty market confectionery company.

Candy Club is headquartered in Los Angeles, California, United States.