

Universal Store

ASX ANNOUNCEMENT

UNIVERSAL STORE EXPANDS BRAND PORTFOLIO AND RETAIL BUSINESS THROUGH ACQUISITION OF THRILLS

Brisbane, 26 September 2022

Universal Store Holdings Limited (ASX:UNI, “Universal Store” or the “Company”) is pleased to announce it has entered into a binding agreement to acquire 100% of Cheap THRILLS Cycles Pty Limited (“CTC”, trading as “THRILLS”), a designer, wholesaler and retailer of casual youth fashion apparel.

Highlights

- Acquisition of 100% of CTC (trading as THRILLS)
- \$50.0 million Enterprise Value¹, representing 6.8x FY22 underlying EBIT²
- Consideration consists of a mix of cash, shares and deferred variable consideration
- CTC generated FY22 sales of \$34.6 million and FY22 underlying EBIT² of \$7.3 million
- Highly EPS accretive, with proforma FY22 EPS accretion of circa 18%³
- CTC is an attractive business with strong track record of growth
- CTC brings best-in-class brand and product development expertise and exciting prospects for future expansion
- Investor briefing to be held at 11am AEST today, 26th September 2022. [Click to register](#)

Alice Barbery, Universal Store’s CEO and Managing Director said:

“I am delighted to cement our partnership with the three founders of THRILLS. In THRILLS, Brooke, Tabitha and Ryan have built an iconic youth fashion brand and have a proven capability to deliver products our customers love. THRILLS is currently the highest selling 3rd party brand in our Universal Store business and has been a consistent and growing part of our product offer for over 8 years. We are excited by the opportunities a closer partnership can deliver in both product and brand development as well as further expansion of THRILLS direct-to-consumer channel.”

Acquisition overview

Universal Store has agreed to acquire 100% of CTC for an initial notional Enterprise Value¹ of \$50.0 million (on a debt free/cash free basis), representing 6.8x FY22 underlying EBIT². Completion of the transaction is subject to the satisfaction of certain conditions precedent.

¹ The final EV paid will depend on the ultimate amount of deferred and variable consideration payable to the vendors across FY23, FY24 and FY25

² EBIT includes normalisations and proforma adjustments, is based on CTC’s unaudited accounts and is presented on a pre-AASB16 basis

³ Assumes Deferred Variable Consideration payments (estimated \$15.0-25.0m) are funded from cash reserves. Assumes transaction completed on 1 July 2021

Consideration will consist of \$17.5 million in cash, \$17.5 million in UNI shares and a notional amount of \$15.0 million in deferred variable consideration (“Deferred Variable Consideration” or “DVC”). The quantum of DVC ultimately paid is subject to the future financial performance of CTC.

The initial cash consideration and acquisition costs⁴ will be funded from existing cash reserves of Universal Store.

The equity consideration will be funded through the issuance of 3.5m UNI shares (“Consideration Shares”) to the CTC vendors at an implied price of \$4.96 per share⁵. 50% of the Consideration Shares will be escrowed until the release of Universal Store’s FY24 results and the remaining 50% are escrowed until the release of Universal Store’s FY25 results⁶.

The Deferred Variable Consideration is payable in three tranches (each calculated as 10% of adjusted notional value) and will be based on CTC’s EBIT result in each of FY23, FY24 and FY25. The adjusted notional value determined by a pre-agreed multiple matrix⁷. Total Deferred Variable Consideration payments are estimated at \$15.0-25.0m and are expected to be funded from cash reserves. The Company has also secured a \$10.0 million increase in its ANZ debt facilities to provide further capital flexibility.

For illustrative purposes, the acquisition of CTC would have delivered proforma FY22 EPS accretion for UNI of circa 18%³ if the transaction had completed on 1 July 2021.

The transaction is expected to complete in Q4 2022 subject to the satisfaction of certain conditions precedent.

Strategic rationale

CTC is an attractive business with a strong track record of growth and exciting prospects for future expansion. The ‘THRILLS’ brand is the largest and best known brand⁸ in the CTC business and offers vintage and coastal inspired youth fashion apparel with broad appeal across men and women. Its’ brand attributes and design ethos give THRILLS scope to be an enduring Australian fashion brand. CTC also owns various emerging brands at different stages of development. CTC management is proving a capacity to identify market gaps and unmet demand and design and deliver unique and high-quality products and brands to meet these needs, complementing Universal Store’s customer-led strategy.

CTC will continue to operate as a standalone business and will maintain its focus on delivering outstanding service to its customers and retail partners. These retail partnerships are expected to facilitate further range expansion and continued refinement in the product development process. CTC’s emerging brands present an exciting incremental opportunity for further growth for Universal Store.

CTC has developed best-in-class brand management and product development expertise and has deep relationships with Universal Store and other third-party retail accounts in Australia, New Zealand and the USA. CTC has a fast-growing retail channel (currently 8 stores, and 2 further stores committed to open by

⁴ Expected to be approximately \$2.0 million

⁵ Based on 10-day VWAP up to and including 23 September 2022

⁶ In each case subject to early release in circumstances where UNI sells CTC or all or subsequently all of CTC’s assets to a third party or where all Sellers have received their payment or the DVC

⁷ Multiple matrix is detailed on page 6 of the Investor Presentation dated 26 September 2022

⁸ THRILLS brand contributed >90% of CTC sales in FY22

end of November 2022) and an emerging online channel. With Universal Store's support, CTC expects each of these channels to continue to grow as the Company brings new ranges and brands to market.

Universal Store's experience, customer insights, and operational capability in youth fashion retailing will support the continued growth of CTC's direct-to-consumer channel and lower the associated execution risks (e.g., site selection).

Universal Store and CTC have closely aligned values and philosophies, complementary skills and a focus on delivering great products and an obsession with listening to our customers and executing consistently well. These common values shared by both sets of leaders and teams, as well as proven working relationships and processes underpin the partnership, reducing the risk of culture clash. The business relationship spans around nine years. Sales to Universal Store represent circa 26% of CTC's business, while the sale of CTC's products represents circa 9% of Universal Store FY22 sales.

CTC's founders will continue to play key leadership roles in the business and will become shareholders in Universal Store. The Company is delighted to be deepening and extending its long-term relationship with the leaders and talented team of CTC and we welcome them into our group.

Information on Cheap THRILLS

CTC was founded in 2011 in Byron Bay. It opened its first flagship store in 2014. The business today offers a curated range of vintage inspired youth fashion apparel with broad customer appeal. The business has a strong focus on sustainability having introduced hemp, ramie, linen and organic cotton fabrications in 2017.

CTC has a strong wholesale channel representing ~79% of FY22 sales, including a recently launched US wholesale business. The emerging direct-to-consumer channel includes eight physical stores (and two further stores to open by the end of November 2022) and an online channel. These channels collectively contribute ~21% of CTC's FY22 sales.

CTC generated sales of \$34.6 million and underlying EBIT of \$7.3 million in FY22¹.

Investor briefing

Universal Store will hold an investor briefing with Chief Executive Officer, Alice Barbery and Chief Financial Officer Renee Jones at 11am AEST on 26th September 2022.

Investors and interested parties can register for the briefing via the following link:

https://us02web.zoom.us/webinar/register/WN_TqdLtNSVTB6QsPzUASJ8nQ

A copy of the presentation slides to be used in the briefing have been released to the ASX this morning.

Authorised for release by the Board of Directors of Universal Store Holdings Limited.

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