

## THE FOSCHINI GROUP LIMITED

Incorporated in the Republic of South Africa

Registration number: 1937/009504/06

Ordinary share code: TFG

Preference Share code: TFGP

Ordinary Share ISIN: ZAE000148466

Preference Share ISIN: ZAE000148516

("TFG" or "the Company")

## ACQUISITION OF AUSTRALIAN SPECIALITY MENSWEAR APPAREL RETAILER, THE RETAIL APPAREL GROUP

### 1. Introduction

Shareholders are advised that TFG Retailers Pty Ltd, a wholly-owned subsidiary of the Company and a private company incorporated in accordance with the laws of the Commonwealth of Australia, with company number ACN 612 634 312 ("TFG Australia") has entered into an agreement with the current shareholders ("Vendors") of RAG Holdco Limited trading as Retail Apparel Group ("RAG") in terms of which, amongst other things, TFG Australia will acquire the entire issued ordinary and preference share capital of RAG from the Vendors ("Acquisition"). The Vendors are private equity group Navis Capital, Stephen Leibowitz (the founder of RAG) and certain members of management, who have entered into new employment agreements with TFG Australia and will remain as the management of RAG following implementation of the Acquisition.

### 2. Overview of RAG

RAG was established in 1987 and has since grown to become a leading speciality menswear apparel retailer in Australia. RAG houses a balanced portfolio of core and emerging retail apparel brands, and has established itself as a menswear player in the mid to value, fashion conscious speciality store segment in its local market. In addition, RAG has a small but growing women's athleisurewear retail offering (Rockwear).

RAG's retail portfolio spans five speciality apparel brands:

Brand name	Fashion focus	Price point	Store footprint
Tarocash	Leading, on-trend menswear brand	Mid-market	114
yd.	Leading, fashionable, younger menswear brand	Mid-market	98
Connor	Fast growing, on-trend menswear brand	Value	137
Johnny Bigg	On-trend big and tall menswear brand	Mid-market	26
Rockwear	Differentiated, on-trend women's athleisurewear	Value	25
		<b>Total</b>	<b>400</b>

RAG's core menswear brands, Tarocash and yd., are long established and leading brands in the Australian menswear market, while Connor is one of the fastest growing menswear brands in Australia. Johnny Bigg has been proven as a unique offering in the market, and is in the process

of a focused store roll-out. Rockwear's on-trend women's athletic apparel appeals to a broad range of consumers and is well positioned for further store roll-out. RAG's brands are uniquely positioned across diversified product categories, generating a resilient and growing earnings stream.

Through its customer centred approach, RAG has grown its national footprint to a network of 400 stores, strategically positioned throughout Australasia to capture its target market. 80% of RAG's stores are located in shopping centres, with the remainder in city centres, neighbourhood centres and factory outlets.

Further detail regarding RAG and its brands can be found on its website, <http://rag.net.au>.

### **3. Rationale for the Acquisition**

RAG has achieved consistent growth in sales and profitability within the Australian market, through:

- an experienced and proven management team;
- a differentiated low risk product strategy;
- excellent sourcing and distribution, whereby RAG ensures that products are manufactured in a cost-optimal location through its strong supplier network;
- centralised stock and IT infrastructure; and
- digital marketing and online channels.

TFG believes that the product and value offerings of RAG are well aligned with the current brand and value offering of TFG. In conjunction with TFG's recent value enhancing acquisitions of Phase Eight and Whistles, the Acquisition will further diversify its international expansion into its chosen geographies. RAG's strong store and online platform is expected to catalyse the expansion of TFG's brands into Australia.

The Acquisition satisfies the four specific requirements of TFG's stated expansion strategy:

- A strong financial track record – strong historical revenue and earnings before interest, tax, depreciation and amortisation ("EBITDA") growth;
- Established footprint in the target market and well positioned to take advantage of future opportunities;
- An experienced, motivated and self-sufficient management team; and
- Exciting growth prospects in the target market and the opportunity to further expand in strategic international markets.

In addition, RAG has the following attractive attributes for the Company:

- Impressive track record of growing sales at a faster rate than the retail sector as a whole (14.3% compound average revenue growth over the past 3 years and 10.7% compound average EBITDA growth over the past 3 years) while successfully increasing its market share;
- Scalable business model with scope for further market share growth;
- Strong earnings enhancement is anticipated from continued roll-outs and optimisation of its operating brands;
- Enhances the geographic diversification of the Company outside of South Africa, providing a further earnings and currency hedge, and entrenches its position in Australia;
- Expands the Company's outlet footprint from 3 328 to 3 728 (as at March 2017); and
- Alignment with the Company's multi-brand business model with a focus on menswear and athleisure.

#### **4. Acquisition consideration**

All figures in this announcement are calculated using an illustrative ZAR:AUD exchange rate of R10.00.

The Acquisition consideration ("Consideration") is capped at the lower of 7 (seven) times RAG's audited normalised EBITDA for the year ending June 2017 and AUD302,5 million (ZAR3 025 million) and is calculated on a "debt free cash free" basis and with reference to an agreed level of working capital ("Target Working Capital").

The Consideration will be settled in cash and is payable on the later of:

- 26 June 2017; and
- the date which is the latest to occur of:
  - the first day of the month following the month in which all conditions precedent have been fulfilled or waived; and
  - the date which is the seventh Business Day after all conditions precedent have been fulfilled or waived,

("Consideration Payment Date").

On the Consideration Payment Date 95% of the Consideration shall be payable to the Vendors, adjusted for estimated net debt and for the difference between the estimated actual working capital, and the Target Working Capital, as at the effective date ("Adjustment Amounts"). The remaining c.5% of the Consideration shall be transferred on the Consideration Payment Date into an escrow account ("the Escrow Funds").

Following the finalisation of RAG's audited financial statements for the year ending June 2017 and the actual Adjustment Amounts, the proportions in which each of TFG Australia and the Vendors become entitled to the Escrow Funds will be determined.

TFG will utilise a combination of its own funds as well as a short-term bridge facility ("Bridge Facility") provided by Rand Merchant Bank, a division of FirstRand Bank Ltd ("RMB"), which will be refinanced with longer term funding at an appropriate time, to provide TFG Australia with the required funding to enable it to pay the Consideration due in terms of the Acquisition. The Company intends to retain the flexibility to potentially issue new ordinary shares to refinance all or part of the Bridge Facility, whether by way of a vendor consideration placing or otherwise. The expected purchase price has been hedged.

#### **5. Net assets acquired and profits attributable to those assets**

The net assets of RAG as at 31 December 2016 (being the date of the most recent reviewed interim financial statements) were AUD146.2 million (ZAR1 462 million). RAG anticipates reporting EBITDA of AUD43.2 million (ZAR432 million) for the year ending June 2017.

Additional financial information relating to the historic performance of RAG is included in the presentation referred to in paragraph 10 below.

TFG is expected to consolidate approximately 8 months of RAG's trading performance in its 31 March 2018 results, assuming an effective date of 1 August 2017. The inclusion of RAG's trading results (excluding acquisition costs) is expected to have a positive impact on TFG's earnings for the 2018 financial year and the Acquisition is expected to be earnings accretive in the first year of inclusion. This statement is based on management forecasts which have not been audited by TFG's auditors and is provided for information only. Similarly, any forecast financial information contained in this announcement has not been reviewed or reported on by the Company's auditors.

## **6. Conditions precedent**

The Acquisition is subject to the fulfilment or waiver where capable of waiver, of the following conditions precedent, by no later than 29 September 2017:

- South African Reserve Bank approval;
- Australian Foreign Investment Review Board approval; and
- Certain of RAG's lessors providing consent to the change in ownership of RAG.

## **7. Retention of RAG key management**

Key RAG management have entered into new employment contracts with TFG Australia, which will provide for operational continuity post-closing.

## **8. Effective date**

The effective date of the Acquisition will be the end date of the retail month in which the last condition precedent is satisfied or waived.

## **9. RAG memorandum of incorporation**

On implementation of the Acquisition, RAG will become a wholly owned subsidiary of TFG Australia, which is a wholly owned subsidiary of TFG, and the Company confirms that:

- the provisions of RAG's incorporation documents do not frustrate TFG in any way from compliance with its obligations in terms of the Listings Requirements of the JSE Limited ("Listings Requirements"); and
- nothing in RAG's incorporation documents shall relieve TFG from compliance with the Listings Requirements.

## **10. Acquisition presentation**

Shareholders are referred to the Acquisition presentation, which forms part of the March 2017 results presentation, on the TFG website ([www.tfglimited.co.za](http://www.tfglimited.co.za)) which will be available later today.

## **11. JSE categorisation**

The Acquisition constitutes a Category 2 transaction in terms of paragraph 9.5(a) of the Listings Requirements and accordingly no shareholder approval is required.

Cape Town  
25 May 2017

**Sole financial advisor and transaction sponsor to TFG**  
Rand Merchant Bank (A division of FirstRand Bank Limited)

**Legal advisors to TFG**  
Herbert Smith Freehills  
ENS Africa

**Sponsor to TFG**  
UBS South Africa (Proprietary) Limited