

The Foschini Group Limited
Incorporated in the Republic of South Africa
Registration Number: 1937/009504/06
Ordinary share code: TFG
ISIN: ZAE000148466
Preference share code: TFGP
ISIN: ZAE000148516
(“TFG” or “the Company”)

ACQUISITION OF TAPESTRY HOME BRANDS PROPRIETARY LIMITED BY TFG

1. INTRODUCTION

TFG is pleased to advise its shareholders that on 4 March 2022, the Company entered into a sale and purchase agreement (“SPA”) to acquire the entire issued share capital of Tapestry Home Brands Proprietary Limited (“Tapestry”) (“Sale Shares”) for a purchase consideration, as further set out in paragraph 4, of R2.35 billion (“Transaction”). TFG is acquiring the Sale Shares from Westbrooke Investments Proprietary Limited, funds managed by Actis, as well as the current and previous management of Tapestry (collectively, “the Sellers”).

2. DESCRIPTION OF TAPESTRY

Established in 2005, Tapestry is a prominent direct-to-consumer, vertically integrated designer, manufacturer and omnichannel cash retailer of home furnishings serving consumers’ living and sleeping needs, targeting the middle to upper LSM markets. The Tapestry brands include popular made-to-order furniture retailer, Coricraft; South Africa’s renowned branded bedding retailer Dial-a-bed; home textile retailer, Volpes; and value bedding retailer, The Bed Store. The Tapestry brands are well positioned for growth in the medium to long term. Tapestry’s own, locally manufactured product accounts for c.47% of net sales, employing a total of approximately 2 500 people, with manufacturing facilities located in Cape Town, Johannesburg and Gqeberha. Tapestry operates c.175 stores across South Africa, Namibia and Botswana. The three business segments, namely living, linen and bedding, are run on a decentralised basis by a strong management team.

3. RATIONALE FOR TRANSACTION

The Transaction will provide TFG with exposure to new products and categories as well as new customers that will complement the current TFG customer base in existing categories. Furthermore, Tapestry’s unique business model, with easily scalable local manufacturing and distribution capabilities, is an excellent strategic fit for TFG. The Transaction is in line with TFG’s stated strategy of vertical integration in key product categories, and the continued development of its quick response local manufacturing capability. Opportunities exist to further leverage the strength of the manufacturing and sourcing capabilities of both businesses and to continue developing local procurement in a segment dominated by imported goods.

Acquiring this highly cash generative business presents significant revenue opportunities within the TFG ecosystem. In addition, TFG’s retail credit offering and its digital and omnichannel capabilities are expected to substantially enhance Tapestry’s growth and digital transformation efforts.

The acquisition of Tapestry will augment TFG's current @home operation which offers premium home textiles, kitchenware, décor and furniture in the middle to upper segments, and provides further opportunities for Jet Home, which offers value fashionable homeware. Following the acquisition, TFG will have nine home consumer brands (@home, @homelivingspace, Jet Home, Coricraft, Volpes, Dial-a-Bed, The Bed Store, Granny Goose and Biggie Best), and four vertically integrated factories (mattresses, upholstered furniture, household textiles, duvets and pillows). This acquisition will offer TFG an expanded distribution network and its own last-mile furniture delivery and assembly service.

4. KEY TERMS OF THE TRANSACTION

The cash purchase consideration of R2.35 billion ("**Purchase Consideration**") is structured on a debt-free, cash-free basis and payable at the time of implementation of the Transaction ("**Closing Date**"), subject to:

- 4.1 a normalised level of working capital being retained in the business;
- 4.2 normalised earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of R360.9 million ("**Target EBITDA**") being achieved for the financial year ended 28 February 2022. To the extent that the audited normalised EBITDA for such period ("**Achieved EBITDA**") is less than R342 million (being c.95% of the Target EBITDA), the Purchase Consideration will be adjusted downwards at the transaction enterprise value / EBITDA multiple of 6.51 multiplied by the difference between R342 million and the Achieved EBITDA;
- 4.3 an escalation rate based on the South African prime lending rate commencing from the date which falls on the last day of the calendar month preceding the date of which the last of the conditions precedent are fulfilled or waived, as the case may be ("**Locked-Box Date**"), until the Closing Date; and
- 4.4 a portion of the Purchase Consideration being retained for the Sellers who are also executive management and which retention amounts will be paid on the first and second anniversary of the Closing Date, subject to remaining in the employ of TFG.

The Transaction is subject to warranties and indemnities consistent with transactions of this nature. The Transaction will become effective following the settlement of the Purchase Consideration.

5. CONDITIONS PRECEDENT

The Transaction is subject to the fulfilment of the following conditions precedent, by no later than seven months following the date of signature of the SPA:

- 5.1 approval being obtained from the relevant competition authorities and the Takeover Regulation Panel (as defined in the Companies Act No. 71 of 2008);
- 5.2 lessors in respect of lease agreements which relate to stores that contribute at least 80% of the total revenue of Tapestry ("**Lease Threshold**") having consented to the change of control which will result pursuant to the Transaction and/or waived their rights to terminate the lease agreements pursuant to the change of control; and

5.3 lessors in respect of lease agreements relating to a number of key stores having consented to the change of control which will result pursuant to the Transaction and/or waived their rights to terminate the lease agreements pursuant to the change of control.

6. FINANCIAL INFORMATION

The value of the net assets of Tapestry was R115 million at 28 February 2021, being the date of the last audited annual financial statements, which were prepared in terms of International Financial Reporting Standards for Small Medium and Micro Enterprises. For the 11 months ended 31 January 2022, the value of the net assets of Tapestry, based on unaudited management accounts provided by the Sellers, was R209 million.

The EBITDA as per the unaudited management accounts and audited profits after tax attributable to the net assets (“**PAT**”) for the year ended 28 February 2021, were R264 million (including a Covid-19 related insurance claim of R86m) and R34 million respectively. Tapestry’s financial performance for the year ended 28 February 2021 was impacted by the Covid-19 pandemic. For the 11 months to 31 January 2022, per the unaudited management accounts of Tapestry, there has been a strong financial recovery with Tapestry reporting EBITDA and PAT of R329 million and R175 million, respectively.

TFG is satisfied with the quality of the management accounts of Tapestry provided by the Sellers, nonetheless TFG shareholders are cautioned that these management accounts are unaudited.

7. CLASSIFICATION OF THE TRANSACTION

The Transaction constitutes a category 2 transaction in terms of the JSE Limited Listings Requirements (“**Listings Requirements**”) and no related parties are involved in the Transaction. The escalation rate referred to in paragraph 0 is limited by the time period set out in paragraph 5 and accordingly will not impact the categorisation of the Transaction.

8. OTHER

The Company confirms, for purposes of paragraph 9.16 of the Listings Requirements, that nothing in the constitutional documents of TFG and/or Tapestry, will, in any way, frustrate or relieve the Company from compliance with the Listings Requirements.

Enquiries: TFG Investor Relations

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Cape Town

7 March 2022

Financial Advisor, Sponsor and Corporate Broker to TFG: Rand Merchant Bank (a division of FirstRand Bank Limited)

Legal Advisor to TFG: ENSafrica

Financial Advisor to the Sellers: Investec Bank Limited

Legal Advisor to the Sellers: White & Case LLP