Grafenia plc

Issue of Equity and Change of Adviser

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Grafenia plc
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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Grafenia plc

("Grafenia", the "Group" or "Company")

Issue of equity to raise approximately £3.5 million, notice of general meeting and change of nominated adviser and broker

Grafenia (AIM:GRA), the people behind the Nettl network of neighbourhood web studios, is pleased to announce that it has conditionally raised approximately £3.5 million before expenses through a placing of 29,258,331 new ordinary shares of 1 pence each ("Placing Shares") at an issue price of 12 pence per share (the "Placing"). The Placing is conditional, inter *alia*, on the approval of Shareholders at a forthcoming general meeting ("General Meeting") of resolutions to provide authority to the directors of the Company ("Directors" or "Board") to issue and allot further new Ordinary Shares on a non-pre-emptive basis, further details of which are set out below.

Transaction highlights:

- Placing to raise approximately £3.5 million before expenses.
- Strong support from existing and new investors, as well as management.
- The net proceeds of the Placing are intended to be used to fund acquisitions as part of the Group's strategy to acquire and grow sign businesses and to open further Nettl Business Superstores.
- Whilst the Group is negotiating these acquisitions, they will utilise up to £2 million of the Net Proceeds to repay and renegotiate existing debt arrangements to achieve more favourable terms and save unnecessary interest payments. The Group plans to finance acquisitions with a prudent mix of equity and debt.
- The Placing Shares will represent approximately 38.09 per cent. of the issued share capital of the Company as enlarged by the issue of the Placing Shares.

Jan Mohr, Chairman of Grafenia plc:

"Over the last year, we've gained confidence that acquiring and integrating signage firms is a highly accretive way to deploy capital. To that end, we are pleased to announce the raising of additional capital and are looking forward to growing the firm."

Peter Gunning, CEO of Grafenia plc:

"Our first Nettl Business Superstore opens in Liverpool Waters this month. It's an important step in our growth plans and we're excited to see how businesses in Merseyside enjoy the Nettl experience. It's taken a lot of effort and talent to get here, so on behalf of the Board, I'd like to thank all our teams for working to make this happen. We're looking forward to rolling up and rolling out the Nettl brand nationally and internationally. I'd also like to thank our shareholders for their continued support during our ongoing transformation."

Change of nominated adviser and broker

The Company is pleased to announce that it has appointed Allenby Capital Limited as its nominated adviser and sole broker with immediate effect.

The Board would like to thank N+1 Singer for their good service and advice over many years.

Notice of general meeting

The Company will shortly be posting to shareholders a circular and notice of General Meeting (the "Circular") to convene the General Meeting which will be held at the offices of Gateley plc, Ship Canal House, 98 King Street, Manchester M2 4WU at 10.00am on 2 May 2018. The Circular will also shortly be available for download from the Company's website https://www.grafenia.com/

Related Party Transaction

Investmentaktiengesellschaft fuer langfristige Investoren TGV ("Langfrist") is a related party of the Company for the purposes of the AIM Rules as it holds more than 10 per cent. of the Existing Ordinary Shares, being 22.86 per cent. Langfrist will participate in the Placing in respect of 10,833,332 new Ordinary Shares and such participation represents a related party transaction pursuant to Rule 13 of the AIM Rules.

The Independent Directors having consulted with the Company's Nominated Adviser, Allenby Capital, consider that the terms of the Related Party Transaction are fair and reasonable insofar as the Shareholders are concerned.

Total Voting Rights

Upon Admission, the Company's issued share capital will consist of 76,816,166 Ordinary Shares with one voting right each. The Company does not hold any ordinary shares in treasury. Therefore, the total number of ordinary shares and voting rights in the Company will be 76,816,166. With effect from Admission, this figure may be used by Shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the share capital of the Company under the FCA's Disclosure Guidance and Transparency Rules.

Market Abuse Regulation (MAR)

MAR came into effect from 3 July 2016. Market soundings, as defined in MAR, were taken in respect of the Placing with the result that certain persons became aware of inside information, as permitted by MAR. That inside information is set out in this announcement has been disclosed as soon as possible in accordance with paragraph 7 of article 17 of MAR. Therefore, those persons that received inside information in a market sounding are no longer in possession of inside information relating to the Company and its securities.

Defined terms used in this announcement shall have the meaning ascribed to them in the Circular.

For further information:

Grafenia plc	
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Allenby Capital Limited (Nominated Adviser and broker)	
Virginia Bull / Liz Kirchner / Nicholas Chambers	0203 328 5656

About Grafenia

Grafenia creates software and systems which power the graphic arts industry. The Group licences its brands, software and technology to partners in the UK and internationally. It also sells and manufacturers products, ranging from printed business marketing to large scale signage.

The Group has multiple routes to market, including the printing.com network. Its retail-based Nettl formula is expanding. In cities, the Group operates company-owned Nettl stores. In towns and neighbourhoods, it partners with existing businesses who 'bolt-on' the Nettl formula. Nettl mostly sells a range of 'cross-media' products and services to SMEs such as websites, apps, e-commerce, print, display, signage and exhibition marketing.

The Group is acquisitive, with its largest acquisition being The Image Group in July 2017. The Image Group provides clients with merchandising, retail graphics, site branding, signage, promotional advertising and exhibition solutions. The Group's strategy is to roll-up the signs industry, to create a national network of Nettl Business Superstores.

Further information can be found at https://www.grafenia.com/

Extracts from the Circular

The following has been extracted from, and should be read in conjunction with, the Circular, which will shortly be made available for download from the Company's website: https://www.grafenia.com/reports-downloads/

Further details of the Placing

The Company has conditionally raised approximately £3.5 million before expenses by means of a Placing with certain new and existing institutional and other investors of 29,258,331Placing Shares at 12 pence per share.

The Placing is conditional, inter alia, on the passing of the Resolutions at the General Meeting and Admission becoming effective by no later than 8.00 a.m. on 3 May 2018 (or such other time and/or date, being no later than 8.00 a.m. on 18 May 2018, as the Company and Allenby Capital agree). It is expected that the Placing Shares will be admitted to trading on AIM on or around 8.00 a.m. on 3 May 2018.

The Net Proceeds are intended to be used to fund acquisitions as further described below.

Background to and reasons for the Placing

The Directors believe Grafenia remains too small to be a public company. Quite simply, the ongoing costs of being listed continues to impact significantly upon the Group's earnings. As our traditional market has become more competitive and margins have eroded over time, we have sought to reposition the business.

In 2016, the Directors began a strategic review to assess ways to improve shareholder value.

Delisting the Company from AIM was considered. However, we rejected this as it would result in a loss of liquidity in our Ordinary Shares. We believed this would not be acceptable to Shareholders and would also not enhance trading performance.

The market opportunity

In 2016, we announced our plans to acquire sign businesses. We like this sector for a number of reasons. It's complementary to our core business. It's highly fragmented. There are multiple acquisition targets. We've evaluated many sign businesses. The businesses we have acquired - and our current targets - have been stable or shown growth over the past three years.

The businesses we have evaluated so far tend to sell to SMEs, which is the same client base as Nettl studios.

Our aim is to create a national sign solution capability serving SMEs.

Our method

The first stage is to acquire a profitable business, where the owner wants to stay - we call them the "remainer".

We'll consider businesses which meet our criteria:

- stable or growing, with track record of profitability in prevailing four or five years;
- minimum annual turnover of £250,000;
- their top three clients represent no more than 30 per cent of their business;
- gross profit margins above 55 per cent;
- owner's salary expectation consistent with our Company's pay structure;
- located in a primary city target location (phase 1) or secondary location (phase 2);
- property tenure flexible (able to relocate within 24 months);
- good cultural fit (management's business ethos and circumstances i.e. must support rebranding and personal circumstances must underpin / encourage long term commitment).

We evaluate each "remainer" acquisition on its own merits as if it were to remain standalone.

Once we've acquired and integrated a "remainer" business, we look for another local business to roll-in. For these other businesses, we target owners seeking to exit - the "leaver". Our plan is to consolidate both businesses into a single team, led by the "remainer". We aim to achieve cost savings by centralising marketing, management information systems, legal support, payroll and accounting.

Our experience from the first three deals we've completed suggests we are able to acquire sign businesses at 2-5x adjusted forecast EBIT.

Our progress so far

In January 2017 we acquired ADD Signs in Liverpool. In the first full year under our ownership, sales grew by over 30 per cent and beat our profit target.

In March 2018, ADD Signs relocated from its former home to a 5,000 square foot trade-counter unit in Liverpool Waters. At the same time, we re-branded them as a Nettl Business Store. The Business Store features a design studio, retail display area, meeting room hire and drive-in vehicle bay for installation of graphics. We will manufacture signage in-store and the installation team is based there.

The next objective for this business is to roll-in a "leaver" business. We are evaluating potential targets.

In July 2017 we acquired Image Group Limited. With £5.5 million turnover, this was a much larger business than our typical roll-up target. However, it was always our aim to centralise some sign and display production. We brought these plans forward.

In the first six months under our ownership, Image Group has integrated well. We've merchandised and promoted a range of display products, manufactured by Image Group and we sell them via our Nettl and printing.com partners. The next objective for this business is to extend our product range to include installation services and to act as a signs hub for our network of Business Stores.

In December 2017, we acquired Nettl of Exeter, one of our top performing partners. The owner is seeking to retire over the coming years. Our next step is to roll-in a signs business and combine the studio team, together with a "remainer" leader.

Use of proceeds

We plan to use the proceeds of this Placing to acquire and roll-up sign businesses over the next two years, including the opening of further Nettl Business Superstores. The actual number will be determined by their profitability and scale.

In the short term, however, while the Company is seeking to identify and negotiate the acquisition of these businesses, the Company will utilise up to £2 million of the Net Proceeds to repay and renegotiate certain of its existing debt arrangements, to achieve more favourable terms and save unnecessary interest payments.

In due course, the Company plans to finance acquisitions with a prudent mix of equity and debt.

Potential Reverse Takeover(s)

As the Company reported a loss before tax for the year ended 31 March 2017 and due to the Company's market capitalisation, any acquisition in the foreseeable future might be classified as a reverse takeover pursuant to the AIM Rules. Accordingly, any such acquisition would be conditional on the consent of Shareholders and would require the publication of an admission document for the enlarged Group to seek re-admission to AIM.

Current trading and outlook

Transactional print volumes are inherently difficult to predict. As we reposition our business, we have two aims:

Firstly, to be closer to the final client. That means being at the start of the creative process. By interacting directly with clients in our Company-owned Nettl locations, rather than receiving files as a trade 'upload and print' service. And by helping our Nettl partner locations to win work locally.

Secondly, to scale our Nettl partner network in locations where we don't have Company stores. We want our partners to value what we bring versus what they pay in licence fees.

Our most recent trading statement was announced on 23 March 2018.

Details of the Placing

The Company has conditionally raised, in aggregate, approximately £3.5 million (approximately £3.44 million net of expenses) by way of a Placing of 29,258,331 Placing Shares with certain new and existing investors.

Allenby Capital has entered into the Placing Agreement with the Company under which Allenby Capital has, on the terms and subject to the conditions set out therein (including Admission), undertaken to act as settlement agent for the Placing. The Placing Agreement contains certain warranties and indemnities from the Company in favour of Allenby Capital. The Placing is not being underwritten by Allenby Capital or any other person.

The Placing is conditional, inter alia, on:

- the passing of the Resolutions at the General Meeting;

- Admission becoming effective by no later than 8.00 a.m. on 3 May 2018 (or such later time and/or date, being no later than 8.00 a.m. on 18 May 2018, as the Company and Allenby Capital may agree); and

- the Placing Agreement not being terminated prior to Admission.

Accordingly, if any of such conditions are not satisfied, or, if applicable, waived, the Placing will not proceed.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid in respect of the Ordinary Shares following Admission. It is expected that such Admission will become effective and that dealings on AIM will commence at 8.00 a.m. on 3 May 2018.

Dilution resulting from the Placing

Following the issue of the Placing Shares, Shareholders who have not participated in the Placing will suffer a dilution of 38.09 per cent. to their interests in the Company.

Directors' participation in the Placing

Directors Peter Gunning and Conrad Bona are participating in the Placing on identical terms to the other subscribers. Peter Gunning and Conrad Bona have agreed to subscribe for 175,000 and 250,000 Placing Shares, respectively, at an aggregate cost of £51,000.

Related party transaction

Langfrist is a related party of the Company for the purposes of the AIM Rules as it holds more than 10 per cent of the Existing Ordinary Shares, being 22.86 per cent. Langfrist will participate in the Placing in respect of 10,833,332 new Ordinary Shares and such participation represents a related party transaction pursuant to Rule 13 of the AIM Rules.

The Independent Directors, having consulted with the Company's Nominated Adviser, Allenby Capital, consider that the terms of the Related Party Transaction are fair and reasonable insofar as the Shareholders are concerned.

Resolutions and General Meeting

The Placing is conditional upon, inter alia, the passing of the Resolutions. A notice convening the General Meeting to be held at the offices of Gateley Plc, Ship Canal House, 98 King Street, Manchester M2 4WU at 10.00 a.m. on 2 May 2018 will be posted to shareholders later today as part of the Circular with details of the Placing. At the General Meeting, the following Resolutions will be proposed:

(a) a special resolution to:

  (i) delete article 3.1 of the Company's articles of association containing the limit on the maximum number of shares the Company may issue; and

  (ii) delete the limit on the maximum number of shares the Company may issue imposed as a result of the authorised share capital of the Company on 1 October 2009 being treated, by virtue of section 28 of the Act, as a provision of the Company's articles of association;

(b) an ordinary resolution to authorise the Directors to allot relevant securities, inter alia, for the purposes of the Placing up to an aggregate nominal amount of £292,583.31; and

(c) a special resolution to allow the Directors, subject to the limits set out in that resolution, to issue Ordinary Shares for cash otherwise than on a pre-emptive basis, which is a specific authority to allot the Placing Shares up to a nominal amount of £292,583.31.

Irrevocable undertakings

The Company has received irrevocable undertakings to vote in favour of the Resolutions from all of the Directors that hold Ordinary Shares in respect of 2,644,874 Ordinary Shares representing approximately 5.56 per cent. of the Existing Ordinary Shares.

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