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Freedom Foods Group Limited (ASX: FNP) Recapitalisation of up to \$265 million to continue turnaround

Summary

- The recapitalisation will allow Freedom Foods Group to substantially repay its bank debt, providing a flexible capital structure that better facilitates the continued financial and operational turnaround of the Company
- Total capital raising of up to \$265 million, comprising an offer of unlisted, subordinated secured convertible notes to eligible wholesale investors of up to \$130 million, with priority given to eligible existing shareholders, and a \$200 million commitment to subscribe for Notes secured from its majority shareholder, Arrovest, the investment vehicle of the Perich family¹
- Senior lenders NAB and HSBC will provide a new 2-year, \$36 million senior secured revolver facility to the Company, along with a 2-year term debt facility for up to \$50 million, depending on the total Note proceeds raised
- All shareholders (excluding Arrovest) will receive the opportunity to apply for ASX-listed options on a pro-rata basis, subject to shareholder approval, providing potential future equity participation in the Company, given not all shareholders may be eligible to participate in the Notes
- The Notes will have a 6-year maturity and, subject to shareholder approval, the Notes will be convertible into ordinary shares
- Completion of the recapitalisation is targeted for May 2021, with shareholder approvals being sought in May 2021 for certain features of the recapitalisation
- Michael Perich has been appointed permanent Chief Executive Officer and Stuart Black AM has been appointed an Independent Non-Executive Director and Chair of the Finance and Audit Committee
- The Company has requested ASX to reinstate trading in the Company's Shares, which is expected to occur with effect from the commencement of trading on Monday, 22 March 2021
- Further details regarding the Recapitalisation are set out in the Investor Presentation and Prospectus, which have been lodged with the ASX today

Freedom Foods Group Limited (**Company** or **Freedom Foods Group**) is seeking to raise up to \$265 million by way of issue of unlisted, subordinated secured convertible notes (**Notes**) and has entered into binding agreements with its majority shareholder, Arrovest Pty Ltd (**Arrovest**), and its senior lenders NAB and HSBC (**Senior Lenders**) to recapitalise the business and restructure the Company's remaining senior debt facilities (**Recapitalisation**).

¹ Subject to the Company having the ability to scale back Arrovest's investment to a minimum of \$135 million depending on the level of participation under the Wholesale Investor Offer.



The Recapitalisation will allow the Company to repay between \$183 million and \$233 million of its existing senior and subordinated debt, consistent with the requirements of the Senior Lenders, and is an important step in the operational and financial turnaround of Freedom Foods Group, which has been underway since last year.

Key terms of the Recapitalisation

Capital Raising

- The Company will seek to raise up to \$265 million by way of issue of Notes that will comprise:
 - an invitation to Eligible Investors² to participate in an offer of up to \$130 million of Notes (**Wholesale Investor Offer**) on a priority basis; and
 - a placement of up to \$200 million of Notes to Arrovest, pursuant to the terms of a Commitment Agreement, subject to the Company having the ability to scale back Arrovest's investment to a minimum of \$135 million depending on the level of participation under the Wholesale Investor Offer (**Placement**).
- Subject to the shareholder approvals being obtained, Noteholders will have a right to convert the Notes to ordinary shares on the terms set out in the Note terms. If the shareholder approvals are not obtained, Noteholders will not have a right to convert the Notes to ordinary shares, however the Notes will be capable of being 'cash-settled' by the Company on the occurrence of certain events.
- All Notes will be issued pursuant to a Prospectus that has been lodged with the Australian Securities and Investments Commission (**ASIC**) and ASX today. A detailed summary of the terms and conditions attaching to the Notes is set out in the Prospectus. Separately, the Company will seek a number of inter-conditional shareholder approvals at an Extraordinary General Meeting (**EGM**), currently scheduled for May 2021, for certain features of the Recapitalisation.
- The Capital Raising is not underwritten, however Arrovest has entered into a binding Commitment Agreement to subscribe for \$200 million of Notes (subject to scale back by the Company). The balance of \$65 million is being raised on a best-efforts basis. The Board and management consider that the minimum amount of \$200 million to be raised under the Capital Raising (comprising Arrovest's commitment) will provide sufficient funding to achieve the Company's Recapitalisation objectives of reducing its senior debt and facilitating the Company's turnaround.
- Subject to shareholder approvals being obtained at the EGM, the Company will also offer approximately 40.8 million options (**Options**) on a pro-rata basis to the Company's shareholders (excluding Arrovest) who are registered on the record date for the EGM.
 - Shareholders will not be required to make any upfront financial commitment, with payment required only on exercise of the Options.
 - The exercise price of the Options is expected to be \$0.98 and they will expire six years after their issue date.
 - The Company will seek quotation of the Options on the ASX. The Options will include restrictions as to when they may be exercised, details of which will be provided in the prospectus to be issued in respect of the Options.
 - The Options will provide an opportunity for potential future equity participation for shareholders, including those shareholders who cannot participate in the Wholesale Investor Offer.

² Refer to the Prospectus for full details of eligibility to participate in the Wholesale Investor Offer.

- The Options will be issued pursuant to a separate prospectus following receipt of shareholder approvals at the EGM.

Debt restructure

Depending on the level of participation under the Wholesale Investor Offer, the Company has agreed to apply between \$183 million and \$233 million from the proceeds of the Capital Raising towards repayment of its existing senior term, revolving debt and subordinated facility. The balance of proceeds will provide working capital for general corporate purposes and pay for fees and expenses associated with the Recapitalisation.

- As part of the Recapitalisation, the Company will enter into a new 2-year, \$36 million senior secured revolver facility with the Senior Lenders and a 2-year term debt facility of up to \$50 million, depending on the total proceeds raised under the Capital Raising.
- The Company's existing equipment financing facilities with NAB and its existing debtor financing facilities with HSBC will remain in place on substantially the same terms.
- The facilities with the Senior Lenders will be secured and (other than in respect of limited exceptions as described in the Prospectus) will have first ranking security over the assets and undertakings of the Company and key members of the Group. The Notes will be secured and will have second ranking security over the assets and undertakings of the Company and key members of the Group. The arrangements between the respective security interests of the Senior Lenders and the Noteholders will be governed by an intercreditor deed, details of which are contained in the Prospectus.
- The Company has negotiated an extension to its standstill agreement with its Senior Lenders until 28 May 2021, enabling the completion of the Recapitalisation on the indicative timetable.

Outcomes

Important outcomes from the Recapitalisation will include:

- Providing the Company a more flexible capital structure that will better facilitate its ongoing financial and operational turnaround.
- The Board has decided the Notes are the best option available to attract the necessary funds on terms acceptable to the Company, as they provide flexibility for investors to participate in any future equity upside by converting Notes into ordinary shares, subject to the shareholder approvals being obtained.
- The Notes provide downside protection for the incoming capital provided by investors in the Notes with the benefit of subordinated security over the Company's assets, particularly while the Company undertakes its operational turnaround and defends itself from potentially material legal disputes.
- The Board considers that the Note terms strike a reasonable balance between the requirement of Noteholders to have an adequate return on their investment relative to the risks of investment, and the Company's preference for the Notes to be converted to shares at the earliest opportunity.
- The Recapitalisation will benefit the Company by providing it with two years of financial covenant-free senior debt and six years of financial covenant-free subordinated debt.
- Eligible shareholders (excluding Arrovest) will have an ability to participate in the Wholesale Investor Offer on a priority basis.
- If the Notes convert into ordinary shares, there will be a significant dilutionary impact for existing shareholders. Additionally, in circumstances where the Company redeems the Notes and is required to pay the make-whole amount, the Company may be required to undertake further capital raisings, which may have a further dilutionary impact on shareholders. Shareholders should refer to the Investor

Presentation and Prospectus for further detail regarding the impact of the Recapitalisation on the Company and shareholders.

Freedom Foods Group Chair Genevieve Gregor said the Company was pleased to have secured the continued significant support of its majority shareholder Arrovest and to be able to extend the opportunity for existing shareholders to participate in the Recapitalisation of the Company.

Ms Gregor said:

“This Recapitalisation is an important step in the operational and financial turnaround of Freedom Foods Group. Since last year, we have been committed to driving improvements across the business. We have undertaken significant Board and management renewal, most recently with today’s appointment of Michael Perich as permanent CEO and Stuart Black as Independent Non-Executive Director, and have continued to strengthen our executive team, governance controls, policies and frameworks. Operationally, we have announced the sale of certain non-core assets and adopted a simplified business strategy to ensure we are focused on the brands and products with the greatest potential in our Dairy and Nutritionals and Plant-based Beverages businesses.

“Our first-half financial results, released last month, demonstrate that we are making good early progress on the turnaround. While there is more work to do, the successful completion of the Recapitalisation will enable the Company to continue that progress and restore Freedom Foods Group to sustainable and long-term profitable growth.”

Arrovest Joint Managing Director and Deputy Chair of Freedom Foods Group Tony Perich AM said:

“Our substantial commitment to this Recapitalisation demonstrates our unshakeable belief, held for more than 15 years, that Freedom Foods Group can be one of Australia’s great food and beverages companies. We look forward to working alongside existing shareholders and new investors to help the Company continue its current turnaround and realise its potential.”

Shareholder approvals

As noted above, the Company will seek a number of interconditional shareholder approvals for certain features of the Recapitalisation. These will include the following ordinary resolutions:

- approvals in accordance with ASX Listing Rules 7.1 and 10.11 in relation to the issue of the Notes under the Capital Raising;
- approval in accordance with item 7 of section 611 of the *Corporations Act 2001* (Cth) to permit Arrovest to convert the Notes issued in connection with the Placement; and
- approval in accordance with ASX Listing Rule 7.1 to issue the Options to all shareholders (other than Arrovest).

The Company intends to call the EGM in May 2021. The Notice of Meeting for the EGM, which will contain an explanatory memorandum and an Independent Expert’s Report, will be made available to shareholders in due course. The above Shareholder approvals are not a condition to completion of the Recapitalisation. If the Shareholder approvals are not obtained, the Notes will be issued subject to a ‘cash-settled’ feature until such time as the relevant shareholder approvals are obtained.

Indicative timetable³

Milestone	Date
Announcement of Capital Raising	19 March 2021
Lodgement of Prospectus with ASIC and ASX	19 March 2021
Wholesale Investor Offer opens	29 March 2021 ⁴
Record date for Eligible Investors under Wholesale Investor Offer and Options	19 March 2021
Freedom Foods Group shares recommence trading on the ASX	22 March 2021
Lodgement of Notice of Meeting for EGM, containing Independent Expert's Report, with ASX and dispatch materials to Shareholders	Mid-April 2021
Wholesale Investor Offer closes	7 May 2021
Finalisation of allocations under Wholesale Investor Offer	11 May 2021
EGM	W/c 17 May 2021
Financial Close and issue of Notes under Placement and Wholesale Investor Offer	W/c 17 May 2021
Offer period for Options (assuming shareholder approvals obtained at EGM)	At a date to be advised

Next steps for shareholders

Shareholders do not need to take any immediate action.

Further details of the Capital Raising and the Recapitalisation are set out in the Prospectus and Investor Presentation, also provided to the ASX today.

The Notice of Meeting for the EGM, which will contain an explanatory memorandum and an Independent Expert's Report, will be made available to shareholders in due course.

Shareholders are strongly encouraged to read these documents carefully. They will contain important information about the Recapitalisation and the resolutions required to give effect to the Recapitalisation. The Notes are a complex investment and may be difficult to understand, even for experienced investors, and involve different risks from a simple debt or ordinary equity security. Eligible shareholders or investors who may wish to participate in the Wholesale Investor Offer pursuant to the Prospectus are advised to get independent professional advice.

The Company has requested the ASX to reinstate trading in the Company's Shares, which is expected to occur with effect from the commencement of trading on Monday, 22 March 2021. The Company confirms it is complying with its obligations under Listing Rule 3.1.

³ This timetable is indicative only and subject to change without notice. Subject to the requirements of the Corporations Act, the ASX Listing Rules and any other applicable laws, the Company (with the consent of Arrovest and its Senior Lenders) reserves the right to amend this timetable at any time, including extending the Wholesale Investor Offer period or accepting late applications, either generally or in particular cases, without notice.

⁴ ASIC may further extend the exposure period under the Prospectus by a further seven days, in which case the opening of the Wholesale Investor Offer may be delayed to 5 April 2021.

The Company encourages shareholders to attend the EGM or vote via the proxy form that will be included in the Notice of Meeting.

Disclaimer

Nothing contained in this announcement constitutes investment, legal, tax or other advice. You should make your own assessment and take independent professional advice in relation to the information and any action on the basis of the information.

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This announcement was authorised for release by the Board of Directors.