

Grafenia plc

Bond Facility for up to £50m & trading update

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Grafenia plc
15 July 2020

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.

15 July 2020

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

Perpetual Bond Facility of up to £50 million and trading update

Grafenia (AIM: GRA) is pleased to announce that the Company has put in place a facility (the "Perpetual Bond Facility") to issue up to £50 million of perpetual bonds (the "Bonds") and has issued £3.0 million of the Bonds, at nominal value, to investors, raising approximately £2.01 million before expenses. Further details are set out below.

In addition, the Company provides a trading update for the period since 25 March 2020.

Perpetual Bond Facility

The Perpetual Bond Facility will enable the Company to issue Bonds each of which will be valid in perpetuity from the date of their issue and will be freely transferable. The key terms of the Bonds that have been issued are:

- amount issued - £3.0 million;
- issued at 67% of their nominal value;
- no interest for three years;
- thereafter, interest of 6% per annum payable annually in arrears;
- issue date of 15 July 2020;
- redeemable by the Company on any anniversary of the issue date from 15 July 2023 onwards;
- admitted to trading in the Open Market on the Frankfurt Stock Exchange with ISIN DE000A28ZF69 and stock exchange abbreviation PF5A;

- non-convertible;
- unsecured - to rank *pari passu* with any future bonds.

The Bond was arranged by the Company's Settlement and Paying Agent Quirin Privatbank AG ("Quirin").

The net proceeds of the Bonds issued will be used to support the Company's acquisition strategy and for general working capital requirements.

Related party transaction

TGV Truffle Fund, an investment fund managed by Investmentaktiengesellschaft für langfristige Investoren TGV ("Langfrist"), has subscribed for Bonds to the value of £2.8 million at nominal value (the "Related Party Transaction"). The TGV Truffle Fund is a related party of the Company for the purposes of the AIM Rules as Langfrist holds more than 10 per cent. of the ordinary shares of the Company, being 29.45 per cent.

JMX Capital GmbH provides investment advice to the TGV Truffle Fund and is wholly owned by Jan-Hendrik Mohr, the Company's Chairman. As such, Mr Mohr is not considered independent for the purposes of the opinion required under the AIM Rules for the Related Party Transaction.

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

Trading update

We last updated the market on 25 March 2020, just as the UK had entered lockdown. We said, like many businesses, we'd been impacted. March, April and May are usually strong trading months, boosted by events and exhibitions. With almost all events being cancelled, this has had a devastating effect on the events industry.

Our Nettl company stores were closed by the lockdown, but our production hub remained open, with social distancing measures in place. Everyone who could work from home, has been. And we furloughed around 90 of our 180 team members. Today, around 50 remain furloughed and we've been rotating colleagues, as the rules allow.

In March, overall revenue was 65% of the previous year. With the country in lockdown, and most of our customers closed, April ended around 30% of last year. As it became clear social distancing would be here for some time, we began developing new product lines for a covid-secure world, like floor stickers, branded face masks and sneeze guards. In May, sales climbed by more than 50% compared to April, but still only around 40% of last year. As more businesses began to re-open, they needed screens, hand sanitiser stations and social distancing signage. We launched a 52 page catalogue of covid-secure paraphernalia, mailed to clients. In June, sales were back to 90% of last year, with strong sales of covid-related products, including banners for football stadium seats, when games were played behind closed doors. It's too early to tell how July and the rest of the summer will trade. However, not everything we've been selling has been related to Coronavirus - orders for our existing product range such as brochures, displays and marketing material have been received.

Sales of litho printing have been most impacted during the second quarter of 2020, partially offset by year-on-year growth of signage and websites. As businesses locked down, many used the time to update their websites, add new functionality or increase their search ranking. Sales of websites and associated hosting revenue was significantly up, compared to the same period last year.

During the pandemic, as we were unable to visit prospective Nettl partners, or bring them to the classroom to train, we repackaged our Nettl subscription, to make it more accessible. During the three months we've been in lockdown, we've added 14 new Nettl partners in the UK, 2 in the Netherlands and 3 in the US. All of our training programmes have now moved online, with a mix of pre-recorded content and live group sessions.

Whilst some Nettl and printing.com partners hibernated during the crisis, others turned to us for additional support. This has come in many forms, from advice on furlough, to payment holidays or extended credit terms. Partners who stayed open have got involved in helping their local communities, by building support websites. We increased the frequency of our virtual group 'do more together' partner sessions. These cover different topics, around marketing, technical application, product development and sales opportunities. We've seen a significant increase in engagement on our internal partner community forums and discussions, as partners look to others for guidance. At times like this, the strength of being part of a network is demonstrated. At the start of the crisis, we turned off price/promotion-led marketing messages. Instead, we delivered content to reassure and build trust. That included charity animal-face masks, sold on AniMasks.co.uk, with proceeds donated to NHS charities. Children's colouring books to keep bored kids occupied. A weekly release of Nettl Chaise Lounge playlists to work or relax to. Together with checklists, guides and advice on returning to work and making workplaces covid-secure. Partners were able to locally proliferate this stream of content on a daily basis, keeping front of mind and building positive brand association. In exchange, we benefit from the stability of recurring monthly partner subscriptions.

Jan Mohr, Chairman of Grafenia plc : "The pandemic has put significant pressure on our transformation plan. With the executive team managing the business tremendously well, we are increasingly seeing opportunities to start playing offense. Given the uncertainty in the economy we strongly believe it's prudent to create a financing facility to meet our working capital needs under all circumstances and to be able to acquire sign businesses when the right opportunity emerges."

Peter Gunning, CEO of Grafenia plc : "We've been open and transparent about our acquisition strategy, to roll up the signs sector. Our announcement on 24 July 2019 has more detail and we've updated www.grafeniam.com/acquisition with further information for prospective vendors. Since the start of the pandemic, we've had many discussions with sign businesses. Depending on their product mix, some have been affected by the crisis more than others. People are contemplating what the future looks like and are considering their options. We're seeing potential opportunities to grow our network. We like the mechanism of the bond. As we see future attractive acquisition opportunities, we can access capital as necessary. We did consider raising equity, but the Board decided that this bond was better for shareholders as it's not dilutive."

"This crisis has brought out the best in our people. We're really proud of the way our teams have rapidly prototyped new products and production tooled-up to respond to new demands. And how our sales, design and support teams have created new assets, to help our clients and partners navigate the adjusted world. It's a lonely time to be in business, and our network has pulled together to support one another and our clients. With our diverse product range, from mobile websites to stadium wraps, we aren't as reliant on printing sales as we once were. Having a partner network under contract gives us a degree of stability. Nevertheless, it's difficult to forecast what will happen to our clients and general business activity, in the rest of the year, so we will update our guidance when we have better visibility."

Market Abuse Regulation (MAR)

MAR came into effect from 3 July 2016. Market soundings, as defined in MAR, were taken in respect of the Bond 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.

For further information:

Grafenia plc

Peter Gunning (CEO) 07973 191 632

Allenby Capital Limited (Nominated Adviser and broker)

David Hart / 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 manufactures 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 Image Group in July 2017. 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/>

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