

Grafenia plc

Sale of Subsidiary and Board Changes

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Grafenia plc

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

Sale of Subsidiary and Board Changes

Grafenia plc (AIM: GRA), announces that it has agreed to sell its wholly-owned subsidiary Works Manchester Limited ("Works Manchester"), formerly Image Everything Limited, and certain business and assets of its wholly-owned subsidiary Grafenia Operations Limited ("Grafenia Operations") (together, the "Disposal") to Rymack Sign Solutions Limited, a privately owned company trading as PFI Group ("PFI").

Sale of Works Manchester

Subject to the completion mechanics set out below, Grafenia will receive a cash consideration of £3,165,000 for the Disposal.

The consideration is payable in the following installments:

- £30,000 on Completion
- £35,000 one month following Completion;
- £35,000 two months following Completion;
- Four installments of £766,250 on the first, second, third and fourth anniversary of Completion.

Grafenia has entered into a sale and purchase agreement ("SPA") in respect of the sale of Works Manchester. Completion of the SPA and accordingly, the Disposal, is conditional on Grafenia Operations and Works Manchester completing a business purchase agreement ("BPA") in respect of the sale of certain business and assets to Works Manchester. The BPA will be entered into upon the completion of a consultation by Grafenia Operations with certain employees in respect of their transfer to Works Manchester pursuant to TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006). Completion of the Disposal is expected to be finalised within three to four weeks.

Grafenia is essentially two businesses: the manufacturing business and our Software-as-a-Service ("SaaS") business we call Nettl Systems. They have different needs and require different strategies to help each grow and thrive.

In recent years, the manufacturing operations have faced a challenging trading environment due to the impacts of both Brexit and the Covid-19 pandemic. Things have been improving gradually, but this part of our business has been operating below capacity. PFI is a natural fit for our manufacturing operations and can use this spare capacity. It also gives Works Manchester other opportunities to grow and prosper.

The Group will enter into a five-year supply agreement under which Works Manchester will continue to manufacture and supply products to our partners, via our platform. It will become our biggest Works Maker partner.

Works Manchester will enter into a five-year software licence for the right to use w3p, the Company's production platform, at a fee of £10,000 per month.

Over the last year, we have been consolidating manufacturing operations. Works Manchester now incorporates the combined manufacturing facilities located in Trafford Park, Manchester and Eccles, Salford. The online channels Flyerzone and Marqetspace do not form part of the transaction and will be retained by the Group.

The Board has taken the decision to sell Works Manchester so that the two businesses can each focus on their strengths. Netl Systems will be focused on growing our software and licensing. Driving sales of products and services through that. Extending the functionality to create added value for our partners and widen the target market for our subscription-based offering.

The first phase of this is our new software platform and app WorksThing. We successfully launched WorksThing at the Sign & Digital exhibition in March. Optimised for the signage sector, WorksThing is a complete workflow tool for managing signage installations, from start to finish. It's early days, but multiple businesses have signed up for a free trial and we're pleased with the reaction at the event. We want to make better use of PFI's nationwide manufacturing and installation network. They have installers from London to Aberdeen. We plan to hook those into WorksThing and license this to other sign businesses.

Works Manchester, with the new capabilities that PFI brings, can focus on optimising operations and improving the product range available to our network to build volume.

The transaction will also enable additional focus on the Group's stated aim to acquire other software businesses. The sale proceeds will be applied to potential acquisitions and supporting the Group's partner networks. Our outreach and direct approach programme, Software Circle, is starting to bear fruit. We have a number of ongoing discussions with owners of software businesses.

Based on audited accounts for Works Manchester and Grafenia Operations, the Board has assessed that in the year ended 31 March 2021, the combined manufacturing business being sold generated revenues of approximately £6.6m and a loss before tax of £0.3m. On 30 September 2021, the combined manufacturing business being sold had gross assets of approximately £6.8m. The Disposal will also see equipment finance lease liabilities leave the Group, which on 30 September 2021 totalled approximately £2.1m. The results for the combined manufacturing business being sold for the financial year ended 31 March 2022 will be disclosed separately as a discontinued operation in the upcoming financial statements.

Looking to the future, Netl Systems will benefit from lower fixed overheads, depreciation charges and costs of borrowing as we strive to improve profitability and deliver on our stated mid-term goal of 10-15% EBITDA.

Board Changes

Divesting Works Manchester is an important pivot for the Group. The Disposal will see Grafenia transition to a software licensing business. So it's an appropriate time to make some other changes. With immediate effect, Peter Gunning has stepped down as CEO. Peter will continue to be involved with the Netl Systems software stack as a consultant of Netl Systems. Moving forward, the Company and Peter intend to enter into an agreement whereby Peter will take on a master licence for WorksThing and Netl in Spain. The Board has appointed Gavin Cockerill, previously Group COO, as Acting CEO.

Over the next few months the Board will lead a strategy exercise to design and implement the future organisational and leadership structure of the Group. In particular, the aim is to build a platform that efficiently leads the existing software products of the Group, but is also open for the addition of new, complementary software firms to join the Group by way of M&A.

Related Party Transaction

The Company has entered into an agreement with Peter Gunning, via his consulting company Perpetual Cielo Azul SL. Peter will provide services to Netl Systems, with focus on developing and assisting the operation of Grafenia's proprietary platforms, as well as advising on the technology integration of any acquisitions made by the

Company. Peter's company will be paid a fee of £15,565 (excluding VAT, as applicable) per month for the first 12 months of the agreement. Thereafter, additional work will be charged at £750 per day, with a minimum commitment of three days per month. After the initial period, the agreement may be terminated by either party by giving not less than 6 months' notice.

This agreement with Peter Gunning's company is a related party transaction pursuant to rule 13 of the AIM Rules for Companies. The independent directors, being all of the Company's directors other than Peter Gunning consider, having consulted with the Company's Nominated Adviser, that the terms of the transaction are fair and reasonable insofar as the Company's shareholders are concerned.

Jan Mohr commented "I'm very happy that we can announce an important transition in the business today. The future of Grafenia is in software. For many years, the software part of Grafenia has been consistently cash-flow generative and loved by our partners. Our DNA is to build scalable systems that make partners more effective. We want to double-down on that mindset and also expand the scope of software that the Group offers.

Peter has done a tremendous job leading the Group through the Covid-19 pandemic. We enter our new chapter as a better and leaner business. I would like to personally thank Peter for his hard work, passion and friendship.

We have been really impressed with Gavin's performance since he joined the Board in 2018. He's the key leader in engaging our partner network, helping develop a sales and onboarding structure for several hundred independent entrepreneurs. That skill is essential when leading Grafenia's future as a home for different software companies. I'm excited to collaborate with Gavin and his team in designing the right operating system for us to scale in software."

Peter Gunning said "Nearly a quarter of a century ago we opened our first store in Edinburgh. It's been a great privilege to build and develop a business in such a time of intense change. And now it's time for me to start something new. To bring Nettl and WorksThing to the businesses of Spain. For the last decade, I've worked flowery-jacket to complicated-gilet with Gavin. I wish him and the team every success. I'd also like to thank our teams for their energy, good humour and attitude, particularly through dark days. I've worked with so many wonderful people along the way. Thank you all. Please make the most of the new opportunities that today brings. Hasta siempre."

Gavin Cockerill commented : "We're really excited about the opportunities linking up with PFI presents for our network. PFI has been growing rapidly in recent years and now has operations all over the UK. It is a natural fit for Works Manchester. The scale of PFI's operations presents career advancement opportunities for team members joining the PFI family. The transaction also secures the supply chain for the products we sell to our Nettl and printing.com partners. I'd like to thank Peter for his mentorship over the years, notwithstanding the flowery jackets. I am looking forward to working with the Board and our teams on the next part of Grafenia's journey.

Darren McMurray (CEO of PFI Group) commented: "We're delighted to bring Works Manchester into our group. Our ongoing partnership with Grafenia has many opportunities. Our scale and capability can help grow the range of products offered to Nettl and printing.com partners. Works Manchester is an impressive operation. We're excited about what we can do together. We can't wait to get started with the team to build a successful future."

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