

Grafenia plc

Acquisition of Vertical Plus Limited

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Grafenia plc
22 September 2022

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22 September 2022

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

Acquisition of Vertical Plus Limited ("Vertical Plus")

Grafenia plc (AIM: GRA) is pleased to announce that, subject to the completion conditions set out below, it has agreed to acquire the entire issued share capital of Vertical Plus Limited, an ecommerce software business, based in Plymouth, on a debt free/cash free basis.

The total consideration of up to £2.88m will be satisfied in cash. The acquisition is expected to be cash flow generative and earnings enhancing in the first year after acquisition.

The initial consideration comprises cash of £1.25m to be paid on completion, together with a deferred consideration of £1.00m to be paid on the first anniversary of completion. Up to a further £0.63m is payable over three years, contingent upon the achievement of certain targets relating to the future financial performance of Vertical Plus (the "Earn-out").

Completion of the acquisition is conditional on (i) the completion of short form sale and purchase agreements by minority shareholders of Vertical Plus; and (ii) funds being raised by Grafenia via the bond facility put in place in 2020.

The Company is seeking to raise £4.25m via an issue of bonds, £1.25m of which will be used for the initial consideration due on the acquisition of Vertical Plus Limited, with the balance being used to finance the acquisition of other potential acquisitions currently in the pipeline, which have a combined turnover of c.£4.0m, adjusted EBIT of c.£1.3m and valuations typically between 4 and 5 times adjusted EBIT. As detailed in our announcement of 27 July 2022, our acquisition strategy is a little different today. We've refocused our search on software businesses.

About Vertical Plus Limited

Vertical Plus provides a range of growth-focused ecommerce solutions sold to customers on a fully managed basis. The software platform enables and simplifies the implementation of large inventory ecommerce.

The business was founded in 2001 and operated by David Gadd (current CEO) and Nicola Bonning (current MD). Nicola will step down on completion of the acquisition whilst David Gadd will remain in a part time consultancy basis for 12 months. Vertical Plus currently has 25 employees.

The unaudited financial statements for Vertical Plus for the year ended 31 March 2022 reported revenue of £2.01m, EBIT of £0.25m, and closing net assets of £1.29m.

Acquisition Rationale

Vertical Plus meets the criteria set out in our acquisition strategy. Take a look at www.grafeniam.com/acquisition to see the full detail. It also complements our core offering and provides cross-selling opportunities across our Netfl network.

Terms of the Acquisition

The £1.25m initial consideration will be funded from the cash proceeds of bonds which the Company will look to issue.

The £1.00m deferred consideration and the Earn-out, if payable, of up to £0.63m, will be satisfied in cash. The Earn-out comprises:

- £0.21m dependent on Vertical Plus achieving certain earnings targets for the 12 months following acquisition;

- £0.21m dependent on Vertical Plus achieving certain earnings targets for the subsequent 12 months; and
- £0.21m dependent on Vertical Plus achieving certain earnings targets for the subsequent 12 months.

Gavin Cockerill, Acting CEO of Grafenia said: "We're delighted to have Vertical Plus join Grafenia. It's culturally and strategically aligned. The ecommerce solution we provide our Nettl partners can be enhanced with the solutions Vertical Plus provides. We're excited about the growth potential our route to market could help bring. This is another step toward growing our software nucleus."

David Gadd, joint founder of Vertical Plus said: "We see Grafenia as the right owners for our software business. It's a natural, organic fit. Working with the Nettl network gives Vertical Plus the potential of nationwide reach. This further increases revenue growth for Vertical Plus, while also enhancing the offering for our current clients."

Trading Update

Since the announcement of our final results for the year ended 31 March 2022 on 27 July 2022, we're pleased to announce that trading has continued to improve compared to the last financial year. We said that trading was slightly ahead of our internal forecasts. That has continued.

In our annual report, we discussed the ongoing transition of our business and the sale of our manufacturing hub, Works Manchester, as announced on 19 May 2022. They became our largest Works Maker. Our teams have worked hard to ensure that transition has been smooth. We'd like to thank everyone involved for successfully managing the process and maintaining an integrated supply chain through our platform, for our partners.

In the period since then (Jun-Aug) total revenue was 11% higher, like for like, than the same period last year.

Our Platform

Since the start of the financial year, we've continued to add new Nettl partners in the UK and US. As detailed in our most recent annual report, last year we experienced some churn in partner count. Particularly those partners who found it difficult to diversify from selling just print during COVID affected times. We've made some improvements in the onboarding process and have seen churn rates reduce.

We continue to listen to feedback from our partners and extend the capabilities of our platform. Most recently we've improved enquiry management with 'The Pipeline' and made it easier for partners to build proposals, estimates, jobs and orders using their own Standard Price List items. Our aim is to equip our partners with the tools they'll need in the studio of tomorrow.

Outlook

Like many businesses, we continue to see inflationary pressures. However, given our improved trading to date and reduced cost base, alongside the acquisition of Vertical Plus, we remain confident of reaching our mid-term objective of 10-15% EBITDA on a monthly run rate.

For further information:

Grafenia plc

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David Hart / Piers Shimwell

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