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ASX Announcement – Strategic Acquisitions and Equity Raising

Metcash Limited (MTS:ASX) today announced that it has entered into binding agreements to acquire three strategically aligned businesses that deliver the company further diversification and resilience, and an even stronger growth trajectory.

Announcement Highlights

- Acquisition of **Superior Food**, a leading Australian foodservice distribution business (EV of up to \$412.3m)¹
 - A logical extension of Metcash’s Food strategy
 - Benefits from and enhances Metcash’s core Food wholesale and distribution capabilities
 - Cements Metcash’s position as the largest wholesaler and distributor of food to independent businesses in Australia with a significant acquisition in foodservice
 - Foodservice is a large and growing market
- Acquisition of **Bianco Construction Supplies**, a construction and industrial supplies business servicing the South Australia and Northern Territory trade market (EV of \$82.2m)
- Acquisition of **Alpine Truss**, one of the largest Frame & Truss operators in Australia (EV of \$64.0m)
- Both Hardware acquisitions support Independent Hardware Group’s (IHG) ‘Whole of House’ and network expansion strategies
- Compelling expected annualised synergies of ~\$19m²
- Expected to be mid-single digit EPS accretive³ on a pro-forma Oct-23 LTM basis including synergies, and EPS accretive³ excluding synergies
- Expected to be accretive to Metcash’s margins⁴
- Funded via a fully underwritten institutional Placement of \$300m, existing cash and available debt facilities
- A non-underwritten Share Purchase Plan of up to \$25m⁵ is made available for eligible shareholders

¹ Comprises an upfront EV of \$390m plus a deferred earn-out payment of up to \$22.3m. The earn-out is capped at \$22.3m and is payable if Superior Food achieves an underlying EBITDA (pre-AASB16) of at least \$46.0m in respect of the year ending 30 June 2024. A partial earn-out is payable, on a straight-line basis, if EBITDA is between \$42.9m (nil earn-out payable) and \$46.0m (maximum earn-out payable).

² Synergies of ~\$19m reflect the annualised (run-rate) synergies that are expected to be achieved at the end of year 2 post completion. Refer to slides 29, 32 and 33 of the Investor Presentation (Investor Presentation) provided to the ASX today for further details.

³ EPS accretion excludes the impact of acquisition accounting that will be applied by Metcash at the completion of each acquisition. Refer to slides 40 and 50 of the Investor Presentation for further details.

⁴ The Acquisitions are margin accretive at three levels, each prior to synergies: in respect of the Food business (including Superior Foods), the IHG business (including Bianco and Alpine Truss) and also in relation to the Metcash Group (including all Acquisitions). Margin represents EBIT (excluding synergies) divided by sales (including charge through sales) and is based on the Oct-23 LTM results on slide 40 of the Investor Presentation.

⁵ Full details of the Share Purchase Plan will be contained in the Share Purchase Plan offer booklet which will be made available to eligible shareholders on or around Monday, 12 February 2024. Metcash may decide to accept applications (in whole or in part) that result in the Share Purchase Plan raising more or less than this amount in its absolute discretion.

Commentary

Metcash Group CEO, Doug Jones said: “We are delighted to announce three strategically aligned, synergistic and financially compelling acquisitions that accelerate our growth strategy.

“The acquisitions unlock substantial shareholder value and build on our track record of disciplined and accretive capital allocation. They also deliver further diversification and resilience to the Group and provide Metcash with an even stronger growth trajectory.

“The acquisitions provide a range of benefits for both Metcash and our network customers, which will allow us to continue Championing Successful Independents in support of thriving local communities, which is at the heart of everything we do.

“We are thrilled to be acquiring Superior Food, an industry leading player in the Australian foodservice market with a track record of above-market growth.

“Metcash is the logical owner of Superior Food, and the acquisition cements our position as the largest wholesaler and distributor of food to independent businesses in Australia.

“Superior Food provides a compelling opportunity to expand in an attractive and adjacent growth market through an industry leading player with an established national platform for future growth. The combination of the two businesses unlocks diversification benefits, procurement savings, range expansion and extends our purpose of Championing Successful Independents.

“Food distribution to independents is a business we know well. This, together with our proven integration track record, provides confidence in our ability to unlock value through the immediate scale that this acquisition provides in such a high-growth and fragmented space.”

Superior Food founder and CEO, Craig Phillips, said: “Superior Food has achieved significant growth, evolving into a national foodservice provider of scale with the loyal support of our staff, customers and suppliers. Metcash’s capabilities and focus on supporting independents uniquely places them to continue our growth. We are proud of our past and excited about the bright future with Metcash.”

On the hardware acquisitions, Mr Jones said: “The acquisition of the Bianco Construction Supplies and Alpine Truss businesses are both strategically and financially attractive and follow our successful track record of consolidation in the fragmented Hardware market.

“The addition of these two businesses support our Independent Hardware Group’s ‘Whole of House’ strategy and will enable us to further increase the proportion of materials we provide over the course of a house build, and extend our supply network across South Australia, the Northern Territory, Victoria and Southern New South Wales.”

Transaction Overview

Metcash has entered into binding agreements for the acquisition of:

1. 100% interest in **SFG Group Holdings Pty Ltd** (Superior Food)
 - A total potential enterprise value (EV) of up to \$412.3m which comprises upfront consideration of \$390m plus a deferred earn-out payment of up to \$22.3m⁶ based on Superior Food's EBITDA for the year ending 30 June 2024
 - Total potential acquisition EV implies 9.0x⁷ FY24E underlying EBITDA before annualised synergies and 6.9x⁷ including annualised synergies of ~\$14m²
2. 100% interest in **Bianco Construction Supplies Pty Ltd** (Bianco)
 - EV of \$82.2m
 - Acquisition EV implies 5.9x⁷ underlying EBITDA before annualised synergies and 5.0x⁷ including annualised synergies of \$2.4m²
3. 100% of the business of **Alpine Truss Pty Ltd** (Alpine Truss)
 - EV of \$64.0m
 - Acquisition EV implies 6.0x⁷ underlying EBITDA before annualised synergies, or 4.8x⁷ including annualised synergies of \$2.7m²

Superior Food

Superior Food is a leading Australian foodservice distribution business. It has a large network of ~600 suppliers with a product range comprising ~15,000 SKUs. Products are delivered to ~20,000 customers across a diverse range of markets including quick service restaurants, corporate caterers, cafés, restaurants and hotels.

The business operates 23 branches across Australia with total warehouse space of ~80,000sqm. It manages a fleet of ~290 vehicles performing ~670,000 drops annually.

Superior Food has a track record of strong revenue and earnings growth, underpinned by a growing customer base and an increasing 'share of wallet'.

For the 12 months ended 31 October 2023, Superior Food generated \$1.3 billion in revenue and \$43.8 million in underlying EBITDA (pre-AASB 16, pre-synergies), implying an EBITDA margin of 3.4%.

Underlying EBIT (post-AASB 16, pre-synergies) for the 12 months ending 30 June 2024 is estimated to be \$39.9m, with an EBIT margin of 3.0%. The business is expected to achieve underlying EBITDA of \$46.0m for the same period.

Superior Food will continue to be led by founder and current CEO, Craig Phillips, and will operate within the Metcash Food pillar.

⁶ The earn-out is capped at \$22.3m and is payable if Superior Food achieves an underlying EBITDA (pre-AASB16) of at least \$46.0m in respect of the year ending 30 June 2024. A partial earn-out is payable, on a straight-line basis, if EBITDA is between \$42.9m (nil earn-out payable) and \$46.0m (maximum earn-out payable).

⁷ The implied multiples are calculated based on Oct-23 LTM results (EBITDA pre-AASB16), except for Superior Food multiples which are based on FY24E (year ended June 2024). Refer slides 17,32,33 of the Investor Presentation

Acquisition rationale

Foodservice is an attractive and logical extension of Metcash's Food strategy. It is a large and growing market underpinned by favourable long-term consumer trends towards convenience and out-of-home dining, and it serves a diverse range of customer segments. The acquisition of Superior Food, a scaled national foodservice distributor, results in a step-change to Metcash's current foodservice distribution model capabilities and reach, delivering a greater share of the non-retail food wallet, new growth opportunities and synergies.

The acquisition also:

- Strengthens and diversifies Metcash's existing Food business
- Delivers immediate scale in foodservice, an attractive and adjacent growth market for Metcash Food
- Provides significant further consolidation opportunity in a fragmented ~\$21 billion⁸ market
- Is highly complementary with ~\$14m of estimated annualised synergies²
- Includes a high-quality management team with a proven track record of organic and in-organic growth and enduring customer relationships
- Is financially compelling, being accretive to EPS including synergies and to margins

Bianco Construction Supplies

Bianco is the leading independent building materials supplier in the South Australian market, servicing builders, concreters, bricklayers and landscapers from 10 sites.

Bianco's product range includes: reinforcing mesh, concrete slab hardware, structural steel and sand and soil, as well as timber, panels, sheeting, safety and other associated products.

Bianco generated \$144m of sales⁹ (\$120 million incremental to Metcash), \$13.9m of underlying EBITDA (pre-AASB 16, pre-synergies) and \$13.0m of underlying EBIT (post-AASB 16, pre-synergies) for the 12 months ended 31 October 2023.

Acquisition rationale

The acquisition supports Metcash's IHG 'Whole of House' growth strategy which focuses on increasing the proportion of materials supplied by IHG in the building of a house (i.e. across the foundations, frame & truss, lock up, fix and fit out steps). It broadens IHG's offer and presence in South Australia and the Northern Territory and provides access to key trades not currently serviced. It is also complementary to Metcash's company-owned K&B business in South Australia and other independents in South Australia and Northern Territory and provides attractive margins and financial returns.

Alpine Truss

Alpine Truss is one of the largest Frame & Truss operations in Australia and operates a large fabrication plant in Wangaratta, Victoria. The business services small to large volume builders across Victoria and Southern New South Wales.

Alpine Truss generated \$46m of sales, \$10.6m of underlying EBITDA (pre-AASB 16, pre-synergies) and \$10.5m of underlying EBIT (post-AASB 16, pre-synergies) for the 12 months ended 31 October 2023.

⁸ Source: Superior Food management estimates

⁹ Bianco Oct-23 LTM sales of \$144m is adjusted to exclude existing wholesale sales from IHG to Bianco of \$24m, resulting in \$120m incremental sales.

Acquisition rationale

Frame & Truss is a key element of Metcash's IHG's 'Whole of House' growth strategy. The acquisition extends IHG's network of Frame & Truss operations across Australia to 24, of which 12 are wholly owned by Metcash or partly owned under joint venture¹⁰. The acquisition enables access to the previously under-represented Victoria and Australian Capital Territory Frame & Truss markets and provides attractive margins and financial returns.

Synergies

Metcash expects to continue its proven track record of extracting synergies and successfully integrating earnings accretive acquisitions. Total annualised synergies expected from the three acquisitions are ~\$19m, of which ~\$14m is from Superior Food and ~\$5m from Bianco Construction Supplies and Alpine Truss². The annualised synergies are expected to be achieved by the end of year two following completion of the acquisitions.

Completion is expected in 4Q FY24 for Bianco and Alpine Truss, and 1Q FY25 for Superior Food. The Bianco and Superior Food acquisitions are subject to ACCC clearance.

Funding

Funding of the acquisitions and transaction costs will be through a combination of:

- A fully underwritten \$300m Placement; and
- \$278m from existing cash reserves and existing available debt facilities.

The above funding mix results in a pro forma DLR of 1.16-1.19x¹¹ as at 31 October 2023, which remains within Metcash's target DLR range of 1.00 to 1.75x¹¹.

Placement

The Placement is fully underwritten and will be offered to institutional investors at \$3.35 per share (Placement Price), which represents a:

- 8.0% discount to the last close price of \$3.64 on Wednesday, 31 January 2024¹²; and
- 6.8% discount to the 5-day volume weighted average price of \$3.60 on Wednesday, 31 January 2024¹².

Under the Placement, approximately 89.6 million new shares will be issued, representing approximately 9.1% of existing ordinary shares on issue. New shares issued under the Placement will rank equally with existing ordinary shares on issue.

The Placement is being conducted today, Monday, 5 February 2024, with Metcash's shares in voluntary suspension until completion of the Placement.

¹⁰ There are 22 Frame & Truss sites in the existing network and there will be 24 sites after the addition of the Bianco and Alpine Truss sites. Post acquisition, 12 of these sites will be joint venture/company owned and 12 will be independently owned.

¹¹ Debt Leverage Ratio (DLR, calculated as Net Debt / underlying EBITDA less depreciation of ROU assets). Refer also slide 41 of the Investor Presentation

¹² Metcash Limited's shares were in a trading halt on Thursday 1 February 2024 and Friday 2 February 2024

Share Purchase Plan

Eligible Metcash shareholders with a registered address in Australia or New Zealand as at the record date of 7:00pm Sydney, Australia time on Friday, 2 February 2024 will have the opportunity to apply for up to \$30,000 worth of Metcash shares free of any brokerage, commission and transaction costs, and subject to scale back in accordance with the policy set out in the Share Purchase Plan offer booklet. Shares will be offered at the lower of:

- \$3.35 per share, being the Placement Price; and
- The volume weighted average price of Metcash shares traded on the 5 trading days up to, and including, the Share Purchase Plan closing date.

Proceeds raised under the Share Purchase Plan will provide Metcash with additional capacity to support growth opportunities. New shares issued under the Share Purchase Plan will rank equally with existing ordinary shares on issue.

A timetable in respect of the Placement and Share Purchase Plan is provided at Appendix A.

Trading Update and Outlook

Total Group sales for the nine months ended 28 January 2024 increased by 0.9% compared to the prior corresponding period, reflecting growth in the Liquor and Hardware pillars, with sales in Food (including tobacco) flat.

Total Group sales in the third quarter of FY24 were 0.4% lower driven by moderating inflation and a shift in the Christmas /New Year holiday period with builders breaking earlier and returning later than in the prior corresponding period.

Both the Food and Liquor pillars have continued to perform well supported by their improved competitiveness and differentiated value proposition.

In Hardware, while demand has remained subdued in the third quarter, the business continued to perform better than the market and remains ideally placed with leading market positions to capitalise on an improvement in consumer confidence and activity levels.

The Company continues to have a strong focus on costs, interest and working capital.

The Group EBIT margin percentage for the eight months to December 2023 was broadly in line with the first half of FY24.

Metcash remains well positioned for future growth and strong returns through the cycle with a resilient and diversified business portfolio.

Pillar sales for the nine months ended 28 January 2024.

In the **Food** pillar, total sales excluding tobacco increased 5.1%, and were flat including tobacco. In Supermarkets, wholesale sales ex tobacco increased 5.3%. Inflation was 5.6% excluding tobacco and produce. Pleasingly, sales volumes were positive in the third quarter.

In the **Liquor** pillar, total sales increased 1.4%, with wholesale sales to retail customers up 1.5% and wholesale sales to on-premise customers down 1.5%.

In the **Hardware** pillar, total sales increased 2.6% with IHG sales down 0.5% and Total Tools sales up 17.5%. In IHG, total network retail sales¹³ increased 0.6% (Lfl: -1.5%), and in Total Tools, total network retail sales¹⁴ increased 2.8% (Lfl: -2.6%).

Additional Information

Further information is provided in the company's Investor Presentation provided to the ASX today. The presentation includes important information including key risks and international offer restrictions with respect to the Equity Raising.

Shareholder Enquiries

Eligible shareholders who have questions relating to the Share Purchase Plan should speak with their broker or adviser and/or call the Metcash information line on:

- 1800 655 325 (from within Australia); or
- +61 (02) 9290 9696 (from outside Australia)

Between 8.15am and 5.30pm (Sydney time) Monday to Friday.

Conference Call

Metcash will be hosting an investor and analyst conference call commencing today, Monday 5 February at 10.30am. A link to register is provided below. A replay of the presentation will also be available on the website www.metcash.com by or before 4pm AEDT.

Conference call registration: <https://s1.c-conf.com/diamondpass/10036714-ndy7fr.html>

This announcement is authorised for release by the Board of Directors of Metcash Limited.

ENDS

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¹³ IHG retail network sales based on a sample of 371 retail network stores that provide scan data (represents > 85% sales)

¹⁴ Total Tools retail network sales based on 114 network stores' scan data as at 27 January 2024

Appendix A – Placement and Share Purchase Plan timetable

Event	
Institutional Placement	
Voluntary suspension and announcement of Equity Raising	Monday, 5 February 2024
Voluntary suspension lifted and announcement of completion of Placement	Tuesday, 6 February 2024
Settlement of new shares to be issued under the Placement	Thursday, 8 February 2024
Allotment of new shares under the Placement	Friday, 9 February 2024
Share Purchase Plan	
Record Date for eligibility to participate in Share Purchase Plan (7:00pm)	Friday, 2 February 2024
Dispatch Share Purchase Plan offer documents and Share Purchase Plan offer open date	Monday, 12 February 2024
SPP closing date	Friday, 1 March 2024
Announcement of Share Purchase Plan participation and results	Wednesday, 6 March 2024
Allotment of new shares under the Share Purchase Plan	Friday, 8 March 2024

All dates and times in the timetable are indicative and Metcash reserves the right to amend any or all of these events, dates and times subject to the Corporations Act 2001 (Cth), ASX Listing Rules and other applicable laws. All times and dates are in reference to Australian Eastern Daylight Time (AEDT).

Important Notice

FORWARD-LOOKING STATEMENTS

This announcement contains certain “forward-looking statements”. The words “expect”, “anticipate”, “estimate”, “intend”, “believe”, “guidance”, “should”, “could”, “may”, “will”, “predict”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance and any synergies of the combined businesses following the Acquisitions are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks and uncertainties and other factors that are beyond the control of Metcash, its directors and management. This includes statements about market and industry trends, which are based on interpretations of current market conditions.



You are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and geopolitical tensions, including the conflict in Ukraine, Israel and Palestine.

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