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Swallowfield PLC

06 June 2016

Swallowfield plc

("Swallowfield" or "the Company")

**Acquisition of The Brand Architekts Limited
Placing to raise £8.6 million
Trading update
Notice of GM
and
Total voting rights**

Swallowfield, a market leader in the development, formulation, and supply of personal care and beauty products, whose customers include many of the world's leading brands, is pleased to announce that it has entered into a conditional agreement to acquire the entire issued share capital of The Brand Architekts Limited ("Brand Architekts") (the "Acquisition").

At the same time, Swallowfield also announces a conditional placing by N+1 Singer, acting as the Company's nominated adviser and broker, to raise £8.6 million (before expenses) (the "Placing"). The Placing was significantly oversubscribed with new and existing shareholders. The net proceeds of the Placing will be used, alongside a new debt facility, to fund the Acquisition.

Highlights

Swallowfield continues momentum

- Sales have grown, and profitability, EPS, and shareholder value have increased significantly since implementing the 'building a better Swallowfield' strategy in 2014.
- Core business growth has been driven by the success of the Product Category Prioritisation and Core Business Innovation pillars of the strategy
- The Owned Brands pillar has also contributed positively both through organically developed brands such as Bagsy and MR. and the successful acquisition of The Real Shaving Company in 2015.
- Swallowfield's current trading is in line with expectations continuing the momentum of a strong first half

Significant acceleration of 'owned brands' strategy

- Opportunity to accelerate 'Swallowfield owned brands' strategic pillar through synergistic acquisition of Brand Architekts
- Brand Architekts owns and manages a portfolio of mid-premium beauty and personal care brands that are sold in major UK high street retailers and through export
 - FY16 Revenues of £10.7m, EBITDA of £2.0m, PBT £2.0m in the year to January 2016
 - Brand Architekts achieved 47% CAGR for EBITDA FY14 - FY16
- Transformational opportunity which brings critical mass to Swallowfield owned brand portfolio and adds a proven, experienced London-based brand management team
- Total consideration of £11m including 12 month performance based earn out of £1.85m
- Immediately earnings accretive

Oversubscribed Placing

- Significantly oversubscribed Placing to raise £8.6m at 155 pence per Ordinary Share arranged by N+1 Singer
- Several members of the Swallowfield Board of Directors are participating in the Placing

The Placing is conditional upon, amongst other things, approval by existing shareholders at a general meeting to be held at the offices of N+1 Singer, One Bartholomew Lane London EC2N 2AX on 27 June at 2:30 p.m. (the "GM") and admission of the shares to be issued under the Placing to trading on AIM. A circular containing background information to the Acquisition and Placing, together with a notice of the GM, is today being sent to Shareholders (the "Circular").

Brendan Hynes, Chairman of Swallowfield, said: "We have been delighted with the level of institutional support, both from existing and new shareholders which will enable us to complete this transformational acquisition. Since 2013 Swallowfield has been delivering against a clearly defined strategy to build a sustainable, higher margin business and the addition of Brand Architekts will enable us to accelerate that growth."

Chris How, Chief Executive of Swallowfield, said: "Brand Architekts has built a very successful stable of brands that will complement our developing owned brand business. By combining the two businesses we believe that we can leverage both existing skill sets, including product development, R&D, supply chain, digital marketing, and online sales, to the benefit of all stakeholders. It further strengthens our business model of building two complimentary value streams (core contract manufacturing and owned brands) on one single common capability platform."

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Terms defined in the Circular have the same meaning in this announcement.

Overview of Brand Architekts and strategic rationale for the proposed Acquisition

Since 2013 Swallowfield has been successfully delivering on its strategy to build a sustainable, higher margin business. Sales have grown, and profitability, earnings per share and shareholder value have increased significantly through a combination of both organic growth and successful acquisitions, most notably the acquisition of the Real Shaving Company in 2015. The Directors believe that through the synergistic acquisition of Brand Architekts there is currently an opportunity to significantly accelerate the 'owned brands' strategic pillar of Swallowfield's strategy.

Brand Architekts owns and manages a strong and growing portfolio of mid-premium beauty and personal care brands. The majority of sales of these brands are through major UK high street retailers, many of which are already existing customers of Swallowfield. Further sales are made through export, notably in North America, Australia, the Nordics and Turkey.

Brand Architekts's key brands include Dirty Works, Kind Natured, Argan, Happy Naturals, DrSalts, Superfacialist and Senspa and together these accounted for approximately 78 per cent. of Brand Architekts's sales in the last financial year to 31 January 2016. Brand Architekts currently outsources its production with suppliers in the UK and China.

The Directors believe that the Acquisition, which is conditional upon Shareholder approval of the Resolutions and Admission, provides Swallowfield with a transformational opportunity to bring critical mass to its 'owned brand' portfolio. At the same time, the Acquisition will also add a proven, experienced London-based brand management team which will serve as an important platform for both future organic growth and M&A activity.

For the financial year to 31 January 2016 Brand Architekts generated net sales of £10.7m (after adjustment for promotional activity), achieved a 35 per cent. contribution margin, £2.0m EBITDA and £2.0m of profit before tax. This continued the strong growth momentum that Brand Architekts had achieved over the previous two financial years during which time Brand Architekts achieved a CAGR for EBITDA of 47 per cent. from FY14 to FY16. The Directors anticipate that this growth momentum can be further enhanced by the support of Swallowfield's existing established resources, including its international footprint, digital marketing, online sales, product development and supply chain. The Acquisition will immediately be earnings accretive to Swallowfield.

In the medium term, the Directors consider that the Acquisition will provide further opportunities for accelerated growth. Brand Architekts has an existing pipeline of new products and the Directors anticipate that further new products will also be driven from Swallowfield's already established areas of expertise. At the same time, there is scope for both UK and international distribution growth, particularly through Swallowfield's existing international sales offices. An important additional benefit is that Swallowfield will be able to sell its current owned brands through Brand Architekts' distributor network thereby generating additional revenues for Swallowfield's existing stable of owned brands. Finally, the Directors anticipate that the Acquisition will generate benefits through economies of scale in areas such as logistic costs, sourcing synergies (particularly in China), finance and administration/customer service functions as well as giving Swallowfield's owned brand portfolio critical mass when buying public relations, media and display exposure.

The Directors view the Acquisition as the next step on Swallowfield's path to becoming a leading international beauty and personal care business with one core capability platform driving two value streams, namely the core contract manufacturing business and the 'owned brands' business.

Acquisition terms and new debt facility

The total consideration for the Acquisition is £11.0m, including stock and normalised working capital of approximately £2.7m. This is structured as an initial payment of £9.15m (subject to working capital adjustment at completion) and an earn out payment of £1.85m (subject to adjustment) on the first anniversary of completion dependent upon Brand Architekts achieving a maximum contribution margin (measured on a consistent basis) of £4.187m during the 12 months from completion.

The Company will use the net proceeds of the Placing together with a modest extension of its invoice discounting and term loan facilities with HSBC Bank plc in order to fund the consideration payable in respect of the Acquisition. The acquisition of Brand Architekts is conditional, inter alia, on the Resolutions being passed and Admission taking place.

Brand Architekts is being acquired from Michelle Doolan and Joanne Sinclair, who each own 49.02 per cent. of the company, as well as various other minority shareholders, and both Michelle Doolan and Joanne Sinclair are entering into consultancy agreements for a period of two years following completion of the Acquisition.

Current trading and outlook

The Company announced its interim results for the period to 9 January 2016 on 1 March 2016. The Company reported revenues of £27.5 million (2014: £26.0 million) and an adjusted operating profit of £0.64 million significantly ahead of the prior year (2014: £0.16 million) driven by the core business and Swallowfield's owned brands. The Real Shaving Company brand acquired in May 2015 was fully integrated in the period demonstrating the ability of the Board to make successful acquisitions. Further investments were made to support the Company's owned brands in line with the strategy.

Following a strong first half and with less than a month remaining until the end of the Company's financial year, the Board is pleased to confirm that the Company continues to trade in line with market expectations for the year as a whole.

The core contract manufacturing business is benefitting from the progress made with its product category prioritisation focus. The Company's drive and build categories continue to show robust growth in both sales and contribution margin. This performance has been further aided by a steady stream of innovative new products that have been launched throughout the year.

Swallowfield's owned brands continue to make good progress with further retail and on-line stockists added and the development of new marketing collaborations such as Babsy with the fashion designer Savannah Miller and The Real Shaving Company with Somerset Cricket T20 Blast.

Details of the Placing

The Company proposes to raise approximately £8.0 million (net of expenses) through the issue of the Placing Shares at 155 pence per Ordinary Share, which represents a premium to the mid-market closing price on 1 June 2016 (being the last date prior to the finalisation of the Placing) and a small discount to the volume-weighted average price over the previous 5 days. Having considered the price at which the Ordinary Shares are currently traded, and other market factors, the Directors have resolved that the Placing Price is appropriate. The Placing Shares will represent approximately 33 per cent. of the Company's issued ordinary share capital immediately following Admission. The Placing is conditional, *inter alia*, the passing of the Resolutions at the General Meeting and Admission.

Pursuant to the terms of the Placing Agreement, N+1 Singer, as agent for the Company, has conditionally agreed to use its reasonable endeavours to place the Placing Shares with certain institutional and other investors. The Placing Agreement is conditional upon, *inter alia*, the Acquisition becoming unconditional, the Resolutions being duly passed at the General Meeting and Admission becoming effective on or before 8.00 a.m. on 28 June 2016 (or such later time and/or date as the Company and N+1 Singer may agree, but in any event by no later than 8.00 a.m. on 15 July 2016). The Placing Agreement contains provisions entitling N+1 Singer to terminate the Placing Agreement at any time prior to Admission in certain circumstances. If this right is exercised the Placing will not proceed. The Placing has not been underwritten by N+1 Singer.

The Company has agreed to pay certain fees and commissions to N+1 Singer in respect of the Placing.

Application will be made for Admission and it is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. on 28 June 2016.

The Placing Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive dividends and other distributions declared following Admission.

Director dealing and related party transaction

Certain of the directors of the Company are participating in the Placing at the Placing Price as described below:

	<i>Amount subscribed (£)</i>	<i>Number of Placing Shares</i>	<i>Number of shares post Admission</i>	<i>Percentage of Enlarged Share Capital post Admission</i>
Brendan Hynes	38,750.00	24,914	74,914	0.44%
Chris How	46,500.00	29,977	89,977	0.53%
Mark Warren	17,050.00	10,930	33,030	0.20%
Jane Fletcher*	18,600.00	12,374*	37,374*	0.22%
Roger McDowell	423,150.00	273,189	344,189	2.0%

* 6,452 of the shares being subscribed for by Jane Fletcher are through her SIPP operated by Alliance Trust.

Western Selection plc, of which Edward Beale is a Director, are participating in the Placing as described below.

The conditional agreements entered into by the above Directors to subscribe for Placing Shares are classified as related party transactions for the purposes of the AIM Rules. Franklin Berrebi, an independent director for the purposes of the Placing, having consulted with the Company's nominated adviser, N+1 Singer, considers that the terms of the related party transactions are fair and reasonable insofar as the Company's shareholders are concerned.

Significant shareholders and related party transaction

Insofar as has been notified to the Company, the following persons hold, as at the date of this Document, and are expected to hold immediately following Admission, directly or indirectly, 3 per cent. or more of the Enlarged Share Capital:

	<i>Amount subscribed (£)</i>	<i>Number of Placing Shares</i>	<i>Number of shares post Admission</i>	<i>Percentage of Enlarged Share Capital post Admission</i>
Western Selection plc	202,819.05	130,851	2,000,000	11.86%

The participation in the Placing by Western Selection plc, a substantial shareholder in the Company, constitutes a related party transaction for the purposes of the AIM Rules. The independent directors, Brendan Hynes, Chris How, Mark Warren, Jane Fletcher, Franklin Berrebi and Roger McDowell, having consulted with the Company's nominated adviser, N+1 Singer, considers that the terms of the related party transaction are fair and reasonable insofar as shareholders are concerned.

Total voting rights

The number of ordinary shares of 5 pence each in the capital of the Company in issue and number of voting rights following admission of all of the Placing Shares (subject, amongst other things, to the GM) will be 16,865,267. The above figure may be used by Shareholders as the denominator for the calculations by which they will determine whether they are required to notify their interest in, or a change to their interest in, the Company under the Financial Conduct Authority's Disclosure and Transparency Rules.

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