

Universal Store

ASX ANNOUNCEMENT

UNIVERSAL STORE PRESENTATION – ACQUISITION OF THRILLS

Brisbane, 26 September 2022

Universal Store Holdings Limited ABN 94 628 836 484 (ASX: UNI) attaches for release to the market an investor presentation relating to its acquisition of Cheap THRILLS Cycles Pty Limited.

Authorised for release by the Board of Universal Store Holdings Limited.

For more information, please contact:

Alice Barbery
Chief Executive Officer
+617 3368 6503

Sam Wells
Investor / Media Relations
sam@nwrcommunications.com.au
+61 427 630 152

ABOUT UNIVERSAL STORE

Universal Store is a specialty retailer of youth casual apparel that operates 78 physical stores across Australia and a fast-growing online store.

The Company's strategy is to deliver a frequently changing and carefully curated selection of on-trend apparel products to a target 16-35 year old fashion focused customer. Universal Store seeks to provide a high level of customer service, consistent price proposition and a welcoming and engaging store environment. It offers a diversity of brands and styles in order to cater to the constantly evolving and widely varied tastes and trends observed in the youth apparel market.

UNIVERSAL STORE

ACQUISITION OF THRILLS

26 SEPTEMBER 2022



TRANSACTION OVERVIEW

UNIVERSAL STORE HAS AGREED TO PURCHASE CTC, A DESIGNER, WHOLESALER AND RETAILER OF CASUAL YOUTH FASHION APPAREL WITH BROAD APPEAL AND STRONG GROWTH POTENTIAL

TRANSACTION	<ul style="list-style-type: none"> • Universal Store agreed to acquire 100% of Cheap THRILLS Cycles Pty Limited (CTC), trading as THRILLS, for an initial notional Enterprise Value (EV) of \$50.0m (on a cash free/debt free basis) • Consideration will consist of \$17.5m payable in cash; \$17.5m in UNI shares upon completion and a notional amount of \$15.0 million in Deferred Variable Consideration (DVC) subject to the future financial performance of CTC • DVC is payable in three tranches (each calculated as 10% of adjusted notional value) and will be based on CTC's EBIT delivered in each of the FY23, FY24 and FY25 years, with the adjusted notional value determined by a pre-agreed multiple matrix. It is expected that the DVC will be funded from UNI's cash reserves (refer pages 6-7)
STRATEGIC RATIONALE	<ul style="list-style-type: none"> • The acquisition expands our portfolio of premium youth fashion brands and omni-channel retail businesses • CTC is an attractive business with a strong growth profile and exciting prospects. In particular, THRILLS' enduring brand attributes, breadth of consumer appeal and proven ability to create differentiated and authentic brands provides material growth opportunities • The partnership between Universal Store and CTC is built on closely aligned organisational values, complementary skills and a focus on building enduring brands, and delivering great products and outstanding customer service • CTC's management has deep skills in brand management, range expansion, product development, and creative execution • Ownership by and support of Universal Store can accelerate CTC's direct to consumer strategy and reduce execution risks
ACQUISITION METRICS AND FINANCIAL IMPACT	<ul style="list-style-type: none"> • Notional EV of \$50.0m, implying a multiple of approximately 6.8x FY22 normalised EBIT¹ (no synergies included) • For illustrative purposes, the acquisition of CTC would have delivered pro-forma FY22 EPS accretion of circa 18%² • Attractive deal terms for UNI and a structure driving long term alignment with CTC's founders • Expected to complete in Q4 2022 subject to satisfaction of certain conditions precedent • Universal Store leverage remains low given significant existing cash reserves, strong cash generation and earnings level • No change to Universal Store's dividend policy (60%-80% of net profit after tax)
FUNDING	<ul style="list-style-type: none"> • An acquisition funding structure that supports long term alignment with the founders: <ul style="list-style-type: none"> — Cash consideration and transaction costs³ funded from Universal Store's cash reserves (\$38.8m as at 30 June 2022) — Issuance of c.3.5m shares (4.59% of UNI) to the vendors at an implied price of \$4.96 per share⁴ with 50% escrowed until release of FY24 results and 50% escrowed until release of FY25 results⁵ — DVC payments expected to be funded from UNI's cash reserves (expected to be \$5.0-9.0m per annum for next 3 years) — \$10.0m increase in Universal Store's debt facility to provide additional capital flexibility

Notes:

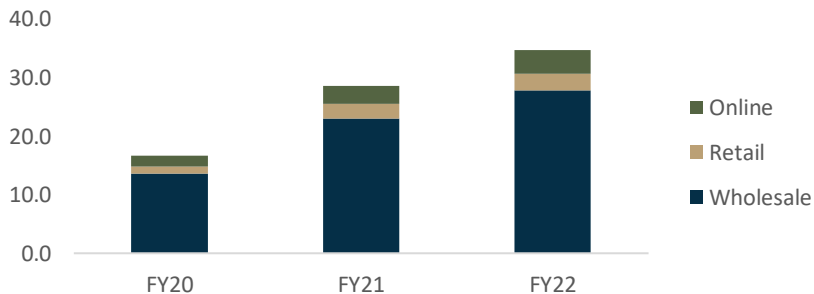
1. Based on Universal Store's assessment of CTC's pro-forma normalised full year contribution, pre-AASB 16 basis, based on CTC's unaudited accounts
2. Pro-forma EPS calculated assuming transaction had completed 1 July 2021
3. Expected to be approximately \$2.0m
4. Based on 10-day VWAP up to and including 23 September 2022
5. Subject to an early release mechanism in limited circumstances

CTC OVERVIEW

BUSINESS OVERVIEW

- CTC, trading as THRILLS, offers a curated range of vintage inspired casual fashion apparel with broad customer appeal among the youth and young adult customer cohort in Australia
- Strong wholesale channel with relationships across leading, specialty and boutique retailers
 - currently Universal Store’s #1 performing third party brand (c.9% Universal Store sales in FY22)
 - Universal Store represents c.26% of total CTC sales in FY22. CTC sales to Universal Store has grown by c.51% since FY20
- Emerging ‘Direct To Customer’ (DTC) channel with eight stores (plus two opening by November 2022) and an online channel contributing c.9% and c.12% of FY22 sales respectively
- Successful range expansion and highly responsive product development processes and supply chain have been the main enablers of CTC’s impressive sales growth over recent years
- Small but growing wholesale channel in the US (c.2% of sales)

CTC SALES BY CHANNEL (\$M)



UNIVERSAL RELATIONSHIP WITH CTC

- The founders and management team are well known to UNI, with a working relationship spanning c.9 years
- Significant trust and respect has been built over a number of years which reduces execution risk around culture clash
- CTC’s management team is highly motivated to continue to grow the business in partnership with UNI

PEOPLE AND VALUES

- The CTC team is passionate, professional and highly aligned to UNI’s approach to customer led and responsive product design, disciplined pricing (i.e. minimal discounting), quality product and frequent fashion drops in store and online
- CTC has ‘best-in-class’ fast to market and SMU processes to respond to customer demand and differentiate their range across channels and key accounts. This has been a key driver of the business’ growth and underpins the successful partnership developed with UNI

✓ Positive track record of collaboration with UNI

✓ Sustainability focus in product sourcing and fabrication

✓ High work ethic and lean business

✓ Customer first and risk aware

THRILLS BRAND & PRODUCT

THRILLS

PALM TREES & STREET MACHINES

A subculture driven lifestyle clothing & fashion brand from Byron Bay, creating leading vintage inspired fashion and men's & women's streetwear with a sustainable future front of mind. Established in 2011

Wearable products | Sustainable fabrics | Ethically sourced | Quality construction

- CTC's brand portfolio includes both the THRILLS brand and a number of new and emerging brands. The breadth of product offer and robust brand fundamentals are central to Universal Store's thesis about the capacity for THRILLS to support a larger retail footprint, while continuing to have deep relationships with, and deliver outstanding service to, key retail partners (i.e. wholesale accounts)
- Sales mix with ~47%/53% split between men's and women's product. THRILLS offers a carefully curated range of products that spans denim, outerwear, tees, dresses and accessories and more – with products designed for customers living a casual coastal lifestyle
- Capacity to extend brand into adjacent channels (e.g. current collaboration with Hard Yakka to enter 'work wear' category)
- CTC's emerging brands are currently <10% of sales and growing quickly. These emerging brands present an exciting incremental opportunity for future growth
- The THRILLS brand has become a mainstay of casual youth and young adult fashion in Australia. While FY22 sales were \$34.6m (of which ~79% is wholesale), the grossed up "retail value" of total product sales was approximately \$60m, which we believe is a better indicator of the awareness and breadth of appeal of the brand(s)

A COMPLIMENTARY STRATEGIC FIT FOR UNIVERSAL STORE

THRILLS IS A WELL-DEVELOPED BRAND IN THE CASUAL YOUTH FASHION SEGMENT WITH A TRACK RECORD OF GROWTH AND EXCITING PROSPECTS FOR CONTINUED EXPANSION



HIGHLY COMPLIMENTARY, ATTRACTIVE ACQUISITION

- THRILLS is a well-established brand led by founders with excellence in brand and product development and partnering with key retail accounts
- CTC and Universal Store share common values, passion for great product, speed to market processes, and customer centricity
- Consistent with Universal Store's strategy to build a portfolio of premium youth fashion retail businesses and brands
- THRILLS' enduring brand attributes, broad customer appeal, nascent DTC channels, and CTC's ability to create new brands for the youth and young adult fashion market provides significant growth opportunities

OPPORTUNITY FOR UNIVERSAL STORE TO ADD VALUE

- CTC will operate as an standalone business in the UNI group with continued focus on delivering outstanding service to premium retail partners and its DTC customers
- With the support and insight from Universal Store, we believe THRILLS can become a large and enduring Australian youth fashion brand with national presence and broad customer appeal
- Universal Store will support more informed and focused DTC retail strategy for THRILLS, and support the continued growth of the wholesale channel with quality retail partners
- Universal Store will bring significant IP and insight to help CTC execute their DTC strategy, most significantly in areas including store design; retail operations and site selection; and omni-channel strategy and systems

ACQUISITION STRUCTURE

ACQUISITION OF 100% OF CTC, WITH 70% PAID UPFRONT AND 30% DEFERRED (AND VARIABLE)

ACQUISITION STRUCTURE

- Acquisition of 100% for an initial notional EV of \$50.0m on a cash free / debt free basis (6.8x normalised FY22 EBIT)
- Upfront consideration of \$17.5m in cash and \$17.5m in UNI shares (together 70% of initial notional enterprise value)
- UNI shares provide the CTC founders with significant exposure to the success of the group
- Deferred Variable Consideration (DVC), notionally \$15.0m
 - Each of the three payments will be calculated as 10% of the Adjusted Notional Value (ANV) at the end of the relevant year
 - ANV calculated with reference to CTC's EBIT in each of FY23, FY24 and FY25 multiplied by the relevant multiple at each future payment date as per the multiple matrix
 - DVC amounts to be determined and paid following finalisation of audited accounts for each period (i.e. in September / October following the end of each of FY23, FY24 and FY25)

DVC MULTIPLE MATRIX

CTC EBIT in period	Relevant multiple
<\$7.0m	5x
>\$7.0m and <\$11.0m	6x
>\$11.0m	7x

WORKED EXAMPLE (ILLUSTRATIVE ONLY)

- By way of illustration, if the CTC EBIT in FY23 is \$9.5m, the DVC payable in ~Oct 23 will be \$5.7m
- Calculation example: $\$9.5m \times 6 \times 10\% = \$5.7m$

FUNDING AND FINANCIAL IMPACT

ACQUISITION OF 100% OF CTC, WITH 70% PAID UPFRONT AND 30% DEFERRED (AND VARIABLE)

FUNDING

- Consideration funded through:
 - Universal Store's cash reserves (\$38.8m as at 30 June 2022)
 - Issuance of c.3.5m shares (4.59% of UNI) to the CTC vendors at an implied price of \$4.96 per share¹ (Consideration Shares)
 - 50% of the Consideration Shares will be escrowed until the release of UNI's FY24 results and the remaining 50% will be escrowed until the release of UNI's FY25 results²
 - Total future DVC payments are estimated at \$15.0-25.0m
 - Future DVC payments are expected to be funded from cash reserves.
 - \$10.0m increase in Universal Store's debt facility provides additional capital flexibility

ACQUISITION SOURCES AND USES

Sources	\$m	Uses	\$m
UNI cash reserves (FY23)	19.5	Upfront cash consideration	17.5
Issue of 3.5m UNI shares	17.5	UNI scrip consideration	17.5
UNI cash reserves (FY24-FY26) ³	15.0	DVC payments	15.0
		Transaction costs (M&A)	2.0
Total sources	52.0	Total uses	52.0

PRO-FORMA FINANCIAL IMPACT ON FY22 EPS⁴

\$m	UNI	THRILLS	Financing	Merge Co
EBIT	30.9	7.3	-	38.3
Interest	(0.6)	-	(0.2)	(0.8)
PBT	30.3	7.3	(0.2)	37.5
Tax	(9.2)	(2.2)	0.1	(11.3)
NPAT	21.1	5.1	(0.1)	26.1
SOI	73.2	-	3.5	76.7
EPS (CPS)	28.8	-	-	34.0
<i>Pro-forma EPS accretion</i>				18.0%

Notes:

1. Based on 10-day VWAP up to and including 23 September 2022
2. In each case subject to early release in circumstances where UNI sells CTC or all, or substantially all, of CTC's assets to a third party or where all Sellers have received all their DVC payments
3. Based on notional Enterprise Value of \$50.0m. The actual DVC amounts will vary and be determined based on CTC performance
4. Pro-forma EPS accretion is calculated assuming the transaction had completed on 1 July 2021

POST ACQUISITION GROUP OVERVIEW

Universal Store

Universal Store Holdings Limited
ASX: UNI

- Australia's premier owner and operator of youth and young adult fashion retail brands
- A grower of businesses, with excellence in culture, retail execution and brand management
- Customer focused, detail oriented, nimble, multi-channel operations
- Focused on results, risk management, and fostering outstanding talent

PERFECT STRANGER

- #1 selling 'brand' at Universal Store
- www.perfectstranger.com.au
- Emerging standalone retail concept
- On trend women's fashion focused
- Complementary brands ranged in store
- 3 standalone stores at end of FY22, with further 4 new stores opening by end of December 2022. Potential yet to be sized
- Brisbane based. (Co-located and co-managed with Universal Store)

Universal Store

- Australia's largest specialty retailer of premium casual youth fashion
- www.universalstore.com.au
- ~50% of sales derived from private brands and 'sister businesses' (i.e. THRILLS)
- On trend men's and women's casual fashion
- Over 50 brands ranged in store
- 76 stores at the end of FY22¹
- Brisbane based. (Co-located and co-managed with Perfect Stranger)

THRILLS

- #1 selling '3P brand' at Universal Store
- www.THRILLS.co
- Vibrant wholesale channel with premium retail partners (including Universal Store)
- Men's and women's casual fashion, quality, sustainable, vintage looks, wide range
- Emerging standalone retail concept
- 8 standalone stores, with a further 2 new stores opening by end of November 2022. Potential yet to be sized
- Byron Bay based. Independently managed

Notes:

1. Includes physical stores only

CTC FINANCIALS

(A\$ million)

UNAUDITED CTC SUMMARY P&L ¹	FY22	FY21
Total sales	34.6	28.5
Retail ²	2.9	2.5
Wholesale	27.7	22.9
Online	4.0	3.0
COGS	(17.4)	(14.1)
Gross profit	17.2	14.4
<i>% margin</i>	<i>49.7%</i>	<i>50.6%</i>
Employment expenses	(4.3)	(3.9)
Occupancy expenses	(0.9)	(0.6)
Marketing expenses	(1.3)	(0.9)
Other	(3.1)	(2.1)
Underlying EBITDA	7.6	6.9
<i>% margin</i>	<i>22.0%</i>	<i>24.3%</i>
Depreciation	(0.3)	(0.2)
Underlying EBIT	7.3	6.8
<i>% margin</i>	<i>21.2%</i>	<i>23.7%</i>

Notes:

1. Unaudited summary financial statement, normalised earnings on a pre-AASB 16 basis
2. Retail sales in FY22 were materially impacted by store closures and floods. Two new stores opened in FY22 (Bondi and Pacific Fair) and one has been permanently closed

DISCLAIMER

This presentation has been prepared by Universal Store Holdings Limited (Company). This presentation contains summary information about the Company and its subsidiaries (Group) and the business conducted by the Group and by Cheap THRILLS Cycles Pty Limited (CTC). The information in this presentation is general information and in summary form and does not purport to be complete or comprehensive. This presentation should be read in conjunction with the Company's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange.

This presentation is not and should not be considered, and does not contain or purport to contain, an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in the Company (Securities) nor does it constitute financial product or investment advice (nor taxation or legal advice) nor take into account your investment objectives, taxation situation, financial situation or needs. This presentation does not constitute an advertisement for an offer or proposed offer of Securities. Neither this presentation nor anything contained in it shall form the basis of any contract or commitment and it is not intended to induce or solicit any person to engage in, or refrain from engaging in, any transaction nor is it intended to be used as the basis for making an investment decision.

The material contained in this presentation may include information, data, estimates and projections derived from CTC, from publicly available sources or other third party sources that have not been independently verified by the Company. No representation or warranty is made as to the accuracy, completeness or reliability of the information. Estimates and projections involve risks and uncertainties and are subject to change based on various factors.

To the fullest extent permitted by law, no representation or warranty (expressed or implied) is given or made by any person (including the Company) in relation to the accuracy or completeness of all or any part of this presentation and no responsibility for any loss arising in any way (including by negligence) from anyone acting or refraining from acting as a result of the material contained in this presentation is accepted by the Company.

An investor must not act on the basis of any matter contained in this presentation but must make its own assessment of the Group and conduct its own investigation and analysis. The information in this presentation is subject to change without notice. The Company has no obligation to update or correct this presentation, except as required by law.

A number of figures, amounts, percentages, estimates and calculations of value in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

All dollar values are in Australian dollars (A\$), unless otherwise stated.

The operating and historical financial information given in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of the Company's views on the Group's future performance or condition and of the Company's view on the performance or condition of CTC. You should note that past performance of the Group cannot be relied upon as an indicator of (and provides no guidance as to) future Group or CTC performance.

This presentation may contain forward looking statements with respect to the operations and businesses of the Company or CTC. The assumptions underlying these forward looking statements involve circumstances and events that have not yet taken place, and which are subject to uncertainty and contingencies outside the Company's control. Readers are cautioned not to place undue reliance on any forward looking statements. The Company does not undertake any obligation to publicly release the result of any revisions to forward looking statements in this presentation or to otherwise update forward looking statements, whether as a result of new information, future events, or otherwise, after the date of this presentation, except as required by law.