

# HEADLINE

*Group Limited*

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16 July, 2010

For immediate release to the market

## PROPOSED ACQUISITION OF 25% OF HEADLINE GROUP LIMITED

Please find attached for release to the market details of a proposed acquisition of an interest in the securities of Headline Group Limited, together with details of proposed acquisitions by Headline Group Limited.

Headline Group Limited



Ian Gordon  
Company Secretary



# HEADLINE

Group Limited



**MOTHERCARE PLC PROPOSED ACQUISITION OF 25% OF HEADLINE GROUP VIA INVESTMENT OF \$12.2M**

**ACCELERATION OF AUSTRALIAN ROLL OUT**

**“BABY ON A BUDGET” ACQUISITION IN WESTERN AUSTRALIA**

**HEADLINE PROPOSES TO ACQUIRE 100% OWNERSHIP OF SKANSEN KCG**

## **Mothercare Plc Investment**

Following the recent successful launch of the Mothercare brand in the Australian market, Mothercare Plc, the global parenting company, has agreed to invest \$12.2M of fresh capital into Headline Group Limited (“HLD”) subject to due diligence and agreement of final documentation.

Mothercare Plc is the leading global retailer of parenting and children’s products with 1,167 stores in 53 countries worldwide, operating under the Mothercare and Early Learning Centre brands.

The capital will provide HLD with increased resources to accelerate the nationwide expansion of the Mothercare and Early Learning Centre brands in Australia and New Zealand through a combination of acquisitions and organic store roll-out. HLD has agreed with Mothercare a store development plan for both the Mothercare and Early Learning Centre brands. The capital investment will result in the HLD Group being debt free (subject to repayment obligations under the convertible note as described below) with sufficient cash reserves to undertake its business plan.

Mothercare Plc’s investment will be made in the form of a convertible note, the convertibility of which will require shareholder approval. The issue of the convertible note will not affect HLD’s ability to issue securities under ASX Listing Rule 7.1. HLD will convene a General Meeting of Shareholders to consider and approve the convertibility of the Mothercare note to 43.62M HLD ordinary shares (representing 25% plus 1 share of the share capital on a fully diluted basis at a conversion price of \$0.28 per HLD share ).

In the event that shareholder approval is not received, the note will be interest bearing and repayable within 3 months of the shareholder meeting.

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Mothercare's protections under its franchise agreement will be enhanced by the surrender by HLD of its trade marks to Mothercare which will be relicensed to HLD. In addition, Mothercare will nominate one representative to join the HLD board and certain limited corporate decisions by HLD will require Mothercare approval.

The parties will also enter into a development agreement and store conversion plan for Australia and a development agreement for the Mothercare and ELC brands in New Zealand.

### **"Baby On A Budget" Acquisition in Western Australia**

Separately, HLD announces that it has entered into a Heads of Agreement to acquire "Baby On A Budget" (BOAB) in Western Australia for \$2M, with the purchase price split 50% equity (HLD will issue 3.33M shares at \$0.30/share) and 50% cash. In addition, HLD will assume \$1.1M of bank debt currently in BOAB. The transaction remains subject to due diligence and agreement of final documentation.

BOAB is a leading specialist mother and baby retail operator in Perth with 7 stores in key locations. BOAB generated revenue of in excess of \$11M in FY2010 – up 20% on its FY2009 performance. The normalised EBITDA for the business in FY2010 is estimated at \$750k.

The acquisition represents a 4x EBITDA multiple, together with a potential earn-out (subject to meeting certain criteria) of a further \$1M in consideration, split 50% equity and 50% cash.

With the introduction of the Mothercare brand in these stores, we expect to enhance the BOAB profitability next year. Earnings improvement is expected from:

- Introducing new Mothercare and Early Learning Centre product categories to BOAB stores (such as maternity, kids apparel, and toys)
- Incorporating exclusive Mothercare products to the Home and Travel category.

All stores will be converted to the Mothercare format within the next two years.

### **Headline proposes to acquire 100% ownership of Skansen KCG**

Currently HLD owns 73% of Skansen KCG. HLD has agreed to purchase the remaining 27% of shares from minority shareholders in exchange for the repayment of the outstanding convertible notes (\$2.5M) and the issue of 7,500,000 HLD shares. This acquisition will enable HLD to distribute its franking balance should profits be generated. Additionally, Mike Lewis (responsible for building the Early Learning Centre and Kids Central retail business in Australia) will join the HLD Board of Directors.

### **Other potential acquisitions**

In order to accelerate its roll out of the Mothercare and Early Learning Centre brands in Australia, HLD is evaluating other potential acquisition targets. While no negotiations are currently in train, subject to shareholder approval, HLD will grant to Mothercare plc an option over 6 million ordinary shares expiring on 1 January 2011 such that it may elect to retain its percentage interest in HLD in the event that any acquisition proceeds in the near term. The Option will be exercisable at \$0.28 per share, and shall otherwise be fully

exercisable at Mothercare's election. The proceeds of any exercise of such option will be applied by HLD in the pursuit of its corporate objectives.

**Summary**

Overall, the above-described initiatives place HLD in a strong position to expand the Mothercare and Early Learning Centre brands in Australia. Sales at the first two Mothercare stores have exceeded initial expectations.

HLD believes it is now in a position to accelerate the expansion of the Mothercare and Early Learning Centre store network throughout Australia in line with the Group's objectives and business strategy.

Gordon Elkington

Brent Dennison

Executive Chairman

Managing Director

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