



COMPANY ANNOUNCEMENT

Capilano Honey shareholders to vote on privatisation proposal with attractive premium

Capilano Honey Limited (ASX:CZZ) (“**Capilano**”) announces that it has entered into a Scheme Implementation Agreement with Bravo HoldCo Pty Ltd (“**HoldCo**”), an entity owned by Wattle Hill RHC Fund 1¹ (“**Wattle Hill**”) and ROC Capital Pty Ltd² (“**Roc Partners**”) (together, the “**Consortium**”), and will unanimously recommend it to Capilano shareholders in the absence of a superior offer emerging, subject to the independent expert concluding that the offer is fair and reasonable and in the best interests of Capilano shareholders.

Transaction Highlights

- Capilano has entered into a Scheme Implementation Agreement with HoldCo, an entity owned by the Consortium, under which it is proposed that a subsidiary of HoldCo will acquire 100% of the share capital of Capilano by way of a Scheme of Arrangement.
- If the Scheme is implemented, Capilano shareholders will be entitled to \$20.06 per share cash, which represents a premium of 28.2% to the last close of \$15.65 per share and implies an FY18 P/E multiple of 19.3x and an EV / FY18 EBITDA multiple of 12.5x.
- A scrip alternative provides Capilano shareholders with the potential to participate in the future of Capilano through an all-scrip 1:1 offer.
- Those shareholders electing the scrip alternative can also subscribe at \$20.06 per share for a further 0.5 HoldCo share for every 1 share held in Capilano (“**Subscription Offer**”), subject to rounding and a scale back mechanism.
- Directors of Capilano unanimously recommend to Capilano’s shareholders to vote in favour of the Scheme, subject to the independent expert determining that the Scheme is fair and reasonable and in the best interests of Capilano shareholders and no superior proposal emerging.
- The Scheme is conditional on shareholders representing at least 15.0% electing to receive scrip. If scrip elections and Subscription Offer applications collectively exceed 49.9% of HoldCo shares, scale back arrangements will apply.
- Wroxby Pty Ltd, which currently holds 20.6%³ of total issued shares, has indicated that, in the absence of a superior proposal, it intends to vote in favour of the Scheme and to elect to receive scrip consideration rather than cash consideration, ensuring the minimum scrip consideration condition is met.
- The Scheme vote is proposed to be held in November 2018, with Scheme implementation proposed to occur in December 2018.

¹ Together with its affiliates and funds managed by it, its affiliates or its co-investors.

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³ Wroxby Pty Ltd holds 1,948,689 ordinary shares representing 20.6% voting power as disclosed in the FY18 Annual Report.



After careful consideration, the Capilano Board has determined that the HoldCo offer provides an opportunity for shareholders to realise value for their Capilano shares at an attractive premium to the recent trading price of the company, particularly given liquidity of the stock is low.

In addition, the Board believes the Consortium shares its commitment to the Australian honey industry and maintaining strong beekeeper relationships. An important part of the Board's consideration of the Consortium offer was its commitment to ensuring the continuing supply to Australian consumers as well as having strong plans in place to grow exports of premium Australian honey.

For Capilano shareholders, the Cash Consideration of \$20.06 per share values Capilano's equity⁴ at approximately \$189.7m, representing:

- 28.2% premium to Capilano's closing share price of \$15.65 on 10 August 2018;
- 25.3% premium to Capilano's VWAP for the 30-day period (\$16.01) ended 10 August 2018⁵;
- a P / E⁶ multiple of 19.3x (financial year end 30 June 2018); and
- an EV / EBITDA⁷ multiple of 12.5x (financial year ended 30 June 2018).

Scrip Offer and Subscription Election

Shareholders that elect the Scrip Offer will receive 1 HoldCo share for every 1 share held in Capilano, subject to scale back arrangements. Shareholders that elect the Scrip Offer will also have the opportunity to subscribe for additional HoldCo shares at the ratio of 0.5 shares for every 1 share they hold in Capilano, at a price per subscription share equal to the cash offer price of \$20.06.

The Scrip Offer and Subscription Offer may only be accepted in respect of all (but not only some) of a shareholder's entitlement.

It is a condition of the Scheme that holders of at least 15.0% of existing Capilano shares will elect to receive scrip consideration in HoldCo. If scrip elections and Subscription Offer applications collectively exceed 49.9% of HoldCo shares, scale back arrangements will apply.

Capilano's Board Response

The Board, together with its advisers, has carefully considered the proposal as part of its overall and continued focus on maximising value for shareholders. The Board of Capilano unanimously recommends that Capilano shareholders vote in favour of the Scheme, subject to:

- the independent expert concluding that the proposal is fair and reasonable and in the best interests of Capilano shareholders; and
- there being no superior proposal.

Each of the Capilano Directors intends to vote in favour of the Scheme in relation to the Capilano shares directly or indirectly owned or controlled by them.

Capilano Chairman, Mr Trevor Morgan, said: "The Directors have carefully considered the benefits and disadvantages of the Scheme proposal by the Consortium and concluded that the cash option under the Scheme would provide a certain cash outcome for shareholders for their shares at a premium price. Therefore, Directors have recommended shareholders vote in favour of the Scheme in the absence of a superior proposal emerging and subject to the independent expert concluding the offer is fair and reasonable and in the best interests of shareholders."

⁴ Shares on issue is 9,457,481.

⁵ Volume weighted average price for the 30 calendar days prior to 10 August 2018.

⁶ Price is based on the \$20.06 offer price. Earnings per share is based on Net Profit After Tax for the period ended 30 June 2018 of \$9.8m divided by shares on issue.

⁷ Enterprise Value calculated using shares on issue and net debt of \$11.4m as at 30 June 2018. EBITDA is equal to earnings before interest, tax, depreciation and amortisation. EBITDA for the period ended 30 June 2018 is \$16.1m.

“The Board remains confident that Capilano is well positioned to deliver growth across its brand portfolio in both the domestic and export markets,” Mr Morgan said.

“This growth, particularly our investment into our premium and therapeutic brands and marketing into the Asian region, will take time and involve execution risks. Therefore, we believe shareholders should have the opportunity to realise their Capilano shares in cash now.”

Dr Ben McKee, Managing Director of Capilano, said:

“The Consortium will bring added capability necessary to build our brands on a truly global scale. In particular Wattle Hill’s strong relationships in Asian markets provides an opportunity to unlock the potential of Capilano Group’s premium and therapeutic brands. The Consortium understand the importance of our Beekeeper network and outlined its intention to invest further into the industry.”

Capilano Beekeeper Supplier Relationships

Mr Phillip McHugh, who was appointed to the Board by the Capilano Beekeepers Limited, said:

“Maintaining existing relationships with Australian Beekeepers is of the utmost importance. We believe the Consortium recognises the importance of Capilano’s supplier relationships and is committed to continuing to invest in the future of beekeepers and ultimately support growth in the Australian honey market.”

HoldCo Consortium comment

Spokesperson for Roc Partners, Michael Lukin said: “We are pleased that we have reached an agreement with Capilano to put forward this proposal to its shareholders. We believe it is a compelling value proposition that will deliver immediate and significant value to all stakeholders, especially Australian Beekeepers, who will continue to have a strong voice at Capilano as the Consortium confirms beekeeper representation on the board will be maintained. Our equity investment in Capilano Honey will be sourced from our Australian superannuation fund clients meaning this great company will remain majority Australian owned.”

Spokesperson for Wattle Hill, Albert Tse said: “Capilano has a tremendous portfolio of high quality brands and the Consortium intends to retain and further invest in them on a demand-led basis. Our key aim is to enhance the position of Capilano’s brands in key domestic markets as well as drive expansion of brands in offshore growth markets, such as China, as a producer of premium Australian-sourced product. The focus will be on delivering innovative products with therapeutic and digestive health benefits in demand by Asian and Chinese consumers.”

Substantial Shareholder Intentions

Australian Capital Equity Pty Ltd and its wholly owned subsidiary Wroxby Pty Ltd have a relevant interest in 20.6% of issued shares in Capilano. Wroxby has indicated that, in the absence of a Superior Proposal (as defined in the Scheme Implementation Agreement), it intends to vote in favour of the Scheme and to elect to receive scrip consideration rather than cash consideration.

Independent Expert

The Directors of Capilano have appointed BDO to prepare an independent expert report to assist them, and Capilano’s shareholders, in assessing the merits of the Scheme. The report is expected to be sent to shareholders with Capilano’s Scheme Booklet.

Details of the Scheme Implementation Agreement

A scheme of arrangement is a court-approved process which requires Capilano to obtain approval from its shareholders at a Special Meeting. The Scheme requires the approval of both (i) 75% of all votes cast by shareholders; and (ii) 50% of the number of Capilano shareholders who vote.

The conditions to the Proposal are contained in the Scheme Implementation Agreement and include:

- minimum scrip acceptance by Capilano shareholders of 15.0% of the issued share capital in HoldCo;
- Capilano’s shareholder approval;
- obtaining necessary Court approval; and
- no material adverse change.

The Scheme Implementation Agreement also outlines circumstances under which a break fee may be payable by Capilano to the Consortium.

A copy of the Scheme Implementation Agreement is attached to this announcement.

Indicative Timetable

A shareholder meeting to consider the Scheme is expected to be held in November 2018. Subject to shareholder approval and other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in December 2018. Prior to the meeting, shareholders will receive a Notice of Meeting and the Scheme Booklet as well as a copy of the BDO independent expert report.

Mr Morgan said: “The Board strongly encourages shareholders to carefully consider the Scheme documentation and the additional attachments. Shareholders have an opportunity to control the future of their investment in Capilano. We urge Capilano shareholders to exercise their right to vote on the Scheme either in person, or by proxy, however, they should read the Scheme Booklet once it is available and seek independent advice as necessary.”

Capilano is being advised by KPMG Corporate Finance and Herbert Smith Freehills.

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About Capilano Group Limited

Capilano was founded by apiarists Tim Smith MBE and his brother, Bert, in 1953. The brothers began the business by packing and selling Capilano brand honey to grocery stores around Brisbane, Australia. Capilano has grown to be the market leader for honey in Australia and is one of the world’s largest honey packers. Capilano’s Head Office is located in Brisbane, with operational sites in Brisbane (QLD), Perth (WA) and Maryborough (VIC) and joint-venture beekeeping operations in Evans Heads (NSW) and Perth (WA).

About Wattle Hill

Headquartered in Sydney, with offices in Hong Kong and Beijing, Wattle Hill is a private equity fund focused on investments in quality Australian businesses that offer products and services in demand by Chinese consumers. Wattle Hill identifies leading enterprises that will benefit from China’s economic growth and development then helps them prepare for and navigate Chinese market entry and expansion. Wattle Hill is one of the only investment firms with a defined concurrent focus on the Chinese and Australian markets.

Wattle Hill was founded by Albert Tse and Lisa Fang, both Australian educated and highly regarded cross-border investment professionals between Australia and China, with significant experience across M&A, IPO and principal investments. Wattle Hill combines an experienced team to bridge the business and cultural gap between the two countries.

Wattle Hill established its Australian fund in March 2016 with two of the largest insurance groups from China and Europe, as well as family office investors from China’s leading private e-commerce and FMCG companies. Wattle Hill’s Investment Committee includes one of Australia’s most respected investors, Ashok Jacob of Ellerston Capital, and Sean Huang of Riverhead Capital, the private equity arm of Sunshine Insurance Group, one of China’s largest privately-owned insurance groups with over 35 million direct policy holders.

About ROC Partners

Roc Partners is a leading alternative investment manager specialising in private equity investments across the Asia Pacific region. It was established in June 2014 following a management buy-out of Macquarie Group's private markets business unit that has been in continuous operation since 1996. Roc Partners has over 30 staff members across three offices and has total funds under advice (FUA) of approximately \$6 billion. Roc Partners' equity investment in Capilano Honey will be sourced from its Australian superannuation fund clients. While most of its investment activities are in Australia, Roc Partners has also invested significant capital in other markets across Asia Pacific, including China, India, Japan and South-East Asia. Roc Partners has invested in over 65 direct investments alongside its investment partners across the Asia Pacific region.

Roc Partners has strong capabilities in the agricultural industry. The company invested in Stone Axe Pastoral in May 2017. The company currently owns over 10,000 acres of prime pastoral land and is rapidly expanding its herd through large scale embryo transfer programmes and aims to have an ultra-premium wagyu breeding herd in excess of 10,000 head within five years. Roc Partners also invested in Australia's Oyster Coast (AOC) earlier this year, a NSW headquartered vertically integrated oyster grower, processor and marketer. AOC currently owns in excess of 110 hectares of oyster leases across six NSW south and mid-north coast estuaries allowing consistent year-round supply of Sydney Rock Oysters to Australia's top restaurants and premium seafood distributors.