

ASX Market Announcements Office
Australian Securities Exchange
Exchange Centre
20 Bridge Street
Sydney NSW 2000

9 May 2018

TAKEOVER BID FOR GODFREYS GROUP LIMITED: TARGET'S STATEMENT

Pursuant to item 14 of subsection 633(1) of the Corporations Act 2001 (Cth) (**Corporations Act**), we enclose a copy of our Target's Statement and the accompanying independent expert's report in relation to the off-market takeover bid by Arcade Finance Pty Ltd (**Arcade**) for all the shares in Godfreys Group Limited in which Arcade does not have a relevant interest.

A copy of the Target's Statement has today been lodged with the Australian Securities & Investments Commissions and sent to Arcade.

Dispatch of the Target's Statement to Godfreys shareholders will be completed today.

Yours sincerely



Brendan Fleiter
Chairman
Godfreys Group Limited



GODFREYS GROUP LIMITED

ABN 35 602 722 985

Target's Statement

in response to the offer by Arcade Finance Pty Ltd to acquire all of your Godfreys Shares

The Independent Directors of Godfreys recommend that, in the absence of a superior proposal, you **ACCEPT** the Arcade Offer to purchase all of your Godfreys Shares for \$0.32 cash per Godfreys share.

The Independent Expert has concluded that the Arcade Offer is fair and reasonable for Godfreys Shareholders not Associated with Arcade.

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your financial or other professional adviser immediately.

Financial Adviser



Legal Adviser

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Important notices

Nature of this document

This document is a Target's Statement dated 9 May 2018 issued by Godfreys Group Limited ACN 602 722 985 (**Godfreys**) in accordance with Division 3 of Part 6.5 of the Corporations Act, in response to the off-market takeover bid announced on 9 April 2018 by Arcade Finance Pty Ltd ACN 149 252 719 (**Arcade**).

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 11. That Section also sets out some rules of interpretation which apply to this Target's Statement.

Investment decision and no account of personal circumstances

The Independent Directors of Godfreys recommend that you read this Target's Statement and the Bidder's Statement in full and seek independent advice if you have any queries in respect of the Arcade Offer. This Target's Statement should not be taken as personal financial, investment or tax advice, as each Godfreys Shareholder's deliberations and decision will depend upon their own individual financial situation, tax position, investment objectives and particular needs. You should seek independent financial, taxation, legal or other professional advice before making a decision whether or not to accept the Arcade Offer.

Forward-looking statements

This Target's Statement may contain forward-looking statements, which include all statements other than statements of historical fact. Godfreys Shareholders should note that forward-looking statements are only expectations or predictions and are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of Godfreys. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

The risks, variables and other factors that may affect the forward-looking statements include matters specific to the sectors in which Godfreys operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of Godfreys Shares, including the risk of possible price decline in the absence of the Arcade Offer or other takeover or merger speculation; and risks associated with the business and operations of Godfreys.

None of Godfreys, its officers, advisers, employees, nor any other person (including any person involved in the preparation of this Target's Statement), subject to the Corporations Act, gives any representation or warranty (express or implied) or gives any assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statements, or any events or results expressed or implied in any forward-looking statements, except to the extent required by law. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

The forward-looking statements in this Target's Statement reflect views held as at the date of this Target's Statement.

ASIC and ASX

A copy of this Target's Statement was lodged with ASIC on 9 May 2018 and provided to the ASX on 9 May 2018. Neither ASIC nor ASX, nor any of their respective officers, takes any responsibility for the content of this Target's Statement.

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Disclaimer as to information

The information in this Target's Statement about Arcade has been compiled from, or is otherwise based on, information obtained from either Arcade, or publicly available sources, and has not been independently audited or verified by Godfreys or its advisers. Accordingly, Godfreys does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information. If any information obtained from Arcade or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward-looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward-looking statements.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes responsibility for that report. Neither Godfreys nor any of its officers, advisers or employees assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of Godfreys, in relation to the information which it has provided to the Independent Expert.

Foreign shareholders

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Privacy

Godfreys has collected your information from the register of Godfreys Shareholders for the purpose of providing you with this Target's Statement. The type of information Godfreys has collected about you includes your name, contact details and information about your holding of Godfreys Shares. Without this information, Godfreys would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the name and address of Godfreys Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Godfreys Share Registry, and print and mail service providers) and may be required to be disclosed to regulators such as ASIC.

Further information

If you would like more information about Godfreys Shares which you hold, please contact the Godfreys Share Registry on 1300 494 781 (for calls made from within Australia or from outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

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Contents

Chairman's Letter	1
1. Reasons why you should accept the Arcade Offer.....	3
2. Reasons why you may decide not to accept the Arcade Offer.....	7
3. Frequently asked questions	9
4. Your choices as a Godfreys Shareholder	13
5. Information relating to Godfreys.....	16
6. Information relating to Arcade	28
7. Details about the Arcade Offer	30
8. Risk factors	36
9. Tax consequences.....	43
10. Additional information	44
11. Definitions and interpretation	53
12. Approval of Target's Statement	57
Attachment 1: Independent Expert's Report.....	58
Attachment 2: Defeating Conditions of the Arcade Offer	59

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Key Dates

Announcement Date	9 April 2018
Date of the Bidder's Statement	9 April 2018
Replacement Bidder's Statement lodged with Godfreys, ASIC and ASX	23 April 2018
Offer Period commences	24 April 2018
Date of this Target's Statement	9 May 2018
Last date for Arcade to provide Notice of Status of Conditions¹	17 May 2018
Offer Period ends (unless extended by Arcade)	7.00pm (Adelaide time) on 24 May 2018

Further information

Godfreys Shareholders may call 1300 494 781 (for calls made from within Australia or from outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST) if they have any queries in relation to the Arcade Offer.

¹ If the Offer Period is extended, this date will be taken to be postponed for the same period

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Chairman's Letter

9 May 2018

Dear Shareholders,

Background

On 9 April 2018, Arcade Finance Pty Ltd (**Arcade**), which currently holds a Relevant Interest in approximately 25.43% of the Godfreys Shares and Voting Power of approximately 28.09% in Godfreys (as at 6 April 2018 (**Last Trading Date**)), announced its intention to make an unsolicited takeover offer for all of the Godfreys Shares in which it does not have a Relevant Interest (**Arcade Offer**).

Under the terms of the Arcade Offer, you are being offered **\$0.32 cash** per Godfreys Share.

The Independent Directors recommend that you ACCEPT the Arcade Offer, in the absence of a superior proposal.

The Independent Directors have carefully reviewed the Arcade Offer against the prospects for Godfreys in the absence of the Arcade Offer, including Godfreys' implementation of the turnaround strategy announced on 20 February 2018, its ability to meet its obligations under its current financing arrangements and its ability to obtain alternative funding on favourable terms.

While good progress has been made in delivering operational efficiencies and progressing those key areas identified requiring further investment, there is no guarantee as to the benefits that the turnaround strategy will realise, nor the time required to realise these benefits.

Current retail environment and trading conditions also remain challenging which is expected to make it difficult for Godfreys to meet its obligations under its current financing arrangements.

In these circumstances, and in forming their recommendation, your Independent Directors have carefully considered the following:

- The Independent Expert has concluded that the Arcade Offer is fair and reasonable to Godfreys Shareholders not Associated with Arcade
- The Arcade Offer represents a premium to the recent trading prices of Godfreys Shares
- The Arcade Offer is a cash offer which delivers certain value for your Godfreys Shares
- As at the date of this Target's Statement, no superior proposal has emerged. The Independent Directors consider that it is unlikely a superior offer will emerge from another bidder, given Arcade's existing shareholding in Godfreys
- There are potentially adverse consequences if you choose not to accept the Arcade Offer

These reasons for recommending that you accept the Arcade Offer, in the absence of a superior proposal, are discussed in more detail in Section 1 of this Target's Statement.

Further important information

This Target's Statement contains Godfreys' formal response to the Arcade Offer. The Independent Expert's Report is set out in Attachment 1. We strongly encourage you to read all the information contained in this Target's Statement carefully (including the Independent Expert's Report) and to seek independent advice before deciding whether or not to accept the Arcade Offer.

The Arcade Offer is scheduled to close at 7.00pm (Adelaide time) on 24 May 2018. To accept the Arcade Offer, you should follow the instructions outlined in the Bidder's Statement, the Acceptance Form and Section 4.1 of this Target's Statement. No action is required if you decide not to accept the Arcade Offer. However, Godfreys Shareholders should note that there are risks associated with an investment in Godfreys. The key risks are set out in Section 8 of this Target's Statement.

If you need any more information about the Arcade Offer, we recommend that you seek professional advice, or call 1300 494 781 (for calls made from within or from outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

Yours sincerely,



Brendan Fleiter
Chairman

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1. Reasons why you should accept the Arcade Offer

This Section 1 summarises the key reasons why the Independent Directors recommend to Godfreys Shareholders that they accept the Arcade Offer, in the absence of a superior proposal.

The Offer Price under the Arcade Offer is \$0.32 cash per Godfreys Share.

1.1 The Independent Expert has concluded that the Arcade Offer is fair and reasonable for Godfreys Shareholders not Associated with Arcade

The IBC appointed the Independent Expert to prepare an Independent Expert's Report on the Arcade Offer. The Independent Expert concluded that the Arcade Offer is fair and reasonable for Godfreys Shareholders not Associated with Arcade.

The Independent Expert has valued 100% of the Godfreys Shares at a price of between \$0.25 and \$0.42 per Godfreys Share.

The Independent Expert has stated that the Offer Price "represents a premium of 30% to the low end of our valuation range and a discount of 23% to the high end of our valuation range", taking into account a premium for control.

The Independent Expert has also noted that valuation of Godfreys Shares is "highly sensitive to its earnings".

A copy of the Independent Expert's Report is attached to this Target's Statement as Attachment 1. The Independent Directors encourage Godfreys Shareholders to read the Independent Expert's Report in its entirety before making a decision as to whether or not to accept the Arcade Offer.

1.2 The Arcade Offer represents a premium to recent trading levels in Godfreys Shares

Before the Last Trading Date, Godfreys Shares had not traded at or above the Offer Price of \$0.32 cash per Godfreys Shares since 20 February 2018. The all cash consideration being offered by Arcade represents a premium for Godfreys Shares to recent trading prices of Godfreys Shares before the announcement of the Arcade Offer. Although Godfreys is a thinly traded stock, and its share price may not be a reliable guide to the fair value of Godfreys Shares, the Arcade Offer delivers a premium to Godfreys Shareholders based on the following benchmarks prior to the Last Trading Date:

- a 48.8% premium to the closing price of Godfreys Shares on the ASX on the Last Trading Date;
- a 46.1% premium to the average closing price of Godfreys Shares on the ASX on the five trading days prior to and including the Last Trading Date; and
- a 26.0% premium to the one-month VWAP of Godfreys Shares, up to and including the Last Trading Date.

Godfreys Shareholders should, however, also note the following benchmarks:

- the closing price of Godfreys Shares has been as high as \$0.82 in the 12 months prior to the Last Trading Date; and

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- for the period from 6 October 2017 to 6 April 2018 (being the Last Trading Date), Godfreys Shares traded at an average daily VWAP of \$0.44, which is approximately 38.2% above the Offer Price of \$0.32.



The declining Godfreys Share price reflects several factors, including the recent financial performance of Godfreys and its underperformance against market guidance. As set out in Section 5 below, Godfreys has taken specific measures to address these issues, but there is no guarantee as to the benefits that the turnaround strategy being implemented by Godfreys will realise, nor the time taken to realise these benefits.

1.3 The Arcade Offer is an all-cash offer which delivers certain value for your Godfreys Shares

Subject to the Defeating Conditions, the Offer Price of \$0.32 per Godfreys Share provides Godfreys Shareholders with the opportunity to realise certain value for their entire Godfreys Shareholding. If you accept the Arcade Offer, you will cease to be exposed to the risks associated with an investment in Godfreys (see Section 8.1 of this Target's Statement).

If you retain your Godfreys Shares, the price which you will be able to realise is uncertain and you will continue to be exposed to the risks associated with being a Godfreys Shareholder. The key risk factors for remaining a Godfreys Shareholder are discussed in Section 8.1. The Arcade Offer removes these risks and uncertainties for Godfreys Shareholders and allows Godfreys Shareholders to exit their investment in Godfreys.

In addition, Godfreys has postponed payment of dividends and, in the present circumstances, the Godfreys Board believes that the likelihood of dividends being paid in the short to medium term is low.

If you accept the Arcade Offer, subject to satisfaction or waiver of the Defeating Conditions, you will:

- be paid \$0.32 cash for each of your Godfreys Shares;
- not incur any brokerage fees which would likely be incurred if you were to sell your Godfreys Shares on-market; and

- subject to you providing the relevant documents to Arcade with your acceptance, receive your cash consideration within one month of the later of:
 - the Arcade Offer being accepted by you; and
 - the date on which all the Defeating Conditions have been freed or fulfilled,but in any event, within 21 days of the end of the Offer Period (assuming all Defeating Conditions have been satisfied or waived).

The Arcade Offer is subject to various Defeating Conditions, including Arcade acquiring greater than 90% of the Godfreys Shares and the requirement to obtain various third party approvals. Godfreys Shareholders should note that a number of these conditions are outside the control of Godfreys and (in certain cases) Arcade. The Arcade Offer is not subject to any funding conditions.

The Defeating Conditions are summarised in Section 7.3 and set out in full in Attachment 2 of this Target's Statement. Godfreys Shareholders should refer to Section 7.4 of this Target's Statement for further information on the status of the Defeating Conditions.

1.4 No superior proposal has emerged as at the date of this Target's Statement

Since the announcement of the Arcade Offer, Godfreys has engaged with third parties regarding potential alternative proposals for Godfreys Shareholders.

As at the date of this Target's Statement, no alternative proposals to the Arcade Offer have been put to Godfreys or are currently under consideration by Godfreys, and the Independent Directors are not aware of any other offer or proposal that might be an alternative to the Arcade Offer.

In light of Arcade's Relevant Interest in approximately 25.43% of the Godfreys Shares and Voting Power of approximately 28.09% in Godfreys (as at the Last Trading Date), the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

If a competing proposal is received prior to the end of the Offer Period, the Independent Directors will carefully consider the proposal and advise Godfreys Shareholders of their recommendation.

1.5 There are risks to not accepting the Arcade Offer

If you choose not to accept the Arcade Offer, there are certain potentially adverse consequences of which you should be aware.

(a) You will continue to be exposed to the risks associated with being a Godfreys Shareholder

There are a number of risks which may affect the future operating and financial performance of Godfreys. If you choose not to accept the Arcade Offer, you will continue to be exposed to these risks associated with being a Godfreys Shareholder, including in relation to:

- Godfreys' implementation of the turnaround strategy announced on 20 February 2018;
- the current challenging retail environment and trading conditions facing Godfreys;
- Godfreys' ability to meet its obligations under its current financing arrangements; and

- Godfreys' ability to obtain alternative funding on favourable terms.

Godfreys Shareholders should refer to Section 8 for further information regarding the risks associated with an investment in Godfreys.

(b) Godfreys Share price may fall if the Arcade Offer is unsuccessful

Since the Arcade Offer was announced, Godfreys Shares have traded in a range between \$0.21 and \$0.305 per Godfreys Share. As noted in Section 1.2 of this Target's Statement, the Arcade Offer represents a premium for Godfreys Shareholders to recent trading prices. Based on these recent trading prices, the Independent Directors believe that, if the Arcade Offer is unsuccessful and no alternative superior proposal emerges, the Godfreys Share price may trade below the Offer Price of \$0.32 per Godfreys Share.

(c) Risk of compulsory acquisition

If the Defeating Conditions are satisfied or waived, and Arcade proceeds to compulsory acquisition following the end of the Offer Period (which it has stated that it intends to do where it is entitled to do so), your Godfreys Shares will be compulsorily acquired and you will receive the same consideration that you would have received under the Arcade Offer. However, you are unlikely to receive the consideration at the same time as those Godfreys Shareholders who accept the Arcade Offer.

(d) Risk of becoming a minority shareholder

The Arcade Offer is presently subject to a 90% minimum acceptance Defeating Condition, which Arcade has not as at the date of this Target's Statement indicated it would waive. If Arcade waives this Defeating Condition (and all other Defeating Conditions are waived or satisfied), and you have not accepted the Arcade Offer by the end of the Offer Period in respect of all of your Godfreys Shares, you may become a minority Godfreys Shareholder in a company controlled by a single large Godfreys Shareholder, being Arcade. Arcade will have control of the company (to the extent it acquires Relevant Interests in at least 50.1% of Godfreys Shares) and may reduce liquidity of Godfreys Shares. This may make it more difficult to sell your Godfreys Shares outside the Arcade Offer at current price levels. Refer to Section 8.1 regarding the possible implications of becoming a minority Godfreys Shareholder.

There is also a possibility of Godfreys being delisted following the Arcade Offer, depending on the level of acceptances. Arcade has stated in its Bidder's Statement that where it acquires between 50% and 90% of Godfreys Shares, it intends to procure that Godfreys be removed from the official list of the ASX (subject to Godfreys Shareholder approval where necessary).

2. Reasons why you may decide not to accept the Arcade Offer

This Section 2 summarises the key reasons why you may decide not to accept the Arcade Offer.

2.1 You may wish to remain a Godfreys Shareholder

If you accept the Arcade Offer, you will no longer be entitled to participate in the future financial performance of Godfreys or exercise the rights of being a Godfreys Shareholder.

Section 5 of this Target's Statement contains information about Godfreys, and Section 8 contains information about the risks of remaining a Godfreys Shareholder, which you should consider in making your decision.

2.2 You may disagree with the Independent Directors' recommendation or the conclusions of the Independent Expert

You may believe that the Offer Price of \$0.32 per Godfreys Share is insufficient and you may hold a different view as to the value of Godfreys Shares to both the Independent Directors and the Independent Expert.

2.3 You will not be able to sell your Godfreys Shares on-market

If you accept the Arcade Offer, you will no longer be able to trade your Godfreys Shares on-market. There is a possibility that the future Godfreys Share price may exceed the price under the Arcade Offer, although there can be no certainty that this will occur and the Independent Directors can give no assurances that this will occur.

2.4 You may consider that there is a potential for a superior proposal to emerge

You may believe that a superior proposal for all Godfreys Shares could emerge in the future.

However, as at the date of this Target's Statement, no alternative or superior proposal has been received, and the Independent Directors consider it unlikely that a superior proposal will emerge.

2.5 The tax consequences of the Arcade Offer may not be suitable to your financial position

If you accept the Arcade Offer, it may result in taxation consequences for you, including exposure to CGT. Please refer to Section 9 of this Target's Statement for further information. However, Godfreys Shareholders should not rely on the disclosure of taxation considerations in Section 9 of this Target's Statement as being advice on their own affairs.

The Independent Directors encourage Godfreys Shareholders to consult with their independent taxation advisers regarding the taxation implications of accepting the Arcade Offer given their own particular circumstances.

2.6 Other matters

In considering whether to accept the Arcade Offer, the Independent Directors encourage you to:

- (a) read both this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement in their entirety;

- (b) consider the future prospects of Godfreys;
- (c) have regard to your individual risk profile, portfolio strategy, tax considerations and financial circumstances;
- (d) obtain independent financial advice from your own broker or financial adviser regarding the Arcade Offer; and
- (e) obtain taxation advice on the consequences for you of accepting the Arcade Offer.

3. Frequently asked questions

This Section 3 answers some commonly asked questions about the Arcade Offer. It is not intended to address all relevant issues for Godfreys Shareholders. This Section should be read together with all other parts of this Target's Statement (including the Independent Expert's Report).

Question	Answer
Who is offering to purchase my Godfreys Shares?	The Arcade Offer is being made by Arcade Finance Pty Ltd, which currently holds a Relevant Interest in approximately 25.43% of the Godfreys Shares, and Voting Power of approximately 28.09% (as at the Last Trading Date). Further information in relation to Arcade is set out in Section 6 of this Target's Statement.
What is Arcade offering for my Godfreys Shares?	The Offer Price under the Arcade Offer is \$0.32 cash per Godfreys Share.
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by Arcade setting out the terms of the Arcade Offer, a copy of which was originally dated and lodged with ASIC and released on ASX on 9 April 2018, and was amended by a supplementary Bidder's Statement dated 17 April 2018 and lodged with ASIC and released to ASX on 23 April 2018.
What is this Target's Statement?	This Target's Statement is Godfreys' formal response to the Arcade Offer. The Target's Statement contains information to help you decide whether to accept the Arcade Offer for your Godfreys Shares.
What choices do I have as a Godfreys Shareholder?	As a Godfreys Shareholder, you have the following choices in respect of your Godfreys Shares: <ul style="list-style-type: none"> • accept the Arcade Offer; • sell your Godfreys Shares on-market, unless you have previously accepted the Arcade Offer and have not validly withdrawn your acceptance (see below); or • reject the Arcade Offer by doing nothing. <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in Sections 4 and 8 of this Target's Statement.</p> <p>You should seek legal, financial and taxation advice from your professional adviser regarding the action that you should take in relation to the Arcade Offer.</p>
What are the Independent Directors recommending?	The Independent Directors recommend that you ACCEPT the Arcade Offer, in the absence of a superior proposal. The reasons for the Independent Directors' recommendation are set out in Section 1 of this Target's Statement.

Question	Answer
<p>What does the Independent Expert say?</p>	<p>The Independent Expert has concluded that the Arcade Offer is fair and reasonable to Godfreys Shareholders not Associated with Arcade. The Independent Expert has valued the Godfreys Shares at between \$0.25 and \$0.42 per Godfreys Share on a control basis.</p> <p>A copy of the Independent Expert's Report is attached to this Target's Statement as Attachment 1. You should read the Independent Expert's Report carefully.</p>
<p>Are there any reasons why I might not accept the Arcade Offer?</p>	<p>Possible reasons for not accepting the Arcade Offer are set out in Section 2 of this Target's Statement.</p>
<p>How do I accept the Arcade Offer?</p>	<p>Instructions on how to accept the Arcade Offer are set out in Section 4.1 of this Target's Statement, section 1 of the Bidder's Statement and the Acceptance Form which accompanies the Bidder's Statement. If you want to accept the Arcade Offer, you should follow these instructions carefully to ensure that your acceptance is valid.</p>
<p>How do I reject the Arcade Offer?</p>	<p>To reject the Arcade Offer, you do not need to do anything.</p>
<p>When does the Arcade Offer close?</p>	<p>The Offer Period must remain open for at least 1 month. It is currently scheduled to close at 7.00pm (Adelaide time) on 24 May 2018 but can be extended in certain circumstances.</p> <p>The Independent Directors will keep you informed if there are any material developments in relation to the Arcade Offer. Godfreys Shareholders are also encouraged to monitor the Godfreys website at https://www.godfreys.com.au for any updates released by Godfreys to ASX on the Arcade Offer.</p>
<p>What will happen if a competing or superior proposal emerges?</p>	<p>The Independent Directors will carefully consider any competing or superior proposal and will advise you whether the competing proposal affects their recommendation that you accept the Arcade Offer.</p> <p>However, the Independent Directors consider it unlikely that a superior proposal will emerge.</p> <p>Importantly if you accept the Arcade Offer, you will be unable to withdraw your acceptance and accept a superior proposal if one emerges, except in limited circumstances (which are set out below and in Section 7.6 of this Target's Statement).</p>

Question	Answer
<p>If I accept the Arcade Offer, can I withdraw my acceptance?</p>	<p>You only have limited rights to withdraw your acceptance of the Arcade Offer.</p> <p>You may only withdraw your acceptance if Arcade varies the Arcade Offer in a way that postpones the time when Arcade is required to satisfy its obligations by more than one month.</p> <p>If you accept the Arcade Offer and it becomes unconditional, you will be obliged to sell your Godfreys Shares to Arcade and you will receive the Offer Price under the Arcade Offer.</p> <p>See Section 7.6 of this Target's Statement.</p>
<p>Can Arcade withdraw the Arcade Offer?</p>	<p>Arcade may be able to withdraw the Arcade Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent. Arcade may not withdraw the Arcade Offer if you have already accepted it.</p>
<p>What happens if Arcade increases the Offer Price?</p>	<p>If you accept the Arcade Offer and Arcade subsequently increases the Offer Price and the Arcade Offer becomes unconditional, you will receive the increased consideration for your Godfreys Shares. However, the increased Offer Price will not be available to Godfreys Shareholders who have already sold their Godfreys Shares on-market.</p>
<p>Can I accept the Arcade Offer for only some of my Godfreys Shares?</p>	<p>No, you cannot accept the Arcade Offer for only some of your Godfreys Shares. You may only accept the Arcade Offer for all of your Godfreys Shares.</p>
<p>Will I be forced to sell my Godfreys Shares?</p>	<p>You cannot be forced to sell your Godfreys Shares unless Arcade proceeds to compulsorily acquire Godfreys Shares under Chapter 6A of the Corporations Act.</p> <p>In summary, Arcade will need to acquire a Relevant Interest in at least 90% (by number) of the Godfreys Shares (under the Arcade Offer or otherwise). If Arcade acquires 90% or more of all Godfreys Shares and proceeds to compulsorily acquire all Godfreys Shares on issue, then you will be paid the same consideration as is payable by Arcade under the Arcade Offer.</p> <p>Please refer to Section 7.9 of this Target's Statement for more information about the compulsory acquisition process.</p>
<p>What are the risks of accepting or rejecting the Arcade Offer?</p>	<p>A non-exhaustive list of risks in accepting or rejecting the Arcade Offer is set out in Section 8 of this Target's Statement.</p>
<p>Is the Arcade Offer conditional?</p>	<p>Yes, the Arcade Offer is subject to a range of conditions (Defeating Conditions), being (in a summary form):</p> <ul style="list-style-type: none"> • a 90% minimum acceptance condition; • Arcade receiving all necessary Regulatory Approvals and there being no action by any Regulatory Authority in respect of the Godfreys Group or the Arcade Offer which would have an adverse effect on the making of the Arcade Offer, Arcade's rights

Question	Answer
	<p>in the Godfreys Shares or Godfreys or the continued operation of the Godfreys Group;</p> <ul style="list-style-type: none"> • no Prescribed Occurrences; • no Material Adverse Change in the Godfreys Group; • no market fall event being the S&P/ASX All Ordinaries Index being lower than 85% of the level of the index as at the close of trading on ASX on the Announcement Date for 3 consecutive days prior to the end of the Offer Period; and • no third party exercising, or proposing to exercise any rights it has as a result of the Arcade Offer, which would have a material adverse effect on the Godfreys Group and each such third party providing its consent or waiver to the relevant event before the end of the Offer Period. <p>As announced on 1 May 2018, Arcade has waived the Regulatory Approval Defeating Condition.</p> <p>See Section 7.3 of this Target's Statement for further detail on certain Defeating Conditions. The Defeating Conditions are also set out in full at Attachment 2 of this Target's Statement.</p>
<p>What happens if the Defeating Conditions are not fulfilled or satisfied?</p>	<p>If the Defeating Conditions are not satisfied or waived by Arcade before the Arcade Offer closes (or, in the case of the Defeating Condition relating to Prescribed Occurrences, within 3 Business Days after the end of the Offer Period), the Arcade Offer will lapse. You will then be free to deal with your Godfreys Shares as you see fit, even if you had accepted the Arcade Offer.</p> <p>If the Defeating Conditions are satisfied or waived by this time, you will be paid the Offer Price by Arcade (subject to the terms of the Arcade Offer in the Bidder's Statement).</p>
<p>When will I receive the Offer Price if I accept the Arcade Offer?</p>	<p>If you accept the Arcade Offer, you will have to wait for the Arcade Offer to become unconditional before you will be sent your consideration.</p> <p>See Section 7.7 of this Target's Statement for further information.</p>
<p>What is Godfreys current dividend policy?</p>	<p>Godfreys has postponed payment of dividends and, in the present circumstances, the Godfreys Board believes that the likelihood of dividends being paid in the short to medium term is low.</p>
<p>What are the tax implications of accepting the Arcade Offer?</p>	<p>A general outline of the tax implications of accepting the Arcade Offer is set out in Section 9 of this Target's Statement.</p> <p>You should consult with your taxation adviser for detailed advice before making a decision whether or not to accept the Arcade Offer.</p>
<p>Who should I call if I have questions?</p>	<p>If you have any further queries in relation to the Arcade Offer or how to accept the Arcade Offer, you should call 1300 494 781 (calls from within or outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).</p>

4. Your choices as a Godfreys Shareholder

If you are a Godfreys Shareholder, you have three choices available to you:

- (a) accept the Arcade Offer;
- (b) sell some or all of your Godfreys Shares on-market (or otherwise); or
- (c) reject the Arcade Offer and do nothing.

The Independent Directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Godfreys Shares.

4.1 Accept the Arcade Offer

Your Independent Directors recommend that you **ACCEPT** the Arcade Offer, in the absence of a superior proposal.

(a) How to accept the Arcade Offer

If you choose to accept the Arcade Offer, then your acceptance must be received by Arcade before the end of the Offer Period. Instructions on how to accept the Arcade Offer are set out in section 1 of the Bidder's Statement and on the Acceptance Form that accompanies the Bidder's Statement. If you want to accept the Arcade Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

How you accept the Arcade Offer depends on the nature of your holding:

- if your Godfreys Shares are in an Issuer Sponsored Holding and you want to accept the Arcade Offer, you should complete and deliver the Acceptance Form in sufficient time that it is received by Arcade's share registry before the end of the Offer Period;
- if your Godfreys Shares are in a CHESS Holding and you want to accept the Arcade Offer, you should:
 - instruct your Controlling Participant (normally your broker) to initiate acceptance of the Arcade Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules;
 - complete and deliver the Acceptance Form in sufficient time so that your Controlling Participant (normally your broker) has sufficient time to effect your acceptance before the end of the Offer Period; or
 - give instructions to your Controlling Participant (normally our broker) in sufficient time to allow your Controlling Participant to initiate your acceptance under the CHESS system before the end of the Offer Period; or
- if you are a Participant and you want to accept the Arcade Offer, acceptance of the Arcade Offer must be initiated in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period.

(b) Effect of acceptance

If you accept the Arcade Offer and it becomes or is declared unconditional, you will be entitled to be paid the Offer Price by Arcade in accordance with the terms of the Arcade Offer (see Section 7.7 of this Target's Statement for further information on timing for payment of the Offer Price).

The effect of acceptance of the Arcade Offer is described in more detail in Section 7.5 of this Target's Statement. You should read these provisions in full to understand the effect that your acceptance will have on your ability to exercise the rights attaching to your Godfreys Shares.

It is worth noting that accepting the Arcade Offer would (subject to the possible withdrawal rights set out in Section 7.6 of this Target's Statement):

- prevent you from participating in any competing superior proposal that may emerge;
- commit you to selling all of your Godfreys Shares to Arcade with no right to payment until the Arcade Offer becomes, or is declared, unconditional; and
- prevent you from otherwise selling your Godfreys Shares.

The taxation implications of accepting the Arcade Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian taxation consequences of accepting the Arcade offer is set out in Section 9 of this Target's Statement. You should seek your own specific professional advice regarding the taxation consequences for you in accepting the Arcade Offer.

4.2 Sell your Godfreys Shares on-market

During a takeover, shareholders in a target company may still sell their shares on-market for cash provided that they have not accepted a takeover offer for those shares. Accordingly, Godfreys Shareholders remain free to sell their Godfreys Shares on-market on the ASX at any time, provided they have not already accepted the Arcade Offer (or if a Godfreys Shareholder has accepted the Arcade Offer, that Godfreys Shareholder has validly withdrawn that acceptance).

The latest price for Godfreys Shares on the ASX may be obtained from ASX's website www.asx.com.au under the code 'GFY'.

Godfreys Shareholders who sell their Godfreys Shares on-market:

- will lose the ability to accept the Arcade Offer, or to participate in any other superior proposal that may emerge;
- may receive more or less for their Godfreys Shares than the consideration under the Arcade Offer or \$0.32 cash per Godfreys Shares;
- are likely to incur a brokerage charge; and
- will be paid the net proceeds of sale on the second Business Day after the date of trade, and will not have to wait for satisfaction or waiver of the Defeating Conditions and the end of the Offer Period, as would be the case if accepting into the Arcade Offer.

Godfreys Shareholders who sell their Godfreys Shares on-market may be liable for capital gains tax or income tax on the sale and may incur a brokerage charge (see Section 9 of this Target's Statement). You should seek your own specific professional advice regarding the taxation consequences for you of selling your Godfreys Shares on-market.

Godfreys Shareholders who wish to sell their Godfreys Shares on-market should contact their stockbroker for instructions on how to effect that sale.

4.3 Reject the Arcade Offer and do nothing

If you do not wish to accept the Arcade Offer and wish to retain your Godfreys Shares, you do not need to take any action.

If you do not accept the Arcade offer and Arcade becomes entitled to compulsorily acquire your Godfreys Shares under the Corporations Act (which entitlement it intends to exercise, as discussed in the Bidder's Statement), you may receive your consideration later than Godfreys Shareholders who choose to accept the Arcade Offer.

Please refer to Section 7.9 of this Target's Statement for further details on compulsory acquisition.

Further, if the Arcade Offer is successful (i.e. the Defeating Conditions are satisfied or waived) but Arcade does not become entitled to compulsorily acquire your Godfreys Shares, you will remain a minority shareholder in Godfreys with potential adverse implications, including those described at Sections 1.5 and 8.1 of this Target's Statement.

5. Information relating to Godfreys

5.1 Introduction

Godfreys is one of the largest speciality retailers of domestic and commercial floorcare and associated cleaning products in Australia and New Zealand.

Godfreys offers an extensive range of company-owned brands (Including Sauber, Wertheim and Pullman), an exclusively licensed brand (Hoover) and third-party brands (such as Bissell, Miele and Electrolux).

Godfreys is a vertically integrated business that designs, sources and sells a broad range of floorcare and associated cleaning products through wholesale and retail channels.

Godfreys' multichannel offering comprises over 200 branded retail stores (both company-owned (125) and franchised (92)) located across Australia and New Zealand a number of branded ecommerce enabled websites, online marketplaces and third party retail and commercial channels.

Godfreys employs over 530 people across Australia, New Zealand and China and has its head office and a company-operated warehouse located in Victoria, Australia.

5.2 History

Godfreys is an iconic Australian brand with a trading history spanning more than 85 years. Godfreys was founded by Mr. Godfrey Cohen in Melbourne in the early 1930s and, following a partnership with Mr. John Johnston in 1936, the Godfreys' store network began expanding across Australia and into New Zealand.

In 2006, Godfreys was sold to a private equity consortium in a leveraged buyout.

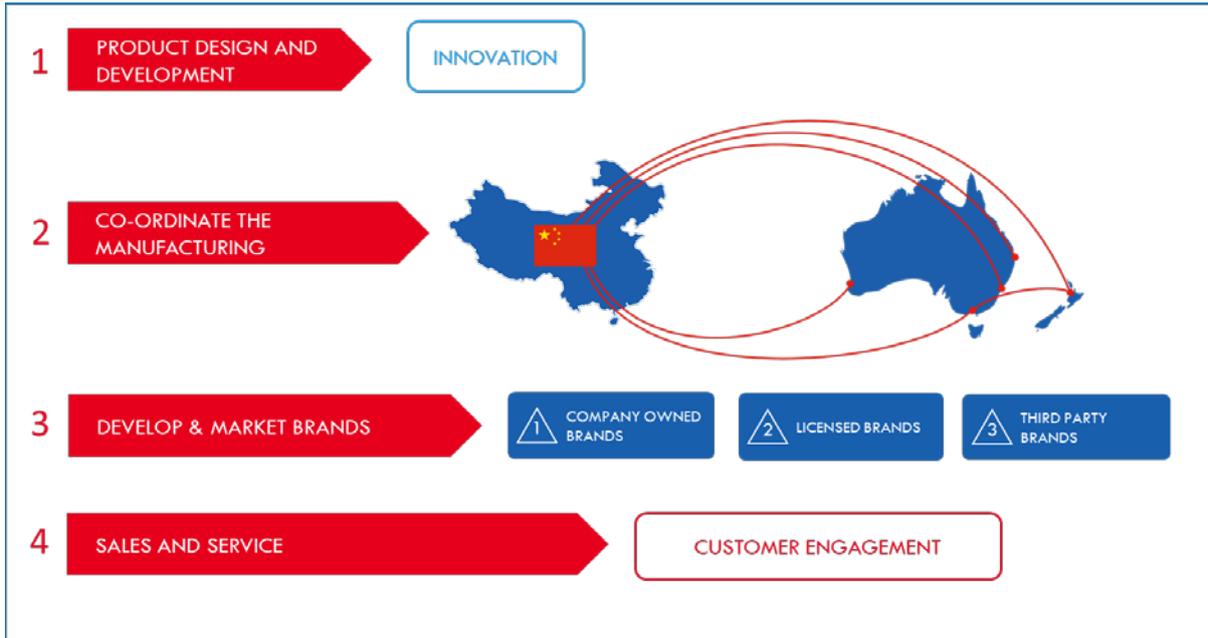
In 2011, Mr. John Johnston and Nomura acquired Godfreys and in 2012, with Nomura subsequently selling half of its investment to Investec.

Godfreys was listed on the Australian Stock Exchange (ASX) in December 2014.

On 1 December 2017, Godfreys announced leadership changes in both the Chairman of the Godfreys Board and Chief Executive Officer. Effective 1 January 2018, Mr. Brendan Fleiter was elected Chairman to navigate Godfreys through its next phase of growth and development. Brendan has been a member of the Godfreys Board since November 2014 and Chairman of the Company's Audit & Risk Management Committee and a member of the Remuneration & Nomination Committee. Effective 4 December 2017, Mr. Jason Gowie was appointed Chief Executive Officer and joined the Godfreys Board as an Executive Director. Jason has over 25 years' leadership experience across the financial services, retail and health sectors. He has considerable experience shaping customer focused businesses and leading cultural change. Godfreys also announced a Godfreys Board refresh with the additions of two new Non-Executive Directors Ms. Kathy Gramp and Ms. Penny Burke, effective 1 January 2018. See Sections 5.7, 10.4 and 10.7 of this Target's Statement for further information relating to Godfreys Directors (including their interests in Godfreys Shares).

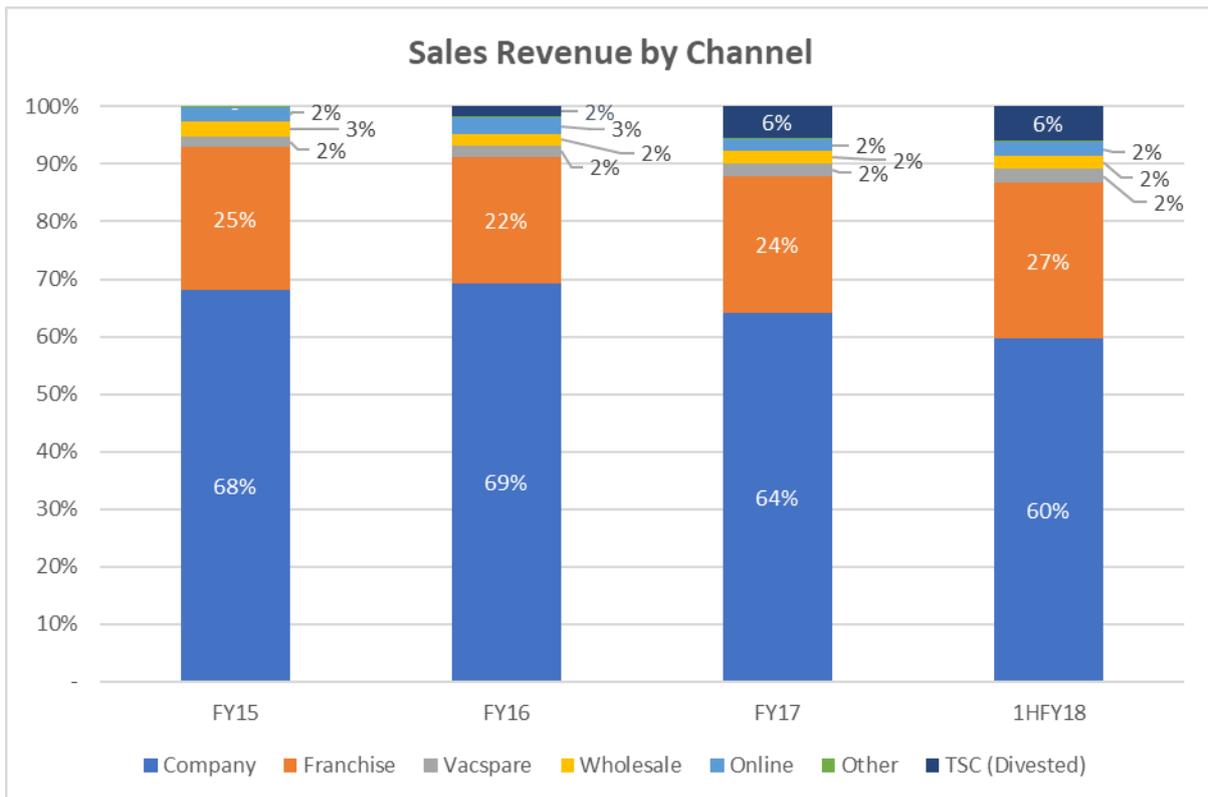
Godfreys has a vertically integrated business model that includes product design and development, the coordination of product manufacturing (predominantly in China), the development and sale of a range of company owned, exclusively licensed and third party brands, and a product service offering.

Figure 1. Godfreys vertically integrated business model



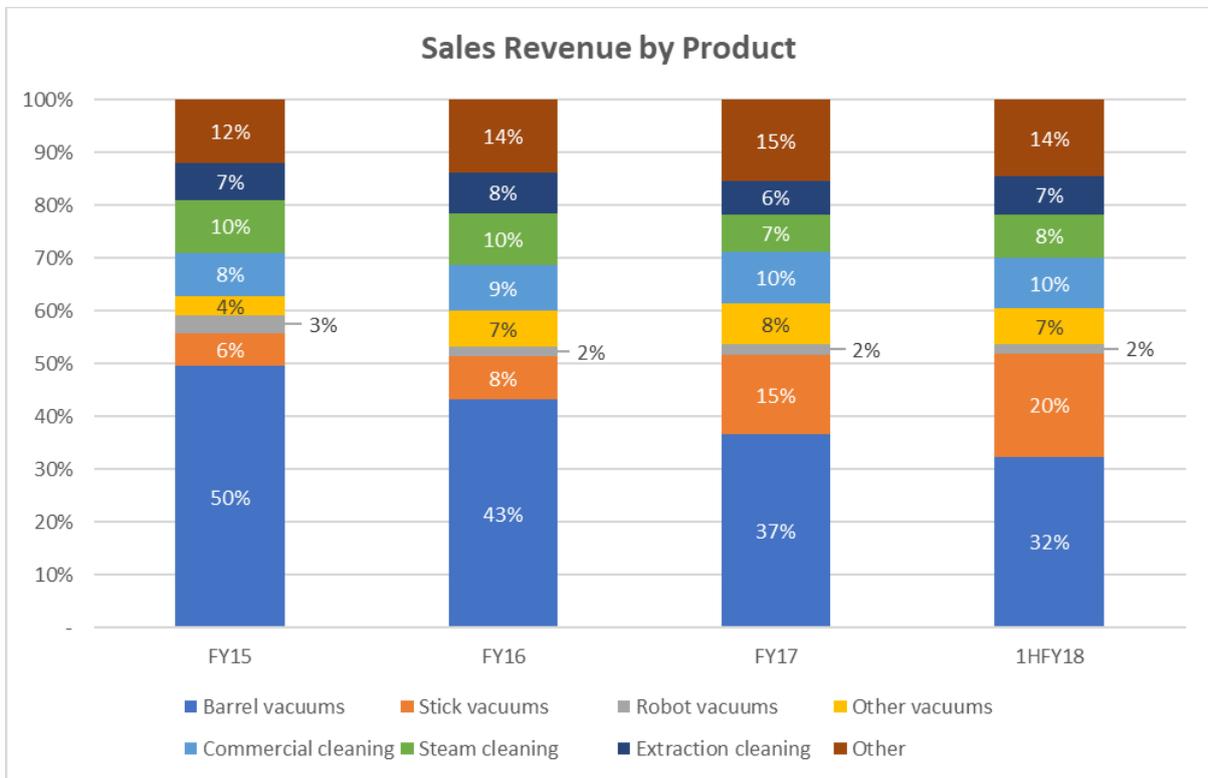
Godfreys major sales channels are through company and franchised retail stores across Australia and New Zealand. Other channels include Vacspare, specialising in parts and accessories, wholesale and online. Figure 2 below provides further information in relation to the sales revenue of Godfreys by channel.

Figure 2. Sales revenue by channel



Godfreys major product lines are the sale of vacuum machines, which equate to approximately 60% of total sales revenue. Vacuum machines consist of barrel cleaners (bagged and bagless), cordless stick-vac's, robots and other vacuum machines such as upright and hand held cleaners. Over time, cordless stick vacuum cleaners have increased in popularity while traditional barrel cleaners have been in decline. Other products sold by Godfreys include commercial cleaning products, steam cleaning and extraction cleaning (including carpet shampoers), parts and accessories and service.

Figure 3. Sales revenue by product



5.3 Overview of business turnaround strategy

On 20 February 2018, Godfreys announced a strategic update to outline the key focus areas of the business under the new guidance of Jason Gowie and the refreshed Godfreys Board. The strategy was developed based on Jason's first 75 days in the business where he met with 300+ team members across the business, visited more than 70 stores, met with key business partners, and undertook the Godfreys sales training program. The focus of the strategy is to drive operational efficiencies from all facets of the business and reinvest these savings into five key focus areas: Brand & Customer Experience; Product Range; Channels; People & Culture; and Technology. The full execution of the strategy is expected to be undertaken over a three year period.

Following the announcement of the turnaround strategy in February 2018, good progress has been made in delivering operational efficiencies and progressing each of the five key focus areas.

Further details regarding the efficiencies and cost savings identified, and the progress that has been made in relation to each of the 5 key focus areas since announcement of the turnaround strategy, are set out below.

Operational efficiencies

(a) Cost savings

The following cost savings have been identified by Godfreys:

- An end to end supply chain review has been conducted that has identified initiatives to generate savings from local and overseas supply chain functions. These initiatives are currently being implemented with the first savings expected to be achieved by the end of FY2018;
- Efficiencies have been achieved in support functions resulting in labour savings from combined roles, or roles no longer required;
- A review of the existing store network has identified a number of under-performing stores. Eight stores have either closed or are due to close by the end of May 2018, with additional stores identified for potential future closure;
- Efficiency gains in marketing spend have been achieved from rebalancing marketing expenditure toward more cost effective channels including through digital marketing that allows Godfreys to reach its customer base on an ongoing and regular basis in addition to intermittent TV and catalogue campaigns;
- Store rostering efficiency savings have been identified as a result of the introduction of an in-store data analytics platform, which will enable better matching of staffing to customer demand; and
- An end to end review of the service & repairs function has identified efficiency gains and a process re-engineering program is now underway to realise these benefits.

(b) Cash savings

The following cash savings have been identified by Godfreys:

- Improvements in inventory management have been made from an increase in the quality of inventory held from reductions in end of life and discontinued stock holdings as a percentage of total inventory and from excess store inventory levels identified which is expected to result in inventory reductions as replenishment schedules are reduced over time;
- CAPEX spend is being carefully managed with expenditure only on business critical requirements; and
- The sale of The Service Company was completed in March 2018 for proceeds of NZ\$1.3million. The proceeds of the sale have been used to pay down debt under the Facility Agreement (net of transaction costs).

(c) Other efficiencies

In addition to the operational efficiencies and cash savings noted above, the following efficiencies have also been identified by Godfreys:

- A store network review has identified further opportunities to convert existing company stores to franchise stores in non-shopping centre and regional locations. Three or four conversions are expected before the end of FY2018, with a further 15-20 stores planned to be converted over the next two years; and

- Initiatives to increase product margins have been introduced including the increase in Recommended Retail Prices (RRP) across a select product range, improved governance on pricing policies that were not consistently being adhered to (such as not selling below minimum sales prices) and less deep discounting in sale campaigns to increase the value achieved from promotions undertaken.

Five key focus areas

The original assessment, actions underway and objective of each of the five key focus areas announced on 20 February 2018 is described below, along with progress made since this time.

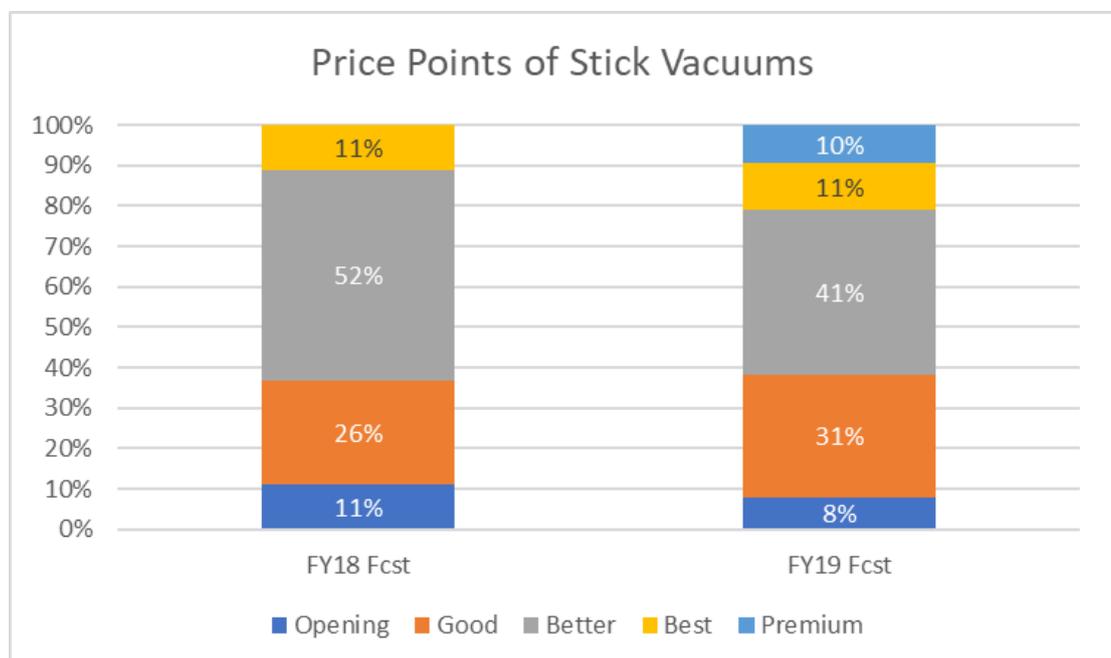
(a) Brand & Customer Experience

Assessment	Lack of understanding of the drivers of brand choice and customer experience
Objective	Reposition key brands, improve the customer experience
Actions underway	Commenced brand & customer experience insights review
Progress made	<p>The brand & customer experience insights review has been completed. The Godfreys brand repositioning process has commenced and a number of customer experience improvement initiatives are due to be implemented by the end of the 2018 calendar year.</p> <p>These include:</p> <ul style="list-style-type: none"> • The development and progressive rollout a new store concept to improve the customer experience and increase store footfall and revenue; • Re-engineering of the service and repairs offering to improve the customer experience, improve efficiency and increase revenue; • Enhancing the E-Commerce platform to improve the online experience and increase online sales revenue; and • Developing a new store remuneration structure to drive a better in store experience and reduce staff turnover.

(b) Product Range

Assessment	Underweight in growth categories and overweight in declining categories
Objective	Consolidate owned / licensed products, increase third party products
Actions underway	Re-balancing domestic & commercial product portfolios
Progress made	<p>As at December 2017, Godfreys estimates approximately 50% of purchases in the total vacuum cleaner market are cordless stick-vacs. In 1HFY2018, 32% of Godfreys vacuum machine sales were stick-vacs.</p> <p>In FY2019, sales revenue from stick-vac's is expected to increase from 32% in 1HFY2018 to 44% of vacuum machine sales revenue, or increase from 20% of total Godfreys sales revenue to 27% of total Godfreys sales revenue.</p> <p>The new products are expected to be introduced in FY2019 fill existing gaps at higher price points within the stick vacuum range, including a new premium offering at the highest price point not previously offered, which is expected to increase average selling prices and margins.</p> <p>Figure 4 below shows the expected proportion of sales across stick vacuum price points in FY2018 and FY2019.</p>

Figure 4. Expected proportion of sales across stick vacuum price points



(c) Channels

Assessment	Significant amount of capital is currently invested in the store network but more investment needed in eCommerce platforms & wholesale channels
Objective	Re-shape and enhance the store network, drive growth via eCommerce platforms and expand wholesale channels
Actions underway	Re-balancing channel investment
Progress made	<p>A review of the existing store network has identified a number of under-performing stores. Eight stores have either closed or are due to close by the end of May 2018, with additional stores identified for potential future closure. The closure of these stores will reduce operating costs and eliminate the need for ongoing refurbishment requirements, the funds from which can be redirected into enhancing the network of core company owned stores.</p> <p>In March 2018, Ms. Cat Parker was appointed Chief Customer Officer. Cat has considerable experience in Retail eCommerce, Digital, Data & Analytics, Customer Experience and Customer Lifecycle Management. In her time at Godfreys, Cat has improved marketing efficiency by reaching a greater number of potential customers incurring lower marketing expenditure, including through digital marketing, and has implemented demand generation initiatives, including refining online search engine marketing and Facebook targeting activities.</p> <p>Expansion of wholesale channels will be a key focus of the Chief Commercial Officer role identified in the leadership team structure reporting to Chief Executive Officer Mr. Jason Gowie. Recruitment for this role is underway and an appointment is expected to be made in coming months with the successful candidate anticipated to commence early in FY2019.</p>

(d) People & Culture

Assessment	Passionate employees but gaps in organisational capability and a need for the culture to better align with our purpose
Objective	Strengthen organisational capability, develop a customer centric culture
Actions underway	Announcement of new leadership team design, with Chief People & Culture Officer appointed

Progress made	<p>In March 2018, Ms. Mari Ruiz was appointed Chief People & Culture Officer. Mari has over 25 years' experience in HR Leadership during which time she has led significant cultural change programs across a number of organisations. In this time she has won the CEO Magazine HR Leader of the Year Award and the Australian Human Resources Institute's Dave Ulrich HR Leader Award.</p> <p>In her time at Godfreys, Mari has commenced a cultural change program and has undertaken employee engagement initiatives, deep dive sessions across retail and support staff across both Australia and New Zealand and has commenced a review of current remuneration structures.</p> <p>In addition to the Chief Customer Officer and Chief People & Culture Officer appointments, recruitment for the Chief Commercial Officer and EGM Store Network roles is underway which, when completed, will fill all roles in the new leadership team structure announced on 20 February 2018.</p>
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(e) Technology

Assessment	Underinvestment in enabling technologies such as CRM and data & analytics capability
Objective	Implementation of CRM, and other enabling technologies
Actions underway	Rolling out in-store analytics platform across all company owned and franchise stores
Progress made	<p>In January 2018, the rollout of an instore analytics platform commenced. As at 30th April, the platform had been installed across approximately 90% of company and franchise stores with the remaining installations expected to be completed in May. This technology allows data to be compiled and reported on an hourly basis, including customer traffic passing outside the store, customer traffic entering the store, dwell time in the store, sales conversion and average transaction values. The insights obtained from this data are being used to benchmark key performance indicators, compare performance amongst regions and stores and identify operational improvement opportunities. This includes the ability to focus on increasing sales conversion performance, increasing average transaction value and improving the efficiency of staff rosters by matching staff requirements to customer traffic.</p> <p>Assessments of CRM technologies has begun and will continue to be progressed in coming months.</p>

While good progress has been made on the business turnaround strategy since being announced on 20 February 2018 (as noted above), there is no guarantee as to the benefits that the turnaround strategy will realise, nor the time required to realise these benefits. For further details of risk factors associated with accepting or rejecting the Arcade Offer, including the risks associated with the implementation of the turnaround strategy, please refer to Section 8 of this Target's Statement.

5.4 Debt financing

Godfreys has a \$30 million secured senior debt facility with 1918 Finance Pty Ltd (**Lender**), an entity associated with Arcade, established pursuant to the terms of a facility agreement between Godfreys and the Lender dated 29 May 2017 (**Facility Agreement**). Godfreys' obligations under the Facility Agreement are secured by an all assets charge over all of Godfreys and its Australian and New Zealand subsidiaries, granted by Godfreys and each of its Australian and New Zealand subsidiaries pursuant to the Security Documents.

Godfreys had previously sought, and been granted by the Lender, a waiver of compliance with the leverage ratio covenant as at the end of the financial year ended 29 June 2018. The waiver was sought by Godfreys to provide greater flexibility as to the steps it could potentially implement in pursuit of the turnaround strategy. Godfreys advised in its announcement on 23 April 2018 that it expects it will need to rely on this waiver as at 29 June 2018. In a further announcement on the date of this Target's Statement, Godfreys advised that it had sought and been granted by the Lender, a waiver of the fixed cover charge ratio covenant as at the end of the financial year ended 29 June 2018, should a breach of the fixed cover charge ratio covenant occur. This waiver is subject to the condition that Godfreys agrees to hold negotiations with the Lender (in good faith and using all reasonable endeavours) regarding suitable debt reduction strategies, including (but not limited to) a debt for equity conversion, with such negotiations to commence by no later than Friday 11 May 2018. Any agreement regarding any debt reduction would need to be the subject of mutually agreed terms and documentation and subject to all required approvals.

Godfreys also notes that the Lender has advised that it does not intend to vary any of the covenants applicable to Godfreys under the Facility Agreement nor does the Lender intend to grant to Godfreys any further waiver with respect to Godfreys' compliance with those covenants.

Given its current trading performance, Godfreys currently believes it will be difficult to satisfy the Facility Agreement's covenant requirements as at 28 December 2018, being the next testing date after 29 June 2018. Godfreys' failure to do so would constitute an event of default under the Facility Agreement. In such circumstances, pursuant to the terms of the Facility Agreement, the Lender is entitled to cancel all commitments under the Facility Agreement, require immediate repayment of outstanding amounts (including interest and costs) under the Facility Agreement, and enforce its rights under the Security Documents.

Should this occur, Godfreys considers it unlikely it will be able to repay amounts outstanding under the Facility Agreement from the implementation of capital management initiatives or by refinancing its facilities in the conventional bank market on favourable terms.

Godfreys will continue to monitor whether it believes it will be able to satisfy the Facility Agreement's covenant requirement at 28 December 2018 and will update the market as required in accordance with its continuous disclosure obligations.

For further details of risk factors associated with accepting or rejecting the Arcade Offer, including the potential consequences of a breach of the covenants under the Facility Agreement, and the ability of Godfreys to obtain alternative financing on acceptable terms, please refer to Section 8 of this Target's Statement.

5.5 Godfreys historical financial information summary

On 20 February 2018, Godfreys released its half year results in the Appendix 4D and Half Yearly Report for the half year ended 29 December 2017. Godfreys' financial reports, including the half year results release, are available on Godfreys' website at www.godfreys.com.au.

5.6 Market outlook and guidance for FY2018

On the date of this Target's Statement, Godfreys announced that underlying EBITDA result for FY2018, prior to any restructuring and one-off costs, is expected to be approximately \$3.5 million. Should like-for-like sales continue to decline in excess of year to date performance, the final EBITDA result for FY2018 could be below this expectation.

This outlook statement should be considered together with the risk factors associated with the ongoing operation of the Godfreys business set out at Section 8 of this Target's Statement.

5.7 Director profiles

(a) Brendan Fleiter

Chairman, Non-Executive Director

Brendan Fleiter was appointed to the Godfreys Board in November 2014 and became Chairman on 1 January 2018.

Brendan has over 25 years business experience, having held non-executive and executive directorships over the past 15 years on the boards of ASX listed companies, large private and unlisted public companies, large Government Business Enterprises and not-for-profit and philanthropic organisations in the fields of sport, public health and education.

Brendan was CEO of The Crazy John's Group, a national retail and telecommunications company prior to its sale to Vodafone Australia in 2008. He was appointed to the Board of Australia Post in 2011, and was Deputy Chair of the Board of Australia Post from 2013 – 2017. Prior to his executive roles he practised as a commercial lawyer for 15 years.

He is currently Chairman of Kennards Hire Pty Ltd and Walnut Melbourne Pty Ltd and a Non-Executive Director of Interactive Pty Ltd, Volleyball Victoria and The Australian Food Allergy Foundation.

(b) Jason Gowie

Executive Director and Chief Executive Officer

Jason Gowie was appointed Chief Executive Officer and Executive Director on 4 December 2017.

Jason has over 25 years' leadership experience across the financial services, retail and health sectors. He has considerable experience shaping customer focused businesses and leading cultural change.

Prior to joining Godfreys, Jason was Managing Director & CEO of My Home GP, Divisional General Manager - Sales and Service at Medibank and Managing Director Australia & New Zealand at Oticon Australia Pty Ltd. He has also held senior sales and marketing roles with Bupa Australia, GE Capital, RACV and the Bank of New Zealand.

Jason completed his MBA with Monash University's Mt Eliza Business School in 2002.

(c) Sue Morphet

Non-Executive Director

Sue Morphet was appointed to the Godfreys Board on 13 January 2015.

Sue has over 30 years of brand management and retail experience across Australia and New Zealand. She was previously CEO of Pacific Brands Limited from December 2007 to September 2012, having worked in that organisation for 12 years, most notably as Group General Manager of Bonds.

Sue is currently a non-executive Director of Asaleo Care Ltd, Fisher & Paykel Appliances Holdings Ltd and Noni B Group Ltd, Director of Chief Executive Women and Chairperson of National Tiles Pty Ltd. Previously, Sue was Chairman of Manufacturing Australia (2013-2015).

Sue is Chairperson of Godfreys' Remuneration and Nomination Committee.

(d) Kathy Gramp

Non-Executive Director

Kathy Gramp joined Godfreys as a Non-Executive Director on 1 January 2018.

Kathy, a chartered accountant and Fellow of the Australian Institute of Company Directors and Chartered Accountants of Australia and New Zealand, has significant board experience across a range of sectors including media, health, property, technology, finance, tourism, government, education and primary industry. Kathy brings a blend of leadership, strategy, finance, risk, corporate governance and change management skills to the Godfreys Board.

She is currently a non-executive director with the Australian Institute of Company Directors, Codan Limited (CDA.AX), Bushfire & Natural Hazard Cooperative Research Centre, Royal Automobile Association SA and Silver Chain Group, and is a member of Council for Flinders University. Previously Kathy held senior executive roles at Austereo, including as Chief Financial Officer and Company Secretary.

Kathy is Chairman of the Company's Audit & Risk Management Committee.

(e) Penny Burke

Non-Executive Director

Penny Burke joined Godfreys as a non-executive director commencing on 1 January 2018.

Penny has a 30+ year executive career in strategy, brand and marketing and is an experienced non-executive director having held a variety of board positions over the past fifteen years.

She has been a board member of the Monash Institute of Reproduction and Development and Clemenger BBDO and is currently a non-executive director of Kennards Hire Pty Ltd, Hocking Stuart and Karrikins Group. In the past 13 years, Penny has built a highly successful brand, research and marketing consultancy, Essence Communications, which undertakes strategic research and provides communications advice. Prior to that, Penny spent 12 years at Clemenger BBDO as Strategy Planning Director, overseeing strategic developments for major communications projects.

Penny is Chairman of the Company's Customer Committee.

(f) John Hardy

Non-Executive Director

John Hardy was appointed to the Godfreys Group Limited Board on 24 March 2016.

John has over 50 years' experience in the retail sector, having held senior roles at Barbeques Galore and Super Amart. He was most recently CEO of Fusion Retail Brands (formerly Colorado), which owns footwear brands diana ferrari, Mathers, Williams and Colorado.

John has also previously held senior management roles within Godfreys, bringing a working knowledge of the Godfreys business.

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6. Information relating to Arcade

6.1 Disclaimer

The Arcade Offer is being made by Arcade Finance Pty Ltd.

The following information and the information on Arcade in this Target's Statement is based on public available information, including information in the Bidder's Statement, and has not been independently verified by Godfreys. Godfreys does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on Arcade in this Target's Statement should not be considered comprehensive. Further information about Arcade is set out in the Bidder's Statement.

6.2 Overview and Arcade's interest in Godfreys

The Arcade Offer is being made by Arcade which currently holds a Relevant Interest in approximately 25.43% of the Godfreys Shares, and Voting Power of approximately 28.09% (as at the Last Trading Date).

6.3 Arcade's intentions

(a) Upon acquisition of 90% or more of Godfreys Shares

Arcade's intentions, as disclosed in its Bidder's Statement, in relation to the continuation of or changes to the Godfreys business, changes to the Godfreys Board and the future employment of present employees of Godfreys where it acquires 90% or more of the Godfreys Shares and is entitled to proceed to Follow On Compulsory Acquisition (see Section 7.9 of this Target's Statement) are as follows:

- proceed to exercise the Follow On Compulsory Acquisition power to acquire any outstanding Godfreys Shares in accordance with section 661B of the Corporations Act;
- amend the constitution of Godfreys to reflect its status as a wholly-owned subsidiary of Arcade;
- procure that Godfreys be removed from the official list of ASX;
- review and restructure the constitution of the Godfreys Board;
- continue the operations of all Godfreys' franchises, seek to grow those businesses;
- build on and leverage Godfreys' experience in the Australian and New Zealand markets;
- rationalise certain head office activities; and
- continue to employ the vast majority of Godfreys' employees on terms no less favourable than their current terms. Arcade has stated that a small number of organisational functions may become redundant and to the extent an organisational review identifies employees who are surplus to requirements of the business, Arcade will consider redeployment or redundancies (with any employees who are made redundant to receive their full entitlements at law).

(b) Upon acquisition of between 50% and 90% of Godfreys Shares

To the extent Arcade acquires a Relevant Interest in between 50% and 90% of Godfreys Shares, but is not entitled to proceed to Follow On Compulsory Acquisition, and the 90% minimum acceptance Defeating Condition is waived by Arcade, Arcade has stated that its intentions are as follows:

- proceed to exercise General Compulsory Acquisition power in accordance with Part 6A.2 of the Corporations Act to the extent it reaches the 90% threshold in future;
- procure that Godfreys be removed from the official list of ASX, subject to Godfreys Shareholder approval as required;
- subject to the level of ownership achieved and its ability to achieve its intention of de-listing Godfreys, substitute some or all of the Godfreys Board other than Mr. John Hardy, with nominee directors of Arcade;
- Arcade reserves its rights to commence additional takeover bids in relation to any outstanding Godfreys Shares that it does not acquire under the Arcade Offer;
- where Godfreys becomes a controlled entity, but not wholly owned subsidiary of Arcade, procure that the Godfreys Board implements the objectives outlined in Section 6.2(a) above, to the extent possible and appropriate; and
- where Godfreys becomes a controlled entity, but not wholly owned subsidiary of Arcade, and there are minority shareholders of Godfreys, ensure that any Arcade nominee directors appointed to the Godfreys Board will act in accordance with their fiduciary duties and that all requisite shareholder approvals are obtained and legal requirements are complied with in pursuing the objectives above.

(c) Upon acquisition of less than 50% of Godfreys Shares

To the extent Arcade gains effective control of less than 50% of Godfreys Shares, and the 90% minimum acceptance Defeating Condition is waived by Arcade, Arcade has stated that it intends to endeavour to implement its intentions as outlined in Section 6.2(b) to the extent it is able to do so, subject to the limitations noted in that Section.

7. Details about the Arcade Offer

7.1 Offer Price

The Offer Price under the Arcade Offer is \$0.32 cash per Godfreys Share.

7.2 Offer Period

The Arcade Offer will be open for acceptance from 24 April 2018 until 7.00pm (Adelaide time) on 24 May 2018, unless extended or withdrawn.

While the Arcade Offer is still subject to the Defeating Conditions, Arcade may extend the Offer Period at any time:

- (a) before giving the notice of status of Defeating Conditions (referred to in Section 7.4 of this Target's Statement); and
- (b) after giving the notice of status of Defeating Conditions in the event of those circumstances in relation to a competing offer for Godfreys Shares referred to in section 650C(2) of the Corporations Act.

However, if the Arcade Offer is unconditional (i.e. all the Defeating Conditions are satisfied or waived), Arcade may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- (a) Arcade improves the Offer Price under the Arcade Offer; or
- (b) Arcade's Voting Power in Godfreys increases to more than 50%,

in which case, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

7.3 Defeating Conditions of the Arcade Offer

The Arcade Offer is subject to the satisfaction or waiver (as applicable) of various Defeating Conditions which are set out in full in Attachment 2 of this Target's Statement.

The key Defeating Conditions are summarised as follows:

- (a) a 90% minimum acceptance condition in respect of Godfreys Shares;
- (b) Arcade receiving all necessary Regulatory Approvals and there being no adverse action by any Regulatory Authority in respect of the Godfreys Group or the Arcade Offer;
- (c) no Prescribed Occurrences;
- (d) no Material Adverse Change in the Godfreys Group;
- (e) no market fall event being the S&P/ASX All Ordinaries Index being lower than 85% of the level of the index as at the close of trading on ASX on the Announcement Date for 3 consecutive days prior to the end of the Offer Period; and

- (f) no third party exercising, or proposing to exercise any rights it has as a result of the Arcade Offer, which would have a material adverse effect on the Godfreys Group and each such third party providing its consent or waiver to the relevant event before the end of the Offer Period.

In respect of the Defeating Conditions, Godfreys Shareholders should note the following:

(a) 90% minimum acceptance condition in respect of Godfreys Shares.

Defeating Condition 1 is a 90% minimum acceptance condition.

Arcade has not indicated whether it will waive this condition.

(b) Regulatory Approval and no regulatory action condition

Defeating Condition 2 relate to receipt of all necessary Regulatory Approvals, and no action being taken by a Regulatory Authority, in respect of the Arcade Offer.

As announced on 1 May 2018, Arcade has waived this Defeating Condition.

(c) Third party consents

Defeating Condition 6 requires that, in summary, that no party to an agreement, arrangement or understanding to which a member of the Godfreys Group is a party, is bound by or is subject to exercises any rights (including termination rights or pre-emptive rights) that would have a material adverse effect on the assets, liabilities, financial position or performance or the prospects of the Godfreys Group (taken as a whole), and that such parties give consent or waiver to the relevant event.

Godfreys is a party to certain contracts containing 'change of control' provisions which may be triggered as a result of, or as a result of acceptances of, the Arcade Offer. A summary of those contracts, and the relevant change of control provisions is set out at Section 10.12 of this Target's Statement.

7.4 Status of Defeating Conditions

Section 6.6 of Schedule 1 of the Bidder's Statement indicates that, unless the Offer Period is extended, Arcade will give a notice of status of the Defeating Conditions for the Arcade Offer (**Condition Notice**) to the ASX and Godfreys by 17 May 2018 (subject to variation in accordance with the Corporations Act).

Arcade is required to set out in its Condition Notice:

- (a) whether the Arcade Offer is free of Defeating Conditions;
- (b) whether, so far as Arcade knows, the Defeating Conditions have been fulfilled on the date the Condition Notice is given; and
- (c) Arcade's Voting Power in Godfreys (including Voting Power acquired as a result of acceptances received under the Arcade Offer).

If the Offer Period is extended before the date on which Arcade gives the Condition Notice, the date for giving the Condition Notice will be postponed for the same period, and Arcade is required to notify Godfreys Shareholders of the new date for Arcade to give the Condition Notice.

If a Defeating Condition is satisfied or waived (so that the Arcade Offer becomes free of that Defeating Condition) before the date on which the Condition Notice is required to be given, Arcade must, as soon as practicable after it has been satisfied, give the ASX and Godfreys a notice that states that the particular Defeating Condition has been satisfied.

As announced on 1 May 2018, Arcade has waived the Regulatory Approval Defeating Condition.

7.5 Effect of acceptance

The effect of acceptance of the Arcade Offer is set out in Section 4.1 of this Target's Statement.

In summary, Godfreys Shareholders who accept the Arcade Offer while it remains subject to Defeating Conditions will give up their right to sell their Godfreys Shares on ASX or otherwise deal with their Godfreys Shares while the Arcade Offer remains open, unless they withdraw their acceptance in accordance with the terms of the Arcade Offer (see Section 7.6 below).

Such Godfreys Shareholders will also lose their ability to accept a superior competing offer (if one emerges), unless the Arcade Offer is still conditional and they withdraw their acceptance in accordance with the terms of the Arcade Offer.

If you accept the Arcade Offer and it becomes unconditional, you will be obliged to sell your Godfreys Shares to Arcade and you will receive the Offer Price under the Arcade Offer for those Godfreys Shares.

7.6 Withdrawal of your acceptance

Once you accept the Arcade Offer (even if it remains subject to the Defeating Conditions) you will not be able to sell or otherwise deal with your Godfreys Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

Godfreys Shareholders may only withdraw their acceptance of the Arcade Offer if:

- (a) the Defeating Conditions are not satisfied or waived by the end of the Offer Period. In that situation, you will be free to deal with your Godfreys Shares; or
- (b) Arcade varies the Arcade Offer in a way that postpones the time when Arcade is required to satisfy its obligations (i.e. to pay the Offer Price) by more than 1 month; for example, if Arcade extends the Offer Period by more than 1 month, while the Arcade Offer is still conditional.

7.7 Receipt of Offer Price

(a) When consideration is paid

Subject to Section 7.7(b) of this Target's Statement, Arcade will pay you the Offer Price to which you are entitled within one month of the later of:

- (i) the date that you accept the Arcade Offer; and
- (ii) if the Arcade Offer is subject to Defeating Conditions, the date the Arcade Offer becomes unconditional.

In any event, you will be paid within 21 days after the end of the Offer Period (assuming all Defeating Conditions of the Arcade Offer are satisfied or waived).

(b) Where additional documents are required

Where the Acceptance Form requires additional documents to be given with your acceptance (such as a power of attorney):

- (i) if you provide Arcade with the necessary documents with your acceptance, Arcade will provide the consideration in accordance with Section 7.7(a) of this Target's Statement;
- (ii) if you provide Arcade with the necessary documents after acceptance and before the end of the Offer Period and the Arcade Offer is still subject to Defeating Conditions at the time that Arcade is given the documents, Arcade will pay you the Offer Price to which you are entitled within the earlier of:
 - A. within one month after the contract resulting from your acceptance of the Arcade Offer becomes unconditional; and
 - B. 21 days after the end of the Offer Period;
- (iii) if you provide Arcade with the necessary documents after acceptance and before the end of the Offer Period and the Arcade Offer is unconditional at the time that Arcade is given the documents, Arcade will pay you the Offer Price to which you are entitled within the earlier of:
 - A. one month after Arcade is given the relevant documents; and
 - B. 21 days after the end of the Offer Period;
- (iv) if you provide Arcade with the necessary documents after the acceptance and after the end of the Offer Period, Arcade will pay you the Offer Price to which you are entitled within 21 days after Arcade is given the relevant documents, but if at the time Arcade is given the relevant documents the Arcade Offer is still subject to a Defeating Condition, Arcade will provide you with the Offer Price to which you are entitled within 21 days after the contract becomes unconditional; or
- (v) if you do not provide Arcade with the necessary documents within one month after the end of the Offer Period, Arcade is entitled in its sole discretion, to rescind the contract resulting from your acceptance of the Arcade Offer.

7.8 Lapse of Arcade Offer

The Arcade Offer will lapse if the Defeating Conditions are not satisfied or waived by the end of the Offer Period (or, in the case of Defeating Conditions relating to no Prescribed Occurrences, within 3 Business Days after the end of the Offer Period). In this case, all acceptances of the Arcade Offer will be void and have no effect. In that situation, you will be free to deal with your Godfreys Shares as you see fit.

7.9 Consequences of Arcade acquiring 90% or more of Godfreys Shares

If Arcade acquires 90% of Godfreys Shares (by number) and the Arcade Offer becomes unconditional, Arcade will be entitled to proceed to compulsory acquisition of all outstanding Godfreys Shares. Arcade has stated that it intends to compulsorily acquire all outstanding Godfreys Shares at the end of the Offer Period under Part 6A.1 of the Corporations Act if it is entitled to do so (**Follow On Compulsory Acquisition**).

Even if Arcade does not become entitled to undertake a Follow On Compulsory Acquisition, Arcade may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act if it subsequently acquires sufficient Godfreys Shares to give it a Relevant Interest in 90% (by number) of Godfreys Shares (**General Compulsory Acquisition**). Arcade has stated that it intends to exercise this power if it reaches the 90% threshold in the future.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are discussed below.

Follow On Compulsory Acquisition

Under Part 6A.1 of the Corporations Act, if, at the end of the Offer Period, Arcade has (together with its Associates):

- (a) a Relevant Interest in at least 90% (by number) of Godfreys Shares; and
- (b) acquired at least 75% (by number) of Godfreys Shares that Arcade offered to acquire under the Arcade Offer,

then Arcade will be entitled to compulsorily acquire any outstanding Godfreys Shares for which it did not receive acceptances, on the same terms as the Arcade Offer. Arcade has stated that it intends to exercise this power if it is entitled to do so.

If these thresholds are met, Arcade will have up to 1 month after the end of the Offer Period within which to give compulsory acquisition notices to Godfreys Shareholders who have not accepted the Arcade Offer. Godfreys Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Godfreys Shareholders to establish to the satisfaction of a Court that the terms of the Arcade Offer do not represent "fair value".

Arcade must also offer to buy out remaining Godfreys Shares held by Godfreys Shareholders if Arcade (and its Associates) have a Relevant Interest in at least 90% of Godfreys Shares (by number) at the end of the Offer Period.

Godfreys Shareholders should be aware that if they do not accept the Arcade Offer and their Godfreys Shares are compulsorily acquired, those Godfreys Shareholders will face a delay in receiving the Offer Price compared with Godfreys Shareholders who have accepted the Arcade Offer. However, these Godfreys Shareholders will be paid the last price offered by Arcade for Godfreys Shares under the Arcade Offer.

General Compulsory Acquisition

Godfreys Shareholders should also be aware that if Arcade does not become entitled to compulsorily acquire Godfreys Shares in accordance with Part 6A.1 of the Corporations Act, Arcade may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act, if Arcade (or together with its related bodies corporate) acquire full beneficial interests in at least 90% (by value) of Godfreys Shares and Arcade:

- For personal use only
- (a) lodges a compulsory acquisition notice with ASIC within 6 months of achieving that 90% holding;
 - (b) proposes a cash sum for the compulsory acquisition of all Godfreys Shares; and
 - (c) obtains the report of an expert stating whether, in the expert's opinion, the terms proposed in the notice represent fair value for the Godfreys Shares.

Arcade has stated that it intends to exercise this power if it reaches the 90% threshold in the future. If Godfreys Shareholders with at least 10% of Godfreys Shares the subject of the compulsory acquisition notice object to the acquisition before the end of the one month objection period, Arcade may apply to a court for approval of the acquisition of the Godfreys Shares the subject to the compulsory acquisition notice.

8. Risk factors

In considering this Target's Statement and the Arcade Offer, Godfreys Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of Godfreys.

8.1 Risks associated with rejecting the Arcade Offer and continuing as a Godfreys Shareholder

This Section describes some of the potential risks associated with Godfreys' business and an investment in Godfreys. An investment in Godfreys exposes investors to the specific and general risks facing Godfreys' business. Each of these risks could, if they eventuate, have a material adverse effect on your investment. If any of the risks eventuate, they could also have a material adverse effect on Godfreys' business, financial condition, operating and financial performance and return to Godfreys Shareholders. Many of the circumstances giving rise to these risks are beyond the control of Godfreys, its Directors and management.

The risk factors set out below are not exhaustive. Additional risks of which Godfreys is unaware or that Godfreys currently considers to be immaterial also have the potential to have a material adverse effect on Godfreys' business, financial condition and operating and financial performance.

Godfreys Shareholders should carefully consider and evaluate Godfreys and its business and whether they should continue to hold Godfreys Shares, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. Godfreys Shareholders should examine the full content of this Target's Statement and may wish to consult their financial or other advisers before deciding whether or not to accept the Arcade Offer.

Risks specific to an investment in Godfreys

(a) Impact of the turnaround strategy

Godfreys announced its plans to turnaround the Godfreys business in February 2018. This strategy is designed to drive operational efficiencies to allow reinvestment of savings in five key areas, being brand and customer experience, product range, channels, people and culture, and technology. Godfreys has announced that work has commenced on achieving these operational efficiencies, and investment in certain of the key focus areas has already commenced and will continue into FY2019. However, there is no guarantee as to the benefits that the turnaround strategy will realise, nor the time that may be required to realise these benefits. Delays or failure to efficiently implement the turnaround strategy could have a material adverse effect on Godfreys' future financial performance.

(b) General retail environment and economic conditions

Current retail environment and trading conditions also remain challenging and may impact Godfreys' ability to meet its obligations under its current financing arrangements.

Further deterioration in general economic conditions and the retail environment may affect consumer purchasing decisions, including the dollar value spent on floorcare and associated cleaning products, or the timing of the expenditure. This could have a material adverse impact on Godfreys' future financial performance, including its ability to meet the latest FY2018 guidance provided by Godfreys to the market on 9 May 2018.

Further, if Godfreys fails to predict or respond to changes in consumer cleaning preferences, or fails to convert market trends into appealing product offerings in a timely manner, this may adversely impact Godfreys' future financial performance. In addition,

there is a risk that changes in customer preferences may lead to increased obsolete inventory.

(c) Ability to refinance existing finance facility or otherwise access capital

The continued operations of Godfreys are dependent on its ability to obtain financing through debt and equity financing, or generating sufficient cash flows from future operations. There is a risk that Godfreys may not be able to access capital from debt or equity markets to support the turnaround strategy or future projects, which could have a material adverse impact on Godfrey's business and financial condition.

Godfreys may become unable to service or refinance existing debt, or obtain new debt, on acceptable terms or at all, depending on future performance and cash flows which are affected by various factors, some of which are outside Godfrey's control, such as interest and exchange rates, general economic conditions and global financial markets.

As noted in Section 5.4 of this Target's Statement, Godfreys has a \$30 million secured senior debt facility with the Lender. Please refer to Section 5.4 for further details regarding the debt facility, including the security granted by Godfreys pursuant to the Security Documents and the waiver granted by the Lender in respect of compliance with each of the leverage ratio covenant and the fixed cover charge ratio covenant as at 29 June 2018. The waiver of the fixed cover charge ratio covenant is subject to the condition that Godfreys agrees to hold negotiations with the Lender (in good faith and using all reasonable endeavours) regarding suitable debt reduction strategies, including (but not limited to) a debt for equity conversion, with such negotiations to commence by no later than Friday 11 May 2018. Any agreement regarding any debt reduction would need to be the subject of mutually agreed terms and documentation and subject to all required approvals.

Godfreys also notes that the Lender has advised that it does not intend to vary any of the covenants applicable to Godfreys under the Facility Agreement nor does the Lender intend to grant to Godfreys any further waiver with respect to Godfreys' compliance with those covenants.

Given its current trading performance, Godfreys currently believes it will be difficult to satisfy the Facility Agreement's covenant requirements as at 28 December 2018, being the next testing date after 29 June 2018. Godfreys' failure to do so would constitute an event of default under the Facility Agreement. In such circumstances, pursuant to the terms of the Facility Agreement, the Lender is entitled to cancel all commitments under the Facility Agreement, require immediate repayment of outstanding amounts (including interest and costs) under the Facility Agreement, and enforce its rights under the Security Documents.

Should this occur, Godfreys considers it unlikely it will be able to repay amounts outstanding under the Facility Agreement from the implementation of capital management initiatives or by refinancing its facilities in the conventional bank market on favourable terms. Enforcement action by the Lender may include, without limitation, the appointment of receivers and managers over all (or some) of Godfreys' assets or the appointment of voluntary administrators to Godfreys. If the Lender exercises its security over all or some of Godfreys' assets, subject to the outcome of the realisation of those assets or Godfreys' voluntary administration, there is a real risk that Godfreys will not be able to continue as a going concern and Shareholders may receive no distribution in any subsequent liquidation of Godfreys.

Godfreys will continue to monitor whether it believes it will be able to satisfy the Facility Agreement's covenant requirement at 28 December 2018 and will update the market as required in accordance with its continuous disclosure obligations.

(d) Possibility of future Godfreys Share price depreciation

The Independent Directors cannot predict whether the Godfreys Share price would in fact decrease or increase in the absence of the Arcade Offer, as there may be other reasons

for share price movements. There is a risk that Godfreys Shares may trade at a price below the current market price if the Arcade Offer does not proceed and no superior alternative proposal emerges.

(e) Minority ownership consequences and liquidity risk

The Arcade Offer is presently subject to a 90% minimum acceptance condition, which Arcade has not as at the date of this Target's Statement indicated it would waive. If Arcade waives this Defeating Condition (and all other Defeating Conditions are waived or satisfied), Arcade may be in a position where it holds less than 90% of Godfreys Shares.

Depending upon the number of Godfreys Shareholders who accept the Arcade Offer, this may have a number of implications for remaining Godfreys Shareholders who do not accept the Arcade Offer, including:

- Arcade may be in a position, either alone or in conjunction with one or more of the other Godfreys Shareholders, to control or significantly influence the composition of Godfreys' Board and management and the strategic direction of the businesses of Godfreys and its subsidiaries although no forecast is made as to whether that will occur;
- the liquidity of Godfreys Shares may be lower than at present;
- if Arcade becomes entitled at some later time to exercise any compulsory acquisition rights under the Corporations Act, it may (and has stated that it intends to) exercise those rights;
- in the event that a change of control results from the Arcade Offer, this may have materially adverse consequences for a significant number of leases to which Godfreys is party, which may adversely affect Godfreys' financial position and financial performance; and
- if the number of Godfreys Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX may suspend and/or de-list Godfreys. If this occurs, any remaining Godfreys Shareholders will not be able to sell their Godfreys Shares on-market.

(f) Relationships with new and existing landlords may deteriorate

Godfreys currently has 125 company-owned stores and 92 franchised stores across Australia and New Zealand, a Godfreys' operated service and distribution centre, three third party distribution centres and a head office.

Godfreys currently holds the leases for 212 company owned and franchised stores from a number of landlords. In particular, Godfreys leases 12 store sites on commercial arm's length terms from entities controlled by Mr. John Johnston, who controls Arcade.

Some of Godfreys' third party leases require landlord consent for the change in control that would occur if acceptances under the Arcade Offer result in Arcade acquiring a Relevant Interest in greater than 50% of the Godfreys Shares. As at the date of this Target's Statement, these consents have not been obtained. If a consent is not granted, it may result in the termination of the relevant lease (or the landlord seeking to renegotiate terms of the lease). This may have an adverse impact on Godfreys' operations and financial performance. Godfreys has not yet received any confirmation of whether any termination rights under the leases would be exercised if they are triggered by the Arcade Offer.

Any default under a lease by Godfreys (which, under a significant number of leases, would be triggered if Godfreys does not satisfy its obligations to notify or obtain the consent of the landlord under the relevant change of control provisions that may be triggered upon Arcade acquiring a controlling interest in Godfreys), or failure to renew existing leases on acceptable terms or an inability to negotiate alternative arrangements, could materially adversely affect Godfreys' ability to operate stores in preferred locations, which may have an adverse effect on Godfreys' future financial performance. Further, pursuant to the terms of certain leases, upon termination by the landlord for default by Godfreys, certain make-good obligations and obligations to repay fit-out contributions provided by the relevant landlord to Godfreys may crystallise. Such obligations may result in Godfreys being required to make material payments to a number of landlords, which may also have an adverse effect on Godfreys' future financial condition and performance.

In addition, there is a risk that Godfreys may become subject to lease terms which are less favourable due to unanticipated changes in the property market or if one or more stores do not achieve the financial performance anticipated at the time of entering into the relevant leases.

(g) Adverse movement in exchange rate

Godfreys' future financial performance is exposed to movements in exchange rates. Given that Godfreys purchases a significant portion of its supplies and inventory in foreign currencies, movements in the A\$/US\$ rate and A\$/EUR rate can impact on the amounts paid for purchases. In addition, a proportion of Godfreys' earnings are generated in New Zealand and, therefore, movements in the A\$/NZ\$ rate can impact the translation of account balances in Godfreys' New Zealand operations. Adverse movements in these exchange rates may have a material adverse impact on Godfreys' future financial performance.

(h) Disputes with franchisees

A significant portion of Godfreys' sales are derived from the sale of products to franchisees, and franchisee fees. Disputes with a large number of franchisees, or the underperformance of a significant number of franchised stores, may materially affect the future performance of Godfreys.

(i) Significant product failure

A significant product failure in one of the products sold by Godfreys may result in damage to the Godfreys brand and/or to the company-owned brand or exclusively licensed brand, loss of customer loyalty, adverse media coverage, potential recalls and liability under warranty obligations. As such, a significant product failure may have an adverse impact on Godfreys' reputation and financial performance.

(j) Deterioration in the Godfreys brand and that of its portfolio of brands

The reputation and value associated with the Godfreys portfolio of brands are key assets of the business and could be adversely impacted by a number of factors including product failures and recalls, disputes or litigation with third parties such as employees, suppliers and customers or adverse media coverage. Significant deterioration in the reputation of, or value associated with, these brands could adversely affect Godfreys' future operating and financial performance.

(k) Loss of significant contracts, including the Hoover licence

Godfreys could lose key customers due to a range of events, including as a result of failure to renew a contract, weakening of customer relationships or disputes with customers, failure to remedy a contractual breach, failure to deliver products on time, consolidation of customers, insolvency of customers, increased competition or lack of product supply. Any loss of key customers may materially and adversely affect Godfreys.

In addition, Godfreys has an exclusive licence with Techtronic Industries Australia Pty Ltd (ACN 002 277 509) to use the Hoover brand in Australia and New Zealand which expires in 2023. Although there is provision for automatic renewal of this licence, there is a risk that the licence may not be renewed beyond 2023 or that the licence may be renewed on terms less favourable to Godfreys.

Given Hoover branded products account for a significant portion of Godfreys' sales, any failure to renew the licence will have a material impact on Godfreys' future financial performance.

(l) Interruptions to product sourcing

Godfreys sources its products from third party manufacturers, located primarily in Asia, Australia and Europe. As a result, Godfreys is exposed to potential increases in the cost of materials and the cost of manufacturing. There may also be delays in delivery or failure by a supplier to deliver goods. Such increases, delays and failure could significantly increase Godfreys' cost of operations, or lead to a reduction in the available range of product, which may affect Godfreys' operating and financial performance.

Godfreys' relationships with its suppliers are key to its product development strategy and an inability to renew contractual arrangements with such parties, or negotiate agreements with new parties, is likely to have an adverse effect on Godfreys' business model.

(m) Disruptions to supply chain and distributions

Products sourced from third party suppliers are either consolidated in facilities near Shanghai or Shenzhen and shipped to Godfreys' operated distribution centre located in Altona and third party run distribution centres located in Western Australia and Queensland, and New Zealand, or are delivered directly to these facilities. Product is then delivered to the stores as required. There is a risk that disruptions to Godfreys' supply chain could occur due to the inability of third party contractors and/or suppliers to meet key freight supply deliverables because of events such as, but not limited to, industrial labour disputes, natural disasters, and loss or disruption at manufacturing sites. Any such disruption may affect Godfreys' ability to supply sufficient products to the stores and, therefore, impact the operating performance of Godfreys.

(n) Ability to attract and retain key personnel

Godfreys' business model is built on the experience and knowledge of its key personnel; in particular, the senior management team. The loss of key management personnel, or any delay in the appointment of their suitable replacements, may therefore adversely affect Godfreys' future financial performance.

In addition, Godfreys is dependent on its employees to execute sales techniques and conduct in-store demonstrations to maximise sales. Godfreys' ability to meet its labour needs while controlling costs associated with hiring and training new employees is subject to external factors such as unemployment rates, prevailing wage legislation, the industrial relations landscape and changing demographics.

There is a risk that changes in these factors may occur which would inhibit Godfreys' ability to hire and retain employees. As a result, Godfreys' financial and operating performance may be adversely impacted if Godfreys cannot find suitably qualified employees or adequately incentivise sales team members.

(o) Australian retail staff employment arrangements

Australian based retail staff are currently employed by Electrical Home-Aids Pty Ltd, a wholly owned subsidiary of Godfreys Group Limited, under the terms of the Godfreys Collective Agreement 2009. In November 2017, an employee of Electrical Home-Aids Pty Ltd represented by The Shop, Distributive and Allied Employees' Association lodged an

application with the Fair Work Commission to terminate the Collective Agreement. Electrical Home-Aids Pty Ltd is defending the termination application.

The application was heard before Deputy President Clancy of the Fair Work Commission on 17 April 2018. The outcome is not yet known.

Should the termination application be upheld, it is likely Electrical Home-Aids Pty Ltd will be required to employ all retail staff under the terms of the General Retail Industry Award which is likely to result in higher overall remuneration (including allowances and other entitlements) for retail staff. Should this be the case, Electrical Home-Aids Pty Ltd is expected to review the at-risk element of retail staff remuneration to the extent possible, including sales commissions, to offset this increase in cost in part or in full.

(p) Increase in competition

Competition in the floorcare and associated cleaning products market is based on a variety of factors including product offering range, price, advertising, new stores, store location, store appearance, product presentation and customer service.

Godfreys' competitive position may deteriorate as a result of actions by existing competitors, the entry of new competitors or a failure by Godfreys to successfully respond to changes in the industry. Any deterioration in Godfreys' competitive position may have an adverse effect on Godfreys' future financial performance.

General risks

(a) Fluctuation in price of Godfreys Shares

There are general risks associated with investments in equity capital. The trading price of Godfreys Shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for Godfreys Shares being less or more than the Offer Price.

Generally applicable factors which may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes to government regulation and policies, announcement of new technologies and geo-political instability, including international hostilities and acts of terrorism.

(b) Government and regulatory factors

Government or regulatory policies may change, which could have an impact on the economic environment, general market conditions or the retail industry. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of Godfreys.

(c) Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect Godfreys' cost of servicing these borrowings which may adversely affect its financial position.

8.2 Risks associated with accepting the Arcade Offer

There are certain risks associated with accepting the Arcade Offer, including:

(a) You will not be able to sell your Godfreys Shares on-market

If you accept the Arcade Offer, you will no longer be able to trade your Godfreys Shares on-market, unless you are entitled to withdraw your acceptance of the Arcade Offer in the limited circumstances described in Section 7.6 of this Target's Statement. There is a possibility that the Godfreys Share price on ASX may exceed the price under the Arcade Offer in future (though the Independent Directors can give no assurances and make no forecast of whether this will occur).

(b) Possibility of a superior proposal emerging

A third party with a superior proposal may emerge (although the Independent Directors can give no assurances that this will occur). Once you have accepted the Arcade Offer, you will not be able to accept your Godfreys Shares into any superior proposal (should such a proposal eventuate) as you will have entered a binding contract for the sale of your Godfreys Shares. However, as at the date of this Target's Statement, the Independent Directors are not aware of a proposal by anyone to make a superior proposal. In light of Arcade's ownership of Godfreys Shares (as at the Last Trading Date), the Independent Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

(c) Taxation consequences

The taxation consequences of disposing of your Godfreys Shares pursuant to the Arcade Offer depend on a number of factors and your particular circumstances. A general outline of certain Australian taxation consequences of such a disposal is set out in Section 9 of this Target's Statement. You should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

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9. Tax consequences

The taxation consequences of accepting the Arcade Offer depend on a number of factors and will vary depending on your particular circumstances.

This is not intended to be an authoritative or complete statement of the tax position applicable to any given Godfreys Shareholder.

The following are general comments made in relation to Australian resident Godfreys Shareholders who are subject to Australian tax on the disposal of their Godfreys Shares and hold their Godfreys Shares on capital account. This summary does not address the consequences for any other Godfreys Shareholder (in particular, it does not address the tax consequences for a Godfreys Shareholder who is a non-resident).

In general terms, if you accept the Arcade Offer, you will trigger a CGT event. Any net capital gain will be included in your calculation of taxable income and taxed at your marginal tax rate.

There is no CGT rollover relief for Godfreys Shareholders in respect of any cash they receive in relation to the Godfreys Shares that they own in Godfreys.

Your income tax liabilities will depend on your personal circumstances and the decisions you make. The comments in this Section are general and do not address all of the taxation consequences for any Godfreys Shareholder. This summary does not constitute, and should not be relied upon, as tax advice. This summary is based on Australian income tax law and practice applicable as at the date of this Target's Statement. This may change at any time and without notice.

All Godfreys Shareholders should obtain independent taxation advice which is particular to their own personal circumstances, prior to accepting the Arcade Offer.

Neither Godfreys nor any of its officers or advisers accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences themselves.

10. Additional information

10.1 Issued capital

As at the date of this Target's Statement, Godfreys had:

- 40,922,585 fully paid ordinary Godfreys Shares on issue; and
- 984,622 Performance Rights on issue.

10.2 Substantial holders

According to the substantial holder notices given to Godfreys as at the date of this Target's Statement, the substantial shareholders of Godfreys and the number of Godfreys Shares held by those substantial shareholders directly, and the number of Godfreys Shares in which those substantial shareholders and their Associates have a Relevant Interest are:

Name	Number of Godfreys Shares directly held	% of issued capital of Godfreys	Number of Godfreys Shares in which hold a Relevant Interest	Voting Power
Arcade Finance Pty Ltd as trustee for The Johnston Investment Trust ¹	10,408,383	25.43%	10,408,383	28.09%
Kentgrove Capital Pty Ltd ²	1,900,000	4.64%	8,091,712	19.77%
NGE Capital Limited ³	6,191,712	15.13%	6,191,712	15.13%
INBESTCOMPANY S. DER R. L DE C.V	2,311,372	5.648%	2,311,372	5.648%

10.3 Notice of Arcade's Voting Power

As at the Last Trading Date, Arcade held a Relevant Interest in 25.43% of Godfrey's issued capital and Voting Power in Godfreys of 28.09%.

¹ According to the Form 604 released by Godfreys on 11 April 2018, Arcade holds a Relevant Interest in 10,408,383 Godfreys Shares, which represents approximately 25.43% of Godfreys Shares on issue. In addition, as disclosed in that Form 604 and the Bidder's Statement, J & P Hardy Holdings Pty Ltd is an Associate of Arcade. According to the Appendix 3Y released by Godfreys on 24 February 2017, Mr. John Hardy is the practical controller of J & P Hardy Holdings Pty Ltd and is a beneficiary of the Hardy Family Trust. J & P Hardy Holdings Pty Ltd as trustee for The Hardy Family Trust has a Relevant Interest in 1,086,212 Godfreys Shares, which represents approximately 2.65% of Godfreys Shares on issue. As such, Arcade therefore holds Voting Power of 28.09% in Godfreys.

² According to the Form 604 released by Godfreys on 13 April 2018, Kentgrove Capital Pty Ltd has a Relevant Interest in 6,191,712 Godfreys Shares held by NGE Capital Limited (in addition to the 1,900,000 Godfreys Shares held by Kentgrove Capital Pty Ltd), representing approximately 15.13% of Godfreys Shares on issue, by virtue of the operation of section 608(3) of the Corporations Act. As such, Kentgrove Capital has Voting Power of 19.77% in Godfreys.

³ Refer to the comment above in relation to the Relevant Interest held by Kentgrove Capital Pty Ltd in the Godfreys Shares held by NGE Capital Limited.

Arcade is required to notify the ASX and Godfreys before 9.30am on the next trading day during the Offer Period where there is a movement of at least 1% in its Voting Power in Godfreys Shares (being the Relevant Interests in Godfreys Shares held by it and its Associates) as compared with its last substantial holder notice.

As at the date of this Target's Statement, no such movement has been notified to Godfreys or ASX.

10.4 Directors of Godfreys

As at the date of this Target's Statement, the Directors of Godfreys are:

Name	Position
Mr. Brendan Fleiter	Non-Executive Director and Chairman
Mr. Jason Gowie	Executive Director and Chief Executive Officer
Ms. Sue Morphet	Non-Executive Director
Ms. Kathy Gramp	Non-Executive Director
Ms. Penny Burke	Non-Executive Director
Mr. John Hardy	Non-Executive Director ⁴

Section 5.7 of this Target's Statement provides professional profiles of each of the Directors.

For the purpose of assessing the Arcade Offer and in light of Mr. John Hardy's Association with Arcade, Godfreys has formed the IBC, which comprises four Independent Non-Executive Directors, being Mr. Brendan Fleiter, Ms. Sue Morphet, Ms. Kathy Gramp and Ms. Penny Burke. The IBC has full delegated authority to deal with all aspects of the Arcade Offer.

Given Mr. John Hardy's Association with Arcade, he is not considered to be an independent director of Godfreys in relation to the Arcade Offer. Accordingly, Mr. John Hardy has not participated in the consideration given by the IBC and the Independent Directors to the Arcade Offer, or the review of this Target's Statement, until this Target's Statement was presented to the full Godfreys Board for approval.

10.5 Recommendation of Independent Directors

Each of the Independent Directors (Mr. Brendan Fleiter, Ms. Sue Morphet, Mr. Jason Gowie, Ms. Penny Burke and Ms. Kathy Gramp) recommend that Godfreys Shareholders **ACCEPT** the Arcade Offer, in the absence of a superior proposal, for the reasons set out in this Target's Statement (particularly the matters discussed in Section 1).

If you hold Godfreys Shares as a short term investment, and you decide that you wish to sell your Godfreys Shares now, you should consider either accepting the Arcade Offer or, if the ASX price for the Godfreys Shares (less brokerage costs) is above the Offer Price, selling your Godfreys Shares on-market.

⁴ Following the appointment of Jason Gowie as Chief Executive Officer, effective 4 December 2017, Mr. John Hardy was appointed as Executive Director Product. Mr. John Hardy stepped down from this role on 23 March 2018 and has remained on the Godfreys Board.

10.6 Recommendation of Mr. John Hardy

Given Mr. John Hardy's Association with Arcade, he has abstained from making a recommendation as to whether Godfreys Shareholders should accept or reject the Arcade Offer.

10.7 Interests of Directors in Godfreys Shares

As at the Last Trading Date, the number of Godfreys Shares in which each Director has a Relevant Interest are set out below:

Director	Number of Godfreys Shares
Mr. Brendan Fleiter	266,364 Godfreys Shares ⁵
Mr. Jason Gowie	109,100 Godfreys Shares ⁶
Ms. Sue Morphet	7,272 Godfreys Shares
Ms. Kathy Gramp	Nil
Ms. Penny Burke	Nil
Mr. John Hardy	1,086,212 Godfreys Shares ⁷

Each Director intends to **ACCEPT** the Arcade Offer in respect of their Godfreys Shares, in the absence of a superior proposal.

10.8 Recent dealings in Godfreys Shares by Directors

No Director has acquired or disposed interests in any Godfreys Shares in the four months ending on the Last Trading Date, except for the acquisitions set out below:

Director	Acquisition date	Number of Godfreys Shares
Mr. Jason Gowie	21 February 2018	9,627 Godfreys Shares ⁸ 38,498 Godfreys Shares ⁹

10.9 Directors' interests and dealings in Arcade

None of the Directors have directly acquired or disposed of any securities of Arcade, or any related body corporate of Arcade in the 4 months preceding the date of this Target's Statement. However, as disclosed in the Bidder's Statement and as noted in substantial shareholder notices lodged by Arcade in respect of its shareholding in Godfreys, Mr. John Hardy is an Associate of Arcade.

⁵ Held indirectly through Nebula Super Co Pty Ltd

⁶ Held indirectly through Alyxa Superfund

⁷ Held indirectly through J & P Hardy Holdings Pty Ltd as trustee for the Hardy Family Trust

⁸ Held indirectly through Alyxa Superfund

⁹ Held indirectly through Alyxa Superfund

10.10 Impact of the Arcade Offer on Godfreys' senior management and Director arrangements

(a) Director arrangements

As a result of the Arcade Offer, no benefit (other than a benefit permitted by the Corporations Act) will or may be given to a Director in connection with their retirement from office in Godfreys or a related body corporate of Godfreys.

Godfreys does not propose and, except as otherwise disclosed in this Target's Statement, is not aware of any proposal in connection with the Arcade Offer that will confer a benefit:

- on any person in connection with the retirement of that person from a board or managerial office of Godfreys or related body corporate of Godfreys; or
- that will or may be given to any person in connection with the transfer of the whole or any part of Godfreys' undertaking or property.

Other than as disclosed in this Target's Statement, no Director has agreed to receive, or is entitled to receive, any benefit from Arcade which is conditional on, or is related to, the Arcade Offer, other than in their capacity as a holder of Godfreys Shares.

No agreement has been made between any Director and any person in connection with, or conditional upon, the outcome of the Arcade Offer, other than in their capacity as a holder of Godfreys Shares.

No Director has any interest in any contract entered into by Arcade.

(b) Executive and employee arrangements

Pursuant to the terms of the Chief Executive Officer, Jason Gowie's, employment arrangements, Godfreys has offered and Jason Gowie has accepted 649,000 Performance Rights with an approximate value of \$320,833 (being 100% of Jason Gowie's total remuneration, pro-rated for 7 months of the FY2018 financial year) on the basis of the VWAP of Godfreys Shares quoted on the ASX for the 5 trading days prior to the date of the offer (1 December 2017) (being \$0.4943 per Godfreys Share). The issue of such Performance Rights is subject to Godfreys Shareholder approval at the 2018 Annual General Meeting of Godfreys. The terms of offer also provide that in circumstances where Godfreys Shareholder approval is not obtained, Godfreys will provide an equivalent cash offer on the same terms.

In accordance with the terms of the Godfreys LTI Plan and having regard to all relevant circumstances, the IBC has resolved that, if the Arcade Offer becomes unconditional, 25% of Jason Gowie's entitlement pursuant to the terms of offer of Performance Rights is to be paid in cash, with the cash value equivalent per Performance Right to be determined by reference to the Offer Price.

In addition to the above matters, the Chief Financial Officer holds performance rights under the Godfreys LTI Plan. Section 10.11 sets out a description of the discretion of the IBC in relation to the vesting of performance rights under the Godfreys LTI Plan.

10.11 Godfreys securities issued under the LTI Plan

Godfreys currently operates the LTI Plan, pursuant to which 984,622 Performance Rights have been granted to Godfreys' Chief Financial Officer, Andrew Ford.

The terms of the LTI Plan provide that, in the event of a takeover bid made for Godfreys Shares, the Directors may, in their absolute discretion, determine that all or a part of the participant's unvested Performance Rights, will become vested Performance Rights, having regard to all relevant circumstances, including whether performance is in line with the relevant performance conditions over the period from the date of grant of the Performance Right to the date of the relevant takeover event.

The Godfreys Board has discretion as to how to treat unvested Performance Rights, including but not limited to: vesting a portion of those unvested Performance Rights; applying the specified performance tests for the vesting conditions at an earlier date; vesting a portion appropriate to that level of achievement; and allowing those unvested Performance Rights to remain 'on foot'.

On vesting, each Performance Right entitles the holder to one Godfreys Share.

In accordance with the terms of the Godfreys LTI Plan and having regard to all relevant circumstances, the IBC has resolved that, if the Arcade Offer becomes unconditional, 50% of the Performance Rights held by Andrew Ford (being 492,311 Performance Rights) will vest and Andrew Ford will be issued an equivalent number of Godfreys Shares before the end of the Offer Period, with all remaining unvested Performance Rights to lapse.

As the Arcade Offer also extends to all of the Godfreys Shares that come to be in the bid class during the period from the Register Date to the end of the Offer Period due to the conversion of or exercise of rights attached to other securities, the Arcade Offer will extend to any Godfreys Shares issued to Andrew Ford upon vesting of Performance Rights.

10.12 Material contracts

(a) Leases

As disclosed in Section 8.1, certain of Godfreys' third party leases contain change of control provisions which may be triggered in circumstances where Arcade acquires a controlling interest in Godfreys.

Any default under a lease by Godfreys (which, under a significant number of leases, would be triggered if Godfreys does not satisfy its obligations under the relevant change of control provisions that may be triggered in circumstances where Arcade acquires a controlling interest in Godfreys), may result in the termination of the relevant lease. In addition, pursuant to the terms of certain leases, upon termination by the landlord for default by Godfreys, certain make-good obligations and obligations to repay fit-out contributions provided by the relevant landlord to Godfreys may crystallise. Such obligations may result in Godfreys being required to make material payments to a number of landlords.

(b) Other material contracts

Other than in respect of third party leases, Godfreys is not, after due inquiry, aware of any other material contract that has been entered into by Godfreys that contains a change of control provision that may be triggered if Arcade acquires Godfreys Shares as a result of the Arcade Offer.

10.13 Status of discussions regarding alternative proposals

Following Arcade's announcement on 9 April 2018, Godfreys and its advisers engaged in discussions with several parties. While the Independent Directors will continue to explore any interest received from third parties, no superior proposal has emerged to date and the Independent Directors can give no assurance that any alternative proposal will emerge, proceed or result in a superior proposal.

The Independent Directors will keep Godfreys Shareholders informed of any material developments in this regard.

10.14 Material litigation

Godfreys is not subject to any actual, pending or threatened litigation so far as the Directors are aware, other than as described in section 8.1(o).

10.15 Consents

Each person named in this Section 10.15 of this Target's Statement as having given its consent to being named in, or to the inclusion of a statement in, this Target's Statement:

- (a) has not authorised or caused the issue of this Target's Statement;
- (b) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than those statements which have been included in this Target's Statement with the consent of that person; and
- (c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to their name and any statements or reports which have been included in this Target's Statement with the consent of that person.

Reliance on ASIC Class Orders

ASIC has published various Class Orders that modify, or exempt parties from compliance with, the operation of various provisions of Chapter 6 of the Corporations Act. Godfreys has relied on this Class Order relief.

As permitted by ASIC Class Order CO 13/521, this Target's Statement contains statements which are made by Arcade, or based on statements made by Arcade, in documents lodged with ASIC or given to the operator of a prescribed financial market in compliance with the listing rules of the prescribed financial market (including the ASX). Pursuant to this Class Order, the consent of Arcade to which such statements are attributed is not required for the inclusion of these statements in this Target's Statement.

Godfreys Shareholders are entitled to obtain from Godfreys free of charge any document which contains such a statement. If you would like to receive a copy of any of those documents, or the relevant part of the documents containing the statements (free of charge) during the Offer Period, please contact Godfreys.

As permitted by ASIC Class Order CO 13/523, this Target's Statement may include or be accompanied by certain statements that:

- (a) fairly represent what purports to be a statement by an official person;
- (b) are a correct and fair copy of, or extract from, what purports to be a public official document; or
- (c) are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

Pursuant to this Class Order, the consent of such persons to whom statements are attributed is not required for the inclusion of those statements in this Target's Statement.

This Target's Statement includes references to the Bidder's Statement. Arcade has not consented to these references being included in, or referred to, in the form and context in which they are included.

Independent Expert

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to:

- (a) be named in this Target's Statement as the independent expert engaged by Godfreys in the form and context in which it is named;
- (b) the inclusion of the Independent Expert's Report and statements noted next to its name, and the references to that report or statements, in the form and context in which they are included in the Target's Statement; and
- (c) the inclusion of other statements in this Target's Statement that are based on or referable to statements made in the Independent Expert's Report or statements that are based on or referable to other statements made by those persons in the form and context in which they are included in the Target's Statement.

Other persons

Clayton Utz has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Godfreys' Australian legal adviser in the form and context in which it is named.

KPMG Financial Advisory Services (Australia) Pty Ltd of which KPMG Corporate Finance is a division has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Godfreys' financial adviser in the form and context in which it is named.

Link Market Services Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Godfreys' Share Registry in the form and context in which it is named.

10.16 Continuous disclosure

Godfreys is a disclosing entity under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require Godfreys to notify the ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, Godfreys has an obligation (subject to limited exceptions) to notify the ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Godfreys Shares.

Copies of the documents filed with the ASX may be obtained from the ASX website at www.asx.com.au and Godfreys' website at www.godfreys.com.au.

Copies of documents lodged with ASIC in relation to Godfreys may be obtained from, or inspected at, an ASIC office. Godfreys Shareholders may obtain a copy of:

- (a) the Annual Report;
- (b) the Half-Yearly Report;
- (c) Godfreys' constitution; and

- (d) any document lodged by Godfreys with the ASX between the release of the Annual Report and the date of this Target's Statement,

free of charge upon request by contacting Godfreys, or from the ASX website at www.asx.com.au. The Annual Report, Half-Yearly Report and this Target's Statement are also available on Godfreys' website at www.godfreys.com.au.

Godfreys Shareholders are also encouraged to monitor the Godfreys website at www.godfreys.com.au for any updates on the Arcade Offer.

10.17 Insurance and indemnities

Godfreys has entered into standard form of deeds of indemnity with its Directors against all liabilities which they may incur in the performance of their duties as Directors or officers of Godfreys, except liability to Godfreys or a related body corporate, liability for a pecuniary penalty or compensation order under the Corporations Act, and liabilities arising from conduct involving a lack of good faith. Subject to the Corporations Act, Godfreys is obliged to meet the full amount of all such liabilities in accordance with the terms of the deeds of indemnity.

In addition, each Director is indemnified, as authorised by Godfreys' constitution, against personal liability arising from their respective positions with Godfreys and its related bodies corporate.

Godfreys holds a directors' and officers' insurance policy on behalf of current Directors and officers of Godfreys and its Controlled Entities.

10.18 Regulatory approval

Godfreys has not been granted any modifications or exemptions by ASIC from the Corporations Act in connection with the takeover bid. Nor has Godfreys been granted any waivers from the ASX in relation to the takeover bid.

10.19 No other material information

This Target's Statement is required to include all the information that Godfreys Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Arcade Offer, but only to the extent to which it is reasonable for Godfreys Shareholders and their respective professional advisers to expect to find this information in this Target's Statement, and only if the information is known to any Independent Director of Godfreys.

In deciding what information should be included in this Target's Statement, the Independent Directors have had regard to:

- (a) the nature of Godfreys Shares;
- (b) the matters that Godfreys Shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to the professional advisers of Godfreys Shareholders; and
- (d) the time available to Godfreys to prepare this Target's Statement.

The Independent Directors are of the opinion that the information that Godfreys Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Arcade Offer is in one or more of:

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- (a) the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
 - (b) Godfreys' Annual Reports and releases to the ASX before the date of this Target's Statement;
 - (c) documents lodged by Godfreys with ASIC before the date of this Target's Statement; and
 - (d) the information contained in this Target's Statement.

The Independent Directors have assumed that, for the purposes of preparing this Target's Statement, the information in the Bidder's Statement is accurate. However, the Independent Directors and their advisers do not take any responsibility for the contents of the Bidder's Statement, and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

11. Definitions and interpretation

11.1 Definitions

\$	Australian dollars, unless otherwise stated
Acceptance Form	an acceptance form enclosed within the Bidder's Statement
Accounting Standards	the rules about how a company must prepare its accounts in, prescribed by or specified under, the Corporations Act
AEST	Australian Eastern Standard Time
Announcement Date	9 April 2018, being the date of announcement of the Arcade Offer
Annual Report	Godfreys' 2017 Annual Report
Arcade	Arcade Finance Pty Ltd (ACN 149 252 719)
Arcade Offer	the offer by Arcade to acquire Godfreys Shares on the terms and conditions contained in the Bidder's Statement
ASIC	the Australian Securities & Investments Commission
Associate	has the meaning in section 12 of the Corporations Act
ASX Listing Rules	the official listing rules of ASX, as amended from time to time
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it
ASX Settlement	ASX Settlement Pty Ltd (ACN 008 504 532), the body that administers the CHESS system in Australia
ASX Settlement Operating Rules	the rules of the ASX Settlement from time to time, except to the extent of any relief given by ASX Settlement
Bidder's Statement	Arcade's bidder's statement in relation to the Arcade Offer dated 9 April 2018, as updated by Arcade's replacement bidder's statement in relation to the Arcade Offer dated 17 April 2018
Business Days	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Victoria
CGT	capital gains tax under the <i>Income Tax Assessment Act 1997</i> (Cth)
CHESS	Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia
CHESS Holding	a holding of Godfreys Shares on the CHESS sub-register of Godfreys
Condition Notice	has the meaning given in Section 7.4 of this Target's Statement
Controlled Entities	has the meaning given in the Accounting Standards

Controlling Participant	the Participant who is designated as the controlling participant for Godfreys Shares in a CHES Holding in accordance with the ASX Settlement Operating Rules
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Defeating Conditions	the conditions of the Arcade Offer, as described in Attachment 2 of this Target's Statement
Director	a director of Godfreys
Facility Agreement	the facility agreement between Godfreys and the Lender dated 29 May 2017 in respect of the senior debt facility provided by the Lender to Godfreys
Follow On Compulsory Acquisition	has the meaning given in Section 7.9 of this Target's Statement
General Compulsory Acquisition	has the meaning given in Section 7.9 of this Target's Statement
Godfreys	Godfreys Group Limited (ACN 602 722 985) and each of its Controlled Entities and, where relevant, means one or more of those Controlled Entities, as the context requires
Godfreys Board	the board of Directors of Godfreys
Godfreys Share	a fully paid ordinary share in the capital of Godfreys
Godfreys Shareholder	a holder of Godfreys Shares
Godfreys Share Registry	Link Market Services Limited ABN 54 083 214 537 of Tower 4, Collins Square, 727 Collins Street, Melbourne VIC 3000
IBC	the Independent Board Committee established by the Godfreys Board to consider the Arcade Offer and comprising Mr. Brendan Fleiter, Ms. Sue Morphet, Ms. Kathy Gramp and Ms. Penny Burke
Independent Directors	Mr. Brendan Fleiter, Ms. Sue Morphet, Mr. Jason Gowie, Ms. Kathy Gramp and Ms. Penny Burke
Independent Expert	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)
Independent Expert's Report	the report prepared by the Independent Expert, a copy of which is attached to this Target's Statement as Attachment 1
Issuer Sponsored Holding	a holding of Godfreys Shares on Godfreys' issuer sponsored sub-register
Last Trading Date	6 April 2018, being the last day on which Godfreys Shares traded on the ASX prior to the announcement of the Arcade Offer
Lender	1918 Finance Pty Ltd, being an entity associated with Arcade

LTI Plan	The Godfreys Long Term Incentive Plan established by Godfreys, under which Performance Rights are granted for the benefit of certain eligible employees (including executives) of Godfrey, the terms of which are summarised in the notice of Godfreys annual general meeting dated 8 September 2017
Material Adverse Change	has the meaning given in section 9 of the Bidder's Statement
Offer Period	the period from 24 April 2018 until 7.00pm (Adelaide time) on 24 May 2018, unless the Arcade Offer is extended or withdrawn
Offer Price	\$0.32 cash per Godfreys Share, being the consideration to be provided to Godfreys Shareholders under the Arcade Offer, as set out in Section 7.1 of this Target's Statement
Participant	has the meaning given in the ASX Settlement Operating Rules
Performance Rights	a right to be issued a Godfreys Shares, subject to satisfaction of the relevant performance conditions, granted under the LTI Plan
Prescribed Occurrence	has the meaning given in section 9 of the Bidder's Statement
Register Date	11 April 2018, being the date set by Arcade under section 633(2) of the Corporations Act
Regulatory Approval	has the meaning given in section 9 of the Bidder's Statement
Regulatory Authority	has the meaning given in section 9 of the Bidder's Statement
Relevant Interest	has the meaning given in section 9 of the Corporations Act
Section	a section of this Target's Statement
Security Documents	means the following security documents: <ul style="list-style-type: none">(a) the general security deed granted by Godfreys, Godfreys Finance Company Pty Ltd, Godfreys Franchise Systems Pty Ltd, Electrical Home Aids Pty Ltd, Australian Vacuum Cleaner Co Pty Ltd, Hoover Floorcare Asia Pacific Pty Ltd, International Cleaning Solutions Group Pty Limited and International Cleaning Solutions Pty Ltd in favour of the Lender on or about 29 May 2017; and(b) the general security deed granted by New Zealand Vacuum Cleaner Company Limited in favour of the Lender on or about 29 May 2017
Target's Statement	this document, being Godfreys' target statement
Voting Power	has the meaning given in section 610 of the Corporations Act
VWAP	volume weighted average price

11.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing the singular include the plural and vice versa and a word of any gender includes the corresponding words of any other gender;
- (c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (d) the word including or any other form of that word is not a word of limitation;
- (e) a reference to a person or an expression importing a natural person includes an individual, the estate of an individual, a corporation, a regulatory authority, an incorporated or unincorporated association or parties in a joint venture, a partnership and a trust;
- (f) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (g) a reference to a party, clause, schedule, exhibit, attachment or annexure is a reference to a party, clause, schedule, exhibit, attachment or annexure to or of this Target's Statement, and a reference to this Target's Statement includes all schedules, exhibits, attachments and annexures to it;
- (h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (**obsolete body**), means the agency or body which performs most closely the functions of the obsolete body;
- (i) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it;
- (j) a reference to a statute includes any regulations or other instruments made under it (**delegated legislation**) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
- (k) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;
- (l) a reference to time is a reference to time in Melbourne, Victoria;
- (m) a reference to writing includes facsimile and electronic mail transmissions; and
- (n) a reference to dollars, \$, cents and currency is a reference to the lawful currency of the Commonwealth of Australia.

12. Approval of Target's Statement

This Target's Statement is dated 9 May 2018 (being the date on which this Target's Statement was lodged with ASIC) and has been approved by a resolution of the Directors of Godfreys.

Signed for and on behalf of Godfreys Group Limited:



Brendan Fleiter
Chairman
9 May 2018

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Attachment 1: Independent Expert's Report

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INDEPENDENT EXPERT'S REPORT
Godfreys Group Ltd

In relation to the proposed off-market
takeover bid for Godfreys Group Ltd by
Arcade Finance Pty Ltd

8 May 2018

FINANCIAL SERVICES GUIDE

Dated: 8 May 2018

This Financial Services Guide ('FSG') helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd ('BDO Corporate Finance, we, us, our').

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide *general* advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$90,000 for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

COMPLAINTS RESOLUTION

Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 11, 1 Margaret St, Sydney NSW 2001 or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited (FOS). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of FOS (Member Number 11843).

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
MELBOURNE VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 639

COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - cf.ecp@bdo.com.au.

The Directors
Godfreys Group Ltd
Building 3 Ground Floor, Brandon Business Park
530 Springvale Road
Glen Waverley VIC 3150

8 May 2018

Dear Directors

PROPOSED OFF-MARKET TAKEOVER OF GODFREYS GROUP LTD BY ARCADE FINANCE PTY LTD

INTRODUCTION

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (“**BDOCF**”, “**we**”, “**us**” or “**our**”) has been engaged by the Directors (“**Directors**”) of Godfreys Group Ltd (“**Godfreys**” or “**the Company**”) to prepare an independent expert’s report (“**Report**” or “**IER**”), setting out our opinion as to whether the proposed acquisition of all Godfreys ordinary shares by Arcade Finance Pty Ltd (“**Arcade**”) for consideration of \$0.32 per Godfreys share (“**Offer**”), is fair and reasonable to the Non-Associated Shareholders of Godfreys (“**Godfreys Shareholders**”), in the absence of a superior offer.

Godfreys is listed on the Australian Securities Exchange (ASX) and is one of the largest specialty retailers of commercial floor-care and associated cleaning products in Australia and New Zealand.

On 9 April 2018, Arcade lodged a bidder statement to the Australian Securities and Investment Commission relating to its Offer to acquire all of the ordinary shares that it does not already own via an off-market takeover for consideration by way of cash (\$0.32 per share), subject to the approval of Godfreys Shareholders and other conditions precedent set out in schedule two of the bidder statement. The final bidder statement was sent to Godfreys shareholders on 24 April 2018.

Further details of the Offer are set out in the Target’s Statement to be sent to Godfreys shareholders.

PURPOSE OF REPORT

In this case there is no obligation to commission a report prepared by an independent expert, however it is common for a target to voluntarily commission an IER for inclusion in a Target Statement or be accompanied by an IER which states whether, in the expert’s opinion, the Offer is fair and reasonable to the target shareholders.

BDOCF has been appointed by the Directors of Godfreys to prepare an IER expressing our opinion as to whether or not the Offer is fair and reasonable to Godfreys Shareholders.

APPROACH

In preparing our IER, we have considered the requirements of:

- ASIC Regulatory Guide 111 Content of expert reports (“**RG 111**”); and
- ASIC Regulatory Guide 112 Independence of experts (“**RG 112**”).

RG 111 establishes guidelines in respect of independent expert reports under the Corporations Act. This regulatory guide provides guidance as to what matters an independent expert should consider to assist Shareholders to make informed decisions about transactions.

RG 111 states that there should be a separate assessment of fairness and reasonableness.

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Fairness

In undertaking our fairness opinion, we have had regard to the Australian Securities and Investments Commission's ("ASIC") RG 111.

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

In relation to the interpretation of RG111.11, ASIC has advised that the appropriate assessment is to compare:

- The fair market value of a share pre-transaction on a control basis (being the value of the securities the subject of the offer, per RG111.11); and
- The fair market value of the offer price.

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7, which include statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Offer; and
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by Shareholders.

Reasonableness

In accordance with paragraph 60 of RG111, an offer is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons to accept the offer.

When deciding whether an offer is 'reasonable', factors an expert might consider include:

- the financial situation and solvency of the entity;
- the alternative options available to the entity;
- the entity's bargaining position;
- whether there is selective treatment of any Shareholder;
- any special value of the transaction to the purchaser.

SUMMARY OF OPINION

We have considered the terms of the Offer as outlined in the body of this Report and have concluded that the Offer is fair and reasonable to the Godfreys Shareholders.

A summary of our analysis in forming the above opinion is provided below.

Fairness conclusion

We have formed our opinion in relation to fairness by comparing the:

- Fair market value of a Godfreys Share before the Offer (including a premium for control); and
- The cash consideration of \$0.32 per share offered by Arcade.

The Offer will be fair if the Offer Price is equal to or greater than the fair market value of a Godfrey share before the Offer, on a controlling interest basis.

Accordingly, in order to make this comparison we have undertaken an assessment of the fair market value of a Godfreys share before the Offer.

The result of our fairness analysis is summarised below.

Table 1: Fairness assessment

Per Share	Ref	Low	High
Fair market value of a share in Godfreys prior to the Offer (control basis)	6.1	0.25	0.42
Consideration	1.2	0.32	0.32

Reasonableness conclusion

In accordance with RG 111 an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior offer.

We have assessed the reasonableness of the Offer by considering a range of other factors in our assessment, as set out below.

Table 2: Summary of factors considered in the reasonableness assessment

Advantages	
The consideration falls within our valuation range for Godfreys	We have valued 100% of Godfreys's equity (prior to the Offer) inclusive of premium for control ranging from a low of \$0.25 per share to a high of \$0.42 per share. We also note that the valuation of Godfreys shares is highly sensitive to its earnings. If the Company is not able to successfully implement the turnaround strategy and improve profits from their current level, then the value of equity would be negligible.
Certainty of cash	The Offer provides Godfreys Shareholders with timing and value certainty of cash and removes their exposure to risks and uncertainties inherent in the continuing operation of Godfreys.
The Offer is at a premium over the share trading price	The Consideration of \$0.32 per share represents a premium of 52.4% to Godfreys' closing share price on 9 April 2018 (the day the Offer was announced, after close of trade), and a 19.2% premium to the trailing 49-day VWAP (representing the VWAP since the H1 FY18 results and trading outlook announcement on 20 February 2018).
No alternative proposals	The board of Godfreys has advised there are currently no alternative offers for Godfreys, and that the size of the interest held by Arcade decreases the likelihood of receiving an alternative proposal. In our view, it is highly unlikely any alternative offer would be superior to the current Offer.
Disadvantages	
Shareholders will not benefit from potential future valuation upside	The executive management team has undergone significant change, with three of five members commencing their positions from December 2017. The executive team has developed a business turnaround plan (see 20 February 2018 Company announcement) underpinned by a number of key initiatives underway or expected to be implemented by the end of 2019. The latest trading performance and earnings guidance provided by the Company's represents the lowest results since listing. Shareholders who accept the Offer will no longer hold a relevant interest in the Company and will forego any potential future upside in value should the Company's turnaround strategy be successfully implemented.

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Table 3: Other consideration

Other Consideration	
Godfreys is presently not meeting all debt covenants	<p>The Company is currently relying on waivers from 1918 Finance Pty Ltd in relation to the debt covenant testing as at 29 June 2018. The lender has advised Godfreys that there will be no further waivers granted.</p> <p>Based on the 1H18 half-year results, and the earnings guidance provided for FY18, Godfreys will need to achieve operating EBITDA of at least \$5.0 million and potentially up to \$8.0 million in H1 FY19 to satisfy the Facility Agreement's leverage ratio covenant as at 28 December 2018, outside of any one-off initiatives to increase cash or decrease its level of debt.</p> <p>Godfreys' failure to satisfy all debt covenants in December 2018 would constitute an event of default under the Facility Agreement. In such circumstances, pursuant to the terms of the Facility Agreement, the Lender is entitled to cancel all commitments under the Facility Agreement, require immediate repayment of outstanding amounts (including interest and costs) under the Facility Agreement, and enforce its rights under the Security Documents. Godfreys Shareholders may receive no return in these circumstances.</p> <p>Further, even if Godfreys is able to meet or otherwise have the covenants waived, if the Company is not able to increase profits above their current level, the value of equity in the business would be negligible.</p>
Lack of recapitalisation options	<p>The Directors of Godfreys have sought advice relating to the debt restructuring options available to Godfreys, including capital raising and alternative debt structures. The amount required in any capital raising would be extremely dilutive to existing shareholders, or otherwise require Godfreys Shareholders to participate in order to maintain their current percentage holding.</p> <p>It is highly unlikely Godfreys would be able to refinance the current debt facilities on terms as favourable as the current facility. As such, any refinance of the current debt facilities to alleviate the risk of default in December 2018 would be value-decretive to the existing Godfreys Shareholders, at least in the short term.</p>
Restricted cash	<p>Restricted cash of \$1.6 million has been included in our assessment of value. Whilst we do not consider it appropriate to take these restrictions into account in our fairness assessment, we note that in the absence of being able to recapitalise the business, Godfreys Shareholders will not be able to access the restricted cash.</p>
Risk of potentially becoming a minority shareholder in a non-listed entity	<p>The Offer is currently subject to a 90% minimum acceptance condition. If Arcade obtains a controlling interest in Godfreys but does not become entitled to exercise compulsory acquisition rights and chooses to waive the minimum acceptance condition, any Godfreys Shareholders who do not accept the Offer will likely be minority shareholders in an unlisted company. The potential implications of this may include lower liquidity, limited access to information, exposure to consequences from triggering change of control clauses in lease agreements and to a potential change in the strategic direction of the Company.</p>
Potential taxation consequences	<p>The taxation consequences for Shareholders will differ depending on their individual circumstances. Australian resident shareholders may be liable to pay capital gains tax on the disposal of their Godfreys shares under the Offer.</p> <p>However, we note that the tax consequences for Shareholders that accept the Offer would be no different if the shares were sold during normal trading on the ASX.</p>
Director recommendations	<p>The Directors have recommended that Godfreys Shareholders accept the cash consideration Offer, in the absence of a superior proposal. Further, the Directors that hold shares in Godfreys have stated they intend to accept the Offer.</p>

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OTHER MATTERS

Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, BDOCF has not considered the effect of the Offer on the particular circumstances of individual Godfreys Shareholders. Some individual Godfreys Shareholders may place a different emphasis on various aspects of the Offer from that adopted in this IER. Accordingly, individual Godfreys Shareholders may reach different conclusions as to whether or not the Offer is fair and reasonable in their individual circumstances.

The decision of an individual Godfreys Shareholder in relation to the Offer may be influenced by their particular circumstances and accordingly Godfreys Shareholders are advised to seek their own independent advice.

Approval or rejection of the Offer is a matter for individual Godfreys Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Godfreys Shareholders should carefully consider the Transaction Documents. Godfreys Shareholders who are in doubt as to the action they should take in relation to the Offer should consult their professional adviser. Capitalised terms used in this Report have the meanings set out in the glossary.

General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated by those persons affected by the Offer. In preparing the IER we considered ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the past, between BDO East Coast Partnership or BDOCF and any of the parties to the Offer;
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER;
- We have been appointed as independent expert for the purposes of providing an IER in relation to the Offer for the Directors;
- That we have relied on information provided by the Directors and Management of Godfreys and that we have not carried out any form of audit or independent verification of the information; and
- That we have received representations from the Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in light of material information existing at the valuation date that subsequently becomes known to us.

Glossary

Capitalised terms used in this IER have the meanings set out in the glossary. A glossary of terms used throughout this IER is set out in **Appendix 1**.

Sources of information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by Godfreys.

Under the terms of our engagement, Godfreys agreed to indemnify the partners, directors and staff (as appropriate) of BDO East Coast Partnership and BDOCF and their associated entities, against any claim, liability,

loss or expense, costs or damage, arising out of reliance on any information or documentation provided by Godfreys which is false or misleading or omits any material particulars, or arising from failure to supply relevant information.

Limitations

This IER has been prepared at the request of the Directors for the sole benefit of the Directors and Godfreys Shareholders to assist them in their decision to approve or reject the Offer. This IER is to accompany the Target Statement to be sent to Godfreys Shareholders to consider the Offer and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Godfreys Shareholders without our written consent. We accept no responsibility to any person other than the Directors and Shareholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Transaction Documents. Apart from this IER, we are not responsible for the contents of the Target Statement or any other document associated with the Offer.

We acknowledge that this IER may be lodged with regulatory authorities.

Summary

This summary should be read in conjunction with the attached IER that sets out in full, the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

Financial Service Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD



Stephen Seear
Director



David McCourt
Director

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TABLE OF CONTENTS

1.	PURPOSE AND BACKGROUND	1
1.1.	Purpose	1
1.2.	Offer	1
2.	SCOPE AND LIMITATIONS	1
2.1.	Scope.....	1
2.2.	Summary of Regulatory Requirements	1
2.3.	Basis of Assessment	1
2.4.	Special Value.....	3
2.5.	Reliance on Information.....	3
2.6.	Limitations	3
2.7.	Assumptions.....	4
3.	PROFILE OF GODFREYS	5
3.1.	Overview	5
3.2.	Business Operations	5
3.3.	Revenue Analysis	7
3.4.	Customers	8
3.5.	Location	8
3.6.	Financial Performance.....	9
3.7.	Financial Position	14
3.8.	Debt covenant waiver and recapitalisation alternatives.....	15
3.9.	Ownership	16
3.10.	Performance rights.....	16
3.11.	Historical share trading analysis	17
4.	INDUSTRY OVERVIEW	20
4.1.	Emerging product trends within the industry	20
4.2.	Channels to market	21
4.3.	The impact of the digital evolution.....	21
4.4.	Key macro drivers in domestic appliance retailing	21
4.5.	Current and near term performance in domestic appliance retailing	21
4.6.	Industry outlook in domestic appliance retailing	21
5.	FAIRNESS ASSESSMENT AND VALUATION METHODOLOGY	22
5.1.	Fairness assessment overview	22
5.2.	Valuation methods	22
5.3.	Selected valuation methods for Godfreys.....	22
5.4.	Other valuation considerations.....	23

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6.	FAIRNESS ASSESSMENT	26
6.1.	Fair market value of Godfreys using the COE method	26
6.2.	COE approach	26
6.3.	Future maintainable earnings	26
6.4.	Capitalisation multiple	27
6.5.	Enterprise value	30
6.6.	Total Debt	30
6.7.	Surplus assets/liabilities	30
6.8.	Shares and options outstanding	31
6.9.	Control Premium	31
6.10.	Valuation cross check - QMP approach	32
6.11.	Fairness assessment	32
7.	ASSESSMENT OF REASONABLENESS	33
7.1.	Advantages	33
7.2.	Disadvantages	33
7.3.	Other Considerations	34
8.	OVERALL OPINION	36
9.	QUALIFICATIONS, DECLARATIONS AND CONSENTS	37
9.1.	Qualifications	37
9.2.	Independence	37
9.3.	Disclaimer	37
10.	APPENDICES	38

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1. PURPOSE AND BACKGROUND

1.1. Purpose

We have been appointed by the Directors to prepare an IER setting out our opinion as to whether the Offer is fair and reasonable to the Non-Associated shareholders of Godfreys, in the absence of a superior proposal.

This IER is to accompany the Target Statement to be provided to Godfreys Shareholders. It has been prepared to assist and enable Godfreys Shareholders assess the merits of the Offer and to decide whether to approve the Offer.

A summary of the background to the terms of the Offer is set out below.

1.2. Offer

On 9 April 2018, Arcade lodged a bidder statement to the Australian Securities and Investment Commission relating to its Offer to acquire all of the ordinary shares that it does not already own via an off-market takeover for consideration by way of cash (\$0.32 per share), subject to the approval of Godfreys Shareholders and other conditions precedent set out in schedule two of the bidder statement. The final bidder statement was sent to Godfreys shareholders on 24 April 2018.

Our analysis has been undertaken by reference to the total Consideration receivable by Godfreys Shareholders of \$0.32 per Godfreys share.

2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Offer is fair and reasonable to Godfreys Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

Our assessment involved determining the “fair market value” of various securities, assets and liabilities. For the purposes of our opinion, the term “fair market value” is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.

2.2. Summary of Regulatory Requirements

There is no statutory requirement for the directors of Godfreys to commission an independent expert’s report in relation to the Offer. However, the directors of Godfreys have requested that BDOCF prepare an independent expert’s report stating whether, in BDOCF’s opinion, the Offer is fair and reasonable, and the reasons for that opinion.

2.3. Basis of Assessment

In determining whether the Offer is fair and reasonable to Godfreys Shareholders we have had regard to:

- RG 111 ‘Content of expert reports’
- RG 112 ‘Independence of experts’

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- Is the offer ‘fair’?
- Is it ‘reasonable’?

The terms fair and reasonable are regarded as separate elements and are not regarded as a compound phrase.

2.3.1. Fair

In undertaking our fairness opinion, we have had regard to RG 111.

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The value of the securities the subject of the offer is determined assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

The Offer will be fair if the Consideration is equal to or greater than the value of the securities the subject of the Offer (fair market value of a Godfreys share pre-transaction on a control basis).

2.3.2. Reasonable

In accordance with paragraph 12 of RG 111, an offer is 'reasonable' if it is 'fair'. An offer could be considered 'reasonable' if there are valid reasons to approve it (in the absence of any higher bid before the close of the offer), notwithstanding that it may not be regarded as 'fair'.

RG 111.13 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- The bidder's pre-existing voting power in securities in the target.
- Other significant security holding blocks in the target.
- The liquidity of the market in the target's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target.
- Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc.
- The likely market price if the offer is unsuccessful.
- The value to an alternative bidder and likelihood of an alternative offer being made.

2.3.3. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Offer. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO East Coast Partnership or BDOCF and any of the parties to the Offer.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- We have been appointed as independent expert for the purposes of providing an IER for the Target Statement.
- That we have relied on information provided by the Board and management of Godfreys and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Board in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

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2.4. Special Value

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the particular potential acquirer of potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

2.5. Reliance on Information

This IER is based upon financial and other information provided by the Board and management of Godfreys. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable to Godfreys Shareholders in the absence of a superior proposal.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, Godfreys has agreed to indemnify BDOCF and BDO East Coast Partnership, and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

We acknowledge that this IER may be lodged by the Board with regulatory and statutory bodies and will be included in the Transaction Documents to be sent to the Godfreys Shareholders. The Board acknowledges that our IER has been prepared solely for the purposes noted in the Transaction Documents and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of Godfreys. We understand that the Board has been advised by legal, accounting, tax and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Board or their advisors.

We note that the IER does not deal with the individual investment circumstances of Godfreys Shareholders and no opinion has been provided in relation to same. Some individual Godfreys Shareholders may place a different emphasis on various aspects of the Offer from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Offer is fair and reasonable and in their best interests. An individual Godfreys Shareholder’s decision in relation to the Offer may be influenced by their particular circumstances and, therefore, Godfreys Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Transaction Documents or any other document. We have provided consent for inclusion of the IER in the Transaction Document. Our consent and the Transaction Documents acknowledge that we have not been involved with the issue of the Transaction Documents and that we accept no responsibility for the Transaction Documents apart from the IER.

2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- Assumptions outlined in the valuation sections.
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed.
- Information sent out in relation to the Offer to Godfreys Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects.
- Publicly available information relied on by us is accurate, complete and not misleading.
- If the Offer is implemented, that it will be implemented in accordance with the stated terms.
- The legal mechanisms to implement the Offer are correct and effective.
- There are no undue changes to the terms and conditions of the Offer or material issues unknown to us.

3. PROFILE OF GODFREYS

3.1. Overview

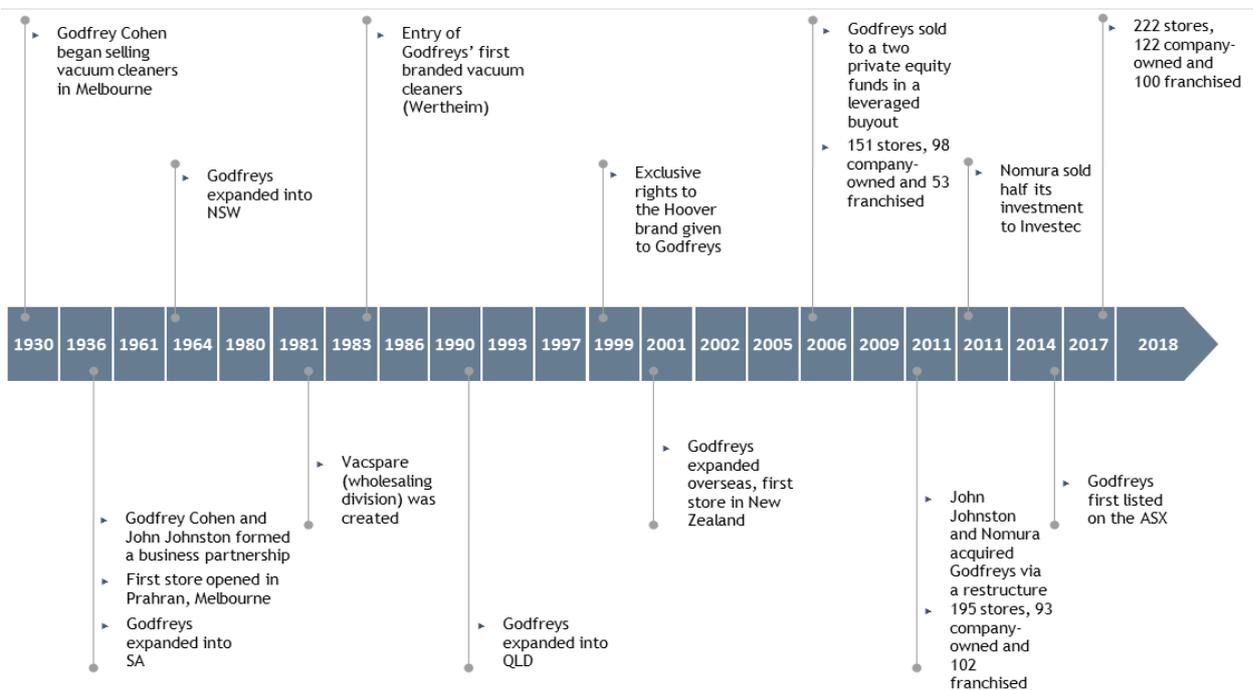
Godfreys is a specialty retailer of floorcare and associated cleaning products based in Australia and New Zealand. It was listed on the ASX in December 2014.

The Company specialises in selling vacuum cleaners and associated cleaning products. Godfreys offers a range of company-owned, licensed and third-party brands. Products are mainly sold through their physical stores, but are also distributed through wholesale channels and its online platform.

The Company was founded in 1931, initially existing as a door-to-door business. It started its physical presence in 1936 in Prahran, Melbourne under the leadership of Godfrey Cohen and John Johnston. Currently, Godfreys has approximately 534 employees and 217 stores, operating throughout Australia and New Zealand as the largest vacuum retailer in the region.

Chronological events in the growth of Godfreys are illustrated below.

Figure 1: Chronological events



Source: Godfreys management

3.2. Business Operations

3.2.1. Overview of Operations

Godfreys operates 217 stores (125 company owned, 92 franchised) across Australia and New Zealand, a number of branded ecommerce enabled websites, online marketplaces and third party retail and commercial channels, including the wholesale division Vacspare. Godfreys' product offering consists of a mix of company owned brands, licensed brands and external brands. Of the company owned brands, Godfreys develops the products with selected manufacturers located overseas. Product supply agreements are in place with manufacturers and suppliers in China, Europe and locally. The Company has one company operated distribution centre and uses several third party distribution centres.

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3.2.2. Product Portfolio

Godfreys' product offering consists of domestic and commercial floor-care cleaning products, including:

- Vacuums: vacuum cleaners including barrel (cylinder), stick, robot, among others.
- Steam: steam mops which are an alternative to the traditional mop
- Shampoo: shampoo extractors typically used for deep cleaning
- General merchandise: includes floor tools and accessories to complement, such as vacuum bags, filters etc.
- Services: post purchase repairs and other services

3.2.3. Brands

The brands sold by Godfreys consist of three categories:

- Company owned brands that are manufactured and assembled in China and Europe on behalf of Godfreys, which consist of Sauber and Pullman, among others.
- Licensed brands which Godfreys has the exclusive right to sell in Australia. Hoover is currently the only licensed brand, with the license to expire in 2023.
- Third party brands which are already existing branded products sourced from external wholesalers. This consists of Electrolux and Miele, among others.

3.2.4. Directors and Management

The current board members consist of the members as listed below.

Table 4: Godfreys Board of Directors

Director's name	Capacity	Appointed
Brendan Fleiter	Non-Executive Chairman	1 January 2018
Sue Morphet	Non-Executive Director	13 January 2015
Jason Gowie	Chief Executive Office and Executive Director	4 December 2017
Kathy Gramp	Non-Executive Director	1 January 2018
Penny Burke	Non-Executive Director	1 January 2018
John Hardy	Non-Executive Director	23 March 2018

Source: Godfreys website

There have been key changes in the board of directors over the past 12 months:

- Resignation of Tom Krulis (Non-Executive Director) in March 2017. Tom Krulis joined Godfreys in 1985 and served as Managing Director since 2011.
- Retirement of Rodney Walker (Chairman) in December 2017. Rodney Walker served as Chairman of Godfreys since 2009.

The current members of the Executive Management team are as listed below.

Table 5: Executive Management

Director's name	Capacity	Appointed
Jason Gowie	Chief Executive Officer and Executive Director	4 December 2017
Andrew Ford	Chief Financial Officer	13 December 2016
Mari Ruiz	Chief People and Culture Officer	5 March 2018
Cat Parker	Chief Customer Officer	5 March 2018
Stephen Bennetts	Chief Product Officer	15 March 2016

Source: Godfreys website

3.3. Revenue Analysis

3.3.1. Overview

Godfreys derives approximately 81% of its revenue from its Australian operations and the remaining 19% from its New Zealand operations. Approximately 75% of revenue is earned from Godfreys' company-owned brands and licensed brands. The company's revenue exhibits some degree of seasonality as high sales are recorded during December and January as a result of the Christmas time / Boxing Day retail period, and in line with sales promotions.

3.3.2. Revenue mix by sales channel

Godfreys' sales are predominately made in its company-owned and franchise stores. During FY17, in-store sales represented 88% of total sales, with 64% of sales made in company-owned stores and 24% made in franchisee stores. During the nine months of trading during FY18 year to date ("9M FY18"), company-owned stores contributed 61% of sales compared to 26% by franchise stores. Godfreys' online presence is minor, with only 2.1% of sales made online during FY17. During 9M FY18, this has grown marginally to 2.6%.

Figure 3: Sales by channel 9M FY18

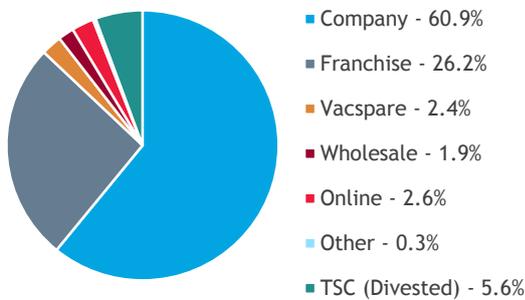
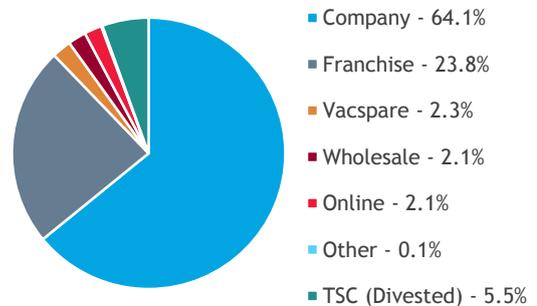


Figure 2: Sales by channel FY17

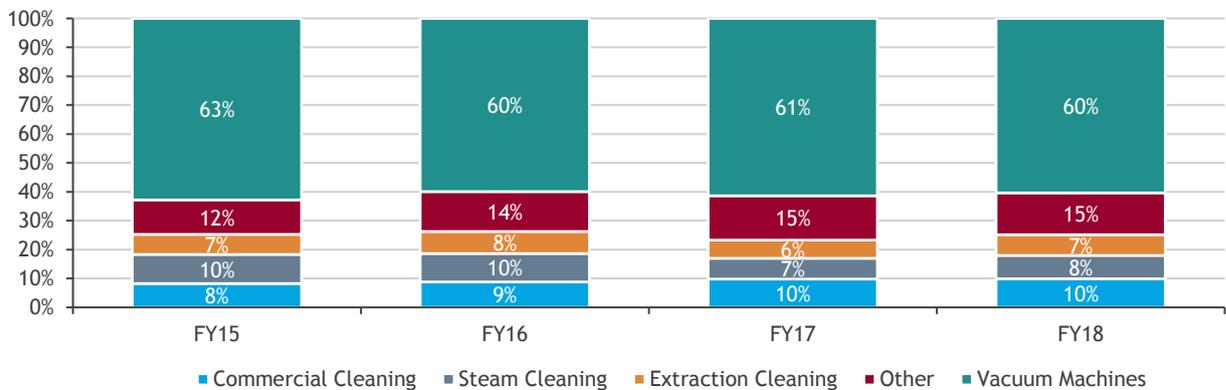


Source: Godfreys Management Accounts and BDO analysis

3.3.3. Revenue mix by product type

Godfreys' product revenue comprises sales of vacuum machines, as well as commercial cleaning, steam cleaning, extraction cleaning and other products. Vacuum machine sales have historically represented approximately 60% of total product revenue, as per the figure below.

Figure 4: Proportion of sales by product type

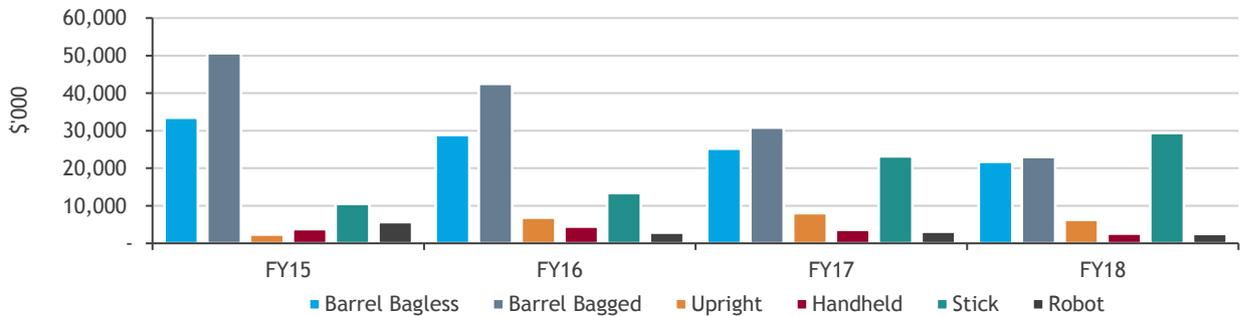


Source: Godfreys' management accounts

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Within its vacuum machines product line, Godfreys sells a variety of different vacuum types, categorised as barrel bag-less, barrel bagged, upright, handheld, stick and robot vacuums. Over the period FY15 to FY18, the composition of revenue of each vacuum product type has evolved significantly, as advances in product technology has resulted in the decline of barrel vacuums and strong growth of stick vacuums.

Figure 5: Sales per vacuum type



Source: Godfreys' management accounts

3.4. Customers

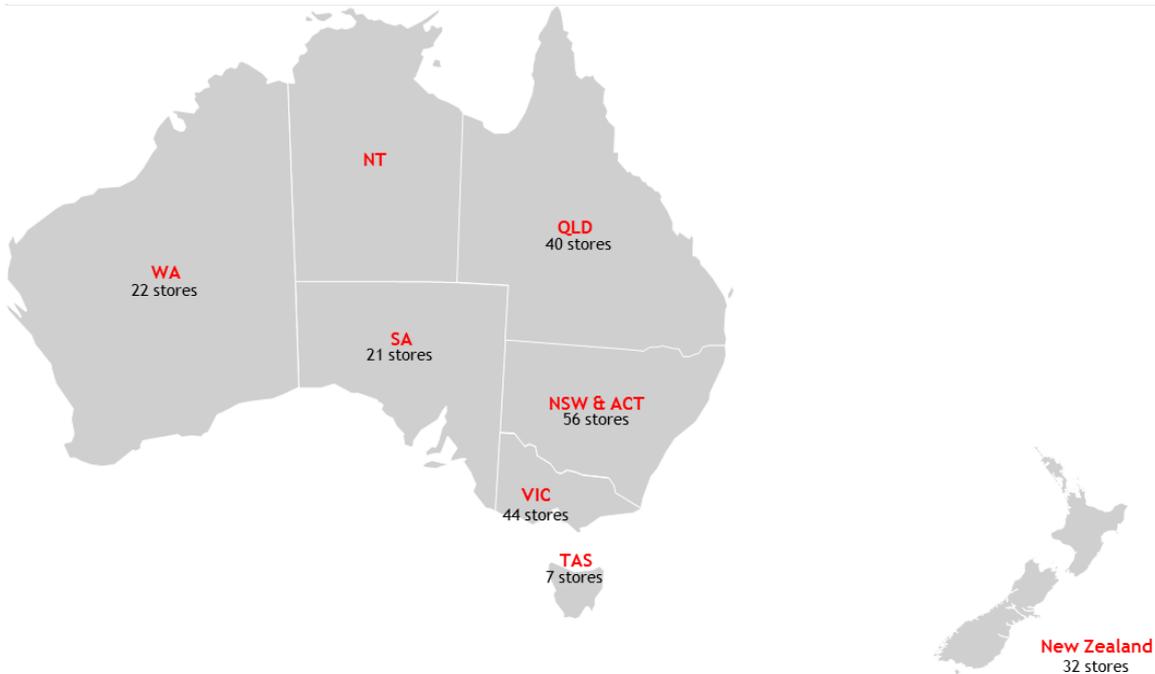
Godfreys targets two main customer segments: domestic and commercial.

Domestic consists of vacuum cleaners and floor-care products for the purpose of domestic household use. Commercial caters to businesses which may be small-to-medium businesses, or outsourced cleaning businesses.

3.5. Location

Godfreys stores are a mix of company owned and franchised. Management's current business model is aimed at locating franchised stores in smaller and regional markets, whilst 'flagship', centrally located stores are owned by Godfreys. The figure below illustrates the location of Godfreys' stores across Australia and New Zealand.

Figure 6: Godfreys' store locations



Source: 2017 Godfreys annual report

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3.6. Financial Performance

The audited income statements for the years ended 30 June 2015 (“FY15”), 30 June 2016 (“FY16”) and 30 June 2017 (“FY17”), and the half year results for the six months ended 31 December 2017 (“1H18”) are set out in the table below. Godfreys is audited by Deloitte Touche Tohmatsu who issued unqualified opinions in FY15, FY16, FY17 and 1H18.

Also presented below is the year to date performance for the 9 months of trading to 31 March 2018 (“9M FY18”). This incorporates the 1H18 audited results and 3 months of trading per the company’s management accounts.

Table 6: Summary of financial performance

\$'000	Notes	FY15	FY16	FY17	1H18	9M FY18
Revenue	1	180,933	179,296	174,064	84,166	122,507
Cost of sales	2	(82,116)	(82,218)	(87,468)	(41,979)	(62,266)
Gross margin		98,817	97,078	86,596	42,187	60,241
Other income	3	4,774	11,506	16,707	7,273	8,350
Occupancy expense	4	(16,980)	(25,256)	(26,303)	(13,677)	(18,491)
Employee benefits expense	5	(37,897)	(39,984)	(39,566)	(19,115)	(28,477)
Other expenses	6	(31,890)	(27,866)	(23,864)	(13,376)	(18,789)
Total operating expenses	7	(86,767)	(93,106)	(89,733)	(46,168)	(65,757)
EBITDA		16,824	15,478	13,570	3,292	2,834
Depreciation and Amortisation		(3,665)	(4,344)	(4,689)	(2,081)	(3,093)
Impairment	8	-	-	(24,000)	(75,229)	(75,229)
EBIT		13,159	11,134	(15,119)	(74,018)	(75,487)
Net finance costs		(4,088)	(876)	(879)	(415)	n/a
Income tax expense / benefit		2,973	(2,492)	(2,439)	15,797	n/a
NPAT		12,044	7,766	(18,437)	(58,636)	n/a
KPIs						
<i>Revenue growth</i>	1	<i>n/a</i>	<i>(1.8%)</i>	<i>(2.9%)</i>	<i>n/a</i>	<i>n/a</i>
<i>EBITDA growth</i>		<i>n/a</i>	<i>(8.0%)</i>	<i>(12.3%)</i>	<i>n/a</i>	<i>n/a</i>
<i>NPAT growth</i>		<i>n/a</i>	<i>(35.5%)</i>	<i>(337.4%)</i>	<i>n/a</i>	<i>n/a</i>
<i>Gross profit margin</i>	2	<i>54.1%</i>	<i>54.1%</i>	<i>49.7%</i>	<i>50.1%</i>	<i>49.2%</i>
<i>Employee costs % revenue</i>	5	<i>20.8%</i>	<i>22.3%</i>	<i>22.7%</i>	<i>22.7%</i>	<i>23.2%</i>
<i>EBITDA margin</i>		<i>9.2%</i>	<i>8.6%</i>	<i>7.8%</i>	<i>3.9%</i>	<i>2.3%</i>
<i>NPAT margin</i>		<i>6.6%</i>	<i>4.3%</i>	<i>(10.6%)</i>	<i>(69.7%)</i>	<i>n/a</i>

Source: Audited financial statements for the periods ended 31 December 2017, 30 June 2017 and 30 June 2016, unaudited management accounts for March 2018 quarter.

Notes regarding Godfreys’ historical financial performance:

1. Revenue consists of sales of vacuum machine products, floor-care products related to commercial cleaning, steam cleaning and extraction cleaning, as well as other service offerings (including sale of vacuum parts and repairs under Godfreys’ ‘Vacspare’ business). As illustrated in Figure 5, the YoY decrease in revenue is predominately driven by a decrease in barrel vacuum cleaner products, partially offset by increases in stick and robotic vacuum products.

2. Cost of sales includes the portion of employee wage costs directly attributable to the sale of products. The company has experienced tightening of gross margins over the last two years with a gross margin of 54.1% achieved in FY15 and FY16 compared to approximately 50% from FY17 onwards, in part due to the lower margins earned by The Service Company business acquired in February 2016 and divested in March 2018. This has coincided with a decrease in average selling prices (“ASP”) across the range and increased sales into franchisees.
3. Other income includes gains/losses on sale of assets, recovery of occupancy costs from franchisees (which are included as an operating expense in occupancy costs and nets to zero) and franchise fees, which incorporates the following:
 - Initial franchise fees - a one-off fee paid when a franchisee acquires a Godfreys store.
 - Transfer franchise fees - the income the company earns when a franchise store is sold between two individual franchise investors.
 - Ongoing and renewal franchise fees - paid by franchisees for ongoing access to the franchise system and includes a contribution to Godfreys’ overall marketing strategy and other costs.
4. Occupancy expense predominately comprises operating lease expense (\$17.7 million in FY17) and franchisee occupancy costs which are recovered in other income and net to zero.
5. Employee benefits expense is the largest operating expense and has remained relatively stable both in quantum and as a proportion of revenue over the period FY15 to 1H18.
6. Other expenses include marketing expenses (\$12.3 million in FY17), selling and distribution expenses (\$5.4 million in FY17) and other administration expenses.
7. Management has identified approximately \$1.0 million in costs associated with the company’s ASX listing, i.e. costs that would not be incurred if the company was de-listed.
8. Impairment charges in FY17 relate to goodwill, while brand names, trademarks, the franchise system and goodwill were impaired in the 1H18 results.

3.6.1. Underlying Results

In addition to the statutory results presented above, the audited accounts provide a reconciliation to the Company’s ‘underlying earnings’, which remove the impact of material items that are unrelated to the underlying performance of the business. Godfreys’ underlying historical EBITDA as presented in the audited financial statements is set out in the table below.

Table 7: Underlying EBITDA

\$'000	Notes	FY15	FY16	FY17	1H18	9M FY18
Statutory EBITDA		16,824	15,478	13,570	3,292	2,834
Adjustments:						
IPO costs	1	3,426	-	-	-	-
IPO retention bonuses (Key Management Personnel)	2	1,717	-	-	-	-
IPO Share Options (Key Management Personnel)	2	765	1,032	-	-	-
Relocation costs	3	543	490	-	-	-
First time adoption of hedge accounting policy	4	(427)	-	-	-	-
Management / business restructure costs	5	-	519	487	299	299
Underlying EBITDA		22,848	17,519	14,057	3,591	3,133
TSC adjustment	6	-	(127)	(114)	(119)	(183)
Underlying EBITDA - adjusted for TSC		22,848	17,392	13,943	3,472	2,950
KPIs						
<i>EBITDA growth - underlying</i>		<i>n/a</i>	<i>(23.9%)</i>	<i>(20.4%)</i>	<i>n/a</i>	<i>n/a</i>
<i>EBITDA margin - underlying</i>		<i>12.5%</i>	<i>9.7%</i>	<i>8.0%</i>	<i>4.3%</i>	<i>2.4%</i>
<i>EBITDA growth - underlying adjusted for TSC</i>		<i>n/a</i>	<i>(23.9%)</i>	<i>(19.8%)</i>	<i>n/a</i>	<i>n/a</i>
<i>EBITDA margin - underlying adjusted for TSC</i>		<i>12.5%</i>	<i>9.7%</i>	<i>8.0%</i>	<i>4.1%</i>	<i>2.4%</i>

Source: Audited financial statements for the periods FY16, FY17 and FY18 management accounts.

Notes regarding Godfreys' calculation of underlying EBITDA:

1. IPO costs relate to expenses incurred when the company listed on the ASX in December 2014.
2. IPO retention bonuses were paid to key management personnel in the form of cash and performance rights and related to performance and ongoing employment with the company following its listing on the ASX.
3. Relocation costs relate to one-off costs for relocation of Godfreys' head office and service and distribution centre to Altona.
4. Godfreys' first adopted the current hedge accounting policies from 28 June 2014 onwards.
5. Godfrey's audited financial statement indicate that management / business restructure costs relate to changes in leadership in FY16 and a change in strategy in FY17 towards a predominantly franchise model.
6. Godfreys purchased The Service Company ("TSC"), a New Zealand based cleaning business, in February 2016 and subsequently divested the business in March 2018.

3.6.2. Initial franchise fee income

Income from 'initial franchise fees' (franchise fees paid by the franchisee when first acquiring a franchise) and 'transfer franchise fees' (fees paid when the ownership of a franchise is transferred between franchisees) are included as other income in Godfreys' historical EBITDA. The level of initial and transfer franchise fees has fluctuated historically. The table below shows Godfreys' historical underlying EBITDA with income from initial and transfer fees removed and adjusted for TSC.

Table 8: Underlying EBITDA normalised for franchise fee income and TSC

\$'000	FY15	FY16	FY17	H1 FY18	9M FY18
Underlying EBITDA - adjusted for TSC	22,848	17,392	13,943	3,472	2,950
less: Initial franchise fee income	(514)	(1,797)	(5,337)	(364)	(364)
less: Transfer franchise fee income	(74)	-	(274)	(56)	(56)
Underlying EBITDA - exc. franchise fee income & TSC	22,261	15,595	8,332	3,053	2,531
Underlying EBITDA Growth - exc. Franchise fee income & TSC	n/a	(29.9%)	(46.6%)	n/a	n/a
Underlying EBITDA Margin - exc. Franchise fee income & TSC	12.2%	8.7%	4.8%	3.6%	2.1%

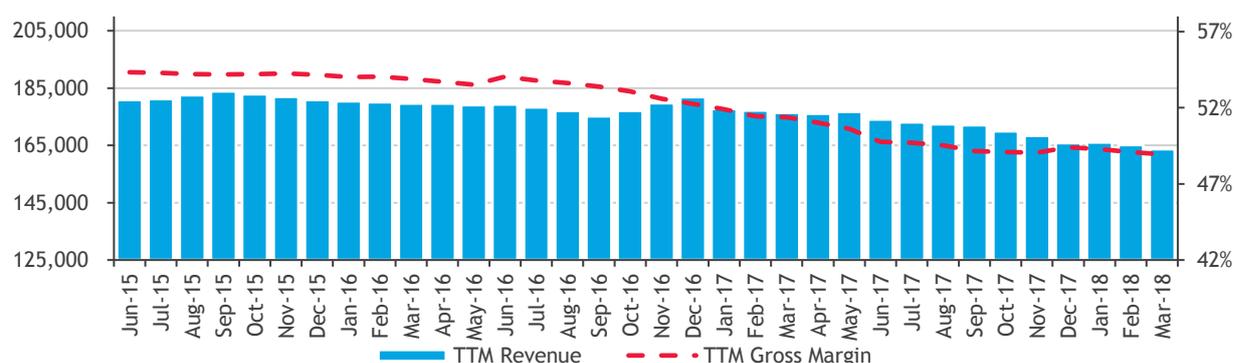
Source: Godfreys management accounts

Going forward, the level of initial franchise fees will reflect management's current strategy to convert selected regional stores to franchises, with major metro stores remaining or becoming company-owned.

3.6.3. Historical performance trends

Godfreys' revenue has exhibited a declining trend since listing. Based on Management's monthly accounts, trailing 12-month revenue has declined from \$180.8 million in June 2015 to \$163.7 million in March 2018. Gross profit margins have also declined, falling from 54.3% to 48.9% over the same period.

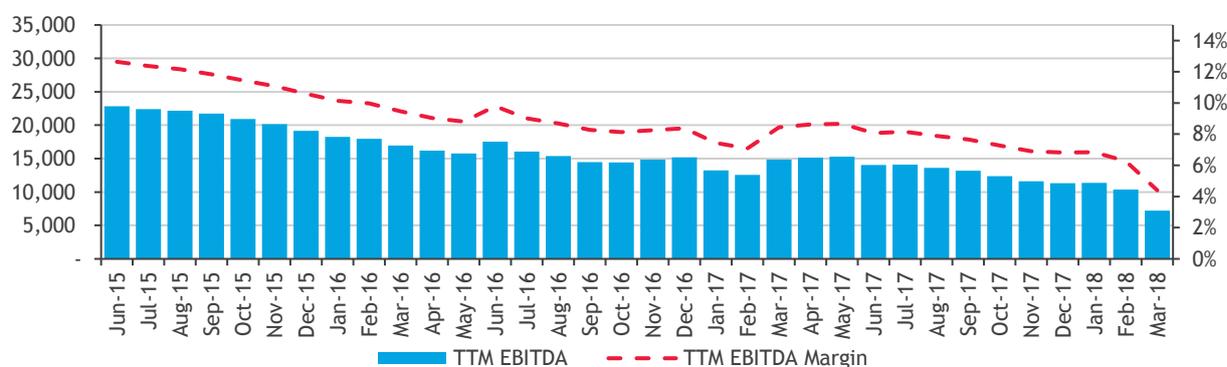
Figure 7: Trailing 12-month revenue - June 2015 to March 2018



Source: Godfreys' management accounts and BDO analysis

The decline in revenue and gross margin has flowed through to EBITDA. Between June 2015 to March 2018, Godfreys' trailing 12-month EBITDA has declined from \$22.9 million to \$7.2 million. EBITDA margin has also declined over this period, declining from 12.6% to 4.4%.

Figure 8: Trailing 12-month EBITDA - June 2015 to March 2018



Source: Godfreys' management accounts and BDO analysis

Monthly EBITDA was negative in October 2017, and in February and March 2018 (the only monthly operating losses since listing). We have been provided with preliminary results for April 2018 highlighting an EBITDA loss of \$0.3 million. This has resulted in a trailing 12-month EBITDA of \$6.1 million to April 2018.

3.6.4. Historical Performance against budget

Godfreys has underperformed against budget at a revenue level, gross profit, and underlying EBITDA, whether including or excluding initial and transfer franchise fee income.

Godfreys have announced the following downgrades to profit guidance to the market over the last three years.

- In January 2016, FY16 net profit guidance was revised to between \$8.5 million to \$9.2 million compared to previous FY16 net profit guidance of \$12.9 million.
- In February 2017, FY17 underlying EBITDA was forecast in the range of \$14 million to \$15 million. In May 2017, the company announced underlying EBITDA guidance at the low end of the range.
- In August 2017, Godfreys announced it expected to achieve underlying earnings at similar levels to FY17 (\$14.1 million). In December 2017, this was revised in the half-year earnings guidance to a range of \$3.5 million to \$4.0 million, as a result of lower than expected store conversions. In February 2018, Godfreys revised its full-year earnings guidance to the range of \$5 million to \$6 million. In April 2018, the company provided an updated earnings guidance at the low end of this range.
- Based on the April 2018 result, we understand management now expects EBITDA for FY18 to be approximately \$3.5 million, and has advised that the final result could be lower than this estimate if like-for-like sales continue to decline in excess of year to date performance, the final EBITDA result for FY2018 could be below this expectation. Management has attributed the poor trading performance to changes in television advertising campaigns in April and May, designed to reduce the Company's reliance on the discount and sale based approach and a greater focus on product features and benefits. These changes did not resonate with Godfreys' existing customer base.

3.6.5. Turnaround Strategy

The discussion below represents a summary of Godfreys' turnaround strategy. For more detail regarding the company's turnaround initiatives refer to Godfreys' Target Statement.

Following a consistent decline in performance and share price, Godfreys' newly appointed senior leadership team announced to the market the key focus areas of their turnaround strategy in February 2018.

Table 9: Godfreys' turnaround strategy

Key focus area	Assessment	Actions underway
Brand and Customer Experience	Lack of understanding of the drivers of brand choice and customer experience	<ul style="list-style-type: none"> Carried out brand and customer experience insight analysis
Product Range	Underweight in growth categories (Stick and Robotics) and overweight in declining categories (cylinder / barrel)	<ul style="list-style-type: none"> Re-balancing domestic and commercial product portfolios Introduction of more mid-range and high-end products Investment in the stick and robotic product categories
Channels	Significant amount of capital tied up in the store network but more investment needed in eCommerce platforms and wholesale channels	<ul style="list-style-type: none"> Closure of under-performing stores Focus on growing online sales Introduction of Chief Customer Officer Cat Parker Online store website to be re-designed
People and Culture	Passionate employees but high attrition rate and gaps in organisational capability and a need for culture to better align with the company's purpose	<ul style="list-style-type: none"> New leadership team Chief People and Culture Officer appointed Re-design of the remuneration system, including incentive schemes
Technology	Underinvestment in enabling technologies such as CRM and data analytics capability	<ul style="list-style-type: none"> Introduced in store analytics platform to monitor customer behaviour Aligning store rostering with customer behaviour

Source: Godfreys management

In addition to the above, Godfreys has implemented other turnaround initiatives:

- The company engaged an external supply chain consultant to carry out an end-to-end supply chain review, which identified cost efficiencies which could be achieved across both local and overseas supply chain functions;
- A store network review identified additional company-owned stores in non-shopping centre and regional locations which will be converted to franchise stores by the end of FY18; and
- Godfreys sold their New Zealand subsidiary (The Service Company) and used the proceeds to pay-down debt.

Our discussions with management and the independent directors of Godfreys highlighted that while the identified initiatives are in the process of being implemented, there remains uncertainty as to the quantum and the timing of any benefits.

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3.7. Financial Position

The audited statements of financial position of Godfreys as at 26 June 2015, 1 July 2016 and 30 June 2017, as well as the Company's unaudited statement of financial position as at 29 December 2017 from its Appendix 4D half yearly report, are set out below.

Table 10: Statement of financial position

\$'000 unless stated otherwise	Notes	30-Jun-15	30-Jun-16	30-Jun-17	31-Dec-17
CURRENT ASSETS					
Cash and cash equivalents	1	13,823	1,445	13,395	13,736
Trade and other receivables		4,695	5,638	8,177	8,419
Other financial assets		534	-	-	-
Current tax assets		-	-	-	225
Inventories		24,997	35,044	32,214	32,633
		44,049	42,127	53,786	55,013
NON-CURRENT ASSETS					
Other receivables		490	1,693	5,757	4,952
Property, plant and equipment	2	14,506	16,460	13,376	13,541
Deferred tax assets		6,938	-	-	-
Intangible assets	3	91,861	116,952	93,140	18,313
		113,795	135,105	112,273	36,806
TOTAL ASSETS		157,844	177,232	166,059	91,819
CURRENT LIABILITIES					
Trade and other payables		19,529	19,909	21,862	23,069
Other financial liabilities	4	121	930	432	129
Current tax liabilities		233	87	20	-
Employee benefits		3,418	3,772	3,726	3,679
Provisions		3,053	3,037	2,406	2,534
		26,354	27,735	28,446	29,411
NON-CURRENT LIABILITIES					
Interest-bearing loans and borrowings	5	20,000	23,000	29,869	29,891
Employee benefits		719	1,132	1,068	1,057
Provisions		5,300	5,597	5,805	5,560
Deferred tax liabilities	6	-	15,263	17,433	1,660
		26,019	44,992	54,175	38,168
TOTAL LIABILITIES		52,373	72,727	82,621	67,579
NET ASSETS		105,471	104,505	83,438	24,240
Key performance indicators					
<i>Gearing ratio (Total debt / Net assets)</i>		19.0%	22.0%	35.8%	123.3%
<i>Working capital (Current assets - Current liabilities, debt/cash free)</i>		3,872	12,947	11,945	11,866
<i>Funds employed (Working capital + fixed assets)</i>		18,378	29,407	25,321	25,407
<i>Net tangible assets</i>		13,610	(12,447)	(9,702)	5,927
<i>Number of shares</i>		40,610,319	40,922,585	40,922,585	40,922,585
<i>Net assets per share</i>		2.60	2.55	2.04	0.59
<i>Net tangible assets per share</i>		0.34	(0.30)	(0.24)	0.14

Source: 2015, 2016 and 2017 annual reports, HY18 Appendix 4D half-yearly report, BDOCF analysis

Displayed in the table below is Godfreys' unaudited cash and gross debt position as at 30 March 2018 (i.e. 9M FY18), as at 9 April 2018 (the day of the announcement of the Offer), and 4 May 2018 (being last available balance before the issue of this report).

Table 11: Godfreys' debt and cash position

\$'000	30-Mar-18	9-Apr-18	4-May-2018
Interest bearing loans and borrowings	(28,869)	(28,869)	(28,869)
Accrued interest	(440)	(440)	(440)
Cash and cash equivalents	10,031	5,528	4,427

Source: Godfreys' management accounts and daily cash balance analysis.

We note the following in relation to the Company's balance sheet information:

1. Cash:
 - Godfreys' daily cash balance typically reaches a low point during the first week of the month when creditors are paid (as exhibited by the decline in cash balance between 30 March 2018, 9 April 2018 and 4 May 2018 shown above).
 - The lowest cash balance Godfreys has held since drawing down the against the current debt facility was \$4.1 million in May 2018 (coinciding with a third consecutive monthly operating loss).
 - Of the current cash balance, approximately \$1.6 million is restricted as a result of an existing bank guarantee, credit card and merchant facilities.
 - Godfreys does not currently have an overdraft facility to manage short term fluctuations.
2. Property, plant and equipment (PP&E) - PP&E is depreciated on a straight-line basis. Over 90% of total PP&E comprises leasehold improvements with useful lives varying from three to five years. PP&E capital expenditure in FY15, FY16 and FY17 totalled approximately \$5.5 million, \$6.4 million and \$2.0 million, respectively.
3. Intangibles - Goodwill was previously recorded when Godfreys was acquired by two private equity funds in 2006. Approximately \$24 million of goodwill was impaired in December 2016 with an additional \$75 million written-off in December 2017. The remaining \$18.3 million in intangibles represents brand, franchise system, trademarks and software.
4. Godfreys have derivative liabilities in the form of foreign exchange contracts. The derivative liability as at 31 December 2017 was approximately \$0.13 million.
5. Interest bearing debt - In May 2017, Godfreys borrowed \$30 million from 1918 Finance Pty Ltd, an associate of Arcade Finance Pty Ltd, on the following terms:
 - Three-year bullet payment;
 - Interest payments paid on a six-monthly basis; and
 - Three covenants tested in June and December each year, relating to:
 - Leverage ratio: Net debt (excluding restricted cash)/EBITDA;
 - Fixed cover charge: (EBITDA + Lease costs) / (Interest + Lease Cost); and
 - A limit on total capital expenditure in any financial year.
6. Deferred tax liabilities primarily comprise temporary differences relating to indefinite life intangible assets, various provisions and carry forward tax losses of \$0.6 million as at 30 June 2017. The balance of deferred tax liabilities decreased from June 2017 to December 2017 in conjunction with the write down of intangible assets.

3.8. Debt covenant waiver and recapitalisation alternatives

3.8.1. Debt waiver

Godfreys approached the lender in February 2018 and was granted a waiver of the leverage ratio covenant for June 2018. At the time the waiver was obtained, Godfreys believed that it would still be able to satisfy the leverage ratio covenant at the testing date of 29 June 2018.

However, Godfreys made an announcement on 23 April 2018 stating that underlying EBITDA, prior to any restructuring and one-off costs, was now expected to be around the lower end of the \$5-6 million range previously advised and net debt would be higher than previously forecast. As such, the Company will need to rely on the waiver at the June 2018 testing date.

Godfreys has advised that it has also sought a waiver of the fixed charge cover ratio covenant as at 29 June 2018 (the next testing date), which the Company may now need to rely on in light of the April 2018 trading result.

The lender has advised that no further waivers will be granted. The Company has advised that given the current trading performance, Godfreys currently believes it will be difficult to be able to satisfy the Facility Agreement's covenant requirements as at 28 December 2018.

Based on the 1H18 half-year results, and the earnings guidance provided for FY18, Godfreys will need to achieve operating EBITDA of at least \$5.0 million and potentially up to \$8.0 million in H1 FY19 to satisfy the Facility Agreement's leverage ratio covenant as at 28 December 2018, outside of any one-off initiatives to increase cash or decrease its level of debt.

3.8.2. Recapitalisation alternatives

The Company has acknowledged in the Target Statement that there is risk in achieving the latest earnings guidance, and therefore risk in being able to satisfy the debt covenants at the 28 December 2018 testing date. Accordingly, the management and board of Godfreys has sought advice and considered recapitalisation alternatives.

In summary, due to the Company's current financial circumstances, it was determined that:

- An equity raising would likely be heavily dilutive to current shareholders in the near term; and
- Refinancing the debt would be difficult in the near term, and it is highly unlikely any refinance could be undertaken on terms as favourable as the current facility.

3.9. Ownership

As of 9 April 2018, Godfreys had 40,922,585 shares on issue. The top 10 shareholders collectively own approximately 75% equity interest in Godfreys. The largest shareholder, Arcade Finance Pty Ltd, owns approximately 28% interest. A number of trades have taken place since the Offer was announced.

The top 10 Shareholders as at 18 April 2018 are shown below.

Table 12: Ownership

Rank	Shareholder	Securities Outstanding	% Ownership
1	Arcade Finance Pty Ltd ¹	10,408,383	25.43%
2	NGE Capital Limited ²	6,191,712	15.13%
3	J P Morgan Nominees Australia	3,792,650	9.27%
4	BNP Paribas Nominees Pty Ltd, IB AU NOMS RETAILCLIENT DRP	2,671,633	6.53%
5	Kentgrove Capital Pty Ltd ²	1,900,000	4.64%
6	J & P Hardy Holdings Pty Ltd	1,086,212	2.65%
7	MDF Superannuation Pty Ltd - MDF Super Fund A/C	1,020,762	2.49%
8	Silchester Investments Pty Ltd	1,000,000	2.44%
9	MR Winstedt Arian Rasiah	450,000	1.10%
10	Ligetti Family S/F A/C	303,329	0.74%
	Sub-total	28,824,681	70.44%
	Remaining shareholders	12,097,904	29.56%
	Total	40,922,585	100%

Source: Target Statement, Bidder Statement, ASX announcements

Notes:

1. John Hardy is the practical controller of J & P Hardy Holdings Pty Ltd and a beneficiary of the Hardy Family Trust. Hardy is a Godfreys Director and an associate of Arcade and therefore holds a relevant interest of 28.09%.
2. Kentgrove Capital Pty Ltd has a relevant interest in NGE Capital Limited and therefore holds a relevant interest of approximately 19.77%.

3.10. Performance rights

There were 984,622 unlisted performance rights over ordinary shares in the Company on issue as at 9 April 2018. Vesting of rights is subject to continued employment and total shareholder return hurdles, as detailed in the 30 June 2017 annual report financial report. A further 649,000 performance rights have been allocated to Jason Gowie, however are subject to shareholder approval prior to being issued.

3.11. Historical share trading analysis

Since listing, Godfreys' share price has traded between \$0.20 and \$3.64 per share. After initially appreciating in price over the first three months of trading, Godfreys' share price has declined significantly over the last three years, as shown below.

Figure 9: Daily closing share price and trading volume (IPO to 9 April 2018)



Source: Capital IQ

The decline has been attributed to the following key factors:

- Actual financial performance under performing against market guidance provided;
- High turnover of key management personnel and directors;
- Lack of a clear company strategy / changes in the company's strategy;
- Failure to adapt to the rapidly evolving conditions in the retail sector.

3.11.1. Volume Weighted Average Price

Godfreys' volume weighted average price ("VWAP") over the 12-month period preceding the announcement of the Offer (announced after the close of trading on the 9 April 2018) is set out in the table below.

Table 13: Godfreys volume weighted average price analysis

Period	Price (Low)	Price (High)	Price VWAP	Cumulative value	Cumulative volume	% of issued capital	Shares held by strategic shareholders	Volume of shares traded as a % of free float ²
	\$	\$	\$	\$m	m			
1 day	0.21	0.22	0.22	0.03	119,650	0.3%	20.46	0.6%
1 week	0.21	0.23	0.22	0.04	173,010	0.4%	20.46	0.8%
1 month	0.20	0.29	0.24	0.13	551,520	1.3%	20.46	2.7%
49 Days ¹	0.20	0.32	0.27	0.28	1.03	2.5%	20.46	5.0%
3 months	0.20	0.42	0.31	0.71	2,304,030	5.6%	20.46	11.3%
6 months	0.20	0.72	0.44	3.36	7,672,980	18.7%	20.46	37.5%
12 months	0.20	0.85	0.56	8.68	15,466,700	37.8%	20.46	75.6%

Source: Capital IQ

Note:

1. The 49-day VWAP represents the trading period from the Offer date (9 April 2018) to the 20 February 2018, the day on which Godfreys announced their H1 FY18 trading results and revised FY18 earnings outlook of \$5 million to \$6 million EBITDA.
2. Free float shares represent the shares available for trading after excluding strategic investors (assumed to be greater than approximately 5% ownership of total Godfreys shares). For purposes of calculating the liquidity of free-float shares (which has varied slightly over time), we have assumed 50% of shares were held by strategic investors over the trailing 12-month period.

We note the following with respect to the VWAP analysis displayed above:

- The VWAP of Godfreys has declined over the preceding 12 months to the announcement of the Offer.
- The 1-day, 1-week, 1-month, 49-day and 3-month VWAPs are all less than the Offer price of \$0.32 per share.
- Over the 3-month period immediately preceding the Offer, 11.3% of the free float shares in Godfreys were traded.
- Over the 12-month period immediately preceding the Offer, 75.6% of the free float shares in Godfreys were traded.

3.11.2. Price Sensitive Announcements

Since listing on the ASX in December 2014, the company has made several price-sensitive announcements. The announcements with a corresponding movement in share price over the past 12 months are shown below.

Table 14: Price sensitive announcements

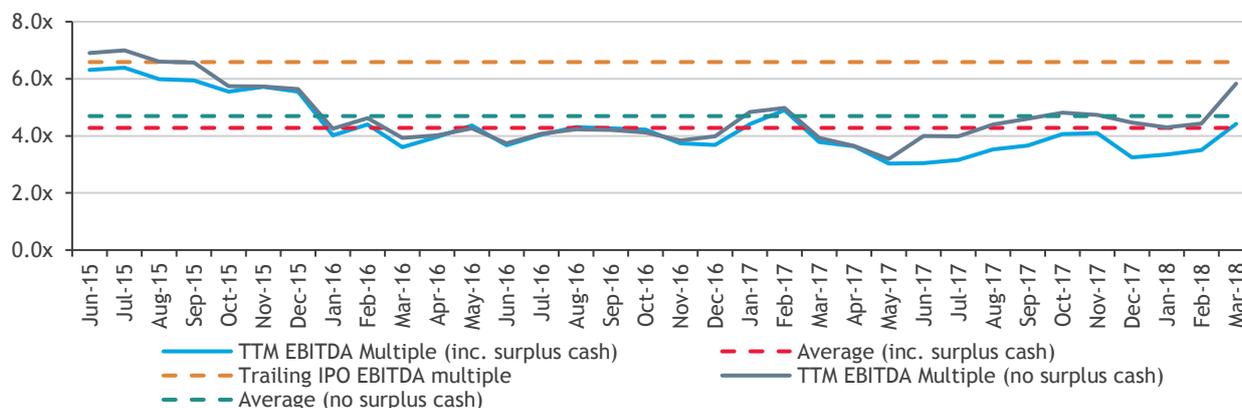
Date	Announcement	Closing Share Price Following Announcement		Closing Share Price One Days After Announcement	
		% (movement)	\$ (movement)	% (movement)	\$ (movement)
23/04/2018	Senior Debt Facility and Trading Update. Bidder's statement.	0.300	▶ 0.0%	0.305	▲ 1.7%
17/04/2018	Supplementary Bidder's statement released.	0.300	▶ 0.0%	0.305	▲ 1.7%
16/04/2018	Ceasing to be a substantial shareholder	0.300	▶ 0.0%	0.300	▶ 0.0%
13/04/2018	Chairman's letter to shareholders and appointment of advisors. Change in substantial holding from NGE	0.300	▶ 0.0%	0.300	▶ 0.0%
11/04/2018	Change in substantial holding	0.300	▲ 1.7%	0.300	▶ 0.0%
10/04/2018	Response to takeover bid announcement	0.295	▲ 40.5%	0.300	▲ 1.7%
9/04/2018	Intention to make Takeover bid	0.210	▼ 2.3%	0.295	▲ 40.5%
5/03/2018	Executive appointments	0.300	▲ 1.7%	0.280	▼ 6.7%
23/02/2018	Sale of The Service Company Business	0.295	▶ 0.0%	0.295	▶ 0.0%
20/02/2018	Half Year Results and CEO Update. Appendix 4D.	0.300	▼ 6.3%	0.300	▶ 0.0%
1/02/2018	Trading Update	0.320	▼ 16.9%	0.315	▼ 1.6%
1/12/2017	Appointment of CEO, Additional Directors & General Update	0.400	▼ 19.2%	0.440	▲ 10.0%
12/10/2017	Results of 2017 Annual General Meeting	0.680	▶ 0.0%	0.675	▼ 0.7%
11/09/2017	Annual Report to shareholders	0.720	▶ 0.0%	0.745	▲ 3.5%
17/08/2017	FY17 Results Announcement, Appendix 4E and Statutory Accounts. Dividend / Distribution - GFY	0.785	▲ 9.0%	0.760	▼ 3.2%
15/06/2017	Change in substantial holding from Kentgrove Capital and from NGE	0.650	▼ 0.8%	0.635	▼ 2.3%
29/05/2017	Debt refinancing and trading update	0.680	▲ 8.8%	0.685	▲ 0.7%
25/05/2017	Becoming a substantial holder from NGE	0.585	▲ 0.9%	0.625	▲ 6.8%

Source: Capital IQ

3.11.3. Historical Trailing EBITDA Multiple

Godfreys' EBITDA multiples at the time of its initial public offering were 6.6x historical (FY14 EBITDA) and 5.9x forecast (FY15) EBITDA. Displayed in the figure below is Godfreys' trailing EBITDA multiples from June 2015 to March 2018 (the period for which we have reliable monthly operating financial results), which takes into account the changes in Godfreys' share price and EBITDA over this period.

Figure 10: Godfreys trailing EBITDA multiple



Source: Godfreys' monthly management accounts, Capital IQ, Godfreys' Prospectus, BDO analysis

In regards to Godfreys' trailing EBITDA multiple, we note the following:

- Godfreys' trailing multiples have been calculated using a trailing 3-month VWAP and monthly management accounts. The amount of cash held by Godfreys has been significant and has varied over the period shown. Accordingly, we have calculated the multiples under two scenarios; assuming all cash is included as an operating asset (which increases enterprise value and therefore the trailing multiple), and alternatively assuming all cash is a surplus asset (not included in enterprise value).
- Godfreys' trailing multiple trended downwards during FY16, from which point it has been relatively stable. There was an increase in March 2018, which is largely attributable to the sharp decrease in trailing earnings in the preceding months (i.e. operating losses in February and March 2018).
- Godfreys' trailing multiples are calculated using a trailing 3-month VWAP to incorporate a greater level of liquidity. Given the Company's declining share price, the trailing multiples would be lower if calculated using Godfreys' trailing spot prices.
- The high, low and average trailing multiples for Godfreys under both cash scenarios is shown below:

Table 15: Trailing EBITDA multiples

Godfreys' trailing EBITDA multiples - June 2015 to March 2018	Including cash	Excluding cash
High	7.0x	6.4x
Low	3.2x	3.0x
Average	4.7x	4.3x

Source: Godfreys' monthly management accounts, Capital IQ, BDO calculations

4. INDUSTRY OVERVIEW

Godfreys operates in the floor care and associated cleaning products industry (“Industry”), which represents a small segment of the wider domestic appliances industry.

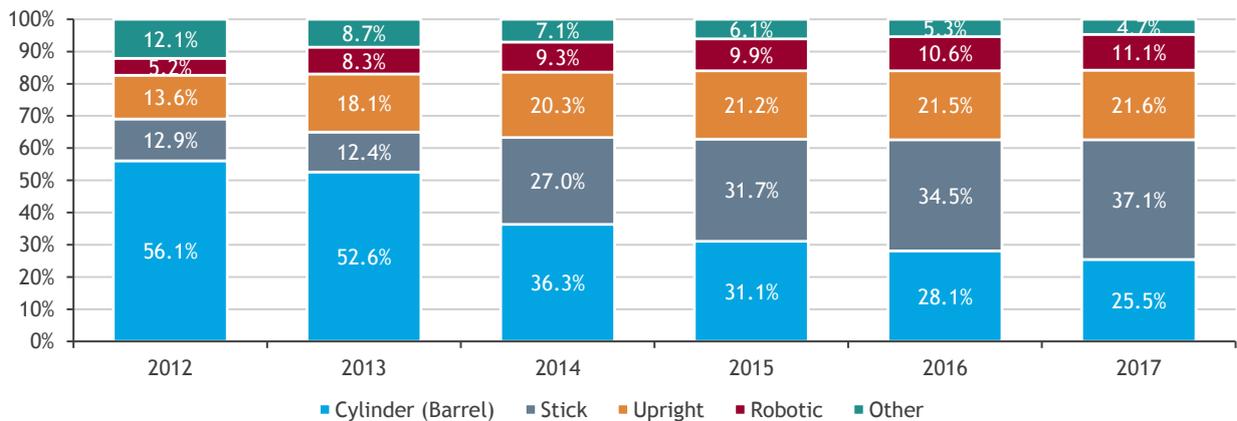
4.1. Emerging product trends within the industry

As evidenced in other categories, household consumers are seeking enhanced experiences that make everyday chores more convenient and less complicated.

This evolution in customer needs has led to enhanced product innovation and a subsequent shift in product mix within the Industry.

The chart below highlights the recent shift away from traditional ‘cylinder’ (or ‘barrel’) vacuums towards ‘stick vacuums’ and ‘robotics’.

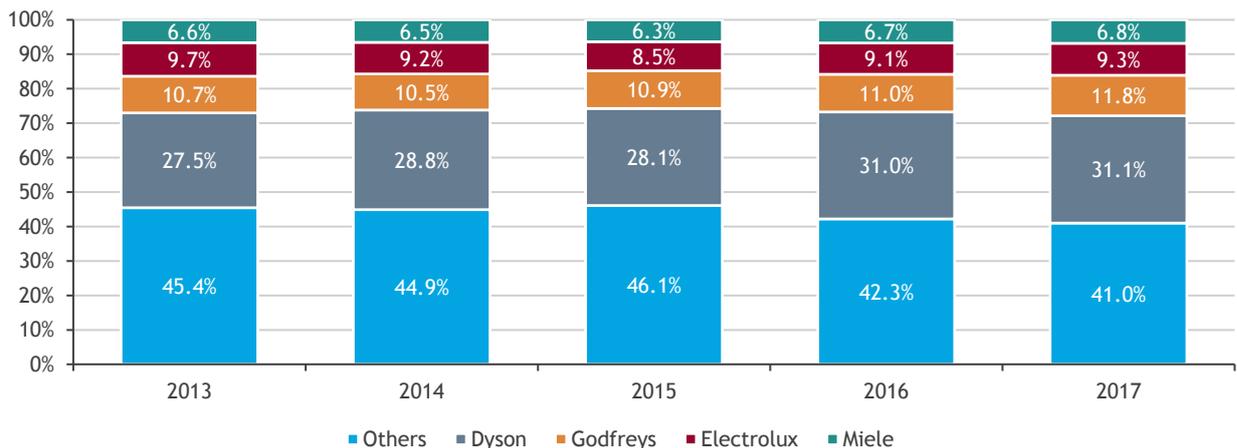
Figure 11: Vacuum sales by category 2012 - 2017



Source: Euromonitor- Vacuum Cleaners in Australia (Dec 2017)

As evidenced in the chart below, Dyson leads vacuum cleaners with 31% of retail volume share (2017). Dyson is known for being ‘all about invention and improvement’; a philosophy that has assisted it in meeting consumers’ demands and capturing market share, particularly within the stick vacuum category.

Figure 12: NBO Company Shares of Vacuum Cleaners: percentage of retail volume 2013 - 2017



Source: Euromonitor- Vacuum Cleaners in Australia (Dec 2017)

Innovation will continue to play an important role as smaller living spaces and consumers’ expectations intensify around convenience and simplicity. As a result, it appears likely that demand for stick vacuums and robotics will continue and the decline in cylinder vacuums may accelerate.

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4.2. Channels to market

The vacuum cleaner market in Australia is highly competitive with many established brands sold through a variety of channels including; speciality retail stores, department stores, e-commerce platforms (both omni-channel retailers and digital only retailers) and home shopping providers.

Over time, electrical and appliance stores such as JB Hi-Fi and Harvey Norman have continually expanded their range of products which has negatively impacted market share previously held by speciality retailers within the Industry.

4.3. The impact of the digital evolution

Today's consumer no longer thinks in terms of channels. They reach for the most appropriate touchpoint and move between them. Successful Australian retailers are heavily focused on delivering exceptional omni-channel experiences for consumers.

While physical retail stores still comprise 88.8% of Industry sales (2017), on-line sales increased to 11.2% in 2017 from a base of 4.5% in 2012. With the expansion in digital only retailers and an on-going omni-channel retail focus we would expect continued digital growth in the future.

Outside of direct sales that occur on e-commerce platforms, the evolution of digital has altered the customers' path to purchase. Today's consumer is well researched and leverages digital product reviews to inform their purchasing decision, even when purchasing within the physical environment. Among other things, today's consumer is heavily focused on price, product performance and customer service levels.

Our research indicates that Dyson reviews are most prevalent for 'Stick' Vacuum's with Xiaomi Mi Robot and I Robot Roomba most prevalent for Robotics (neither of which are stocked by Godfreys).

4.4. Key macro drivers in domestic appliance retailing

The key drivers of the Industry are:

- **Consumer sentiment** - A fall in consumer sentiment is generally associated with reduced expenditure. Consumer sentiment is expected to decline in 2017-18 which may lead to a decline in spend for domestic appliances.
- **Household income** - An increase in discretionary household income, typically drives consumer demand for domestic appliances.
- **Number of households** - A projected increase in household numbers will help drive consumer demand for domestic appliances.
- **Demand from online shopping** - There is an increasing number of digital only retailers. Digital only retailers typically have lower cost structures and greater pricing flexibility relative to traditional retailers. Demand for online shopping is expected to increase in 2017-18.
- **Demand from residential building construction** - New owners and tenants tend to furnish their living spaces with new appliances.

4.5. Current and near term performance in domestic appliance retailing

The following factors have affected current trading performance of domestic appliance retailers:

- Despite an increase in real household discretionary income and low interest rates, consumer sentiment remains weak. Consumers appear more focused on reducing debt levels which has led to an overall reduction in appliance spend.
- Total household numbers are expected to increase over the next five years. All else equal, this will have a positive impact on overall appliance spend.
- The industry has experienced intense price competition as evidenced by promotional activity and heavy discounting. Effective product sourcing strategies appear to have assisted appliance retailers in maintaining margin.
- 'Category creep' from non-traditional appliance retailers who provide extensive product ranges at competitive prices will place on-going pressure on traditional players.
- On-going innovation will continue to disrupt the Industry.

4.6. Industry outlook in domestic appliance retailing

IBIS World expects industry revenue to grow by 2.1% year-on-year over the five-year period to 2022-2023.

5. FAIRNESS ASSESSMENT AND VALUATION METHODOLOGY

5.1. Fairness assessment overview

The Offer is fair if the fair market value of the consideration offered by Arcade per Godfreys share is equal to or greater than the fair market value of a Godfreys share before the Offer (on a controlling interest basis).

Accordingly, to undertake this comparison we have undertaken an assessment of the value of a Godfreys share before the Offer.

The valuation methods commonly used for the above analyses are considered below.

5.2. Valuation methods

Details of common methodologies for valuing businesses and assets are included at **Appendix 3**. The principal methodologies which can be used are as follows:

- Discount cash flow (“DCF”)
- Capitalisation of future maintainable earnings (“COE”)
- Net asset value (“NAV”)
- Quoted market price basis (“QMP”).

Set out below is a discussion of the valuation methods we consider appropriate for the purposes of undertaking our valuation assessment of Godfreys.

5.3. Selected valuation methods for Godfreys

In accordance with RG 111.15, we have considered the fair market value of Godfreys on the basis of “a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid”. This approach does not take into account the particular circumstances of any specific transaction, and therefore we have not considered whether there is any premium in value attached to the strategic benefits or gains from synergies that may be inherent in an acquisition by a specific party, e.g. an industry competitor or supplier.

We have assessed the equity value of Godfreys using the COE method as our primary approach, and the QMP approach as our secondary method.

We have chosen these methodologies for the following reasons:

- Godfreys has a history of profitable operations and market evidence is available to enable the COE method to be applied.
- The QMP approach is a relevant methodology to consider as Godfreys’s shares are traded on the ASX, which is a regulated and observable market. In assessing Godfreys’ share price performance, we have had particular regard to the following:
 - The level of trading activity of Godfreys securities; and
 - Recent key developments, market announcements, and the timing and level of dissemination of information to the market.

We have reviewed the following factors relating to the trading activity of Godfreys securities:

- Daily price activity;
- Daily volume;
- Value of securities traded; and
- VWAP.

Approximately 50% of Godfreys shares are held by strategic investors, we have therefore undertaken our liquidity analysis with reference to the remaining 50% of the share held on free float.

There have been numerous price sensitive announcements made by Godfreys in recent months limiting the reliance that can be placed on historical prices prior to these announcements. Having regard to the level of liquidity between market sensitive announcements, we have applied the QMP as a crosscheck to our primary methodology.

- Management has prepared a three-year business plan which will be utilised as a base template during the upcoming FY19 budgeting process. While the business plan has been shared with the board, it has not currently received board approval. We also note that it is also inherently difficult to accurately forecast the Company's financial performance given its recent trading performance and challenging market dynamics, and the Company's historical performance against prior budgets has been poor. Accordingly, there is a lack of reliable long term forecasts for the Company to enable a DCF approach to be applied.
- There is approximately \$18.3 million in goodwill on Godfreys's balance sheet as at 31 March 2018 (which was impaired in prior reporting periods), which means a NAV approach would substantially rely on management's own assessment of the net realisable value of the business. Further, in our opinion, the Company's value is not reflected in the value of its tangible assets. Accordingly, we do not consider NAV approaches to be relevant.

5.4. Other valuation considerations

5.4.1. Future events

The business of Godfreys considered in this valuation is that which existed as at the date of the Offer. Growth potential, which may result from new activities, business initiatives, acquisitions and the like (which are not capable of estimation), is not within the scope of this valuation.

5.4.2. Synergies

The level of synergies that can be derived from a takeover or merger is dependent on the nature of the respective businesses and their geographical and operational overlap.

In relation to the Offer, potential synergies may be available across a range of areas, including:

- Eliminating Godfreys's ASX listing costs (estimated by management to be approximately \$1.0 million per year).
- Back office functions and other overheads.

We have not considered special value in forming our opinion. Accordingly, we have not attributed any value to the potential synergies listed above when determining the future maintainable earnings of the business. However, we have considered the impact of listing costs relative to Godfreys' size and its earnings when assessing an appropriate premium for control.

5.4.3. Premium for Control

Investment fundamentals dictate that the value of 100% of an entity is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings.

The difference between the value of 100% of a company and the total value of minority share holdings is referred to as a "premium for control" taking into account control and synergistic benefits for the acquirer.

Control of a company by a shareholder gives that shareholder rights to which minority shareholders are not entitled, including control of the company's policies and strategies, and use of cash flows of the company.

A premium for control is applicable when an acquisition would give rise to benefits such as:

- the ability to realise synergistic benefits;
- access to cash flows;
- access to tax benefits; and
- control of the board of directors of the company.

Therefore, a transaction premium would typically include a premium for control as well as potential buyer specific synergies.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the company being acquired. In arriving at an appropriate premium for control to apply, we note that buyers would generally assess the following considerations:

- Level of liquidity in the trade of the target's securities;
- Synergistic value;
- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited; and
- Ability to integrate the target into the acquirer's business.

An acquirer of the Company could potentially reduce corporate overheads and realise synergies through the integration into their business while, at the same time incurring one-off integration expenses.

In our assessment of an appropriate control premium for Godfreys, we have reviewed Australian public company acquisitions over the period 2012 to 2017. In particular, we have reviewed the average offer premium to the share price both one day before, and one month before the offer announcements. Displayed in the tables below are the average control premiums categorized by transaction size.

Table 16: Average Australian public company control premiums (transaction size less than \$50 million)

Year	Number of Transactions	Average Deal Value (AUD\$m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2017	1	45	36%	55%
2016	8	24	45%	67%
2015	7	29	42%	65%
2014	6	33	16%	33%
2013	16	23	43%	45%
2012	9	30	34%	31%
Mean		31	36%	49%
Median		29	39%	50%

Source: Mergermarket and BDO analysis

Table 17: Average Australian public company control premiums (transaction size less than \$100 million)

Year	Number of Transactions	Average Deal Value (AUD\$m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2017	4	78	15%	14%
2016	11	39	37%	51%
2015	11	49	47%	57%
2014	12	55	18%	32%
2013	18	29	39%	44%
2012	18	55	38%	37%
Mean		51	32%	39%
Median		52	38%	41%

Source: Mergermarket and BDO analysis

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Table 18: Average Australian public company control premiums (all transaction sizes)

Year	Number of Transactions	Average Deal Value (AUD \$m)	Average control premium 1-Day before (%)	Average control premium 1-Month before (%)
2017	14	1383	19%	18%
2016	35	740	28%	34%
2015	37	762	34%	38%
2014	35	673	22%	29%
2013	38	687	26%	32%
2012	43	302	30%	34%
Mean		758	27%	31%
Median		714	27%	33%

Source: Mergermarket and BDO analysis

Having considered the market evidence of transaction premiums, we note the following:

- 1-day prior average control premiums are generally in the range of 15% to 50%
- 1-month prior average control premiums are generally in the range of 15% to 65%
- Smaller transactions generally exhibit higher control premiums (transactions of deal value less than \$50 million exhibited higher control premiums than transactions of deal value less than \$100 million (albeit based on fewer transactions), which in turn exhibited higher control premiums than the entire transaction set).
- Fewer transactions occurred in 2017 compared to prior years, which increases the susceptibility to bias by outliers. Therefore, the median values for across 2012 to 2016 are considered a more meaningful representation of premiums paid.

Based on the above, and having regard to Godfreys' listing costs relative to its size and earnings, we consider a control premium of 40% to be appropriate for Godfreys.

5.4.4. Surplus assets and liabilities

Companies may hold surplus assets or have surplus liabilities which are not part of the normal operating activities, and are not otherwise captured in the application of the selected valuation methodologies. Surplus asset and liabilities have been assessed separately to the COE and QMP valuations.

5.4.5. Valuation in Accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

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6. FAIRNESS ASSESSMENT

6.1. Fair market value of Godfreys using the COE method

Our assessment of the fair market value of Godfreys, prior to the Offer, is set out below:

Table 19: Valuation Summary - Pre Offer

	Ref	Low	High
Enterprise Value (minority basis) (\$000)	6.5	32,500	37,500
less: Total Debt (and accrued interest) (\$000)	6.6	(29,309)	(29,309)
Add: Surplus Cash	6.7	4,000	4,000
Equity Value (minority basis) (\$000)		7,191	12,191
Number shares on issue	6.8	40,922,590	40,922,590
Equity value per share (minority basis)		\$0.18	\$0.30
Premium for Control	6.9	40%	40%
Equity value per share (control basis)		\$0.25	\$0.42

Source: BDO Analysis

We have assessed the fair market value of a Godfreys share to be between \$0.25 to \$0.42 per share. The equity value range is relatively wide, reflecting the level of gearing in the business and also the inherent difficulty in estimating the enterprise value with a degree of precision at a point in time when the Company's financial performance is declining and it is in the early stages of a turnaround strategy.

6.2. COE approach

In utilising the COE method to value Godfreys, we have considered the following:

- An estimate of the future maintainable earnings ("FME");
- Selection of an appropriate earnings capitalisation multiple (on a minority basis);
- Adjustments to the resultant enterprise value, in particular, net debt and surplus assets; and
- Application of a premium for control.

6.3. Future maintainable earnings

The COE method requires a determination of the Company's maintainable earnings potential on a normalised basis. To determine FME for Godfreys, we have made reference to EBITDA, because it allows for comparison of companies irrespective of their gearing, tax jurisdiction and accounting policies.

In determining the Company's FME, we have considered the following:

- The trend in Godfreys' historical earnings since listing, which shows:
 - Declining revenue, from \$180.9 million in FY15 to \$174.1 million in FY17 (-3.8%), and a further decrease expected for FY18;
 - Declining gross margins, from 54.1% in FY15 to 49.7% in FY17, which combined with the decrease in revenue and the fixed nature of various operating expenses, has resulted in a decrease in underlying EBITDA of 23.5% in FY16, a 19.8% decrease in FY17 and further deterioration in YTD March 2018 financial results (relative to prior years and against budget);
 - Trading losses in October 2017, February, March and April 2018 (the only monthly trading losses since listing). The LTM EBITDA to April 2018 is \$6.1 million.
- The earnings guidance provided by the Company, including:
 - The FY18 outlook in the 'Half year results and CEO update' announcement on 20 February 2018, in which the Company advised underlying EBITDA was expected to be in the range of \$5.0 - \$6.0 million.
 - The profit downgrade announced on 23 April 2018 (shortly after the Offer was announced), which indicated underlying EBITDA, prior to any restructure costs, and was expected to be around the lower end of the \$5.0 - \$6.0 million range.
 - The latest earnings estimate provided by the Company, indicating FY18 EBITDA is now expected to be approximately \$3.5 million.

- The turnaround initiatives identified and implemented by the Company, and management's internal three-year financial forecasts (which are not board approved or in the publicly domain, and have therefore not been disclosed in this report).

Estimating Godfreys' FME at the time of the Offer is inherently difficult, as the Company's recent and near-term financial results are at historically low levels and continue to decline, while Godfreys' historical margins and the margins achieved by other industry participants indicate there is significant scope to improve profitability if the Company's turnaround initiatives can be achieved.

In our view, limited reliance can be placed on the Company's earnings from prior financial years or on management's internal budgets for future years for the following reasons:

- The industry and competitive landscape has changed significantly. Historical earnings were underpinned by barrel vacuum sales. However, the market has made a clear shift from barrel vacuums in favour of stick and robotic products, and the Company is now facing increasing competition from diversified retailers and online channels who have been quicker to respond to changing industry dynamics, including product mix. Historical earnings have also been underpinned by upfront franchise fees in certain years. Whilst management has identified a number of existing stores for possible conversion to franchises, there may be limited opportunities for new franchises in the medium and longer term given the challenges faced by traditional 'bricks and mortar' retailers.
- Godfreys is facing a number of significant internal and external challenges. The current board and management team comprises a number of new members who have had limited time to implement the company's current strategic objectives to address these challenges. Further, whilst a number of opportunities exist to improve the Company's financial performance, many of these initiatives are embryonic, and the quantum and timing of potential upside is uncertain.
- There are risks associated with achieving the Company's latest earnings guidance, which has been acknowledged in Section 5.6 of the Target Statement.

In our view, and in the current circumstances, significant weight should be given to the latest LTM results (\$6.1 million) and the latest earnings guidance provided by the Company (\$3.5 million) in determining FME.

Based on the above, we estimate the FME of Godfreys to be **\$5.0 million**. We would typically adopt a range of FME, particularly where there is uncertainty. However, having regard to the overall valuation range (and the impact of Godfreys' leverage), the potential upside and further downside risk to this FME has been taken into account in the selected capitalisation multiple.

6.4. Capitalisation multiple

The appropriate earnings multiple is usually assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are broadly comparable to those of the entity being valued. In selecting a capitalisation multiple to apply in the valuation of Godfreys, we have primarily considered:

- Trading multiples of broadly comparable listed companies in the retail sector (which reflect minority interests);
- Transaction multiples of mergers and acquisitions involving broadly comparable companies (usually reflecting a controlling interest); and
- Godfreys' trailing EBITDA multiple (see section 3.11.3).

6.4.1. Listed comparable companies

We have selected a set of comparable companies that operate in the broader retail sector. Set out in **Appendix 6** are descriptions of the operations of the identified companies. The stock market trading valuation parameters for the companies are set out in **Appendix 4**, and growth and margin performance ratios in **Appendix 5**.

These observations were taken as at 9 April 2018, being the date of announcement of the Offer. The table below shows the EBITDA multiple for the selected comparable listed companies.

Table 20: Comparable Company Trading Multiples

Company Name	Market Cap as at 9/04/18 AUDm	Enterprise Value as at 9/04/18 AUDm	EBITDA Multiple LTM Actual	EBITDA Multiple NTM Forecast
JB Hi-Fi Limited	3,010	3,201	7.6	7.4
Harvey Norman Holdings Limited	3,922	4,648	8.3	7.1
Beacon Lighting Group Limited	330	347	11.0	10.3
Shaver Shop Group Limited	54	52	3.2	3.8
Nick Scali Limited	540	544	9.1	8.5
The Reject Shop Limited	233	202	5.3	4.3
Reece Limited	5,299	5,348	14.3	14.0
Accent Group Limited	699	751	8.8	8.4
Super Retail Group Limited	1,369	1,566	6.5	5.1
The PAS Group Limited	58	52	3.2	n/a
Specialty Fashion Group Limited	77	56	2.9	n/a
Premier Investments Limited	2,526	2,487	13.1	12.9
GUD Holdings Limited	1,005	1,200	13.1	12.5
Adairs Limited	310	327	7.2	6.1
Myer Holdings Limited	312	332	2.4	2.2
Breville Group Limited	1,427	1,427	16.0	13.4
Shriro Holdings Limited	129	131	5.2	5.4
Average			8.1	8.1
Median			7.6	7.4
Adjusted Average (at 80% confidence level)			7.5	7.7
Adjusted Median (at 80% confidence level)			7.4	7.2

Source: Capital IQ and BDO analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash.
2. Adjusted average and median are calculated excluding the highlighted data, which are outside a 80% confidence interval.
3. The multiples shown above do not include a premium for control.

In relation to the observed multiples we note the following:

- **Size:** Godfreys is considerably smaller in size, both in terms of market capitalisation and turnover compared to most of these selected peers. The historical trading multiples for the comparable companies with a market cap under \$100 million range from 2.9x to 3.2x.
- **Earnings Growth:** The average EBITDA growth (4 year CAGR) for the comparable companies is 5.4%. Godfreys' EBITDA has decreased by 23.5% in FY16 and a 19.8% in FY17. Five of the comparable companies exhibited a decrease in EBITDA. The average of EBITDA multiple for these companies was 5.4x; however, this is skewed by the inclusion of Premier Investments Ltd which has a market cap of ~\$2.5 billion and a multiple of 13.1x. The average multiple of the other four companies with a decrease in EBITDA is 3.5x.
- **Operations:** Godfreys is predominantly focused on vacuums and other floor cleaning related products, whilst the comparable companies operate across a range of products in the retail sector.

Of the comparable companies, we consider the following to be the most comparable to Godfreys:

- **Shaver Shop Group Limited:** Comparable in size both in market cap (\$54 million) and turnover (\$157.5 million for LTM to December 2017). Further, Shaver Shop is a specialty product retailer compare to some of the larger comparable which stock a much broader range of products.
- **The PAS Group:** Comparable in size (\$58 million market cap), and has exhibited similar trading performance (i.e. decrease in sales and EBITDA) since 2016, albeit in the fashion retail sector.

6.4.2. Transaction multiples

We have reviewed a number of transactions in relation to acquisitions of businesses operating in the broader retail sector in Australia. A summary of the selected transactions is shown below.

Table 21: Comparable transaction multiples

Acquirer	Target	Target Country	Date Closed	% Sought	Implied EV (m)	EBITDA Multiple
Private Equity Consortium	The PAS Group Limited	Australia	09-Nov-15	26%	80.2	4.0
Hanesbrands Inc. RCG Corporation Limited (nka:Accent Group Limited)	Pacific Brands Limited	Australia	14-Jul-16	100%	954.2	11.7
	Hype DC Pty Limited	Australia	04-Aug-16	100%	104.6	8.4
	The Muir Electrical Company Proprietary Limited	Australia	28-Nov-16	100%	870.0	9.2
JB Hi-Fi Limited Yoogalu Pty Ltd.; PVH Services (UK) Limited	Gazal Corporation Limited	Australia	06-Oct-16	34%	108.5	11.3
Steinhoff Asia Pacific Holdings Pty Limited	Fantastic Holdings Limited	Australia	12-Dec-16	100%	329.5	14.8
Metalgrove Pty Ltd BBRC International Pte Ltd	Myer Holdings Limited	Australia	27-Mar-17	11%	932.9	5.1
	Accent Group Limited	Australia	27-Nov-17	12%	566.8	7.0
Boardriders, Inc.	Billabong International Limited	Australia	09-Apr-18	81%	346.5	7.1
Average						8.7
Median						8.4

Source: Capital IQ, Mergermarket and BDO analysis

We note the following in relation to the selected transactions:

- The transaction multiples may include a portion of ‘special value’ from synergies;
- Of the nine comparable company transactions, four were for minority interest stakes. The multiples for the minority interest transactions ranged from 4.0x to 11.3x, with an average of 6.9x.
- The remaining five transactions were completed on a controlling basis, and as such the observed multiples will include a premium for control.
- While the observed transactions involve targets that operate in the retail sector, none of the companies are directly comparable to Godfreys.
- Of the transactions identified we make special note of the PAS Group Limited transaction, which is comparable to Godfreys in size and operating performance since 2016, and the Muir Electrical Company Pty Ltd (i.e. The Good Guys) transaction due to the similar product offering (albeit a more diverse product range).

6.4.3. Godfreys historical trading multiple

The trailing EBITDA multiple for Godfreys is illustrated in Figure 10 of this report. Having regard to the level of ASX trading and liquidity in Godfreys’ shares (and notwithstanding we have used a 3-month VWAP to calculate the trailing multiples), we have placed less reliance on Godfreys’ historical trading multiples. Nevertheless, we note that:

- The average multiple from June 2015 (being the earliest multiple observable based on available data) to March 2018 was approximately 4.3x to 4.7x (depending on whether cash is included or excluded in the calculation);
- The multiple peaked at 7.0x at the beginning of the observed period and we at the time of listing Godfreys’ forecast (FY15) multiple was 5.9x, on a minority basis.
- The trailing multiples are calculated by reference to Godfreys’ trailing 12-month EBITDA, which is significantly higher than the FME we have selected in 6.3.
- Godfreys’ trailing EBITDA multiples have been relatively consistent for a number of years, notwithstanding the decline in earnings and a number of profit downgrades. There was an increase in March 2018, which is

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largely attributable to the sharp decrease in trailing earnings in the preceding months (i.e. operating losses in February and March 2018).

- The comparable company trading multiples have been calculated using ASX spot prices, while Godfreys' trailing multiples are calculated using a trailing 3-month VWAP (to incorporate a greater level of liquidity). The trailing multiples would be lower if calculated using Godfreys' trailing spot prices.
- Godfreys' trailing multiples are lower when excluding cash from the calculation, i.e. assuming cash is a surplus asset. We note that a portion of Godfreys' cash has been separately accounted for in our valuation as a surplus asset (refer to Section 6.7).

6.4.4. Selected capitalisation multiple

Having regard to the trading and transaction multiples of the selected broadly comparable retailers, Godfreys' trailing EBITDA multiples and our selected FME for Godfreys, we consider an EBITDA multiple of 6.5x to 7.5x (on a minority basis) to be appropriate for Godfreys. We note that this is at the high end of the observed multiples for companies of comparable size. However, we do not consider this unreasonable given:

- The multiple is being applied to earnings which represent a low point in Godfreys' history;
- The potential for upside associated with turnaround initiatives is not captured in the FME; and
- Godfreys' has historically traded at this multiple (albeit when profit margins were higher).

6.5. Enterprise value

Based on our analysis above, we have determined the enterprise value of Godfreys on a minority basis, as summarised below:

Table 22: Enterprise value

	Ref	Low	High
Future Maintainable Earnings (\$000 EBITDA)	6.3	5,000	5,000
Base Multiple Range (minority basis)	6.4.4	6.5x	7.5x
Enterprise Value (minority basis) (\$000)		32,500	37,500

Source: BDO Analysis

6.6. Total Debt

Godfreys has a debt facility to be deducted from the enterprise value to calculate the equity value. The total debt balance as at the date of the Offer was **\$29.309 million**. This represents the \$28.869 million face value of the debt facility and \$440K in accrued interest.

6.7. Surplus assets/liabilities

6.7.1. Surplus cash

From a valuation perspective, cash that is not required for working capital purposes is typically regarded as a 'surplus' asset (i.e. offset against debt to derive net debt).

Since borrowing \$30 million under the current funding facility with 1918 Finance Pty Ltd in May 2017, Godfreys has carried a significant amount of cash. The cash balance typically increases during the month's trading and then reaches a low point in the first week after month-end when trade creditors are paid. The average cash balance (and high and low points) has generally decreased since May 2017, largely as a result of the Company's poor trading performance and some one-off restructuring expenses.

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As at 4 May 2018, Godfreys had cash of \$4.4 million on hand. We have considered the portion of this cash that is required for working capital purposes, and also the restrictions on cash that Godfreys currently has in place:

- Cash required for working capital purposes - Godfreys' had cash of approximately \$4.1 million in early May (after paying creditors and following three consecutive monthly operating losses in February March, and April 2018). Since drawing down on the current facility, the low point was \$4.1 million in May 2018. In our view, the short term increase in cash from 1 May 2018 to 4 May 2018 is attributable to trading activity and is therefore required for working capital purposes. In other words, if Godfreys was replacing (and paying for) stock as and when it was sold, then cash would be largely unchanged from the low point on 1 May 2018 of \$4.1 million.
- Restricted cash - approximately \$1.6 million of Godfreys' cash is restricted as a result of an existing bank guarantee, credit card and merchant facilities. Whilst these facilities remain in place, this cash cannot be distributed to shareholders. We also note that the Company has no immediate alternatives to refinance the existing facilities. However, in our view, these restrictions are in place due to the Company's current capital structure (i.e. relatively high gearing), as opposed to working capital or capital expenditure requirements. A company's capital structure is not relevant when determining the enterprise value of a business. In other words, a hypothetical acquirer of Godfreys, with an optimal capital structure, is unlikely to have the same restrictions. Accordingly, we do not consider the current restrictions on cash to be relevant when determining the amount of surplus cash to be included in our valuation of Godfreys.

Based on the above, we have included surplus cash of **\$4.0 million** in our valuation of Godfreys.

6.7.2. Carry forward tax losses

Godfreys had \$0.6 million of carried forward tax losses at the date of the Offer.

Based on the future maintainable earnings determined in Section 6.3 of this Report, these tax losses would provide a cash flow benefit by offsetting future tax payments, which is not otherwise explicitly captured in the COE analysis.

However, in our view, a hypothetical purchaser would place minimal value (if any) on these losses as a standalone asset. Accordingly, we have attributed a value of \$nil to the carry forward tax losses in our valuation of Godfreys.

6.8. Shares and options outstanding

At the date of the Offer there was 40,922,585 ordinary shares on issue in Godfreys.

There were also 984,622 unlisted performance rights on issue. Godfreys has offered and Jason Gowie has accepted 649,000 Performance Rights, which are subject to Shareholder approval. The terms of the CEO employment arrangement also provide that in circumstances where shareholder approval is not obtained, Godfreys will provide an equivalent cash offer on the same terms. Given these rights are subject to a total shareholder return hurdle (and having regard to Godfreys share price performance), we have not attributed any value to these rights in our valuation of Godfreys' shares.

The board, at its absolute discretion, has the right to vest the performance rights in the event of a takeover offer. In section 10.10 and 10.11 of the Target Statement, the board has stated that if the Arcade offer becomes unconditional 50% of the issued performance rights will vest and a cash payment equivalent to 25% vesting will be owed to Jason Gowie. However, given this is subject to the Offer being unconditional, we have not considered in our fairness assessment pre Offer.

6.9. Control Premium

We have selected a control premium of 40% to value the shares of Godfreys based on Australian public transaction as outlined in section 5.4.3.

6.10. Valuation cross check - QMP approach

We have considered Godfreys' trading prices as a cross check to our valuation.

We have calculated Godfreys' VWAP over various periods preceding the Offer date, and included a control premium of 40% for comparison to our valuation of Godfreys on a controlling basis.

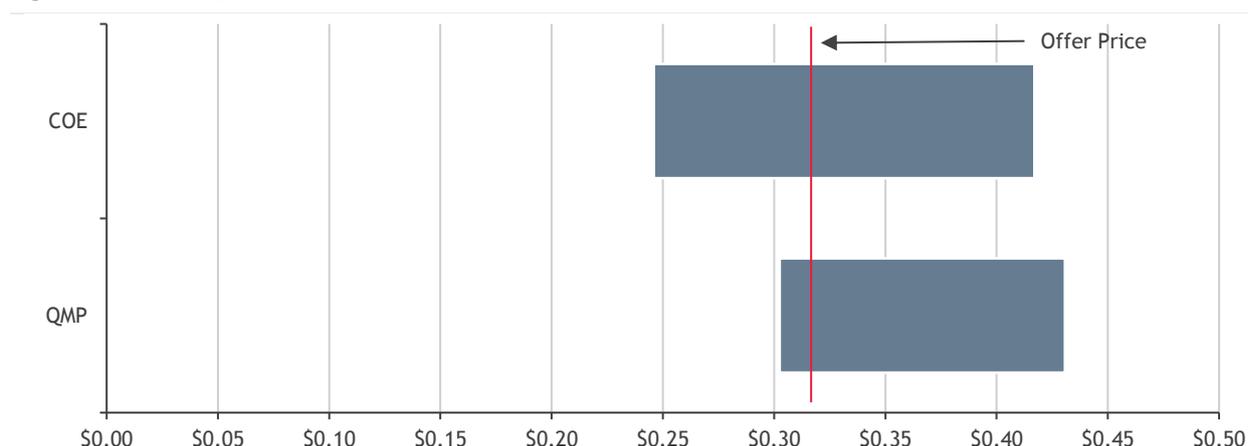
Table 23: QMP approach cross check

Period	Price VWAP \$	Plus 40% Control Premium \$
1 day	0.22	0.30
1 week	0.22	0.30
1 month	0.24	0.34
49 Days (post H1 results and revised FY18 outlook)	0.27	0.38
3 months	0.31	0.43

Source: BDOCF analysis

The results of the QMP analysis shown above overlap the valuation range from the COE methodology as illustrated below.

Figure 13: COE vs QMP



Source: BDOCF analysis

In addition to the above we have considered the trading prices since the takeover announcement and note that shares continued to trade at a VWAP of approximately \$0.30. We consider that these prices have been heavily influenced by the Offer and therefore we do not consider a control premium appropriate when considering the trades in this period.

On balance, we consider our valuation range to be reasonable having regard to the QMP analysis above.

6.11. Fairness assessment

The result of our fairness analysis under the guidance provided by ASIC is summarised below.

Table 24: Fairness assessment

Per Share	Ref	Low	High
Fair market value of a share in Godfreys prior to the Offer (control basis)	6.1	0.25	0.42
Consideration	1.2	0.32	0.32

Source: BDOCF analysis

The consideration of \$0.32 per Godfreys share is within our range of values per share prior to the Offer. Accordingly, in our opinion the Offer is fair to the Godfreys Shareholders.

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7. ASSESSMENT OF REASONABLENESS

In accordance with RG 111, an offer is reasonable if it is fair. On this basis, the Offer is reasonable to the Godfreys Shareholders.

We have also set out below is a summary of other factors we consider relevant in assisting the Godfreys Shareholder in deciding whether or not to accept the Offer.

7.1. Advantages

7.1.1. The Consideration falls within our valuation range for Godfreys

We have valued 100% of Godfreys's equity (prior to the Offer) inclusive of premium for control ranging from a low of \$0.25 per share to a high of \$0.42 per share. The Consideration of \$0.32 per share falls within this range.

The Consideration represents a premium of 30% to the low end of our valuation range and a discount of 23% to the high end of our valuation range. This takes into account a premium for control.

We also note that the valuation of Godfreys shares is highly sensitive. For example, if FME was based exclusively on management's most recent earnings guidance of \$3.5 million (i.e. if management is not able to successfully implement the turnaround strategy), the value per Godfreys share would be \$nil to \$0.03 (all else equal).

7.1.2. Certainty

The Offer provides Godfreys Shareholders with timing and value certainty of cash and removes their exposure to risks and uncertainties inherent in the continuing operation of Godfreys.

7.1.3. Premium over share trading price

The Consideration of \$0.32 per share represents a premium of 52.4% to Godfreys' closing share price on 9 April 2018 (the day the Offer was announced, after close of trade), and a 19.2% premium to the trailing 49-day VWAP (representing the VWAP since the H1 FY18 results and trading outlook announcement on 20 February 2018).

In the absence of an alternative offer, Godfreys' share price is likely to decline if the Offer does not proceed.

7.1.4. No alternative proposals

The board of Godfreys has advised there are currently no alternative offers for Godfreys, and that the size of the interest held by Arcade decreases the likelihood of receiving an alternative proposal. In our view, it is highly unlikely any alternative offer would be superior to the current Offer.

7.2. Disadvantages

7.2.1. Shareholders will not benefit from potential future valuation upside

The executive management team has undergone significant change, with three of five members commencing their positions from December 2017. The executive team has developed a business turnaround plan (see 20 February 2018 Company announcement) underpinned by a number of key initiatives underway or expected to be implemented by the end of 2019.

The latest trading performance and earnings guidance provided by the Company's represents the lowest results since listing. Shareholders who accept the Offer will no longer hold a relevant interest in the Company and will forego any potential future upside in value should the Company's turnaround strategy be successfully implemented.

7.3. Other Considerations

7.3.1. Godfreys is presently not meeting all debt covenants

The Company is currently relying on waivers from 1918 Finance Pty Ltd in relation to the debt covenant testing for as at 29 June 2018. The lender has advised Godfreys that there will be no further waivers granted.

Based on the 1H18 half-year results, and the earnings guidance provided for FY18, Godfreys will need to achieve operating EBITDA of at least \$5.0 million and potentially up to \$8.0 million in H1 FY19 to satisfy the Facility Agreement's leverage ratio covenant as at 28 December 2018, outside of any one-off initiatives to increase cash or decrease its level of debt.

Godfreys' failure to satisfy all debt covenants in December 2018 would constitute an event of default under the Facility Agreement. In such circumstances, pursuant to the terms of the Facility Agreement, the Lender is entitled to cancel all commitments under the Facility Agreement, require immediate repayment of outstanding amounts (including interest and costs) under the Facility Agreement, and enforce its rights under the Security Documents. Godfreys Shareholders may receive no return in these circumstances.

Further, even if Godfreys is able to meet or otherwise have the covenants waived, if the Company is not able to increase profits above their current level, the value of equity in the business would be negligible.

7.3.2. Lack of recapitalisation alternatives

The Directors of Godfreys have sought advice relating to the debt restructuring options available to Godfreys, including capital raising and alternative debt structures. The amount required in any capital raising would be extremely dilutive to existing shareholders, or otherwise require Godfreys Shareholders to participate in order to maintain their current percentage holding.

It is highly unlikely Godfreys would be able to refinance the current debt facilities on terms as favourable as the current facility. As such, any refinance of the current debt facilities to alleviate the risk of default in December 2018 would be value-decreasing to the existing Godfreys Shareholders, at least in the short term.

7.3.3. Access to restricted cash

Restricted cash of \$1.6 million has been included in our assessment of value. Whilst we do not consider it appropriate to take these restrictions into account in our fairness assessment (given they relate to Godfreys' capital structure, not normal working capital requirements with an optimal capital structure), the restricted cash should be taken into account in the reasonableness assessment. In the absence of being able to recapitalise the business, Godfreys Shareholders will not be able to access the restricted cash.

7.3.4. Risk of potentially becoming a minority shareholder in a non-listed entity

The Offer is currently subject to a 90% minimum acceptance condition. If Arcade obtains a controlling interest in Godfreys but does not become entitled to exercise compulsory acquisition rights and chooses to waive the minimum acceptance condition, any Godfreys Shareholders who do not accept the Offer will likely be minority shareholders in an unlisted company. The potential implications of this include:

- Lack of liquidity, given Arcade has stated that it will seek to delist Godfreys from the ASX;
- Limited access to information;
- Exposure to triggering change of control clauses in lease agreements; and
- The strategic direction of the company may change.

7.3.5. Potential taxation consequences

The taxation consequences for Shareholders will differ depending on their individual circumstances. Australian resident shareholders may be liable to pay capital gains tax on the disposal of their Godfreys shares under the Offer.

However, we note that the tax consequences for Shareholders that accept the Offer would be no different if the shares were sold during normal trading on the ASX.

7.3.6. Directors' recommendation

The Directors have recommended that Godfreys Shareholders accept the cash consideration Offer, in the absence of a superior proposal. Further, the Directors that hold shares in Godfreys have stated they intend to accept the Offer.

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8. OVERALL OPINION

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is both fair and reasonable to the Shareholders, in the absence of a superior proposal.

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9. QUALIFICATIONS, DECLARATIONS AND CONSENTS

9.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr Stephen Seear, B.Com and CA, is a director of BDOCF. Mr Seear is also a partner of BDO East Coast Partnership. Mr Seear has been responsible for the preparation of this IER.

Mr Seear has over 16 years' experience in Corporate Finance. He has undertaken numerous corporate finance assignments involving valuations, acquisitions, divestments, financial due diligence, capital raisings and financial modelling. Accordingly, Mr Seear is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Mr David McCourt, BBus, CA, is a director of BDOCF. Mr McCourt is also a partner of BDO East Coast Partnership.

Mr McCourt is the director responsible for the preparation of this IER. Mr McCourt has over 19 years' experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

9.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

We consider ourselves to be independent in terms of RG 112 Independence of experts, issued by ASIC.

BDOCF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Godfreys in relation to the Offer. Further, BDOCF has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with Godfreys or ACE that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Offer.

BDOCF will receive a fee of up to \$90,000, plus Goods and Services Tax for the preparation of this IER. BDOCF will not receive any fee contingent upon the outcome of the Offer, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Offer.

Five drafts of this IER were provided to the Board and their advisors for review of factual accuracy. Certain changes were made to the IER as a result of the circulation of the draft IERs. However, no changes were made to the methodology, conclusions, or recommendations made to the Shareholders as a result of issuing the draft IERs.

9.3. Disclaimer

This IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Directors and Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Directors and Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Board, executives and management of all the entities.

10. APPENDICES

APPENDIX 1: GLOSSARY

Term	Definition
9M	First 9 months of financial year
Act	Corporations Act 2001 (Cth)
APES 225	Accounting Professional & Ethical Standards Board Limited issued professional standard APES 225 on valuation services
Arcade or Bidder	Arcade Finance Pty Ltd
ASIC	Australian Securities and Investments Commission
ASP	Average sale price
ASX	Australian Securities Exchange
AUASB	Australian Auditing And Assurance Standards Board
BDOCF, we or us	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)
Bidder's Statement	Godfreys' Bidder's statement in relation to the Offer, dated 9 April 2018
Board	Board of directors of Godfreys
CAGR	Compounded annual growth rate
COE	Capitalisation of earnings
Godfreys or the Company	Godfreys Group Ltd
Godfreys Shareholders	Existing shareholders of Godfreys
Consideration	Cash consideration payable by Arcade of \$0.32 per Godfreys share
DCF	Discounted cash flow method
Directors	Directors of Godfreys
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EV	Enterprise value
FMV	Fair market value
FNE	Future normalised earnings
FOS	Financial Ombudsman Service Limited
FSG	Financial Services Guide
FYxx	Financial year ended/ing 30 June 20xx
H1	First half of financial year
Industry	Floor care and associated cleaning products industry
IPO	Initial public offerings
KPIs	Key performance indicators
Licence	Australian Financial Services Licence No: 247420
Management	Management of Godfreys
NAV	Net asset value
NPAT	Net profit after tax
NPV	Net present value
NTA	Net tangible assets
NWC	Net working capital
Offer	Arcade's offer of \$0.32 per Godfreys share
Offer Period	From 24 April 2018 to 24 May 2018
Offer Price	The offer price of \$0.32 per share
Offer	Proposed acquisition by Arcade of all of Godfreys shares by way off-market takeover at \$0.32 per Godfreys share
QMP	Quoted market price
Report or IER	Independent expert's report
RG 111	ASIC Regulatory Guide 111: Content of expert reports
RG 112	ASIC Regulatory Guide 112: Independence of experts

Term	Definition
<i>Shareholders</i>	An individual who owns an interest in Godfreys
<i>Target's Statement</i>	Godfreys' target statement in relation to the Offer
<i>Transaction Documents</i>	Bidder statement and target statement
<i>Valuation Date</i>	9 April 2018 (the last trading day prior to the announcement of the offer)
<i>VWAP</i>	Volume weighted average Price

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APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- Arcade's Bidder Statement regarding the Offer dated 24 April 2017
- Statutory accounts for the full years ended 30 June 2014, 30 June 2015, 30 June 2016, and 30 June 2017
- Statutory accounts for the half years ended 31 December 2014, 31 December 2015, 31 December 2016, and 31 December 2017
- Annual reports for 2015, 2016 and 2017
- Unaudited Godfreys management accounts for the financial years ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018
- Various ASX announcements
- CEO and CFO reports
- 2014 IPO Prospectus
- Various discussions with the Board and management of Godfreys
- BDOCF analysis
- Information sourced from S&P Capital IQ and MergerMarket
- ASIC guidance notes and regulatory guides as applicable
- Other generally available public information

APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of Godfreys Shares the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow (“DCF”) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (“NPV”).

DCF is appropriate where:

- the businesses’ earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a ‘start up’ or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the vendor’s business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Asset Value

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business Shares or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- **Orderly realisation:** this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- **Liquidation:** this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- **Going concern:** the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Quoted Market Prices

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

APPENDIX 4: COMPARABLE COMPANY MULTIPLES

Outlined below are multiples of comparable companies which we have considered in arriving at a suitable capitalisation multiple for Godfreys:

Table 25: Comparable company multiples

Company Name	Country	Latest Financial Year End	Market Cap as at 9/04/18 AUDm	Enterprise Value as at 9/04/18 AUDm	Revenue Multiple	Revenue Multiple	EBITDA Multiple	EBITDA Multiple	EBIT Multiple	EBIT Multiple
					LTM Actual	NTM Forecast	LTM Actual	NTM Forecast	LTM Actual	NTM Forecast
JB Hi-Fi Limited	Australia	30/06/2017	3,010	3,201	0.5	0.5	7.6	7.4	8.9	8.8
Harvey Norman Holdings Limited	Australia	30/06/2017	3,922	4,648	2.5	1.5	8.3	7.1	9.4	8.3
Beacon Lighting Group Limited	Australia	25/06/2017	330	347	1.5	1.5	11.0	10.3	12.4	11.5
Shaver Shop Group Limited	Australia	30/06/2017	54	52	0.3	0.3	3.2	3.8	3.6	4.4
Nick Scali Limited	Australia	30/06/2017	540	544	2.2	2.1	9.1	8.5	9.6	8.9
The Reject Shop Limited	Australia	2/07/2017	233	202	0.3	0.2	5.3	4.3	11.1	7.6
Reece Limited	Australia	30/06/2017	5,299	5,348	2.1	2.0	14.3	14.0	16.6	16.3
Accent Group Limited	Australia	2/07/2017	699	751	1.1	1.1	8.8	8.4	12.2	11.5
Super Retail Group Limited	Australia	1/07/2017	1,369	1,566	0.6	0.6	6.5	5.1	8.2	6.9
The PAS Group Limited	Australia	30/06/2017	58	52	0.2	n/a	3.2	n/a	6.0	n/a
Specialty Fashion Group Limited	Australia	30/06/2017	77	56	0.1	n/a	2.9	n/a	nmf	n/a
Premier Investments Limited	Australia	29/07/2017	2,526	2,487	2.2	2.0	13.1	12.9	15.3	15.9
GUD Holdings Limited	Australia	30/06/2017	1,005	1,200	2.7	2.8	13.1	12.5	13.5	13.1
Adairs Limited	Australia	2/07/2017	310	327	1.1	1.0	7.2	6.1	8.3	7.1
Myer Holdings Limited	Australia	29/07/2017	312	332	0.1	0.1	2.4	2.2	4.4	5.7
Breville Group Limited	Australia	30/06/2017	1,427	1,427	2.2	2.0	16.0	13.4	16.8	15.3
Shriro Holdings Limited	Australia	31/12/2017	129	131	0.7	0.7	5.2	5.4	6.1	6.5
Average					1.2	1.2	8.1	8.1	10.1	9.8
Median					1.1	1.1	7.6	7.4	9.5	8.8
Adjusted Average (at 80% confidence level)					1.0	1.2	7.5	7.7	10.1	8.7
Adjusted Median (at 80% confidence level)					0.7	1.1	7.4	7.2	9.5	8.3

Source: Capital IQ and BDO analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash.
2. Adjusted average and median are calculated excluding the data highlighted in grey, as they are outside the 80% confidence interval.
3. Control premium of 0% has been applied to market capitalisation to calculate the multiples above.

APPENDIX 5: COMPARABLE COMPANY GROWTH AND MARGINS

Outlined below are key performance indicators of comparable companies.

Table 26: Margin and growth indicators for comparable companies

Company Name	EBITDA Margin AVG -5Y	EBITDA Margin LTM	EBITDA Margin NTM	EBIT Margin AVG -5Y	EBIT Margin LTM	EBIT Margin NTM	Revenue Growth CAGR -4Y	Revenue Growth CAGR +3Y	EBITDA Growth CAGR -4Y	EBITDA Growth CAGR +3Y
Godfreys Group Limited	5.7%	-5.1%	8.4%	3.6%	-7.1%	5.6%	3.4%	-1.9%	n/a	4.5%
JB Hi-Fi Limited	6.6%	6.3%	6.2%	5.6%	5.4%	5.2%	14.2%	9.5%	14.6%	7.0%
Harvey Norman Holdings Limited	27.0%	29.7%	20.6%	22.7%	26.3%	17.5%	8.5%	0.7%	15.3%	-0.2%
Beacon Lighting Group Limited	13.7%	13.7%	14.3%	12.2%	12.2%	12.8%	11.6%	9.4%	12.7%	12.5%
Shaver Shop Group Limited	12.9%	10.2%	8.6%	11.8%	9.1%	7.4%	44.4%	12.6%	30.0%	4.5%
Nick Scali Limited	17.8%	24.8%	24.2%	16.5%	23.5%	23.1%	16.3%	8.4%	31.6%	9.5%
The Reject Shop Limited	5.8%	4.8%	5.6%	3.4%	2.3%	3.1%	6.5%	3.8%	-1.5%	9.9%
Reece Limited	13.7%	14.6%	14.5%	11.5%	12.6%	12.5%	12.2%	n/a	16.3%	n/a
Accent Group Limited	19.0%	12.2%	12.6%	16.7%	8.8%	9.2%	84.0%	8.5%	47.3%	8.0%
Super Retail Group Limited	9.5%	9.7%	11.4%	7.5%	7.7%	8.5%	5.1%	4.3%	3.9%	6.2%
The PAS Group Limited	10.1%	6.3%	n/a	7.7%	3.4%	n/a	3.0%	n/a	-10.4%	n/a
Specialty Fashion Group Limited	3.5%	2.5%	n/a	0.4%	-0.9%	n/a	9.2%	n/a	-9.6%	n/a
Premier Investments Limited	17.9%	16.6%	15.5%	15.7%	14.3%	12.7%	2.0%	8.2%	-10.2%	11.4%
GUD Holdings Limited	14.9%	20.7%	22.7%	13.7%	20.0%	21.6%	-8.1%	-7.7%	8.0%	5.4%
Adairs Limited	15.1%	15.6%	16.6%	12.6%	13.7%	14.3%	6.4%	11.6%	13.7%	18.2%
Myer Holdings Limited	7.7%	5.3%	4.9%	5.3%	2.9%	1.9%	-1.0%	-2.4%	-11.5%	-9.8%
Breville Group Limited	13.9%	13.7%	15.2%	13.4%	13.0%	13.3%	5.6%	10.7%	2.2%	12.0%
Shriro Holdings Limited	12.4%	13.4%	12.5%	10.5%	11.4%	10.5%	4.7%	n/a	7.6%	n/a
Average	12.6%	11.9%	13.4%	10.6%	9.9%	11.2%	12.7%	5.4%	9.4%	7.1%
Median	13.3%	12.8%	13.4%	11.7%	10.3%	11.5%	6.4%	8.3%	8.0%	7.5%
Adjusted Average (at 80% confidence level)	12.3%	11.0%	13.0%	10.5%	9.8%	10.8%	6.2%	6.4%	5.4%	7.6%
Adjusted Median (at 80% confidence level)	13.3%	12.2%	13.4%	11.7%	10.3%	11.5%	6.0%	8.4%	7.6%	7.5%

Source: Capital IQ and BDO analysis

Notes:

1. Adjusted average and median are calculated excluding data outside the 80% confidence interval.

APPENDIX 6: COMPARABLE COMPANY DESCRIPTIONS

Table 27: Comparable company descriptions

Company Name	Business Description
JB Hi-Fi Limited	JB Hi-Fi Limited retails home consumer products. The company operates through three segments: JB Hi-Fi Australia, JB Hi-Fi New Zealand, and The Good Guys. It offers consumer electronics, such as televisions, audio equipment, computers, and cameras; software products, including CDs, DVDs, Blu-ray discs, and games; whitegoods, cooking products, heating and cooling products, small appliances, and kitchen accessories; telecommunications products and services; and musical instruments. The company also provides information technology and consulting services. As of June 30, 2017, the company sold its products through branded retail store network comprising 185 JB Hi-Fi/JB Hi-Fi Home stores in Australia; 16 JB Hi-Fi/JB Hi-Fi Home stores in New Zealand; and 102 The Good Guys stores in Australia, as well as through online. JB Hi-Fi Limited was founded in 1974 and is based in Chadstone, Australia.
Harvey Norman Holdings Limited	Harvey Norman Holdings Limited grants franchises to independent business proprietors. Its franchisees sell products in various categories, including electrical goods, furniture, computers and communications, bedding and manchester, kitchen appliances, small appliances, bathroom and tiles, and carpets and flooring. The company has 194 franchised complexes under the Harvey Norman, Domayne, and Joyce Mayne brands in Australia; and 87 company-operated stores under the Harvey Norman brand in New Zealand, Ireland, Northern Ireland, Singapore, Malaysia, Slovenia, and Croatia. It is also involved in the property investment and media placement activities, as well as provides consumer finance and other commercial loans and advances. The company was founded in 1982 and is based in Homebush West, Australia.
Beacon Lighting Group Limited	Beacon Lighting Group Limited operates as a specialist retailer of lighting products in Australia. It designs, develops, sources, imports, distributes, merchandises, promotes, and sells light fittings and light globes. The company's products include pendants, table lamps, floor lamps, ceiling fans, chandeliers, exteriors, globes, down lights, wall lights, spotlights, bathroom lighting products, batten fixes, flush mounts, accessories, and solar panels. It serves middle to upper residential lighting market. The company operates a network of 100 company operated stores and 6 franchised stores, as well as 4 commercial sales offices. It also offers its products online. Beacon Lighting Group Limited was founded in 1967 and is based in Mulgrave, Australia.
Shaver Shop Group Limited	Shaver Shop Group Limited operates as a retailer of specialist personal grooming products for men and women in Australia and New Zealand. It offers electric shavers, beard trimmers, hair clippers, body groomers, and manual shavers, as well as oral care, massage, hair removal, hair styling, and beauty products. As of June 30, 2017, the company operated 95 corporate-owned and 13 franchised outlets. It also offers products through online. The company was formerly known as Lavomer Riah Holdings Pty Ltd and changed its name to Shaver Shop Group Limited in May 2016. Shaver Shop Group Limited was founded in 1986 and is headquartered in Chadstone, Australia.
Nick Scali Limited	Nick Scali Limited, together with its subsidiaries, engages in sourcing and retailing household furniture and related accessories in Australia. It offers lounges; occasional chairs, such as armchairs and bar stools; dining tables and chairs; buffets/cabinets; TV units; coffee tables; rugs; and mirrors. The company operates 46 Nick Scali stores and 5 Sofas2Go stores. It also offers its products online. Nick Scali Limited is headquartered in North Ryde, Australia.
The Reject Shop Limited	The Reject Shop Limited operates in the discount variety retail sector in Australia. The company retails various general consumer merchandise, including toiletries, cosmetics, homewares, personal care products, hardware, basic furniture, household cleaning products, kitchenware, confectionery, and snack foods; and lifestyle and seasonal merchandise, such as seasonal gifts, cards and wrappings, toys, leisure items, and home decorations. It operates approximately 345 stores. The Reject Shop Limited was founded in 1981 and is headquartered in Kensington, Australia.
Reece Limited	Reece Limited engages in importing, wholesaling, distribution, marketing, and retailing plumbing, bathroom, heating, ventilation, air-conditioning, and refrigeration products in Australia and New Zealand. The company offers bathroom products, including accessories and homewares, basins, baths and spas, exhaust fans, heated towel rails, showers, tapwares, toilets and bidets, underfloor heating, vanity units/bathroom furniture, and wastes; laundry tapwares and troughs; sink tapwares, sinks, sink accessories, and kitchen appliances; and commercial products. It also provides hot water systems, pipes and fittings, tools, hardware and building construction products, heating and cooling products, water filtration products, water tanks, pumps, valves, fire products, and roofing products. In addition, the company offers irrigation products, such as sprinklers, solenoid valves and boxes, and irrigation control products; civil products comprising pits and shafts and test plugs; onsite products; and HVAC-R products, including refrigeration and heating and cooling products. It serves customers in the trade, retail, professional, and commercial markets through its approximately 450 stores. The company was formerly known as Reece Australia Limited and changed its name to Reece Limited in November 2015. Reece Limited was founded in 1919 and is based in Burwood, Australia.

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Company Name	Business Description
Accent Group Limited	Accent Group Limited, an investment holding company, owns and operates various footwear and apparel stores in Australia and New Zealand. The company's The Athlete's Foot segment franchises and retails general sports footwear. Its RCG Brands segment engages in the wholesale and retail of the Merrell, Caterpillar, Sperry, Saucony, and Instride branded footwear/apparel; and operation of the Merrell retail and Podium Sports stores. The company's Accent Group segment operates as a wholesaler and retailer of the Skechers, Vans, Dr. Martens, Timberland, Palladium, and Stance branded footwear/apparel and accessories; and operates the Skechers, Vans, Timberland, Platypus, and HYPE retail stores. As of July 2, 2017, it operated 430 stores. The company was formerly known as RCG Corporation Limited and changed its name to Accent Group Limited in November 2017. Accent Group Limited was founded in 1981 and is based in Waterloo, Australia.
Super Retail Group Limited	Super Retail Group Limited operates as a retailer of auto, leisure, and sports products in Australia, New Zealand, and China. The company offers automotive parts and accessories, handyman items, and tools and equipment to marine and motorbike products, including batteries, car care products, exterior and interior accessories, hand and power tools, in-car navigation systems and stereo equipment, lighting and electrical products, outdoor equipment and accessories, seat covers, spare parts, paints and panels, and performance products, as well as oils, filters, and additives. It also provides footwear, apparel, games and leisure products, gym equipment, and fan merchandise; and boating, camping, and fishing products, such as lures, various rods and reels, tackle boxes, fishing nets, tents, ropes, pegs, cooking equipment, and clothing and hiking gears, as well as boating accessories. In addition, the company offers cycling bikes and accessories; outdoor entertainment and camping leisure products comprising camping gears, tents, outdoor furniture, BBQs, kayaks, and footwear and work wear; and sports equipment and associated accessories. Further, it provides fitness equipment consisting of treadmills, home gyms, exercise bikes, fitness accessories, elliptical cross trainers, free weights, boxing equipment, nutritional supplements, and rowers, as well as home fitness studios for use in home, corporate, and commercial markets. The company sells its products under the Amart Sports, Avanti Fitness, Rebel Sport, BCF, Goldcross Cycles, Ray's Outdoors, Supercheap Auto, and Workout World brands. It operates 632 stores. The company was formerly known as Super Cheap Auto Group Limited and changed its name to Super Retail Group Limited in 2010. Super Retail Group Limited was founded in 1972 and is based in Lawnton, Australia.
The PAS Group Limited	The PAS Group Limited operates as a wholesaler and retailer of apparel, accessories, and sports equipment for women, men, and children. It operates through two segments, Retail and Wholesale. The company offers swimwear and activewear under the JETS brand; lifestyle leisurewear for men and women under the Black Pepper, Breakaway, Yvonne Black, and Equus brands; bridal party, mother of the bride, and formal dresses under the White Runway brand; casualwear for women under the Yarra Trail brand; knitwear for women aged over 40+ under the Marco Polo brand; and bags, accessories, and sunglasses under the Fiorelli brand. The PAS Group Limited sells its products through retail stores; department and discount department stores; and specialty and independent retailers, as well as through online. As of June 30, 2017, it operated 258 retail sites in Australia and New Zealand. The PAS Group Limited was founded in 2004 and is based in Mount Waverley, Australia.
Specialty Fashion Group Limited	Specialty Fashion Group Limited operates as a specialty retailer of women's fashion products in Australia, New Zealand, South Africa, and the United States. As of June 30, 2017, its total physical store portfolio comprised 1,043 sites, including 14 concession locations in Myer. The company also sells its products through 7 online stores. It offers its women's fashion products under the Millers, Crossroads, Katies, Autograph, and City Chic brand names; and men's, women's, and children's clothing and footwear under the Rivers brand name. The company was formerly known as Miller's Retail Ltd and changed its name to Specialty Fashion Group Limited in December 2006. Specialty Fashion Group Limited was founded in 1993 and is based in Alexandria, Australia.
Premier Investments Limited	Premier Investments Limited operates various specialty retail fashion chains in Australia, New Zealand, Singapore, the United Kingdom, Ireland, Malaysia, and Hong Kong. The company offers casual wear, women's wear, and non-apparel products. It has a portfolio of retail brands consisting of Just Jeans, Jay Jays, Jacqui E, Portmans, Dotti, Peter Alexander, and Smiggle. The company provides its products through approximately 1,100 stores, as well as through online. In addition, it invests in listed securities and money market deposits. The company is based in Melbourne, Australia.

Company Name	Business Description
GUD Holdings Limited	GUD Holdings Limited, through its subsidiaries, engages in the manufacture and importation, distribution, and sale of consumer and industrial products in Australia, New Zealand, France, Spain, China, Malaysia, and Hong Kong. It operates through Oates, Automotive, and Davey segments. The company imports and distributes cleaning products comprising brush ware, mops, buckets, sponges, wipes, and scourers to retail and commercial customers. It also offers automotive and heavy duty filters for cars, trucks, and agricultural and mining equipment; fuel pumps and associated products for the automotive after-market; and oil, engine air, and cabin air products. In addition, it offers pumping, water conservation, and water treatment products for urban, rural, irrigation, and commercial applications; domestic and commercial swimming pool products, including salt water chlorinators, pumps, filters, heaters, and pool accessories; and spa bath and spa pool pumps, controllers, heaters, filters, and water treatment products. Further, the company offers warehouse racking, industrial storage, and office storage products. It serves department stores, mass merchants, hardware outlets, specialist electrical retailers, automotive aftermarket wholesalers and resellers, water systems dealers, swimming pool builders, retail pool shops, lock smiths, original equipment manufacturers, and commercial and industrial corporates. GUD Holdings Limited is based in Altona North, Australia.
Adairs Limited	Adairs Limited operates as a specialty retailer of homewares and home furnishings in Australia and New Zealand. The company's product range includes categories, such as bedlinen, bedding, towels, homewares, soft furnishings, and children's furnishings, as well as occasional and bedroom furniture. It has approximately 130 stores across Australia in 5 physical store formats comprising Adairs, Adairs Homemaker, Adairs Kids, UHR, and Adairs Outlets; and 4 stores in New Zealand, as well as an online store. The company was formerly known as Home & Decor Holdings Pty Ltd and changed its name to Adairs Limited in May 2015. Adairs Limited was founded in 1918 and is based in Scoresby, Australia.
Myer Holdings Limited	Myer Holdings Limited, together with its subsidiaries, operates department stores in Australia. The company offers products in various categories that include women's wear; men's wear; youth wear; children's wear; intimate apparel; beauty, fragrance, and cosmetics; homewares; electrical goods; toys; footwear, handbags, and accessories; and general merchandise. It also provides customer loyalty programs. The company operates approximately 60 stores under the Myer brand name. Myer Holdings Limited was founded in 1900 and is based in Docklands, Australia.
Breville Group Limited	Breville Group Limited engages in the designs, develops, markets, and distributes small electrical kitchen appliances in Australia, New Zealand, North America, and internationally. It offers kitchen appliances, such as slow cookers, kettles, and fry pans; living room, laundry, and bedroom products, including irons, vacuums, heaters, electric blankets, and fans; and juicers, sandwich makers, rice cookers, and food preparation products. Breville Group Limited markets and sells its products under the Breville, Kambrook, Ronson, and Sage brand names. The company was formerly known as Housewares International Limited and changed its name to Breville Group Limited in November 2008. Breville Group Limited was founded in 1957 and is headquartered in Alexandria, Australia.
Shriro Holdings Limited	Shriro Holdings Limited manufactures and distributes kitchen appliances and consumer products in Australia and New Zealand. It operates through Kitchen Appliances and Consumer Products segments. The Kitchen Appliances segment offers ovens, cooktops, rangehoods, dishwashers, sinks, taps, ironing systems, and laundry tubs, as well as waste disposal and ducting solutions. The Consumer Products segment provides watches, calculators, electronic musical instruments, projectors, point of sale terminals, cameras, barbeques, heaters, fans, air purifiers/dehumidifiers, and speakers, as well as fashion, car audio, professional DJ, amplifier, and Hi Fi products. The company offers its products under its own brands, including Omega, Robinhood, Everdure, and Omega Altise; and third party owned brands, such as Casio, Blanco, and Pioneer. Shriro Holdings Limited was incorporated in 2015 and is headquartered in Kingsgrove, Australia.

Source: Capital IQ

APPENDIX 7: TRANSACTION MULTIPLES

Outlined below are transaction multiples of comparable companies which we have considered in arriving at a suitable capitalisation multiple for Godfreys:

Table 28: Comparable transaction multiples

Acquirer	Target	Target Country	Date Announced	Date Closed	% Sought	Transaction Value (m)	Implied Enterprise Value (m)	Implied Equity Value (m)	Revenue Multiple	EBITDA Multiple	EBIT Multiple	PE Multiple	EBITDA Margin	EBIT Margin	NPAT Margin
Coliseum Capital Management, LLC; Brightleaf Capital; Blackwell Partners LLC - Series A; Coliseum...	The PAS Group Limited	Australia	22-Sep-15	09-Nov-15	26%	22.3	80.2	86.1	0.3	4.0	5.5	NM	7.4%	5.4%	NA
Hanesbrands Inc.	Pacific Brands Limited	Australia	27-Apr-16	14-Jul-16	100%	1,041.5	954.2	987.2	1.2	11.7	13.8	26.6	9.9%	8.4%	4.5%
RCG Corporation Limited (nka:Accent Group Limited)	Hype DC Pty Limited	Australia	04-Jul-16	04-Aug-16	100%	114.6	104.6	42.0	0.9	8.4	10.8	6.1	11.0%	8.5%	6.1%
JB Hi-Fi Limited	The Good Guys Gazal Corporation Limited	Australia	13-Sep-16	28-Nov-16	100%	870.0	870.0	870.0	0.4	9.2	11.7	NA	4.5%	3.6%	NA
Yoogalu Pty Ltd.; PVH Services (UK) Limited	Fantastic Holdings Limited	Australia	23-Sep-16	06-Oct-16	34%	40.2	108.5	120.1	2.5	11.3	12.9	12.7	22.2%	19.4%	21.8%
Steinhoff Asia Pacific Holdings Pty Limited	Myer Holdings Limited	Australia	14-Oct-16	12-Dec-16	100%	361.4	329.5	361.4	0.6	14.8	19.8	31.6	4.1%	3.1%	2.1%
Metalgrove Pty Ltd	Accent Group Limited	Australia	29-Mar-17	27-Mar-17	11%	101.3	932.9	940.9	0.3	5.1	7.9	14.8	6.7%	4.3%	2.3%
BBRC International Pte Ltd	Billabong International Limited	Australia	27-Nov-17	27-Nov-17	12%	60.8	566.8	514.4	0.9	7.0	9.7	16.5	12.1%	8.7%	4.7%
Boardriders, Inc.		Australia	01-Dec-17	09-Apr-18	81%	390.7	346.5	207.6	0.4	7.1	13.5	NM	5.1%	2.7%	NA
Average									0.9	8.8	11.6	15.5	10.8%	8.7%	13.1%
Median									0.7	8.8	11.3	14.4	8.7%	6.9%	5.4%
Average Excl. Outliers									0.8	8.7	11.7	18.0	9.2%	7.1%	6.9%
Median Excl. Outliers									0.6	8.4	11.7	15.6	7.4%	5.4%	4.6%

Source: Capital IQ and BDOCF analysis

Notes: n/a - not available

APPENDIX 8: TRANSACTION TARGET COMPANY DESCRIPTIONS

Outlined below are transaction multiples of comparable companies which we have considered in arriving at a suitable capitalisation multiple for Godfreys:

Table 29: Transaction target company descriptions

Target Company	Transaction Description
The PAS Group Limited	The PAS Group Limited operates as a wholesaler and retailer of apparel, accessories, and sports equipment for women, men, and children. It operates through two segments, Retail and Wholesale. The company offers swimwear and activewear under the JETS brand; lifestyle leisurewear for men and women under the Black Pepper, Breakaway, Yvonne Black, and Equus brands; bridal party, mother of the bride, and formal dresses under the White Runway brand; casualwear for women under the Yarra Trail brand; knitwear for women aged over 40+ under the Marco Polo brand; and bags, accessories, and sunglasses under the Fiorelli brand. The PAS Group Limited sells its products through retail stores; department and discount department stores; and specialty and independent retailers, as well as through online. As of June 30, 2017, it operated 258 retail sites in Australia and New Zealand. The PAS Group Limited was founded in 2004 and is based in Mount Waverley, Australia.
Pacific Brands Limited	Pacific Brands Limited imports, manufactures, markets, distributes, wholesales, and retails consumer products in Australia and internationally. The company operates through four segments: Underwear; Sheridan; and Tontine and Dunlop Flooring. It offers underwear, intimate apparels, socks, hosiery, outerwear, babywear, bras, active wear, bed linen, pillows, quilts, carpet underlays, hard flooring towels, loungewear, and bed accessories. The company provides its products under the Bonds, Berlei, Jockey, Explorer, Razzamatazz, Voodoo, Rio, Holeproof, Red Robin, Sheridan, Actil, Tontine, Dunlop Flooring, Dunlopillo, Fairydown, Heartridge, Crestell, Sheer Relief, and Hestia brand names. Pacific Brands Limited sells its products through a network of wholesale channels and retail stores, as well as online. The company is based in Camberwell, Australia. As of July 15, 2016, Pacific Brands Limited operates as a subsidiary of Hanesbrands Inc.
Hype DC Pty Limited	Hype DC Pty Limited retails footwear and other merchandize in Australia. It operates retail stores that offer footwear for men, women, and kids, as well as apparel and accessories for men and women. The company also sells products online. The company was founded in 1998 and is based in Sydney, Australia. Hype DC Pty Limited operates as a subsidiary of RCG Corporation Limited.
The Muir Electrical Company Proprietary Limited (The Good Guys)	The Muir Electrical Company Proprietary Limited owns and operates retail outlets that markets electrical appliances. Its products include fridges and freezers, heating and cooling appliances, kitchen and cooking appliances, and laundry and personal care equipment. The company also offers entertainment products such as audio, cameras and camcorders, computers and laptops, DVDs and set top boxes, gaming, and LCD and plasma televisions. In addition, it sells office appliances, telephones, and navigation equipment. The Muir Electrical Company Proprietary Limited was founded in 1952 and is based in Airport West, Australia. As of November 28, 2016, The Muir Electrical Company Proprietary Limited operates as a subsidiary of JB Hi-Fi Limited.
Gazal Corporation Limited	Gazal Corporation Limited, together with its subsidiaries, engages in the design, manufacture, import, wholesale, and retail of branded apparel and fashion accessories for men and women in Australia. It also provides work-wear and corporate uniforms. The company sells its apparel under the Calvin Klein, Tommy Hilfiger, Van Heusen, and Nancy Ganz brands through a joint venture partnership with PVH Corp.; and Pierre Cardin, Bracks, Paramount, Fred Bracks, Nancy Ganz, HoldmeTight, Spanx, and Bisley Workwear brands. Gazal Corporation Limited was founded in 1958 and is based in Banksmeadow, Australia.
Fantastic Holdings Limited	Fantastic Holdings Limited manufactures, retails, and imports household furniture primarily in Australia. It operates through Retail and Manufacturing segments. The Retail segment engages in the retail of household furniture under the Fantastic Furniture, Plush, Original Mattress Factory, Le Cornu, and Ashley Furniture HomeStore brand names. This segment operates stores that offer sofas, dining, entertainment, bedroom, occasional, storage, and home office furniture; spring, latex, and visco mattresses; and lounge, dining, bedroom and bedding, office, storage, outdoor, and soft furnishings, as well as floor coverings, plasma/LCD televisions, and home theatre systems. As of June 30, 2016, it operated 127 company owned stores and 2 franchise stores comprising 71 Fantastic Furniture stores and 2 franchise stores; 35 Plush stores; 18 Original Mattress Factory stores; 2 Le Cornu stores; and 1 Ashley Furniture HomeStore. The Manufacturing segment manufactures sofas, mattresses, and other household furniture. The company also leases sites to external tenants. Fantastic Holdings Limited was founded in 1989 and is based in Chullora, Australia. Fantastic Holdings Limited is a subsidiary of Steinhoff Asia Pacific Holdings Pty Limited.
Myer Holdings Limited	Myer Holdings Limited, together with its subsidiaries, operates department stores in Australia. The company offers products in various categories that include women's wear; men's wear; youth wear; children's wear; intimate apparel; beauty, fragrance, and cosmetics; homewares; electrical goods; toys; footwear, handbags, and accessories; and general merchandise. It also provides customer loyalty programs. The company operates approximately 60 stores under the Myer brand name. Myer Holdings Limited was founded in 1900 and is based in Docklands, Australia.

Target Company	Transaction Description
Accent Group Limited	Accent Group Limited, an investment holding company, owns and operates various footwear and apparel stores in Australia and New Zealand. The company's The Athlete's Foot segment franchises and retails general sports footwear. Its RCG Brands segment engages in the wholesale and retail of the Merrell, Caterpillar, Sperry, Saucony, and Instride branded footwear/apparel; and operation of the Merrell retail and Podium Sports stores. The company's Accent Group segment operates as a wholesaler and retailer of the Skechers, Vans, Dr. Martens, Timberland, Palladium, and Stance branded footwear/apparel and accessories; and operates the Skechers, Vans, Timberland, Platypus, and HYPE retail stores. As of July 2, 2017, it operated 430 stores. The company was formerly known as RCG Corporation Limited and changed its name to Accent Group Limited in November 2017. Accent Group Limited was founded in 1981 and is based in Waterloo, Australia.
Billabong International Limited	Billabong International Limited engages in the marketing, distribution, wholesale, and retail of apparel, accessories, eyewear, wetsuits, and hard goods in the board sports sector in the Asia Pacific, the Americas, Europe, and internationally. The company provides surf, skate, snow, and sports apparel, accessories, and hardware products under the Billabong, Element, RVCA, Kustom, Palmers, Honolua, Xcel, and Von Zipper brand names. It also licenses trademarks; and operates online retail e-commerce. The company distributes its products through specialized board sports retailers and its own branded retail outlets. As of June 30, 2017, it operated 372 retail stores under various banners, including Billabong, Element, RVCA, Surf Dive'n' Ski, Amazon, Honolua, Two Seasons, and Quiet Flight. Billabong International Limited was founded in 1973 and is based in Burleigh Heads, Australia. As of April 9, 2018, Billabong International Limited operates as a subsidiary of Boardriders, Inc.

Source: Capital IQ

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Attachment 2: Defeating Conditions of the Arcade Offer

The Arcade Offer and any contracts resulting from acceptance of the Arcade Offer are subject to fulfilment of the following conditions (**Defeating Conditions**):

1. **(Minimum acceptance)** Before the end of the Offer Period, Arcade has a Relevant Interest in at least 90 per cent (by number) of the Godfreys Shares.
2. **(all Regulatory Approvals and no regulatory action)** Before the end of the Offer Period:
 - 2.1 the Regulatory Approvals are:
 - 2.1.1 granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent;
 - 2.1.2 remain in full force and effect; and
 - 2.1.3 do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them; and
 - 2.1.4 no preliminary or final decision, order or direction is made or issued by any Regulatory Authority;
 - 2.1.5 no action, proceeding or investigation is announced, commenced or threatened by any Regulatory Authority; and
 - 2.1.6 no application is made to any Regulatory Authority (other than by Arcade or any associate of Arcade),

which is likely to or purports or threatens to restrain, prohibit, impede or otherwise adversely affect the making of the Arcade Offer, the acquisition of the Godfreys Shares by Arcade, the rights of Arcade in respect of Godfreys and the Godfreys Shares or the continued operation of the businesses of Godfreys or its Subsidiaries (other than any action or decision by or application to ASIC or the Takeovers Panel in exercise of the powers or discretions conferred by the Corporations Act).¹
3. **(No Prescribed Occurrences)** Between the Announcement Date and the end of the Offer Period, no Prescribed Occurrence occurs.
4. **(No Material Adverse Change)** Between the Announcement Date and the end of the Offer Period, there has not occurred, been announced, or become known to Godfreys, any Material Adverse Change.
5. **(General market fall)** The S&P/ASX All Ordinaries Index is, for a period of three consecutive trading days on ASX between the Announcement Date and the end of the Offer Period, not lower than 85 per cent of the level of that index as at the close of normal trading on ASX on the Announcement Date.
6. **(Third party consents)** If a member of the Godfreys Group is a party to, is bound by, or is subject to, an agreement, arrangement or understanding pertaining to the occupancy of premises by a member of the Godfreys Group or to the supply by a third party of products or services to a member of the Godfreys Group which as a result of the acquisition of the

¹ As announced on 1 May 2018, Arcade has waived the Regulatory Approval condition

Godfreys Shares by Arcade under the Offer, or a change of control of Godfreys as a result of the Offer, entitled another person (**Third Party**) to exercise any rights (including termination rights or pre-emptive rights), and the exercise of those rights would have a material adverse effect on the assets, liabilities, financial position or performance or the prospects of the Godfreys Group (taken as a whole), then before the end of the Offer Period, the Third Party:

- 6.1 does not exercise, propose to exercise, or state an intention or claim a right to exercise, those rights; and
- 6.2 gives its consent or waiver to the relevant event.

Corporate Directory

Directors

Mr. B. Fleiter
Ms. S. Morphet
Ms. K. Gramp
Ms. P. Burke
Mr. J. Hardy
Mr J. Gowie

Company Secretary

Ms. S. Karzis

Chief Executive Officer

Mr. J. Gowie

Chief Financial Officer

Mr. A. Ford

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