



TOY to Acquire RIOT Art & Craft and Secures up to \$5.1M Funding

- **TOY to acquire 50-Year-old Brand RIOT to add to its House of Brands**
- **RIOT's High-Net-Worth Vendors to become TOY Shareholders**
- **US Fund to Provide an Initial \$800K and up to a further \$4.2 million in Funding Following Initial \$250K Invested in February 2024**
- **TOY CEO Penny Cox Invests \$100,000 via Convertible Loan**

20 March 2024: Toys“R”Us ANZ Limited (ASX:TOY) (Company or TOY) is pleased to announce it has executed agreements for the strategic acquisition of the key assets of 50-year-old Arts and Crafts Retail brand RIOT, and to secure up to \$5 million in funding from a US-based investment fund managed by C/M Capital Partners, LP.

ACQUISITION OF RIOT ASSETS

TOY's acquisition of RIOT assets strengthens TOY's position in the growing e-commerce market and expands its House-of-Brands offering by adding additional, complementary products across a number of highly profitable categories.

The RIOT vendors include several high-net-worth investors. The consideration for the acquisition includes a mix of cash and TOY scrip which will see the existing RIOT shareholders becoming shareholders in TOY, subject to shareholder approval.

Further information regarding this transaction is available in Appendix 1.

Speaking about the acquisition, **TOY CEO Penny Cox** said;

"I am delighted to share the news of TOY's acquisition of RIOT with our shareholders. The acquisition of the key assets of RIOT represents an important strategic step in our ongoing transformation to be a diversified House of Brands. RIOT's strong brand recognition, loyal customer base, and high-margin product lines align perfectly with TOY's growth objectives.

We're merging RIOT's product range and passionate customer base with our cutting-edge e-commerce platform, creating a powerhouse for innovation, creativity and inspiration. This acquisition expands our product portfolio and strengthens our competitive position within the online retail sector.

We're also thrilled to welcome the talented RIOT team members on board, injecting their expertise and passion into our growing team. This infusion of creative energy will fuel innovation across all

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our brands, propelling us to even greater heights. We are confident that this acquisition will deliver long-term value for our shareholders and solidify our position as a leader in the ecommerce space.”

Strategic Rationale

This acquisition presents exciting opportunities for the TOY business:

- **Brand Synergy:**

RIOT has an extremely strong brand reputation and loyal customer base from its last 50-years of operation. Combining RIOT's brand with TOY's brands creates a powerful force in the online sector.

- **Profitable Product Categories:**

RIOT is known for its high-quality arts and crafts products with impressive product margins. This aligns with TOY's strategy of acquiring strong brands which are profitable and complementary.

- **Customer & Wholesale Expansion:**

RIOT's extensive customer base is of a similar customer demographic to TOY and comprises of approximately 540,000 retail and 2,400 wholesale customers which complements TOY's own growing customer network, enabling cross-marketing of products and services to a wider audience, with a view of driving significant sales growth across Arts, Toys and Baby products.

- **Operational Efficiencies:**

RIOT's operations can be easily migrated to TOY's existing infrastructure, resulting in economies of scale with regard to processes and costs resulting in overall improved group efficiencies.

TOY is acquiring select assets including stock, brands and other intellectual property. TOY intends to use the RIOT assets in combination with its existing operations to achieve efficiencies through economies of scale. Given this is not a 'whole of business acquisition', TOY is unable to measure the financial performance of those specific assets.

TOY SECURES UP TO \$5 MILLION IN FUNDING FROM US-BASED FUND

Initial Tranche of Investment

TOY has reached an agreement with Mercer Street Global Opportunity Fund II LP (**Mercer**), a US-based investment fund managed by C/M Capital Partners, LP for up to \$5 million of funding.

Following on from Mercer's affiliated fund injecting \$250,000 into the February 2024 Placement, Mercer will provide further funding to TOY.

Mercer will provide the following funding to TOY as part of a 3-part \$1.5 million funding structure:

- \$200,000 via a Private Placement at \$0.0094 per share;
- \$600,000 via an Unsecured Loan to TOY which will be repayable in 6 months; and
- \$700,000 via Convertible Securities which will be subject to shareholder approval.

1) Private Placement

Under the placement, Mercer will receive 21,276,596 fully paid ordinary shares (**New Shares**) in the Company at an offer price of \$0.0094 per New Share to raise \$200,000 before costs (**Placement**).

The issue price of \$0.0094 under the Placement is a 14.5% discount to the Company's 15-day VWAP on 19 March 2024 of \$0.011, being the last trading day prior to the issue of this announcement. This price represents a significant increase to the price at which shares were issued to investors in the February 2024 Placement.

Given the previous suspension of the Company's Shares in the preceding 12 months, a Prospectus has been prepared primarily for the purpose of the Corporations Act to remove any trading restrictions on the sale of New Shares issued under the Placement.

This Offer is only made to Mercer who is personally invited to participate.

2) Unsecured Loan

Mercer will also provide an amount of \$600,000 (**Mercer Loan**) with the loan principal plus an agreed interest amount of \$90,000 on the loan to be repaid in 6 months from the date of the Mercer Loan.

3) Convertible Securities

Mercer will provide \$700,000 of funding to TOY by way of convertible securities with a face value of \$793,000, subject to relevant approvals, including shareholder approval.

Subsequent Tranche of Investment

Under further tranches, Mercer will provide up to a further \$3.5 million in convertible securities subject to the mutual agreement of the parties and other relevant approvals including either shareholder approval for the issue of additional convertible securities, or TOY having sufficient placement capacity in accordance with the ASX Listing Rules.

Experienced US firm Viriathus Capital acted as agent for this funding transaction.

Toys"R"Us ANZ Limited **CEO Penny Cox** commented:

"Both TOY and Mercer see this new funding agreement as a genuine partnership. An affiliated fund of Mercer recently made a \$250,000 investment into TOY as part of our placement in early February 2024, and this new agreement with Mercer affirms their strong support of TOY.

Mercer have deep experience and knowledge in the e-commerce sector and are backing the new direction we're taking at TOY. The placement funds, the loan and initial funding under the convertible securities enables us to continue our transformation strategy. We hope to be able to make further exciting announcements regarding this implementation as next steps materialise.

As US holders now represent approx. 18.5% of our share register, with US-based Mercer coming onboard, it highlights the international strength of the Toys"R"Us brand. Following the successful resurgence of Toys"R"Us in the US, we're work tirelessly to replicate this in Australia."

Further information regarding these funding arrangements is available in Appendix 2 (with respect to the Mercer Loan), and Appendix 3 (with respect to the convertible securities arrangements), of this announcement.

TOY CEO PENNY COX BACKS NEW BUSINESS PLAN WITH A \$100,000 CONVERTIBLE LOAN

TOY CEO Penny Cox has signed an unsecured convertible loan agreement to provide \$100,000 of funding to TOY which, subject to shareholder approval and in accordance with the ASX Listing Rules, will convert into new shares in TOY at a conversion price of \$0.0094 per share being the same price under the Mercer Placement.

Toys"R"Us ANZ Limited **Non-Executive Chair Kelly Humphreys** commented:

"Penny has done an amazing job in driving and executing on our transformation strategy in the short time since she joined us in August 2023. She has been firmly committed to delivering on all elements of the strategic plan she outlined to Shareholders in November 2023.

This investment by Penny assists the Company to move forward and clearly demonstrates her commitment to TOY and her confidence in the team's ability to not only turn TOY into an e-commerce House-of-Brands success, but to also grow the Company well beyond where it is today."

Further information regarding this funding arrangement is available in Appendix 4 of this announcement.

This ASX release has been authorised by the Board of Directors.

For further information and to subscribe to Company updates please contact:

investor-relations@toysrus.com.au

About Toys“R”Us ANZ Limited:

Toys“R”Us ANZ Limited (ASX: TOY) is an Australian-based listed company with a vision to enrich the lives of people by encouraging exploration, creativity and living life more fully through the enjoyment of toys and hobbies. In addition to distributing leading products throughout Australia for key partners via its trading business Funtastic. The company acquired 100% of the Hobby Warehouse Group in November 2020, including Australian e-commerce websites Toys“R”Us, Babies“R”Us and Hobby Warehouse and the distribution business Mittoni Pty Ltd. The Company changed its name from Funtastic Limited to Toys“R”Us ANZ Limited on the 24 June 2021. Further information is available at corporate.toysrus.com.au

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Appendix 1

Acquisition of Riot Assets

Acquisition:

TOY has entered into an agreement to acquire intellectual property assets (including domain names, business names and trademarks) and stock on hand of Riot.

Consideration:

In consideration for the acquisition, TOY has agreed to:

- pay to the relevant sellers \$247,000 in cash;
- issue TOY shares to the relevant sellers (or nominee) to the value of \$350,000 at an agreed price of \$0.010 per share (subject to shareholder approval, (**Share Consideration**)). If the relevant shares are unable to be issued, the relevant consideration will need to be satisfied via a cash payment; and
- issue to the relevant sellers (or nominee) further shares or options in TOY (based on performance), to the maximum value of \$500,000 per year for two years (**Earn Out**).

Earn Out Calculation

The Earn Out will be based on the 'Contribution Margin' achieved in relation to the RIOT assets, and will be paid in respect of each period commencing 1 July and ending 30 June, beginning on 1 July 2024, for two years (each an **Earn Out Consideration Period**), and determined as follows:

- 90 days after the end of each Earn Out Consideration Period TOY must determine the 'Contribution Margin' for the relevant Earn Out Consideration Period, the 'Contribution Margin' being calculated as the revenue less costs and expenses (ie cost of goods, marketing and shipping costs), directly related to the operation of the RIOT assets acquired; and
- the quantum of the Earn Out will be 10% of the relevant Contribution Margin for the relevant Earn Out Consideration Period.

Payment of Earn Out

In relation to each Earn Out Consideration Period, the Sellers may elect to be issued with share in TOY, or options to acquire TOY shares. In the event that the sellers elect to be issued the Earn Out for a relevant period in the form of Shares, the number of shares to be issued will be determined by dividing the relevant Earn Out amount by the 15-day VWAP price of TOY shares as at the day prior to the proposed issue date.

In the event that the sellers elect to be issued the Earn Out for a relevant period in the form of options, the number of options will be determined as 1.5 times the number of shares which would have been issued if the sellers had elected to be issued with shares. The options will be issued for nil consideration and will have an exercise price equal to 150% of the 15-day VWAP of TOY shares as at the day prior to the date of issue of the option, and have an expiry date of 36 months from the date of issue.

The issue of shares or options under the Earn Out will be subject to shareholder approval, which must be obtained within 60 days of the end of each relevant Earn Out Consideration Period, and otherwise in compliance with the ASX Listing Rules.

Escrow

The Share Consideration will be subject to voluntary escrow for 6 months from the date of completion of the Riot Acquisition which is expected to occur soon. Any shares issued pursuant to the Earn Out (whether the sellers opt for shares to be issued, or options which are later exercised), will be subject to voluntary escrow for 6 months from, depending on the relevant Earn Out Consideration Period, 30 June 2025 and 30 June 2026 respectively, as applicable.

The agreement contains other standard provisions including with respect to warranty and restraint of trade.

APPENDIX 2

Mercer Loan

Key details:

The key terms of the Loan are as follows:

- Mercer will provide an unsecured loan to the Company in the amount of \$600,000.
- The loan principal and an agreed interest amount of \$90,000 is repayable in 6 months.
- The Company will also grant Mercer options for the acquisition of shares. The Company plans to seek shareholder approval to issue attaching options, which approval must be obtained by no later than 60 days from the execution of the Mercer Loan agreement. If the issue of attaching options is not approved by shareholders, an option fee of \$50,000 will be payable by the Company to Mercer by way of a cash payment.

Other key terms:

- No other interest is payable on the Mercer Loan.
- The repayment of the Mercer Loan will have priority payment in relation to any subsequent capital raise by TOY exceeding \$2.5 million.
- Mercer will receive a 50% option coverage to purchase new shares in the Company (calculated using the Mercer Loan amount divided by 120% of the 10 day VWAP per Company share immediately prior to the relevant loan date). The options will have an exercise price of an amount equal to 120% of the 10 day VWAP per share immediately prior to the loan date, and the options will have a 36 month term.
- In the event of a default by the Company, the Company must pay interest at a rate of 18% per annum on the amount outstanding. The relevant interest will accrue from the date of default, calculated daily and compounded monthly until the outstanding liability is satisfied.

Termination and repayment provisions:

Shareholders should also note that the Mercer Loan agreement is subject to a number of operating restrictions, and termination provisions which may require repayment of the Mercer Loan prior to the end of the loan term. This includes where:

- there is an event of default that is not remedied;
- there is a change of control of the Company under a takeover bid or scheme of arrangement; and/or
- there is an adverse change in law.

Use of funds:

The funding provided by Mercer will be used for general working capital expenses and for the acquisition of strategic assets and/or businesses.

APPENDIX 3

Mercer Convertible Securities

Key details:

The key terms are as follows:

- Subject to relevant approvals, \$700,000 will be paid to TOY as the first tranche of convertible securities with a face value of \$793,000. This entitles Mercer the right to convert these convertible securities into fully paid ordinary shares:
 - if the convertible securities are converted into equity within 2 month of the date of the agreement date, at a conversion price equal to 100% of the VWAP during the preceding 10-day average VWAP on which Company shares were traded on the ASX (**Conversion Price A**); or otherwise
 - the lesser of Conversion Price A and 90% of the lowest VWAP of the Company shares during the preceding fifteen (15) Trading Days on which Company shares traded on the ASX immediately prior to the relevant notice for conversion, subject to a floor price of \$0.005.
- The Company plans to seek shareholder approval to issue the convertible securities, and for associated attaching options and commencement shares at a general meeting, which approval must be obtained by no later than 60 days from the execution of the Agreement.
- The first tranche of convertible securities will have a term of 18 months from the date of issue, with any subsequent convertible securities having a term of 15 months from the date of issue.
- No interest is payable on the convertible securities or the undrawn funds.
- The Company has the right to repurchase any unconverted convertible securities, at any time during the term of each tranche, at 105% of the outstanding face value. If the repurchase is elected, Mercer will have the right to convert up to 30% of any outstanding face value prior to settlement.

Other key terms:

- It is intended that Mercer not own more than 9.99% of the shares in the Company at any point in time, and in any event their holding in the Company will not exceed 19.99%.
- Mercer will receive new shares (commencement shares) equal to \$199,500 divided by the 10-day average VWAP immediately prior to the completion of the issue of the initial convertible securities for nil cash consideration which will be issued on the same date as the initial convertible securities are issued.
- Additionally, for each tranche of convertible securities, Mercer will receive a 50% option coverage to purchase new shares in the Company (calculated using the relevant investment amount divided by 120% of the 10 day VWAP per Company share immediately prior to the relevant closing date). The options will have an exercise price of:
 - for the options relating to the initial tranche of convertible securities: an amount equal to 120% of the 10 day VWAP per share immediately prior to the first closing date; and
 - for any subsequent investment options: an amount equal to 120% of the 10 day VWAP per Share immediately prior to the date of issue of those options.
- The options will have a 36 month term.
- In the event of a default by the Company, the Company must pay interest at a rate of 18% per annum on the face value of all outstanding convertible securities. The relevant interest will accrue from the date of default, calculated daily and compounded monthly until the outstanding liability is satisfied.

Other conditions:

- The issue of securities under the Agreement is otherwise subject to a number of closing conditions, including:
 - the Company obtaining shareholder approval under the Listing Rules for the subsequent tranche of the convertible securities (and related options);
 - the Company otherwise being permitted to issue the securities under the Listing Rules;
 - the Company issuing a cleansing statement or prospectus for the securities (as applicable); and
 - customary conditions such as representations and warranties being true and correct; and
- Authorisations and consents being obtained, delivery of documents, and no default by the Company.

Termination and repayment provisions:

Shareholders should also note that the agreement is subject to a number of termination provisions which may prevent the Company drawing on the funding facility or require repayment of the convertible securities prior to their maturity. This includes where:

- there is an event of default that is not remedied;
- there is a change of control of the Company under a takeover bid or scheme of arrangement;
- The Company's shares are delisted from the ASX (subject to certain exceptions in respect of early repayment); or
- there is an adverse change in law.

Use of funds:

The funding provided by Mercer will be used for general working capital expenses.

APPENDIX 4

Penny Cox Unsecured Loan

Key details:

The key terms of the Loan are as follows:

- Penny Cox will provide a loan to the Company in the amount of \$100,000.
- The Company shall seek the approval of its shareholders for the purposes of ASX Listing Rule 10.11 and for all other purposes in order to repay the loan in full by issuing shares to Penny Cox, the number of which shall be equal to the loan amount divided by \$0.0094.
- The loan principal is repayable in 12 months unless converted earlier into equity.

Other key terms:

- No other interest is payable on the loan.

Termination and repayment provisions:

- Shareholders should also note that the loan agreement is subject to a number of operating restrictions, and termination provisions which may require repayment of the loan prior to the end of the loan term. This includes where:
 - there is an event of default that is not remedied; and/or
 - there is a change of control of the Company under a takeover bid or scheme of arrangement.

Use of funds:

The funding will be used for general working capital expenses.

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