

GA-COURTENAY SPECIAL SITUATIONS FUND

GA-Courtenay Special Situations Fund is managed within Green Ash Partners LLP
11 Albemarle Street, London, W1S 4HH, UK. Green Ash Partners is regulated by the FCA.



For the attention of

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December 31st, 2024

All,

I write to you as fund manager of the GA-Courtenay Special Situations Fund, managed within Green Ash Partners LLP. The fund holds 1,050,000 shares in Loungers Plc “Loungers”, or 1.01% of the shares outstanding¹.

Following the decision to recommend the acquisition by CF Exedra Bidco Limited “Bidco” (a newly formed company indirectly owned by funds and accounts managed or advised by affiliates of Fortress Investment Group, LLC), Loungers shareholders overseeing at least 19.6% of the company have publically objected to the terms of the offer². Their objection, to which this fund’s holding may be added, including by the release of this letter, is unlikely to be solely relating to the 310p *deal price*, but also to *deal structure*.

A number of aspects of the proposed acquisition of Loungers may be precipitating shareholder dissent. As this letter details, the proposed acquisition of Loungers may be in breach of multiple Takeover Code rule sets including concert party-linkage requirements, equal treatment of all shareholders and the requirement for competent independent advice to be provided to the board and publically disclosed. Whether the Takeover Panel in due course recognises these as breaches would be subject to further review and judgement by the Panel, albeit this is also a process where I am willing to engage with them directly including by the provision of this letter.

The takeover also appears to significantly undervalue Loungers based on management-endorsed transactions, management commentary, cashflow yield, and relative to a releverage alternative. The significance of these measures is in the context of the conflict of interest within the proposed takeover of Loungers. The Loungers Directors are recommending that independent shareholders sell into the Cash Offer, *at the same time as the Loungers Directors themselves are increasing their stake in Loungers by voting the majority of their shares in favour of the Alternative Offer* which rolls their equity into the post-acquisition entity, and therefore which benefits when other shareholders are recommended or forced to sell into the Cash Offer, proportional to its undervaluation.

If the pricing of the Cash Offer is not significantly increased to deliver fair and equal treatment of all shareholders, and as such more closely match those valuation levels detailed in this letter, I will consider multiple options in response, in line with my fiduciary duty, including but not limited to direct engagement with the Takeover Panel with regard to what appears to be breaches of the Takeover Code.

I will additionally consider public statements to other shareholders including the release of this letter outlining the validity of voting against the deal unless its pricing is raised.

Furthermore, I will also assess the co-ordinated leading of a group of Loungers shareholders to form a concert party calling for a special meeting of Loungers shareholders and to put forward a special resolution for the company to announce a tender offer for its equity at higher pricing than the Bidco proposed Cash Offer, backed by the same debt financing amount, and as such achieve for independent shareholders that elect to retain equity the same financial re-leverage that the Alternative Offer of the proposed acquisition targets yet without its illiquidity handicaps. This replacement transaction proposal would target Loungers remaining a public company.

Should these steps be taken, in my judgement and as detailed in this letter, the probability that the Bidco takeover proposal prevails would be significantly lowered. As this letter lays out, such an outcome may offer not only a superior scenario for independent shareholders but also the loss of the entirety of the Loungers project from the perspective of Fortress.

1. The proposed takeover of Loungers may be in breach of multiple Takeover Code requirements

1.1 By not classifying those management entities irrevocably committed to the Alternative Offer within the Bidco concert party, the takeover enfranchises votes subject to conflict of interest and may breach the Takeover Code

The proposed acquisition may be in breach of multiple provisions of the Takeover Code. The first relates to the inconsistency of concert party-linkage to those shareholders who have signed irrevocable commitments binding them, including through specific performance enforcement clauses³, to the Alternative Offer.

Specifically, the irrevocables signed by both the Loungers Directors and other Loungers senior management, which result in 12.3% of Loungers shares being irrevocably committed to the Alternative Offer⁴, have not resulted in these Loungers Directors and other Loungers senior management being included in the concert party with Bidco⁵. This is despite these irrevocables⁶ being in all relevant regards, in our analysis, identical in form to the irrevocable committing Lion Capital⁷, which owns 25.7% of Loungers shares outstanding⁸, to the Alternative Offer and which has resulted in Lion Capital entering a concert party with Bidco⁹.

Whilst the shareholding of Lion Capital is larger than that of the Loungers Directors and other Loungers senior management combined, the size of shareholding does not form the input criteria used by the Takeover Code to define when a concert party exists.

The Takeover Code instead defines a concert party as forming *when, as part of co-operation to obtain or consolidate control of a company, irrevocables are signed whose attributes extend beyond the duration of, or relate to matters beyond ensuring the success of, the takeover*¹⁰. In the case of Bidco and all of those management shareholders of Loungers who have signed irrevocable commitments binding them to the Alternative Offer, and therefore to participate in Bidco for five years beyond the period of the offer¹¹, these shareholder agreements are not “*limited to the duration of the offer*”, and by their non-transferable status combined with their enjoyment of Bidco’s post-acquisition economics are furthermore not “*limited to matters which relate to ensuring that the offer is successful*”, both of which are also Takeover Code requirements to avoid concert party classification¹².

Under the Takeover Code, an offeror and persons acting in concert with the offeror cannot vote at a shareholder meeting when implementing an offer via a scheme of arrangement without the consent of the Takeover Panel¹³. These rules are in place to address the inherent conflicts between offeror and independent shareholders that otherwise emerge in takeover situations: the offeror is incentivised to succeed with as low a takeover price as possible, and hence why the Takeover Code is designed to disallow offeror, and offeror concert parties, from voting on a takeover.

In the case of the proposed acquisition of Loungers, these management entities have irrevocably committed to receive the Alternative Offer, and in the case of the Loungers Directors this increases their percentage exposure to Loungers¹⁴ at higher financial leverage. In our assessment any Loungers management entity that has irrevocably committed to the Alternative Offer should not be permitted to vote at the scheme meeting relating to this acquisition any under-pricing of whose Cash Offer will benefit their Alternative Offer economics.

1.2 Those aspects of the proposed takeover which arrange favourable conditions with selected shareholders without extending those conditions to all shareholders may also be in breach of Takeover Code requirements

The proposed acquisition agreement risks being in additional breach of the Takeover Code by its inclusion of, within the terms of the Alternative Offer, favourable rights to large shareholders relating to board appointments and other voting rights which are not extended to those smaller shareholders accepting the same Alternative Offer.

Specifically, for those shareholders electing for the Alternative Offer, the takeover documentation reveals that only those shareholders who control at least 15% of the shares of the post-acquisition entity (for existing shareholders, therefore requiring a stake of at least 25% of Loungers to be elected in favour of the Alternative Offer), will possess board appointment rights¹⁵. The implied outcome is that board appointment rights will be exclusively held by Fortress and Lion Capital¹⁶, and as such not extend to any other Loungers independent shareholders who elect for the Alternative Offer.

A further instance of favourable rights being extended only to selected shareholders electing for the Alternative Offer is also present. In this case, it is an additional relative gain by large shareholders through the following disenfranchisement of small shareholders: the documentation reveals that those shareholders who end up with less than 1% of the shares in the post-acquisition entity must transfer their shares to a nominee account and may as a result lose legal title to their shares¹⁷.

These aspects of the proposed acquisition appear to, in our analysis, be in breach of the Takeover Code which states that an offeror *may not make any arrangements with shareholders.. if there are favourable conditions attached which are not being extended to all shareholders*¹⁸.

The proposed acquisition appears to be at odds with the Takeover Code in a further regard. Whilst the Alternative Offer is *technically available for all shareholders*, it is *practically feasible only for selected shareholders* (due to its five year duration and non-transferable status). As such, this form of deal structuring may also breach the Takeover Code requirement that when a subscription right is provided, it must be in the form of *an appropriate offer or proposal to those holders of subscription rights to ensure that their interests are safeguarded*¹⁹.

Total irrevocable commitments to the Alternative Offer, comprising commitments from Lion Capital, the Loungers Directors and other Loungers executives, sum to 35.9% of Loungers shares outstanding²⁰, and the maximum permitted subscription for the Alternative Offer is 37.1% of the Loungers shares outstanding²¹, after which subscriptions will be reduced pro-rata relative to total elections. As such, that *selected shareholders* have

already agreed to irrevocables committing them to the Alternative Offer at close to the maximum acceptance level from *all shareholders* also appears to make an implicit statement by the entities signing these irrevocables – Lion Capital, the Loungers Directors and other Loungers executives – that whilst *they* have been able to elect for the Alternative Offer, they have agreed to the deal structure on the assumption that almost *no other shareholders will do so*, and as such giving some further validation to concerns that the deal design subjects independent shareholders to disenfranchisement outcomes.

1.3 The proposed takeover also invites questions relating to whether the Takeover Code requirements of independence and competency of the financial advice provided to the Loungers Directors, have been met

The Takeover Code also requires that “*the board of the offeree company must obtain competent independent advice as to whether the financial terms of any offer (including any alternative offer) are fair and reasonable and the substance of such advice must be made known to its shareholders*”²². These provisions are present to protect independent shareholders in those takeover situations where conflicts of interest exist.

In the case of the proposed acquisition of Loungers, the Loungers Directors state that independent advice has been procured from Houlihan Lokey²³, and following this the directors have stated that they consider the terms of the Cash Offer to be fair and reasonable²⁴. This has also formed the basis of their recommending the Cash Offer to independent shareholders²⁵.

However, with regard to the 7.4% of Loungers shares²⁶ owned by the Loungers Directors, just 26% of these shares have been irrevocably committed to participate in the Cash Offer²⁷, a ratio normally consistent with dissent and therefore more typical of an offer deemed as unfair, and unreasonable. The remaining 74% of the shares held by the Loungers Directors have been irrevocably committed to the Alternative Offer, an offer relating to which Houlihan Lokey has been unable to provide advice on, according to the takeover documentation, and raising questions relating to the comprehensiveness of the financial advice that has been made available to shareholders²⁸.

The Takeover Code states “*the requirement for competent independent advice is of particular importance in cases where the offer is a management buy-out or similar transaction or is being made by the existing controller or group of controllers. In such cases, it is particularly important that the independence of the adviser is beyond question.*”²⁹

It is also unclear whether this criterion – *that the independence of the adviser is beyond question* – has been convincingly met by the proposed acquisition: the takeover documentation reveals that Houlihan Lokey relied on commercial assessments provided by Loungers Directors in forming its opinion in relation to the Cash Offer³⁰.

A related question arises from the inclusion within the deal design of irrevocables that remain binding even in the instance of a competing offer for Loungers³¹. The offer documentation indicates that multiple parties have assessed a takeover for the company. It is unclear why, upon the apparent selection of the current offer from a pool of actual or potential offers from other bidders, the signing of such binding irrevocables should be welcomed by affirmative voting from the independent shareholders of Loungers.

In situations where shareholders express concerns relating to the independence of advice or recommendation with regard to a takeover proposal, it is not uncommon for shareholders to demand that the company should also disclose all follow-on remuneration agreements and benefits for those directors who have recommended the deal³².

In this case, logic dictates that shareholders would also welcome such disclosure by Loungers and Fortress.

2. The takeover proposal at 310p appears to significantly undervalue Loungers based on management-endorsed transactions, management commentary, cashflow yield, and relative to a relevance alternative

2.1 The takeover of Loungers appears to have been proposed at a valuation significantly below management-endorsed transactions, as well as below levels appearing to be implied by management public commentary

The conflict of interest within the proposed takeover of Loungers emerges because the Loungers Directors are recommending that independent shareholders sell into the Cash Offer, *at the same time as the Loungers Directors themselves are increasing their stake in Loungers by voting the majority of their shares in favour of the Alternative Offer*³³ which rolls their equity into the post-acquisition entity, and therefore which benefits if the Cash Offer undervalues the company³⁴.

Under circumstances of such conflict, a fuller review of the historically endorsed transactions of the Loungers Directors in relation to the valuation of the company, and of the contended concert party entities, is instructive.

The last time that the Loungers Directors themselves materially acted in the manner that they are now recommending that independent shareholders also act, that is, in selling shares for cash – was April 2019, at the initial public offering or “IPO” of Loungers³⁵. The IPO was priced at a valuation of 1.27x EV/Sales³⁶, a 45% valuation premium (equivalent to 450p) to the current takeover proposal whose 310p offer price represents a valuation of 0.87x EV/Sales³⁷.

Similarly, a review of the concert party contended entities reveals that their valuation appraisal appears to be up to 28% higher (equivalent to 400p) than the takeover 310p consideration that has been put forward. Specifically, the cash cost (i.e. excluding existing Alternative Offer subscriptions) for the Fortress entities of acquiring Loungers at the current offer price is limited to £229m³⁸, yet the takeover documentation reveals that Fortress has gone to the trouble and expense of securing funds of £293m³⁹, 28% higher, to finance the offer.

The judgement that the fair value of Loungers is meaningfully above the level of the current takeover proposal appears also to be consistent with comments to public shareholders made by the Loungers CEO, Nick Collins, in July 2024, when he stated that the board had been frustrated by the Loungers share price.

“The board – you can imagine over the last couple of years – some frustration with the lack of movement in our share price.”

Nick Collins, Loungers CEO, Loungers 2024 earnings call, July 12th 2024⁴⁰

At the time that the above comments were made, the market capitalisation of Loungers was £306m, its EV was £315m, and consensus estimates of its forward revenue were £402m⁴¹. As such, frustration with the share price was communicated to public shareholders as consistent with the board assessment at Loungers at the time that the market was valuing the company at 0.78x EV/Sales⁴².

Yet this valuation is not meaningfully different from the 0.87x EV/Sales takeover valuation that has now been recommended by the Loungers Directors, and a takeover valuation that cheapens further to 0.76x EV/Sales within four months at the start of the next Loungers financial year (from April 2025 onwards).

Alongside these multiple measures, each of which appears to indicate undervaluation, preceding the takeover announcement for Loungers its house broker – Peel Hunt – published research arguing for a 370p valuation for the company, a 19% premium to the Cash Offer that has now been recommended⁵¹.

2.2 The trailing free cash flow to equity yield of Loungers at the takeover price is 12%, a yield typically consistent with undervaluation, and Loungers is also a growth business with further upside from margin optimisation

On cashflow yield measures the takeover for Loungers values the business at a trailing 12 month free cashflow to equity yield of 12%⁴³. Such a double-digit cashflow yield is also typically consistent with undervaluation, yet in this circumstance it is also in the less common context that Loungers is delivering double-digit percentage revenue growth⁴⁴, opening a record number of new sites in its trailing year⁴⁵, that Loungers is a business also delivering a 30% return on invested capital⁴⁶, possesses the potential for improving margins⁴⁷ and more generally the overall outlook for Loungers is described by management as being in a “great place”⁴⁸.

“We’re investing the cash that the company generates and achieving fantastic returns on capital.”

Nick Collins, Loungers CEO, Loungers 2024 earnings call, July 14th 2023⁴⁹

“The performance of Loungers has been stellar for a number of years now and it feels like we are experiencing fewer growing pains as we get bigger.. this is despite opening a record number of Loungers last year and often having three or four openings in a single month.

We are in a great place, but instead of taking it easy and believing we have truly arrived, we are determined to double-down.”

Directors commentary, Loungers annual report year to April 2024⁵⁰

2.3 A releverage transaction, proposed by special resolution by Loungers independent shareholders, may provide all shareholders of Loungers with superior outcomes relative to the proposed takeover

Ultimately, a take-private proposal will be accepted by independent shareholders because it is the best reasonable outcome. As such, the success of a takeover proposal is only definitive when no superior alternative is probable. However, in this case a releverage transaction in which Loungers remains a publically listed company is also feasible – and this outcome is enforceable through, by special resolution, proposal by independent shareholders⁵².

The releverage scenario also reframes the takeover disclosures relating to Loungers more beneficially in that they have publically revealed that the Loungers Directors today assess the business as suited to up to £190m of debt⁵³, or debt-to-revenue ratio of 0.47x⁵⁴. It is notable that comparable debt leverage was also a characteristic of Loungers in its pre-IPO period for which IPO documents revealed that Loungers was operated with debt of £143m at year end 22nd April 2018⁵⁵, then a debt-to-revenue ratio of 0.93x⁵⁶.

An additional feature of the takeover disclosures is that they reveal the private equity sponsor of Loungers – Fortress – is not the provider of the debt. Instead, the £190m debt package is provided by HSBC⁵⁷. Without evidence to the contrary, it would seem a reasonable assumption therefore that *the releverage component of the takeover proposal is also achievable should Loungers remain a publically listed company.*

The implication in our assessment is that a superior alternative to the takeover by Bidco is that Loungers undertakes a releverage transaction via a £155m tender offer for its shares at, at least, 311p – a premium to the Cash Offer from Bidco and a superior proposal. The £155m value of such a tender offer would utilise just the HSBC interim facilities agreement such that the £35m HSBC revolver would remain free for working capital⁵⁸.

When this scenario is modelled, an equity buyback of 46% (i.e. £155m/£339m) of Loungers equity results, and assuming a 7% cost of debt financing and an increased by £11m interest charge still outputs the trailing free cashflow yield at Loungers as rising to 16% relative to its reduced equity denominator⁵⁹.

As such, not only would the cash component of the tender offer deliver superior value above the proposed Cash Offer, but the election for those owners who wish to remain long term shareholders of Loungers equity also appears preferable to the proposed Alternative Offer, by removing the 5 year lock and non-transferable status of the Alternative Offer, and also by remaining shareholders increasing their percentage holdings of the continuing entity by 85%, rather than the 62% increase offered by the Alternative Offer within the Bidco proposal⁶⁰.

Conclusion

The proposed acquisition of Loungers may be in breach of multiple Takeover Code rule sets including concert party-linkage requirements, equal treatment of all shareholders and the requirement for competent independent advice to be provided to the board and publically disclosed. The takeover also appears to significantly undervalue Loungers based on cashflow yield valuation measures, management-endorsed transactions and valuation outputs in relevance scenario modelling.

The takeover also exhibits conflicts of interest, heightening the need for the utmost standards in corporate governance. The conflicts of interest emerge because the Loungers Directors are recommending that independent shareholders sell into the Cash Offer, *at the same time as the Loungers Directors themselves are increasing their stake in Loungers by voting the majority of their shares in favour of the Alternative Offer* which rolls their equity into the post-acquisition entity, and therefore which benefits when other shareholders are recommended or forced to sell into the Cash Offer, proportional to its undervaluation.

If the pricing of the Cash Offer is not significantly increased to deliver fair and equal treatment of all shareholders, and as such more closely match those valuation levels detailed in this letter, I will consider multiple options in response, including but not limited to direct engagement with the Takeover Panel with regard to what appears to be breaches of the Takeover Code, and public statements to other shareholders including by the potential release of this letter outlining the validity of voting against the deal unless its pricing is raised.

Furthermore, I will also assess the co-ordinated leading of a group of Loungers shareholders to form a concert party calling for a special meeting of Loungers shareholders and to put forward a special resolution for the company to announce a tender offer for its equity at higher pricing than the takeover's Cash Offer, and backed by the same debt financing amount as the proposed takeover, and as such also achieve for independent shareholders that elect to retain equity the same financial re-leverage that the takeover's Alternative Offer targets yet absent the latter's illiquidity handicaps. This replacement transaction proposal would contend that Loungers remains a publically listed company.

Should these steps be taken, in my judgement and as detailed in this letter, the probability that the current acquisition proposal succeeds would be significantly lowered⁶¹ and presenting a scenario which may offer not only a superior outcome for independent shareholders⁶² but also the loss of the entirety of the Loungers project from the perspective of Fortress.



Adrian Courtenay
Fund Manager | Managing Director
GA-Courtenay Special Situations Fund

Footnotes

1. Source: GreenAsh Partners public disclosure [link]
2. Dissenting shareholders who have made public statements opposing the proposed takeover include Slater Investment Management (10.4% shareholder of Loungers), Gresham House (3.9%), AXA Investment Managers (3.8%) and Downing Fund Managers (1.5%) [link]
3. The Loungers irrevocables are enforced with Specific Performance enforcement clauses, see irrevocable disclosures [link]
4. The irrevocables committing to the Alternative Offer signed by the Loungers Directors are by Alex Reilly for 5.0% of Loungers shares outstanding and Nick Collins for 0.4%, and by other Loungers senior management sum to an additional 6.9%. In total, 12.3% of Loungers shares are hence being irrevocably committed to the Alternative Offer by these two groups. Source: see irrevocable disclosures [link]
5. See scheme document, Recommended Acquisition of Loungers Plc by CF Exedra Bidco Limited, page 127, only Lion Capital and HSBC are included in the concert party with Bidco [link]
6. See irrevocable disclosures [link]
7. See irrevocable disclosures [link]
8. See scheme document, page 23 [link]
9. See scheme document, Recommended Acquisition of Loungers Plc by CF Exedra Bidco Limited, page 127, only Lion Capital and HSBC are included in the concert party with Bidco [link]
10. The Takeover Code in defining a concert party states that its formation occurs in a takeover situation when “persons who, pursuant to an agreement or understanding, co-operate to obtain or consolidate control of a company.” This status is not reached solely by the signing of irrevocables between offeror and shareholder, in that the irrevocable does not permit its shareholder signee to obtain or consolidate control, but merely acts as an enforcement to sell on the shares for the offeror to consolidate control, and control which the signee of the irrevocable thereon has no participation. However, when a shareholder signs an irrevocable commitment to roll-in their equity to the offeror’s bidding entity, when their shareholding is large enough to have control influence, and when they also irrevocably commit to non-transferable equity (such that their roll in equity must be class as a long term holding), then that shareholder in signing the irrevocable is co-operating to consolidate control of a company. See Takeover Code, Practice Statement 22 [link]
11. See scheme document, page 100 [link]
12. The differentiation put forward by the Takeover Panel is that an irrevocable infers concert party status when it is “more than what is logically consistent with its [an] irrevocable commitment to accept the offer”. The Takeover Code goes on to write that this occurs when an irrevocable is not “limited to the duration of the offer” and not “limited to matters which relate to ensuring that the offer is successful”. See Takeover Code, Practice Statement 22 [link]
13. See Takeover Code, Rule 21.2 [link]
14. A closer look at the Loungers Directors being a net buyer in this transaction: the irrevocables given for the Alternative Offer as for 35.9% of the shares outstanding, the maximum for the alternative offer is 37.1% of the Loungers shares outstanding (see scheme document, page 33 [link]), and the equity participation maximum of the Alternative Offer is toward a vehicle where CF Exedra Topco Limited will not issue more than 60% of the shares to Loungers shareholders. As such, the Fortress vehicle offers the directors an uplift in their proportionate shareholding of 62% (i.e. $60 / 37.1 - 1$). See scheme document, page 93 [link]. Alex Reilly owns 6.5% of Loungers, and has irrevocable tendered 75% of this to the Alternative Offer. Nick Collins owns 0.9% of Loungers, and has irrevocably tendered 30% of this to the Alternative Offer, see scheme document [link]. As such, the pre-takeover ownership of the Loungers Directors at 7.4% of Loungers, is increased from 7.4% (i.e. $6.5\% + 0.9\%$) to 8.3% (i.e. $6.5\% \times 0.75 \times 1.62 + 0.9\% \times 0.30 \times 1.62$).
15. See scheme document, page 38 [link]
16. The 25.9% stake in Loungers held by Lion Capital, rolled into Topco, implies a 41.9% (i.e. $60\% \times 25.9/37.1$) stake in Topco. The Fortress stake in Topco is 40%, see scheme document, page 93 [link]. As such, Lion Capital and Fortress are both implied as shareholders with a greater than 15% stake in the post-acquisition entity.
17. See Rule 2.7 announcement, Recommended Acquisition of Loungers Plc by CF Exedra Bidco Limited, Rollover Mechanics, page 80 [link]
18. See Takeover Code, Rule 16.1 [link]
19. See Takeover Code, Rule 15.1 [link]
21. See scheme document, page 33 [link]
20. See irrevocable disclosures [link]
22. See Takeover Code, Rule 15.2 [link]
23. See scheme document, page 29 [link]
24. See scheme document, page 29 [link]
25. See scheme document, page 29 [link]
26. Alex Reilly owns 6.5% of Loungers, Nick Collins owns 0.9% of Loungers, see scheme document [link]
27. See irrevocable disclosures [link]
28. See scheme document, page 12 [link]
29. See Takeover Code, Rule 3.1 [link]
30. See scheme document, page 12 [link]
31. See scheme document, page 22 [link]
32. Andrew Forrest’s Wyloo Metals calls on the board of takeover target Noront Resources to disclose if they are afforded any benefits by diversified major BHP that will not be made available to ordinary shareholders, September 2021 [link]
33. A closer look at the Loungers Directors being a net buyer in this transaction: the irrevocables given for the Alternative Offer as for 35.9% of the shares outstanding, the maximum for the alternative offer is 37.1% of the Loungers shares outstanding (see scheme document, page 33 [link]), and the equity participation maximum of the Alternative Offer is toward a vehicle where CF Exedra Topco Limited will not issue more than 60% of the shares to Loungers shareholders. As such, the Fortress vehicle offers the directors an uplift in their proportionate shareholding of 62% (i.e. $60 / 37.1 - 1$). See scheme document, page 93 [link]. Alex Reilly owns 6.5% of Loungers, and has irrevocable tendered 75% of this to the Alternative Offer. Nick Collins owns 0.9% of Loungers, and has irrevocably tendered 30% of this to the Alternative Offer, see scheme document [link]. As such, the pre-takeover ownership of the Loungers Directors at 7.4% of Loungers, is increased from 7.4% (i.e. $6.5\% + 0.9\%$) to 8.3% (i.e. $6.5\% \times 0.75 \times 1.62 + 0.9\% \times 0.30 \times 1.62$).
34. Topco is debt financed. Therefore, based on their actions, the takeover price of 310p can be put forward as the price at which the Loungers Directors are willing to use debt in order to increase their equity stakes in the company, yet at the opportunity cost of the selling shareholders of the company.
35. See Loungers IPO prospectus [link]
36. At the initial public offering or “IPO” of Loungers in April 2019: in the forward 12 months, Loungers delivered revenue of £166.5m. The IPO price was 200p, and selling shareholders included Lion Capital, selling 5.8m shares, Alex Reilly, selling 2.2m shares, Jacob Bishop, selling 2.2m shares, and Nick Collins, selling 0.4m shares. The market capitalisation of the company at the placing price at admission was £185m, post-IPO pro-forma net debt is £26.7m, and therefore the valuation of the company at the IPO in terms of EV was £211.7m. As such the valuation of Loungers historically, when the action of the Loungers Directors, and Lion Capital, has translated into them being sellers of its equity for cash, has been $1.27 \times \text{EV/Sales}$, or a 45% premium to the current takeover valuation.
37. For the current takeover valuation, the documentation reveals that at the Cash Offer price, the market capitalisation of the company is implied at £338.1m, and at H1 2025, the non-property net debt position of Loungers was £12.2m, and consensus revenue for the 12 months to April 2025, that is, the 12 months broadly co-terminus with the completion of the proposed takeover offer, is £402m, and as such, the current takeover EV/Sales is 0.87x.
38. The documentation reveals that at the Cash Offer price, the market capitalisation of the company is implied at £338.1m. However, this is for 100% of the equity whereas 35.9% of the equity is irrevocably committed to roll into the Alternative Offer structure. The implication is that the cash cost of acquiring the remaining Loungers market capitalisation will be not greater than £216.7m (i.e. $[1 - 35.9\%] \times £338.1\text{m}$). At H1 2025, the non property net debt position of Loungers was £12.2m.
39. Assuming this debt position requires a refinancing in the change of control scenario, the total cash requirement for the takeover is limited to £228.9m (i.e. $£216.7\text{m} + £12.2\text{m}$). However, the takeover documentation also reveals that Fortress has committed to £103m in equity to fund the takeover and that HSBC (also Bidco advisers) has committed to an interim facilities agreement of £155m and an interim revolver facility of £35m. A total of £293m in financing has therefore been secured or 28% higher than the offer price of 310p. In other words, 400p.
40. Loungers 2024 earnings call, July 12th 2024. Source: CapitalIQ transcripts
41. Loungers revenue (consensus) in year to April 2025 is estimated at £402m. Source: Bloomberg
42. i.e. $£315\text{m revenue} / £402\text{m Enterprise Value} = 0.78\text{x}$
43. According to Loungers H1 2024 investor presentation page 9 [link], free cashflow was £11.7m. According to Loungers FY 2024 investor presentation page 10 [link], free cashflow was £35.4m. According to Loungers H1 2025 presentation page 11 [link], free cashflow as £16.5m. Therefore, the 12 month free cashflow to end H1 2025 (12 months to October 6th 2024) was £40.2m (i.e. $£16.5\text{m} + £35.4\text{m} - £11.7\text{m}$). At the £338m takeover valuation, this trailing £40.2m free cashflow represents a yield of 12%.
44. See Loungers H1 2025 presentation, year-on-year revenue growth at 19.2% [link],
45. See Loungers FY 2024 investor presentation [link]

46. “Lounges typically generate 30% plus returns on capital in their third year, and continue to increase from this point onwards” Loungers FY 2024 investor presentation [link]

47. An additional aspect of the valuation is the recognition that the current free cashflow yield of Loungers is also on the basis of current profitability margins which may be artificially low in the context of a growing business whose increasing food sales and scale efficiencies should provide for expanding margins over time.

48., 50. Loungers annual report, FY2024 [link]

49. Loungers 2023 earnings call, July 12th 2024. Source: CapitalIQ transcripts

51. Source: Peel Hunt, Bloomberg

52. Under Section 303 of the Companies Act 2006, a shareholder must have 5% of the voting shares to call a meeting. Alternatively, the request can be made by shareholders whose aggregate membership represents 5% of the paid-up share capital [link]

53. Loungers revenue (consensus) in year to April 2025 is estimated at £402m. Source: Bloomberg

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55. See Loungers IPO prospectus [link]

56. See Loungers IPO prospectus [link]

57. See, Interim Facilities Agreement [link]

58. See, Interim Facilities Agreement [link]

59. Source: GA-Courtenay calculation, excludes any additional benefit from tax shield

60. For the relevance scenario, where Loungers remains a publically listed company, independent shareholders that did not tender and instead wished to retain a long term holding in the company would benefit from an increased shareholding by 85% (i.e. $1 / (1-46\%)$). By contrast, the Fortress bidco structure does not offer an equivalent increase in shareholding to the Loungers directors – the irrevocables given for the Alternative Offer as for 35.9% of the shares outstanding, the maximum for the alternative offer is 37.1% of the loungers shares outstanding, and the equity participation maximum in the alternative offer is within a vehicle where Topco will not issue more than 60% of the shares to Loungers shareholders. As such, the Fortress vehicle offers the directors a maximum uplift for those shareholders electing for it of 62% (i.e. $60 / 37.1 - 1$). As such, in the relevance scenario modelled, not only is the cash tender offer superior to the Fortress Cash Offer, but additionally those shareholders electing to retain their equity can also realise a larger percentage holding in the ongoing entity.

61. The irrevocables signed by the Loungers Directors, other Loungers executives, and Lion Capital, lapse if the Fortress scheme of arrangement also lapses. In the scenario a superior alternative to the Fortress offer was presented, a likely outcome is that the Fortress scheme of arrangement would not achieve sufficient votes in its favour and as such, it would lapse.

62. For the relevance scenario, where Loungers remains a publically listed company, independent shareholders that did not tender and instead wished to retain a long term holding in the company would benefit from an increased shareholding by 85% (i.e. $1 / (1-46\%)$). By contrast, the Fortress bidco structure does not offer an equivalent increase in shareholding to the Loungers directors – the irrevocables given for the Alternative Offer as for 35.9% of the shares outstanding, the maximum for the alternative offer is 37.1% of the loungers shares outstanding, and the equity participation maximum in the alternative offer is within a vehicle where Topco will not issue more than 60% of the shares to Loungers shareholders. As such, the Fortress vehicle offers the directors a maximum uplift for those shareholders electing for it of 62% (i.e. $60 / 37.1 - 1$). As such, in the relevance scenario modelled, not only is the cash tender offer superior to the Fortress Cash Offer, but additionally those shareholders electing to retain their equity can also realise a larger percentage holding in the ongoing entity.

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