



9 November 2018

## AO WORLD PLC TO ACQUIRE MOBILE PHONES DIRECT

AO World Plc (LSE:AO) (“AO” or the “Company”), a leading European online electrical retailer, today announces that it has conditionally agreed to acquire Mobile Phones Direct Limited (“MPD” or the “Target”) for a cash-free, debt-free enterprise value of £32.5m (the “Acquisition”).

MPD is a leading online-only retailer of mobile phones in the United Kingdom, and is based in Thatcham, near Reading. MPD operates through two online brands, Mobile Phones Direct ([www.mobilephonesdirect.co.uk](http://www.mobilephonesdirect.co.uk)) and Smart Phone Company ([www.smartphonecompany.co.uk](http://www.smartphonecompany.co.uk)). MPD’s websites had approximately 13.6 million visitors in 2017, up from approximately 11.6 million in 2016. MPD generated revenues of £121.7m and EBITDA of £5.5m in the year ended 31 March 2018 with revenue CAGR of 24% (2016-2018). MPD has an experienced senior management team, large customer base and strategic relationships with key mobile network operators and mobile phone distributors in the UK.

The Acquisition will significantly increase the scale and sophistication of AO’s mobile proposition, which is currently limited to the sale of handsets only (without airtime or associated services). The combination of breadth of product and services across the two businesses presents a significantly improved offering for the combined customer base.

The Acquisition is a significant step in AO’s strategy of developing existing categories and services, and adding new complementary categories to its offering for the benefit of customers. It also provides access to a large and important market which is adjacent to AO’s current electricals offering and is well positioned to benefit from continued online migration.

The Acquisition is expected to complete prior to 31 March 2019.

### Transaction Highlights

- Acquisition of MPD, a leading online-only retailer of mobile phones in the United Kingdom, with a revenue CAGR of 24% (2016-2018)
- Enterprise value of £32.5m, on a cash-free, debt-free basis, representing 5.9x MPD’s Reported EBITDA for the financial year ended 31 March 2018 (plus interest)
- Total consideration of approximately £38.1m (plus interest), to be satisfied by approximately £20.9m (plus interest) in cash and 13,095,104 AO shares (“Consideration Shares”)
- Cash element of the consideration funded exclusively from a new Term Loan Facility of £24m provided by incumbent lenders

### Acquisition benefits

- Further develop AO’s Customer strategic objective by transforming its Mobile offering
- Entry into a large and important market
- Experienced management team and well-established e-commerce proposition, underpinned by relationships with UK mobile network operators and handset distributors
- Complementary online business models focused on customer service
- Cash generative business
- Opportunities for growth and synergies

**Steve Caunce, CEO of AO World Plc said,** “This deal represents a significant step forward in our strategy of developing our growing range of online electricals and adding new complementary categories that customers want and expect from AO.

“Mobile Phones Direct already has a leading position within the UK online mobile phone market and is a business which is highly complementary to AO. In coming together, AO will achieve instant scale and be well-placed for future opportunities within a highly attractive and growing UK mobile phone market.

“With 5G services expected to launch over the next two years and as the electrical products we sell become more connected than ever before, moving further into the mobile market is a logical next step for us.”

**Richard Baxendale, current CEO of Mobile Phones Direct said,** “This new venture marks an exciting moment for both AO and Mobile Phones Direct, creating something that we believe will be a real game changer for the industry. MPD’s experience of the mobile market will give AO a fantastic platform to expand this category and will crucially, enable both of us to offer an even more compelling proposition to our customers.”

## Approvals & Timetable

Completion is conditional upon:

- (a) AO World shareholder approval given the size of the Acquisition, which is a Class 1 transaction under the Listing Rules;
- (b) FCA approval of the change of control of MPD;
- (c) The CMA not issuing an order preventing Completion, and if the CMA commences an investigation into the Acquisition prior to Completion, the Buyer (as defined below) having received confirmation that the CMA does not intend to make a phase 2 reference; and
- (d) Approval being given at a listing hearing of the FCA for admission of the Consideration Shares to listing on the Official List of the FCA.

A circular containing the notice convening a General Meeting of the Company to approve the transaction will be sent to shareholders shortly, and completion of the Acquisition is expected to occur prior to 31 March 2019. Capitalised terms used but not defined in this announcement have the meaning given to them in the circular.

The Board unanimously recommends that shareholders vote in favour of the Resolution to be proposed at the General Meeting, as each Director intends to do in respect of his or her own beneficial holdings which amount, in aggregate, to 184,697,670 Shares, representing approximately 40.26 per cent. of the existing issued ordinary share capital of the Company (excluding Treasury Shares) as at the Latest Practicable Date.

## Current Trading and prospects

### AO

AO continues to be on track with its strategic plan as it delivers against its purpose to “have the happiest customers by relentlessly striving for a better way”.

Unaudited revenue growth for the first half of the Company’s financial year is as follows:

	6 months to 30 September 2017	6 months to 30 September 2018	% change
UK Revenue £m	316.8	334.8	5.7%
EU Revenue €m	58.1	78.4	35.0%
EU Revenue £m	51.2	69.4	35.5%

Group Revenue £m	368.0	404.2	9.9%
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In the UK, against the backdrop of a declining MDA market, AO is performing well and at least maintaining share in the MDA category with UK revenue growth coming mainly from new categories. The business is ready to deliver through its peak trading period across all categories.

On a constant currency basis, growth in Europe for the 6 month period was 35.0%. The growth rate in the second quarter was less than the growth rate in recent periods, partly due to a challenging MDA market in Germany and also as a change in the driver operating model meant that delivery capacities were limited to some extent through August and September, and AO expects the growth rate to return to targeted growth levels.

Despite the weaker trading environment, AO remains on track with its strategic plan and is well placed to capitalise on the forthcoming peak trading period. Customer satisfaction levels remain exceptional and an increase in brand awareness resulting from the new brand campaign is encouraging. Consequently, the Board believes full year results will fall within the range of its expectations, albeit more second half weighted than previously anticipated.

## **MPD**

MPD is trading well to date in the financial year ending 31 March 2019 and has continued to deliver strong revenue growth. For the 6 months ended 30 September 2018, MPD generated unaudited revenues of around £64 million, an unaudited increase of approximately 25% compared to the same period in the prior year. This was due primarily to an increase in the volume of sales of mobile phones with network contracts, as well as an increase in revenue per connection. MPD's ability to sell products and services from each of the four UK mobile network operators has been a key factor in delivering this growth. In order to achieve and support this volume growth, MPD has continued to have in place pricing strategies designed to grow volumes and cost of sales has increased, including handset costs, in particular as a result of the growth in sales of "super premium" smartphones, as well as increases in marketing and promotional costs. This is a continuation of the trends experienced in FY18. MPD is well prepared as it enters into its peak trading period.

The person making this notification on behalf of AO World plc is Julie Finnemore, Company Secretary.

### **A conference call for analysts and investors will take place at 0800. Dial-in details as follows:**

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Jefferies International Limited (“Jefferies”), which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for AO as sponsor and financial adviser in relation to the Acquisition.

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#### **About AO World Plc** <http://www.ao-world.com>

AO World plc, headquartered in Bolton and listed on the London Stock Exchange, is an online electrical retailer, with a clear purpose: to have the happiest customers by relentlessly striving for a better way.

We create value by providing electrical products and related services to our customers, offering a huge range, a price-match promise and market-leading customer service. We are now leveraging our skills and expertise to develop existing competencies and create new opportunities.

We sell major and small domestic appliances and consumer electronics in the UK, Germany and the Netherlands and deliver them via our in-house logistics business and carefully selected third parties. We also provide ancillary services such as the installation of new and collection of old products and offer product protection plans and customer finance. AO also has a majority equity stake in AO Recycling, a WEEE processing facility, allowing AO to ensure its customers' waste is dealt with responsibly in the UK.

#### **Information on MPD**

MPD is a leading online-only retailer of mobile phones in the United Kingdom, and is based in Thatcham, near Reading. MPD operates through two online brands, Mobile Phones Direct ([www.mobilephonesdirect.co.uk](http://www.mobilephonesdirect.co.uk)) and Smart Phone Company ([www.smartphonecompany.co.uk](http://www.smartphonecompany.co.uk)) and offers the following products and services:

- Pay Monthly - the sale of a mobile phone with an associated fixed period pay monthly network contract;
- Upgrades - customers who are nearing the end of a fixed period pay monthly network contract can upgrade to a new mobile phone and associated fixed period pay monthly network contract;
- SIM-only - the provision of a mobile network SIM with an associated fixed period pay monthly network contract with no accompanying mobile phone;
- Handset only - the sale of a mobile phone without any associated network contract;
- Insurance - arranging insurance on mobile phones sold by MPD; and
- Trade-in - a service whereby customers can trade-in their existing mobile phone and utilise the trade-in value of that mobile phone against purchases of other products and services from MPD.

MPD's websites had approximately 13.6 million visitors in 2017, up from approximately 11.6 million in 2016.

MPD's mission is to be the UK's leading online destination for mobile by making it easy for customers to compare and buy the best deals on all the latest smartphones. MPD's primary brand is Mobile Phones Direct and its supplementary brand, Smart Phone Company, is used to deploy different pricing strategies and propositions.

MPD's customer acquisitions come from the following principal sources: affiliate traffic, paid online advertising (including paid listings on search engines), customers being directed to MPD's websites by the natural search results of search engines, direct to site traffic and customer relationship management activities (such as social media and email campaigns).

MPD is focused on delivering excellent customer service and has a dedicated customer experience team and a call centre open 7 days a week. MPD has a Trustpilot 5 star rating and has received numerous awards within the mobile phone retail industry including being named 'The Best Online Retailer of the Year' at the Mobile News Awards in 2015, 2016, 2017 and 2018.

MPD has agreements with each of the four UK mobile network operators, being EE, O2, Three and Vodafone (the other UK mobile network operators being MVNOs), pursuant to which it is authorised to market and sell their consumer propositions. Almost all of MPD's revenue is received from mobile network operators for delivering new customers and upgrades and is generally based on the ultimate value of the customer the network operator acquires, commonly involving a share of customer revenues.

MPD purchases the majority of the mobile phones it sells from mobile phone distributors. It outsources many services including warehousing, logistics and distribution, with its third party logistics partner being based in Slough.

For the year ended 31 March 2018, MPD had a monthly average of 103 full time equivalent employees. MPD's senior management team is led by Richard Baxendale, Chief Executive Officer. AO has entered into an employment contract with Mr Baxendale, conditional on Completion, for an indefinite term, which contains a 12 month notice period and restrictive covenants for a period of 6 months following cessation of employment (subject in each case to certain exceptions).

### **Summary financial information of the MPD**

#### **Mobile Phones Direct Limited**

	<i>31 March 2016 £'000</i>	<i>31 March 2017 £'000</i>	<i>31 March 2018 £'000</i>
Revenue	79,253	90,311	121,736
Gross profit	9,958	10,413	9,527
Operating profit	6,368	6,567	5,280
EBITDA	6,526	6,766	5,489
Profit before taxation	6,376	6,566	5,682

As at 31 March 2018, MPD had gross assets of £67.7 million and net assets of £17.1 million.

MPD's revenue increased from £90.3 million in the financial year ended 31 March 2017 ("FY17") to £121.7 million in the financial year ended 31 March 2018 ("FY18"), due primarily to an increase in the volume of sales of mobile phones with network contracts (in particular since entering into a contract with O2 in October 2017) as well as an increase in revenue per connection. MPD's gross profit was £10.4 million in FY17 and £9.5 million in FY18, representing gross margin of 11.5% in FY17 and 7.8% in FY18, respectively. The decrease in gross margin in FY18 was attributable to an increase in cost of sales and pricing strategies designed to grow volume. The increase in cost of sales was due primarily to an increase in handset costs, in particular as a result of the growth in sales of "super premium" smartphones, as well as increases in marketing and promotional costs. Administrative expenses were £3.8 million in FY17 and £4.2 million in FY18, and administrative expenses as a percentage of revenue declined from 4.3% in FY17 to 3.5% in FY18.

## **Background to and benefits of the Acquisition**

AO's strategy is to create shareholder value through three strategic objectives:

- 1) Consolidate a leading position in its core UK markets through continuing to grow its market share in white goods and developing and adding further complementary categories to its offering (the "Customer" strategic objective);
- 2) Leverage its competencies in the UK to extract further value from its supply chain and develop new business streams (the "Competencies" strategic objective); and
- 3) Establish a profitable business in Europe (the "Countries" strategic objective).

These strategic objectives are underpinned by AO's culture and brand, and help AO strive towards achieving its purpose, which is "to have the happiest customers by relentlessly striving for a better way".

As a result of this strategy, AO's dependence on white goods and other major domestic appliances ("MDA") has been reducing in recent periods as new categories are launched. AO is now live with six categories in the UK: MDA, Small Domestic Appliances, Audio Visual and Computing and, since late 2017, Mobile and Gaming.

AO believes that new categories have the potential to attract new customers, increase average order value and basket size, and increase the opportunity for repeat business from existing customers. In addition, launching new categories gives the AO brand exposure outside of MDA.

## ***Benefits of the Acquisition***

The Board believes that the Acquisition will benefit AO for the following reasons:

### **1. Further develop AO's Customer strategic objective by transforming its Mobile offering.**

The acquisition of MPD will be a further milestone in developing AO's Customer strategic objective, by offering a more complete customer proposition in its Mobile category. MPD's value proposition has been developed over many years by combining strategic relationships with key mobile network operators and mobile phone distributors with proprietary technology to deliver a comprehensive ecommerce offering covering major handsets and networks, and will transform AO's Mobile category offering which currently comprises the sale of a limited range of mobile phones without any associated network contract.

### **2. Entry into a large and important market.**

AO believes that the value of mobile phone handset sales in the UK was approximately £6.5 billion in 2017, and that retail customer mobile network connections in the UK generated revenues of approximately £15 billion in 2017. AO believes that mobile phone usage in the UK is linked to the level of smartphone penetration (smartphones are used by 78% of the UK adult population according to the Ofcom Nations & Regions Technology Tracker – H1 2018) and increasing data usage driven by, amongst other things, use of apps and social media. In addition, the market for mobile phones with associated network contracts has moved increasingly online in recent years. AO believes that online sales represented approximately 35% of new smartphone contract sales in the UK in the first quarter of 2018 compared to approximately 26% in 2015.

MPD has a consumer base of approximately 1.25 million, had approximately 13.6 million website visitors in 2017 and, in relation to its mobilephonesdirect.co.uk website, currently has over 28,000 reviews and a 5 star Trustpilot rating. MPD has relationships with the four UK mobile network operators (EE, O2, Three and Vodafone; the other UK mobile network operators being MVNOs) and is able to offer mobile phones with a related network service contract for each of these networks. AO believes

that MPD has approximately a 12.5% share of the UK online mobile phone contract acquisition market.

### **3. Experienced management team and well-established e-commerce proposition, underpinned by relationships with UK mobile network operators and handset distributors.**

MPD's senior management team, led by Richard Baxendale, current Chief Executive Officer, has significant experience in the mobile phone market. MPD has developed proprietary technology tailored to the sale of mobile phones with an associated mobile network operator contract, and operates only online, with no physical retail operations. AO believes that MPD is currently the sole online-only mobile phone retailer in the UK to have contractual relationships with the four UK mobile network operators. MPD's most recent relationship is with O2, which commenced when it entered into a contract with O2 in October 2017. MPD also has relationships with certain suppliers of products and services in the market, including distributors of Apple and Samsung mobile phones.

### **4. Complementary online business models focused on customer service.**

Both AO and MPD are online retailers with similar strategies, philosophies and cultures.

- AO's purpose is to have the happiest customers by relentlessly striving for a better way. Since the business was established in 2000 it has focused on achieving success by doing things right for the customer, and has grown to become a leading UK online electrical retailer.
- MPD's mission is to be the UK's leading online destination for mobile by making it easy for customers to compare and buy the best deals on all the latest smartphones. MPD is a leading online-only retailer of mobile phones in the UK.

Each of AO and MPD's focus on customer service is reflected in their Trustpilot 5 star ratings.

### **5. Cash generative business.**

MPD had revenues of £121.7 million and EBITDA of £5.5 million in its financial year ended 31 March 2018. MPD receives commissions from mobile network operators primarily over the fixed term period of the relevant customer contract. The key components of MPD's commission revenues vary by network operator but will typically include a share of the contracted monthly amount billed to the customer, up-front payments and volume bonuses. MPD generated Free Cash Flow of £6.7 million in the financial year ended 31 March 2018, which is 122% of EBITDA for that period.

### **6. Opportunities for growth and synergies.**

AO believes that MPD is well positioned to benefit from current market trends and potential developments:

- a continuing shift by consumers to purchasing mobile phones, and choosing a mobile network operator contract, online;
- changes to regulations that apply to mobile network operators and take effect on 1 July 2019 which are designed to make it easier for customers to switch mobile network operators;
- the introduction of 5G in the UK, the commercial deployment of which is currently anticipated to occur from 2019 or 2020.

In addition, AO believes that there are a number of potential growth opportunities available to MPD, including:

- the prospect of increasing revenue from SIM only contracts and from the upgrades market;
- further developing MPD's ancillary services, including trade-in, insurance and finance; and
- the sale of mobile phone accessories.

Given the similarity in operating models, AO believes that there is the potential for mutual sharing of best practice for the benefit of the Enlarged Group including enhancing MPD's customer relationship management activities. AO also believes that there may be scope for cross selling across the Enlarged

Group and for cost synergies as a result of greater purchasing power and bringing certain outsourced services in house.

AO currently expects that MPD will continue to be based in Thatcham and will operate on a standalone basis in the short term, with integration opportunities being considered following Completion.

### **Principal terms and conditions of the Acquisition**

Under the terms of the Sale and Purchase Agreement, which is dated 9 November 2018, the Sellers have conditionally agreed to sell MPD to AO Limited (the "Buyer"), a wholly owned subsidiary of the Company. The total consideration for the Acquisition, which is based on a cash-free, debt-free enterprise value of £32.5 million, is approximately £38.1 million, plus Interest. The total consideration is to be satisfied by a payment in cash to the Sellers (in aggregate) of approximately £20.9 million plus Cash Interest and the issue to the Sellers (in aggregate) of approximately £17.8 million of Loan Notes (representing consideration of approximately £17.2 million plus Loan Notes Interest of approximately £0.6 million). The Loan Notes are to be exchanged on Completion for 13,095,104 Consideration Shares. The number of Consideration Shares to be issued has been based upon the average middle market quotation of a Share derived from the Daily Official List of the London Stock Exchange for the five dealing days preceding the date of the announcement of the Acquisition. The cash element of the consideration for the Acquisition will be funded exclusively from the Term Loan Facility.

Assuming that no Shares are issued from the date of this document until Completion, immediately following Completion the Sellers are expected to own approximately 2.78 per cent. of the Company (excluding Treasury Shares). The Sellers have agreed, subject to certain exceptions, not to dispose of 6,547,552 Consideration Shares (in aggregate) for a period of 12 months from Completion without the prior written consent of the Company. The Sellers have also agreed to certain orderly marketing provisions in relation to the Consideration Shares.

The Company anticipates that Completion will occur prior to 31 March 2019.

### **Consideration Shares**

The Consideration Shares will be issued and credited as fully paid up and will rank *pari passu* in all respects with the Shares then in issue, including the right to receive in full all dividends and other distributions (if any) declared, made or paid by reference to a record date after their issue.

Under the terms of the Sale and Purchase Agreement, the Sellers have agreed, subject to certain exceptions, not to dispose of 6,547,552 Consideration Shares (in aggregate) for a period of 12 months from Completion without the prior written consent of the Company. The Sellers have also agreed to certain orderly marketing provisions in relation to the Consideration Shares.

An application will be made to the FCA for the Consideration Shares to be admitted to listing on the Official List. An application will also be made to the London Stock Exchange for the Consideration Shares to be admitted to trading on the London Stock Exchange's Main Market.

The Company expects the Consideration Shares to be issued and admitted to the Official List and to trading on the London Stock Exchange on Completion. The Company anticipates that Completion will occur prior to 31 March 2019.

### **Conditions to Completion**

Due to the size of the Acquisition, pursuant to the Listing Rules, Completion is required to be conditional upon Shareholder approval. Completion is also conditional upon approval being given by the FCA to the change of control of MPD, the CMA not issuing an order preventing Completion, and if the CMA commences an investigation into the Acquisition prior to Completion, the Buyer having received



confirmation that the CMA does not intend to make a phase 2 reference and approval being given at a listing hearing of the FCA for admission of the Consideration Shares to listing on the Official List of the FCA. Shareholder approval will therefore be sought at a General Meeting to be held on 29 November 2018. The Acquisition will not proceed if the Conditions are not satisfied or waived (if applicable).

### **Financing of the Acquisition**

The total consideration is to be satisfied by a payment in cash to the Sellers (in aggregate) of approximately £20.9 million plus Cash Interest and the issue to the Sellers (in aggregate) of approximately £17.8 million of Loan Notes (representing consideration of approximately £17.2 million plus Loan Notes Interest of approximately £0.6 million). The Loan Notes are to be exchanged on Completion for 13,095,104 Consideration Shares (in aggregate). The number of Consideration Shares to be issued has been based upon the average middle market quotation of a Share derived from the Daily Official List of the London Stock Exchange for the five dealing days preceding the date of this announcement. The cash element of the consideration for the Acquisition will be funded exclusively from the Term Loan Facility.

### **Financial effects of the Acquisition on the Enlarged Group**

The Acquisition is expected to be enhancing to the Group's Adjusted EBITDA in the first full financial year following Completion.

The cash element of the consideration for the Acquisition being approximately £20.9 million plus Cash Interest, will be funded exclusively from the Term Loan Facility of £24 million.