



dusk

Acquisition of Eroma Investor Presentation

December 2021

Transaction Overview

dusk Group Limited (“dusk”) has agreed to acquire 100% of Eroma Group for \$28m. Eroma is Australia’s leading supplier of fragrance oils, packaging, waxes and other candle and home fragrance product inputs. Eroma is a ~95% online business, supported by a national showroom and distribution network.

Transaction Details	<ul style="list-style-type: none"> dusk has agreed to acquire 100% of Eroma Group (“Eroma”) (“Acquisition”) for an Enterprise Value of \$28m (cash and debt free) Consideration comprises \$15m in cash and a \$13m placement of ordinary shares in dusk, issued to all Eroma shareholders, including Shane McGrath, majority (55%) shareholder and Eroma CEO/founder Eroma will continue to operate as a standalone business within dusk Group, led by Shane McGrath (CEO)
Strategic Rationale	<ul style="list-style-type: none"> The Acquisition is complementary to dusk’s existing offering and provides the dusk Group with strong growth potential: <ul style="list-style-type: none"> Enables dusk to increase its Total Addressable Market (“TAM”) through acquiring an adjacent but non-competitive leader in the ‘small maker supplier segment’ Eroma is a largely online business, which will enhance dusk’s online presence and complements its physical retail offering. dusk also adds ‘OTC’ capability to Eroma The Acquisition presents both geographic and range expansion opportunities via shared facilities, industry knowledge, customer insights and relationships Increases buying power for common input costs and unlocks an in-house ‘made in Australia’ supply opportunity for dusk candles and fragrances / essential oils Eroma has also developed and owns the recipe (IP) for over 900 fragrance formulations, which gives Eroma a unique market position in Australia and provides dusk with a large catalogue of fragrance formulations to draw upon quickly and test National network of distribution facilities provides both businesses with more options for greater operational efficiency in distribution and faster delivery to customers in more remote geographies (e.g. Perth, FNQ and New Zealand) Eroma is led by a strong management team with deep industry knowledge, committed to the continued success of the business Highly EPS accretive acquisition which creates a larger, more diversified group with increased exposure to growing segments and channels.
Funding	<ul style="list-style-type: none"> Consideration of \$28m will be funded through: <ul style="list-style-type: none"> \$10m of debt (new facility secured for purpose of transaction) \$13m in dusk shares (~6.7% of dusk⁽¹⁾), as outlined above The remainder from existing cash reserves New finance facilities will remain comfortably within covenant limits, with the gross leverage ratio expected to remain under 0.5x
Acquisition Metrics and Financial Impact	<ul style="list-style-type: none"> Valuation of Eroma equates to an EV/FY21 EBIT⁽²⁾ multiple of ~5x (and a lower multiple of FY22 forecast EBIT) The Acquisition is expected to deliver pro forma EPS accretion⁽³⁾ from year one of over 20% (before synergies) There is no change to dusk’s dividend payout policy (60%-80% of net profit after tax) as a result of the Acquisition

(1) On Completion, dusk will issue 4.496m new DSK shares to the Eroma vendors based on a 20-day VWAP of \$2.89, bringing total SOI to 66.8m.

(2) Pre AASB16 adjustments and one off items. Note: Eroma financials are historically unaudited.

(3) Based on internal forecasts of dusk and Eroma’s financials in FY22 and FY23.

Transaction Overview (Cont'd)

dusk's acquisition of Eroma brings together two segment leaders with a shared passion for customer service, quality products, and innovation in the Australian home fragrance market



- Australia's #1 specialty retailer of home fragrance products
- TAM estimated at ~\$0.7bn (FY21 retail value)
- FY21 Sales of \$149m
- FY21 pro forma EBIT of \$38.4m (EBITDA \$41.4m)
- ~8% online sales (FY21)

- Australia's #1 supplier to the 'small maker' segment of the Home Fragrance market
- TAM estimated at ~\$0.15bn (FY21 wholesale value)
- FY21 Sales of \$30m
- FY21 pro forma EBIT of \$5.6m (EBITDA \$5.8m)
- ~65% online sales (FY21)

dusk Group

- ✓ Clear market leadership in both segments of the Australian home fragrance market
- ✓ Increased diversification, vertical integration and control of our supply chain
- ✓ Highly profitable and cash generative group, with attractive margins, high ROCE and clear growth strategies
- ✓ Experienced leadership teams with proven track record of performance
- ✓ Shared culture of customer focus and innovation in home fragrance

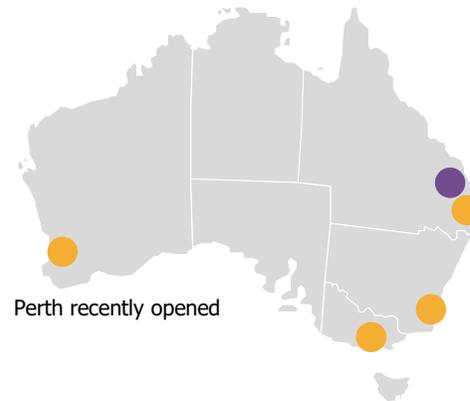
Eroma Overview

Eroma is Australia’s leading supplier of candle making inputs, including fragrance oils, waxes, packaging, containers and candle making kits. Customers are mainly small businesses who are making products for sale at local markets, homewares stores, online and gifting or personal use

OVERVIEW

- Supplier of a complete range of home fragrance component parts (and some finished products), candle making kits and bath & body products
- ~95% of orders are placed online, ~1/3 of which are transacted by customers in the showroom with goods then collected directly from the co-located warehouse⁽²⁾
- Eroma has over 30,000 active customers (LTM). Customer database is very broad and growing, with low levels of key customer dependency
- Showrooms, blending facilities and warehousing across Sydney (Mortdale), Melbourne (Epping), Gold Coast (Yatala, Ormeau) and Perth (Malaga)
- Manufacturing and warehousing facilities in China, Sydney and Gold Coast
- 55% owned by founder and CEO Shane McGrath, with the remainder owned by private investors

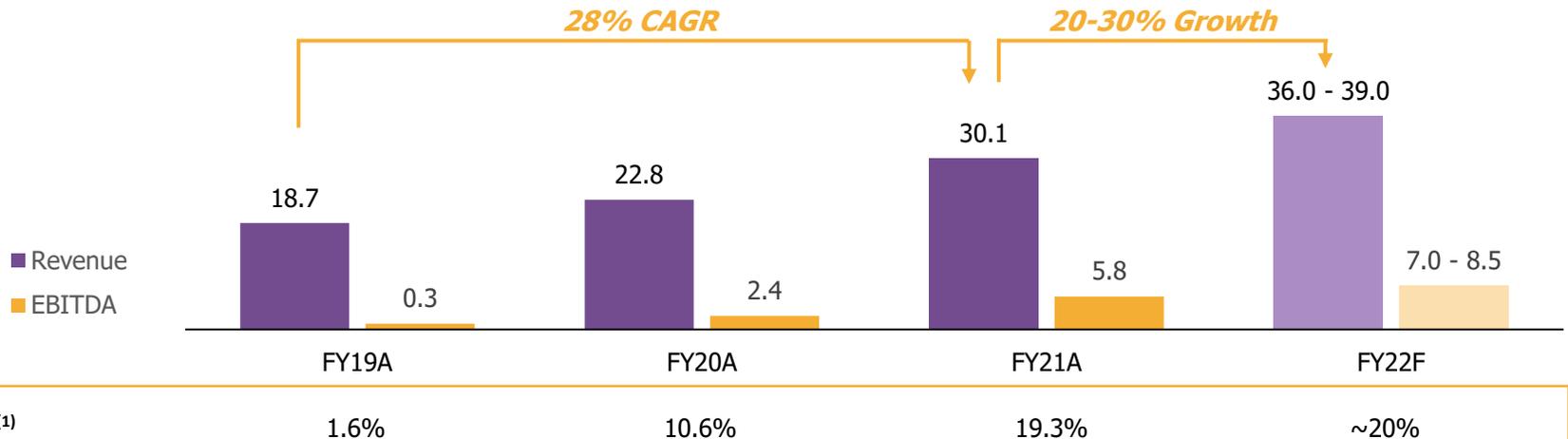
LOCATIONS



- Showroom and Warehouse
- Warehouse, Manufacturing, Head office

- Wholly owned manufacturing facility in Dongguan, China
- International expansion to **New Zealand**, the **UK**, **US** and **Europe** possible in future

REVENUE GROWTH AND PRO FORMA EBITDA



(1) EBITDA has been normalised to adjust for items outside normal course of business, per PwC due diligence (pre AASB16).

(2) For the purpose of the analysis on page 7, we do not regard showroom originated sales (at kiosks) as truly online.

Eroma Overview (Cont'd)

Eroma's future growth will be driven by management continuing to execute on proven strategies, geographic expansion, and the capabilities delivered by completing their new manufacturing facility in Yatala (Qld), which is expected to be operational from March 2022

Eroma's Unique Selling Proposition (USP)

National Showroom and Distribution Network	<ul style="list-style-type: none"> Operates showrooms in Melbourne, Sydney and Brisbane, with Perth opening shortly Sales are overweight in markets where they operate showrooms, as customers value proximity and JIT sourcing when needed
Range Width and Quality	<ul style="list-style-type: none"> Offers the widest range of high-quality products in the market Over 900 proprietary fragrance formulations 'One stop shop' for the small maker segment
Availability and Convenience	<ul style="list-style-type: none"> Has invested in locally held inventory availability to ensure its customers get what they need, when it's needed Deals with a large number of international suppliers to offer a locally relevant range of products
Value add services	<ul style="list-style-type: none"> Offers value-add services including bespoke fragrance design, making and reproduction, label design, glass and lid etching, specific item sourcing, and technical production and fragrance advice
Value for money	<ul style="list-style-type: none"> Eroma uses its scale and experience to source and make products that deliver value for money to its customers across its entire range, delivered in a timely manner to customers

Eroma's Future Growth Drivers

Showroom Network Expansion	<ul style="list-style-type: none"> Scope for additional showrooms in Adelaide and Auckland, and potentially second show rooms in Melbourne and Sydney Eroma's sales over index in geographies with conveniently located showrooms
Range Differentiation and Exclusivity	<ul style="list-style-type: none"> Continues to expand and innovate in its range adding new fragrances, packaging and vessels Eroma has recently secured exclusivity for Kerax wax products in Australia and New Zealand (5 year term)
New Manufacturing Capabilities	<ul style="list-style-type: none"> New manufacturing facility on Gold Coast (currently being commissioned, completing in Mar-22) will increase capacity to quickly produce and deliver short run unique fragrances to meet fragrance trends and specific customer requirements
Enhanced customer service	<ul style="list-style-type: none"> Is investing in enhanced customer service capabilities, including more specialised team members, and more payment options (incl BNPL), and a recently upgraded website
International Expansion	<ul style="list-style-type: none"> Product knowledge and 'one stop shop' and Asian sourcing and manufacturing capability provide scope for international expansion (UK market most likely first) A broader partnership with Kerax may form part of an international expansion strategy

Eroma's Range and Customers Are Diverse

Eroma is skilled in fragrance development, blending and manufacturing and sells a complete range of component parts for candle making to customers who value range width and a 'one stop shop' for making their Home Fragrance products

Eroma's wide product offering is a 'one stop shop' for candle makers



Waxes
(15%)⁽¹⁾



Labels, etching,
electroplating
(5%)



Packaging
(10%)



Containers
and Lids
(20%)



Fragrance and Oils
(35%)

Represents attractive
margin expansion
opportunity



Making
equipment
(5%)



Finished
Products
(5%)



Other and
Wicks
(5%)

End products made by customers are:



Candles



Reed diffusers



Soaps



Perfumes

Customers are highly fragmented with varying scale

Eroma has > 30,000 active customers (LTM)



Online
distributors



Small brands
and stores



Hobbyists



National
wholesale
brands

(1) Approximate contribution to annual sales.

Strategic Rationale

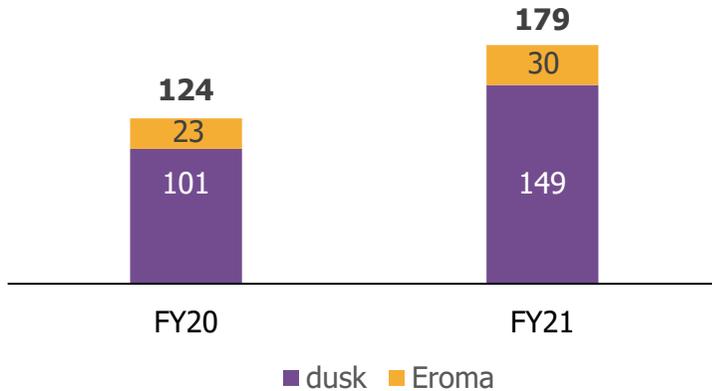
The acquisition is complementary to dusk's existing offering and provides the Group with added growth potential. Eroma is the market leader in its segment, with a track record of growth and innovation, and a well differentiated business model

- 1 Increase our TAM:** Eroma represents a logical and adjacent but non-competitive business to dusk in the Australian home fragrance market with its leading presence in the 'small maker supplier market'. Eroma offers a wide range of products (wax, wicks, fragrance, vessels, boxes etc.), has the largest footprint of operations and unique scale relative to its peers – providing advantages in sourcing, manufacturing and distribution
- 2 Largely online business model:** Eroma is a largely online business (supported by showrooms in key cities). ~95% of orders are online or via telephone. The Acquisition will enhance dusk's online presence, whilst complementing the physical retail offering - pro forma FY21 online revenue of the group is expected to increase to ~17% compared to ~8% for dusk standalone in FY21
- 3 Geographic expansion opportunity:** Eroma has showrooms in Melbourne, Sydney and Brisbane, with a showroom in Perth opening in Q3 FY22 (distribution centre open and operating), with additional locations including New Zealand opening in the future
- 4 Range expansion opportunity (for dusk and Eroma):** dusk has specific knowledge, customer insights and relationships that can support Eroma to expand their range. Eroma's sourcing and manufacturing capability also gives dusk more flexible supply options and can more fully utilise Eroma's newly expanded manufacturing capacity and China factory
- 5 Increased buying power and in-house supply and distribution opportunities:** dusk and Eroma's largest underlying input cost to its product is fragrance oil, followed by wax, vessels, freight and packaging. The Acquisition gives each business more buying power and a wider network of potential suppliers, and more insights regarding the products, fragrances, vessels and styles in demand in the market. Eroma also provides dusk with an in-house 'made in Australia' supply opportunity for candles, and fragrance/essential oils and potential for shared distribution facilities in remote locations (e.g. Perth, New Zealand)
- 6 Strong leadership team:** Eroma's management team is led by its majority shareholder, Shane McGrath. Shane has deep industry knowledge and has built a strong team over the last year who are committed to continuing to lead the growth of Eroma
- 7 Financial Outcomes:** The acquisition is expected to deliver pro forma EPS accretion from year one of over 20% (before synergies) and creates a larger and more diversified group with increased span of supply chain and more exposure to attractive segments and channels

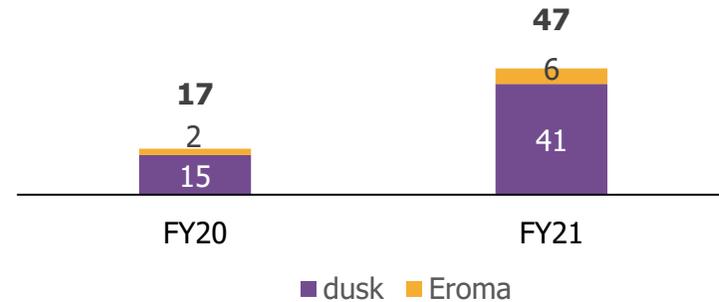
Key Metrics Post-Acquisition

The acquisition of Eroma improves dusk's financial profile, deepens the Group's vertical integration, provides scope for IP and infrastructure sharing and will deliver significant EPS accretion from year one

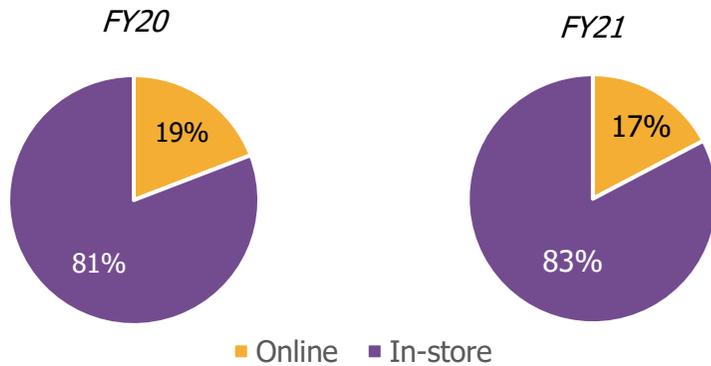
Pro Forma FY20 & FY21 Revenue



Pro Forma FY20 & FY21 EBITDA (Pre AASB16)



Pro Forma FY20 & FY21 Revenue Mix⁽¹⁾



Facilities



EPS accretion of over 20% expected from year one

(1) Whilst >95% of Eroma's sales are transacted via its web store, we only regard ~65% as truly online as ~35% are transacted via the onsite-showroom kiosks and collected directly from the onsite warehouse.

Transaction Structure, Funding and Financial Implications

100% acquisition with \$15m in cash consideration and a \$13m placement of ordinary shares in dusk, issued pro-rata to all Eroma shareholders

Transaction Structure and Funding

Key assumptions	<ul style="list-style-type: none"> 100% acquisition for \$28m on a cash-free debt-free basis No synergies assumed for modelling
Uses (Total \$30m)	<ul style="list-style-type: none"> \$28m EV, with consideration structured as: <ul style="list-style-type: none"> \$13m DSK shares \$15m in cash consideration \$2m in transaction related costs (approx.)
Sources (Total \$30m)	<ul style="list-style-type: none"> \$13m in DSK shares \$10m in term debt (new) \$7m from dusk cash reserves
Funding	<ul style="list-style-type: none"> New finance facilities will remain comfortably within covenant limits, with the gross leverage ratio expected to remain under 0.3x Transaction is expected to complete on or around 31 January, subject to certain CPs

Financial Impact on dusk

- The Acquisition is expected to deliver EPS accretion⁽¹⁾ of over 20%, (before synergies) from year one
- There is no change to dusk’s dividend payout policy (60%-80% of statutory net profit after tax) as a result of the Acquisition

Eroma Vendor Escrow

- 25% of dusk shares held by vendors are released following announcement of each interim and full year result from FY22 to H1 FY24 inclusive

Potential Synergies

- There are a number of potential synergies dusk has explored in relation to the Acquisition of Eroma. These have yet to be fully quantified or factored into financial plans, but could include:
 - Internalised margin for fragrance:** Potential ability for Eroma to manufacture fragrance in Australia and China, which will be shipped to dusk manufacturing facilities in China for inclusion in products
 - Joint purchasing of componentry:** Eroma currently sources small quantities of glassware, regularly, whereas dusk infrequently purchases large quantities. Joint purchasing should unlock economies of scale for Eroma
 - Product cross-sell:** Opportunities exist to leverage and re-market popular products across businesses
 - Other:** Additional synergy opportunities exist following the acquisition of Eroma, including in shared distribution facilities and a range of sales related initiatives

(1) Based on internal forecasts of dusk and Eroma’s financials in FY22 and FY23.

Eroma Profit and Loss

	FY20	FY21
Unaudited Eroma Group financials	\$m	\$m
Sales	22.8	30.1
Cost of Goods Sold	(11.2)	(12.2)
Gross profit	11.6	17.9
% Margin	51%	60%
Employee Costs ⁽¹⁾	(4.2)	(5.7)
Occupancy Costs ⁽¹⁾	(1.5)	(1.8)
Other Operating Costs ⁽¹⁾	(3.5)	(4.6)
Total Operating Expenses⁽¹⁾	(9.1)	(12.1)
Adjusted EBITDA⁽¹⁾	2.4	5.8
% Margin	11%	19%
Depreciation	0.2	0.2
Adjusted EBIT⁽¹⁾	2.2	5.6
% Margin	10%	19%

FY21 margin expansion driven by:

- Significant growth in demand coupled with stock shortages in FY21 saw less promotional discounting and active price point and inventory management by Eroma
- Continued growth in mix of products sourced from Eroma's owned manufacturing in China, which drives higher GP% on these products when sold to Eroma's customers
- Substantial growth in sales and margin contribution (i.e. sales margin mix) of the 'Napali' brand (i.e. higher GP% finished products manufactured in-house) added >150bps to Eroma's GP% vs FY20
- dusk management expect to take over managing the Napali brand on behalf of the combined group following Completion of this transaction

(1) Figures have been adjusted for items outside normal course of business, per PwC due diligence (EBITDA - pre AASB16).

Disclaimer

dusk Group Limited ("dusk") (ABN 38 603 018 131) advises that the information in this presentation contains general background information about dusk's activities as at the date of the presentation. It is information given in summary form and is based on information available to dusk that has not been independently verified. Some of the information in the presentation contains 'forward-looking statements' which may not directly or exclusively relate to historical facts.

These forward-looking statements reflect dusks' current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of dusk. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks.

Financial data

All figures in the presentation are Australian dollars (\$) or A\$) unless stated otherwise.

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

Financial Information

The pro forma and forecast financial information provided in this presentation is for illustrative purposes only and does not represent a forecast or expectation as to dusk's future financial condition and/or performance. This document has been prepared at a time where the review of financial information contained in this presentation has not been completed and accordingly, you should only rely on any forecast or expectation as to dusk's future financial condition and/or performance that is contained in a prospectus or other offering document which may be issued by dusk in connection with any offer of dusk securities.

