RNS Number : 6328Q
Applied Graphene Materials PLC
22 February 2023

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF REGULATION 2014/596/EU (WHICH FORMS PART OF DOMESTIC UK LAW PURSUANT TO THE EUROPEAN UNION (WITHDRAWAL) ACT 2018), AS AMENDED.

22 February 2023

Applied Graphene Materials plc

("Applied Graphene Materials", the "Company" or the "Group")

Proposed Sale of Shares in the Company's Main Operating Subsidiaries and Proposed De-Listing of the Company's Ordinary Shares

Further to the announcement on 13 January 2023, the Board announces that the Company has agreed binding terms with Universal Matter UK Limited, a wholly owned subsidiary of Universal Matter Inc., ("**Universal Matter**" or the "**Buyer**") to sell the entirety of its shares in Applied Graphene Materials UK Limited ("**AGM UK**") and Applied Graphene Materials LLC ("**AGM US**"), the Company's main operating subsidiaries (together, the "**Subsidiaries**"), for a total consideration of US$1.3m ("**Consideration**"), payable in cash by completion (the "**Transaction**" or "**Disposal**").

Introduction

The Transaction constitutes a disposal resulting in a fundamental change of business under the AIM Rules and is therefore conditional on, *inter alia*, shareholder approval and National Security and Investment Act 2021 ("**NSIA**") approval pursuant to a mandatory notification to be made by the Buyer shortly after the date of this announcement.

A general meeting of the Company's shareholders will be convened ("**General Meeting**") and a circular sent out to shareholders in due course (the "**Circular**"). The Company will also put a resolution to shareholders to de-list the Company's ordinary shares to trading on AIM and convert from a public limited company to a private limited company (the proposed "**De-Listing**").

The Circular will set out further reasons why the board believes the Transaction and the De-Listing are in shareholders' best interests.

Background to and Reasons for the Disposal

Applied Graphene Materials was founded in July 2010 and admitted to trading on AIM in November 2013, raising £11m. The Group has successfully raised funds on a number of occasions since to launch numerous commercial products and develop an international sales distribution network.

In January 2021, £6m was raised to provide the funding necessary for the Board to execute the next stage of its growth plan and, at the time, it was noted that the Group would likely need to raise further funds in 2023 to continue to make progress towards its medium-term objectives.

As previously announced, and noted in the interim results for the six months ended 31 January 2022, the Group's performance has been impeded by COVID-19 disruption and supply chain challenges for basic raw materials. A number of existing and potential customers have experienced challenges when sourcing the raw materials needed for their own products and this has led to a slower than anticipated rate of customer orders materialising. As a result, commercial development took longer than previously expected.

In preparation, the Group laid the groundwork for a fundraise in early 2022. This included the consideration of potential investors in non-UK jurisdictions but in particular focusing on the USA. In addition, the Group met with UK investors in October and November 2022 to gauge demand for a potential fundraise. Neither exercise uncovered suitable demand for a fundraise with the lack of interest driven by investors unwilling to back early stage pre-commercial revenue loss-making companies.

In response, the Group appointed Alvarez & Marsal Europe LLP to conduct a strategic review in November 2022 to consider the options available to maximise value for the Company's shareholders and other stakeholders. The strategic review did not uncover any offers for funding from a strategic investor.

It has become increasingly apparent to the Board during the strategic review that the business can no longer continue as an independent entity and it has been decided, therefore, that the best course of action is to pursue a sale of the trading operations in the interests of shareholders and other stakeholders.

Background to the Buyer

Founded in July 2019, Universal Matter Inc is a Canadian-based developer and supplier of graphene- based solutions to several major industries. Its proprietary Turbostratic Graphene utilises a broad range of carbon-based feedstock materials, including recycled tires/plastic, petroleum coke, coal, biomass, methane derived carbon and others. Universal Matter has operations in the US and Canada and leverages its strong R&D foundation to scale production processes and supply high quality graphene to a diverse customer base with global presence.

Terms of Disposal

Conditions

The Transaction is conditional upon:

- a resolution passed at a general meeting of the Company (or at any adjournment thereof) approving *(inter alia)* the sale and purchase agreement
- the Secretary of State providing the Buyer with requisite clearance pursuant to the NSIA in respect of the

Transaction,

in each case, by 30 April 2023.

Termination

The sale and purchase agreement is terminable by the Buyer in the event of the occurrence of a material adverse change of AGM UK, being a material undisclosed liability of AGM UK, AGM UK being a party to material litigation or the resignation of a certain proportion of AGM UK's employees.

Company Covenants

The sale and purchase agreement includes interregnum provisions in relation to the Company's conduct of AGM UK and AGM US for such period until the Transaction completes.

The sale and purchase agreement also provides for the Company to provide the Buyer with non-solicit and non-compete covenants for a period of 2 years following completion of the Transaction.

Completion

Completion of the Transaction shall take place on the date that is 2 Business Days after the last of the conditions has been satisfied or waived ("**Completion**").

Consideration

The terms of the Disposal provide that the Buyer will conditionally acquire the entire share capital of AGM UK and AGM US, entities in which the Company has a 100% equity interest. The Consideration for the Subsidiaries will be paid entirely in cash and split as follows:

- Shares in AGM UK: US$1,299,999
- Shares in AGM US: US$1

Funding to Completion

The agreed terms of the Disposal provide AGM UK with liquidity to continue to operate prior to Completion. The Buyer has agreed to pay holding costs to AGM UK (the "**Holding Costs**") for the period from 1 March 2023 until the earlier of Completion or 30 April 2023, being the longstop date ("**Longstop Date**") as part of the Consideration payable for the Transaction. In the event the requisite resolutions in connection with the Transaction are not passed by shareholders at the Company's General Meeting, the share sale agreement will be terminated and any undischarged Holding Costs will be repayable by the Company.

The balance between the aggregate Holding Costs paid by the time of Completion and the Consideration will be satisfied in US Dollars on Completion.

Basis for Disposal

The Transaction shall conclude on a cash free/debt free basis.

Description of the Subsidiaries Subject of the Disposal

The principal activities of AGM UK are the research, development and manufacture of graphene. As at 31 July 2021 (FY21) (being the Company's most recently audited balance sheet) AGM UK had net assets of £1,780,000 (FY20: net liabilities £26,343,000). AGM UK generated revenues in FY21 of £123,000 (FY20: £83,000), generating losses after tax of £2,438,000 (FY20: £2,697,000).

The principal activities of AGM US are for administrative purposes with US regulatory authorities. AGM US has had no financial transactions since its inception. It has no assets or liabilities.

Together, the Subsidiaries represent all of the Company's trading business, activities and substantially all of its assets. The Transaction is a Fundamental Change of Business under AIM Rule 15.

Use of Proceeds

It is anticipated that the net Consideration (after deducting the Holding Costs and advisers' costs) will substantially be used to repay creditors, the Company's staff and operating costs of the Group until the Company can be wound down.

Should Completion occur, the Board will seek to wind-up the Company on a solvent basis, however the Board anticipates that, following settlement of advisory fees in connection with the Transaction and ongoing costs associated with the business, the Company will have a minimal net cash position following Completion and therefore, is very unlikely to be in a position to return funds to shareholders. To the extent there are any residual amounts after the costs of the winding up are deducted, then such amounts will be distributed to shareholders via an appointed liquidator.

Proposed De-Listing

The Directors have for some time been reviewing the merits or otherwise of the Company's ordinary shares continuing to be admitted to trading on AIM and remaining a public limited company in the UK. The following key factors have been taken into account by the Directors in reaching the conclusion that, assuming completion of the Disposal, the De-Listing is in the best interests of the Company and its Shareholders as a whole:

- following completion of the Disposal, there will be negligible assets remaining within the Group which would not justify the costs associated with remaining as a listed business; and
- as a cash shell, the Directors believe that the Company would not be of sufficient scale to attract any interest from institutional and other investors and would consequently suffer from a lack of liquidity in its ordinary shares.

The Directors strongly believe that for the reasons referred to above the Company should seek the cancellation of the admission of its ordinary shares to trading on AIM and subsequently a solvent wind-up. In the event that the Disposal is completed and the De-Listing does not occur, as an AIM Rule 15 cash shell, if the Company does not make an acquisition or acquisitions constituting a reverse takeover under the AIM Rules within twelve months of becoming an AIM Rule 15 cash shell, then the Company's ordinary shares would be suspended from trading on AIM (notwithstanding, as described below, that the Company's ordinary shares have been suspended from trading since 1 February 2023 pending publication of the Company's Annual Report and Accounts for the year ended 31 July 2022 ("**FY22**")).

Annual Report and Accounts for the year ended 31 July 2022

In light of the Disposal the Company is not proposing to prepare its annual report and accounts for FY22 as the business will not be regarded as a going concern. The Group generated unaudited turnover of £91,000 and an unaudited pre-tax loss of £3,861,000 in the year to 31 July 2022. Cash at 31 July 2022 was £2,092,000, however, this has since depleted due to the funding of operating expenditure and the cost of the strategic review process. It should be noted that these figures were prepared assuming that the going concern assumption was applied in preparing the unaudited accounts. The figures would be different if a break up basis is used but the Board sees no benefit in preparing such figures. As previously announced (and excluding the impact of the Disposal described above), the Company's available working capital will become fully depleted by 28 February 2023 (excluding the impact of the Transaction).

For the avoidance of doubt, as the Company is not proposing to prepare its annual report and accounts for FY22, the Board anticipates that the Company's ordinary shares will remain suspended from trading on AIM until the earlier of De-Listing or a wind-up of the Company.

Current Trading

Post year-end trading has been encouraging, however, at this juncture the Company has insufficient liquidity to pursue its growth strategy. The Board is therefore of the view that it is in shareholders' and creditors' best interests to sell the trading operations and wind-up the Company.

General Meeting

The Board will be writing to shareholders in due course to convene the General Meeting and will be strongly urging shareholders to vote in favour of the Disposal resolution and the De-Listing resolution in order to maximise proceeds on a wind-up.

If shareholders vote down the Disposal resolution then, in the Board's view, the Company and the trading subsidiary would appoint administrators almost immediately and this is expected to materially reduce any final returns to shareholder and stakeholders.

If shareholders vote down the De-Listing resolution, then the Company would remain listed and continue to incur relevant costs, further depleting any potential returns to shareholders and stakeholders.

Shareholders should be aware that, now that a sale has been agreed (subject to satisfaction of the conditions, as set out above), the directors do not intend to publish accounts for FY22. If the Company does not publish its FY22 accounts by 31 July 2023, then the Company's listing on AIM will be cancelled.

As set out above, the Directors believe that the Company is very unlikely to be in a position to return funds to shareholders, however, in order to maximise any potential returns for shareholders and stakeholders on a solvent wind-up, the board will be recommending that shareholders vote in favour of both resolutions at the General Meeting.

For further information, please contact:

Applied Graphene Materials +44 (0) 1642 438 214

Adrian Potts, Chief Executive Officer

David Blain, Chief Financial Officer

Alvarez & Marsal Europe LLP +44 (0) 784 107 2042

Alex Baird abaird@alvarezandmarsal.com

Singer Capital Markets (Nominated Adviser and Broker) +44 (0) 207 496 3000

Peter Steel / Alex Bond / Oliver Platts

Note: the Company also announces that Singer Capital Markets, the Company's nominated adviser, is now sole broker to the Company.

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