MULTISTACK

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Multistack to buy the assets of Verdicorp, Inc.

On 22 February 2019, Multistack International Limited (ASX:MSI) agreed to loan Verdicorp, Inc. (Verdicorp) the sum of US$400,000 (Verdicorp Loan), with a key term of the agreement being the option that MSI holds entitling it to waive its right to repayment of the Verdicorp Loan in exchange for receiving all rights to distribute products which incorporate Verdicorp's Organic Rankine Cycle (ORC) technologies in the Australian market (Option).

The ORC technologies are next-generation, clean technologies for particular use in the energy sector.

While the primary purpose of the Verdicorp Loan was to assist Verdicorp in dealing with its cash flow issues, a second, and equally important purpose (as exemplified by the Option) was for MSI to gain access to Verdicorp's ORC technologies for use by it in rebuilding its HVAC business.

On 14 August 2019, Verdicorp applied to the Florida Courts for protection of its assets under Chapter 11 of the US Bankruptcy Code. While that step triggered the obligation of Verdicorp to repay the Verdicorp Loan, it also provided MSI with an opportunity to gain greater control over Verdicorp's ORC technologies.

On 21 May 2020, the Florida Court approved the sale of the assets of Verdicorp to MSI as part of a reorganisation of Verdicorp's business and financial affairs and in furtherance of its emergence from Chapter 11 of the US Bankruptcy Code. As part of that Court process and as additional consideration the acquisition of the assets of Verdicorp (being a significant factor in the Court’s determination that MSI’s bid was the highest and best bid offered), MSI agreed to exercise the Option and waive its right to repayment of the Verdicorp Loan.

In order to fund the Verdicorp acquisition, which would not otherwise have been achievable by MSI in the time available, MSI has entered into a loan agreement with Super Link Company Limited (Super Link), a Hong Kong based corporation (Super Link Loan). Super Link is owned by interests associated with MSI's major shareholders (S W Yan and Stephen Leung, both of whom are also Directors of MSI).

Under the Super Link Loan, MSI has agreed to borrow US$1,800,000 from Super Link to enable it to complete the acquisition of the Verdicorp assets. The Loan is interest bearing at 5.00% per annum, is on commercial and arm's length terms, and will be secured by MSI granting security to Super Link of its interests in the assets to be acquired under Verdicorp Acquisition.

MSI is pleased that after a drawn out process, it will have secured both access to and, subject to the below, control of the new ORC technologies and products in an area which complements its existing modular chiller business and in an area which the MSI Board believes has significant future growth.

The Super Link Loan is conditional on MSI granting Super Link an option to buy the Verdicorp assets from MSI for US$1,800,000 (Super Link Option). The grant of the Super Link Option was necessary in order to obtain Super Link's agreement to provide the Super Link Loan. If Super Link exercises the Super Link Option, acquisition by Super Link of the Verdicorp assets will be subject to MSI shareholder approval.

The Super Link Loan is further conditional on MSI entering into a licence agreement with Super Link providing Super Link with the right to manufacture and distribute products which incorporate Organic Rankine Cycle (ORC) technologies in the territory that comprises the People’s Republic of China (including Hong Kong, Macau and Taiwan).

While MSI would prefer to retain control of the ORC technologies, even if the Super Link Option is exercised by Super Link, MSI will still gain three material benefits from the overall transaction.

Firstly, ultimate ownership of the ORC technologies will continue to be held by entities with a vested interest in the future success of MSI.

Second, exercise of the Super Link Option will remove MSI's financial exposure in respect of the acquisition of the Verdicorp assets.

Third, as a condition of Super Link acquiring the Verdicorp assets, Super Link must agree to MSI retaining the right to both manufacture and sell equipment incorporating the ORC technology in Australia (i.e. MSI will continue to have the right to manufacture equipment incorporating the ORC technologies in Australia in addition to its right to distribute such products in the Australian market).

An acquisition by Super Link of the Veridcorp assets from MSI and certain related transactions will be subject to shareholder approval at a shareholder meeting at a later date to be determined.

By order of the Board of Directors of MSI.

Yan Wong
Company Secretary
Multistack International Limited
15 June 2020