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Grohe funding Joyou stake hike with cash and shareholder contribution combination

Grohe is funding its proposed stake increase in Joyou AG with a combination of cash and equity commitments from shareholders with no lenders involved, it is understood. The majority will be from cash on the books of the bathroom and kitchens fittings group, while the remainder is from shareholders, it was said.

It is understood the company could have funded the stake purchase without the shareholder commitments, however it was determined that having shareholders put up some of the cash was more comfortable for all parties. Grohe reported sales of EUR 980m and EBITDA of EUR 200m for 2010, however it did not declare its cash position. Acquiring 20% of Joyou at EUR 13.50 per share will cost approximately EUR 64.7m.

Germany-based Grohe is aiming to acquire at least a further 20.01% of Joyou, which should take its present 9.99% position through the 30% mark. A source close to the situation said there are no plans in place at present to go to 50% or beyond as anything over 30% will give Grohe 'the required influence' on the target.

The source explained that Grohe acquired its 9.99% stake in 2009 as part of a distribution agreement with Joyou. This was before Joyou's IPO in March last year, therefore they acquired it directly from the company.

Grohe has already secured irrevocable agreements on the voting rights for 30% of Joyou's shares. This comprises 9.99% of its own holding, and the remaining portion is a combination of two other major shareholders, the source said. It is understood these two are institutional investors and not management or directors.

Grohe is being advised on the transaction by Acxit Capital Management and law firm Weil, Gotshal & Manges. It announced the EUR 13.50 per share voluntary public tender offer on 14 February.

Joyou is 40% owned by its CEO Jianshe Cai, however a second source close to the situation said Cai will not sell down this position. The second source said the two fittings companies have signed a non-binding letter of intent to allow for Cai to increase his share by an equal amount in the holding of around 28% once an 18-month lock-up agreement for Cai ends this September.

Joyou shares are trading at EUR 14.07 for a market cap of EUR 337.2m..

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