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Concerns: analysis/second opinion of financial model

Dear Sirs,

As stated in the letter of engagement with Welgevonden Macadamia B.V., we've performed an analysis and a second opinion of the financial model that was developed and prepared by Welgevonden Macadamia B.V.. The financial model encompasses inter alia:

- the expected future development of the current activities of Welgevonden Macadamia B.V. (hereafter "WelMac");
- the expected future development of new activities and/or new orchards;
- the expected required funding;
- a valuation model of the individual activities or orchards well as of WelMac on a consolidated level.

Rembrandt M&A was asked to perform an analysis and a second opinion of the financial model as a whole and of the assumptions and methodology used in the indicative valuation. In this memo we will first discuss the structure and main assumptions of the financial (forecast) model and secondly the main assumptions and methodology used in the valuation model.

Structure and main assumptions of financial (forecast) model

- The financial forecast model includes individual input and output possibilities for the different activities/orchards and provides for a high level of detail regarding the future development of volumes, sales and costs;
- The individual output of the different activities/orchards are consolidated on the holding level of WelMac. It has to be noted that the intercompany supply of seedling trees from the nursery to the new orchards is not eliminated in the consolidation. However this only impacts sales and orchard development costs but does not impact the consolidated cashflow or EBITDA's and therefore also does not impact the valuation model;
- The main assumptions regarding the price and volume development that drive the expected development of the future sales appear to be rather conservative because the assumptions do not include improvements in current price levels or production averages:
    - Market studies report that the Macadamia industry is expected to grow significantly in the coming years. For example Mordor Intelligence reports an expected CAGR of 6.6% between 2019 and 2024. The financial forecast

model assumes stable price levels for macadamia nuts whereas the price trend is expected to increase due to an ongoing gap between supply and demand that is expected for the next decade according to ABSA Bank (Barclays) Outlook 2017;
    - In comparison to an average Sound Kernel Rate of 28 - 30% in the region, the Welgevonden farm has reached crack-out rates up to 42% with an average of 36% on the total harvest in 2018 without having implemented irrigation for the entire orchard. The financial model however assumes an average crack-out rate of 30% in line with the average Sound Kernel Rate in the region.
- The costs of goods sold and the direct costs related to production are all based on either the number of hectares that have been developed or the expected production volumes and therefore increase in line with the expansion of the activities and orchards. Furthermore the indirect operational expenditures have all been specified in the forecasted profit & loss statements of the individual activities and orchards;
- The expected capital expenditures (capex) are mostly based on the investments for expanding the current activities as well as for establishing new orchards. The financial forecast model does not explicitly provide for "recurring" replacements capital expenditures but instead includes the annual maintenance and repair costs in the forecasted profit & loss statements.

Based on our analysis of the financial forecast model, we conclude that the model is quite comprehensive both with regards to the main input variables as well as the impact on output variables. Without having performed a due diligence on the information, it seems that the main input variables for the future development of volumes and sales appear to be realistic assumptions as they do not include any improvements compared to current market.

Assumptions indicative valuation & methodology

- The development of the activities of WelMac essentially entails that most of the capex requirements are concentrated in the first years and that after the orchards are planted the annual yields increase as the trees mature and therefore the annual sales also increases. New trees on average take 10 years to mature. This means that the cashflows of new orchards and therefore of WelMac are negative during the first few years, but increase significantly as more orchards are planted, trees mature and production volumes increase. Furthermore, besides the macadamia orchards the activities of WelMac also include the sale of seedling trees, processing of macadamia nuts and international marketing and sales activities. The DCF methodology can explicitly take the aforementioned development of the cashflows from the orchards into consideration as well as the development of the cashflows from the other business activities. Based on the aforementioned specific characteristics of the development of the WelMac activities with increasing cashflows in the coming ten years, the use of a DCF methodology seems to be a logical choice to be used in the valuation model of WelMac as it explicitly takes this development into account;
- The valuation model of WelMac uses a ten year forecast period. Due to the aforementioned ten year maturity period of the macadamia trees, it would seem

logical to also use a ten year forecast period as to provide for sufficient insight in the development of the future production volumes and sales;

- The valuation model applies an "exit multiple" of 9x EBIT, with a sensitivity analysis of 6x to 12x times EBIT, to calculate the terminal value for the period after the forecast period of ten years. The annual data analysis of public companies as performed by Aswath Damodaran (Professor of Finance at the Stern School of Business at New York University) reports an Enterprise Value to EBIT multiple of 18x for agriculture and farming industry. When market multiples of public companies are used for the valuation of private companies, a "small firm discount" is commonly applied between 20% to 40%. The valuation model applies a small firm discount of 50% (9x/18x = 50%), which is higher than the "normal" range of 20% to 40%. Therefore it does not seem to be unreasonable to apply an exit multiple of 9x to calculate the terminal value, especially in light of the significant growth trend of the macadamia industry as a whole;
- The applied sensitivity analysis for the discount rate of 9% to 14% clearly shows the impact of the discount rate on the enterprise value. A discount rate of 11,5%, the average of the sensitivity analysis, is used as a base for the calculation of the enterprise value of WelMac. Agricultural assets usually have a relatively low systematic market risk or Beta (The aforementioned annual data analysis of public companies as performed by Aswath Damodaran reports a unlevered Beta corrected for cash for agriculture/farming of 0,74) and have a relatively high borrowing capacity as there are significant underlying material fixed assets. Agricultural assets therefore typically have a rather low discount rate. A discount rate (the weighted average cost of capital) of 11,5% in our view therefore appears to be realistic;
- We do note that the valuation model does not explicitly include "country risk" in the applied discount rate. However, the financial forecast model and the valuation model also do not explicitly includes the foreign exchange development in which the South African Rand devalues compared to EUR or USD (the value of the Rand compared to EUR or USD has actually decreased by 50% in the last 15 years). As sales of macadamia nuts are all in EUR or USD, whereas all the costs of the local activities are based on the South African Rand, a devaluation means that the costs of the South African activities when expressed in EUR will decrease while the sales in EUR are not influenced by the foreign exchange development;
- As aforementioned, the main input variables for the development of the future volumes and sales appear to be conservative as they do not include any price increase (which are expected) and assume industry average yields (while Welgevonden has produced above average yields);
- The planned future expansion of WelMac described in the business plan is also included in the financial forecast model. The new activities of WelMac, i.e. the development of new orchards, the trading activities and the cracking facility have not yet been realized. However (detailed) plans have been made for these activities and potential partners have already been identified.

  We do note that the valuation model used to calculate the enterprise value of WelMac actually only includes the current activities of WelMac in South-Africa which have already been realized or are currently being developed. The development of, for example, new orchards together with OldMutual, which is expected to

commence in 2019-Q4 is not included in the forecasts that are used as a basis for the valuation model.
This means that the significant increase as a result of the development of new orchards in the total amount of hectares (quadrupling of the number of hectares of the Welgevonden farm) and in the future development of production volumes, sales, EBITDA's and cashflows is not included in the valuation model. The development of the new orchards therefore could therefore provide a significant upside that is not yet included in the outcome of indicative valuation. If the new orchards would have been included, the outcome of the valuation model would result in a calculated enterprise value of WelMac that is around 50% higher.

In our view the applied valuation method seems to be a logical choice. The underlying assumptions also seem to be reasonable.

Conclusion

Based on the second opinion we've performed, we conclude that the financial model is well structured and provides sufficient flexibility to adjust key variables and to analyse the impact of key variables. The use of both individual input and output models for the different activities and orchards allows for the analysis of both the different individual activities as well as WelMac as a whole, which provides the possibility to include or exclude certain activities from the consolidated financials and also clearly shows the impact of the new activities on the valuation.

Based on the financial forecast model and the valuation model, the calculated indicative valuation of EUR 62 million equity value (pre-money) seems sufficiently substantiated. It has to be noted however that the (unpredictable natural) calamities that can occur in the agriculture industry are not taken into account. However, as aforementioned the development of the new orchards is also not included in the valuation model.

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Kind regards,

Rembrandt Mergers & Acquisitions

Dennis van de Kamp

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