

2 Cheap Cars Group Limited

Independent Adviser's Report

In Respect of the Proposed Acquisition of Shares by David (Yusuke) Sena and Tompkins Wake Trustees 2022 Limited (as trustees of the Sena Family Trust) from Eugene Williams and TLR Williams Trustee Company Limited (as trustees of the E & Co Trust)

August 2023

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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1. Introduction

1.1 Background

2 Cheap Cars Group Limited (**2CC** or the **Company**) is one of New Zealand's largest used car retailers. The Company also offers third party finance and insurance options.

2CC's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of approximately \$23.7 million as at 25 August 2023. Its audited total equity was approximately \$16.2 million as at 31 March 2023.

A profile of 2CC is set out in section 3.

1.2 David (Yusuke) Sena and Tompkins Wake Trustees 2022 Limited

David (Yusuke) Sena and Tompkins Wake Trustees 2022 Limited (as trustees of the Sena Family Trust) (the **Sena Trustees**) are 2CC's largest major shareholder. They currently hold 20,906,993 ordinary shares in the Company, representing 45.89% of the shares on issue.

David (Yusuke) Sena is the co-founder of the Company and is a non-independent executive director of 2CC.

Mr Sena is a trustee and a beneficiary of the Sena Family Trust.

1.3 Eugene Williams and TLR Williams Trustee Company Limited

Eugene Williams and TLR Williams Trustee Company Limited (as trustees of the E & Co Trust) (the **Williams Trustees**) are 2CC's second largest shareholder. They currently hold 13,679,934 ordinary shares in the Company, representing 30.03% of the shares on issue.

Eugene Williams is the co-founder and a former director of 2CC. He resigned as a director on 19 July 2022.

Mr Williams is a trustee and a beneficiary of the E & Co Trust.

1.4 Proposed Acquisition of Shares

On 28 July 2023, the Sena Trustees and the Williams Trustees entered into a conditional *Agreement for Sale and Purchase of Shares in 2 Cheap Cars Group Limited* (the **ASP**), under which the Sena Trustees will acquire the 13,679,934 ordinary shares in 2CC held by the Williams Trustees at a price of \$0.32 per share (the **Share Acquisition**).

Completion of the Share Acquisition is conditional upon the Company's shareholders not associated with the Sena Trustees or the Williams Trustees (the **Non-associated Shareholders**) approving the Share Acquisition by way of an ordinary resolution.

1.5 Impact of the Share Acquisition on Shareholding Levels

The Share Acquisition will result in the Sena Trustees' shareholding increasing by 30.03% from 45.89% to 75.92% and the Williams Trustees' shareholding reducing from 30.03% to nil.

Mr Sena's parents (Humi Sena and Kosuke Sena) are deemed to be associates of the Sena Trustees. They collectively hold 270,000 ordinary shares (0.59%).

We refer to the Sena Trustees, Humi Sena and Kosuke Sena collectively as the **Sena Associates**. The Sena Associates currently hold 46.49% of the Company's ordinary shares.

Following the Share Acquisition, the Sena Associates will hold 76.52% of the Company's ordinary shares.

The Non-associated Shareholders' shareholdings in the Company will not change. They will collectively hold 23.48% of the ordinary shares in the Company before and after the Share Acquisition.

Impact of the Share Acquisition on Shareholding Levels					
	Current		Share Acquisition	Post the Share Acquisition	
	No. of Shares	%	No. of Shares	No. of Shares	%
Sena Trustees	20,906,993	45.89%	13,679,934	34,586,927	75.92%
Humi Sena and Kosuke Sena	270,000	0.59%	-	270,000	0.59%
Sena Associates	21,176,993	46.49%	13,679,934	34,856,927	76.52%
Williams Trustees	13,679,934	30.03%	(13,679,934)	-	-
Non-associated Shareholders	10,697,573	23.48%	-	10,697,573	23.48%
	<u>45,554,500</u>	<u>100.00%</u>	<u>-</u>	<u>45,554,500</u>	<u>100.00%</u>

1.6 Summary of Opinion

Our evaluation of the merits of the Share Acquisition as required under the Takeovers Code (the **Code**) is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the Share Acquisition outweigh the negative aspects from the perspective of the Non-associated Shareholders.

1.7 Annual Meeting

2CC is holding its annual meeting of shareholders on 28 September 2023 where the Company will seek shareholder approval of the Share Acquisition (resolution 2) (the **Share Acquisition Resolution**).

The resolution is an ordinary resolution, which is a resolution passed by a simple majority of votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

The Sena Trustees and the Williams Trustees and their respective associates (as defined in the Code) are not permitted to vote on the Share Acquisition Resolution.

The Company's shareholders will also vote on an ordinary resolution at the annual meeting in respect of the Company's auditor's remuneration (resolution 1).

1.8 Regulatory Requirements

2CC is a code company as defined by the Code and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls no voting rights or less than 20% of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company
- a person who holds or controls 20% or more of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company

unless done in compliance with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(c) of the Code, enables a person to increase its holding or control of voting rights by an acquisition of shares if the acquisition is approved by an ordinary resolution of the code company (on which none of that person, the person disposing of the shares and their respective associates, may vote).

The Share Acquisition will result in the Sena Associates increasing their control of the voting rights in 2CC from 46.49% to 76.52%.

Accordingly, the Non-associated Shareholders will vote at the Company's annual meeting on the Share Acquisition Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an acquisition under Rule 7(c).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 15(h).

1.9 Purpose of the Report

The 2CC directors not associated with the Sena Associates or the Williams Trustees, being Michael Stiasny and Gordon Shaw (the **Non-associated Directors**), have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Share Acquisition in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 10 August 2023 to prepare this Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Non-associated Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Share Acquisition Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Share Acquisition in relation to each shareholder. This report on the merits of the Share Acquisition is therefore necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Share Acquisition

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Share Acquisition having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

In the absence of an explicit definition of merits, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers* dated 11 March 2021
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Share Acquisition should focus on:

- the rationale for the Share Acquisition
- the terms and conditions of the Share Acquisition
- the impact of the Share Acquisition on the control of 2CC
- the impact of the Share Acquisition on 2CC's share price
- other issues associated with the Share Acquisition
- the implications if the Share Acquisition Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Share Acquisition

The Share Acquisition involves the acquisition of 30.03% of the ordinary shares in the Company by the Sena Trustees from the Williams Trustees, resulting in the Sena Associates holding 76.52% of 2CC's ordinary shares and the Williams Trustees no longer holding any ordinary shares in the Company.

The Non-associated Shareholders have 3 alternatives with regard to their voting on the Share Acquisition Resolution:

- vote in favour of the resolution, in which case, if sufficient votes are cast in favour of the resolution, the Share Acquisition will proceed, or
- vote against the resolution. In the event that the resolution is not passed, then the Share Acquisition will not proceed and the Williams Trustees will retain their 30.03% shareholding, or
- abstain from voting, in which case the voting of the other Non-associated Shareholders will determine the outcome.

In our opinion, the positive aspects of the Share Acquisition outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits of the Share Acquisition is set out in detail in sections 2.3 to 2.9.

In summary, the positive aspects of the Share Acquisition, from the perspective of the Non-associated Shareholders, are:

- the rationale for the Share Acquisition is sound:
 - the Share Acquisition arises following a well-publicised breakdown in the relationship between Mr Sena and Mr Williams, which has resulted in negative impacts on the Company, including a complete change in the composition of 2CC’s board of directors (the **Board**) non-executive directors in 2022
 - we do not consider it to be in the Company’s nor the Non-associated Shareholders’ best interests for the potential for conflict between 2CC’s 2 largest shareholders to remain
 - given the liquidity (or lack thereof) of the Company’s shares, we do not consider it feasible for the Williams Trustees to be able to sell their 30.03% shareholding at a reasonable price over a relatively short timeframe other than via the Share Acquisition
- the terms and conditions of the Share Acquisition are reasonable
- the Sena Trustees have agreed to reimburse the Company’s reasonable costs associated with the Share Acquisition Resolution.

In summary, the negative aspects of the Share Acquisition, from the perspective of the Non-associated Shareholders, are:

- the Share Acquisition will have a significant impact on the level of control over shareholder voting from the perspective of the Non-associated Shareholders:
 - currently the Sena Associates control 46.49% of the Company’s voting rights and can singlehandedly block a special resolution but cannot singlehandedly pass a special resolution nor (technically) determine the outcome of an ordinary resolution (although in reality they probably can as not all shareholders tend to vote on resolutions)
 - following the Share Acquisition, the Sena Associates will be able to singlehandedly determine the outcome of any special resolution or ordinary resolution
 - however, it should be noted that the Williams Trustees’ current 30.03% shareholding also enables them to singlehandedly block resolutions. If the Sena Associates and the Williams Trustees vote in the same manner at present, the 2 shareholders can currently collectively determine the outcome of any special resolution or ordinary resolution
- the Sena Trustees cannot currently utilise the *creep provisions* of the Code, which enable entities that hold more than 50% but less than 90% of the voting securities in a code company to acquire up to a further 5% of the code company’s shares per annum. Following the Share Acquisition, the Sena Trustees will be able to utilise the *creep provisions* 12 months after the Share Acquisition is completed.

In summary, from the perspective of the Non-associated Shareholders, the Share Acquisition is unlikely to have any material impact on the following matters:

- to the best knowledge of the Non-associated Directors, the Share Acquisition will have no impact on the composition of 2CC's Board in the near term
- the Share Acquisition will have no impact on the level of control exerted over the Company's operations by Mr Sena
- the Share Acquisition is unlikely to have any significant impact on 2CC's current share price
- the Share Acquisition is unlikely to have an impact on the liquidity of 2CC's shares unless the Sena Associates decide to sell some or all of their shareholding
- the Share Acquisition will have no dilutionary impact on the Non-associated Shareholders' voting rights as no new shares will be issued
- the Share Acquisition is unlikely to have an impact on the attraction of 2CC as a takeover target to any significant degree.

The implications of the Share Acquisition Resolution not being approved by the Non-associated Shareholders are that the Share Acquisition cannot proceed and the Williams Trustees will continue to hold 30.03% of the Company's shares. Given that there has been a fundamental breakdown in the relationship between Mr Sena and Mr Williams which has resulted in negative impacts on 2CC, this is unlikely to be beneficial to the Company. Furthermore, we consider that it would be difficult for the Williams Trustees to sell their shareholding in an alternative transaction and / or on-market.

2.3 Rationale for the Share Acquisition

The Share Acquisition arises due to a fundamental breakdown in the relationship between the Company's co-founders – David (Yusuke) Sena and Eugene Williams.

2CC announced on 19 July 2022 that there was a breakdown in the relationship between Mr Sena and Mr Williams and that Mr Williams, along with the Company's 3 non-executive directors, had resigned from the Board (the **Relationship Breakdown Announcement**).

The impact of the relationship breakdown has resulted in a variety of adverse effects on 2CC's operations and governance, including:

- directors resigning and the eventual mass Board walk out
- the Company's chief executive officer resigning
- a hastily convened new Board established just prior to the Company's 2022 annual general meeting
- newly appointed directors Michael Stiasny as chair and fellow independent director Gordon Shaw having to spend significant time trying to right the ship, including Mr Shaw stepping in as interim chief executive officer for a period
- the resignation of the Company's auditors
- the loss of the Company's bankers
- the need to appoint a new chief executive officer (Paul Millward). Since Mr Millward's appointment, there has been an almost complete replacement of the executive team.

Since the Relationship Breakdown Announcement, Mr Williams has been looking to exit his shareholding in the Company (held via the Williams Trustees).

The Sena Trustees have agreed to purchase the Williams Trustees' remaining shareholding of 13,679,934 ordinary shares to alleviate the potential continuing adverse effects of the relationship breakdown on 2CC's ongoing operations.

The Non-associated Directors have stated that if the breakdown in the relationship between Mr Sena and Mr Williams is left unresolved, it has the potential to continue to be a significant distraction to the governance and operation of the Company, given the size of the Williams Trustees' shareholding. The Non-associated Directors see the Share Acquisition as a practical way for the Company to move forward by eliminating future potential conflicts between Mr Sena and Mr Williams in respect of the Company's governance and operations.

In our view, the rationale for the Share Acquisition is sound:

- the breakdown in the relationship between Mr Sena and Mr Williams has been well publicised and resulted in a number of adverse impacts on the Company, including a complete change in the composition of the Board's non-executive directors in 2022
- we do not consider it to be in the Company's nor the Non-associated Shareholders' best interests for the potential for conflict between 2CC's 2 largest shareholders to remain
- given the liquidity (or lack thereof) of the Company's shares, we do not consider it feasible for the Williams Trustees to be able to sell their shareholding (either on-market or off-market) at a reasonable price over a relatively short timeframe.

2.4 Terms and Conditions of the Share Acquisition

Key Terms of the ASP

The Sena Trustees and the Williams Trustees entered into the ASP on 28 July 2023.

The key terms of the ASP are:

- the Sena Trustees will acquire 13,679,934 ordinary shares from the Williams Trustees
- the purchase price for the shares is \$4,377,578.88, being \$0.32 per share
- the Share Acquisition is conditional on approval of the transaction by an ordinary resolution in accordance with Rule 7(c) of the Code
- completion will be undertaken 3 business days after the condition is satisfied
- if shareholder approval is not obtained at the annual general meeting or such other date that the Sena Trustees and the Williams Trustees agree, then either party may terminate the ASP by notice in writing to the other.

Reasonableness of the Share Acquisition Price of \$0.32 per Share

In our view, the key term of the Share Acquisition from the perspective of the Non-associated Shareholders is the acquisition price of \$0.32 per share.

We are advised that the price was negotiated between Mr Sena and Mr Williams.

We are of the view that the acquisition price of \$0.32 per share is reasonable:

- given the significant size of the Williams Trustees' shareholding and
- when viewed in comparison with the prices achieved by the Williams Trustees when selling a portion of their shareholding immediately prior to entering into the ASP.

Mr Williams' last substantial product holder disclosure (dated 18 February 2022) prior to the Relationship Breakdown Announcement stated that the Williams Trustees held 15,903,990 ordinary shares in the Company, representing 34.91% of the Company's shares.

The Williams Trustees sold 200,000 ordinary shares on 11 February 2022 at \$0.92 per share.

2CC's share price immediately before the Relationship Breakdown Announcement was \$0.65 on 18 July 2022. It dropped by 28% to \$0.47 immediately after the Relationship Breakdown Announcement on 19 July 2022.

Since the Relationship Breakdown Announcement, the Williams Trustees have sold 2,024,056 ordinary shares (4.44%) on-market between 5 May 2023 and 21 June 2023 at a volume weighted average share price (**VWAP**) of \$0.269.

The most recent sales of 170,606 ordinary shares between 19 and 21 June 2023 were at a VWAP of \$0.273.

The acquisition price of \$0.32 per share is at a premium of approximately 19% to the VWAP achieved by the Williams Trustees on the recent on-market sales immediately prior to entering into the ASP.

2.5 Impact on Control

Shareholding Voting

2CC currently has 45,554,500 fully paid ordinary shares on issue held by 188 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 8 August 2023 are set out in section 3.6.

The Share Acquisition will result in the Sena Associates' control of the voting rights in the Company increasing by 30.03% from 46.49% to 76.52%.

At present, the Sena Associates are able to singlehandedly block any special resolutions (which require the approval of 75% of the votes cast by shareholders) but they cannot singlehandedly pass any special resolutions and cannot singlehandedly determine the outcome of any ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

However, while a 46.49% shareholding is technically not sufficient to singlehandedly pass or block an ordinary resolution, it most probably can as a number of shareholders in widely held companies (such as 2CC with over 180 shareholders) tend not to vote on resolutions and hence the relative weight of the 46.49% interest increases.

The Williams Trustees' current 30.03% shareholding also allows them to singlehandedly block any special resolutions but they cannot singlehandedly pass any special resolutions or determine the outcome of any ordinary resolutions.

We note however that currently if the Sena Associates and the Williams Trustees were to vote in the same manner, the 2 shareholders could collectively determine the outcome of any special resolution or ordinary resolution.

Following the Share Acquisition, the Sena Associates' level of control over shareholder voting will change significantly, in that they will be able to singlehandedly determine the outcome of any special resolution or ordinary resolution, subject always to applicable voting restrictions under the NZX Listing Rules and the Companies Act 1993 (the **Act**).

Protection for Minority Shareholders

While the Sena Associates will have significant control over 2CC, they cannot act in an oppressive manner against minority shareholders. The Act provides a level of protection to minority shareholders. Furthermore, any transactions between 2CC and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the NZX Listing Rules with respect to material transactions with related parties.

Increasing Shareholding Levels

Following the Share Acquisition, the Sena Associates will not be able to further increase their shareholding in 2CC unless they comply with the provisions of the Code. The Sena Associates will only be able to acquire more shares in 2CC if:

- they make a full or partial takeover offer or
- a share acquisition is approved by way of an ordinary resolution of shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and the Sena Trustees do not accept the offer of the buyback
- the Sena Trustees utilise the *creep provisions* of the Code.

The *creep provisions* enable entities that hold more than 50% but less than 90% of the voting securities in a code company to acquire up to a further 5% of the code company's shares per annum.

The Sena Trustees are currently not able to utilise the *creep provisions* but would be able to do so 12 months after the completion of the Share Acquisition.

Humi Sena and Kosuke Sena would not be able to utilise the *creep provisions*.

Board of Directors

The directors of 2CC are:

- David (Yusuke) Sena, non-independent executive director
- Gordon Shaw, independent non-executive director
- Michael Stiassny, independent non-executive chair.

Eugene Williams resigned as a director on 19 July 2022.

The Non-associated Directors have advised us that as far as they are aware, the Share Acquisition will have no impact on the composition of the Board in the near term.

However, as noted above, following the Share Acquisition, the Sena Associates will have the ability to singlehandedly pass any special resolution or ordinary resolution, including any resolution in respect of the appointment of a director to the Board.

Operations

Mr Sena is in charge of group operations for 2CC. He is responsible for the purchasing and delivery of vehicles from Japan to New Zealand and all domestic operations to ensure the purchased cars are compliant and of a high quality to retail. This includes:

- paint and panel services
- mechanical services
- grooming
- aftercare.

The Non-associated Directors have advised us that they do not expect the Share Acquisition to have any impact on the level of control exerted by Mr Sena over the Company's operations.

2.6 Impact on Share Price and Liquidity

Set out in section 3.10 is a summary of 2CC's daily closing share price and monthly volumes traded from 25 February 2021 to 25 August 2023.

During the period, 2CC's shares traded between \$1.30 (on 25 and 26 February 2021) and \$0.23 (on 19 and 26 May 2023) at a VWAP of \$0.73.

Share Price Unlikely to be Impacted

The Share Acquisition will be undertaken at \$0.32 per share. As discussed in section 2.4, we are advised that the acquisition price was negotiated between Mr Sena and Mr Williams. We consider the acquisition price to be reasonable.

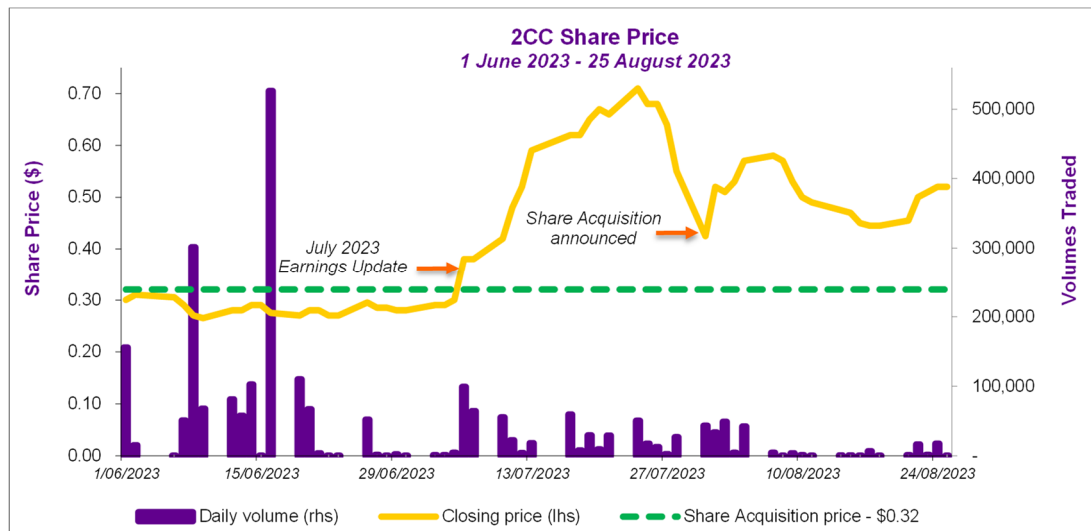
In our view, the Share Acquisition is unlikely to have any significant impact on 2CC's current share price.

The graph that follows shows that the Company's share price was consistently below the acquisition price of \$0.32 between 1 June 2023 and up until the Company released an earnings update on 6 July 2023 (the **July 2023 Earnings Update**), when 2CC revised its net profit after tax guidance for the 2024 financial year upwards from between \$3.8 million and \$4.2 million to between \$4.2 million and \$5.0 million.

The July 2023 Earnings Update resulted in the Company's share price steadily increasing from \$0.38 on 6 July 2023 to a high of \$0.71 on 24 July 2023, before dropping back to \$0.64 by 27 July 2023 (the day before the Share Acquisition was announced).

2CC's share price dropped by 14% to \$0.55 on 28 July 2023 after the announcement of the Share Acquisition.

Since then, the shares have traded between \$0.425 and \$0.58 at a VWAP of \$0.507 (up to 25 August 2023).



Given that the Company's shares have consistently traded above the acquisition price of \$0.32 since the announcement of the Share Acquisition, we are of the view that the Share Acquisition is unlikely to have any significant impact on 2CC's current share price.

In our view, the July 2023 Earnings Update is likely to be the strongest influencer of 2CC's current share price.

Liquidity of 2CC Shares Unlikely to Change

Trading in the Company's shares is extremely thin, reflecting that the Sena Associates and the Williams Trustees hold 46.49% and 30.03% of 2CC's shares respectively and the top 10 shareholders collectively hold 88.79% of the shares.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 25 August 2023 is set out in section 3.10.

The shares traded on 244 days in the year to 25 August 2023, with 8.5% of the Company's shares traded over that period.

The number of shares held by the Non-associated Shareholders will not change under the Share Acquisition. Therefore the liquidity of the 2CC shares is unlikely to change unless the Sena Associates subsequently decide to sell some or all of their shareholdings or other changes in the Company's share capital occur.

2.7 Other Issues

No Dilutionary Impact

As the Share Acquisition is a transfer of existing shares from the Williams Trustees to the Sena Trustees, it will have no dilutionary impact on the Non-associated Shareholders. No new shares are being issued by the Company.

The Attraction of 2CC as a Takeover Target is Unlikely to Change Significantly

In our view, the Share Acquisition is unlikely to have any significant impact on the attraction of 2CC as a takeover target.

Given that Mr Sena was instrumental in the compliance listing of 2CC in February 2021, his desire to take the Company private is unlikely to be influenced by whether the Sena Associates hold 46.49% or 76.52% of the Company's ordinary shares.

Any other bidder currently looking to make a takeover offer for the Company would need to ensure that both the Sena Associates and the Williams Trustees would accept its offer.

Following the Share Acquisition, any other bidder looking to make a takeover offer would need to ensure that the Sena Associates would accept its offer. Dealing with just one major shareholding rather than 2 may make it marginally easier for a bidder looking to make a takeover offer.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(c) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Share Acquisition.

The Share Acquisition will not proceed unless the Non-associated Shareholders approve the Share Acquisition Resolution.

No Impact on Financial Position

As the Share Acquisition is a transfer of existing shares and does not alter the Company's capital structure, it will have no direct impact on 2CC's financial position.

No Change in Business Risk

Similarly, the Share Acquisition will have no immediate impact on the business risks faced by the Company.

2CC's Costs to be Reimbursed

The Sena Trustees have agreed to reimburse the Company's reasonable costs associated with the Share Acquisition Resolution.

2.8 Likelihood of the Share Acquisition Resolution Being Approved

The Non-associated Directors have stated in the notice of annual meeting that they recommend voting in favour of the Share Acquisition Resolution.

The Share Acquisition Resolution is an ordinary resolution. The Sena Trustees and the Williams Trustees and their respective associates cannot vote on the Share Acquisition Resolution.

The Non-associated Shareholders collectively hold 23.48% of the Company's shares. If all of the Non-associated Shareholders' shares are voted, then at least 11.75% of the shares must be voted in favour of the Share Acquisition Resolution for it to pass.

2.9 Implications if the Share Acquisition Resolution is not Approved

If the Share Acquisition Resolution is not approved, the Share Acquisition cannot proceed and the Williams Trustees will retain their 30.03% shareholding.

As set out in section 2.3, there has been a fundamental breakdown in the relationship between Mr Sena and Mr Williams and they have decided that the Share Acquisition is the best way to resolve the matter, with Mr Williams totally exiting his association with 2CC.

If the Share Acquisition does not proceed, the potential for further adverse effects on the Company due to the relationship breakdown between the Company's 2 largest shareholders will not have been resolved.

The Williams Trustees may look to undertake a similar transaction to the Share Acquisition in the future or sell their 30.03% shareholding to another party. Either approach will require shareholder approval or the prospective purchaser making a takeover offer. Either scenario will lead to the Company incurring additional costs.

Alternatively, the Williams Trustees may continue to sell down their shareholding on-market. The *overhang* of such a large parcel of shares being offered for sale on the market is likely to place continued downward pressure on the Company's share price.

2.10 Voting For or Against the Share Acquisition Resolution

Voting for or against the Share Acquisition Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of 2 Cheap Cars Group Limited

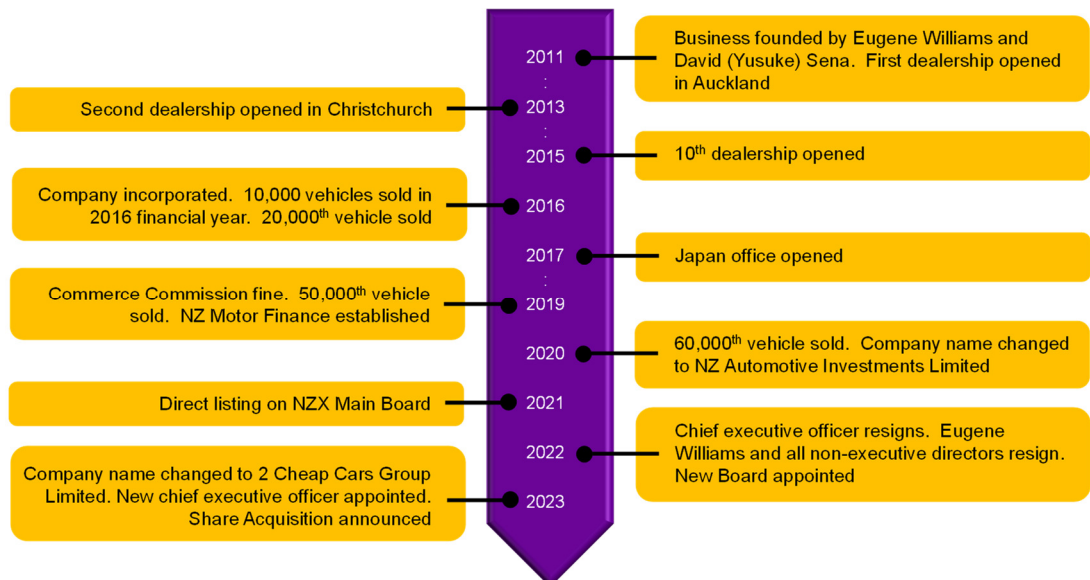
3.1 Background

The 2CC business was founded by David (Yusuke) Sena and Eugene Williams in 2011.

The Company was incorporated on 14 October 2016 as 2CC Holding Limited. It changed its name to NZ Automotive Investments Limited on 19 November 2020 and to 2 Cheap Cars Group Limited on 26 June 2023.

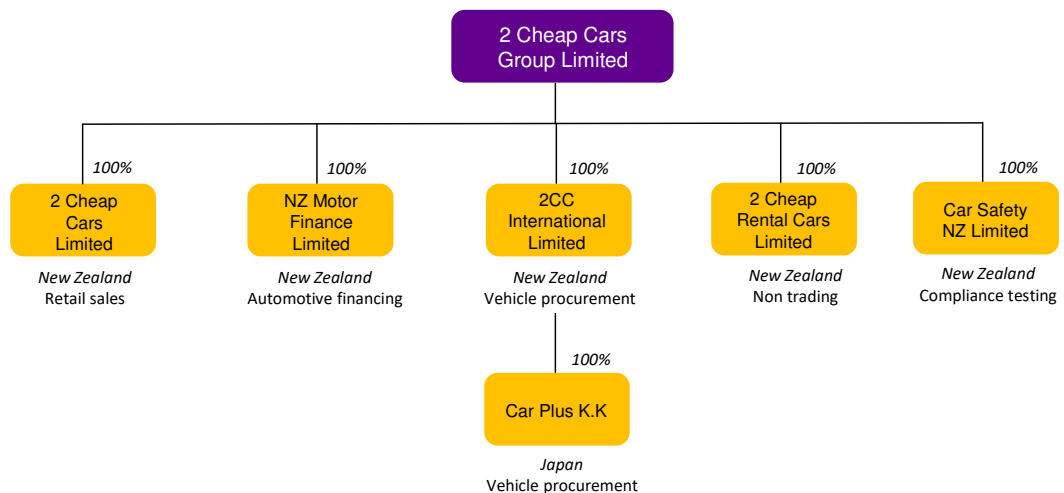
2CC's shares were listed on the NZX Main Board on 25 February 2021 by way of a direct listing (ie no fresh equity was raised). As part of the direct listing, 2CC issued an NZX Listing Profile dated 25 February 2021 (the **2CC Listing Profile**).

The Company's key events are set out below.



3.2 Group Structure

The 2CC group consists of 2CC and 6 subsidiaries.



3.3 Overview of 2CC's Operations

2CC is a nationwide leading retailer of quality, affordable vehicles and offers competitive third-party finance and insurance options.

The Company has 12 dealerships nationwide:

- Auckland (7)
- Hamilton
- Tauranga
- Palmerston North
- Wellington
- Christchurch.

The Company is one of New Zealand's largest used vehicle retailers. It sold 8,367 vehicles in the 2023 financial year, accounting for a 4.5% market share.

With a vertically integrated supply chain, 2CC benefits from a Japanese-based team who source, inspect and choose vehicles most suitable to the New Zealand market.

Once landed in New Zealand, vehicles arrive at the Company's processing hub and are groomed and serviced, undergo further mechanical checks for quality control, photographed and dispatched to 2CC's dealerships.

Gaining greater control over its supply chain by insourcing additional activities means the Company reduces costs and gets vehicles online and onto yards faster.

2CC is in the process of transitioning its business model to focus solely on the vehicle retail business. As a result, NZ Motor Finance Limited's (2CC's finance company's) loan book is now in 'run down' mode and 2CC will act as a finance agent going forward.

3.4 Corporate Strategy

2CC's mission is to develop on its promise – *2 Cheap Cars, driving better deals, every day.*

2CC's corporate strategy focus is on:

- supply chain leadership
- retail footprint to win
- gross margin expansion
- digital to deliver
- customer experience.

3.5 Directors and Senior Management

The Board consists of 3 directors:

- David (Yusuke) Sena, non-independent executive director
- Gordon Shaw, independent non-executive director
- Michael Stiassny, independent non-executive chair.

The Company's senior management team consists of:

- Paul Millward, chief executive officer
- Angus Guerin, chief financial officer
- David (Yusuke) Sena, procurement and supply chain.

3.6 Capital Structure and Shareholders

2CC currently has 45,554,500 fully paid ordinary shares on issue held by 188 shareholders.

The names, number of shares and percentage holding of 2CC's 10 largest shareholders as at 8 August 2023 are set out below.

2CC's 10 Largest Shareholders		
Shareholder	No. of Shares	%
Sena Trustees	20,906,993	45.89%
Williams Trustees	13,679,934	30.03%
New Zealand Depository Nominee Limited	1,596,826	3.51%
Hobson Wealth Custodian Limited	1,160,000	2.55%
Citibank Nominees (New Zealand) Limited	1,017,491	2.23%
Accident Compensation Corporation	537,500	1.18%
Nicolas Purcell	500,000	1.10%
Austen Kyle	466,452	1.02%
Forsyth Barr Custodians Limited	293,133	0.64%
Ace Finance Limited	290,000	0.64%
Top 10 shareholders	40,448,329	88.79%
Others (178 shareholders)	5,106,171	11.21%
Total	45,554,500	100.00%

Source: Computershare

3.7 Financial Performance

A summary of 2CC's recent financial performance is set out below.

Summary of 2CC Financial Performance			
	Year to 31 Mar 21 (Audited) \$000	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000
Revenue and income	66,125	65,956	82,737
Cost of sales	(51,688)	(51,680)	(67,905)
Gross profit	14,437	14,276	14,832
Operating expenses	(7,361)	(8,612)	(9,788)
EBITDA	7,076	5,664	5,044
Depreciation	(1,972)	(1,779)	(2,134)
EBIT	5,104	3,885	2,910
Finance expenses	(413)	(689)	(1,090)
Profit before income tax	4,691	3,196	1,820
Income tax expense	(1,492)	(602)	(528)
Profit for the period	3,199	2,594	1,292

EBITDA: Earnings before interest, taxation, depreciation and amortisation
EBIT: Earnings before interest and taxation

Source: 2CC annual reports

Revenue consists mainly of the sale of vehicles, as well as finance and insurance agent commissions and finance and interest income.

Cost of sales mainly represent the costs associated with the purchase of vehicles.

The Company's main operating expenses are:

- administrative expenses
- employee benefits
- advertising expenses
- property expenses.

3.8 Financial Position

A summary of 2CC's recent financial position is set out below.

Summary of 2CC Financial Position			
	As at 31 Mar 21 (Audited) \$000	As at 31 Mar 22 (Audited) \$000	As at 31 Mar 23 (Audited) \$000
Current assets	24,309	24,905	17,451
Non current assets	10,115	12,698	11,371
Total assets	<u>34,424</u>	<u>37,603</u>	<u>28,822</u>
Current liabilities	(13,808)	(16,657)	(6,570)
Non current liabilities	(5,003)	(5,833)	(6,078)
Total liabilities	<u>(18,811)</u>	<u>(22,490)</u>	<u>(12,648)</u>
Total equity	<u>15,613</u>	<u>15,113</u>	<u>16,174</u>

Source: 2CC annual reports

2CC's current assets as at 31 March 2023 consisted mainly of:

- inventories – \$8.4 million
- cash – \$3.8 million
- prepayments – \$2.6 million
- loan receivables – \$1.8 million.

Non current assets as at 31 March 2023 consisted mainly of:

- right of use assets – \$7.5 million
- loan receivables – \$2.1 million
- property, plant and equipment – \$1.3 million.

Current liabilities as at 31 March 2023 comprised mainly:

- trade and other payables – \$2.7 million
- lease liabilities – \$1.9 million.

Non current liabilities as at 31 March 2023 consisted of lease liabilities – \$6.1 million.

The Company had equity of \$16.2 million as at 31 March 2023, comprising:

- share capital – \$39.3 million
- retained earnings – \$12.9 million
- reserves – negative \$36.0 million.

3.9 Cash Flows

A summary of 2CC's recent cash flows is set out below.

Summary of 2CC Cash Flows			
	Year to 31 Mar 21 (Audited) \$000	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000
Net cash inflow / (outflow) from operating activities	5,919	(2,497)	13,573
Net cash (outflow) from investing activities	(157)	(414)	(167)
Net cash inflow / (outflow) from financing activities	742	(1,477)	(13,506)
Net increase / (decrease) in cash held	6,504	(4,388)	(100)
Opening cash balance	1,775	8,267	3,790
Effect of exchange rate	(12)	(89)	77
Closing cash balance	<u>8,267</u>	<u>3,790</u>	<u>3,767</u>

Source: 2CC audited annual reports

2CC incurred cash losses from its operations in the 2022 financial year due mainly to the COVID-19 restrictions resulting in its dealership network being restricted from fully operating for a total of 108 days.

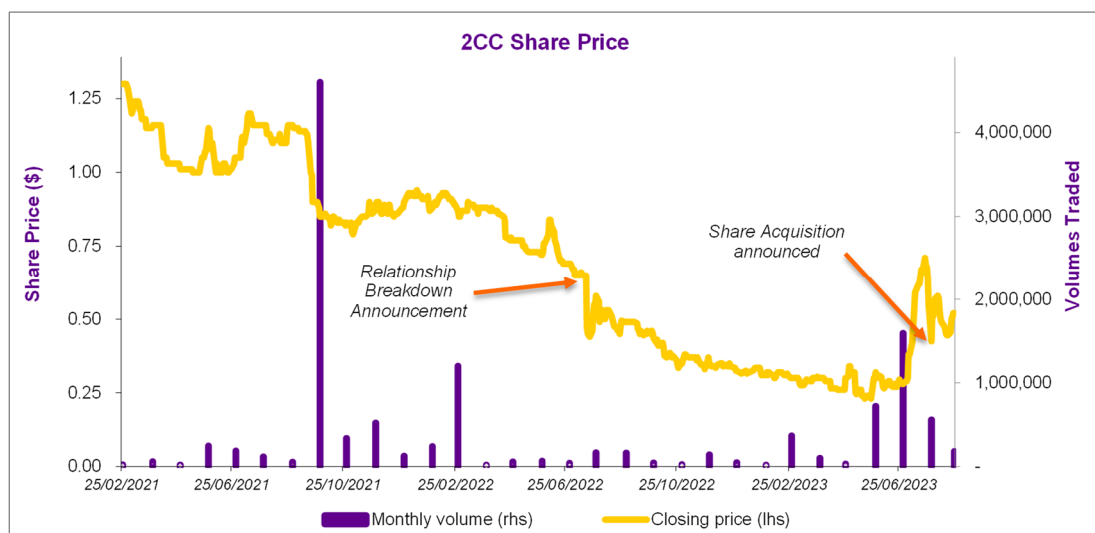
2CC's financing activities have included:

- \$3.6 million raised in the 2021 financial year from the issue of ordinary shares
- \$3.4 million raised in the 2022 financial year from trade finance advances
- \$10.9 million paid in the 2023 financial year in respect of trade finance repayments.

3.10 Share Price History

2CC's shares listed on the NZX Main Board on 25 February 2021 at a price of \$1.30.

Set out below is a summary of 2CC's daily closing share price and monthly volumes of shares traded from 25 February 2021 to 25 August 2023.



Source: NZX Company Research

During the period, 2CC's shares traded between \$0.23 and \$1.30 at a VWAP of \$0.73.

An analysis of 2CC's recent VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 25 August 2023 is set out below.

Share Trading up to 25 August 2023					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	0.43	0.68	0.52	268	0.6%
3 months	0.23	0.71	0.34	2,623	5.8%
6 months	0.23	0.71	0.33	3,221	7.1%
12 months	0.23	0.71	0.33	3,860	8.5%

Source: NZX Company Research

The analysis highlights the relatively thin trading in the Company's shares. Only 8.5% of the Company's shares traded in the past year on 244 days.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual meeting
- the ASP dated 28 July 2023
- the 2CC annual reports for the years ended 31 March, 2022 and 2023
- the 2CC *FY23 results Presentation* dated 29 May 2023
- the 2CC Listing Profile
- data in respect of 2CC from NZX Company Research and S&P Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Share Acquisition that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by 2CC to the Non-associated Shareholders is sufficient to enable the Non-associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Share Acquisition.

4.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by 2CC and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of 2CC. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of 2CC will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of 2CC and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of annual meeting issued by 2CC and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

4.4 Indemnity

2CC has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. 2CC has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFENZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with 2CC, the Sena Associates or the Williams Trustees or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Share Acquisition.

Simmons Corporate Finance has not had any part in the formulation of the Share Acquisition or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Share Acquisition Resolution. We will receive no other benefit from the preparation of this report.

5.3 Declarations

An advance draft of this report was provided to the Non-associated Directors for their comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

5.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual meeting to be sent to the Non-associated Shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons
Director

Simmons Corporate Finance Limited

28 August 2023