

# Tru-Test Corporation Limited

## Independent Adviser's Report

### In Respect of KTT Partnership Limited Increasing its Control of Voting Rights

*September 2016*

#### 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
- 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 Independent Adviser's Report.

## Index

<b>Section</b>	<b>Page</b>
1. Introduction .....	1
2. Evaluation of the Merits of the Share Acquisition .....	4
3. Profile of Tru-Test .....	8
4. Sources of Information, Reliance on Information, Disclaimer and Indemnity .....	16
5. Qualifications and Expertise, Independence, Declarations and Consents .....	18

## 1. Introduction

### 1.1 Background

Tru-Test Corporation Limited (**Tru-Test** or **the Company**) is a New Zealand-based world leader in agri-technology. The Company is a world leader in the manufacture and distribution of milk metering equipment, stainless steel farm holding tanks (**FHTs**), electric fencing and livestock scales and a New Zealand leader in contract manufacturing.

Tru-Test is a widely held, non-listed company with 99 shareholders. It had revenue of \$141 million for the year ended 31 March 2016 and equity of \$10 million as at 31 March 2016.

Tru-Test currently has a total of 42,649,270 shares on issue:

- 36,525,823 fully paid ordinary shares:
  - 34,700,948 shares held by 98 shareholders
  - 1,824,875 shares held by Tru-Test as treasury stock
- 6,123,447 convertible redeemable preference shares (**CRPS**) held by AGR Agricultural Investments LLC (**AGR**). Each CRPS has the same voting right as an ordinary share. The CRPS also confer upon AGR approval rights over certain matters over Tru-Test's operations.

A profile of Tru-Test is set out in section 3.

### 1.2 Proposed Share Acquisition

KTT Limited Partnership (**KTT**) is the Company's largest shareholder. It holds 14,476,436 ordinary shares, representing:

- 33.94% of the Company's total shares on issue (including the CRPS)
- 35.46% of the Company's voting rights.

KTT is a limited partnership formed by Kestrel Capital Pty Limited, an Australian private equity and venture capital manager based in Sydney. Kestrel TT GP Limited is KTT's general partner. We refer to the 3 entities collectively as KTT.

Ashweir Limited (**Ashweir**) is the third largest shareholder in Tru-Test. It holds 3,200,000 ordinary shares, representing:

- 7.50% of the Company's total shares on issue (including the CRPS)
- 7.84% of the Company's voting rights.

Ashweir is a limited liability company incorporated in the United Kingdom.

On 29 August 2016, KTT and Ashweir entered into an agreement (the **KTT Ashweir Agreement**) whereby:

- Ashweir will transfer its 3,200,000 Tru-Test ordinary shares to KTT (the **Share Acquisition**)
- Ashweir will be admitted to KTT as an additional limited partner
- the transfer of the Tru-Test shares by Ashweir will be treated as Ashweir's contribution to the committed capital of KTT.

### 1.3 Impact of the Share Acquisition on Voting Control

The Share Acquisition will result in KTT increasing its control of the voting rights in Tru-Test from 35.46% to 43.30%.

The Company's shareholders not associated with KTT or Ashweir (the **Non-associated Shareholders**) currently collectively hold 58.55% of the Company's total shares on issue (including the CRPS and treasury stock) and 56.70% of the voting rights.

The CRPS represent 14.36% of the total shares on issue and 15.00% of the voting rights.

The treasury stock shares represent 4.28% of the total shares on issue but carry no voting rights.

The levels of voting rights held by KTT, Ashweir and the Non-associated Shareholders before and after the Share Acquisition are set out below.

Control of Voting Rights					
	Current		Share Acquisition	Post Share Acquisition	
	No. of Shares	%	No. of Shares	No. of Shares	%
KTT	14,476,436	35.46%	3,200,000	17,676,436	43.30%
Ashweir	3,200,000	7.84%	(3,200,000)	-	-
Non-associated Shareholders	23,147,959	56.70%	-	23,147,959	56.70%
Total	<u>40,824,395<sup>1</sup></u>	<u>100.00%</u>	<u>-</u>	<u>40,824,395<sup>1</sup></u>	<u>100.00%</u>

<sup>1</sup> Includes 6,123,447 CRPS, excludes 1,824,875 ordinary shares held as treasury stock

### 1.4 Annual Meeting

The Non-associated Shareholders will vote on an ordinary resolution in respect of the Share Acquisition (resolution 5 – the **Share Acquisition Resolution**) at the Company's annual meeting on 29 September 2016.

KTT and Ashweir and their respective associates are not permitted to vote on the Share Acquisition Resolution.

The Company's shareholders will also vote on resolutions in respect of:

- the re-election of Niall Cairns as a director of the company (resolution 1)
- the re-election of Phil Pryke as a director of the company (resolution 2)
- the re-election of Dan Masters as a director of the company (resolution 3)
- that the Company's directors be authorised to fix the remuneration of the Company's auditor (resolution 4).

## 1.5 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(c) of the Code, enables a person and its associates to increase their holding or control of voting rights by an acquisition of shares if the acquisition is approved by an ordinary resolution of the code company.

The Share Acquisition will result in KTT increasing its control of the voting rights in Tru-Test from 35.46% to 43.30%.

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).

## 1.6 Purpose of the Report

The directors of Tru-Test not associated with KTT or Ashweir, being the Company's directors other than Niall Cairns (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.

Simmons Corporate Finance was approved by the Takeovers Panel on 5 August 2016 to prepare the 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 voting on 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 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 acquisition of shares by KTT under the Share Acquisition having regard to the interests of the Non-associated Shareholders.

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

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

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 7 September 2015
- 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 KTT increasing its voting rights in the Company arising from 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 the Company
- the impact of the Share Acquisition on Tru-Test'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 represents a transaction between KTT and Ashweir in respect of 7.84% of the Company's voting rights. In our opinion, if the Share Acquisition is approved, it will have no significant negative impacts from the perspective of the Non-associated Shareholders.**

Our evaluation of the merits is set out in detail in sections 2.3 to 2.8. In summary, the key factors leading to our opinion are:

- the rationale for the Share Acquisition is sound. It represents a transaction between KTT and Ashweir whereby Ashweir will swap its direct interest in Tru-Test for a direct interest in KTT, thereby holding an indirect interest in Tru-Test

- the terms of the Share Acquisition will have no impact on the Non-associated Shareholders other than in respect of KTT's increased control of the voting rights in Tru-Test
- the Share Acquisition will result in KTT increasing its control of the voting rights in the Company from 35.46% to 43.30%. The Share Acquisition will increase KTT's ability to influence the outcome of shareholder voting but not to any significant degree. This is the main disadvantage of the Share Acquisition from the Non-associated Shareholders' perspective
- the Share Acquisition will have negligible impact on Tru-Test's share price or the liquidity of the shares held by Non-associated Shareholders
- the Share Acquisition will have no dilutionary impact on the Non-associated Shareholders
- the Share Acquisition will have no impact on Tru-Test's business risk profile
- the Share Acquisition is unlikely to reduce the attraction of Tru-Test as a takeover target
- in the event of the Share Acquisition Resolution not being approved, then the Share Acquisition cannot proceed. KTT will not be able to acquire any shares from Ashweir.

### **2.3 Rationale for the Share Acquisition**

The Share Acquisition is a transaction between KTT and Ashweir whereby Ashweir will swap its direct interest in 3,200,000 Tru-Test ordinary shares for an interest in KTT as a limited partner.

By becoming a limited partner in KTT, Ashweir will maintain an indirect interest in Tru-Test through KTT's shareholding in the Company.

### **2.4 Terms of the Share Acquisition**

The key terms of the Share Acquisition are:

- Ashweir will transfer its 3,200,000 Tru-Test ordinary shares to KTT
- Ashweir will be admitted to KTT as an additional limited partner
- the transfer of the Tru-Test shares by Ashweir will be treated as Ashweir's contribution to the committed capital of KTT
- the transaction is conditional upon the Non-associated Shareholders' approval of the Share Acquisition Resolution by 30 November 2016
- the transaction is also conditional upon KTT receiving consent for the acquisition from the Overseas Investment Office by 30 November 2016.

In our view, the terms of the Share Acquisition will have no impact on the Non-associated Shareholders other than in respect of the increase in KTT's control of voting rights (discussed below).

## 2.5 Impact on Control

### *Shareholder Voting*

The names, number of shares and percentage holding of the 10 largest shareholders are set out in section 3.5.

The Share Acquisition will result in KTT increasing its control of the voting rights in the Company by 7.84% from 35.46% to 43.30%.

KTT currently holds a strategic shareholding. It can singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders). However, it cannot singlehandedly determine the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) or pass a special resolution.

The increase in KTT's voting rights to 43.30% will not change its inability to singlehandedly control the outcome of an ordinary resolution or pass a special resolution. Therefore, while KTT's ability to influence the outcome of shareholder voting will increase, we do not consider the level of increase to be of any significant degree.

### *Board of Directors*

The Tru-Test Board consists of 6 directors as set out in section 3.6. KTT has one representative on the Board.

We are advised by the Non-associated Directors that they do not expect the Share Acquisition to have any impact on the composition of the Board.

### *Operations*

We are advised by the Non-associated Directors that the Share Acquisition will not have any impact on the level of influence of KTT over the Company's operations.

## 2.6 Impact on Share Price and Liquidity

Tru-Test makes a market for shareholders who wish to trade their shares.

Set out in section 3.10 is a summary of trading in Tru-Test's shares from 1 January 2014.

During the period, a total of 24,415,549 shares have transacted, all at \$1.05.

The Share Acquisition is a transaction between KTT and Ashweir whereby Ashweir will swap its Tru-Test shares for an interest in KTT. We are of the view that the Share Acquisition will have no impact on Tru-Test's share price or the liquidity of the Company's shares.

## 2.7 Other Issues

### *No Dilutionary Impact*

The Share Acquisition will have no dilutionary impact on the Non-associated Shareholders' voting rights as no new shares will be issued by the Company.

### *No Change in Business Risk*

As the Share Acquisition does not involve the acquisition of one or more new businesses or the disposal of part or all of Tru-Test's existing business, it will not change Tru-Test's business risk profile.



### ***Unlikely to Change the Likelihood of a Takeover Offer from KTT***

We are not aware of any intention on KTT's part to make a takeover offer. However, if it did have such intent, an increase in KTT's voting rights from 35.46% to 43.30% is unlikely to change the likelihood of a takeover offer as the increase in its level of voting rights is not significant from a control perspective.

### ***Likelihood of Other Takeover Offers Does not Change***

We are of the view that the increase in KTT's voting rights from 35.46% to 43.30% is unlikely to reduce the attraction of Tru-Test as a takeover target to other parties:

- any bidder looking to fully take over the Company would need to ensure that KTT would accept its offer, irrespective of whether it held 35.46% or 43.30% of the voting rights
- any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would want to ensure that KTT would accept its offer to increase the chances of a successful offer, irrespective of whether KTT held 35.46% or 43.30% of the voting rights.

## **2.8 Implications of the Share Acquisition Resolution not Being Approved**

In the event that the Share Acquisition Resolution is not approved, then the Share Acquisition will not proceed. Ashweir will retain its shareholding in the Company and KTT will not be permitted to acquire any shares.

KTT and Ashweir may look to enter into a similar transaction at a later date, which would again require shareholder approval, resulting in the Company incurring further costs.

## **2.9 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. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### 3. Profile of Tru-Test

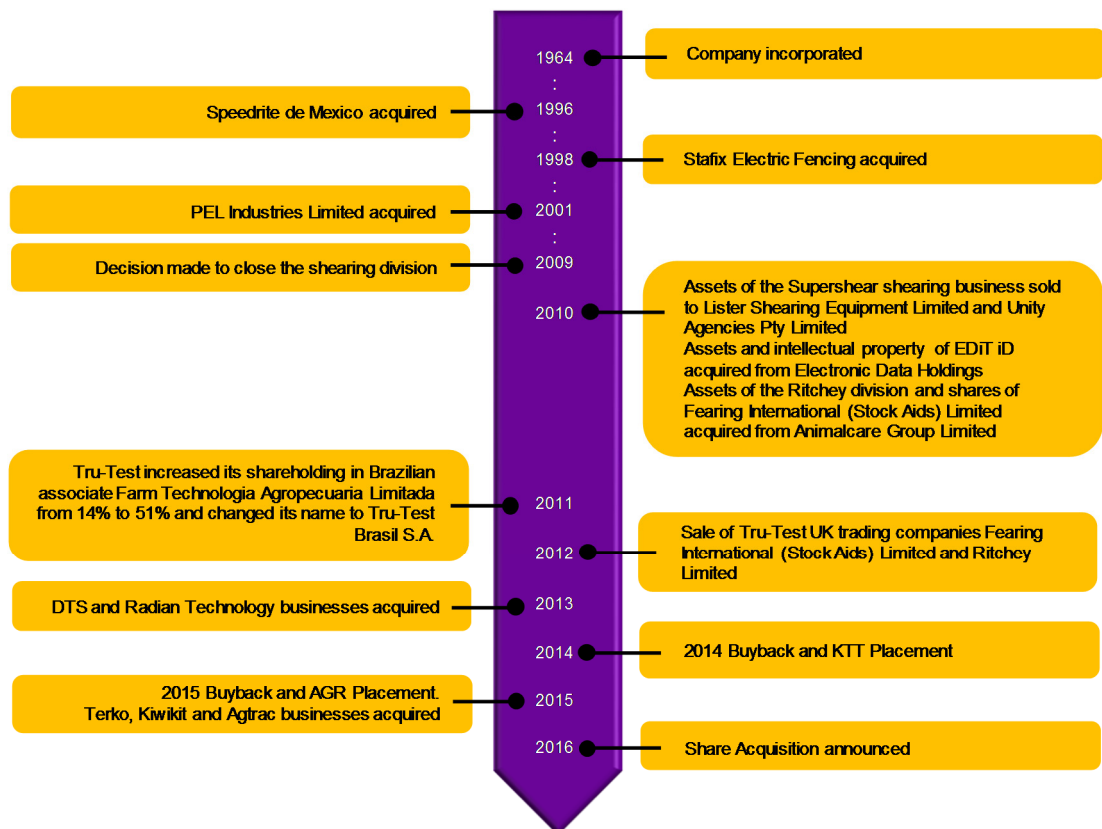
#### 3.1 Company Background and History

Tru-Test was incorporated on 22 December 1964. The Company developed and commercialised the world’s first proportionate flow milk meter in 1964. Today, Tru-Test is a New Zealand-based multi-national business that designs, manufactures and markets a portfolio of products across 7 brands into over 100 countries around the world. As a result of acquisitions, the Company’s products date back to 1895.

Tru-Test acquired the Dairy Technology Services (**DTS**) business in January 2013 for \$74.5 million. The DTS business manufactures FHTs for the New Zealand dairy industry and provides on-farm servicing to farmers throughout the country.

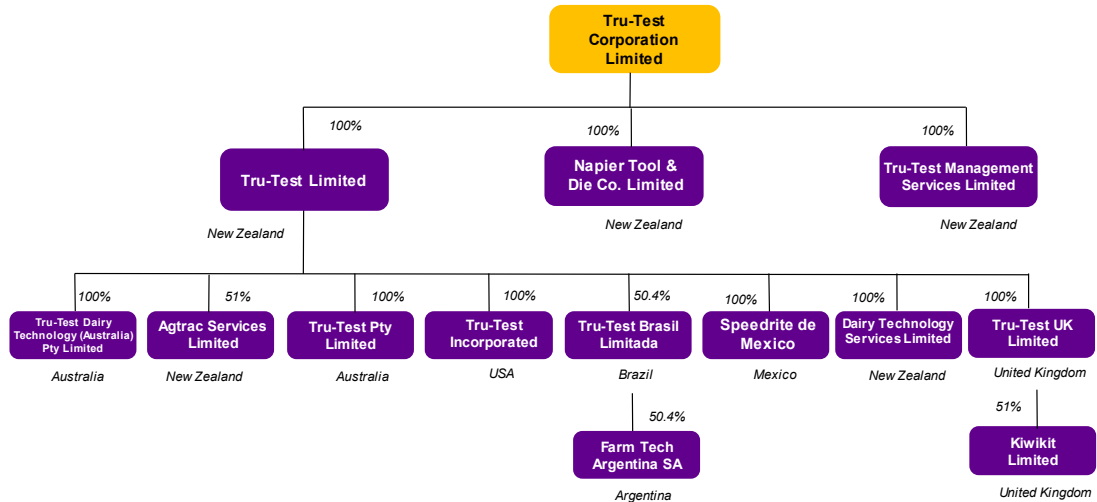
Tru-Test now has over 50% global market share in the electronic animal weighing business, over 90% in the official milk metering business, is a dominant global player in the professional electric fence market and a New Zealand leader in contract manufacturing.

Key events in the Company’s history are set out below.



### 3.2 Organisation Structure

The Company's organisation structure is set out below.



### 3.3 Nature of Operations

Tru-Test is the world's leading manufacturer of livestock weigh scale indicators and milk metering equipment.

In 2013 Tru-Test added dairy automation and on farm cooling solutions to its stable of agricultural products and services designed to help farmers maximise productivity and profit.

Globally Tru-Test is also the world leader in electric fencing and traditional fencing tools, helping ensure animals are contained and pastures are managed for sustainable, profitable results.

Tru-Test products are sold in over 100 countries world-wide through its network of wholly-owned subsidiaries and established distribution partners.

The Tru-Test business comprises 5 main operating divisions:



#### Weighing & EID

Measuring livestock performance is vital to maximising farm productivity and profitability. The information provided by Tru-Test weigh scale indicators ensures quality decision making on feed, health treatment and herd size management. Electronic identification (**EID**) allows farmers to go further by maximising the potential of the weigh data for improved decision making.

Tru-Test acquired all of the assets and intellectual property of radio-frequency identification equipment company EDiT iD from Electronic Data Holdings Limited in 2010.

### *Dairy Automation & Milk Cooling*

Tru-Test's *MilkHub* is a dairy automation solution that tracks performance. It comprises several modular components – *EID Herd Tracking*, *Auto Drafting*, *Walk Over Weighing* and *Automatic Heat Detection* complemented with rotary solutions for feed control, in-bail identification and sensors. Information from each milking is collected and wirelessly transmitted to the *MiHub Online Herd Management* tool via an in-shed command unit and cellular modem.

Tru-Test provides nationwide on-farm milk cooling and storage systems and support to New Zealand's leading dairy farms. It provides on-farm refrigeration servicing and parts to farmers throughout the country.

### *Milk Tanks*

Tru-Test manufactures FHTs for the New Zealand dairy industry. A wide range of tanks are available including side wall refrigeration on large tanks for efficient cooling.

### *Milk Metering*

The Tru-Test business started with the development of the world's first proportionate flow milk meter, designed to capture an accurate sample of milk extracted from a dairy cow during a milking session. Tru-Test has been the dominant player in the world-wide milk meter market for 50 years and today has over 90% of the official world market in portable milk meter products, with systems sold in over 50 countries.

### *Electric Fencing*

Electric fencing is a core part of Tru-Test's business, accounting for approximately 40% of the Company's revenue. The Company has 4 electric fence brands - *Speedrite*, *Stafix*, *PEL* and *Patriot* and the *Hayes* brand of traditional fence tools.

## **3.4 Key Issues Affecting Tru-Test**

The main industry and specific business factors and risks that Tru-Test faces include:

- reliance on key customer relationships
- the dairy sector
- competitor initiatives
- economic conditions
- borrowing facilities and interest rates
- disruption to manufacturing operations
- foreign exchange
- intellectual property
- failure to attract and / or retain key personnel
- availability of funds
- raw material supply
- product innovation.

### 3.5 Capital Structure and Shareholders

Tru-Test currently has 42,649,270 shares on issue:

- 36,525,823 fully paid ordinary shares, of which 1,824,875 shares are held by Tru-Test as treasury stock
- 6,123,447 CRPS.

The names, number of shares and percentage holding of the 10 largest ordinary shareholders (excluding the treasury stock) are set out below.

10 Largest Ordinary Shareholders		
Shareholder	No. of Shares Held	% of Voting Rights
KTT	14,476,436	35.46%
AGR	6,123,447 <sup>1</sup>	15.00%
Ashweir	3,200,000	7.84%
Aspiring Asset Management Limited ( <b>Aspiring</b> )	2,563,511	6.28%
Co-Investor Private Equity (NZ) Limited No.1 ( <b>Co-Investor</b> )	2,451,535	6.01%
Muir Trust	2,164,213	5.30%
Norwood Investments Limited	1,124,444	2.75%
Purlieu Enterprises Limited	1,078,720	2.64%
Escor Investments Pty Limited	920,245	2.25%
VBS Investments Pty Limited	695,705	1.70%
	34,798,256	85.24%
Others (89 shareholders)	6,026,139	14.76%
Total	40,824,395 <sup>2</sup>	100.00%

<sup>1</sup> CRPS  
<sup>2</sup> Excluding 1,824,875 ordinary shares held as treasury stock

Source: Tru-Test

Following shareholder approval on 20 December 2012, Tru-Test issued 9,498,768 fully paid ordinary shares at \$0.96 per share via a rights issue and placements. The proceeds of the share issues were used to fund the acquisition of the DTS business.

The long term incentive plan for executives ended on 20 September 2013, with 2,042,479 ordinary shares vesting with senior executives. Of these shares, 1,949,402 had previously been issued to senior executives as restricted shares. The remaining 93,077 ordinary shares were issued on 20 September 2013.

Between 21 November 2013 and 21 February 2014, Gallagher sold its holding of 6,843,833 ordinary shares in the Company:

- it sold a total of 1,418,511 shares at \$1.05 per share to:
  - KTT (250,000 shares)
  - John Loughlin and Kathryn Loughlin (167,000 shares)
  - Aspiring (1,001,511 shares)
- Tru-Test bought back 5,425,322 ordinary shares held by Gallagher under the Gallagher Buyback at a cost of \$1.05 per share and subsequently cancelled the shares.

Following shareholder approval on 29 August 2014, Tru-Test issued 5,714,285 fully paid ordinary shares to KTT at \$1.05 per share on 19 September 2014 (the **KTT Placement**) and bought back 9,523,804 ordinary shares from 51 shareholders at \$1.05 per share on 22 September 2014 (the **2014 Buyback**).

Tru-Test issued 6,123,447 CRPS to AGR at \$1.05 per CRPS on 2 October 2015 (the **AGR Placement**) and bought back 1,824,875 ordinary shares from 34 shareholders at \$1.05 per share on 16 October 2015 (the **2015 Buyback**).

### 3.6 Directors and Senior Management

The directors of Tru-Test are:

- Niall Cairns, non-executive, associated with KTT
- Rhys Jones, independent non-executive
- John Loughlin, independent chair
- Dan Masters, non-executive, associated with AGR
- Greg Muir, managing director
- Phil Pryke, non-executive, associated with Co-Investor.

The Company's senior management team comprises:

- Greg Muir, managing director
- Ian Hadwin, chief financial officer
- Verne Atmore, general manager – New Zealand
- Andrew Gaze, head of global sales
- Jason Kiteley, head of operations and business transformation
- Brendan O'Connell, head of business development
- Teresa Steele-Rika, head of brand, communications, people and culture.

### 3.7 Financial Performance

A summary of Tru-Test's recent financial performance is set out below.

Summary of Financial Performance				
	Year to 31 Mar 13 (Audited) \$000	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000
Total revenue	97,584	129,791	140,939	141,183
EBITDA	5,353	14,854	17,624	13,707
EBIT	2,772	7,602	9,788	5,501
Profit / (loss) for the year from continuing operations	943	2,179	4,225	(14,318)
Profit for the year from discontinued operations	5,633	-	-	-
Profit / (loss) for the year	6,576	2,179	4,225	(14,318)
EPS (\$)	0.15	0.05	0.05	(0.43)
<i>EBITDA: Earnings before interest, tax, depreciation and amortisation</i>				
<i>EBIT: Earnings before interest and tax</i>				
<i>Source: Tru-Test annual reports</i>				

Revenue from continuing operations increased by 12% in the 2013 financial year, due in part to the DTS and Radian acquisitions in January 2013 and strong Tru-Test sales in the New Zealand, United States and Latin America markets. Gross margin, EBITDA and EBIT margins remained relatively constant. The 2 months trading from the DTS and Radian businesses contributed \$5.6 million of revenue and \$1.5 million of EBITDA. Costs associated with the acquisitions and divestments amounted to \$1.7 million. Profit from discontinued operations of \$5.6 million related to the UK trading companies sold in October 2012, which included a \$5.2 million gain on sale.

Revenue increased by 33% in the 2014 financial year, due in part to the full year impact of the DTS and Radian businesses and strong Tru-Test sales in the United States and Latin America markets. Gross margin remained relatively constant. EBITDA increased by 177%, due largely to the full year impact of the DTS and Radian businesses.

Revenue increased by 9% in the 2015 financial year, driven primarily by double digit growth in the USA and Latin America markets whereas New Zealand revenue slowed down due to the dairy sector tightening. EBITDA increased by 19% due in part to a \$1.5 million reduction in distribution and administrative expenses.

The downturn in the dairy sector had a major impact on Tru-Test's New Zealand based businesses in the 2016 financial year. Lower dairy incomes and deferred expenditure by farmers resulted in a sharp fall in New Zealand dairy based revenue. This was offset by double digit revenue growth in the USA and Latin America markets again, resulting in total revenue increasing by \$0.3 million. Gross margin decreased slightly due to a change in product mix and higher manufacturing costs incurred for FHTs (due to lower production volumes). The Company recorded a \$16.8 million impairment charge against the DTS business, resulting in a \$14.3 million loss for the year.

### 3.8 Financial Position

A summary of Tru-Test's recent financial position is set out below.

Summary of Financial Position				
	As at 31 Mar 13 (Audited) \$000	As at 31 Mar 14 (Audited) \$000	As at 31 Mar 15 (Audited) \$000	As at 31 Mar 16 (Audited) \$000
Current assets	51,999	51,006	54,654	59,660
Non current assets	86,698	84,809	79,547	59,802
Total assets	138,697	135,815	134,201	119,462
Current liabilities	(26,714)	(36,550)	(36,047)	(27,098)
Non current liabilities	(77,293)	(67,997)	(69,441)	(82,189)
Total liabilities	<u>(104,007)</u>	<u>(104,547)</u>	<u>(105,488)</u>	<u>(109,287)</u>
Total equity	<u>34,690</u>	<u>31,268</u>	<u>28,713</u>	<u>10,175</u>

*Source: Tru-Test annual reports*

Tru-Test's main current assets are inventories and trade and other receivables, representing 48% and 43% of current assets respectively as at 31 March 2016. The Company also held \$3.0 million of cash and cash equivalents as at 31 March 2016.

Tru-Test's fixed assets of \$6.2 million as at 31 March 2016 related primarily to plant and machinery, reflecting the Company's investment in its manufacturing plants.

Intangible assets of \$51.0 million as at 31 March 2016 related primarily to identified intangible assets and goodwill associated with the acquisition of the DTS business. A \$16.8 million impairment charge was recorded in the 2016 financial year.

Tru-Test's main current liabilities are trade and other payables, representing 80% of current liabilities as at 31 March 2016.

Non current liabilities consist primarily of borrowings in the form of bank loans and loan notes:

- Tru-Test had \$39.5 million of bank borrowings owing as at 31 March 2016, of which \$2.5 million was current and \$37.0 million was non current. The bank loans are secured by a mortgage over land and buildings and a debenture over total assets
- Tru-Test had \$32.2 million of loan notes from AGR, repayable in October 2022. The loan notes are secured by a general security deed over all of the Company, although this ranks behind the security of the bank.

Tru-Test's net interest bearing debt as at 31 March 2016 (including net financial assets and liabilities in the form of foreign exchange contracts and interest rate swaps) was \$78.0 million.

### 3.9 Cash Flows

A summary of Tru-Test's recent cash flows is set out below.

Summary of Cash Flows				
	Year to 31 Mar 13 (Audited) \$000	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000
Net cash flow from operating activities	517	13,118	7,793	1,370
Net cash (used in) investing activities	(66,258)	(5,335)	(4,077)	(5,882)
Net cash (used in) / from financing activities	<u>64,930</u>	<u>(8,057)</u>	<u>(5,021)</u>	<u>5,111</u>
Net increase / (decrease) in cash held	(811)	(274)	(1,305)	599
Effect of exchange rate on cash held	(192)	(124)	59	(48)
Opening cash balance	5,113	4,110	3,712	2,466
Closing cash balance	<u>4,110</u>	<u>3,712</u>	<u>2,466</u>	<u>3,017</u>

*Source: Tru-Test annual reports*

The significant increase in profitability in the 2014 financial year accounted for the significant increase in cash flow from operating activities in that year.

Cash used in investing activities in the 2013 financial year related primarily to the acquisition of the DTS and Radian businesses.

Net cash from financing activities represents the movements in net levels of debt each year and share transactions:

- debt levels have fluctuated due to acquisitions made (particularly in the 2013 financial year)
- a total of \$21.5 million of equity has been raised over the past 4 financial years:
  - \$9.1 million in the 2013 financial year from the rights issue and placements

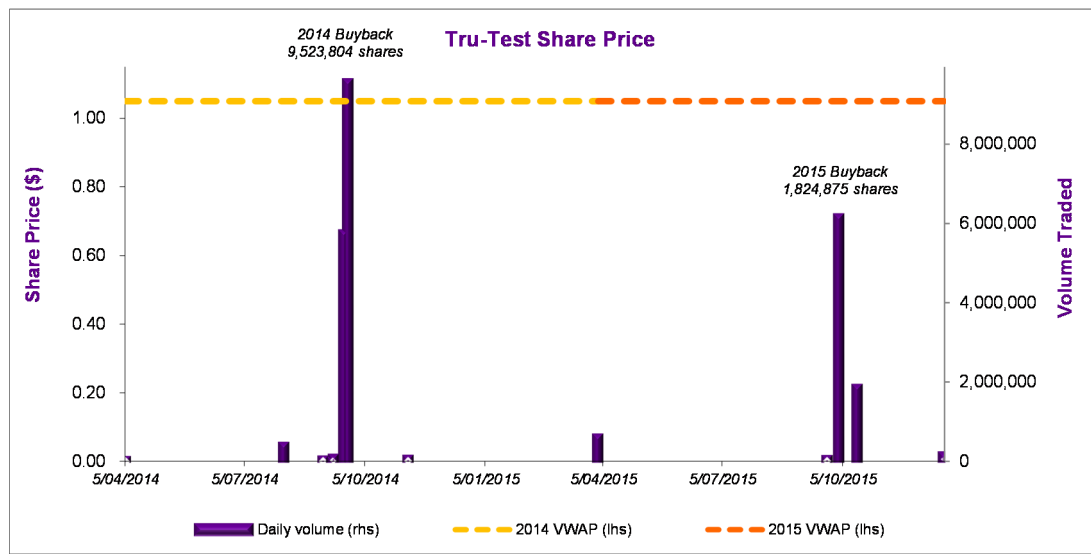


- \$6.0 million in the 2015 financial year from the KTT Placement
- \$6.4 million in the 2016 financial year from the AGR Placement.

### 3.10 Share Price History

Tru-Test makes a market for shareholders who wish to trade their shares.

Set out below is a summary of placements and trading in Tru-Test's shares from 1 January 2014.



Source: Tru-Test

During the period, a total of 24,415,549 shares have been traded, placed or bought back by the Company, all at \$1.05 per share, including:

- the KTT Placement of 5,714,285 ordinary shares on 19 September 2014
- the 2014 Buyback of 9,523,804 ordinary shares on 22 September 2014
- the AGR Placement of the 6,123,447 CRPS on 2 October 2015
- the 2015 Buyback of 1,824,875 ordinary shares on 16 October 2015.

## **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 2016 annual meeting
- the KTT Ashweir Agreement
- the Tru-Test annual report for the years ended 31 March, 2013 to 2016
- Tru-Test shareholder data from the Company
- Tru-Test share price data from the Company.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of Tru-Test and Tru-Test's legal advisers.

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 Tru-Test 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 Tru-Test 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 Tru-Test. 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 Tru-Test 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 Tru-Test 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.

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 Tru-Test 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**

Tru-Test 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. Tru-Test 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), INFINZ (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 Tru-Test, KTT or Ashweir 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 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 Tru-Test's 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**

*14 September 2016*