

MHM Automation Limited

Independent Adviser's Report

In Respect of the Proposed Allotment of Shares to Andrew Barclay and Associates

March 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 transactions considered in the 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.

Index

Section	Page
1. Introduction	1
2. Evaluation of the Merits of the Wyma Transactions (Including the Barclay Allotment)	5
3. Profile of MHM Automation Limited	17
4. Sources of Information, Reliance on Information, Disclaimer and Indemnity	22
5. Qualifications and Expertise, Independence, Declarations and Consents	24

1. Introduction

1.1 Background

MHM Automation Limited (**MHM** or the **Company**) designs and supplies innovative, engineered solutions to the primary and logistics sectors worldwide.

MHM'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 \$61.1 million as at 30 March 2023. Its unaudited total equity as at 31 December 2022 was approximately \$14.5 million.

A profile of MHM is set out in section 3.

1.2 Proposed Acquisition of Wyma Engineering (NZ) Limited

MHM entered into a conditional *Agreement for the Sale and Purchase of Shares in Wyma Engineering (NZ) Limited* with Jajar Investments Limited (**Jajar**) and Jason Gerrie dated 30 March 2023 (the **SPA**) whereby MHM will acquire 100% of the shares in Wyma Engineering (NZ) Limited (**Wyma**) (the **Wyma Shares**) from Jajar for up to \$60 million (subject to any working capital adjustments) on a cash free / debt free basis (the **Purchase Price**).

The consideration for the Purchase Price (the **Consideration**) consists of:

- \$28 million of cash
- \$17 million of shares in MHM through the issue of 22,666,667 new fully paid ordinary shares (the **Consideration Shares**) issued at \$0.75 per share (the **Allotment Price**) to Jajar and / or Andrew Barclay and Jason Gerrie (the **Barclay Associates**) (the **Barclay Allotment**)
- up to \$15 million by way of a vendor earnout (the **Earnout**).

We refer to the acquisition of the Wyma Shares by MHM and the payment of the Consideration as the **Wyma Transactions**.

The Wyma Transactions are expected to be completed on the later of 1 May 2023 or the date Wyma moves into new premises (the **Completion Date**).

Wyma Engineering (NZ) Limited

Wyma was incorporated in New Zealand on 23 February 2007 and trades as Wyma Solutions.

The company designs, manufactures, distributes and services post-harvest vegetable and fruit handling equipment and solutions worldwide.

Wyma is headquartered in Christchurch. Its operations are located in New Zealand, Australia, the Czech Republic and the United Kingdom and has machinery operating in more than 50 countries.

Andrew Barclay is the sole director of Wyma.

Jajar currently owns 100% of the shares in Wyma. Prior to the Completion Date, Wyma will be owned as to 90% by Jajar and 10% by Jason Gerrie (Wyma's European manager).

Jajar is wholly owned by Andrew Barclay and Angela Barclay as trustees of the Barclay Family Trust. Andrew Barclay and Angela Barclay are Jajar's directors.

A more in-depth profile of Wyma is set out in Schedule 1 of the notice of special meeting.

1.3 Shareholding Levels Post the Wyma Transactions

The table below shows the number of shares that will be held by the current MHM shareholders not associated with the Barclay Associates (the **Non-associated Shareholders**) and the Barclay Associates immediately following the Wyma Transactions.

MHM Shareholding Levels Post the Wyma Transactions					
	Non-associated Shareholders		Barclay Associates		Total
	No. of Shares	%	No. of Shares	%	
Current	66,369,067	100.00%	-	-	66,369,067
Barclay Allotment	-	-	22,666,667	100.00%	22,666,667
Post the Wyma Transactions	<u>66,369,067</u>	<u>74.54%</u>	<u>22,666,667</u>	<u>25.46%</u>	<u>89,035,734</u>

Following the Wyma Transactions:

- the Non-associated Shareholders will collectively hold 74.54% of the Company's shares
- the Barclay Associates will hold 25.46% of the Company's shares.

1.4 Summary of Opinion

Our evaluation of the merits of the Barclay Allotment 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 Barclay Allotment outweigh the negative aspects from the perspective of the Non-associated Shareholders.

1.5 Special Meeting of Shareholders

MHM is holding a special meeting of shareholders on 21 April 2023, where the Company will seek shareholder approval of 2 resolutions which cover the Wyma Transactions (the **Wyma Resolutions**):

- resolution 1 – approval of the Wyma Transactions for the purposes of the NZX Listing Rules (the **Listing Rules**) and section 129 of the Companies Act 1993 (the **Companies Act**)
- resolution 2 – approval of the Barclay Allotment for the purposes of the Listing Rules and the Code.

A special resolution is a resolution passed by a majority of 75% or more of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

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

The Barclay Associates are not permitted to vote on the Wyma Resolutions if they hold any shares in the Company.

The Wyma Resolutions are interdependent. Both resolutions must be passed in order for either resolution to be implemented. If one of the resolutions is not approved, then the Wyma Transactions will not proceed.

1.6 Regulatory Requirements

MHM 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 and that person's associates who hold or control no voting rights or less than 20% of the voting rights in a code company from increasing their holding or control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their 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(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Barclay Associates currently do not hold or control any of the voting rights in the Company.

The Barclay Allotment will result in the Barclay Associates controlling 25.46% of the voting rights in MHM following the Barclay Allotment.

Accordingly, the Non-associated Shareholders will vote at the Company's special meeting on the Barclay Allotment (resolution 2) in accordance with the Code. In the event that they hold any shares in the Company, the Barclay Associates are not permitted to vote on the 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 allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

1.7 Purpose of the Report

The board of directors of MHM (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Barclay Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 27 January 2023 to prepare the Independent Adviser's Report.

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

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Barclay Allotment in relation to each shareholder. This report on the merits of the Barclay Allotment 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 Wyma Transactions (Including the Barclay Allotment)

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to the Barclay Associates under the Barclay Allotment, 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* 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*.

The Barclay Allotment is a component of the Wyma Transactions. Therefore, when assessing the merits of Barclay Allotment, an assessment of the Wyma Transactions also needs to be undertaken.

We are of the view that an assessment of the merits of the Wyma Transactions should focus on:

- the rationale for the Wyma Transactions
- the terms and conditions of the Wyma Transactions
- the impact of the Wyma Transactions on MHM's financial position
- the impact of the Wyma Transactions on the control of MHM
- the dilutionary impact of the Barclay Allotment
- the impact of the Wyma Transactions on MHM's share price
- the benefits and disadvantages to the Non-associated Shareholders and the Barclay Associates of the Wyma Transactions
- the implications if the Wyma Resolutions are 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 Wyma Transactions (Including the Barclay Allotment)

In our opinion, after having regard to all relevant factors, the positive aspects of the Wyma Transactions (including the Barclay Allotment) outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits of the Wyma Transactions (including the Barclay Allotment) is set out in detail in sections 2.3 to 2.16.

In summary, the key factors leading to our opinion are:

- the rationale for the Wyma Transactions is sound. The acquisition of Wyma will provide further scale and diversification to MHM's operations
- the terms of the Wyma Transactions are reasonable:
 - the Purchase Price of up to \$60 million is reasonable
 - the structure of the Consideration aligns the interests of the Barclay Associates with the Non-associated Shareholders through the Barclay Allotment and the Earnout
 - the Allotment Price of \$0.75 per share is fair to the Non-associated Shareholders as it is broadly in line with MHM's volume weighted average share price (**VWAP**) measured between one week and 3 months up to the date when the terms of the transaction were finally agreed in December 2022
 - the conditions and warranties set out in the SPA are in line with market practice for transactions of this nature and are not unreasonable
- the Wyma Transactions will have a positive impact on the Company's financial position, more than doubling MHM's total assets and total equity
- the Wyma Transactions will provide the Barclay Associates with a degree of control over the Company:
 - their 25.46% shareholding will enable them to exert a degree of influence over shareholder voting. The Barclay Associates will be able to singlehandedly block special resolutions but they will not be able to singlehandedly determine the outcome of ordinary resolutions
 - they will have one representative on the Board (out of 6 directors)
- the dilutionary impact of the Barclay Allotment on the Non-associated Shareholders is significant, resulting in their proportionate shareholdings in the Company reducing by 25.5%
- the Barclay Allotment may possibly negatively impact MHM's share price in the near term as the Allotment Price is lower than the Company's current share price and the number of Consideration Shares to be issued is significant
- the Barclay Allotment is unlikely to have any impact on the liquidity of MHM's shares in the near term as the number of shares held by the Non-associated Shareholders will not change
- the Wyma Transactions are unlikely to change the overall business risk profile of MHM
- the attraction of MHM as a takeover target may be enhanced
- the implication of either of the Wyma Resolutions not being approved is that the Wyma Transactions will not proceed.

2.3 Rationale for the Wyma Transactions

The notice of special meeting sets out the Board's reasoning for recommending the Wyma Transactions:

- Wyma is strategically and operationally aligned with MHM
- the structure of the Consideration aligns the interests of the Barclay Associates with MHM through the Barclay Allotment and the Earnout
- the Wyma Transactions does not require additional equity funding from the Non-associated Shareholders
- the acquisition offers growth opportunities for MHM and the Non-associated Shareholders.

Schedule 1 of the notice of special meeting sets out in detail the likely financial and synergy effects of the Wyma Transactions.

We consider the rationale for the Wyma Transactions to be sound:

- the acquisition of Wyma will provide further scale and diversification to MHM's operations, increasing the products that the Company designs and builds and widening the geographies that it sells into
- the Barclay Allotment will establish the Barclay Associates as an important cornerstone strategic shareholder in MHM.

2.4 Process Undertaken by MHM

We are advised by the Board that the Company has had numerous discussions in the past with Wyma regarding the benefits of merging the 2 businesses.

Negotiations on behalf of MHM were led by the Company's chief executive officer Richard Rookes. Wyma's sole director Andrew Barclay led negotiations on behalf of Wyma.

The negotiations ran for most of the 2022 calendar year. The parties circulated a non-binding terms sheet in early April 2022 and eventually signed a negotiated terms sheet on 20 December 2022 (the **Terms Sheet**).

The transaction was announced on 21 December 2022.

The due diligence process undertaken by MHM was led by Mr Rookes and chief financial officer Ian McGregor and supported by other MHM senior executives.

The Board was closely involved in initial discussions and was kept up to date on the progress of the transaction.

The SPA was signed on 30 March 2023.

2.5 Terms of the Wyma Transactions

Purchase Price and Consideration

The Purchase Price for 100% of the Wyma Shares is up to \$60 million (subject to any working capital adjustments) on a cash free / debt free basis and is to be satisfied by the Consideration consisting of:

- cash of \$28 million
- the Barclay Allotment amounting to \$17 million
- the Earnout of up to \$15 million based on Wyma's revenue levels in the 2024, 2025 and 2026 financial years.

The Board has advised us that it negotiated the Purchase Price on a commercial arms-length basis with Mr Barclay and that the Purchase Price reflects Wyma's historic earnings, financial position and growth potential.

The structure of the Consideration was based on Mr Barclay's desire to hold a shareholding of approximately 20% in MHM and the Board's requirement that a portion of the Consideration be contingent on Wyma's future financial performance.

In order to fund the cash component of the Consideration, MHM will draw down approximately \$25 million of its bank funding facilities.

Value of the Wyma Shares

An assessment of the value of the Wyma Shares is outside the scope of this report and accordingly we do not provide an opinion on the fair market value of the Wyma Shares.

We have however reviewed the implied valuation multiples for Wyma to evaluate the reasonableness of the Purchase Price.

Given that the acquisition of the Wyma Shares is on a cash free / debt free basis, we have focused on the earnings before interest, tax, depreciation and amortisation (**EBITDA**) multiples implied by the Purchase Price.

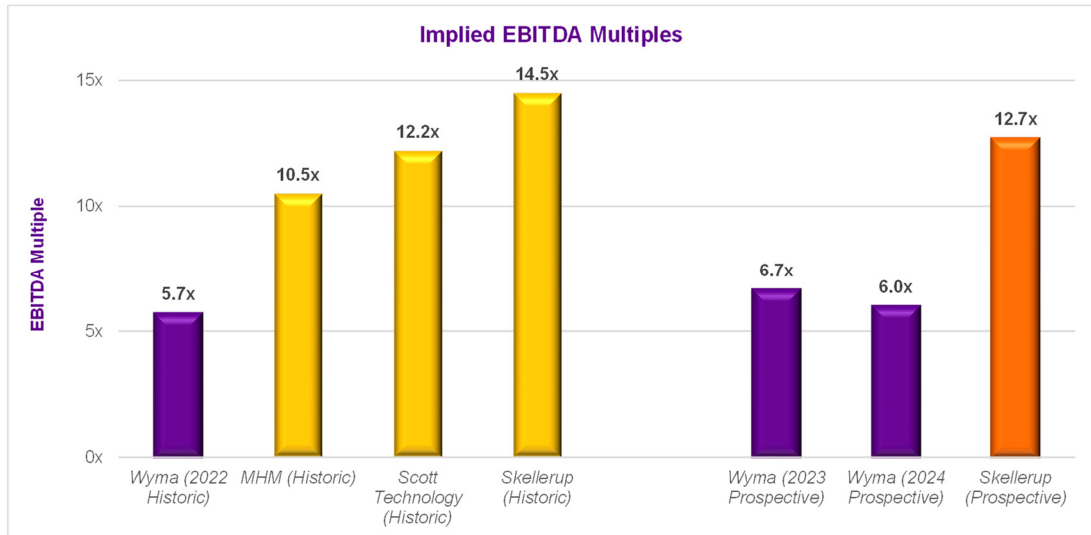
The notice of special meeting states that Wyma's EBITDA for the year ended 31 March 2022 was \$10.5 million (normalised for share based payments). We understand that Wyma's normalised EBITDA for the 2023 financial year is expected to be \$9.0 million and \$10.0 million for the 2024 financial year.

Based on the cash free / debt free Purchase Price of up to \$60 million (which includes \$15 million of Earnout which is dependent on Wyma's revenue levels for the next 3 financial years), the implied EBITDA multiples for Wyma are:

- 2022 (historic) – 5.7x
- 2023 (prospective) – 6.7x
- 2024 (prospective) – 6.0x.

We have compared the implied EBITDA multiples for Wyma with the EBITDA multiples for 3 broadly comparable companies listed on the NZX Main Board:

- MHM
- Scott Technology Limited
- Skellerup Holdings Limited.



Source: S&P Capital IQ, data as at 31 March 2023

The EBITDA multiples for the 3 comparable companies are based on minority trades and therefore do not include any premium for control, whereas the implied EBITDA multiples for Wyma are based on the Purchase Price and therefore include a premium for control.

The implied EBITDA multiples for Wyma are significantly lower than those observed for the 3 comparable companies, indicating that the value ascribed to Wyma under the Wyma Transactions is not excessive.

Based on the above, we are of the view that the Purchase Price is reasonable.

Barclay Allotment

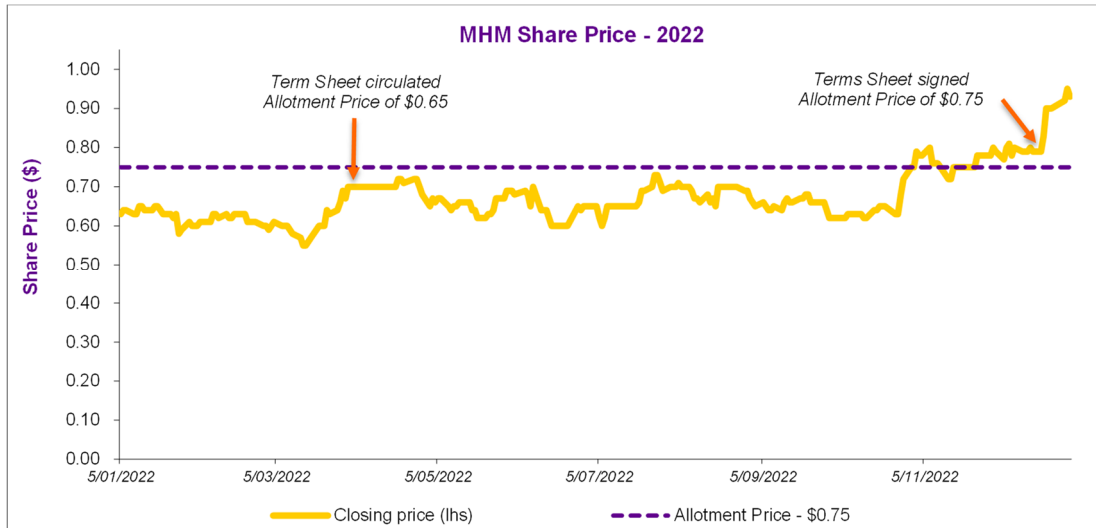
Under the Barclay Allotment, the Barclay Associates will be issued 22,666,667 new ordinary shares at the Allotment Price of \$0.75 per share, representing \$17 million of the Consideration.

We have assessed the reasonableness of the Allotment Price by reference to the prices at which the Company's shares have traded on the NZX Main Board.

We note that MHM has not undertaken any equity raisings since 2016 and hence there are no relevant reference points for prices at which the Company has recently issued shares.

We are advised by the Board that negotiations ran for most of the 2022 calendar year. When a preliminary terms sheet was circulated in early April 2022, the Allotment Price was set at \$0.65, reflecting MHM's share price at that time. When the terms of the Wyma Transactions were finally agreed in December 2022, the Allotment Price was agreed at \$0.75, again reflecting the Company's share price at that time.

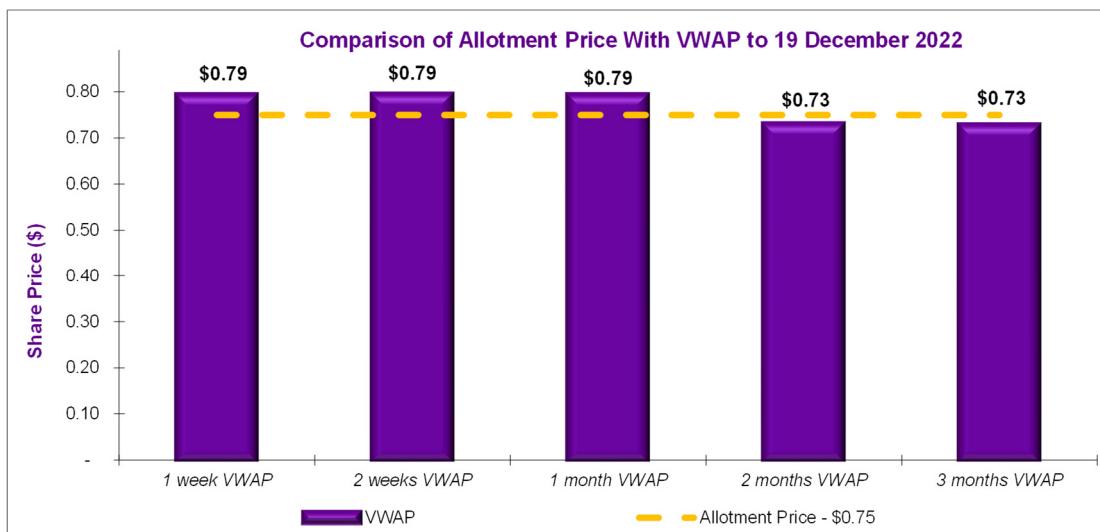
The graph that follows shows MHM's share price in the 2022 calendar year.



Source: NZX Company Research

This shows that the Company’s share price increased from \$0.63 on 5 January 2022 to \$0.79 on 19 December 2022 (the day before the Terms Sheet was signed). The shares traded between \$0.55 and \$0.95 during this period at a VWAP of \$0.70.

The Allotment Price of \$0.75 per share is broadly in line with the trading prices for MHM’s shares up to 19 December 2022 measured over one week to 3 months.



Source: NZX Company Research

The Allotment Price of \$0.75 per share represents:

- a 5% discount to the one week VWAP of \$0.79
- a 5% discount to the 2 weeks VWAP of \$0.79
- a 5% discount to the one month VWAP of \$0.79
- a 3% premium to the 2 months VWAP of \$0.73
- a 3% premium to the 3 months VWAP of \$0.73.

We consider the Allotment Price to be fair to the Non-associated Shareholders as it is broadly in line with the market value of the Company’s shares when the Allotment Price was agreed in December 2022 and therefore (ignoring changes in the Company’s share price since the terms of the transaction were agreed) should not be value-dilutionary to the Non-associated Shareholders.

Conditions

The Wyma Transactions are conditional on:

- MHM obtaining the Non-associated Shareholders' approval of the Wyma Transactions
- MHM completing satisfactory due diligence on Wyma
- MHM obtaining the consent to the proposed transfer of the Wyma Shares to MHM from each counterparty to each material contract entered into by Wyma
- MHM procuring satisfactory debt and equity funding arrangements for the Wyma Transactions
- Andrew Barclay agreeing to the form of the employment agreement proposed by MHM
- MHM and Jajar agreeing the stocktake methodology for inventory and work in progress
- MHM and Jajar agreeing the terms of lease for new premises.

The date for satisfaction of the above conditions is no later than 21 April 2023 or any other date agreed between the parties.

We are of the view that the conditions of the Wyma Transactions are in line with market practice for transactions of this nature and are not unreasonable.

Warranties and Indemnities

Jajar and Andrew Barclay have provided warranties in respect of information disclosed, the Wyma group structure, Wyma's shares, accounts, assets, contracts, properties, employment, intellectual property, insurance, litigation, compliance, defective products and services, information technology and environmental matters.

MHM has provided broadly comparable warranties to Jajar.

Each party's liability under these warranties is limited to claims brought within 24 months of the Completion Date and to an aggregate amount limited to the Purchase Price.

Jajar and Andrew Barclay have given MHM an indemnity in respect of the taxation compliance of Wyma up to the Completion Date.

We are of the view that the warranties and indemnities provided under the SPA are in line with market practice for transactions of this nature and are not unreasonable.

2.6 Impact on Financial Position

A summary of MHM's recent financial position is set out in section 3.6.

MHM had approximately \$38.6 million of total assets and approximately \$14.5 million of total equity as at 31 December 2022.

For illustrative purposes, assuming the Wyma Transactions occurred on 31 March 2023, MHM estimates that its total assets would be approximately \$104.4 million and its total equity would be approximately \$38.1 million.

Accordingly, the Wyma Transactions will result in MHM more than doubling in size. Its estimated total assets would be approximately 170% higher than as at 31 December 2022 and its total equity would be more than 160% higher than as at 31 December 2022.

MHM will enter into new bank facilities with a total credit limit of \$47.84 million, of which \$25 million will be drawn to fund the cash component of the Consideration.

MHM will also have an obligation to pay up to \$15 million under the Earnout, based on Wyma's revenue levels in the 2024, 2025 and 2026 financial years.

2.7 Impact on Control

Share Capital and Shareholders

MHM currently has 66,369,067 fully paid ordinary shares on issue held by 730 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 17 March 2023 are set out in section 3.4.

MHM's 2 largest shareholders are:

- Humphry Rolleston and associates – 31.31%
- Colin Neal – 11.49%.

The 10 largest shareholders collectively hold 67.49% of the Company's shares.

Shareholding Voting

The Barclay Allotment will result in the Barclay Associates holding 25.46% of the shares in the Company:

- Jajar and / or Andrew Barclay – 22.91%
- Jason Gerrie – 2.55%.

The Barclay Associates will be the largest shareholder in the Company. Mr Rolleston and associates will hold 23.34% of MHM's shares and Mr Neal will hold 8.56%.

The Barclay Associates' 25.46% shareholding will not enable them to singlehandedly determine the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) or special resolutions (which require the approval of 75% of the votes cast by shareholders). However, the Barclay Associates will collectively be able to singlehandedly block special resolutions.

Accordingly, the Barclay Associates will be able to exert a degree of influence over shareholder voting.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the Listing Rules and the Companies Act.

Board Control

As set out in section 3.3, the Company currently has 5 directors, none of whom are deemed to be an associate of the Barclay Associates.

Following the completion of the Wyma Transactions, Andrew Barclay will be co-opted onto the Board and, being eligible, may stand for re-election at the Company's next annual meeting.

The Barclay Associates will therefore have one representative out of 6 directors on the Board.

Operations

We are advised by the Board that the Barclay Associates' influence over MHM's operations will predominantly be through Mr Barclay's role as part of the MHM senior management team. Mr Barclay will be focused on technical sales and product development.

Protection for Minority Shareholders

While the Barclay Associates will have a degree of control over MHM, they cannot act in an oppressive manner against minority shareholders. The Companies Act provides a level of protection to minority shareholders. Furthermore, (among other related party restrictions), any transactions between MHM and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the Listing Rules with respect to transactions with related parties.

2.8 Dilutionary Impact

The Barclay Allotment will result in the Non-associated Shareholders' shareholdings in the Company being diluted by 25.5%.

While the dilutionary impact is significant, we are of the view that the Non-associated Shareholders' main focus should be on whether there is any dilutionary impact on the value of their respective shareholdings rather than on their level of voting rights. As stated in section 2.5, we are of the view that the Wyma Transactions are fair to the Non-associated Shareholders from a financial point of view and therefore will not dilute the value of their respective shareholdings.

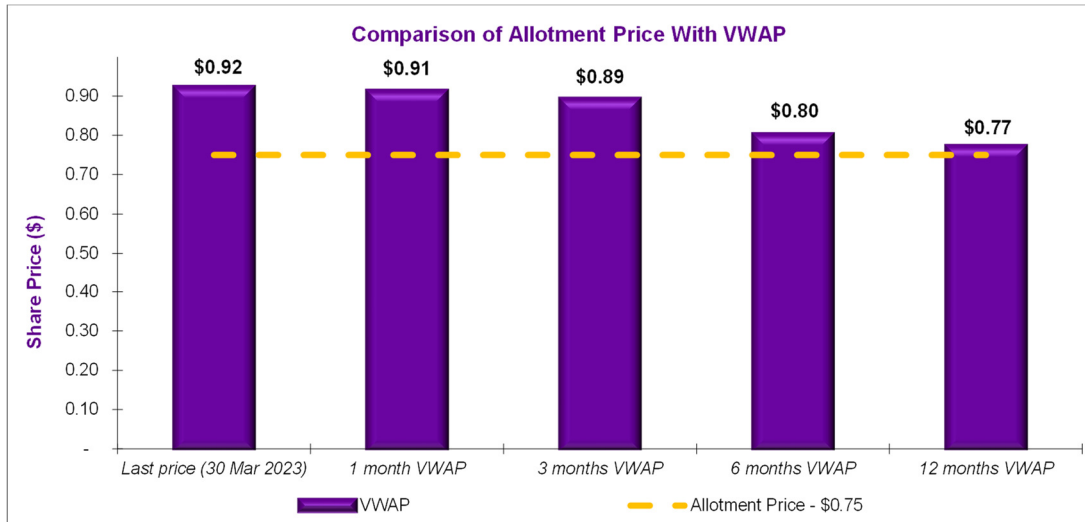
2.9 Impact on Share Price and Liquidity

Share Price

A summary of MHM's closing share price since 5 January 2021 is set out in section 3.8.

The Allotment Price is \$0.75 per share. This price represents:

- a 18% discount to the Company's share price on 30 March 2023 of \$0.92
- a 18% discount to the one month VWAP of \$0.91
- a 16% discount to the 3 months VWAP of \$0.89
- a 6% discount to the 6 months VWAP of \$0.80
- a 3% discount to the 12 months VWAP of \$0.77.



Source: NZX Company Research

In our view, the Barclay Allotment could potentially have some negative impact on the Company's share price in the near term as:

- the Allotment Price is approximately 16% to 18% below the current market price
- the 22,666,667 Consideration Shares will represent a significant proportion of the Company's total shares on issue (25.46%).

Liquidity

The analysis in section 3.8 shows that MHM's shares are relatively thinly traded on the NZX Main Board, with only 8.3% of the shares being traded in the past year.

The Barclay Allotment is unlikely to improve the liquidity of the Company's shares in the near term as the number of shares held by the Non-associated Shareholders will not change.

However, should the Barclay Associates seek to dispose of some of their MHM shares, this may result in increased trading in the Company's shares, thereby improving liquidity.

2.10 Main Advantage to the Non-associated Shareholders of the Wyma Transactions

The Non-associated Shareholders currently hold 100% of the shares in a long established automation and fabrication company with total equity of approximately \$14.5 million as at 31 December 2022 and whose shares are relatively thinly traded on the NZX Main Board.

Following the Wyma Transactions, they will collectively hold 74.54% of the shares in a much larger company with a broader range of capabilities and products, a more extensive geographical coverage and with total equity of approximately \$38 million.

2.11 Main Disadvantage to the Non-associated Shareholders of the Wyma Transactions

The main disadvantage to the Non-associated Shareholders of the Wyma Transactions is that the issue of shares under the Barclay Allotment will significantly dilute their interests in the Company by 25.5%.

In our view, the positive aspects of acquiring Wyma significantly outweighs the dilutionary impact of the Barclay Allotment.

2.12 Other Issues for the Non-associated Shareholders to Consider

Benefits to MHM of the Barclay Associates as a Cornerstone Shareholder

The Barclay Allotment will position the Barclay Associates as an important cornerstone strategic investor in the Company, signalling their confidence in the future prospects of MHM.

Non-associated Shareholders Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Barclay Allotment.

The Wyma Transactions (including the Barclay Allotment) will not proceed unless the Non-associated Shareholders approve the Wyma Resolutions.

Business Risk Profile Unlikely to Change

The business risks faced by MHM and Wyma are broadly similar and therefore the Wyma Transactions are unlikely to change the business risks faced by the Company.

Attractiveness of the Company as a Takeover Target May Increase

Following the Wyma Transactions, MHM will be a much larger entity with potentially a higher profile and may be more visible and attractive to potential investors. This may increase the likelihood of a takeover offer for the Company sometime in the future.

We note that following the Barclay Allotment, the Barclay Associates will not be able to increase the level of their shareholding unless they comply with the provisions of the Code. The Barclay Associates will generally only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding the Barclay Associates
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding the Barclay Associates
- the Company undertakes a share buyback that is approved by the Company's shareholders and the Barclay Associates do not accept the offer of the buyback.

Inability to Creep

The Barclay Associates will not be able to utilise the *creep provisions* under Rule 7(e) of the Code. The *creep provisions* enable an entity that holds more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares in any 12 month period without the need for shareholder approval.

2.13 Key Benefit to the Barclay Associates

The Wyma Transactions provides the Barclay Associates with the opportunity to sell Wyma for up to \$60 million in exchange for up to \$43 million of cash (depending on the amount of Earnout earned) and a 25.46% shareholding in a company listed on the NZX Main Board, thereby enhancing the liquidity of their investment.

Furthermore, selling Wyma to MHM is likely to provide a number of benefits to Wyma:

- an enhancement of Wyma's profile in the market place
- the ability to raise equity capital more easily
- the ability to use scrip for acquisitions.

2.14 Key Disadvantage to the Barclay Associates

Following the Wyma Transactions, Wyma will be a subsidiary of MHM and the Barclay Associates, as shareholders in MHM, will be subject to the additional regulatory requirements of the Code and the Listing Rules (such as restrictions on share transactions and related party transactions as well as higher compliance costs).

2.15 Likelihood of the Wyma Resolutions Being Approved

The Board has stated in the notice of special meeting that it unanimously recommends voting in favour of the Wyma Resolutions.

The Company's top 10 shareholders collectively hold 67.49% of the Company's shares. This includes:

- non-independent non-executive directors George Rolleston and Colin Neal who are associated with the Company's 2 largest shareholders who collectively hold 42.80% of MHM's shares
- the Company's chief executive officer Richard Rookes and chief financial officer Ian McGregor who collectively hold 5.46% of MHM's shares.

We are not aware of how the major shareholders will vote in respect of the Wyma Resolutions (other than assuming that Mr Rolleston, Mr Neal, Mr Rookes and Mr McGregor will vote in favour of the 2 resolutions). The votes of the major shareholders will significantly influence the outcome of the voting on the Wyma Resolutions.

2.16 Implications of the Wyma Resolutions not Being Approved

If either of the Wyma Resolutions are not approved, then the Wyma Transactions will not proceed.

If the Wyma Transactions does not proceed, it is possible that the Board may look to renegotiate the transaction with Mr Barclay and restructure it in a form that needs a lesser (or no) level of shareholder approval.

2.17 Voting For or Against the Wyma Resolutions

Voting for or against the Wyma Resolutions 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.

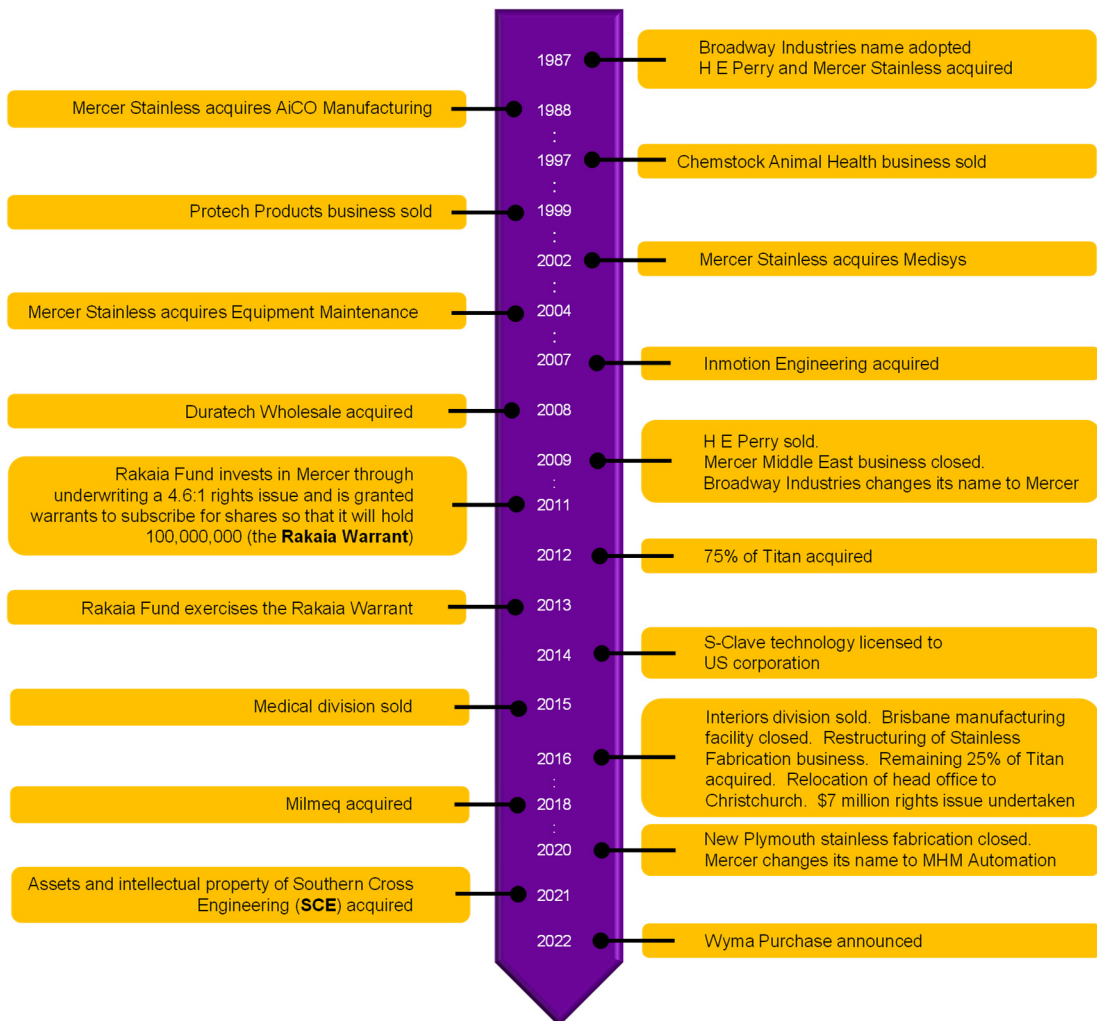
3. Profile of MHM Automation Limited

3.1 Background

MHM was incorporated on 20 November 1987 as Broadway Industries Limited.

The Company changed its name to Mercer Group Limited (**Mercer**) on 30 November 2009 and to MHM Automation Limited on 1 September 2020.

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



3.2 Nature of Operations

MHM designs and supplies innovative, engineered solutions to the primary and logistics sectors worldwide.

The Company operates under 3 divisions:

- Automation – designs, manufactures, delivers and services automated solutions to a range of industries, predominantly in the food sectors
- Fabrication – sells, designs and manufactures proprietary equipment for primary industries across New Zealand and Australia
- Mercer Technologies – manages MHM's research and development that sits outside of Automation.

MHM's business has 5 key product categories:

- chilling and freezing
- packaging
- reverse packaging and materials handling
- timber processing
- industrial and fabrication.

The Company's core market sectors are:

- food and beverage
- agriculture
- horticulture
- timber
- logistics.

MHM owns the following brands:

- *Milmeq* (Automation)
- *H&C* (Automation)
- *Mercer Stainless* (Fabrication)
- *SCE* (Fabrication).

3.3 Directors and Senior Management

The directors of MHM are:

- Trevor Burt, independent non-executive chair
- Richard Rookes, executive director
- Paul Smart, independent non-executive director
- Colin Neal, non-independent non-executive director
- George Rolleston, non-independent non-executive director.

The senior management team of MHM consists of:

- Richard Rookes, chief executive officer
- Ian McGregor, chief financial officer
- John Fredericksen – chief operating officer
- Shane Daly – head of innovation
- Aine Keating – head of people and culture
- Ross Coppard – sales manager – Stainless.

3.4 Capital Structure and Shareholders

MHM currently has 66,369,067 fully paid ordinary shares on issue held by 730 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 17 March 2023 are set out below.

MHM's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Asset Management Limited (AML)	14,778,788	22.27%
Custodial Services Limited (CSL)	8,183,768	12.33%
Humphry Rolleston and Arthur James Keegan	5,799,298	8.74%
Forsyth Barr Custodians Limited	3,769,802	5.68%
John Dell	3,428,864	5.17%
Richard Rookes	2,500,861	3.77%
Vanessa Neal	1,957,727	2.95%
New Zealand Depository Nominee	1,719,553	2.59%
Ballynagarrick Investments Limited	1,527,000	2.30%
Ian McGregor	1,125,500	1.70%
Subtotal	44,791,161	67.49%
Others (720 shareholders)	21,577,906	32.51%
Total	66,369,067	100.00%

Source: NZX Company Research

MHM has 2 substantial product holders:

- Humphry Rolleston holds 20,778,269 shares (31.31%), primarily through AML and with Arthur James Keegan
- Colin Neal holds 7,625,903 shares (11.49%) through CSL.

3.5 Financial Performance

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

Summary of MHM Financial Performance				
	Year to 30 Jun 20 (Audited) \$000	Year to 30 Jun 21 (Audited) \$000	Year to 30 Jun 22 (Audited) \$000	6 Mths to 31 Dec 22 (Unaudited) \$000
Total income	49,103	51,404	67,697	42,851
Expenses	(47,746)	(48,763)	(65,437)	(39,611)
Finance income / (costs)	(333)	(229)	(79)	60
Profit / (loss) before income tax	1,024	2,412	2,181	3,300
Income tax credit / (expense)	198	37	(406)	(217)
Profit / (loss) from continuing operations	1,222	2,449	1,775	3,083
Profit / (loss) from discontinued operation	(288)	1,651	-	-
Net profit / (loss) for the year	934	4,100	1,775	3,083

Source: MHM annual reports and interim report for the 6 months ended 31 December 2022 (the 2023 Interim Report)

MHM's total income has steadily increased over the past 3 and a half years.

Approximately 66% of total income in the 2022 financial year was generated by the Automation division, with 48% of total income generated in Australia and 38% in New Zealand.

MHM's main expenses are raw materials and consumables (approximately \$40.8 million in the 2022 financial year) and salaries and wages (approximately \$16.7 million in the 2022 financial year).

Discontinued operation related to the stainless fabrication operation in New Plymouth which was closed in 2020.

3.6 Financial Position

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

Summary of MHM Financial Position				
	As at 30 Jun 20 (Audited) \$000	As at 30 Jun 21 (Audited) \$000	As at 30 Jun 22 (Audited) \$000	As at 31 Dec 22 (Unaudited) \$000
Current assets	12,775	17,857	26,887	22,435
Non current assets	13,766	14,846	16,537	16,145
Total assets	<u>26,541</u>	<u>32,703</u>	<u>43,424</u>	<u>38,580</u>
Current liabilities	(18,033)	(21,718)	(31,127)	(23,656)
Non current liabilities	(4,007)	(464)	(616)	(456)
Total liabilities	<u>(22,040)</u>	<u>(22,182)</u>	<u>(31,743)</u>	<u>(24,112)</u>
Total equity	<u>4,501</u>	<u>10,521</u>	<u>11,681</u>	<u>14,468</u>

Source: MHM annual reports and 2023 Interim Report

The Company's current assets as at 31 December 2022 consisted mainly of cash and cash equivalents and accounts receivable.

Non current assets as at 31 December 2022 consisted mainly of property, plant and equipment and intangible assets.

The Company's main liabilities as at 31 December 2022 consisted mainly of contract liabilities, trade and other payables and employee entitlements.

Shareholders' equity of \$14.5 million as at 31 December 2022 consisted of:

- \$45.1 million of issued share capital
- negative \$34.6 million of accumulated losses
- \$4.0 million of reserves.

3.7 Cash Flows

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

Summary of MHM Cash Flows				
	Year to 30 Jun 20 (Audited) \$000	Year to 30 Jun 21 (Audited) \$000	Year to 30 Jun 22 (Audited) \$000	6 Mths to 31 Dec 22 (Unaudited) \$000
Net cash inflow / (outflow) from operating activities	2,457	5,935	8,850	(384)
Net cash inflow / (outflow) from investing activities	(472)	2,930	(2,004)	(207)
Net cash (outflow) from financing activities	<u>(3,267)</u>	<u>(4,197)</u>	<u>(1,761)</u>	<u>(919)</u>
Net increase / (decrease) in cash held	(1,282)	4,668	5,085	(1,510)
Opening cash balance	3,673	2,323	6,992	12,011
Effect of exchange rate changes	(68)	1	(66)	(2)
Closing cash balance	<u>2,323</u>	<u>6,992</u>	<u>12,011</u>	<u>10,499</u>

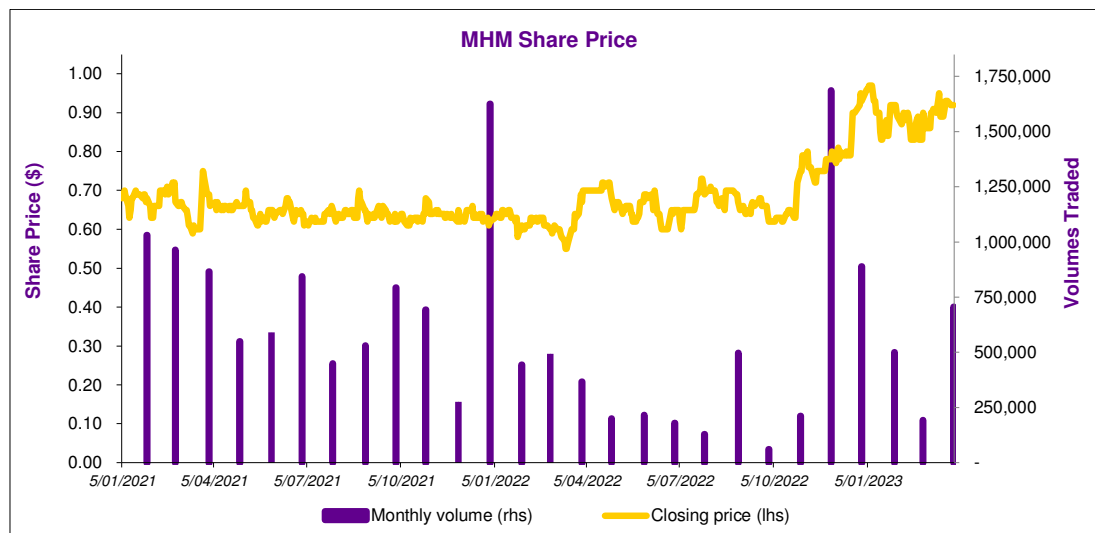
Source: MHM annual reports and 2023 Interim Report

Investing cash flows in the 2021 financial year included \$4.0 million from the disposal of the New Plymouth stainless fabrication assets.

Financing cash flows mainly represent the repayment of borrowings.

3.8 Share Price History

Set out below is a summary of MHM’s daily closing share price and monthly volumes of shares traded from 5 January 2021 to 30 March 2023.



Source: NZX Company Research

During the period, MHM’s shares have traded between \$0.55 and \$0.97 at a VWAP of \$0.69.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 30 March 2023 is set out below.

MHM Share Trading up to 30 March 2023					
Period	Low \$	High \$	VWAP \$	Volume Traded (000)	Liquidity
1 month	\$0.86	\$0.95	\$0.91	705	1.1%
3 months	\$0.83	\$0.97	\$0.89	1,399	2.1%
6 months	\$0.62	\$0.97	\$0.80	4,187	6.3%
12 months	\$0.60	\$0.97	\$0.77	5,486	8.3%

Source: NZX Company Research

Trading in the Company’s shares is relatively thin, with only 8.3% of the shares trading in the past year.

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 special meeting
- the SPA
- the Terms Sheet
- the MHM annual reports for the years ended 30 June, 2020 to 2022
- the 2023 Interim Report
- MHM share price data and shareholder data from NZX Company Research.

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

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Wyma Transactions that is known to them and that all the factual information provided by Company contained in this report 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 necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Board and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the Wyma Transactions (including the Barclay Allotment).

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 MHM 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 MHM or Wyma. 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 MHM or Wyma 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 MHM and Wyma and their respective directors and management teams. 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 special meeting issued by MHM and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

4.4 Indemnity

MHM 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 this report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. MHM 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, 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 MHM, Wyma or the Barclay Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Wyma Transactions (including the Barclay Allotment).

Simmons Corporate Finance has not had any part in the formulation of the Wyma Transactions 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 on the Wyma Resolutions. 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 Board for its 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 special meeting to be sent to MHM'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
31 March 2023