

ESW Holdings Inc.

Independent Adviser's Report

Prepared Pursuant to Rule 22 of the Takeovers Code in Relation to a Full Takeover Offer for SLI Systems Limited

October 2018

Purpose of the Report

This report is **not** a report on the merits of the offer.

This report has been obtained by the offeror.

The purpose of this report is solely to compare the consideration and terms offered for the different classes of financial products and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.

A separate Independent Adviser's Report on the merits of the offer, commissioned by the directors of SLI Systems Limited, must accompany SLI Systems Limited's target company statement.

The offer should be read in conjunction with this report and the separate Independent Adviser's Report on the merits of the offer.

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 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 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

SLI Systems Limited (**SLI**) provides site search and navigation technologies to connect site visitors with products on e-commerce websites worldwide.

SLI serves various sectors, including B2B e-commerce, apparel, automotive, beauty, food and beverage, furniture, home and garden, jewellery, content sites, party supplies, pet supply and pharmacy.

SLI was incorporated on 17 April 2013 and is based in Christchurch.

SLI's ordinary shares are listed on the main equities security market operated by NZX Limited (the **NZX Main Board**). SLI had a market capitalisation of \$19 million as at 19 October 2018.

1.2 ESW Offer

ESW Holdings Inc.

ESW Holdings Inc. (**ESW**) is a company based in Austin, Texas, United States of America (**USA**).

ESW is wholly owned by ESW Capital, LLC (**ESW Capital**). The ESW Capital group specifically focuses on buying, strengthening then growing mature business software companies. By taking advantage of its unique operating platform, ESW Capital revitalises its acquisitions for sustainable success while making customer satisfaction a top priority. ESW Capital and its affiliated companies have been in the enterprise software space since 1988 and the group includes notable brands such as Aureka, Ignite Technologies, Trilogy and Versata.

Takeover Notice

ESW issued a notice of intention to make a full takeover offer for the equity securities on issue in SLI on 22 October 2018 (the **Takeover Notice**) which, if successful, will result in ESW holding or controlling all of the voting rights in SLI (the **ESW Offer**).

SLI Capital Structure

SLI's share capital consists of:

- 62,260,816 ordinary shares (the **Ordinary Shares**)
- 5,643,183 options (the **Options**), which have been issued in various tranches (each a **Tranche**).

The majority of the Options have been issued to eligible employees (the **Participants**) under SLI's Share Option Plan implemented on 1 June 2013 (the **Options Plan**). Some of the Options were issued to Participants under SLI's 2002 Stock Option Plan.

Each Option entitles the holder to subscribe for one fully paid ordinary share in SLI upon payment of the exercise price.

The Options are not listed on the NZX Main Board.

Each Tranche of the Options constitutes a separate class of non-voting securities for the purposes of the Takeovers Code (the **Code**).

ESW Shareholding in SLI

ESW currently does not hold or control any Ordinary Shares or Options.

Terms of the ESW Offer

Full Offer

The ESW Offer is for 100% of the Ordinary Shares and Options that ESW currently does not hold or control.

Consideration

ESW will offer cash of:

- \$0.63 for each Ordinary Share (the **Ordinary Shares Offer Price**)
- between \$0.03 and \$0.34 for each Option (the **Options Offer Prices**).

A further cash payment will be made to the holders of the Ordinary Shares and Options if SLI's cash at 31 October 2018 exceeds \$4.5 million.

Conditions

The ESW Offer is conditional upon ESW receiving acceptances that would confer 90% or more of the voting rights in SLI (the **Minimum Acceptance Condition**). If ESW waives the Minimum Acceptance Condition, then the Code requires that ESW must receive acceptances that would confer more than 50% of the voting rights in SLI before the ESW Offer can be declared unconditional.

The ESW Offer is also conditional on a series of other conditions that are standard for an offer of this type, including ESW obtaining all required consents, approvals, orders, no-objection statements or similar authorisations (if any) from any Government Agency.

1.3 Regulatory Requirements

SLI is a *code company* as defined by Rule 3 of the Code. The takeover process contemplated by ESW must therefore comply with the provisions set out in the Code.

Rule 8(2) of the Code prescribes that a full offer must be extended to all holders of equity securities (whether voting or non-voting) of the target company other than the offeror.

Furthermore, Rule 8(4) of the Code prescribes that if non-voting securities are included in a full offer, the consideration and terms offered for the non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities.

In this particular case, the Code requires that the consideration and terms offered for the Options must be fair and reasonable compared with the consideration and terms offered for the Ordinary Shares and as between each Tranche of Options.

As the offeror, ESW must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(4).

1.4 Purpose of the Report

ESW has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report to opine on whether the consideration and terms offered for the Ordinary Shares and the Options are fair and reasonable as between the Ordinary Shares and the Options and as between the 74 Tranches of Options under the ESW Offer in accordance with Rule 22 of the Code.

A Rule 22 Independent Adviser's Report is not required to consider the merits of the ESW Offer and we offer no opinion on whether the Ordinary Shares Offer Price is fair and reasonable.

Simmons Corporate Finance was approved by the Takeovers Panel on 20 September 2018 to prepare this Independent Adviser's Report.

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

1.5 Currency References

References to \$ are to New Zealand dollars unless otherwise specified (eg US\$ for United States of America dollars).

2. Evaluation of the ESW Offer as Between the Ordinary Shares and the Options

2.1 Basis of Evaluation

Rule 22 of the Code requires that the Independent Adviser's Report certifies that the consideration and terms offered for the Ordinary Shares and the Options are *fair and reasonable* as between the Ordinary Shares and the Options and as between the 74 Tranches of the Options.

There is no legal definition of the term *fair and reasonable* 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 *fair and reasonable*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 1 March 2018
- 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 *fair and reasonable*.

Our assessment of whether the consideration and terms offered for the Options are fair and reasonable is based on the following approach:

- the Ordinary Shares Offer Price of \$0.63 provides the benchmark for our assessment in relation to the Options
- accordingly, we determine the underlying fair value of the Options assuming an initial fair value for the Ordinary Shares of \$0.63
- the assessment then rests on a comparison of the Options Offer Prices with the underlying fair value of the Options.

In our view the assessment of the terms of the ESW Offer relating to the Ordinary Shares in comparison with the terms relating to the Options is inconsequential in this case. Both the holders of the Ordinary Shares and the holders of the Options will receive cash consideration if they are capable of accepting and accept the ESW Offer and the ESW Offer to each group of shareholders is effectively contingent on the same set of conditions. Accordingly, we are of the opinion that the terms of the ESW Offer are equivalent as between the Ordinary Shares and the Options.

We stress that we have not attempted to assess the underlying value of the Ordinary Shares, but have used the Ordinary Shares Offer Price as the benchmark for our assessment of the relativity between the offers for the different classes of securities.

2.2 Opinion

In our opinion, the consideration and terms offered for the Options are fair and reasonable in comparison with the consideration and terms offered for the Ordinary Shares and as between the 74 Tranches of Options.

We certify that in our opinion, the ESW Offer complies with Rule 8(4).

2.3 Terms of the Options

Grant of Options

A total of 5,643,183 Options remain outstanding as at the date of this report.

The Options were granted in 74 Tranches between 13 November 2006 and 21 May 2018 to a total of 79 Participants.

4,581,240 Options are able to be exercised as at 30 September 2018.

Options									
Tranche	Grant Date	Expiry Date	No. of Participants	Exercise Price			No. of Options	Exercisable (as at 30 Sep 18)	Not Exercisable (as at 30 Sep 18)
				Currency	Local Currency	\$ ¹			
1	13 Nov 06	13 Nov 19	1	US\$	US\$0.29	\$0.45	180,000	180,000	-
2	7 Jan 08	7 Jan 21	1	US\$	US\$0.29	\$0.45	60,000	60,000	-
3	25 Mar 08	25 Mar 21	1	US\$	US\$0.33	\$0.52	210,000	210,000	-
4	5 May 08	5 May 21	1	US\$	US\$0.33	\$0.52	60,000	60,000	-
5	12 May 08	12 May 21	1	US\$	US\$0.29	\$0.45	60,000	60,000	-
6	9 Mar 09	9 Mar 19	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
7	14 Apr 09	14 Apr 19	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
8	10 May 09	10 May 19	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
9	30 Jun 09	30 Jun 19	4	US\$	US\$0.33	\$0.52	49,440	49,440	-
10	15 Mar 10	15 Mar 20	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
11	23 Mar 10	23 Mar 20	1	US\$	US\$0.33	\$0.52	210,000	210,000	-
12	6 Apr 10	6 Apr 20	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
13	31 May 10	31 May 20	1	US\$	US\$0.33	\$0.52	29,500	29,500	-
14	8 Jun 10	8 Jun 20	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
15	21 Jun 10	21 Jun 20	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
16	30 Jun 10	30 Jun 20	6	US\$	US\$0.33	\$0.52	64,118	64,118	-
17	4 Oct 10	4 Oct 20	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
18	15 Jan 11	15 Jan 21	1	US\$	US\$0.33	\$0.52	210,000	210,000	-
19	16 May 11	16 May 21	1	US\$	US\$0.33	\$0.52	22,500	22,500	-
20	30 Jun 11	30 Jun 21	16	US\$	US\$0.33	\$0.52	165,272	165,272	-
21	12 Jul 11	12 Jul 21	1	US\$	US\$0.33	\$0.52	120,000	120,000	-
22	17 Oct 11	17 Oct 21	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
23	5 Dec 11	5 Dec 21	1	US\$	US\$0.33	\$0.52	49,500	49,500	-
24	28 May 12	28 May 22	1	US\$	US\$0.68	\$1.06	49,500	49,500	-
25	5 Jun 12	5 Jun 22	1	US\$	US\$0.68	\$1.06	28,875	28,875	-
26	18 Jun 12	18 Jun 22	1	US\$	US\$0.68	\$1.06	43,500	43,500	-
27	25 Jun 12	25 Jun 22	1	US\$	US\$0.68	\$1.06	49,500	49,500	-
28	1 Jul 12	1 Jul 22	1	US\$	US\$0.75	\$1.16	51,000	51,000	-
29	16 Jul 12	16 Jul 22	1	US\$	US\$0.75	\$1.16	49,500	49,500	-
30	20 Aug 12	20 Aug 22	2	US\$	US\$0.75	\$1.16	63,338	63,338	-
31	12 Sep 12	12 Sep 22	1	US\$	US\$0.75	\$1.16	32,400	32,400	-
32	8 Oct 12	8 Oct 22	1	US\$	US\$0.75	\$1.16	32,400	32,400	-
33	19 Nov 12	19 Nov 22	1	US\$	US\$0.75	\$1.16	24,300	24,300	-
34	3 Dec 12	3 Dec 22	1	US\$	US\$0.75	\$1.16	32,400	32,400	-
35	14 Jan 13	14 Jan 23	1	US\$	US\$0.78	\$1.21	32,400	32,400	-
36	15 Feb 13	15 Feb 23	1	US\$	US\$0.78	\$1.21	32,400	32,400	-
37	4 Mar 13	4 Mar 23	1	US\$	US\$0.78	\$1.21	32,400	32,400	-
38	8 Apr 13	8 Apr 23	1	US\$	US\$0.78	\$1.21	32,400	32,400	-
39	17 Jun 13	17 Jun 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
40	1 Jul 13	1 Jul 23	1	\$	\$1.94	\$1.94	6,900	6,900	-
41	8 Jul 13	8 Jul 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
42	22 Jul 13	22 Jul 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
43	5 Aug 13	5 Aug 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
44	16 Sep 13	16 Sep 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
45	25 Sep 13	25 Sep 23	1	\$	\$2.06	\$2.06	13,800	13,800	-
46	14 Oct 13	14 Oct 23	1	\$	\$1.93	\$1.93	13,800	13,800	-
47	25 Nov 13	25 Nov 23	1	\$	\$1.94	\$1.94	13,800	13,800	-
48	27 Jan 14	27 Jan 24	1	\$	\$2.17	\$2.17	13,800	13,800	-
49	24 Feb 14	24 Feb 24	2	\$	\$2.55	\$2.55	27,600	27,600	-
50	31 Mar 14	31 Mar 24	1	\$	\$2.46	\$2.46	13,800	13,800	-
51	14 Apr 14	14 Apr 24	1	\$	\$2.26	\$2.26	13,800	13,800	-
52	2 Jul 14	2 Jul 24	1	\$	\$1.61	\$1.61	100,000	100,000	-
53	14 Jul 14	14 Jul 24	1	\$	\$1.53	\$1.53	13,800	13,800	-
54	28 Jul 14	28 Jul 24	1	\$	\$1.42	\$1.42	13,800	13,800	-
55	4 Aug 14	4 Aug 24	1	\$	\$1.40	\$1.40	13,800	13,800	-
56	11 Aug 14	11 Aug 24	1	\$	\$1.37	\$1.37	26,500	26,500	-
57	19 Sep 14	19 Sep 24	1	\$	\$1.36	\$1.36	13,800	13,800	-
58	29 Sep 14	29 Sep 24	1	\$	\$1.31	\$1.31	13,800	13,800	-
59	25 Nov 14	25 Nov 24	2	\$	\$1.15	\$1.15	27,600	26,450	1,150
60	22 Dec 14	22 Dec 24	1	\$	\$1.12	\$1.12	13,800	12,938	863
61	29 Jan 15	29 Jan 25	1	\$	\$1.14	\$1.14	13,800	12,650	1,150
62	24 Aug 15	24 Aug 25	12	\$	\$0.76	\$0.76	77,000	59,354	17,646
63	24 Aug 15	11 Jun 25	1	\$	\$0.94	\$0.94	200,000	162,500	37,500
64	16 Oct 15	16 Oct 25	1	\$	\$0.79	\$0.79	2,000	1,458	542
65	25 Nov 15	25 Nov 25	1	\$	\$0.77	\$0.77	2,000	1,417	583
66	2 Sep 16	2 Sep 26	1	\$	\$0.72	\$0.72	35,000	17,500	17,500
67	28 Nov 16	9 Oct 25	1	\$	\$0.83	\$0.83	613,083	613,083	-
68	22 Feb 17	22 Feb 27	1	\$	\$0.43	\$0.43	16,875	16,875	-
69	2 Mar 17	2 Mar 27	1	\$	\$0.37	\$0.37	315,000	118,125	196,875
70	28 Jul 17	28 Jul 27	1	\$	\$0.33	\$0.33	75,000	21,875	53,125
71	2 Oct 17	2 Oct 27	1	\$	\$0.25	\$0.25	75,000	-	75,000
72	28 Nov 17	9 Oct 25	1	\$	\$0.37	\$0.37	613,083	613,083	-
73	13 Apr 18	13 Apr 28	1	\$	\$0.31	\$0.31	460,000	-	460,000
74	21 May 18	21 May 28	1	\$	\$0.31	\$0.31	200,000	-	200,000
							<u>5,643,183</u>	<u>4,581,250</u>	<u>1,061,933</u>

¹ Based on an exchange rate of \$1 = US\$0.645
Source: SLI

Key Terms

The key terms of the Options under the Options Plan are:

- the Options are (generally) granted with a life of 10 years
- the Options exercise prices are determined by the SLI Board and vary from US\$0.29 to US\$0.78 and \$0.25 to \$2.55
- the Options can be exercised at any time, subject to the following conditions:
 - $\frac{1}{4}$ of the Options granted to a Participant may be exercised following the first anniversary of the grant date
 - an additional $\frac{1}{36}$ of the remaining balance of the Options may be exercised on a monthly basis thereafter, so that the Options are fully exercisable on the fourth anniversary of the grant date
- the minimum number of Options that may be exercised by a Participant on any one occasion is 2,000 Options
- the Options attract no dividend rights
- the Options carry no voting rights
- the Options are not transferable to any other person, other than to an offeror under a full takeover offer made in accordance with the Code
- in the event of a variation to SLI's capital (eg bonus issues, rights issues, returns of capital), provision is made (as the case may be) for either an adjustment to the number of Ordinary Shares issued for each Option upon exercise or an adjustment to the exercise price
- the Options lapse on the earlier of:
 - the tenth anniversary of the grant date
 - between 3 months and 12 months of a Participant ceasing to be employed by SLI (depending on the reason for ceasing to be employed), except where the Participant's employment is "terminated with cause", whereupon the Options lapse immediately.

2.4 Valuation of the Options

Methodology and Valuation Approach

The Options can be exercised at any time from when they become exercisable up to the tenth anniversary of the grant date. Therefore the Options are commonly characterised as Bermudan options (as opposed to American options which can be exercised at any time or European options which can only be exercised on their maturity date).

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Black-Scholes Formula is particularly suitable for valuing simple European options on a non-dividend paying share. The Binomial Model is more appropriate for the valuation of American options and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of an option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

Given the relatively simple features of the Options, we have applied the Black-Scholes Formula to assess the value of the Options.

Valuation Parameters

The key variables applied in our assessment of the value of the Options are:

- valuation date – 10 October 2018
- exercise price – various, ranging from US\$0.29 to US\$0.78 and \$0.25 to \$2.55
- an exchange rate of \$1 = US\$0.645
- the risk free rate – 2.0%, based on the average current yields on New Zealand Government one, 2, 5 and 10 year bonds
- the current market value of SLI shares – \$0.63 per share, being the Ordinary Shares Offer Price
- volatility – 35% to 45%, based on the observed volatility levels of movements in SLI's share price and for comparable companies over the past 5 years
- the time to expiry – various, ranging from 9 March 2019 to 21 May 2028, being the last date that each Option may be exercised. Assuming SLI does not pay dividends, the optimal time to exercise the Options is at their maturity dates
- expected distributions – assumed to be nil, on the basis that SLI has not previously paid any dividends.

Non-tradeable Factor

As stated in section 2.3, the Options are not transferable and lapse (after a period of time) if the Participant ceases to be employed by SLI.

Options of this nature therefore tend to either be exercised earlier than is optimal for standard options (if earlier exercise is possible) or lapse before exercise is possible.

In both cases, the payoff that could have been received had the option been retained for the full term is reduced.

In order to reflect the reduced potential payoff, a discount is commonly applied to the values derived from the Black-Scholes Formula to reflect factors such as non-tradability and the potential for forfeiture.

Market evidence in relation to valuation discounts for the employee option features of the Options is relatively limited. The appropriate valuation discount to apply to the theoretical model prices therefore remains largely a matter of judgement. Discounts in the range of 20% to 30% are commonly applied. Accordingly, we have applied a discount of 25% to the values derived from the Black-Scholes Formula to determine the fair value of each Tranche of Options.

Some Exercisable Options are In-the-Money

Some of the Options are in-the-money as at the valuation date – ie the exercise price of the Option is lower than the Ordinary Shares Offer Price.

The intrinsic value of an in-the-money option is the difference between the current market value of the share and the exercise price.

If an Option is exercisable as at the valuation date and its intrinsic value is higher than the assessed value derived from the Black-Scholes Formula (after the non-tradeable discount), then we assess the fair value of the Option to be its intrinsic value.

Valuation Conclusion

Based on the above, we assess the comparative fair value of each Tranche of Options to be as set out below.

Fair Value of Options							
Tranche	Grant Date	Expiry Date	No. of Options	Fair Value			Options Offer Prices (\$)
				Low (\$)	Mid (\$)	High (\$)	
1	13 Nov 06	13 Nov 19	180,000	0.180	0.180	0.180	0.18
2	7 Jan 08	7 Jan 21	60,000	0.180	0.186	0.195	0.19
3	25 Mar 08	25 Mar 21	210,000	0.150	0.162	0.173	0.16
4	5 May 08	5 May 21	60,000	0.152	0.164	0.176	0.16
5	12 May 08	12 May 21	60,000	0.183	0.193	0.203	0.19
6	9 Mar 09	9 Mar 19	49,500	0.110	0.110	0.110	0.11
7	14 Apr 09	14 Apr 19	49,500	0.110	0.110	0.110	0.11
8	10 May 09	10 May 19	49,500	0.110	0.110	0.112	0.11
9	30 Jun 09	30 Jun 19	49,440	0.110	0.112	0.118	0.11
10	15 Mar 10	15 Mar 20	49,500	0.127	0.136	0.144	0.14
11	23 Mar 10	23 Mar 20	210,000	0.127	0.136	0.145	0.14
12	6 Apr 10	6 Apr 20	49,500	0.128	0.137	0.146	0.14
13	31 May 10	31 May 20	29,500	0.132	0.141	0.151	0.14
14	8 Jun 10	8 Jun 20	49,500	0.133	0.142	0.152	0.14
15	21 Jun 10	21 Jun 20	49,500	0.133	0.143	0.153	0.14
16	30 Jun 10	30 Jun 20	64,118	0.134	0.144	0.153	0.14
17	4 Oct 10	4 Oct 20	49,500	0.140	0.151	0.161	0.15
18	15 Jan 11	15 Jan 21	210,000	0.146	0.157	0.169	0.16
19	16 May 11	16 May 21	22,500	0.153	0.165	0.177	0.16
20	30 Jun 11	30 Jun 21	165,272	0.156	0.168	0.180	0.17
21	12 Jul 11	12 Jul 21	120,000	0.156	0.168	0.181	0.17
22	17 Oct 11	17 Oct 21	49,500	0.161	0.174	0.187	0.17
23	5 Dec 11	5 Dec 21	49,500	0.164	0.177	0.190	0.18
24	28 May 12	28 May 22	49,500	0.057	0.075	0.092	0.07
25	5 Jun 12	5 Jun 22	28,875	0.058	0.075	0.093	0.08
26	18 Jun 12	18 Jun 22	43,500	0.058	0.076	0.094	0.08
27	25 Jun 12	25 Jun 22	49,500	0.059	0.077	0.094	0.08
28	1 Jul 12	1 Jul 22	51,000	0.049	0.066	0.084	0.07
29	16 Jul 12	16 Jul 22	49,500	0.050	0.067	0.085	0.07
30	20 Aug 12	20 Aug 22	63,338	0.051	0.069	0.087	0.07
31	12 Sep 12	12 Sep 22	32,400	0.053	0.070	0.088	0.07
32	8 Oct 12	8 Oct 22	32,400	0.054	0.072	0.090	0.07
33	19 Nov 12	19 Nov 22	24,300	0.056	0.074	0.093	0.07
34	3 Dec 12	3 Dec 22	32,400	0.056	0.075	0.094	0.08
35	14 Jan 13	14 Jan 23	32,400	0.054	0.073	0.091	0.07
36	15 Feb 13	15 Feb 23	32,400	0.055	0.074	0.093	0.07
37	4 Mar 13	4 Mar 23	32,400	0.056	0.075	0.094	0.08
38	8 Apr 13	8 Apr 23	32,400	0.058	0.077	0.096	0.08

Fair Value of Options							
Tranche	Grant Date	Expiry Date	No. of Options	Fair Value			Options Offer Prices (\$)
				Low (\$)	Mid (\$)	High (\$)	
39	17 Jun 13	17 Jun 23	13,800	0.023	0.038	0.053	0.04
40	1 Jul 13	1 Jul 23	6,900	0.023	0.039	0.054	0.04
41	8 Jul 13	8 Jul 23	13,800	0.023	0.039	0.054	0.04
42	22 Jul 13	22 Jul 23	13,800	0.024	0.039	0.055	0.04
43	5 Aug 13	5 Aug 23	13,800	0.024	0.040	0.056	0.04
44	16 Sep 13	16 Sep 23	13,800	0.025	0.042	0.058	0.04
45	25 Sep 13	25 Sep 23	13,800	0.022	0.038	0.053	0.04
46	14 Oct 13	14 Oct 23	13,800	0.027	0.043	0.060	0.04
47	25 Nov 13	25 Nov 23	13,800	0.028	0.044	0.061	0.04
48	27 Jan 14	27 Jan 24	13,800	0.023	0.039	0.055	0.04
49	24 Feb 14	24 Feb 24	27,600	0.016	0.030	0.045	0.03
50	31 Mar 14	31 Mar 24	13,800	0.019	0.034	0.049	0.03
51	14 Apr 14	14 Apr 24	13,800	0.023	0.039	0.056	0.04
52	2 Jul 14	2 Jul 24	100,000	0.049	0.070	0.090	0.07
53	14 Jul 14	14 Jul 24	13,800	0.054	0.075	0.096	0.08
54	28 Jul 14	28 Jul 24	13,800	0.061	0.083	0.105	0.08
55	4 Aug 14	4 Aug 24	13,800	0.063	0.085	0.107	0.09
56	11 Aug 14	11 Aug 24	26,500	0.066	0.088	0.110	0.09
57	19 Sep 14	19 Sep 24	13,800	0.068	0.090	0.113	0.09
58	29 Sep 14	29 Sep 24	13,800	0.073	0.095	0.118	0.10
59	25 Nov 14	25 Nov 24	27,600	0.090	0.113	0.137	0.11
60	22 Dec 14	22 Dec 24	13,800	0.095	0.118	0.141	0.12
61	29 Jan 15	29 Jan 25	13,800	0.094	0.118	0.141	0.12
62	24 Aug 15	24 Aug 25	77,000	0.160	0.182	0.204	0.18
63	24 Aug 15	11 Jun 25	200,000	0.125	0.149	0.172	0.15
64	16 Oct 15	16 Oct 25	2,000	0.156	0.178	0.201	0.18
65	25 Nov 15	25 Nov 25	2,000	0.161	0.184	0.206	0.18
66	2 Sep 16	2 Sep 26	35,000	0.182	0.204	0.227	0.20
67	28 Nov 16	9 Oct 25	613,083	0.148	0.171	0.194	0.17
68	22 Feb 17	22 Feb 27	16,875	0.263	0.278	0.294	0.28
69	2 Mar 17	2 Mar 27	315,000	0.284	0.297	0.311	0.30
70	28 Jul 17	28 Jul 27	75,000	0.302	0.314	0.326	0.31
71	2 Oct 17	2 Oct 27	75,000	0.336	0.344	0.353	0.34
72	28 Nov 17	9 Oct 25	613,083	0.271	0.284	0.297	0.28
73	13 Apr 18	13 Apr 28	460,000	0.314	0.326	0.337	0.33
74	21 May 18	21 May 28	200,000	0.315	0.327	0.338	0.33

The low values derived from the Black-Scholes Formula are based on a volatility factor of 35%. The high values derived from the Black-Scholes Formula are based on a volatility factor of 45%. The fair values derived from the Black-Scholes Formula are after applying a discount of 25% to the values derived from the Black-Scholes Formula.

2.5 Conclusion

In our opinion, the consideration and terms offered for the Options are fair and reasonable in comparison with the consideration and terms offered for the Ordinary Shares and as between the 74 Tranches of Options:

- the Options Offer Prices are fair as they approximate the midpoints of our valuation ranges
- the holders of both the Ordinary Shares and the Options will be paid cash if they accept the ESW Offer
- the ESW Offer to the holders of both the Ordinary Shares and the Options is effectively conditional on the same set of general conditions.

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

3.1 Sources of Information

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

- the Takeover Notice
- the SLI financial statements for the year ended 30 June 2018
- the Options Plan rules
- details of the Options provided by SLI
- data in respect of SLI and comparable companies 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 ESW and ESW's legal advisers.

ESW has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the ESW Offer that is known to it 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.

3.2 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 ESW 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 SLI. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

3.3 Disclaimer

It is not intended that this report should be used or relied upon for any purpose other than as an expression of our opinion as to whether the consideration and terms offered for the Ordinary Shares and the Options are fair and reasonable as between the Ordinary Shares and the Options and as between the 74 Tranches of Options.

This report is not a valuation of the Ordinary Shares or the Options. We expressly disclaim any liability to any SLI shareholder that relies or purports to rely on this report for any purpose other than that referred to in the paragraph above.

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 SLI 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 SLI and its directors and management team. 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 or which cannot be disclaimed by law.

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 Takeover Notice and have not verified or approved the contents of the Takeover Notice. We do not accept any responsibility for the contents of the Takeover Notice except for this report.

3.4 Indemnity

ESW 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. ESW 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.

4. Qualifications and Expertise, Independence, Declarations and Consents

4.1 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.

4.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with ESW or SLI or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the ESW Offer.

Simmons Corporate Finance has not had any part in the formulation of the ESW Offer 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 ESW Offer. We will receive no other benefit from the preparation of this report.

4.3 Declarations

An advance draft of this report was provided to ESW for its 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.

4.4 Consents

We consent to the issuing of this report in the form and context in which it is to be attached to SLI's target company statement to be sent to SLI'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
23 October 2018