Full takeover offer for Just Water International Limited

Independent Adviser's Report

November 2014

KordaMentha confirms that it:

(a) has no conflict of interest that could affect its ability to provide an unbiased report; and

(b) 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.

KordaMentha 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.

Contents

Glossary of key definitions

Just Water or the Company	Just Water International Limited
Just Water Shares	89,477,174 shares in Just Water
Just Water Options	600,000 options issued to Just Water senior management
Budget	Just Water's budget for the 12 months ending 30 June 2015
Harvard JV	The Harvard Group Limited, together with its associates
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Forecast	Financial forecasts for the 12 months ending 30 June 2016 and 30 June 2017
FY	Just Water's financial year ending 30 June
NTA	Net tangible assets
NZAX	NZX Alternate Market operated by NZX Limited
the Offer	Harvard JV is offering to acquire 100% of the Just Water Shares for 15 cents per share
POU	Point of Use
the Report	This independent adviser's report on the Offer in accordance with Rule 21 of the Takeovers Code
WACC	Weighted Average Cost of Capital
YTD15	Financial year-to-date for the three months ended 30 September 2014

1 Introduction

Just Water International Limited ('Just Water' or 'the Company') is a listed company traded on the NZX Alternative Market. Just Water rents and services water dispensers for home and office use in New Zealand and Australia; delivers bulk bottled water to customers in New Zealand; and sells and services filter units in Australia.

On 28 October 2014, The Harvard Group Limited together with its associates (together, 'Harvard JV' or 'the Bidder') announced its intention to make a full takeover offer for 100% of Just Water at an offer price of 15 cents cash per share ('the Offer').

The independent directors of Just Water have appointed KordaMentha to prepare an independent adviser's report on the Offer in accordance with Rule 21 of the Takeovers Code ('the Report'). Our appointment as being independent for the purposes of the Code was subsequently approved by the Takeovers Panel.

The Report has been prepared to assist Just Water shareholders to consider the merits of the Offer.

1.1 Background to the Offer

Prior to the Offer, PricewaterhouseCoopers ('PwC') undertook a sales process for the Bidder in which it searched for parties interested in acquiring Just Water. Two non-binding indicative offers were received. Just Water subsequently engaged PwC to run a limited due diligence process to get confirmed or final non-binding offers. A third offer was received during the process. One party proceeded to due diligence, and then reconfirmed its non-binding indicative offer for the shares in Just Water. This was at a price of 14.3 cents per share (14.6 cents after adjusting for Just Water's net debt as at 30 September 2014). The indicative offer was still conditional (including on matters at the other parties discretion), and unlikely to proceed in the near term.

On 28 October 2014, Harvard JV announced its intention to make a cash offer for 100% of Just Water, including all the shares in Just Water ('Just Water Shares') which are not already owned by it; and all of the options to acquire Just Water Shares ('Just Water Options').

Harvard JV is expected to dispatch the Offer to the shareholders of Just Water on or about 14 November 2014.

The consideration offered for each Just Water Share is 15 cents in cash. The consideration for each Just Water Option ranges from 2.1 cents to 3.3 cents in cash, depending on the date and terms of the relevant option. The offer prices for the Just Water Options are detailed at Appendix 5.

Harvard JV is an unincorporated joint venture between The Harvard Group Limited ('Harvard Group') and its associates. Harvard Group is an investment company owned by Anthony Falkenstein, Ian Malcolm, and entities associated with them. The associates of Harvard Group are trusts related to Messrs Falkenstein and Malcolm.

Prior to the Offer, Harvard JV had a combined ownership interest in 70.79% of the Just Water Shares, 60.28% owned by Harvard Group and an additional 10.51% owned by its associates.

The Offer is unconditional.

1.2 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this report.

This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report.

References to ‘$’, dollars or cents are to New Zealand dollars, unless specified otherwise. References to ‘AUD’ are to Australian dollars. References to financial years or ‘FY’ mean Just Water’s financial year end 30 June unless specified otherwise.

Please note tables may not add due to rounding.

KordaMentha

2 Merits of the Offer

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Offer and in doing so to take into consideration issues wider than just our valuation. In this section we consider the fundamentals of Just Water; pricing and valuation; potential outcomes of the Offer; and the likelihood of alternative offers.

The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merit', it suggests that merits include both positives and negatives in respect of an offer.

2.1 Just Water fundamentals

Just Water rents and services water dispensers to customers in New Zealand and Australia, delivers bottled water to customers in New Zealand and sells and services filter units in Australia.

Just Water has the highest market share in New Zealand across the rental, service and product segments of the water cooler market. Just Water, via its Australian subsidiary (Clearwater), has the third largest market share in the rental segment of the water cooler market.

Table 2.1 shows a summary of the Just Water group's historical and budgeted financial performance.

Table 2.1 Financial performance summary ($ thousand)

	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Budget
Revenue	32,479	29,757	27,856	26,466	26,250
EBITDA	8,652	8,013	7,313	6,669	6,370
EBIT	3,203	3,470	3,308	3,092	3,045

Source: Just Water Annual Reports and management accounts

Historical financial performance has been affected by a decline in the water cooler market, particularly bottled water coolers (which use bottled water, as opposed to mains connected water coolers). Revenue has declined 18.5% and EBITDA by 22.9% in the four year period between FY11 and FY14; this is equivalent to an average decline of 6.6% and 8.3% per annum respectively.

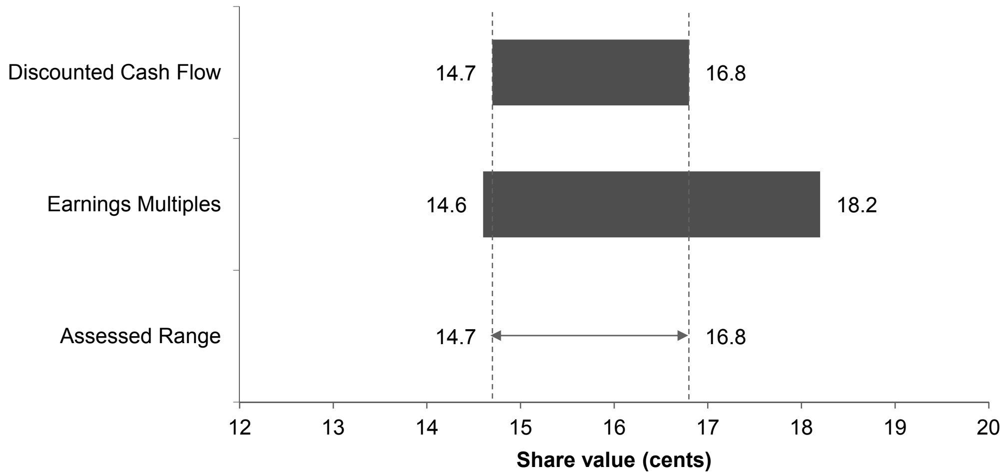
In addition to the decline in the overall water cooler market, Just Water has been affected by high levels of price discounting; poor implementation of software in 2009 and 2010; and purchasing more water coolers than it needed shortly after listing.

Management consider that there are some risks to achieving the future financial forecasts for Just Water, including: the average rental rate declining due to competitor activity; loss of key customers; growth of competitive alternatives faster than expected; and retention of key staff.

2.2 Pricing and valuation

Our valuation results are summarised in Figure 2.1.

Figure 2.1: Valuation summary

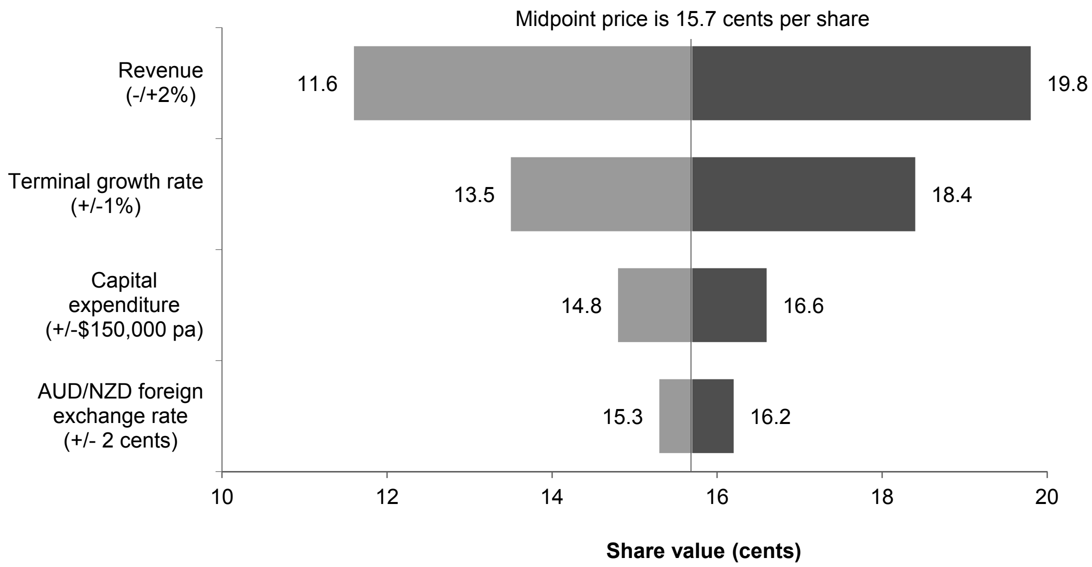


For the purpose of the Report, we have assessed a valuation range for Just Water equity between 14.7 cents and 16.8 cents per share, with a midpoint of 15.7 cents per share. The Offer price (15 cents per share) is within and at the lower end of our valuation range.

Our estimate of value is for 100% of Just Water and therefore includes a premium for control. We would not expect minority parcels to trade at this level (in the absence of a takeover offer).

We estimate the value of Just Water Shares based on our Discounted Cash Flow ('DCF') valuation, and have used our earnings multiples based valuation as a crosscheck. We illustrate at Figure 2.2 how changes in key assumptions which underpin the DCF valuation affect the value estimate of the Just Water Shares. Based on our discussions with management and the independent directors, when considering the risks to key assumptions which underpin our DCF valuation, on balance, we consider the downside may outweigh the upside.

Figure 2.2: DCF sensitivity



2.3 Harvard JV's intentions

As is our practice when preparing independent adviser's reports, KordaMentha requested comment from Harvard JV regarding the Offer and its views on Just Water's future prospects. Key comments from Harvard JV are set out in Table 2.2.

Table 2.2: Harvard JV's intentions

Request for comment from Harvard JV	Harvard JV's response
Why is Harvard JV making the Offer?	Two other parties placed non-binding indicative offers in May 2014. One of these, a local party, wanted to acquire only the assets of Just Water leaving the company as a listed shell, while the other, an offshore water cooler company, wished to make a takeover offer for all the shares in Just Water. The Board granted exclusivity to the latter party to do due diligence, and this was extensive, only concluding at the end of September 2014. During the week starting 5 October 2014, the offshore party reconfirmed its non-binding indicative offer for the shares in Just Water, after due diligence. This was at a price of 14.3 cents per share (14.6 cents after adjusting for net debt). However, the proposal was still conditional, including on finance and matters within the party's discretion, and some time from likely implementation if indeed it were to proceed. The Harvard JV's intention is for their cash takeover offer at 15 cents to provide an opportunity for all shareholders to sell their shares at a fair price, without brokerage or other costs and liquidity constraints and provide Just Water management with a higher degree of certainty and will refocus their attention on the business. The Harvard JV is not in discussions with either of the parties from which the Board has received non-binding indicative offers. No on-sale or similar proposal is under discussion or being contemplated by Harvard JV at this time.
What strategic changes Harvard JV intends to make to the business?	No strategic changes are envisaged, although there will be a strong emphasis on debt reduction. There is no intention to pay a dividend until the debt has been extinguished.
Whether Harvard JV has identified any future or potential synergies or strategic benefits to Just Water from having Harvard JV as 100% shareholder?	No strategic benefits from a 100% shareholding have been identified. If 100% is achieved, compliance costs generally would reduce and give Harvard JV the flexibility to consider other potential cost efficiencies. Listing costs may not reduce if the 90% threshold is not achieved and a delisting application is not approved.
What is Harvard JV's view on market growth for the water cooler markets in New Zealand and Australia?	Harvard JV's view on market growth is that Just Water are in a 'mature' market in both Australia and New Zealand; and based on history, Just Water are not doing anything that would make the Company grow, so a continued deterioration of revenue and margin is likely.

Source: Tony Falkenstein and Harvard JV's offer letter dated 9 October 2014

2.4 Potential outcomes of the Offer

Harvard JV secures 90% or more of the Just Water Shares

Harvard JV already controls 70.79% of the Just Water Shares.

In the event that Harvard JV receives sufficient acceptances to give it 90% or more of the voting rights in Just Water, Harvard JV will be able to enact the compulsory acquisition provisions under the Takeovers Code. Harvard JV has stated its intention is to enact the compulsory acquisition provisions under the Takeovers Code.

Whether Springfresh Marketing Pty Ltd (a shareholder not associated with Harvard JV) accepts the Offer in respect of its 6.32% shareholding could influence whether Harvard JV achieves a shareholding in excess of 90%.

Harvard JV secures between 70.79% and 90% of the Just Water Shares

Based on Harvard JV already controlling 70.79% of the Just Water Shares, it could receive acceptances to take its shareholding between 70.79% and 90% of the Just Water Shares.

As the Offer is unconditional, Harvard JV could take its stake in Just Water above 75% but not reach 90%. Such a stake would provide it with a sufficient majority to pass special resolutions and would allow it to exert more control than a simple majority shareholding.

Irrespective of its ability to pass special resolutions, entities associated with Harvard JV already have a shareholding in excess of 50% and therefore have effective control over the day-to-day operations of Just Water. The Companies Act and NZAX Listing Rules provide some level of protection to minority shareholders; however, entities associated with Harvard JV are already entitled to appoint directors to the Board of Just Water and, as a result of their majority shareholding, can control the outcome of any ordinary resolution put to shareholders.

Harvard JV's intentions for the operation of Just Water do not appear materially different from Just Water's current strategy. Harvard JV has stated that it intends for Just Water to continue to pay down debt and not pay a dividend until the debt has been extinguished.

The Offer is withdrawn

If the Offer is withdrawn with the consent of the Takeover Panel, Harvard JV (or entities associated with it) will continue to be the majority shareholder in Just Water and have effective control of its business direction and dividend policy.

In the absence of actual and potential takeover speculation, the Just Water Share price is likely to be lower than the current offer price. This is broadly to be expected given share prices reflect prices for small parcels of minority shares whereas takeover offers typically include a premium for control.

We note that prior to the Offer, Just Water had received a non-binding indicative offer from another water cooler company at 14.6[1] cents per share. Based on this, if the Offer is withdrawn, some takeover speculation may remain; however, in the absence of any other factors, we consider there is a real prospect that Just Water's share price may recede from current levels if the Offer is withdrawn.

2.5 Liquidity

Just Water Shares have historically been illiquid. Trading in the three months prior to 9 October 2014 is summarised in Table 2.3 and shows that approximately 1.96% of Just Water Shares were traded over this period.

Table 2.3: Share trading prior to 9 October 2014

	Share price				
Period	**Low**	**High**	**VWAP[2]**	**Cumulative volume**	**Percentage of issued capital**
1 week	0.11	0.11	0.11	200,000	0.22%
1 month	0.10	0.11	0.10	1,332,660	1.49%
3 months	0.09	0.11	0.10	1,751,400	1.96%

Source: Capital IQ

In the event the Offer fails, Just Water Shares will continue to be illiquid.

[1] Price has been adjusted for a different net debt figure. Excluding the adjustment, the other conditional indicative offer was at 14.3 cents per share.

[2] Volume Weighted Average Price ('VWAP') is the average price of shares traded in the specified time period, weighted by the number of shares transacted at each price.

2.6 Likelihood of Harvard JV increasing its Offer price

If Harvard JV is not satisfied by the level of acceptances it receives in the Offer, then it could increase its shareholding in Just Water by one or more of the following methods:

- increase the Offer price in the hope that it encourages more shareholders to accept the Offer;
- purchasing shares on-market using the 'creep' provisions in the Takeovers Code;
- have Just Water undertake a capital raising (some capital raising methods will have the effect of increasing Harvard JV's shareholding in Just Water); and/or
- by making a follow on takeover offer at some point in the future.

Follow on offers

The Takeovers Code allows serial offers without timing or pricing restrictions. Therefore, Harvard JV will be able to make additional takeover offers to purchase some or all of the remaining shares in Just Water. Harvard JV would be free to offer more or less than the current Offer price.

2.7 Prospect of alternative takeover offers

Prior to Harvard JV announcing its intention to make a full takeover offer for Just Water, PwC undertook a sales process in which it searched for parties interested in acquiring the Company. Just Water received a non-binding indicative offer for 100% of the Just Water Shares at an offer price of 14.3 cents per share (14.6 cents after adjusting for Just Water's net debt as at 30 September 2014). However, the interested party was unable to proceed at the present time.

It is possible that this party, or others, could contemplate an offer in the future, but there is currently no indication of this.

Due to the Harvard JV's existing majority shareholding in Just Water, any future takeover offer needs the support of the Harvard JV to succeed. Given Harvard JV has previously shown an interest in selling its Just Water Shares, it is possible that Harvard JV would welcome a higher offer.

There is no need for shareholders to accept the Offer early and shareholders do not need to do anything in relation to the Harvard JV Offer until close to its closing date. Importantly, shareholders who have accepted the Harvard JV Offer will not be able to accept any subsequent offer if the Harvard JV Offer is still open.

2.8 Prospect of an investor acquiring a strategic shareholding less than 20%

It is possible that an investor could acquire a strategic shareholding of less than 20% of Just Water. A shareholding of greater than 10% could be considered a blocking stake because it would prevent Harvard JV or any other shareholder from achieving the 90% shareholding necessary to compulsorily acquire the Company under the Takeovers Code. It is possible that any acquisition of a strategic shareholding could be made at a strategic premium to underlying value or the Offer price of 15 cents.

While it is possible that another investor could acquire a strategic shareholding, we consider this to be unlikely given the Just Water share register and its growth prospects.

2.9 Summary

The key positives of the Offer for minority shareholders are that it offers liquidity at a price 51% higher than the VWAP in the three months preceding the announcement of an impending Offer. The alternative to acceptance is to continue to hold a minority interest in a non-dividend paying company which is operating in a declining market.

The Offer price is within and at the lower end of our valuation range of between 14.7 and 16.8 cents. Our estimate of value is for 100% of Just Water and therefore includes a premium for control. We would not expect minority parcels of shares to trade at this level (in the absence a takeover offer).

Our valuation is highly sensitive to the underlying assumptions, and any decision which uses our valuation should consider the potential downside and upside risks.

Acceptance or rejection of the Offer

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

The closing date for the Offer will be 11.59pm on 19 December 2014 (subject to any extension made in accordance with the Takeovers Code). The Offer provides for payment within five days of receipt of acceptance. So any early acceptance of the Offer would enable Shareholders to be paid earlier. Holding out until near the time the Offer is due to close could provide Shareholders and Optionholders with additional information on which they can base their decision.

Accepting Shareholders and Optionholders will not be able to withdraw their acceptance unless the Offer is withdrawn (with the consent of the Takeovers Panel).

If Harvard JV increases the Offer price while the Offer is still open, the increased price will be available to all Just Water shareholders, even those that have already accepted the Offer.

3 Industry profile

3.1 Overview

Just Water rents water dispensers to customers in New Zealand and Australia, delivers bottled water to customers in New Zealand and sells and services filter units in Australia.

Water dispenser units can typically be classified into one of the following categories:

- **Bottled water coolers:** are not connected to the mains and require replacement water bottles (which are typically delivered by the supplier).
- **Point of Use ('POU') water coolers:** are connected to a mains water supply and do not require water from a supplier.
- **Under-bench water dispensers:** which range from simple residential water filter units to more advanced POU units which are installed under a kitchen bench and provide hot and chilled water. These units typically have a shorter life span than water coolers and are more expensive.

Just Water management further segment their business into three categories as follows:

- **Rental:** This segment leases and services the water dispenser units of business customers. Included within the lease agreement is that Just Water services and maintains the unit.
- **Service:** This segment services dispenser units which are not owned by Just Water. These units are owned by the customer and Just Water has a contract for the servicing of the unit.
- **Products:** This segment includes 15 litre bottled water sales in New Zealand, domestic filter units in Australia, water dispenser units, parts and accessories such as cups. In recent years, there has been a steady decline in bottled water coolers in favour of POU water coolers and under-bench water dispensers. This has caused a decline in the volume of bottled water being sold.

3.2 New Zealand market

Just Water operates in the rental, service and products segments of the New Zealand water cooler market. It supplies a very limited number of under-bench water dispenser units in New Zealand.

Zenith International ('Zenith'), a specialist food and drink consultancy, estimates that there were 55,000 installed water coolers in New Zealand as at December 2012 (a 5.1% decline on 2011). Zenith has identified the financial stress of business causing a reduction in businesses discretionary expenditure on items such as water coolers; this has resulted in a decline in installed water coolers. In addition to financial distress, Just Water management say that high specification kitchen fit-outs, which include under-bench water dispensers, have also become a significant competitive threat.

Just Water management estimate that since 2012, the decline in New Zealand's water cooler market has continued at a pace similar to that in 2012. As at 30 September 2014, Just Water New Zealand has approximately 23,100 water coolers installed for business customers and 6,300 for residential customers.

Just Water New Zealand services its own water coolers (as part of its rental agreements); and has additional 4,500 service contracts in New Zealand (for water coolers it does not own). In total, Just Water management services approximately 33,900 of the total installed water coolers in New Zealand.

Billi, a popular brand of under-sink water dispenser, have an agent in New Zealand other than Just Water and are therefore not part of Just Water's New Zealand product range. Just Water say that the share of the business market which use Billi units is likely to increase, particularly as commercial buildings are refurbished. Just Water is not an agent of Billi in New Zealand; therefore, increases in under-sink water dispensers represent a threat to Just Water's rental business.

3.3 Australian market

Just Water operates in Australia through a wholly owned subsidiary, Clearwater Filter Systems (Aust) Pty Ltd (‘Clearwater’). Clearwater operates in the rental and service segments of the Australian water dispenser industry. Clearwater leases water dispenser units and Billi and Zip branded under-bench water dispensers. Clearwater does not sell bottled water. Clearwater recently acquired the customer bases and assets of two small companies based in Brisbane, Pure Rain and Aquaman Australia.

Zenith estimates that there were 340,000 water coolers installed in Australia as at December 2012. Zenith says that bottled water coolers represent more than 65% of the total installed water coolers in Australia, but that in recent years many customers have been switching to POU water dispenser units to reduce costs.

Clearwater has 9,500 POU water dispensers and under-bench units in Australia. Just Water management say it has the third largest presence in the Australian water cooler market (after Waterlogic Australia and Coca-Cola Amatil). Clearwater offer under-bench and filtered drinking water systems, including the Billi and Zip systems. Both brands are leading Australian manufacturers and suppliers of instant boiling, chilled and sparkling water systems with significant brand recognition and their own distribution networks.

Zenith estimates that the Australian POU market will grow at approximately 2.6% per annum between the calendar years 2013 and 2017. This is expected to come at the expense of bottled water delivery coolers (which Clearwater does not supply).

3.4 Competitors

3.4.1 New Zealand

Big Blue

Big Blue leases water cooler equipment and supplies bottled water in New Zealand. Big Blue’s business model is very similar to Just Water and includes rental, service and bottled water products. Big Blue has its own sales force, service technicians and support functions. Big Blue has competed aggressively on price and taken a number of customers including first tier customers from Just Water.

Big Blue is privately owned and Just Water estimates that it is the second largest supplier of water coolers in New Zealand.

Alpine Fresh

Alpine Fresh leases POU water coolers in New Zealand. Just Water management say that Alpine Fresh does not supply bottled water and outsources the majority of its business functions. Alpine Fresh engages sales resource on a casual basis for intensive sales campaigns in limited geographic regions. It has historically taken market share from Just Water during these campaigns through aggressively competing on price.

Alpine Fresh is privately owned and Just Water estimates that it is the third largest supplier of water coolers in New Zealand.

Other

There are minimal barriers which prevent the entry of new businesses into the water cooler market. This has resulted in the market (excluding Just Water) being highly fragmented, with competitors such as Microlene, Dolphin Water, Spring Water, Celabit Water Coolers, Cooler Water Company, Water4u, Wellington Water Filters and Combibo. Many of these are small family owned businesses serving a single geographic area.

3.4.2 Australia

Coca-Cola Amatil

Coca-Cola Amatil is the largest bottler of non-alcoholic beverages in the Asia Pacific region. It acquired Neverfail in 2003, which had a 65% share of the home and office delivered bottled water market. Neverfail supplies bottled water coolers (rather than POU water coolers) and has recently started selling coffee beans, tea and drinking chocolate to its customers.

Waterlogic Australia

Waterlogic sells, leases and services POU drinking water equipment for use in offices, factories, workplaces, hospitals, hotels, schools and restaurants. Waterlogic has an international presence with 750,000 units installed across 50 countries. It has a significant market share for the supply of water dispensers in Australia, USA, Norway, Sweden, Germany and the United Kingdom.

Waterlogic entered Australia in 2013 by acquiring WaterFirst, Cool Clear Water and Culligan; the three largest suppliers of water filtration and dispensing systems in Australia.

Waterlogic products include POU water dispenser units and under sink cooler/boiling systems. Waterlogic manufactures its own units in factories owned by it in China with patented technology; it also sells other products, such as the Billi range. Waterlogic offer managed service and maintenance programs for all major brands of filtered drinking water systems.

Other

Other than Waterlogic and Neverfail, the water cooler market in Australia is highly fragmented, with many small to medium sized companies specializing in geographic areas. Clearwater has 9,500 water cooler rental units and a strong presence in New South Wales.

The fragmented nature of the water cooler market, with many family owned businesses, could possibly lead to further consolidation opportunities in Australia.

3.5 Summary

The water cooler market is a mature market with limited opportunities for organic growth. The Australian market is dominated by a few large companies and is otherwise highly fragmented. Clearwater recently acquired Pure Rain and Aquaman Australia and we consider it likely that there will be continued consolidation of smaller entities within the Australian market.

Other than the introduction of a small number of new products, Just Water management has not identified any new near term growth opportunities for the New Zealand business. Clearwater has a wider product suite compared to the Just Water New Zealand operations and a greater potential for growth.

4 Company overview

4.1 Overview

Just Water leases and services water coolers in New Zealand and Australia, it also supplies replacement bottled drinking water to those customers in New Zealand which have bottled water coolers. In addition to water coolers, Just Water leases under bench POU water dispenser units and sells and service's domestic filter units in Australia.

Just Water has the highest market share in New Zealand across the Rental, Service and Product segments.

Just Water operates in Australia via its wholly owned subsidiary, Clearwater, which has a small market share compared to the two largest competitors operating in the Australian water cooler market (Waterlogic and Coca Cola Amatil).

4.2 History

Just Water was founded by Anthony Falkenstein as part of Red Eagle Group in 1987. The company supplied water coolers and filters under the Easi-Fill brand, with customers filtering their own water into a 15 litre bottle. The New Zealand water cooler market flourished in the 1990s and Just Water maintained a dominant position in this niche market.

In 2001, Just Water acquired an office water delivery company Cool Water. In 2004, in order to raise capital to fund perceived growth opportunities, Just Water listed on the NZX Alternative Market ('NZAX'). It raised approximately $8 million in new equity with the issue of 16.5 million new shares at 50 cents each. Based on the offer price, Just Water had an equity value of $33 million and enterprise value of $38 million.

Just Water acquired Clearwater in Australia in 2005. Clearwater is focused on POU water dispenser units with a strong presence in the New South Wales market.

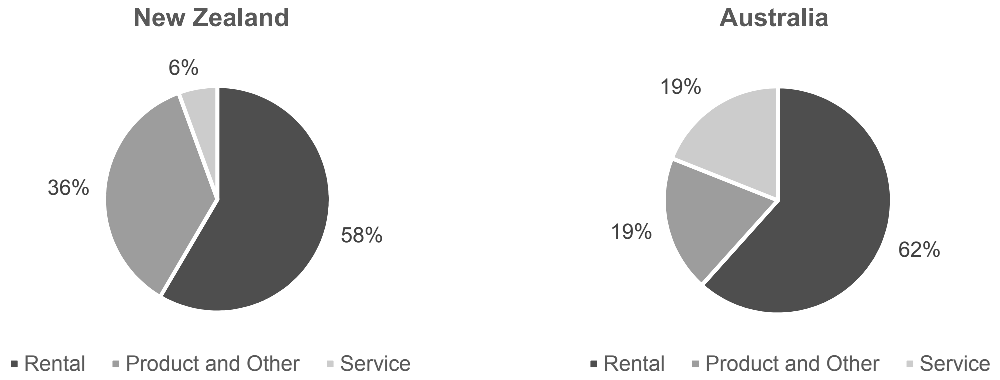
Just Water acquired Aqua-Cool in 2005, Aqua-Cool was the largest water delivery company in New Zealand. Clearwater acquired two small Brisbane based water cooler businesses in May and August 2013. Just Water divested Just Plants in June 2014 (which was a corporate plant hire business acquired in August 2011).

4.3 Business model

4.3.1 Customers and products

Figure 4.1 shows the Just Water revenue breakdown in FY14. Rental is the largest revenue category in both New Zealand and Australia. In New Zealand, Just Water has a significant bottled water distribution business under the product and other segment. In Australia, Clearwater is focused on the rental and servicing of POU water coolers and under bench units and selling related products such as cups, filters and other water cooler parts.

Figure 4.1: Just Water New Zealand and Australia revenue breakdown



Source: Management accounts

In New Zealand, the Just Water business is split between residential and business customers.

- Residential customers typically have bottled water coolers with water delivered by Just Water New Zealand. Just Water New Zealand does not typically charge residential customers a rental fee on the cooler, but higher amounts for the water.
- Business customers have a range of bottled and POU water dispenser units. Business customers typically are charged a rental fee; however, those with bottled water coolers pay less for their cooler.

Just Water New Zealand offer a range of products including bottled water for coolers, cups, and other miscellaneous cooler parts. The bottled water delivery business operates its own water filtration plants and delivers bottled water to the North Island.

Just Water has a filtration plant in each of Auckland, Hamilton and Wellington and has three bulk bottled water products for use with water coolers:

- **Aquafresh** is double filtered and sterilised bottled water to meet international standards.
- **MineralX** is New Zealand spring water and features trace elements and minerals. This water is sourced from artesian springs and offered in Auckland and Hamilton.
- **Vitablast** is lemon/lime flavoured water which is sugar-free and enhanced with vitamin C. This product is offered in Auckland and Hamilton with a trial currently underway in Wellington.

In Australia, Clearwater supplies water dispensers to business and residential customers, it does not deliver water.

Just Water services all of its own water coolers as part of its rental agreements. It also offers maintenance and service contracts to customers who own their own water cooler; this includes water coolers sold by competitors.

In both Australia and New Zealand, Just Water's largest customers only account for a small proportion of its total rental units. It is not heavily reliant on any one customer, with its largest five customers only representing 3.2% of its total group revenue. However, its operations are very susceptible to changes in the wider market and to pressure from its competition.

4.3.2 Cost of operations

Just Water's largest operating cost is wages and salaries. In FY14 employee costs were approximately 40% of group revenue. Other major costs to Just Water include: purchasing of finished goods and consumables (for resale and in servicing water coolers); and purchasing new rental equipment (which is then subject to depreciation).

The majority of costs incurred by Just Water are similar in New Zealand and Australia. However, Just Water incurs additional costs in New Zealand for its water delivery business. The majority of costs associated with this business can be categorised as either bottling or delivery. Of these two cost categories, delivery costs account for approximately 67% of the total (delivery costs include interest cost of vehicle finance, fuel and driver costs).

Just Water performs the bulk of its own selling and servicing. These are labour intensive operations. External plumbers are used where required.

In recent periods, due to a decline in operating revenue and the water cooler market shrinking, Just Water has focused on controlling expenses. Operating expenses (excluding depreciation, amortisation, interest and tax) declined by approximately 6% per annum between FY11 and FY14. The annual rate of decline in operating costs was similar for the Australian and New Zealand operations.

Management advise that fixed costs at Just Water are an increasing proportion of the cost structure of the business. While operating expenses have reduced in recent years, we understand that it is unlikely to continue to reduce without a significant investment in technology solutions to reduce ongoing overhead expenditure.

In the interest of cash preservation and debt reduction, management have controlled the purchasing of new rental equipment over the last five years with depreciation being higher than new additions. Stock levels exceeded requirements in the mid to late 2000s and the New Zealand home market was developed using these surplus coolers with little capital expenditure, leading to a higher than normal level of cash generation from this segment.

Just Water's New Zealand water coolers have an average age of seven years and an expected useful life of ten years. On this basis, it is unlikely that the present level of investment will be sustainable in the long term, particularly as Just Water expects to maintain its current number of water coolers.

4.4 Filtration plants

Revenue earned from bottled water and other products is approximately 36% of the total revenue earned by Just Water in New Zealand. The filtration plants that are used to produce bottled water are detailed in Table 4.1. The remaining lease terms for the properties are between three to twelve years. The corporate office (including the call centre) is based at the Auckland site in Penrose. Management say that there is no replacement of filtration machines required in the short to medium term. Management expect current production capacity to be sufficient to meet existing demand.

Table 4.1: Just Water's Main Distribution Centres

Sites	Filtration machine	Products	Addressable Population
Auckland	Adapta 600 EndleeMt05 Cap Snap Bottling Machine (600 bottles per hour)	Aquafresh MineralX Vitablast	Greater Auckland region
Wellington	Galaxy 200J (200 bottles per hour)	Aquafresh only	Greater Wellington region
Hamilton	Steelhead Ultra U250N	Aquafresh only	Other North Island runs including Hamilton, Taupo, Tauranga

Source: Management information

The Australian operation does not produce bottled water and thus has no filtration plants. Clearwater has offices and warehouses in Sydney, Brisbane and Melbourne.

4.5 Shareholders

Just Water currently has 89,477,174 fully paid ordinary shares. The 23 largest shareholders, by beneficial interest (where known), as at 28 October 2014 are listed in Table 4.3.

Table 4.3: Just Water's share register as at 28 October 2014

Beneficial Holder	Shares	% Shareholding
The Harvard Group Limited	53,936,342	60.28%
Springfresh Marketing Pty Limited	5,654,320	6.32%
Anthony Edwin Falkenstein & Ian Donald Malcolm	2,000,000	2.24%
Anthony Edwin Falkenstein & Christopher Roy Saunders	2,000,000	2.24%
Anthony Edwin Falkenstein & Gregory Paul Whittred	2,000,000	2.24%
Custodial Services Limited	1,820,487	2.03%
Anthony Edwin Falkenstein & Ian Donald Malcolm	1,268,000	1.42%
Heather Jeanette Falkenstein & Ian Donald Malcolm	1,268,000	1.42%
Ace Finance Limited	1,022,422	1.14%
Anthony Edwin Falkenstein	796,310	0.89%
John Scott Stewart Richardson	728,111	0.81%
JBWERE (Nz) Nominees Limited	554,265	0.62%
Clyde Christopher Cooper & Farida Clyde Cooper	500,000	0.56%
Brian Arthur Kelly & Roxanne Elizabeth Marie Kelly & Jason Morice Kelly	500,000	0.56%
David Janek Kandziora	500,000	0.56%
Turakirae Investments Limited	443,739	0.50%
Eldon David Roberts	418,143	0.47%
Russell John Field & Anthony James Palmer	350,000	0.39%
Chao Lin	341,864	0.38%
Anthony Richard Hughes	300,000	0.34%
Awatea Investments Limited	300,000	0.34%
Jillian Dawn Reid & Ian Donald Malcolm	300,000	0.34%
Richard Alexander Coutts	300,000	0.34%
Top 23	**77,302,003**	**86.39%**
Remaining shareholders	12,175,171	13.61%
Total	**89,477,174**	**100.00%**

Source: Just Water management

Just Water's substantial security holders are Harvard Group; Messrs Falkenstein and Malcolm; and Springfresh Marketing Pty Limited.

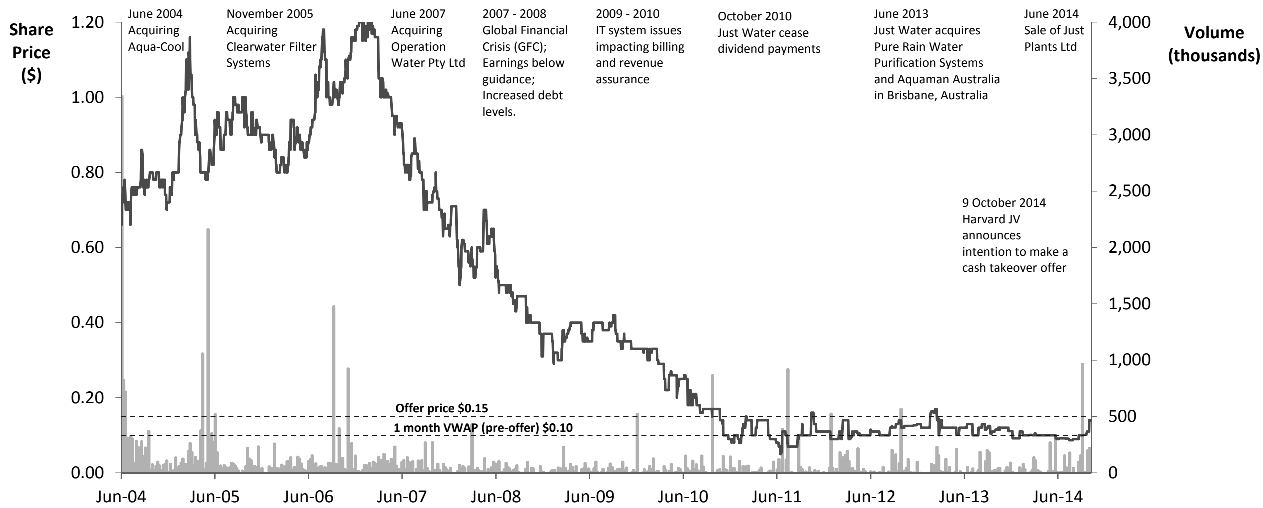
Table 4.3 shows Just Water Shares are closely held. The top 23 shareholders control 86.39% of Just Water Shares and the remaining 13.61% of shares are held by small shareholders.

Trading of Just Water Shares over the three months prior to 9 October 2014 (date on which intention to takeover Just Water was announced on NZX) is summarised in Table 4.4 below and shows that approximately 1.96% of Just Water Shares were traded over this period. This highlights relatively low liquidity in the market for Just Water Shares.

4.6 Share price performance

Just Water's shares are traded on the NZAX. Figure 4.2 illustrates the share price of Just Water and the volume of share trades since June 2004.

Figure 4.2: Just Water's share price performance since 2004



Source: Capital IQ

In May 2004, Just Water offered for public subscription 16.5 million new shares at an offer price of 50 cents per share, these shares were listed on the NZAX market in June 2004. In November 2005, Just Water acquired Australian water dispenser company Clearwater for AUD14 million. In June 2007, Just Water acquired Operation Water Pty Ltd, a company which operated as a franchisee of Clearwater, for AUD2.3 million. Just Water's share price declined sharply from $1.20 in December 2006 to under 10 cents, this decline was partly caused by the market for water coolers declining during the Global Financial Crisis ('GFC'); information systems issues impacting Just Water's New Zealand billing; Just Water's Australian subsidiary earnings being below forecasts provided at acquisition resulting in an impairment charge of $18.3 million and strong price competition in New Zealand. In October 2010, Just Water ceased paying dividends to focus on repaying debt. Dividend payments are yet to be reinstated.

Table 4.4: Share trading prior to 9 October 2014

Period	Share price			Cumulative volume	Percentage of issued capital
	Low	High	VWAP		
1 week	0.11	0.11	0.11	200,000	0.22%
1 month	0.10	0.11	0.10	1,332,660	1.49%
3 months	0.09	0.11	0.10	1,751,400	1.96%

Source: Capital IQ

On 9 October 2014, Just Water announced the potential full cash takeover offer from Harvard JV at 15 cents per share. As at 31 October 2014, 377,320 Just Water Shares have traded since Just Water announced the potential takeover offer from Harvard JV (0.42% of the total issued capital). The Offer price of $0.15 per share represents a:

- premium of 36% to the closing price of $0.11 on the day before the potential Offer announcement;
- premium of 36% to the VWAP in the week prior to 9 October 2014 of $0.11; and
- premium of 51% to the VWAP in the three months prior to 9 October 2014 of $0.0991.

5 Financial analysis

5.1 Group overview

The Just Water business has been strongly affected by the decline in the water cooler market.

Table 5.1 Financial performance summary ($ thousand)

	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Budget
Revenue	32,479	29,757	27,856	26,466	26,250
Employee costs	(12,634)	(11,512)	(10,826)	(10,402)	(10,877)
Other operating costs	(11,193)	(10,232)	(9,717)	(9,395)	(9,004)
EBITDA	**8,652**	**8,013**	**7,313**	**6,669**	**6,370**
Depreciation and amortisation	(5,449)	(4,543)	(4,005)	(3,577)	(3,324)
EBIT	**3,203**	**3,470**	**3,308**	**3,092**	**3,045**
EBITDA margin (%)	*27%*	*27%*	*26%*	*25%*	*24%*
EBIT margin (%)	*10%*	*12%*	*12%*	*12%*	*12%*

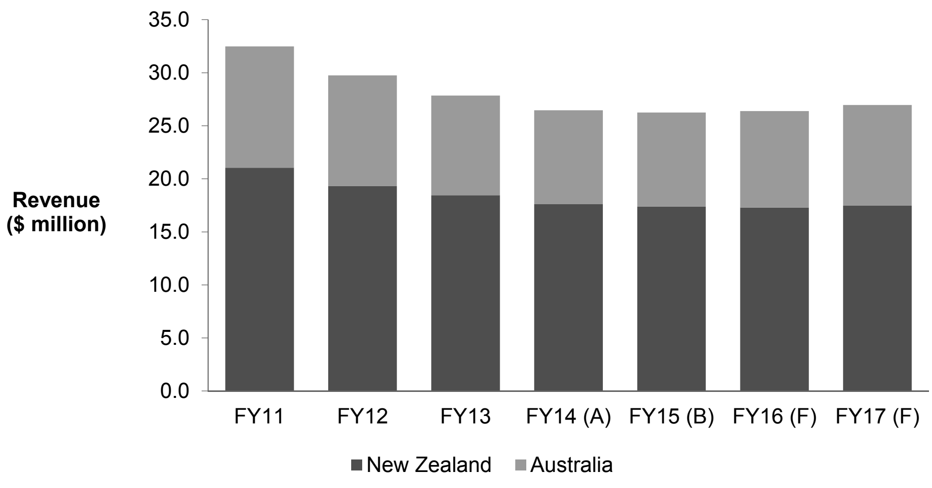
Source: Just Water Annual Reports and management accounts

Table 5.1 shows a summary of Just Water's financial performance from FY11 to FY14 and Budget for FY15 (prepared by management in June 2014). The financial performance has been adjusted to exclude non-operating items, such as interest; and foreign exchange gains and losses (classified as other income in the Just Water annual reports).

5.2 Revenue

Figure 5.1 illustrates Just Water's historical revenue between FY11 and FY14, Budget for FY15 and management forecasts for FY16 and FY17. Revenue declined in both New Zealand and Australia between FY11 and FY14, at an average rate of 6.6% per annum. Revenue from the Rental, Service and Product segments have all declined at more than 6% per annum (i.e. all segments have been affected by the decline in the water cooler market).

Figure 5.1: Group revenue



Source: Just Water Annual Reports and management accounts

Unfortunately, Just Water cannot split its New Zealand cooler base into POU water coolers and bottled water coolers. Based on management commentary and Zenith research, we expect bottled water cooler revenue has been partially substituted by POU water dispenser revenue.

Management forecasts total revenue to grow at 1.3% per annum (nominal) between FY15 and FY17. This is a blend of its forecast for Australia (growth at approximately 3.4% per annum) and New Zealand (growth at approximately 0.2% per annum). Just Water expects a similar rate of growth between its rental and other segments.

The slight recovery in revenue (in the forecast periods) takes into consideration Just Water recently acquired two Australian businesses and sold Just Plants (New Zealand based corporate plant hire business). It is also based on the assumptions that:

- the decline in the water cooler market will halt;
- managements plan to further focus the sales team on new business development is effective; and
- the most significant price discounting by its New Zealand competitors is at an end.

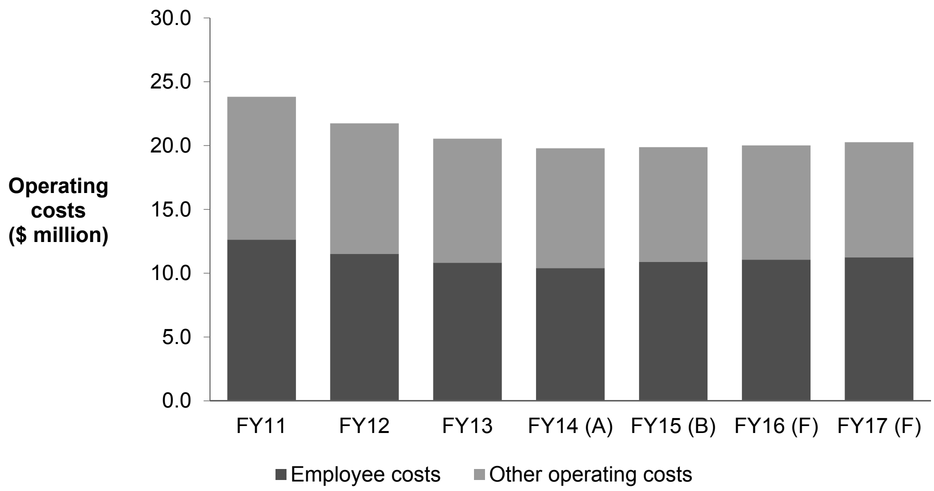
5.3 Operating costs

Operating costs include expenses related to employees, the purchasing of finished goods and consumables (for resale and in servicing water coolers) and operating lease payments for motor vehicles.

Figure 5.2 illustrates the historical operating costs of Just Water between FY11 and FY14, Budget for FY15 and management forecasts for FY16 and FY17. Operating costs have declined at approximately 6% per annum between FY11 and FY14 as Just Water actively reduced expenses in line with the declining water cooler market.

We have not performed a detailed product profitability analysis; however, we understand that the bottled water delivery business has high delivery costs (leasing of vehicles, fuel and driver costs). With declining volumes of bottled water coolers, Just Water has exited some delivery runs which are not profitable.

Figure 5.2: Group operating costs



Source: Just Water Annual Reports and management accounts

Management advise that fixed costs at Just Water are an increasing proportion of the cost structure of the business. We understand that operating costs are unlikely to continue to reduce without a significant investment in technology solutions to reduce ongoing overhead expenditure.

Just Water forecasts total operating costs to grow at 1.0% per annum (nominal) between FY15 and FY17. The main contributor to this forecast increase is salaries and wages, which are forecast to increase at 3% per annum; this is partly offset by savings in the purchase of finished goods and consumables.

5.4 Year to date 30 September 2014

Just Water's EBITDA in the three months to 30 September 2014 ('YTD15') was $89,000 above Budget. Just Water achieved this by limiting expenses, particularly employee costs.

YTD15 EBITDA was below the corresponding period from the previous financial year (EBITDA in the three months to 30 September 2013 was $1.56 million). However, due to Just Water's recent acquisitions and divestment, the previous corresponding period is not entirely comparable.

Table 5.1 compares Just Water's financial performance in YTD15 to its Budget.

Table 5.1: YTD15 financial performance, Actual versus Budget ($ thousand)

	Budget	Actual	Variance
Revenue	6,200	6,145	(55)
Employee costs	(2,677)	(2,567)	110
Other operating costs	(2,153)	(2,120)	33
EBITDA	**1,370**	**1,459**	**89**
EBITDA Margin (%)	22.1%	23.7%	+1.6%

Source: Management accounts, excludes other operating income such as exchange gains/losses

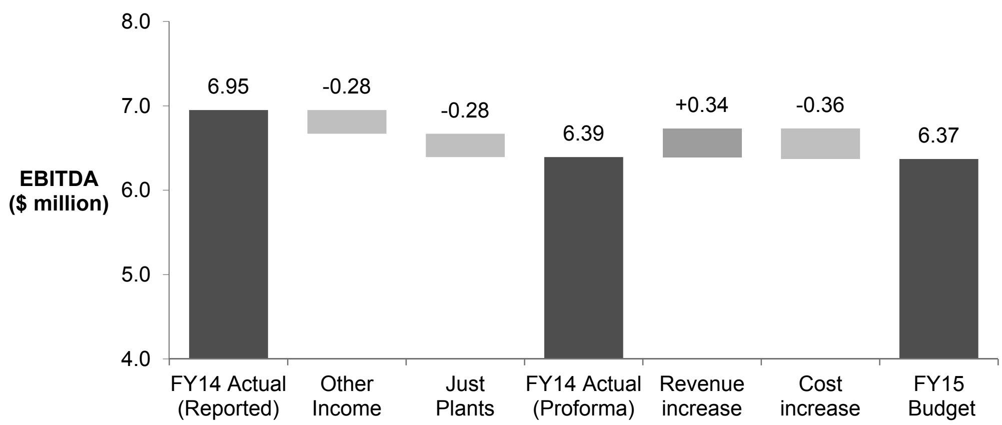
5.5 Financial projections, FY15 to FY17

Our valuation of Just Water (refer to Section 6) is based on the FY15 Budget and management forecasts for the financial periods FY16 to FY17.

FY15 Budget

The key changes between the financial results in FY14 and FY15 Budget are highlighted in Figure 5.3. We have normalised FY14 EBITDA by adjusting for non-recurring other income and for the divestment of Just Plants. The remaining EBITDA change between FY14 and FY15 is due to expected increases in forecast revenue, offset by increases in operating expenses (mainly employee costs).

Figure 5.3: Key changes between FY14 and FY15 Forecast for Group EBITDA



Source: Management accounts

Principal assumptions underpinning the FY15 Budget are:

- Retention of several large corporate contracts that are due for renewal in New Zealand.
- Flat average water cooler rental rates across New Zealand and Australia.
- A similar number of new rental deals per sales representative in New Zealand and a modest improvement in new rental deals per sales representative in Australia.
- Modest declines in cancellation rates coupled with new rental deals resulting in 23,000 water coolers in New Zealand as at June 2015 and 9,900 units in Australia.

FY16 to FY17 Forecasts

Financial projections for FY16 and FY17 are included in our valuation assessment; however, they are not Board approved and therefore are not detailed in this report. No changes in strategy are included in the FY16 or FY17 periods.

In the medium term, Just Water expects broadly flat revenues from its New Zealand operations (0.2% growth per annum between FY15 and FY17). Due to increases in expenses, this causes EBITDA to decline by approximately 1.0% per annum over the same period. This represents a slowing in the decline in earnings experienced by Just Water in the prior five years.

Revenue from Just Water's Australian operations is expected to grow at 3.4% per annum between FY15 and FY17. Clearwater has a relatively small market share in Australia and is also not exposed to the bottled water cooler market; it therefore has greater scope to increase revenue. EBITDA from the Australian operations is also expected to increase over the medium term.

Principal assumptions underlying the FY16 and FY17 financial projections are:

- 180 new rental deals per sales representative in FY17 in New Zealand (compared to 162 in FY15) and a significant improvement in Australia by FY17.
- Modest declines in cancellation rates coupled with new rental deals resulting in 25,000 water coolers as at 30 June 2017 in New Zealand and 10,400 in Australia.
- Flat average water cooler rental rates in New Zealand and a further slow decline in average rental rates in Australia as a result of ongoing competition.
- Salary inflation of 3% per annum.

Risk to Forecasts

Management consider that there are some risks to the FY15 to FY17 projections for Just Water. Specific risks include:

- Loss of customers/revenue due to competitor activity on out-of-term customers.
- Market size/demand for water coolers declining at a faster rate than expected.
- Managing product quality and minimising risks associated with ageing bottled water coolers in New Zealand.
- Retention of key sales and management staff.
- Strengthening New Zealand dollar against the Australian Dollar affecting group earnings (which are denominated in New Zealand Dollars).

5.6 Financial position

The Just Water balance sheet is presented at the Group level in Table 5.4 below. Table 5.4 summarises the balance sheet for Just Water as at 30 June 2014 and 30 September 2014.

Table 5.4: Just Water financial position ($ thousand)

	30-Jun-14	30-Sep-14
Inventory	906	1,275
Trade and other receivables	2,801	2,618
Creditors, other payables and accruals	(2,939)	(2,881)
Deferred income	(1,496)	(1,518)
Working capital	**(728)**	**(506)**
Property plant and equipment	6,855	6,630
Intangible assets	9,987	10,184
Deferred tax asset	3,293	3,363
Other receivables	508	524
Other assets	976	945
Non-current assets	**21,619**	**21,646**
Net operating assets	**20,891**	**21,140**
Interest bearing liabilities	(13,105)	(12,827)
Cash and cash equivalents	117	147
Deferred Interest	–	157
Net debt	**(12,988)**	**(12,523)**
Net assets	**7,903**	**8,617**
Net assets per share (cents)	8.83	9.63

Source: Statutory accounts for June 2014, Management accounts for September 2014 as presented in the October Board Report

Key points to note on Just Water's balance sheet include:

- Just Water has relatively low net working capital funding requirements;
- Property, plant and equipment has decreased due to depreciation being higher than capital expenditure; the additions during the last three months;
- Intangible assets of $10.2 million which is goodwill from historical acquisitions. Just Water conducts regular impairment testing for goodwill and after its most recent review, it does not consider impairments necessary at the current time; and
- As at 30 September 2014, Just Water had:
  - net assets of $8.6 million (or 9.6 cents per share); and
  - net tangible liabilities (excluding goodwill) of $1.6 million.

5.6.1 Fixed assets

Table 5.5 shows a breakdown of Just Water's property, plant and equipment. The rental equipment includes rental coolers and bottles. Capitalised installation and commission costs are excluded from Table 5.5.

Table 5.5: Just Water fixed assets ($ thousand)

	30-Jun-14	30-Sep-14
Rental Equipment	4,876	4,694
Motor Vehicles	1,362	1,351
Plant and Office equipment	422	418
Leasehold equipment	195	167
Total	**6,855**	**6,630**

Source: Statutory accounts for June 2014, Management accounts for September 2014

5.6.2 Debt funding

Just Water has the following bank covenants with the Bank of New Zealand ('BNZ') as at October 2014:

- Maintain future receivables cover of the charging group at a minimum of three times
- Maintain interest cover of the charging group on a year to date basis at a minimum of three times
- Maintain debt servicing cover of the charging group at a minimum of 1.5 times for the twelve month period ended 30 June.

As at 30 September 2014, Just Water had net debt of $12.5 million. Just Water has historically had relatively high bank debt (in excess of $25.5 million in 2010). On 22 September 2014, BNZ confirmed to the Company that Just Water was in compliance with all bank covenants as at 30 June 2014.

Just Water current average interest rate is 6.44%, with 38% floating and the remainder fixed until October 2017. The interest rate on Just Water's debt is approximately 3% above the short-term risk free interest rate implied by one year government bond yields.

5.7 Other financial issues

5.7.1 Dividend policy

Just Water ceased dividend payments in 2009 and dividends are yet to be reinstated as shown by Table 5.6. Just Water management has confirmed that Just Water remains focused on repaying bank debt in the medium term.

Table 5.6: Dividend history

Year	FY09	FY10	FY11	FY12	FY13	FY14
Net Dividends Paid (cps)	3.58	–	–	–	–	–
Special Dividend (cps)	–	–	–	–	–	–
Total Dividend	3.58	–	–	–	–	–

Source: Capital IQ

5.7.2 Capital expenditure

Table 5.7 shows historical capital expenditure and depreciation. During FY11 and FY12, Just Water incurred amortisation expenses related to its information systems and software. Just Water upgraded its motor vehicles in FY14 at a cost of $1.4 million. During the past three years capital expenditure related to motor vehicles has been between $219,000 and $236,000 and is likely to continue at this level until the next major upgrade which is likely to be in five years.

Table 5.7: Capital expenditure and depreciation ($ thousand)

	FY11	FY12	FY13	FY14
Capital expenditure	2,991	2,239	2,400	3,521
Depreciation/Amortisation	(5,449)	(4,543)	(4,005)	(3,577)
Difference	**(2,458)**	**(2,304)**	**(1,605)**	**(56)**

Source: Annual reports for FY12 to FY14

Table 5.8 shows the capital expenditure and depreciation charges for the New Zealand water coolers.

Table 5.8: Capital expenditure on New Zealand water coolers ($ thousand)

	FY11	FY12	FY13	FY14
Capital expenditure	381	427	385	541
Depreciation/Amortisation	(1,054)	(911)	(800)	(660)
Difference	**(673)**	**(484)**	**(415)**	**(119)**

Source: Annual reports for FY12 to FY14

Historically, capital expenditure on water coolers by Just Water has been consistently lower than depreciation on its existing water coolers.

Just Water's New Zealand water coolers have an average age of seven years and depreciates its water coolers over a period of eight years. Just Water estimates its water coolers have an expected useful life of ten years. On this basis, it is unlikely that the present level of investment will be sustainable in the long term, particularly as Just Water expects to maintain its current number of water coolers.

KordaMentha

6 Valuation

6.1 Valuation methodologies

There are four methodologies commonly used for valuing businesses:

- discounted cash flow analysis;
- capitalisation of earnings;
- estimate of proceeds from an orderly realisation of assets; and
- industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

6.1.1 Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions.

6.1.2 Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

Three commonly used approaches to the capitalisation of earnings methodology are the capitalisation of:

- EBITDA by an appropriate EBITDA multiple to obtain an enterprise value (which comprises the value of the enterprise’s debt and equity);
- EBIT by an appropriate EBIT multiple to obtain an enterprise value; or
- Tax-paid profits at an appropriate price earnings (‘PE’) multiple to obtain the value of the subject business’ equity.

PE multiples are commonly used in the context of the share market, however EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes.

The choice between EBITDA and EBIT multiple is usually not critical and typically gives broadly similar results. However, EBIT multiples can offer a useful benchmark of value when:

- the businesses which are being used as comparables require substantially different ongoing capital expenditure, but may otherwise similar; and
- depreciation and amortisation represent a real cost to the business over the medium to long term.

6.1.3 Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with on-going trading.

6.1.4 Industry rules of thumb

In some industries, businesses are valued using well established 'rules of thumb'. Generally these rules of thumb are used as a cross-check for other valuation methodologies.

6.1.5 Our valuation approach

KordaMentha has adopted the DCF methodology as our primary valuation methodology to value Just Water, because:

- Just Water has already prepared financial forecasts for the next three periods.
- Just Water's New Zealand water cooler stock is nearing the end of its useful life and will need to be progressively replaced in the short to medium term. The DCF methodology makes allowance for capital expenditure specific to the business being valued.
- There are very few companies which are comparable to Just Water and are either listed or have been recently acquired. We note that the water cooler market is in decline; therefore, old earnings multiples, and multiples for non-water cooler leasing businesses, are weak benchmarks for the value of Just Water.

We have also considered the value of Just Water based on capitalisation of earnings valuation methodology; and the realisation of assets methodology as an additional crosscheck. We are not aware of any industry rules of thumb appropriate for valuing Just Water.

Any valuation, by its very nature, must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance such as financial projections is vital to the valuation exercise. We have relied on financial forecasts prepared by Just Water management.

6.2 Discounted cash flow

Key valuation parameters that we have used in our DCF valuation are set out below.

Valuation date: 30 September 2014

Forecast period: The DCF valuation is based on the Just Water Budget for FY15 and Forecast FY16 and FY17 (as prepared by management in October 2014). The principal assumptions underpinning the projections are discussed in Section 5 of this Report.

Capital expenditure: Increases within the forecast period (based on Just Water's current expectations). In the terminal year: capital expenditure on non-rental assets is based on FY15 Budget depreciation; and capital expenditure on rental assets is estimated to be $1.5 million per annum (equivalent to Just Water replacing its rental equipment once every 10 years). Total capital expenditure in the terminal year is $3.2 million.

Terminal value assumptions: Terminal value is calculated by assuming terminal year unlevered free cash flows grow in perpetuity at the terminal growth rate. We have adopted a terminal growth rate of 1.0% per annum, which reflects a blend of the expected growth in earnings in New Zealand (minimal) and Australia (modest). We have set depreciation equal to capital expenditure in the terminal year.

Exchange rate: Australian dollar cashflows have been converted into New Zealand dollars at exchange rates forecast by ANZ Bank on 28 October 2014.

Weighted Average Cost of Capital: We have estimated Just Water's post-tax, nominal Weighted Average Cost of Capital ('WACC') at between 10.9% and 11.7%.

The WACC has been determined as follows:

$$WACC = R_d(1-T_c)\frac{D}{D+E} + R_e\frac{E}{D+E}$$

where:

- R_d = Pre-tax cost of debt = 7.14%, based on Just Water's current average borrowing margin of 3.0% plus the long term risk-free rate
- T_c = Marginal corporate tax rate = 28%
- D / (D + E) = Target gearing (where E represents market capitalisation) = 40%
- R_e = Cost of equity = 14.8% to 16.0%

We have determined the cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1-T_i) + \beta_e[R_m - R_f(1-T_i)] + SCRP$$

where:

- R_f = Risk free rate = 4.14%, based on the yields of long term government bond
- T_i = Investors' effective tax rate on interest, dividends and capital gains = 28%
- β_a = Asset Beta = 0.70 to 0.80 (based upon a review of the betas of comparable companies)
- β_e = Equity Beta = β_a (1+D/E) = 1.17 to 1.33
- R_m- R_f (1- T_i) = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%
- SCRP = Small company risk premium = 3.0% (estimated based on the relative equity returns of listed companies of a size comparable to Just Water versus very large companies).

6.2.1 DCF valuation summary

Our DCF valuation of Just Water, as summarised at Table 6.1, results in a valuation range of 14.7 cents to 16.8 cents, with a midpoint of 15.7 cents per share.

Table 6.1: Summary of DCF valuation ($ thousand, unless specified otherwise)

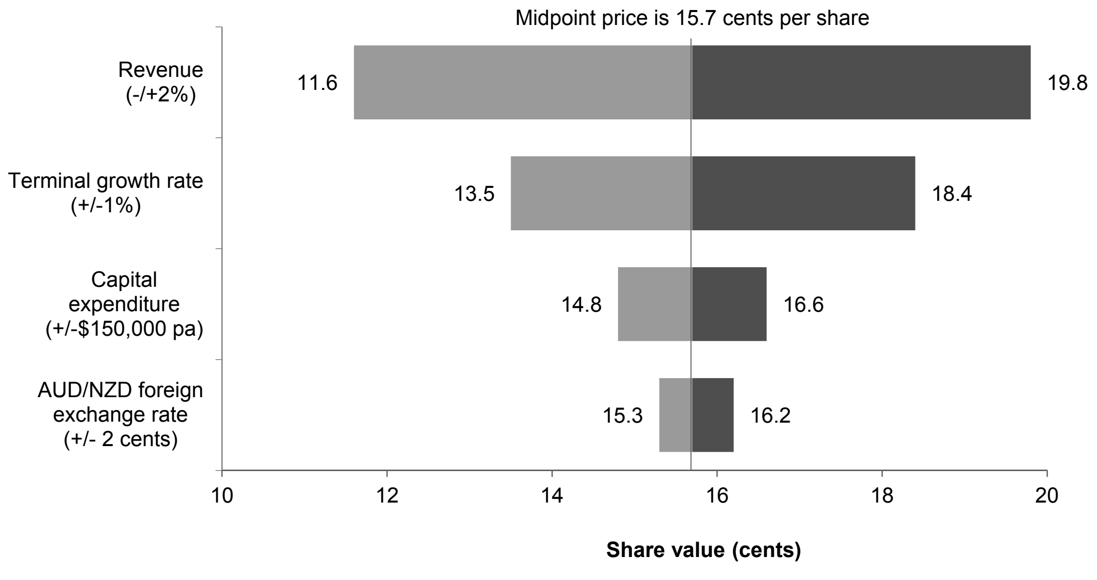
	Low	High
Enterprise Value	25,685	27,615
Net Debt	(12,523)	(12,523)
Value of options	(18)	(18)
Just Water equity value	**13,144**	**15,074**
Shares on issue (thousand)	89,477	89,477
Value per share (cents)	**14.7**	**16.8**

Source: Management accounts, KordaMentha analysis

Our high-case and low-case are based on a WACC of 10.9% and 11.7%, with a midpoint of 11.3%.

As shown in Figure 6.1, below, the results from the DCF valuation approach is very sensitive to small changes in the assumptions underlying the valuation. The midpoint price (15.7 cents per share) is based on our midpoint WACC of 11.3%.

Figure 6.1: DCF sensitivity



The DCF valuation is highly sensitive to changes in revenue. Assuming revenue was 2% more or less than forecast from FY16, and there are no changes in operating expenses (except for tax), then the impact on our DCF valuation is approximately 4 cents. We do not consider this to be surprising, given Just Water's relatively high debt and low EBIT margins. Our sensitivity is based on a 2% change in revenue; equivalent to a change in EBIT of approximately 15% (assuming no change in operating expenses).

As discussed above, we have assumed a terminal growth rate for the Just Water group of 1% based on an blend of the Australian and New Zealand business expectations. Changes to this terminal growth rate of 1% (terminal growth rate of between 0% and 2%), decrease and increases the DCF valuation by 2.2 cents and 2.7 cents respectively.

We have sensitised terminal year capital expenditure by increasing and decreasing it by $150,000 (with the change continuing into perpetuity). We have undertaken this sensitivity to test how a change in the frequency at which Just Water replaces its rental equipment could affect the value of its shares. As our base case assumption, we assume Just Water replaces its rental equipment every 10 years; however, if it was to replace its equipment every nine/eleven years then it would incur approximately $150,000 more/less capital expenditure per annum. The effect changing its asset replacement cycle by one year has an approximate one cent impact on share value.

We have converted Just Water's Australian dollar earnings to New Zealand dollars using forecast exchange rates. The forecast AUD/NZD exchange rates are all between 0.87 and 0.90. If there is a permanent change in the exchange rate of 0.02, then the impact on share value is approximately 0.4 cents. This sensitivity is less pronounced due to Clearwater only being approximately one third of the whole Just Water business.

6.3 Capitalisation of earnings

Where a company is operating in a mature industry and has relatively stable earnings, the capitalisation of earnings methodology can provide a reliable means of valuing the company. However, this methodology also relies on identifying some broadly comparable companies which are either listed or have been recently acquired, this can be challenging for companies in niche industries or small markets.

To apply the capitalisation of earnings methodology it is necessary to determine an appropriate earnings multiple as well as an estimate of earnings to which the multiple is applied.

6.3.1 Earnings multiple

Comparable earnings multiples are generally derived by using two sources of information:

1. multiples based on the current share price of comparable trading companies; and
2. multiples based upon recent transactions involving acquisitions of comparable companies.

Trading multiples

There are very few listed companies which are 'pure-play' water cooler leasing companies. Therefore, we have benchmarked Just Water against listed companies which offer rental and leasing of a range of equipment and machinery. All listed companies in our sample are significantly larger than Just Water.

Observed trading multiples should be adjusted for factors such as relative size, growth, profitability, risk and return on investment. It is also important to note that trading multiples are based upon trading in small parcels of shares, and typically exclude a control premium.

Appendix 3 shows EBITDA and EBIT trading multiples for listed companies that are broadly comparable to Just Water.

Coca-Cola Amatil owns Neverfail, the largest bottled water cooler operator in Australia. However, we consider its trading multiple to offer a poor benchmark for Just Water due to its size and Coca-Cola Amatil being a diversified business with water coolers only being a very small part of its business.

Waterlogic's business is similar to Just Water; however, it is much larger, has global coverage and has experienced significant revenue growth in the past three years through acquisitions. We note that Waterlogic's entry into the Australian market represents a significant increase in its EBITDA, and therefore do not consider its historical multiple to provide a good benchmark of value. Due to its size, coverage and growth prospects, we expect Just Water to have a lower forecast EBITDA multiple than Waterlogic, even allowing for a control premium.

Thorn Group offers a wide range of finance leasing services, particularly to retail consumer. Thorn Group is much larger than Just Water. Unlike Just Water, which offers operating leases, Thorn Group offers finance leases and does not own (and depreciate) the assets underlying it leases and for this reason, we do not consider its EBITDA multiples to be a good benchmark for Just Water. We consider Thorn Group's EBIT multiple to better benchmark for Just Water. Adjusting for the ratio between Just Water's EBITDA and EBIT, Thorn Group's Forecast multiple of 8.7x EBIT implies an 'adjusted' multiple of 4.0x EBITDA.

Silver Chef offers operating leases of equipment, primarily to the hospitality industry. We note that Silver Chef depreciates its rental assets over periods of one to five years. On this basis, we consider its EBIT multiple to be reliable benchmark for Just Water. Making the same adjustment as for the Thorn Group above, Silver Chef has an adjusted forecast multiple of 4.4x EBITDA.

Emeco, Boom Logistics and Resource Equipment all lease equipment to companies in the Australian resource sector. There has been a very significant decline in the Australian resource sector in the last two years, this has been even more pronounced than for water cooler businesses, which have had time to adjust their scale. We note that all three businesses are trading at a significant discount to their net tangible assets; therefore, it is likely that their share prices are influenced by their break-up value. We consider these businesses to offer poor benchmarks for the valuation of Just Water.

The trading multiples considered above are all for companies which are much larger than Just Water, but are also based on transactions of small parcels of shares and therefore exclude a premium for control. Adjusting for each of these factors has the opposite impact on a benchmarked multiple for Just Water; and will partly cancel each other out.

Transaction multiples

Appendix 4 shows the EBITDA multiples derived from our sample of comparable transactions. The details of the transactions are also set out in Appendix 4.

The comparable transactions have earnings multiples in a range of 3.1x to 9.4x historical EBITDA, with a median of 5.2x historical EBITDA. Excluding the Neverfail transaction, which is an old pre-GFC transaction, the transactions lie in a range between 3.1x and 7.4x historical EBITDA, with a median of 4.4x historical EBITDA.

In benchmarking Just Water against the comparable transaction multiples, we have considered the following:

- The Cool Clear Water transaction was undertaken at an earnings multiple of 6.4x EBITDA. Cool Clear Water was approximately three times the size of Just Water, was much more profitable and is focused on the POU market (which is not under the same pressure as bottled water coolers). On this basis, we expect Just Water to have a lower earnings multiple than Cool Clear Water.
- The Aqua Service transaction was undertaken at an earnings multiple of 5.2x EBITDA. Aqua Service was approximately half the size of Just Water. However, Waterlogic appears to have expected significant strategic and synergistic benefits from this transaction. On this basis, we consider it likely that Just Water would have a lower earnings multiple than Aqua Service, unless Just Water was acquired as part of a strategic acquisition.
- The Prisme transaction was undertaken at an earnings multiple of 3.6x EBITDA. Prisme was much smaller than Just Water. On this basis, we expect Just Water to have a higher EBITDA multiple.
- We do not consider the Neverfail transaction to be comparable due to its size, age and the growth prospects which were factored the acquisition price.
- We consider the equipment rental transaction multiples to only provide a rough guide when benchmarking to Just Water. Care needs to be taken when considering rental businesses which own equipment with a different asset life or which have different growth prospects.
- Care needs to be taken with some of the above transaction multiples. Multiples from different geographical regions can be very different based on: the locations accounting standards; regional growth prospects; and other locations specific factors.

Transaction multiples typically include a premium for control, which usually reflects expected synergies, as well as the prevailing economic environment and other non-quantifiable factors.

Just Water acquired Pure Rain and Aquaman Australia in June 2013. We understand that these transactions were undertaken on the basis of a multiple of 1.0x revenue, plus an adjustment for stock. Revenue multiples can be appropriate when acquiring very small businesses, particularly when the cost structure of the underlying business will be replaced and is therefore not important to the transaction. However, we do not consider revenue multiples appropriate to the valuation of Just Water.

6.3.2 Capitalisation of earnings valuation

Interpretation of the trading and transaction multiples is inherently subjective. In determining the appropriate multiple to apply to Just Water we have made allowances for the following factors:

- observed trading multiples should be adjusted for various factors such as relative size, growth, profitability, risk and return on investment;
- trading multiples are based upon trading in small parcels of shares, and exclude a control premium; and
- transaction multiples typically include a premium for control, which usually reflects expected synergies, the prevailing economic climate and other non-quantifiable factors.

We have assessed an appropriate multiple for Just Water in a range of 4.0x to 4.5x EBITDA, after taking into account the:

- median multiple (based on current year forecasts) of the comparable listed companies of 4.8x forecast EBITDA. These multiples exclude a premium for control. We have placed limited reliance on the comparable listed companies because none are directly comparable to Just Water with all being considerably larger businesses;
- adjusted multiples for Thorn Group and Silver Chef of 4.0x and 4.4x forecast EBITDA;
- comparable transactions are typically in the range of 3.3x to 7.4x historical EBITDA, with a median of 5.2x historical EBITDA across all transactions and 4.4x for the transactions excluding Neverfail. These multiples include a premium for control;
- the relative historical growth and potential prospects for growth of Just Water and the comparable companies;
- relative size of Just Water to the comparable listed companies and transactions; and
- control premium that would apply to a 100% shareholding in Just Water.

6.3.3 Multiples valuation summary

Estimate of earnings

For the purposes of our valuation, we have estimated Just Water's sustainable EBITDA to be $6.4 million, which is approximately equal to the FY15 Budget EBITDA.

Capitalisation of earnings

Applying our assessed multiple range of 4.0x to 4.5x EBITDA to the EBITDA forecast results in a value per share for the Just Water Shares of between 14.6 cents and 18.2 cents, as shown in Table 6.2.

Table 6.2: Summary of multiple valuation ($ thousand, unless stated otherwise)

	Low	High
EBITDA	6,400	6,400
EBITDA Multiple	4.0x	4.5x
Enterprise Value	**25,600**	**28,800**
Net Debt	(12,523)	(12,523)
Value of options	(18)	(18)
Just Water equity value	**13,059**	**16,259**
Shares on issue (thousand)	89,477	89,477
Value per share (cents)	**14.6**	**18.2**

We have deducted net debt of $12.5 million based on Just Water's net debt balance at 30 September 2014 and the value of the Options of $18,000 (as set out at Appendix 5).

6.4 Orderly Realisation of Assets

We consider the orderly realisation of assets to be a strong indication of a company's value when either, the company is under significant financial distress, or the value implied from an orderly realisation of assets is higher than earnings based valuation methodologies.

Just Water has a low level of fixed assets (mainly rental equipment). In the event Just Water was to breakup and sell its fixed assets for book value, it would not receive enough funds to pay off all its debt; the Just Water Shares would have no value.

The earnings based valuation approaches that we have adopted for Just Water are in excess of the value assessed using an orderly realisation of assets approach. We consider this reasonable given the intangible assets inherent in Just Water's business as result of relationships with customers as well as its brand recognition and goodwill.

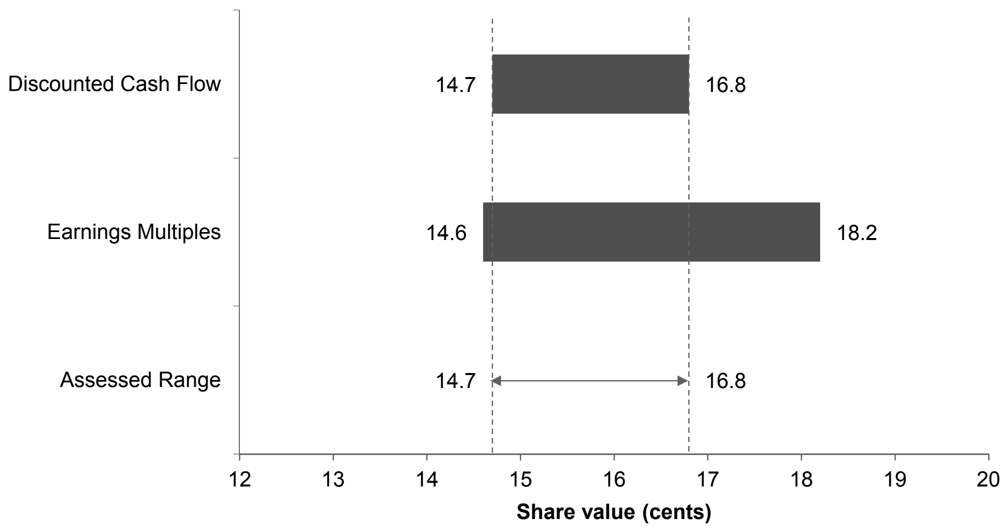
6.5 Synergies and strategic benefits

Harvard JV is an investment vehicle with no trading history. However, potential synergies available to Harvard JV from acquiring 100% of Just Water include the elimination of public company costs such as registry fees, NZX charges, annual reports, independent directors and shareholder communications. Just Water estimates that these costs are approximately $100,000 per annum. Assuming a WACC of 11.7%, an annual growth rate of 2.0%, and a corporate tax rate of 28%, this saving represents approximately 0.8 cents per share.

6.6 Valuation summary

Our valuation results are summarised in Figure 6.1.

Figure 6.1: Valuation summary



For the purpose of the Report, we have assessed a valuation range for Just Water's equity between 14.7 cents and 16.8 cents per share, with a midpoint of 15.7 cents per share. Our range is based on our DCF valuation, with our earnings multiples based valuation used as a crosscheck.

We note that the midpoint of our DCF valuation (15.7 cents) is less than the midpoint of our multiples based valuation (16.4 cents).

The Offer price (15 cents per share) is within and at the lower end of our valuation range.

As discussed earlier in this Report, our DCF valuation is highly sensitive to the underlying assumptions, and any decision which uses our valuation should consider the potential downside and upside risks. Based on our discussions with management and the independent directors, when considering the risks to key assumptions which underpin our DCF valuation, on balance, we consider the downside may outweigh the upside.

Our estimate of value is for 100% of Just Water and therefore includes a premium for control. We would not expect minority parcels of shares to trade at this level (in the absence a takeover offer).

Appendix 1: Sources of information

Documents relied upon

Documents relied upon include, but are not limited to, the following:

- Just Water's FY15 Budget;
- Just Water's FY16 and FY17 Forecast;
- Just Water Management Accounts;
- Just Water Annual Report FY12, FY13 and FY14;
- Just Water shareholder notices;
- Just Water website: http://www.jwi.co.nz;
- Just Water Board papers;
- Zenith International website: http://www.zenithinternational.com;
- Capital IQ website: http://www.capitaliq.com;
- Financial statements and other documents of the comparable companies set out in Appendix 3 and 4;
- NZX website: http://www.nzx.com;
- Reserve Bank of New Zealand website: http://www.rbnz.govt.nz;
- ANZ Market Focus 3 November 2014;
- Northington Partners Rule 22 Report;
- Statistics NZ website: http://www.stats.govt.nz; and
- Other publically available information.

We have also had discussion with some of Just Water's management executives in relation to the nature of the business operations, and Just Water's specific risks and opportunities for the foreseeable future.

Reliance upon information

In forming our opinion 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 Just Water and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Just Water. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

Appendix 2: Qualifications and declarations

Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Suresh Yahanpath (MAppFin, BCom, BSc); and Shaun Hayward (BCom, BProp, CFA®). All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the proposed transaction. KordaMentha expressly disclaims any liability to any Just Water equity security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

Just Water has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers 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, misconduct or breach of law. Just Water has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Just Water that could affect its ability to provide an unbiased opinion in relation to this transaction.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Offer or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to Just Water and its legal advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Just Water shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

Appendix 3: Comparable companies

Table A3.1: Comparable companies

Company	Primary location of operation	Market Cap (NZ$m)	EBITDA Multiple		EBIT Multiple	
			Historical	Forecast	Historical	Forecast
Water coolers and purifiers						
Coca-Cola Amatil	Australia	7,800	8.7x	9.0x	11.4x	12.3x
Waterlogic	Global	129	7.5x	5.8x	20.3x	8.7x
Equipment rental and leasing						
Thorn Group	Australia	421	5.2x	8.1x	9.6x	8.7x
Silver Chef	Australia	199	2.9x	2.9x	7.8x	9.6x
Emeco	Australia	116	6.0x	4.8x	n/a	28.5x
Boom Logistics	Australia	78	3.9x	4.2x	11.7x	13.9x
Resource Equipment	Australia	56	12.0x	3.7x	n/a	10.6x
Median			**6.0x**	**4.8x**	**11.4x**	**10.6x**

Source: Capital IQ (last 12 months and next 12 months for multiples), company financial statements and company announcements.

Coca-Cola Amatil

Coca-Cola Amatil, manufactures, distributes, and markets non-alcoholic ready-to-drink beverages in Australia, New Zealand, Indonesia, Papua New Guinea and Fiji (as a franchisee of the Coca-Cola Company). Coca-Cola Amatil is a major producer of packaged bottled water and also provides carbonated soft drinks, spring waters, sports and energy drinks, fruit juices, iced tea, flavoured milk, coffee, tea and other alcohol free beverages. It also manufactures and distributes spirits and beer; and processes and markets fruit, vegetable snacks, and other food products.

Coca-Cola Amatil acquired Neverfail Springwater Limited in 2003. Neverfail is the largest direct delivery bulk bottled water and cooler rental business in Australia. Neverfail has a 65% share of the home and office delivered water market. Neverfail is only a small portion of the Coca-Cola Amatil group.

Waterlogic

Waterlogic is a global business which designs, manufactures, distributes, services and sells point-of-use water machines. Its products are used in offices, factories, homes, the hospitality sector, education sector and healthcare sectors. Waterlogic also provides finance services.

Waterlogic sells its products directly to end-user customers, through wholesale distributors and provides direct rental and service to end-user customers. It has a significant market share for the supply of water dispensers in Australia, USA, Norway, Sweden, Germany and the United Kingdom.

Waterlogic entered the Australian water cooler market in 2013 by acquiring WaterFirst, Cool Clear Water and Culligan, the three largest suppliers of water filtration and dispensing systems in Australia.

Thorn Group

Thorn Group provides a range of financial solutions to consumers and businesses in Australia. It has four segments: Consumer Leasing, Credit Management, Equipment Finance and Financial Services.

Thorn Group's Consumer Leasing segment earns 84% of its total revenue and 86% of its total EBITDA. The Consumer Leasing segment leases household products, including a range of audio/visual products, kitchen and laundry appliances, computers, furniture, and fitness equipment through a network of 90 Radio Rentals and Rentlo national store outlets. This segment also leases motor vehicles through Rent Drive Buy trial.

Thorn Groups other three segments are much smaller. Credit Management offers receivables management, debt recovery, credit information, debt purchasing, and other financial services. Equipment Finance provides equipment financing for small and medium businesses. Thorn Financial Services offers personal loans.

Thorn Group primarily offers finance leases. It does not own (and depreciate) the underlying lease assets.

Silver Chef

Silver Chef is engaged in renting and financing of commercial equipment in Australia, New Zealand and Canada. It operates in two segments, Hospitality and GoGetta.

Silver Chef's Hospitality segment earns 67% of its total revenue and 76% of its net profit before tax (excluding group corporate costs). The Hospitality segment provides equipment rental finance, primarily to the hospitality industry.

The GoGetta segment offers equipment rental finance to other industries, such as fitness, construction, transport, and plumbing through the Rent.Grow.Own rental solution.

Silver Chef offers its services through a Rent-Try-Buy solution, which allows businesses to reduce their working capital. It assists franchisors and franchisees fund their equipment and store fit-out requirements. It serves customers through a network of hospitality equipment dealers and brokers.

Silver Chef primarily offers operating leases. It owns (and depreciates) the underlying lease assets.

Emeco

Emeco provides heavy earthmoving equipment rental solutions and maintenance services to mining companies and contractors in Australia, Canada and Chile.

Emeco provides rear dump trucks, excavators, articulated trucks, dozers, loaders, and graders, as well as ancillary equipment, including water-carts, service trucks, compactors, integrated tool carriers, and tire handlers. Emeco also sells re-conditioned machines and parts.

Emeco is highly exposed to the Australian mining industry and its revenue has declined by 35% per annum over its past two financial years ended 30 June 2014. It made an EBIT loss in its most recent financial year.

Emeco primarily offers operating leases. It owns (and depreciates) the underlying lease assets.

Boom Logistics

Boom Logistics provides crane logistics and lifting solutions to the mining and resources, energy, utilities, and infrastructure sectors in Australia. Boom Logistics fleet consists of approximately 400 cranes, 250 travel towers, and 1,500 access equipment items.

Boom Logistics is highly exposed to the Australian mining industry and its revenue has declined by 12% per annum over its past two financial years ended 30 June 2014. Over the same period, its EBIT declined by 40% per annum.

Boom Logistics primarily offers operating leases. It owns (and depreciates) the underlying lease assets.

Resource Equipment

Resource Equipment provides pumping and dewatering systems, power generation equipment, air compressors, and associated equipment for mining, oil and gas, heavy engineering, and infrastructure industries.

Resource Equipment is highly exposed to the Australian mining industry. Its revenue has not declined over its past two financial years ended 30 June 2014; however, its EBIT declined significantly and it had an EBIT loss in its most recent financial year.

Resource Equipment primarily offers operating leases. It owns (and depreciates) the underlying lease assets.

Appendix 4: Comparable transactions

Table A4.1: Comparable transactions

Target	Acquirer	Primary location of target	Transaction date	Enterprise Value (Local $m)	Historical EBITDA multiple
Water coolers and purifiers					
Cool Clear Water	Waterlogic	Australia	Jun-13	AUD59.9	6.4x
Aqua Service	Waterlogic	Norway	Mar-12	NOK37.0	5.2x
Prisme	Waterlogic	France	Feb-12	USD1.49	3.6x
Neverfail	Coca Cola Amatil	Australia	Jul-03	AUD289	9.4x
Equipment rental and leasing					
Hofco Oilfield Services	Titan Energy	Australia	Mar-13	AUD25.8	3.1x
Pallecon	Brambles	Australia	Jan-13	EUR135.0	7.4x
Best Tractor Parts	Ausdrill	Australia	Nov-12	AUD211.9	3.3x
Median[3]					**4.4x**

Source: Capital IQ, company financial statements, independent advisors' reports, company announcements and other publically available information.

Cool Clear Water

Cool Clear Water ('CCW') designs and manufactures water filtration systems for businesses and homes across all states in Australia. CCW offers water fountains; wall mounted boiling systems; under sink chillers and boilers; bubblers; under sink filters; solutions dirty cups and glasses; fill-your-own bottles systems; freestanding water coolers; bench-top water coolers; and accessories.

CCW has over 26,000 POU coolers installed and over 11,000 customers. Similar to Just Water, CCW is predominantly a rental business with a high proportion of recurring revenue.

CCW reported revenue of AUD16.9 million and EBITDA of AUD9.3 million in the year ended 30 June 2012. This indicates an EBITDA margin of 55%, which is much higher than Just Water at 27% in the same period.

Waterlogic acquired CCW for AUD59.9 million in June 2013.

Aqua Service

Aqua Service was a leading vendor of water dispensers and coffee machines in Sweden and Norway.

Aqua Service reported unaudited revenue of NOK60.97 million and adjusted EBITDA of NOK7.17 million in the period ended 31 December 2011. This indicates an EBITDA margin of 12%, which is much less than Just Water at 27% in the same period. NOK made an after-tax loss of NOK3.2 million in the period ended 31 December 2011.

Waterlogic acquired Aqua Service from a private equity company for approximately NOK37 million in March 2012, (excluding an adjustment for working capital). At the time of the transaction, NOK37 million was approximately equal to $8 million (NZD).

When it was acquiring Aqua Service, Waterlogic indicated that there were significant strategic and synergistic opportunities in its acquisition of Aqua Service. It saw significant opportunities to accelerate growth through the introduction of its own POU water purification systems and associated products into Aqua Service's customer base.

[3] The median EBITDA multiple excludes the Coca-Cola Amatil acquisition of Neverfail (due to the age of the transaction). Including this transaction, the median EBITDA multiple is 5.2x.

KordaMentha

Prisme

Prisme installs, leases, sells, and maintains POU water dispensers. It has a contracted customer base of approximately 2,400 POU water dispensers, predominantly in the south of France.

The audited financial statements of Prisme for the full year ended 31 October 2011 show revenue of USD1.04 million and adjusted EBITDA of USD0.42 million (adjusted after adding back non-recurring payments made to shareholders).

Waterlogic acquired Prisme for approximately USD1.49 million in January 2012.

Neverfail

Neverfail Springwater Limited offers spring water, coffees, and vending solutions.

The company offers bulk spring water, bottled spring water, plastic and paper cups, bottle storage racks, coffee beans, sparkling water, isotonic powder, drinking chocolate, and teas. The company also supplies water coolers on rent. It serves homes, businesses, offices, and workplaces through distributors in Australia.

Neverfail was acquired by Coca-Cola Amatil in July 2003 at an implied enterprise value of AUD289 million and at a historic EBITDA multiple of 9.4x. At the time of the acquisition, the bottled water-cooler market in Australia was experiencing strong growth (Neverfail forecasts in 2003 assumed growth rates of 5 to 6% until 2011 and then at rates slightly under 5%).

This transaction was completed following a protracted hostile takeover.

Hofco Oilfield Services

Hofco Oilfield Services leases oilfield equipment and drilling tools, primarily in Australia.

Hofco Oilfield Services was acquired by Titan Energy Services in March 2013. The transaction implied an enterprise value for Hofco Oilfield Services of AUD25.8 million. Of the total consideration, 5.8 million was deferred for six months.

Pallecon

Pallecon was a leading provider of Intermediate Bulk Container (IBC) solutions, primarily in Western Europe and Australia and New Zealand. Pallecon owns a pool of approximately 180,000 IBCs, which are used primarily for the transportation of liquids in the food, cosmetic and chemical industries.

Pallecon was acquired by Brambles in January 2013. Brambles operates in the same industry and offers products under the CHEP and IFCO brand names.

Best Tractor Parts

Best Tractor Parts supplies, sells, and rents mining parts and equipment to mining companies, contractors, and various government departments in Australia. It offers new and serviced equipment parts and components, including hydraulic pumps, engines and new replacement grader parts.

Best Tractor Parts was acquired by Ausdrill Mining Services in October 2012.

Appendix 5: Just Water Options

Harvard JV has offered to acquire 600,000 options issued to Ian Ormiston (Chief Executive Officer) and Eldon Roberts (Chief Financial Officer) as part of the Offer. Table A5.1 summarises the valuation of these options undertaken by Northington Partners and the value of these options under the Offer.

In valuing the Just Water Shares, we have estimated the value of the Just Water Options to be $18,000.

Table A5.1: Just Water Options

Tranche	Exercise Period	Exercise Price (cents)	Number of Options	Northington Partners Valuation	Tranche Value (Rule 22 Report)	Offer Price	Offer Value
1	30/09/2014 – 30/11/2014	12 cents	250,000	2.3 cents	$5,786	3.0 cents	$7,500
2	30/09/2015 – 30/11/2015	15 cents	100,000	1.9 cents	$1,891	2.1 cents	$2,100
3	30/09/2015 – 30/11/2015; or 30/09/2016 – 30/11/2016	14 cents	125,000	3.0 cents	$3,778	3.3 cents	$4,125
4	30/09/2016 – 30/11/2016	14 cents	125,000	3.0 cents	$3,778	3.3 cents	$4,125
Total			**600,000**		**$15,233**		**$17,850**

Source: Takeover Offer, Northington Partners Rule 22 Report and KordaMentha calculations.