

# **Tru-Test Corporation Limited**

## **Independent Report**

**In Respect of the Proposed Sale  
of the Company's Weighing,  
Electronic Identification,  
Contract Manufacturing, Electric  
Fencing Products and Milk  
Metering Businesses to  
Datamars SA**

*May 2018*

## Index

Section	Page
1. Introduction .....	1
2. Evaluation of the Merits of the Datamars Transaction .....	5
3. Profile of Tru-Test .....	12
4. Evaluation of the Reasonableness of the Minimum Enterprise Value .....	20
5. Sources of Information, Reliance on Information, Disclaimer and Indemnity .....	25
6. Qualifications and Expertise, Independence, Declarations and Consents .....	27
 <b>Appendix</b>	
I. Comparable Companies Analysis .....	28

## 1. Introduction

### 1.1 Background

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

Tru-Test is a widely held, non-listed company with 98 shareholders. It had revenue of \$140 million for the year ended 31 March 2018 and equity of \$3 million as at 31 March 2018.

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

### 1.2 Proposed Sale of Businesses and Assets to Datamars SA

Tru-Test announced on 4 May 2018 that it has agreed to sell certain of its businesses and assets to Datamars SA (**Datamars**) (the **Datamars Transaction**).

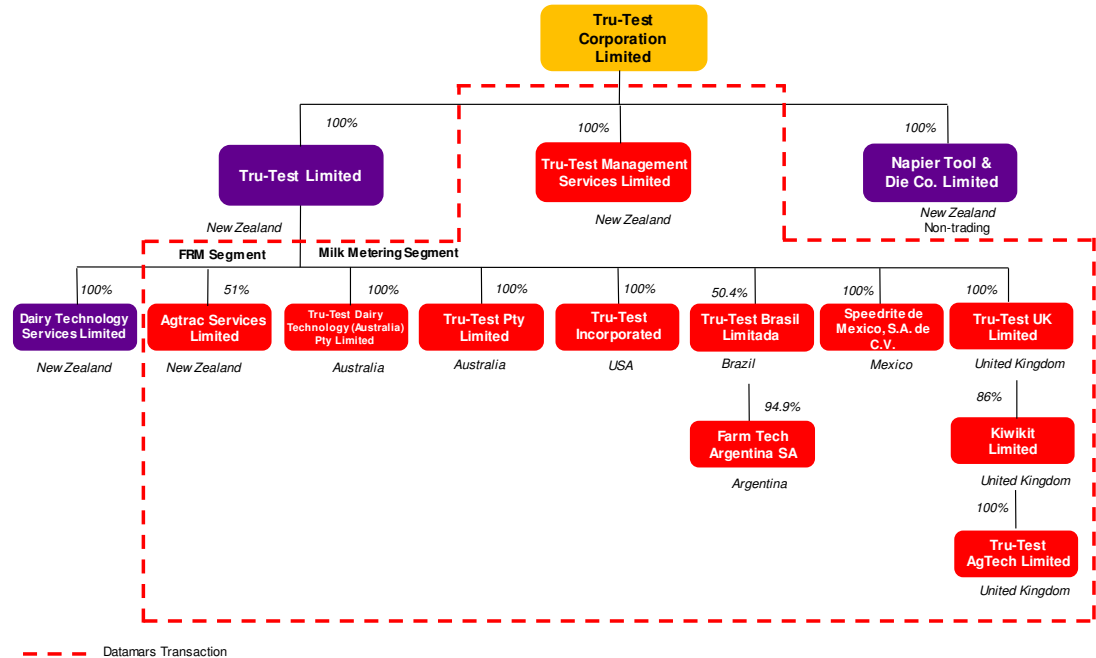
Tru-Test and its wholly-owned subsidiary Tru-Test Limited (**TTL**) (together the **Vendors**) and Datamars and its wholly-owned subsidiary Datamars Limited (together the **Purchasers**) entered into the *Agreement for Sale and Purchase of Shares and Assets* on 4 May 2018 (the **Datamars Transaction Agreement**) whereby the Purchasers will acquire the following businesses and assets of Tru-Test (the **Sale Businesses**):

- Tru-Test's Weighing, Electronic Identification (**EID**), Contract Manufacturing and Electric Fencing Products business operations (the **FRM Segment**)
- Tru-Test's Milk Metering business (the **Milk Metering Segment**)
- all of Tru-Test's intellectual property relating to the Sale Businesses, including the right to the *Tru-Test* name
- all of the assets used in conducting the Sale Businesses
- the following shares held by Tru-Test or TTL (the **Sale Shares**):
  - 51% of the shares in Agtrac Services Limited
  - 100% of the shares in Tru-Test Management Services Limited
  - all shares held by TTL in its overseas subsidiaries.

## Organisation Structure Before and After the Datamars Transaction

### Before

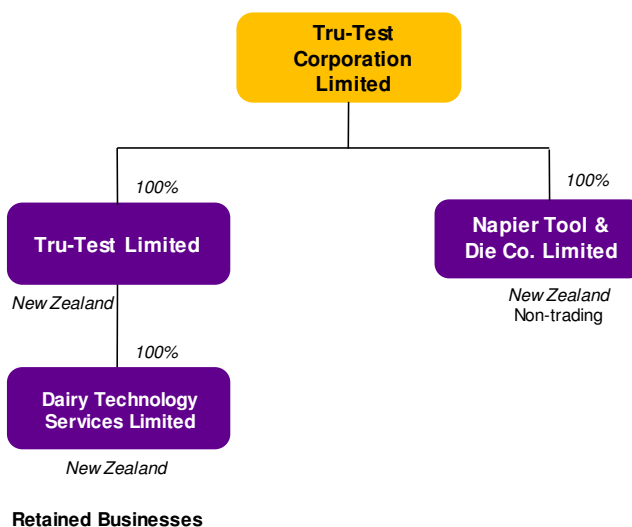
The diagram below sets out Tru-Test's current organisation structure and highlights the Sale Businesses that are the subject of the Datamars Transaction.



The Datamars Transaction does not include Tru-Test's Dairy Automation Systems and Milk Cooling and FHT businesses and assets (the **Retained Businesses**). The Retained Businesses will continue to be operated by the Company's New Zealand subsidiary Dairy Technology Services Limited.

### After

Following the completion of the Datamars Transaction, Tru-Test's organisation structure will be as set out below.



## Purchase Price

The purchase price for the Sale Businesses (the **Purchase Price**) is based on their enterprise values, free of debt and excluding cash (the **Final Enterprise Value**).

The Final Enterprise Value will be based on the actual 2018 financial year run rate earnings before interest, tax, depreciation and amortisation (the **FY2018 RR EBITDA**) of each of the Sale Businesses, calculated as follows:

$$\begin{aligned} & \text{FRM Segment FY2018 RR EBITDA} \times 9.4 \text{ EBITDA multiple} \\ + & \text{Milk Metering Segment FY2018 RR EBITDA} \times 6.0 \text{ EBITDA multiple} \end{aligned}$$

Assuming that the Sale Businesses meet the targeted FY2018 RR EBITDA, the Final Enterprise Value will be \$132,362,000. This amount represents the **Minimum Enterprise Value**.

Minimum Enterprise Value			
	FRM Segment \$000	Milk Metering Segment \$000	Sale Businesses \$000
Targeted FY2018 RR EBITDA	12,500	2,477	14,977
EBITDA multiple	9.4x	6.0x	8.8x <sup>1</sup>
Minimum Enterprise Value	<u>117,500</u>	<u>14,862</u>	<u>132,362</u>
<small><sup>1</sup> Implied weighted average EBITDA multiple for the Sale Businesses</small>			
<small>Source: Tru-Test</small>			

## Conditions

The Datamars Transaction Agreement is subject to a number of conditions, including:

- shareholder approval of the Datamars Transaction
- Datamars obtain the consent of the Overseas Investment Office to purchase the Sale Businesses (the **OIO Consent**).

Shareholders' approval of the Datamars Transaction is strictly on the condition that the Final Enterprise Value is not less than the Minimum Enterprise Value. If the Final Enterprise Value is subsequently determined to be less than \$132,362,000 and Datamars still wishes to proceed with the Datamars Transaction, a new shareholders meeting will be convened to determine whether shareholders wish to approve the Datamars Transaction at the lower Final Enterprise Value.

### 1.3 Datamars SA

Datamars researches, develops, manufactures and supplies unique-identification solutions specialising in radio frequency identification technology to companion animal, livestock and textile identification markets in Switzerland and internationally.

It offers companion animal identification products (including microchips, microchip readers, companion software and reunification products), livestock identification products (which comprise visual ear tags, electronic ear tags, boluses, livestock readers and accessories) and textile identification products (such as laundry chips, readers, antennae and ultra-high frequency products).

Datamars also provides pre and post-sales support services (including on-site assistance and consulting) as well as upgrade and repair services for installed equipment.

It sells its products directly and through a network of distribution partners.

Datamars was founded in 1988 and is based in Bedano, Switzerland with additional offices in Europe, Asia, Switzerland, Australia, Italy, Spain, Thailand, Uruguay and the United States. It has manufacturing facilities in Switzerland, Italy, Slovakia, Thailand and the United States and repair centres worldwide.

Datamars operates in New Zealand and Australia through offices in Auckland and Brisbane under the *Zee Tags* brand. Datamars acquired New Zealand company Zee Tags Limited (**Zee Tags**) in March 2014. Zee Tags develops and produces livestock identification tags and applicator devices. Datamars acquired New Zealand company Simcro Limited (**Simcro**) in April 2018. Simcro designs, develops and manufactures customised animal health delivery solutions to the pharmaceutical industry in New Zealand.

Datamars Limited is a company incorporated in New Zealand on 15 February 2018. It is wholly owned by Datamars.

#### 1.4 Special Meeting

The Company's shareholders will vote on a special resolution in respect of the Datamars Transaction (including the Minimum Enterprise Value condition) (resolution 1 – the **Datamars Transaction Resolution**) at the Company's special meeting on 15 June 2018.

A special resolution is passed by a majority of not less than 75% of the votes cast.

The Company's shareholders will also vote on an ordinary resolution in respect of an increase in KTT Limited Partnership's (**KTT**) control of voting rights in the Company from 43.30% to 43.73% through the allotment of 700,000 ordinary shares pursuant to the exercise of options held by KTT (resolution 2).

#### 1.5 Regulatory Requirements

Section 129 (2) of the Companies Act 1993 (the **Act**) provides that a company must not enter into a Major Transaction unless the transaction is approved by, or is contingent on approval by, a special resolution of shareholders.

A Major Transaction includes a transaction involving the disposition of, or an agreement to dispose of, assets of the company, the value of which is more than half of the value of the company's assets before the disposition.

The Datamars Transaction is in excess of the threshold under section 129 of the Act and therefore the Datamars Transaction is a Major Transaction under the Act.

#### 1.6 Purpose of the Report

The board of directors of Tru-Test (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Report on the merits of the Datamars Transaction.

Simmons Corporate Finance issues this Independent Report to the Board for the benefit of the Company's shareholders to assist them in forming their own opinion on voting on the Datamars Transaction Resolution.

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

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

## 2. Evaluation of the Merits of the Datamars Transaction

### 2.1 Basis of Evaluation

We have evaluated the merits of the Datamars Transaction having regard to the interests of the Company's shareholders.

We are of the view that an assessment of the merits of the Datamars Transaction should focus on:

- the rationale for the Datamars Transaction
- the process undertaken by Tru-Test in respect of the Datamars Transaction
- the terms and conditions of the Datamars Transaction
- the financial impact of the Datamars Transaction on Tru-Test's shareholders
- the impact of the Datamars Transaction on Tru-Test's share price
- other issues associated with the Datamars Transaction
- the implications if the Datamars Transaction Resolution is not approved.

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

### 2.2 Summary of the Evaluation of the Merits of the Datamars Transaction

The Datamars Transaction represents the sale of the majority of the Company's operations, representing approximately 84% of the Company's revenue for the 2018 financial year and approximately 95% of the Company's total assets as at 31 December 2017.

**In our opinion, the positive aspects of the Datamars Transaction significantly outweigh the negative aspects and the terms and conditions of the Datamars Transaction are fair to the Company's shareholders.**

Our evaluation of the merits is set out in detail in sections 2.3 to 2.10. In summary, the key factors leading to our opinion are:

- the rationale for the Datamars Transaction is sound. It creates a liquidity event for shareholders that enables value to be realised
- the process undertaken by Tru-Test in respect of the Datamars Transaction has been thorough
- the terms of the Datamars Transaction are reasonable:
  - the Purchase Price is subject to the Minimum Enterprise Value of \$132,362,000. If the Final Enterprise Value is determined to be less than \$132,362,000 and Datamars still wishes to proceed with the Datamars Transaction, then a new shareholders' meeting will be convened to determine whether shareholders wish to approve the Datamars Transaction at that lower Final Enterprise Value

- the Minimum Enterprise Value of \$132,362,000 is reasonable. FY2018 RR EBITDA is an appropriate basis for setting maintainable earnings and the EBITDA multiples applied are reasonable
- the consideration will be paid in cash
- the conditions of the Datamars Transaction are in line with market practice for transactions of this nature and are not unreasonable
- the Datamars Transaction is expected to result in Tru-Test making a distribution in the vicinity of \$1.00 to \$1.45 per share to the Company's shareholders
- following the Datamars Transaction, shareholders will continue to hold shares in the Company in the same proportion as they currently do and Tru-Test will own and operate the Retained Businesses
- the impact of the Datamars Transaction on Tru-Test's share price or the liquidity of the shares held by Company's shareholders will be significantly influenced by the amount of the distribution made by the Company to shareholders and the future performance of the Retained Businesses
- the Datamars Transaction will significantly reduce the size of Tru-Test but will not significantly change Tru-Test's business risk profile
- the Datamars Transaction is unlikely to reduce the attraction of Tru-Test as a takeover target to any significant degree
- there is strong support for the Datamars Transaction from the Company's largest shareholders
- in the event of the Datamars Transaction Resolution not being approved, then the Datamars Transaction will not proceed and Tru-Test will continue to own and operate all of its businesses in the normal manner.

Shareholders should bear in mind that the approval of the Datamars Transaction Resolution will be of no effect if the Final Enterprise Value is less than the Minimum Enterprise Value of \$132,362,000.

## **2.3 Rationale for the Datamars Transaction**

We are advised by the Board that a number of shareholders over time have pressed the Board for initiatives to create more liquidity for their shares and create opportunities to realise value.

The Board has evaluated a number of initiatives to achieve these objectives, including listing the Company's shares and the sale of the Company or certain of its businesses to trade buyers.

The Board considers that the Datamars Transaction meets the criteria it has set in response to shareholders' requests:

- the sale is at a value that the Board considers to be advantageous to the Company and its shareholders
- the sale will enable the Company to make a substantial return to shareholders
- the sale does not include the Company's dairy automation systems and milk cooling and FHT businesses, which the Company will continue to operate.



## 2.4 Process Undertaken by Tru-Test

Tru-Test and Datamars have known each other for some time. While they are not competitors, they operate in many of the same markets.

The 2 companies commenced discussions regarding a potential transaction in February 2017, following initial contact between the respective senior management teams. The discussions on behalf of Tru-Test were led by the Company's chair and chief executive officer.

The focus was originally on Datamars acquiring the FRM Segment businesses. High level financial data was provided to Datamars to enable it to formulate an acquisition proposal.

Datamars submitted a non-binding offer to acquire the weighing, EID and electric fencing businesses on 29 August 2017.

Based on the terms of the non-binding offer, Tru-Test agreed to proceed with the sale process and established a virtual data room to enable Datamars to undertake a due diligence review of the FRM Segment businesses. Datamars was not provided with any forecast financial information beyond the 2018 financial year. The due diligence process was managed by the Company's chief financial officer with assistance from the Company's legal and tax advisers.

During the course of the due diligence review, it became apparent to both companies that the Milk Metering Segment business was a better fit with the FRM Segment businesses being sold.

Datamars submitted a preliminary, non-binding indication of interest for the acquisition of the milk metering business on 7 December 2017.

Final negotiations with Datamars were led by Tru-Test's chair, chief executive officer and chief financial officer, with assistance from the Company's legal advisers. The Board was copied on drafts of the Datamars Transaction Agreement and consulted on key commercial points.

The Datamars Transaction Agreement was signed on 4 May 2018 and announced to the market on that date.

Based on our discussions with the Board, we consider the transaction process to be thorough and effectively undertaken so as to optimise the possibility of Tru-Test realising the full market value of the Sale Businesses.

## 2.5 Terms of the Datamars Transaction

### *Purchase Price*

The Purchase Price is based on the Final Enterprise Value, free of debt and excluding cash. There is provision for an adjustment to be made for changes in working capital levels at completion date.

The Final Enterprise Value is calculated as follows:

$$\begin{aligned} & \text{FY2018 RR EBITDA of the FRM Segment} \times 9.4 \text{ EBITDA multiple} \\ + & \text{FY2018 RR EBITDA of the Milk Metering Segment} \times 6.0 \text{ EBITDA multiple} \end{aligned}$$

Assuming that the Sale Businesses meet their targeted EBITDA for the 2018 financial year, the Final Enterprise Value will be \$132,362,000 (ie the Minimum Enterprise Value).

The Datamars Transaction Resolution specifies that the Datamars Transaction can only proceed if the Final Enterprise Value is not less than the Minimum Enterprise Value. Accordingly, our evaluation of the reasonableness of the Purchase Price focuses on the reasonableness of the Minimum Enterprise Value. Our assessment is set out in section 4.

In our view, the Minimum Enterprise Value of \$132,362,000 is reasonable:

- FY2018 RR EBITDA is an appropriate basis to determine maintainable earnings
- the implied weighted average EBITDA multiple of 8.8x for the Sale Businesses (based on EBITDA multiples of 9.4x for the FRM Segment and 6.0x for the Milk Metering Segment) is reasonable.

On the basis that the Purchase Price is based on the Final Enterprise Value, which in turn must be equal to or higher than the Minimum Enterprise Value of \$132,362,000 in order for the Datamars Transaction to proceed under the Datamars Transaction Resolution, we consider the Purchase Price to be reasonable.

If the Final Enterprise Value is determined to be less than \$132,362,000 and Datamars still wishes to proceed with the Datamars Transaction, a new shareholders' meeting will be convened to determine whether shareholders wish to approve the Datamars Transaction at that lower Final Enterprise Value.

### **Consideration**

Consideration for the Purchase Price will be in the form of cash.

### **Conditions**

The Datamars Transaction is conditional upon:

- Tru-Test's shareholders approving the Datamars Transaction Resolution by 15 June 2018
- Datamars confirming to Tru-Test in writing its acceptance of the audited accounts for the 2018 financial year by 29 June 2018
- if required, Datamars obtaining OIO Consent by 30 November 2018 or such later date agreed by the parties
- all lease and contract transfer consents being obtained in writing by 30 November 2018, on terms and conditions reasonably satisfactory to the Purchasers
- written consent to the transfer of the Sale Shares being obtained from respective counterparties where necessary
- the Purchasers confirming to the Vendors in writing the amount of the Final Enterprise Value and either:
  - the Final Enterprise Value being greater than or equal to the Minimum Enterprise Value or
  - the Purchasers confirming in writing that, notwithstanding the Final Enterprise Value being less than the Minimum Enterprise Value, they wish to proceed with the Datamars Transaction.

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

We note that the satisfaction of the OIO Consent condition will not be known for a number of months following the special meeting of shareholders. Under the terms of the Datamars Transaction Agreement, the OIO Consent is required to be obtained by 30 November 2018 unless the parties agree to extend that date.

### **Completion**

Completion and settlement of the Datamars Transaction will only occur once all of the conditions of the Datamars Transaction Agreement are satisfied.

The Datamars Transaction Agreement requires all conditions to be satisfied or waived by 31 December 2018. If not all of the conditions are satisfied or waived, or if the Datamars Transaction has not been settled by that date, either Tru-Test or Datamars may then cancel the Datamars Transaction Agreement.

As discussed above, the OIO Consent is likely to be the last condition to be satisfied and this may be a number of months after the special meeting of shareholders. In the meantime, Tru-Test will operate the Sale Businesses as usual.

### **Warranties**

Tru-Test has given the warranties to Datamars in the Datamars Transaction Agreement covering title, the Sale Businesses and tax.

The aggregate liability of Tru-Test under the warranties in respect of title and capacity is limited to the amount of the Purchase Price and 50% of the Final Enterprise Value in respect of any other claim.

We understand that Datamars and the Company have taken out warranty and indemnity insurance which covers most of the liability that the Company might face in the event that Datamars had a claim.

An amount of \$3.5 million will also be retained in escrow as a fund for uninsured warranty claims in respect of the Brazilian business.

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

## **2.6 Financial Impact of the Datamars Transaction on Tru-Test's Shareholders**

If the Datamars Transaction is completed, the Board proposes that a return be paid to shareholders in the most effective manner.

The amount of that return to shareholders will depend upon:

- the final Purchase Price paid
- the amount of any warranty claims made by Datamars in respect of the Sale Businesses
- the amounts required to be repaid by the Company for debts and expenses, the amount of working capital required for Dairy Technology Services Limited
- other matters provided for in the Datamars Transaction Agreement.

The Board estimates that shareholders will receive an amount in the range of \$1.00 to \$1.45 per ordinary share.

In addition to the return of capital, the Company's shareholders will continue to hold shares in Tru-Test in the same proportion as they currently hold. Tru-Test will continue to own and operate the Retained Businesses, which the Board forecasts will generate revenue of approximately \$32 million in the 2019 financial year and EBITDA in the vicinity of \$4 million to \$5 million in that year.

## 2.7 Impact on Share Price and Liquidity

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

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

During the period, a total of 27,615,549 shares have transacted, all at \$1.05.

It is not possible to predict what impact the Datamars Transaction will have on Tru-Test's share price or the liquidity of the Company's shares. This will largely be driven by the timing and quantum of any distribution made by the Company to the shareholders after the Datamars Transaction is completed.

## 2.8 Other Issues

### *Change in Business Risk*

The main industry and specific business factors and risks that Tru-Test faces are summarised in section 3.4.

The Datamars Transaction involves the disposal of a significant portion of Tru-Test's businesses. While this will significantly reduce the size of the Company, it will not significantly change Tru-Test's business risk profile as the Company will still face the same risks, albeit on a smaller scale.

### *Likelihood of a Takeover Offer will not Change Significantly*

The Datamars Transaction will result in the size of Tru-Test's operations reducing significantly. In our view, this is unlikely to make any significant change to the possibility of there being a takeover offer for the Company.

The smaller size of Tru-Test's operations may reduce the attraction of the Company to some potential acquirers. However, its less diverse operations may enhance its attraction to potential acquirers who are more focused on the Company's Dairy Automation & Milk Cooling and Milk Tanks businesses.

## 2.9 Likelihood of the Datamars Transaction Resolution Being Approved

The Datamars Transaction Resolution is a special resolution requiring a majority of not less than 75% of the votes cast in favour to be passed. All of the Company's shareholders are permitted to vote on the resolution.

The 5 largest shareholders collectively hold 75.89% of the Company's voting rights. Accordingly, their votes will determine the outcome of whether the resolution will be approved.

Three of the 5 largest shareholders have representatives on the Board and collectively hold 64.31% of the Company's voting rights:

- KTT (43.30% of the voting rights)
- AGR Agricultural Investments LLC (**AGR**) (15.00% of the voting rights)
- Co-Investor Private Equity (NZ) Limited No 1 (**Co-Investor**) (6.01% of the voting rights).

The Board has unanimously recommended that the Company's shareholders vote in favour of the Datamars Transaction. The 3 directors associated with KTT, AGR and Co-Investor have confirmed that the 3 shareholders will vote in favour of the Datamars Transaction Resolution.

Accordingly, on the basis that every shareholder votes on the Datamars Transaction Resolution, a further 10.69% of the votes (out of 35.69%) are required to be cast in favour of the resolution to meet the 75% approval threshold.

We are advised that the Board has discussed the Datamars Transaction with the other 2 major shareholders (Aspiring Asset Management Limited (**Aspiring**) and the Muir Trust) and the Board believes that the 2 shareholders are supportive of the transaction.

Accordingly, if all of the 5 largest shareholders vote in favour of the Datamars Transaction Resolution, then it is certain to be approved.

## **2.10 Implications of the Datamars Transaction Resolution not Being Approved**

In the event that the Datamars Transaction Resolution is not approved, then the Datamars Transaction will not proceed. In such circumstances, Tru-Test will continue to own and operate all of its businesses in the normal manner.

## **2.11 Minority Buy-out Rights Under the Companies Act 1993**

The Datamars Transaction Resolution is a special resolution. If it is passed, those Non-associated Shareholders who voted all of their shares against the resolution will be entitled to require Tru-Test to buy their shares in accordance with the provisions of the Act.

A shareholder entitled to require Tru-Test to purchase its shares by virtue of section 110 of the Act may, within 10 working days of the passing of the special resolution, give written notice to the Company requiring it to purchase the shares.

The Board is then required to give notice to the shareholder of a fair and reasonable price for the shares. Shareholders who do not agree with the nominated price can object to the price, in which case the price will be determined by arbitration.

Further details of the minority buy-out rights is set out in Appendix C of the notice of special meeting.

## **2.12 Voting For or Against the Datamars Transaction Resolution**

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

We reiterate that the approval of the Datamars Transaction Resolution will be of no effect if the Final Enterprise Value is less than \$132,362,000. If the Final Enterprise Value is determined to be less than \$132,362,000 and Datamars still wishes to proceed with the purchase, a new shareholders' meeting will be convened to determine whether shareholders wish to approve the Datamars Transaction at that lower Final Enterprise Value.

### 3. Profile of Tru-Test

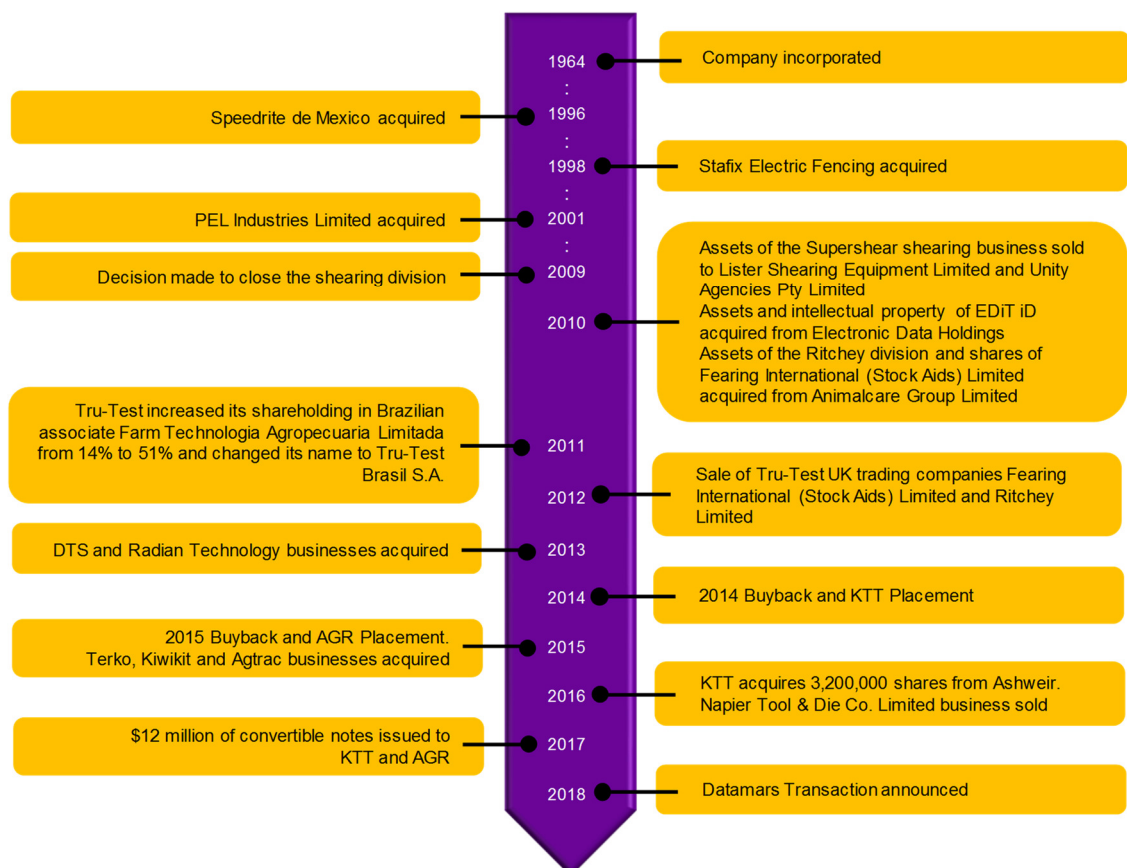
#### 3.1 Company Background and History

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

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

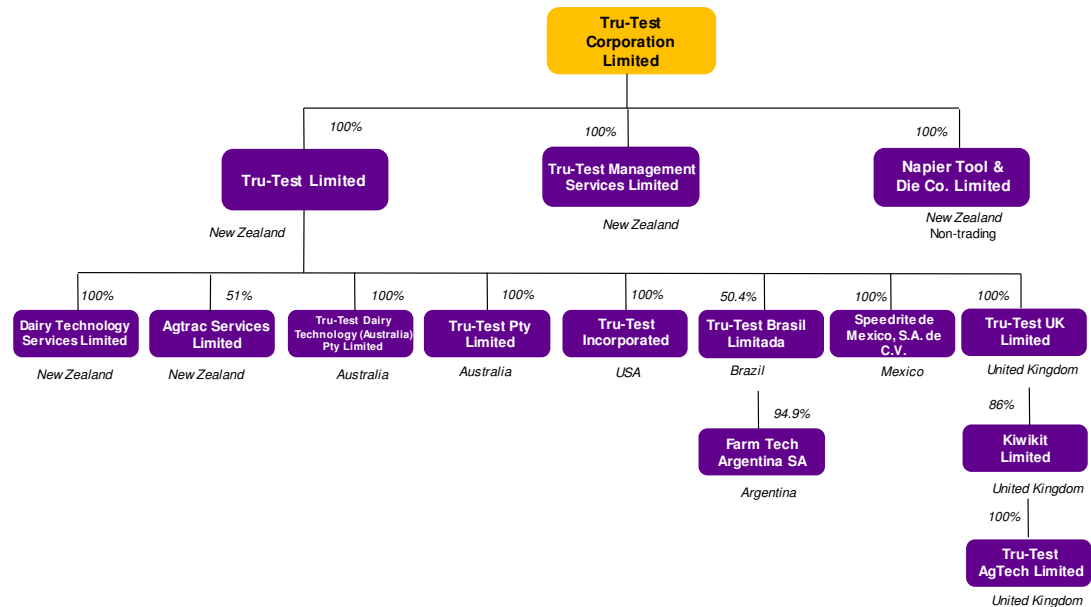
Tru-Test now has over 50% global market share in the electronic animal weighing business, over 90% in the official milk metering business, is a dominant global player in the professional electric fence market and a New Zealand leader in contract manufacturing.

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



## 3.2 Organisation Structure

The Company's current organisation structure is set out below.



## 3.3 Nature of Operations

### Overview

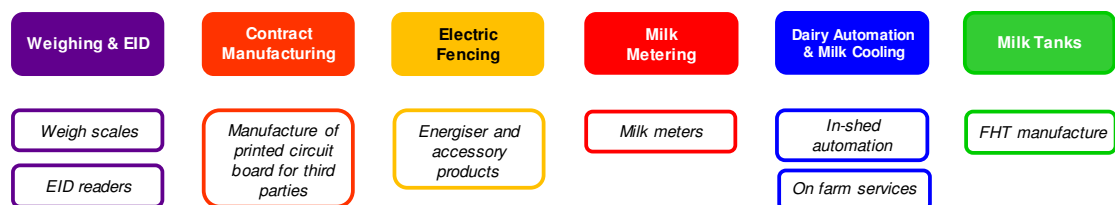
Tru-Test is the world's leading manufacturer of livestock weigh scale indicators and milk metering equipment.

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

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

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

The Tru-Test business comprises 6 main operating divisions:



### Weighing & EID

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



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

### ***Contract Manufacturing***

For over 18 years, Tru-Test has extended its world class electronic capabilities beyond its own business to provide others with a wide range of flexible, high-tech electronic product delivery solutions.

### ***Electric Fencing***

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

### ***Milk Metering***

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

### ***Dairy Automation & Milk Cooling***

Tru-Test's in-shed automation solution works with *MiHub™* for dairy herd management. It tracks individual, herd and shed activity to enable the monitoring of animal condition and health and manages tasks such as preferential feeding, setting up groups for feeding or drafting and producing a better 6-week in-calf rate.

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

### ***Milk Tanks***

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

### ***Impact of the Datamars Transaction***

The Datamars Transaction involves the sale of the Weighing & EID, Contract Manufacturing, Electric Fencing and Milk Metering businesses.

It does not include Tru-Test's Dairy Automation & Milk Cooling and Milk Tanks businesses and assets. The Retained Businesses will continue to be operated by Dairy Technology Services Limited following the completion of the Datamars Transaction.

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

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

- raw material supply
- product innovation
- disruption to manufacturing operations
- reliance on key customer relationships



- protection of its intellectual property
- competitor initiatives
- exposure to the dairy sector
- economic conditions
- failure to attract and / or retain key personnel
- borrowing facilities and interest rates
- foreign exchange
- availability of funds.

### 3.5 Capital Structure and Shareholders

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

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

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

10 Largest Ordinary Shareholders		
Shareholder	No. of Shares Held	% of Voting Rights
KTT	17,676,436	43.30%
AGR	6,123,447 <sup>1</sup>	15.00%
Aspiring	2,563,511	6.28%
Co-Investor	2,451,535	6.01%
Muir Trust	2,164,213	5.30%
Norwood Investments Limited	1,124,444	2.75%
Purlieu Enterprises Limited	1,078,720	2.64%
Escor Investments Pty Limited	920,245	2.25%
VBS Investments Pty Limited	695,705	1.70%
Jetan Pty Limited	636,574	1.56%
	<hr/>	<hr/>
	35,434,830	86.80%
Others (88 shareholders)	5,389,565	13.20%
Total	<hr/>	<hr/>
	40,824,395 <sup>2</sup>	100.00%
<sup>1</sup> CRPS <sup>2</sup> Excluding 1,824,875 ordinary shares held as treasury stock Source: Tru-Test		

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

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

Each CRPS has the same voting right as an ordinary share. The CRPS also confer upon AGR approval rights over certain matters over Tru-Test's operations.

In conjunction with the issue of \$12.0 million of convertible notes to KTT and AGR in March 2017, the Company granted 7,000,000 options to KTT and 5,000,000 options to AGR. The options, if exercised, entitle the optionholders to an allotment of 700,000 and 500,000 ordinary shares respectively, at an exercise price of \$1.05 per share.

### 3.6 Directors and Senior Management

The directors of Tru-Test are:

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

The Company's senior management team comprises:

- Simon Mander, chief executive officer
- Ian Hadwin, chief financial officer
- Verne Atmore, general manager, dairy solutions
- Andrew Gaze, head of global sales
- Teresa Steele-Rika, head of marketing
- Tim Otley, chief technology officer
- Michael Graves, manufacturing manager
- Craig Watkin, global supply chain manager.

### 3.7 Financial Performance

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

Summary of Financial Performance				
	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Draft) \$000
Total revenue	140,939	141,183	125,606	139,861
Gross profit	53,163	52,133	46,135	50,565
EBITDA <sup>1</sup>	17,624	13,707	5,897	7,441
EBIT	9,788	5,501	663	1,818
Profit / (loss) for the year	4,225	(14,318)	(3,483)	(2,210)
EPS (\$)	0.05	(0.43)	(0.06)	(0.05)
<i>EBIT: Earnings before interest and tax</i>				
<i>EPS: Earnings per share</i>				
<i><sup>1</sup> EBITDA is after one-off / non-recurring items</i>				
<i>Source: Tru-Test annual reports and draft 2018 financial results</i>				

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

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

The dairy sector downturn continued to have a negative impact on Tru-Test's New Zealand based businesses in the 2017 financial year. This particularly impacted FHT sales. Lower New Zealand sales were partially offset by strong growth in Brazil and Australia. Gross margin remained steady at 37%. The Company incurred \$2.0 million of one-off costs arising from business restructuring initiatives, contributing to a \$3.5 million loss for the year.

Revenue increased by 11% in the 2018 financial year, driven mainly by improved conditions in the New Zealand dairy sector and continued growth in the Company's offshore markets. Gross margin remained relatively steady at 36%. The Company incurred \$5.5 million of one-off costs during the year arising from restructuring costs, one-off incentives and legal costs, contributing to a \$2.2 million loss for the year.

### 3.8 Financial Position

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

Summary of Financial Position				
	As at 31 Mar 15 (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Audited) \$000	As at 31 Mar 18 (Draft) \$000
Current assets	54,654	59,660	64,057	66,381
Non current assets	79,547	59,802	60,478	57,713
Total assets	134,201	119,462	124,535	124,094
Current liabilities	(36,047)	(27,098)	(35,717)	(68,110)
Non current liabilities	(69,441)	(82,189)	(81,477)	(52,941)
Total liabilities	(105,488)	(109,287)	(117,194)	(121,051)
Total equity	28,713	10,175	7,341	3,043

Source: Tru-Test annual reports and draft 2018 financial results

Tru-Test's main current assets are inventories and trade and other receivables, representing 46% and 40% of current assets respectively as at 31 March 2018. The Company also held \$2.7 million of cash and cash equivalents as at 31 March 2018.

Tru-Test's fixed assets of \$6.7 million as at 31 March 2018 related primarily to plant and machinery, reflecting the Company's investment in its manufacturing plants.

Intangible assets of \$50.0 million as at 31 March 2018 related primarily to identified intangible assets and goodwill associated with the acquisition of the DTS business. A \$16.8 million impairment charge was recorded in the 2016 financial year.

Tru-Test's main current liabilities are trade and other payables, representing 49% of current liabilities as at 31 March 2018 and \$32.2 million of bank borrowings owing as at 31 March 2018. The bank loans are secured by a debenture over total assets.

Non current liabilities consist primarily of borrowings in the form of loan notes, CPRS and convertible notes:

- Tru-Test had \$32.2 million of loan notes from AGR, repayable in October 2022. The loan notes are secured by a general security deed over all of the Company, although this ranks behind the security of the bank
- Tru-Test issued \$6.4 million of CPRS to AGR in October 2015
- Tru-Test issued \$12.0 million of convertible notes to KTT and AGR in March 2017. The convertible notes mature on 30 September 2019, when the holders can elect to convert them into ordinary shares. The convertible notes are unsecured and rank behind the securities of the bank and the loan notes.

Tru-Test's net interest bearing debt as at 31 March 2018 (including the CPRS and net financial assets and liabilities in the form of foreign exchange contracts and interest rate swaps) was \$85.4 million.

### 3.9 Cash Flows

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

Summary of Cash Flows				
	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Draft) \$000
Net cash flow from operating activities	7,793	1,370	4,830	(1,173)
Net cash (used in) investing activities	(4,077)	(5,882)	(4,646)	(3,704)
Net cash (used in) / from financing activities	(5,021)	5,111	2,558	2,080
Net increase / (decrease) in cash held	(1,305)	599	2,742	(2,797)
Effect of exchange rate on cash held	59	(48)	(29)	(223)
Opening cash balance	3,712	2,466	3,017	5,730
Closing cash balance	<u>2,466</u>	<u>3,017</u>	<u>5,730</u>	<u>2,710</u>

*Source: Tru-Test annual reports and draft 2018 financial results*

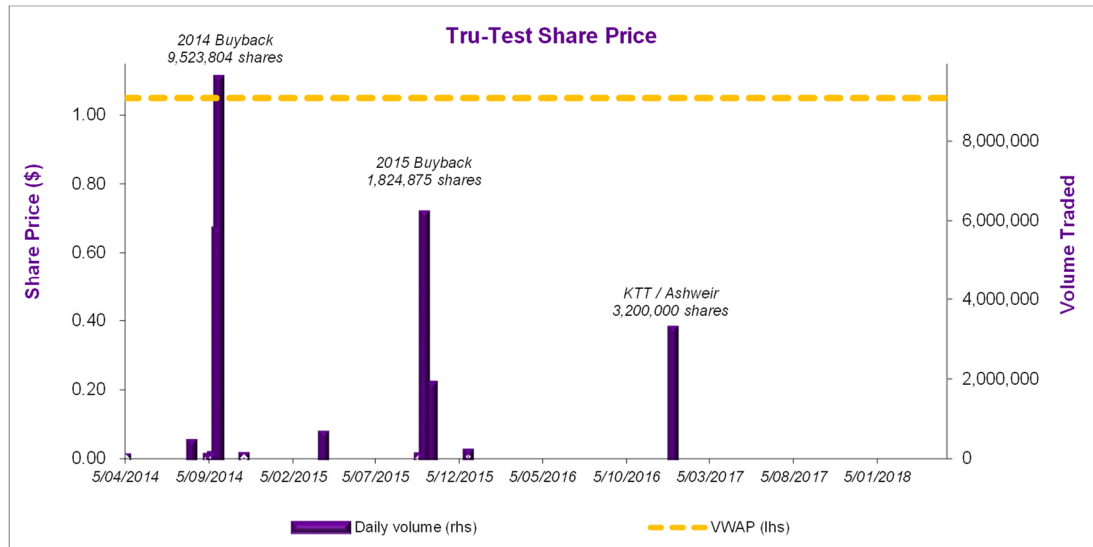
Capital raised over the past 4 financial years has included:

- \$6.0 million in the 2015 financial year from the KTT Placement
- \$6.4 million in the 2016 financial year from the AGR Placement of CRPS and \$32.2 million from the issue of loan notes to AGR
- \$11.0 million in the 2017 financial year and \$1.0 million in the 2018 financial year from the issue of convertible notes to KTT and AGR.

### 3.10 Share Price History

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

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



Source: Tru-Test

During the period, a total of 27,615,549 shares have been traded, placed or bought back by the Company, all at \$1.05 per share, including:

- the KTT Placement of 5,714,285 ordinary shares on 19 September 2014
- the 2014 Buyback of 9,523,804 ordinary shares on 22 September 2014
- the AGR Placement of the 6,123,447 CRPS on 2 October 2015
- the 2015 Buyback of 1,824,875 ordinary shares on 16 October 2015
- KTT acquiring 3,200,000 ordinary shares from Ashweir Limited (**Ashweir**) on 28 December 2016.

## 4. Evaluation of the Reasonableness of the Minimum Enterprise Value

### 4.1 Basis of Evaluation

Shareholders' approval of the Datamars Transaction is strictly on the condition that the Final Enterprise Value is not less than the Minimum Enterprise Value of \$132,362,000.

Assuming that the Sale Businesses meet their targeted EBITDA for the 2018 financial year, the Final Enterprise Value will be \$132,362,000, being the Minimum Enterprise Value.

Minimum Enterprise Value			
	FRM Segment \$000	Milk Metering Segment \$000	Total \$000
Targeted FY2018 RR EBITDA	12,500	2,477	14,977
EBITDA multiple	9.4x	6.0x	8.8x <sup>1</sup>
Minimum Enterprise Value	<u>117,500</u>	<u>14,862</u>	<u>132,362</u>
<i><sup>1</sup> Implied weighted average EBITDA multiple for the Sale Businesses</i>			
<i>Source: Tru-Test</i>			

If the Final Enterprise Value is subsequently determined to be less than \$132,362,000 and Datamars still wishes to proceed with the Datamars Transaction, a new shareholders meeting will be convened to determine whether shareholders wish to approve the Datamars Transaction at the lower Final Enterprise Value.

In order to determine the reasonableness of the Purchase Price, we are of the view that the focus of the evaluation should be on the reasonableness of the Minimum Enterprise Value. If the Minimum Enterprise Value is reasonable, it then follows that the Final Enterprise Value must be reasonable as it must be equal to or higher than the Minimum Enterprise Value in order for the Datamars Transaction to proceed under the shareholder approval sought by way of the Datamars Transaction Resolution.

In order to assess the reasonableness of the Minimum Enterprise Value, 2 issues need to be addressed:

- is FY2018 RR EBITDA the appropriate measure of maintainable earnings?
- are the EBITDA multiples of 9.4x for the FRM Segment and 6.0x for the Milk Metering Segment reasonable?

## 4.2 Evaluation of the FY2018 RR EBITDA

The calculation of the Final Enterprise Value is based on the application of the capitalisation of earnings valuation method. This valuation method involves assessing the maintainable earnings of a business and selecting an earnings multiple appropriate to that particular business for the purpose of capitalising the earnings figure.

The evaluation of maintainable earnings involves an assessment of the level of profitability which (on average) the business can expect to generate in the future, notwithstanding the vagaries of the economic cycle. The assessment of maintainable earnings is made after considering such factors as the risk profile of the business, the characteristics of the market in which it operates, its historical and forecast performance, non-recurring items of income and expenditure and known factors likely to impact on future operating performance.

EBITDA has been used as the measure of earnings for calculating the Final Enterprise Value. The use of EBITDA and EBITDA multiples is common in valuing businesses for acquisition purposes as it eliminates the effect of financial leverage which is ultimately in the control of the acquirer and also eliminates any distortions from the tax position of the business, differing accounting policies in respect of depreciation and the amortisation of intangible assets and annual fair value adjustments.

FY2018 RR EBITDA differs from reported EBITDA. Reported EBITDA for the 2018 financial year is adjusted to arrive at EBITDA figures which represent maintainable EBITDA for the purposes of calculating the Final Enterprise Value. The adjustments are made to reflect future cost savings, SKU optimisation benefits, procurement savings and eliminate one-off cost savings achieved in the 2018 financial year.

An analysis of the composition of Tru-Test's revenue and EBITDA by business segment for the 2017 and 2018 financial years is set out below.

Revenue and EBITDA Composition		
	Year to 31 Mar 17 (Actual) \$000	Year to 31 Mar 18 (Draft) \$000
FRM Segment	102,041	111,931
Milk Metering Segment	5,250	5,273
Retained Businesses	18,315	22,657
Total revenue	<u>125,606</u>	<u>139,861</u>
FRM Segment	6,689	10,762
Milk Metering Segment	2,478	2,346
Retained Businesses	(1,270)	(190)
One-off / non-recurring costs	(2,000)	(5,477)
Total EBITDA	<u>5,897</u>	<u>7,441</u>
Source: Tru-Test		

FY2018 RR EBITDA is calculated as follows:

$$\begin{aligned}
 & \text{FY2018 Reported EBITDA} \\
 & + \text{Pre-determined fixed adjustments} \\
 & - \text{SKU optimisation adjustment amount} \\
 & - \text{Non-recurring opex FY2018 savings} \\
 & + / - \text{Intercompany margin} \\
 & + \text{Procurement savings amount} \\
 & = \text{FY2018 RR EBITDA}
 \end{aligned}$$

Based on the analysis prepared by the Company using its draft financial results for the 2018 financial year, actual FY2018 RR EBITDA is likely to be higher than the targeted FY2018 RR EBITDA used in the Minimum Enterprise Value calculation. If this is the case, then the Final Enterprise Value will be higher than the Minimum Enterprise Value.

### **Conclusion**

In our opinion, the use of FY2018 RR EBITDA to assess the Final Enterprise Value is reasonable as FY2018 RR EBITDA represents appropriate levels of maintainable earnings for the Sale Businesses.

## **4.3 Evaluation of the EBITDA Multiples**

### ***Datamars Transaction EBITDA Multiples***

The Minimum Enterprise Value and the Final Enterprise Value are calculated by applying the following EBITDA multiples to FY2018 RR EBITDA:

- FRM Segment – 9.4x
- Milk Metering Segment – 6.0x.

We understand that a lower EBITDA multiple was agreed for the Milk Metering Segment on the basis that the revenue of the Milk Metering business has shrunk in the past 3 financial years and is not expected to grow significantly in the future.

Based on the Minimum Enterprise Value, the implied weighted average EBITDA multiple for the Sale Businesses is 8.8x.

### ***Basis of Evaluation***

In order to assess the reasonableness of the EBITDA multiples applied in the Minimum Enterprise Value, we have reviewed:

- implied EBITDA multiples from recent transactions involving businesses in the same industry
- observed EBITDA multiples for minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to the Sale Businesses.

The extent of our analysis is limited as we have not been able to identify any listed companies that are truly comparable with the Sale Businesses.



## Transaction Multiples

There is limited evidence of comparable transactions in New Zealand or overseas that is meaningful for the purposes of our evaluation.

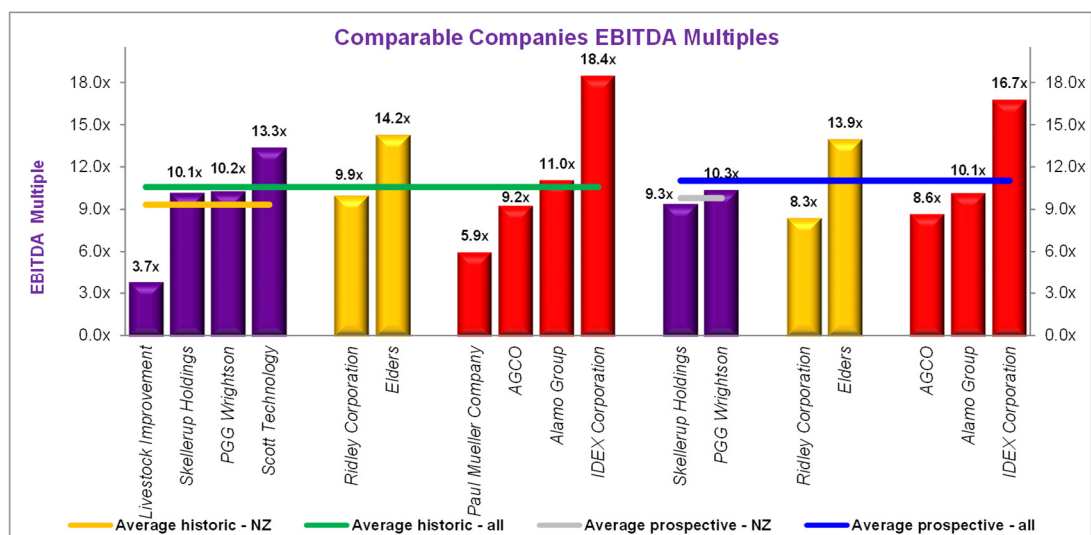
Recent transactions in New Zealand of some relevance to the evaluation of the Datamars Transaction are:

- JBS Australia Pty Limited acquired a 50.69% shareholding in Scott Technology Limited in August 2015. The transaction enterprise value of \$73 million implied a historic EBITDA multiple of 7.0x
- Tru-Test acquired the DTS business in January 2013. The transaction enterprise value of \$75 million implied a historic EBITDA multiple of 6.0x and a prospective EBITDA multiple of 5.7x
- Agria (Singapore) Pte Limited acquired an additional 31% shareholding in PGG Wrightson Limited in April 2011. The transaction enterprise value of \$643 million implied a historic EBITDA multiple of 9.1x and a prospective EBITDA multiple of 10.9x.

## Trading Multiples

Set out at Appendix I is an analysis of historic and prospective EBITDA multiples for 4 companies listed on the NZX that supply products and services to the agri-sector, along with 2 Australian companies listed on the ASX and 4 USA based companies that supply products and services to the agri-sector.

The EBITDA multiples are based on trading prices for minority parcels and as such do not include any premium for control.



Source: S&P Capital IQ, data as at 24 May 2018

The historic EBITDA multiples range from 3.7x to 18.4x at an average of 10.6x and the prospective EBITDA multiples range from 8.3x to 16.7x at an average of 11.0x.

## **Conclusion**

In determining the reasonableness of the Datamars Transaction EBITDA multiples, consideration should be given to the differences between the Sale Businesses and the comparable companies with respect to their comparative:

- size
- market share
- earnings volatility
- growth potential
- industry diversification
- investment liquidity.

Taking the above factors into account, in our view an appropriate EBITDA multiple for the Sale Businesses would be in the range of 7.0x and 8.0x.

The implied weighted average EBITDA multiple for the Sale Businesses is 8.8x based on the Minimum Enterprise Value calculation. As this is above our assessment of an appropriate EBITDA, it is financially beneficial to the Company's shareholders and therefore we are of the view it is reasonable.

### **4.4 Conclusion in Respect of the Minimum Enterprise Value**

In our view, the Minimum Enterprise Value of \$132,362,000 is reasonable:

- FY2018 RR EBITDA is an appropriate basis to determine maintainable earnings
- the implied weighted average EBITDA multiple of 8.8x (based on EBITDA multiples of 9.4x for the FRM Segment and 6.0x for the Milk Metering Segment) is reasonable.

On the basis that the Purchase Price is based on the Final Enterprise Value, which in turn must be equal to or higher than the Minimum Enterprise Value of \$132,362,000 in order for the Datamars Transaction to proceed under the Datamars Transaction Resolution, we consider the Purchase Price to be reasonable.

## **5. Sources of Information, Reliance on Information, Disclaimer and Indemnity**

### **5.1 Sources of Information**

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

- the draft notice of special meeting
- the Datamars Transaction Agreement
- the Tru-Test annual report for the years ended 31 March, 2013 to 2017
- the Tru-Test draft financial results for the year ended 31 March 2018
- Tru-Test shareholder data from the Company
- Tru-Test share price data from the Company
- due diligence information provided by Tru-Test to Datamars in a virtual data room
- data in respect of comparable companies from S&P Capital IQ.

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

The Board has confirmed that we have been provided for the purpose of this Independent Report with all information relevant to the Datamars Transaction that is known to it and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

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

In our opinion, the information to be provided by Tru-Test to the Company's shareholders is sufficient to enable the Board and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the Datamars Transaction.

### **5.2 Reliance on Information**

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

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

### 5.3 Disclaimer

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

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

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

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

### 5.4 Indemnity

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

## 6. Qualifications and Expertise, Independence, Declarations and Consents

### 6.1 Qualifications and Expertise

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

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

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

### 6.2 Independence

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

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

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

### 6.3 Declarations

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

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

### 6.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to Tru-Test's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

A handwritten signature in black ink, appearing to read 'P. Simmons'.

Peter Simmons  
Director

**Simmons Corporate Finance Limited**

25 May 2018

## Appendix I

### Comparable Companies Trading Multiples

Trading Multiples					
Company	Country	Market Capitalisation (\$m)	Enterprise Value (\$m)	EBITDA Multiple	
				Historic	Prospective
Livestock Improvement Corporation	New Zealand	87	126	3.7x	n/a
PGG Wrightson	New Zealand	513	713	10.2x	10.3x
Scott Technology	New Zealand	256	234	13.3x	n/a
Skellerup Holdings	New Zealand	391	426	10.1x	9.3x
Elders	Australia	A\$1,042	A\$1,135	14.2x	13.9x
Ridley Corporation	Australia	A\$428	A\$483	9.9x	8.3x
AGCO	USA	US\$5,298	US\$7,140	9.2x	8.6x
Alamo Group	USA	US\$1,151	US\$1,223	11.0x	10.1x
IDEX Corporation	USA	US\$10,721	US\$11,169	18.4x	16.7x
Paul Mueller Company	USA	US\$37	US\$72	5.9x	n/a
<b>New Zealand Companies</b>					
Minimum				3.7x	9.3x
Average				9.3x	9.8x
Maximum				13.3x	10.3x
<b>All Companies</b>					
Minimum				3.7x	8.3x
Average				10.6x	11.0x
Maximum				18.4x	16.7x
n/a: Not available					
Source: S&P Capital IQ, data as at 24 May 2018					

**Livestock Improvement Corporation Limited** develops, produces and markets artificial breeding, genetics, farm software, farm automation and herd testing services. The company operates in 4 segments – Genetics, Herd Testing, Farm Software and Farm Automation. The Genetics segment provides bovine and cervine genetic breeding materials and related services to dairy and deer farmers. The Herd Testing segment offers herd testing and animal recording services for pastoral farmers. The Farm Software segment provides data recording and farm management information services. The Farm Automation segment offers dairy automated technologies. The company operates in New Zealand, Australia, the United Kingdom, Ireland and other countries. Livestock Improvement Corporation Limited was founded in 1909 and is headquartered in Hamilton.

**PGG Wrightson Limited** provides various products, services and solutions for growers, farmers and processors worldwide. It operates through 3 segments – Agency, Retail and Water, Seed and Grain. The company operates rural supplies stores that offer a range of products and services and fruited supplies stores. Additionally, it manufactures and sells products to improve farm and grower production in the area of agronomy, animal nutrition, land development and crop / orchard management. The company was founded in 1841 and is based in Christchurch.

**Scott Technology Limited** designs, manufactures, sells and services automated production lines and processes for various industries in New Zealand and internationally. The company offers metal processing and parts assembly equipment for the domestic / home appliance industry and lamb and beef processing machinery for the meat processing industry, as well as automated solutions for the dairy industry. It also provides industrial automation products, sample preparation equipment and automated and mechanised laboratory systems. In addition, the company provides X-ray food inspection equipment, X-ray transmission sorters and electronic carcass stimulation systems. Scott Technology Limited was founded in 1913 and is headquartered in Dunedin.

**Skellerup Holdings Limited** manufactures, markets and distributes technical polymer products and vacuum pumps for various specialist industrial and agricultural applications. It operates through Agri and Industrial segments. The company offers food grade dairy rubberware for agricultural applications, milk filters, milk liners, tubing and accessories, feeding teats and dairy hygiene and livestock health management products, as well as mastitis prevention and mastitis detection equipment. It operates primarily in New Zealand, Australia, North America, the United Kingdom, Ireland, the rest of Europe, Asia and internationally. Skellerup Holdings Limited was founded in 1910 and is headquartered in Auckland.

**Elders Limited** provides livestock, real estate and wool agency services to rural and regional customers primarily in Australia. It operates through Network, Feed and Processing, Live Export and Other segments. The company offers rural farm inputs, such as seeds, fertilizers, agricultural chemicals, animal health products and general rural merchandise, as well as professional production and cropping advisory services. Elders Limited was founded in 1839 and is headquartered in Adelaide, Australia.

**Ridley Corporation Limited** provides animal nutrition solutions in Australasia. It operates through 2 segments – AgriProducts and Property. The company provides its animal nutrition solutions to food producers in the dairy, poultry, pig, aquaculture, sheep and beef industries, laboratory animals in the research sectors and the equine and canine markets in the recreational sector. The company was founded in 1987 and is headquartered in Melbourne, Australia.

**AGCO Corporation** manufactures and distributes agricultural equipment and related replacement parts worldwide. The company offers high horsepower tractors for larger farms, utility tractors for small and medium-sized farms and compact tractors for small farms. It also offers combines for harvesting grain crops, application equipment, hay tools and forage equipment. AGCO Corporation was founded in 1990 and is headquartered in Duluth, Georgia, USA.

**Alamo Group Inc.** designs, manufactures, distributes and services agricultural and infrastructure maintenance equipment. It operates in 3 segments - Industrial, Agricultural and European. The company offers hydraulically-powered and tractor-mounted mowers, cutters for heavy-duty and intensive use applications and heavy duty tractors-and truck-mounted mowing and vegetation maintenance equipment and parts. The company was founded in 1955 and is headquartered in Seguin, Texas, USA.

**IDEX Corporation** provides various pumps, valves, flow meters, other fluidics systems and components and engineered products worldwide. Its Fluid & Metering Technologies segment designs, produces and distributes positive displacement pumps, flow meters, injectors, other fluid-handling pump modules and systems and specialty valve products. The company's Health & Science Technologies segment offers precision fluidics, rotary lobe pumps, centrifugal and positive displacement pumps, roll compaction and drying systems. The company was founded in 1987 and is based in Lake Forest, Illinois, USA.

**Paul Mueller Company** designs and manufactures processing equipment for use in dairy farms and various applications in food, beverage, pharmaceutical and chemical facilities worldwide. The company operates through 4 segments – Dairy Farm Equipment, Industrial Equipment, Field Fabrication and Transportation. The Dairy Farm Equipment segment provides milk cooling and storage equipment and accessories, refrigeration units and heat recovery equipment for use on dairy farms. The Industrial Equipment segment offers biopharmaceutical equipment, pure water equipment and thermal energy storage equipment, heat transfer products and stainless steel and alloy processing and storage tanks, as well as food, beverage, chemical and industrial processing equipment to industrial customers. The Field Fabrication segment provides field-erected tanks and vessels, equipment installation, process piping, retrofit and / or repair of process systems and turnkey design and construction of processing plants. The Transportation segment includes the delivery of products to customers. Paul Mueller Company was founded in 1940 and is headquartered in Springfield, Missouri, USA.