peloton CORPORATE

Independent Expert Report in regard to the proposed acquisition of Bolduans Bay Oysters Pty Ltd, Estuarine Oyster Company Pty Ltd and related assets

Shellfish Culture Limited
4 November 2020

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4 November 2020

STRICTLY CONFIDENTIAL

The Independent Directors
Shellfish Culture Limited
290 Bicheno St
Clifton Beach TAS 7020

Dear Directors,

Re: Independent Expert Report in relation to the acquisition of Bolduans Bay Oysters Pty Ltd, Estuarine Oyster Company Pty Ltd and associated assets by Shellfish Culture Limited

Peloton Corporate Pty Ltd has been engaged by Shellfish Culture Ltd to prepare an Independent Expert Report in relation to the proposed acquisition of:

- 100% of the issued capital of Bolduans Bay Oysters Pty Ltd;
- 100% of the issued capital of Estuarine Oyster Company Pty Ltd; and
- Certain other assets associated with the operations of BBO and EOC.

The vendors include a current Non-Executive Director of Shellfish Culture Ltd, Mr Jon Poke, and his immediate family members.

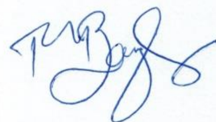
As Mr Poke is a Non-Executive Director of Shellfish Culture Ltd and the consideration for the purchase will (if successful) result in Mr Poke and his family members holding in excess of 20% of the issued capital of Shellfish Culture Ltd, Chapter 6 of the Corporations Act requires that an Independent Expert Report be presented to Shellfish Culture Ltd shareholders ahead of a shareholder meeting at which shareholders will vote on the proposed acquisition.

This Independent Expert Report has been prepared in accordance with the requirements of the Corporations Act and the associated regulatory guidance published by Australian Securities and Investment Commission. Details of the requirements of the Corporations Act and regulatory guidance are set out in the body of this report.

A summary of the opinion arrived at in our report is set out in below. We encourage all shareholders to read the report in its entirety and to seek advice in regard to their personal financial position as the report has been written on the basis of generality of the aggregate shareholder group.

A statement of qualifications and declarations is set out in Appendix 7 to this report and a Financial Services Guide is set out in Appendix 8.

Yours sincerely



Michael Churchill	Phil Bayley	Jake Potter
Head of valuations	**Director**	**Senior Analyst**

1. Executive summary

Peloton Corporate Pty Ltd ["Peloton"] has been engaged by Shellfish Culture Ltd ["SCL"] to provide an Independent Expert Report ["IER"] in relation to its acquisition of Bolduans Bay Oysters Pty Ltd ["BBO"], Estuarine Oyster Company Pty Ltd ["EOC"][Together, "Target Companies"] and certain related assets held by the owners of BBO and EOC [Collectively, "Proposed Transaction"].

In undertaking its assessment, Peloton has had regard to the Australian Tax Office Market Valuation Guidelines, the International Valuation Standards Council ["IVSC"] and financial reporting guidance in relation to its assessment of the Proposed Transaction.

Peloton has relied on the latest information provided by SCL and the Target Companies and has confirmed with the parties that the information provided is reasonable and appropriate for the purposes of our analysis as at 4 November 2020 ["Valuation Date"]. The valuation reflects the information available at the date of this report.

Peloton understands the Share Sale and Purchase Agreement ["SPA"] to be agreed by the parties outlines the total dollar remuneration (with variable adjustments based on values determined at the completion date) and also prescribes the price of the SCL shares to be issued to the Poke family of $3.60 per share.

As a means of benchmarking these values, Peloton has valued the Target Companies on the basis of a discounted cash flow analysis ["DCF"] by employing a three-year forecast and considering the likely adjustments for corporate assets/liabilities (e.g. cash, debt, etc.) held by the Target Companies. We have cross-checked our approach using a capitalisation of expected future maintainable earnings ["FME"] applied to observable forward-looking market multiples.

We have also relied on independent valuations of various properties and other assets as a means of determining the fair market values of these assets.

The table below provides a summary of our assessment of fairness of the Proposed Transaction.

TABLE 1 EVALUATION OF PURCHASE PRICE

	(A$'000)
Fair value of Target Companies equity (DCF assessment)	$13,916
Fair value of Poke Properties (as per independent valuations)	$1,705
Fair value of the Proposed Transaction	**$15,621**
Assessment of fairness	
Fair value of equity and assets acquired	$15,621
Total consideration offered by SCL	$14,669
Premium/(discount) purchase price	**($952)**

Source: Peloton analysis.

As the total fair market value of the assets being acquired by SCL exceeds the consideration being paid, Peloton is of the view that the Proposed Transaction is fair (and, therefore, in accordance with ASIC Regulatory Guide 111, reasonable) and therefore in the best interests of SCL shareholders.

2. Background

2.1 Overview of the Proposed Transaction

SCL executed the Heads of Agreement ["HoA"] with the Poke family in September 2020 for the acquisition of the operations and assets of the Target Companies and certain related assets held by the Poke family. This HOA is a precursor to the formal Sale and Purchase Agreement ["SPA"] that is expected to be executed between the parties on 9 November 2020.

The SPA includes the Target Companies and the following properties and marine leases owned by the Poke family:

- 21 and 25 West Esplanade, Smithton (oyster farming shore base facilities);
- Lot 4 Poke Street, Smithton (vacant parcel of industrial and residential zoned land); and
- Marine Farm Lease 23 (~13.5-hectare oyster farming lease). [together, the "Poke Properties"]

The SPA reflects a purchase price that has been determined by SCL based on the likely future profitability of the Target Companies, as well as the value of the Poke Properties, and a target rate of return. Profit forecasts have been developed by the Poke family and have been subject to financial and legal due diligence investigation by SCL with support from independent third-party experts.

The consideration for the Proposed Transaction is expected to comprise:

- the issue of SCL shares at $3.60 per share;
- cash; and
- assumption by SCL of certain liabilities.

As a consequence of the Proposed Transaction, the Poke family will acquire an interest in excess of 19.9% of the expanded issued capital of SCL, thereby triggering the requirement for shareholder approval of the acquisition pursuant to Chapter 6 of the Corporations Act.

The SPA sets out the total consideration for the Proposed Transaction in detail, along with adjustments to the purchase price arising from certain expenditures incurred by the Target Companies subsequent to the execution of the HoA and prior to the settlement of the Proposed Transaction. Much of the detail set out in the SPA is set out in the explanatory memorandum ["EM"] to which this IER is attached. To avoid duplication, we have not included certain information in this IER which shareholders can read in the EM.

2.2 Rationale for the Proposed Transaction

Peloton understands the Proposed Transaction is critical in firming up SCL's oyster production and will provide greater alignment to its strategic goal of an Initial Public Offering ["IPO"] on the Australian Securities Exchange ["ASX"].

In a Board Discussion Paper made available to Peloton, SCL outlines its cost-benefit analysis of the Proposed Transaction as the following:

1. Acquisition advantages:

- Grants access to additional water area of approximately 100 hectares;
- Provides foundation for future growth/strategic planning with more critical mass at its disposal — likely to be >30% of Tasmanian production;
- Inclusion of exceptional management experience in Josh and Jarrod Poke to the SCL management team;
- SCL will effectively become the largest vertically integrated oyster producer in Australia in all metrics (spat, matures and value);
- Provides SCL with a Pacific Oyster Mortality Syndrome ["POMS"] free growing region in Smithton, Tasmania with an established triploid production capacity;
- Profitable and cash flow positive businesses from the acquisition date;
- First mover advantage — impairs the ability of other oyster producers in Tasmania to consider a roll-up/consolidation strategy and creates additional barriers to entry in the Tasmanian industry more broadly;

- Supports a production base for development of centralised robotic grading, harvesting and purification facility; and
- Captures incremental revenues and cash flows that can support the further research and development projects.

2. Acquisition disadvantages:

- The shop front attached to BBO's Smithton operation has been over-developed and is not presenting break-even profitability. Future farm tours that are planned for the site are also likely to continue incurring additional expense on the business, notwithstanding the Target Companies' confidence in the future profitability of this activity;
- BBO is currently overcapitalised and has invested in infrastructure that is not expected to generate additional revenues, unless either the shop front and farm tours increase substantially or additional water in Smithton is purchased and rolled in to current land-based operations; and
- EOC is currently on leased land, and most likely will require an additional spend on existing SCL land to ensure maximum efficiencies are achieved.

Peloton also acknowledges the findings of the financial due diligence undertaken by a third-party on behalf of SCL which outlined the possibility for ~$500,000 per annum in immediate merger benefits (synergies) post-acquisition of the Target Companies. These benefits are expected to be derived from operational efficiencies including redundant salaried positions and integrated growing processes. While the benefits do not include integration and transitional costs, SCL has advised that these costs are not expected to be material.

2.3 Shellfish Culture Limited

SCL is an unlisted public company incorporated in 1979 as Australia's first commercial oyster hatchery for Pacific oysters.

The shareholders of SCL are a mix of privately held aquaculture producers (in most part due to its roll-up strategy) and private investors.

The company operates land and sea hatchery, nursery and farming facilities across Southern Tasmanian regions. SCL has been able to grow its annual production target from several million single seed Pacific oyster spat to over several hundred million seed per annum.

SCL is the Australasian leader in 'natural' spawnless tetraploid/triploid oyster production technology and POMS-resistant breeding.

The businesses invested in Eyre Shellfish Pty Ltd ["ESPL"], which provided access to the South Australian hatchery-grown oyster spat that underpins this approach to production and breeding. SCL initially acquired 56% of the issued capital in ESPL at $1 per share and had acquired further shares plus converted an inter-entity loan (which was an accrual of management services fees unpaid) at $0.40 in June 2020 taking its new holding up to 62% — while effectively writing down its initial investment to the $0.40 share price.

In October 2018, SCL began its roll-up strategy by acquiring three small oyster farm operations in southern Tasmania — Oyster Farmers Tasmania, Cremorne Pacific Oysters, Tasmanian Oyster Co (SCL's current Managing Director's business). In June 2019, a further acquisition was made of Greenfields Oysters for a mix of cash and scrip. SCL has since continued its acquisition strategy, acquiring Marion Bay Oysters for a mix of cash and scrip in October 2019. These acquisitions are expected to deliver synergies to SCL through scale, geographic diversification, and ability to control the marketing of product.

2.4 Bolduans Bay Oysters Pty Ltd

BBO was established in 1979 by current owners, Jon and Annette Poke, following a three-year investigation of the fledgling oyster growing industry in Tasmania. The business commenced farming on 15 hectares with approximately 6,000 sticks that were initially caught with oyster spat in the Tamar River near Launceston. These sticks were then placed on its Duck Bay lease to grow with an initial aim of producing up to one million mature oysters per annum.

The acquisition of more lease area in Duck Bay and Big Bay has seen the company grow, and it now employs 25 full-time staff and operates a factory floor space of approximately 3,000 square metres.

Since 1980, BBO has purchased oyster seed (spat) predominantly from SCL hatcheries and grows this spat through to sizes of 10mm to 60mm often required for further growing by farmers around Tasmania.

BBO is currently the largest supplier of juvenile oysters in Tasmania, which it serves via its farm networks consisting of four leases totalling 78 hectares. On these leases, around 50,000 metres of oyster racking has been built that has capacity to hold 100,000 basket and tray units used for housing oysters across the various stages of growth.

BBO's stock on hand, on average, can range between 15 million to 20 million oysters at any one point in time. The stock that is not on sold to other farmers as juveniles is carried through to maturity for eventual sale in the market for human consumption.

The introduction of its retail outlet in late 2016 has given BBO greater market presence and the ability to showcase its product and commence a tourism venture. This project is still in a development stage and will be complete in late 2021.

To further enhance this capacity to produce mature oysters in 2011, Mr and Mrs Poke purchased a 20 hectare oyster farm in the Pittwater Estuary at Cambridge in Southern Tasmania — which was later established as the company EOC.

2.5 Estuarine Oyster Company Pty Ltd

EOC was founded in 2011 and operates a 20-hectare oyster farm in the Pittwater Estuary at Cambridge in Southern Tasmania.

EOC is owned 50/50 by Jon Poke and his son, Josh Poke. Total headcount as of 30 June 2017 was seven staff including Josh Poke.

Almost the entire production is sold to TasPrime Oysters Pty ltd, an entity jointly owned by Jon Poke and SCL Managing Director, James Calvert.

3. Purpose and scope

The directors of SCL require Peloton to prepare an IER in relation to the Proposed Transaction that satisfies the requirements of Section 606 and Section 611 of the *Corporations Act 2001* (Cth) ["Corporations Act"].

3.1 Section 606 and Section 611 of the Corporations Act

Section 606 of the Corporations Act does not allow a person to acquire a relevant interest in shares such that they would control 20% or more of the voting shares in a company without making a takeover offer.

Section 611 provides an exemption to Section 606 if the acquisition is approved by a resolution of the shareholders at a general meeting called for that purpose.

Section 611 requires shareholders to be given all relevant information known to the person making the acquisition, their associates, or the company, which is material to the acquisition, prior to the general meeting taking place.

While Section 611 does not explicitly state that an expert's opinion is required in relation to such acquisitions, the *ASIC Regulatory Guide 74: Acquisitions Approved by Members* states that it is the company's directors' obligation to provide non-associated shareholders with full and proper disclosure to enable them to assess the merits of the proposal under which a person would acquire a substantial interest in the company, and to decide whether to agree by resolution to the Proposed Transaction.

3.2 Purpose of IER

The main purpose of the IER is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transaction.[1]

The IER is intended to provide SCL shareholders with the requisite background to support an informed decision about the Proposed Transaction.

It is important to note that the IER addresses shareholders as a homogenous group; it does not consider an individual shareholder's personal financial circumstances.

The IER requires an assessment as to whether the proposal is fair and reasonable with reference to the ASIC Regulatory Guide 111.

The IER is required to address the following matters:

- whether or not the Proposed Transaction is fair and reasonable having regard to the best interests of shareholders; and
- reasons for forming the above opinion.

The IER must opine on whether the proposed transaction is 'fair and reasonable'. As per Section 640 of the Corporations Act and *ASIC Regulatory Guide 111 Content of expert reports* ["RG 111"], fair and reasonable establishes two distinct criteria in a control transaction:

a. is the offer 'fair'; and
b. is the offer 'reasonable'?

In addition to dealing with the above matters, this IER includes the following information and disclosures:

- particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between Peloton and any of the parties to the Proposed Transaction;

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[1] ASIC Regulatory Guide 111, Content of Expert Reports, page 6, October 2007

- the nature of any fee, pecuniary interest, or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER;
- that we have relied on information provided by the Directors and management of the parties to the Proposed Transaction and that we have not carried out any form of audit or independent verification of the information provided; and
- that we have received representations from the Directors of the parties to the Proposed Transaction in relation to the completeness and accuracy of the information provided to us for the purpose of our report.

The IER follows the guidance provided by ASIC's regulatory guides and the valuation has been conducted in accordance with the requirements of APES 225 *Valuation Services* as issued by the Accounting Professional and Ethics Standards Board.

The Corporations Act does not define the expression fair and reasonable. However, guidance is provided in ASIC's regulatory guides which establish certain guidelines in respect of IERs required under the Corporations Act.

3.3 Fairness

RG 111.10 indicates that an offer is 'fair' if the value of the consideration is equal to or less than the value of the assets being acquired. The acquisition will be fair to the non-associated shareholders if the assessed value of the Proposed Transaction is greater than or equal to the prescribed purchase price payable by SCL.

3.4 Reasonable

RG 111.11 indicates that an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.12 sets out some of the factors that an expert might generally consider in assessing the reasonableness of an offer, including:

- the bidder's pre-existing voting power in securities in the target;
- other significant security holding blocks in the target;
- the liquidity of the market in the target's securities;
- any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc;
- the likely market price if the offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

We note that there is no immediate near-term expectation that the SCL equity will be tradeable on the ASX and therefore, any transfers of SCL shares would likely take effect via an informal market between shareholders.

4. Valuation methodology and practices

4.1 Valuation approaches

This valuation assessment has been undertaken having regard to the IVSC Guidelines of 2017.

Assuming the adoption of a market value basis, the selection of a valuation approach is hierarchical between the:

- Market approach;
- Income approach; and
- Cost approach.

Our summary of the valuation approaches below is sourced from the *International Valuation Standards 2017*.

Market approach

The market approach provides an indication of value by comparing the subject business(es) or asset(s) with identical or similar assets for which price information is available.

The Market approach compares the subject business to similar businesses, business ownership interests and securities that have been exchanged in the market and any relevant transaction of shares in the same business.

The three most common sources of data used in the market approach are prior transactions in shares or offers for the ownership of the subject business, acquisition market in which entire businesses are bought and sold, and public stock markets in which ownership interests of similar businesses are traded.

There needs to be a reasonable basis for comparison with and reliance upon similar businesses under the market approach. These similar businesses should be in the same industry as the subject business or in an industry that responds to the same economic variables. Further, the comparison businesses/assets should display the similar risk characteristics and expected growth.

The essential requirements which suggest a market approach is a reliable assessment of market value include:

- observable, contemporaneous market data for the asset, or comparable assets;
- one or more units of comparison are available e.g. yield, rates of return, earnings multiplier;
- elements of comparison are crucial considerations e.g. comparability of specific asset characteristics such as condition, utility, finance terms, rights conveyed, location, economic conditions, etc.; and
- any recent transactions or offers for the asset.

Income approach

The Income approach considers income and expense data and estimates value through a capitalisation process, for example, capitalisation rates (yields) or discount rates (reflecting return on investment). The principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

The Income approach should be based on market-determined cash flows and market-derived rates of return. It perceives value as created by the expectation of future benefits (income streams) and employs processes that consider the present value of anticipated future income streams.

The essential requirements which suggest an Income approach is a reliable assessment of market value include:

- assets which are purchased and sold on the basis of their earnings capabilities;
- availability of both quantitative and qualitative market research;
- capability to model future cash flows (capital inputs, income and expenses) for the time frame relevant to the investment proposal; and
- availability of reliable data to inform the capitalisation assumptions e.g. yields, risk profile, costs of capital, market volatility etc.

Cost approach

The Cost approach considers the possibility that, as an alternative to the purchase of a given asset, one could acquire a modern equivalent asset that would provide equal utility, and the price that a buyer would pay would not be more than the cost of the modern equivalent.

The Cost approach establishes the upper limit of what the market would normally pay for a given asset when it is new. For older assets, some allowance for depreciation is deducted to estimate a price that approximates value (where it is possible to acquire a used asset).

The Cost approach is useful in estimating the value of assets that are not frequently exchanged in a market.

The essential requirements for using a Cost approach for assessment of market value include:

- there is a lack of market-based data on sales of comparable assets;
- there is limited capability to relate the utility of the asset to cash flows; and
- there exists reliable data on costs to construct the asset and depreciation information.

4.1.1 Selection of valuation methodology

As set out in the IVSC Guidelines, there are three approaches available to assess the market value of any asset: market, income and cost.

SCL and the Target Companies are income generating entities with a reliable stream of historical and forecast financial data. Consequently, Peloton has employed an income-based approach as its primary methodology.

In particular, Peloton has used a DCF of the businesses' free cash flow to firm ["FCFF"] to calculate an enterprise value (i.e. the value to all providers of capital). Adjustments for corporate assets (e.g. cash) and liabilities (e.g. debt, deferred taxes, etc.) have then been made to arrive at a pro forma equity value.

In the absence of more current information and data, Peloton has relied on the independent valuation reports prepared two years ago in determining the fair market value of the Poke Properties.

The IVSC guidelines encourage the use of secondary or cross-check approaches to support the application of the primary valuation approach. Peloton has considered a market approach with reference to publicly listed trading and previous transaction multiples involving companies that can be considered broadly similar to the Target Companies.

4.2 Valuation engagement

Accounting Professional & Ethical Standards 225 ["APES225"] issued by the Accounting Professional & Ethics Standards Board, states that a valuation engagement is an engagement to perform a valuation and provide a valuation report where the member is free to employ the valuation approaches, valuation methods and valuation procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the engagement available to the member at the time.

This report is a 'valuation engagement' in the terms of APES225.

4.3 Valuation date

The valuation date is 4 November 2020, albeit reference to the Proposed Transaction completion date of 30 November 2020 (indicative) has been made were necessary.

4.4 Definition of value

The basis of value adopted in this report is market value. Market value is defined by the IVSC as follows:

> *"Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after*

proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."[2]

4.5 Limitations

Our opinion is based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Our report is also based upon financial and other information provided by or on behalf of SCL and the Target Companies. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is in the best interests of the SCL shareholders. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation. Peloton has been provided with a representation letter from both companies that attests to the accuracy of management representations, financial and other information which Peloton has employed in forming its opinion.

All dollar amounts are shown in Australian dollars unless otherwise stated.

4.6 Team

This report has been led by Michael Churchill, Peloton's Head of Valuations.

Michael's career includes over 30 years' valuation and corporate advisory experience. He has held CEO and Partner roles since 1997 in organisations such as accounting firm PwC, infrastructure manager CP2 and boutique adviser Value Adviser Associates.

His valuation and advisory roles have traversed infrastructure, aquaculture, resources, energy, telecommunications, technology and +software, financial services, health and medical services.

Michael has been involved in the issue of independent expert reports for a wide range of capital raisings, restructures and takeovers for more than 30 years.

Michael co-authored *Business Valuations Digest* and has authored numerous published articles relating to valuations, expert reports, public sector commercialisation and value management.

He was a member of the Tax Institute Disputes Resolution Committee in 2016 and is a former partner of PwC.

A number of Michael's published articles have been used or referenced by NSW Public Accounts Committee, Deakin University MBA Programme, Industry Commission (GTE Performance Monitoring Steering Committee) and the CPA Public Sector Centre of Excellence.

Michael was assisted by Jake Potter, Senior Analyst, who was responsible for client interactions, financial analysis and report drafting.

Jake has corporate advisory experience as an Analyst at a boutique advisory practice where he provided key support on various sell-side mandates and valuation engagements for clients including institutional investors, ASX-listed corporates, and government-owned entities.

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[2] International Valuation Standards 2017, Para 30.1

Jake attended RMIT University where he completed a Bachelor of Commerce. Jake is also a level two candidate in the Chartered Financial Analyst program.

Quality assurance was completed by Phil Bayley, Director and Head of Economics.

Phil is an experienced commercial, economic and policy adviser, whose consulting work includes valuations and transactions advice, cost of capital analysis, and feasibility studies and economic impact studies. Phil has qualifications in economics, finance and management.

5. Industry analysis

SCL and the Target Companies operate in the commercial farming and sale of Pacific Oysters in Tasmania.

According to the Fisheries Research and Development Corporation ["FRDC"], the Tasmanian oyster industry accounts for ~37% of Australian Pacific Oyster production with an estimated farm-gate value of approximately $30 million per year.

The industry is said to employ approximately 300 people throughout Tasmania.

5.1 Key industry trends

Based on marketing material prepared by SCL, there are a number of major industry trends that provide strategic support to the Pacific Oyster industry, particularly Tasmanian growers:

- parts of the domestic market remain underdeveloped, with many farmers in New South Wales still relying on wild-caught spat;
- Japan and China continue to buoy export demand for Tasmanian oysters, which are considered a premium product and are thus highly sought after;
- the industry is highly fragmented with most operators being small to medium family-owned and -operated businesses;
- pricing dynamics remain favourable, with current supply only meeting 60% of demand and domestic prices at record levels following a period of destocking caused by POMS; and
- strict Australian quarantine laws prevent importation of live oysters from other regions of the world, creating favourable opportunities for domestic oyster farmers.

5.2 Pacific Oyster Mortality Syndrome

The first POMS outbreak in Australia was recorded in 2010 when the New South Wales coast was affected, followed by outbreaks to five major oyster growing areas in southern Tasmania in February 2016. Since this time, industry growth has been substantially impaired as growers, with the assistance of researchers, have explored innovative methods of farming oysters to ensure the industry's sustainability.

POMS, or else known as Ostreid herpes virus 1 (OsHV-1), infects and kills juvenile spat when water temperatures are consistently at high temperatures. As a consequence, POMS is particularly prevalent in the summer months when water temperatures naturally increase.

The initial outbreak in Tasmania caused high mortality rates in oyster stocks on the South-East coast of Tasmania, which forced many producers to cut costs, leading to the loss of many jobs within the industry.

Nationally, in the midst of the early POMS outbreak it was estimated to affect about 300 farms annually with gross production values of $60 million per annum[3].

While the Tasmanian POMS outbreak was localised in the east coast regions, the national impact is much broader as the Tasmanian hatcheries located in the infected regions supply about 90% of Pacific Oyster spat to farmers in both South Australia and New South Wales.

In the midst of the outbreak, Tasmanian oyster farmers identified an opportunity to mitigate the sub-optimal growing conditions in the South by moving the initial growth phase to farms located in northern Tasmania. When the oysters were 40–50 millimetres in size, they were then 'sold back' to the southern farms for further grow out. While this approach carries a greater cost of doing business for growers it was effective in ensuring many farmers were able to continue to operate through the outbreak.

To help manage the Tasmanian POMS crisis, the Australian and Tasmanian governments provided tailored assistance packages of $7.6 million in April 2016 to directly assist farmers in the industry. The package included concessional

[3] FRDC, National impact from Tasmania POMS outbreak.

loans, contributions towards clean-up costs, waivers of license and other fees for up to two years and employment of biosecurity personnel to assist with recovery activities.

Early research into POMS funded by FRDC set out to identify how the virus spread, which oysters were affected and whether certain environmental conditions influenced its onset so that oyster growers were more informed in their growing decisions. Researchers from the study hypothesised that the spread of the virus was due to seawater attached to plankton, and as Pacific Oysters ate the plankton, they then became infected by the virus.

Another successful study funded by FRDC was the introduction of two commercially applicable methods of protection oyster spat, which included holding water for 48 hours to settle the sediments before running it through Pacific Oysters and/or filtering the water — both aimed at removing plankton from the water and thus the virus attached to it.

More contemporary research undertaken by Sarah Ugalde and Christine Crawford from the Institute for Marine and Antarctic Studies —aimed at further improving the knowledge around POMS in Southern Tasmania — surveyed 21 commercial companies with a total of 30 marine leases during the POMS outbreak season 2016-17, and found that:

- oyster mortality rates were lower in 2016-17 compared to the 2015-16 season across all sizes of oyster, albeit remained much higher than pre-POMS season mortality rates;
- 61% of leases observed more than one case of POMS, compared to only 18% exhibiting just the one case;
- almost all respondents ranked water temperature as the critical factor in reducing oyster mortality, followed by water movement and proximity to other marine leases;
- 48% of respondents thought oyster age and size were equally important in surviving a POMS outbreak, while 39% thought oyster age was more important than size; and
- 90% of companies responded that they expected to change handling regimes in the next POMS season.

Australian Seafood Industries ["ASI"], which was established in 2000, developed its applied breeding program for Pacific Oysters aimed at increasing productivity and marketability of stock. Since 2014, a program funded by a compulsory industry research levy has accelerated a POMS-resistance breeding program.

ASI's breeding program's goal was to achieve 70% resistance to POMS in five years, information provided by SCL suggests the trial is ahead of this target with approximately 85% survival recorded in 2019.

As of recent years, the adverse impact of POMS in Tasmania has slowed as many of the previously exposed growers have now adopted specialist breeding programs that mitigate that onset of POMS (e.g. hatchery bred spat).

5.3 Supply chain

In Australia there are two dominant commercial oyster species, the Pacific Oyster and Sydney Rock Oyster.

Barriers to entry are high, with only a limited number of Government Approved Oyster Leases on issue at any point in time. In addition, new entrants wishing to begin farming oysters must either acquire an existing farm with a lease or purchase a lease directly from another farmer.

The Australian oyster industry can be characterised as highly fragmented with a high degree of competition amongst many small, independent industry operators.

Further, historical studies[4] suggest oyster growers demonstrate very little pricing power as a result of oysters' overall contribution to revenues for mid-chain participants, the highly fragmentated market for small independent growers also contributes to the heightened competition (and therefore little power) among industry players. The research indicates that differentiation amongst growers are commonly offered by:

- consistency of quality (flesh appearance, meat fullness and cleanliness of shell);
- size consistency (variation of oyster size in delivery);
- supply consistency (how well growers can meet customer demand);
- low mortality rates (survival of live product once delivered); and
- interpersonal (how well growers can maintain relationships upstream).

[4] CDI Pinnacle Management Pty Ltd, Australian Oyster industry supply chain analysis.

Peloton notes that these factors can be overcome and therefore would not underpin a sustainable competitive advantage.

The industry's largest operator — Angel Seafood (ASX:AS1) — is Australia's only publicly-listed pure-play oyster producer with approximately 3.3 million oysters sold in the first half of financial year 2020 and over 25 million stock on hand in February 2020[5].

Australia's oyster industry can be segmented into four distinct, albeit interrelated, supply chain streams: Input (oyster spat collection and initial growth), production (final grow-out), processing (oyster opening) and wholesale/retail (distribution).

Input

The supply chain begins with the collection of wild or brood stock spat.

The collection of Pacific Oyster spat in Tasmania is commonly done via hatchery breeding which was introduced to better mitigate outbreaks of POMS. Nurseries employ careful monitoring of conditions to ensure mortality rates are kept to a minimum.

In contrast, many oyster farmers in New South Wales can rely solely on wild-caught spat as the more populous Sydney Rock Oyster is not prone to POMS.

Under either method, the spat are held in monitored conditions.

Typical value-add processes include nursery grow out and transportation to production facilities.

Production

Grow-out estuaries, which are located in partially enclosed bodies of water with rows of rack and baskets dedicated for oyster farming, are used once the oysters have grown to a particular size (usually 40 to 50 millimetres for Pacific Oysters) as they are less prone to disease and therefore mortality events.

The oyster harvesting process begins with culling the oyster to remove any spat build-up on its shell and ensure more accurate grading into various sizes. Oysters are said to be "market ready" in 2 to 3 years from spawn. Grading weights depend on whether the oyster is bottled (shucked) or plate (full or half shelf) size.

Typically, oysters that are less 5cm in size are returned to the banks for further growth.

Processing

The intermediate step between full-growth oysters and wholesale/retail supply are the oyster openers (known as "shuckers"), however many wholesalers offer oyster opening services to secure upstream customers. The vast majority of shuckers also engage in peripheral services/products as they face tight margins.

It is estimated that between 65% and 85% of total oyster production is channelled through oyster openers in preparation for distribution to seafood wholesalers.

Oysters are graded using the Australian Seafood CRC Grading System which assess product based on features such as: shell fullness, body & mantle condition, and shell shape.

Wholesale/retail

Oyster production in Australia targets the half-shell market — with over 97% of oysters purchased by Australians being fresh in a half-shell[6]. These are sold into the markets through direct sales, and various wholesale channels including

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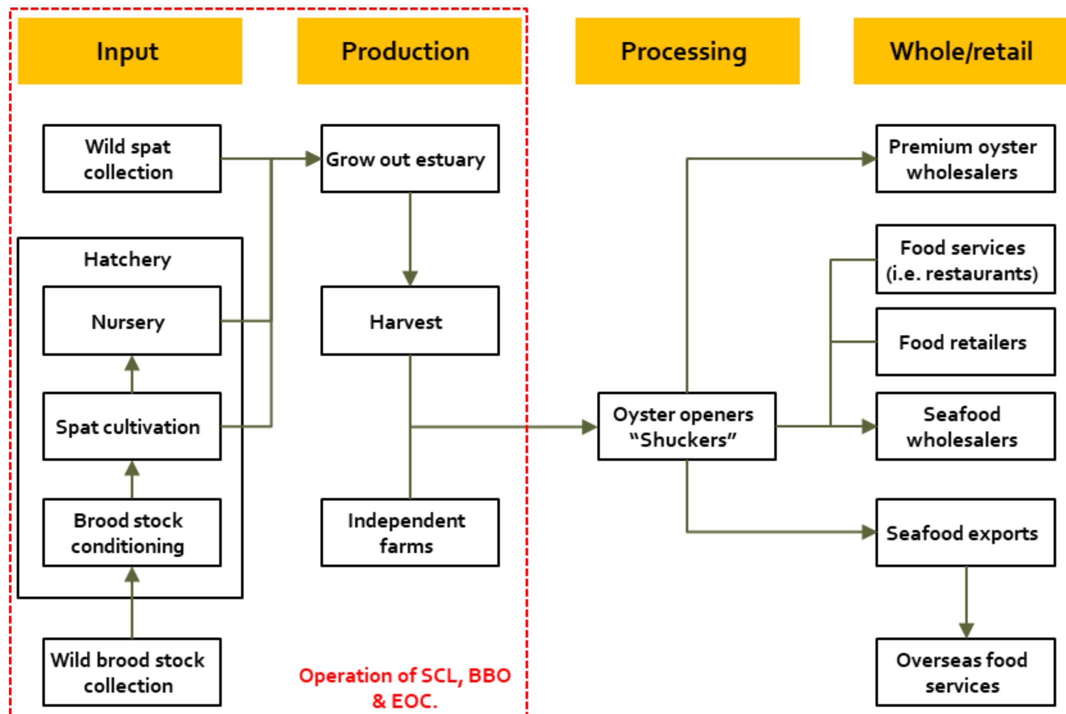
[5] Angel Seafood Holdings Ltd, *2020 Half Year Results*, 26 February 2020.

[6] Everblu Capital Research, Seafood Industry Report.

some growers that provide an aggregation and logistics service for other growers and specialist premium wholesalers that focus on providing quality oysters to higher-end customers.

FIGURE 1 OVERVIEW OF INDUSTRY SUPPLY CHAIN



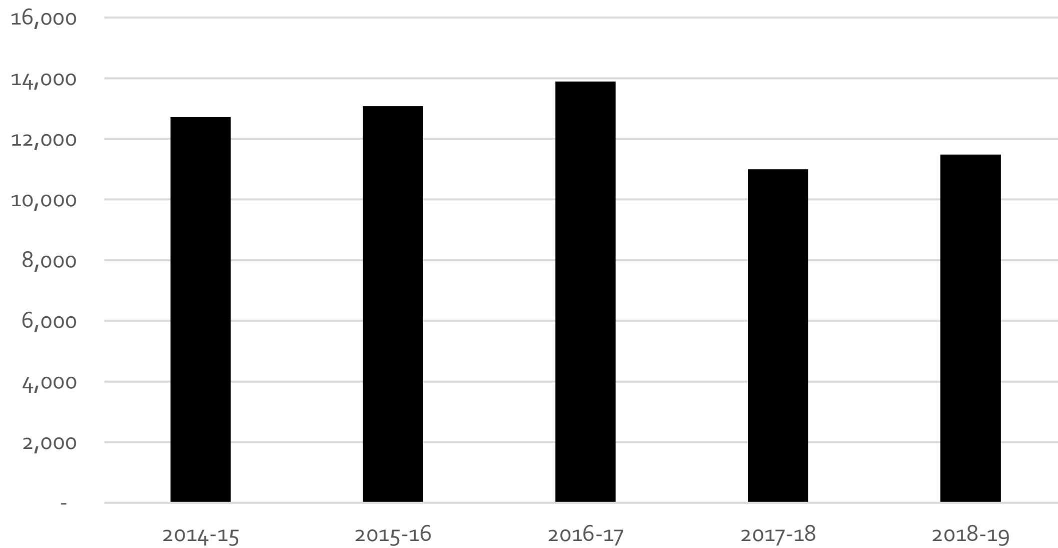
Source: Oysters Australia

5.4 Production and export

Australia's oyster production has been volatile since 2015 as tough growing conditions create a 'drag' on the availability of quality input seed. This caused production in 2018 to fall sharply (~21%) as many farmers could not access required input.

New South Wales has consistently been the primary contributor averaging ~48% of national production over the five-year period to 2019. South Australian production was the next highest from 2015 to 2017 (averaging ~34%), but has since been overtaken by Tasmania in the most recent two years — due largely to a significant drop in South Australia's production in 2018 as Tasmania's production has remained steady at around 3 million dozen per annum.

FIGURE 2 NATIONAL OYSTER PRODUCTION ('000 DOZENS)



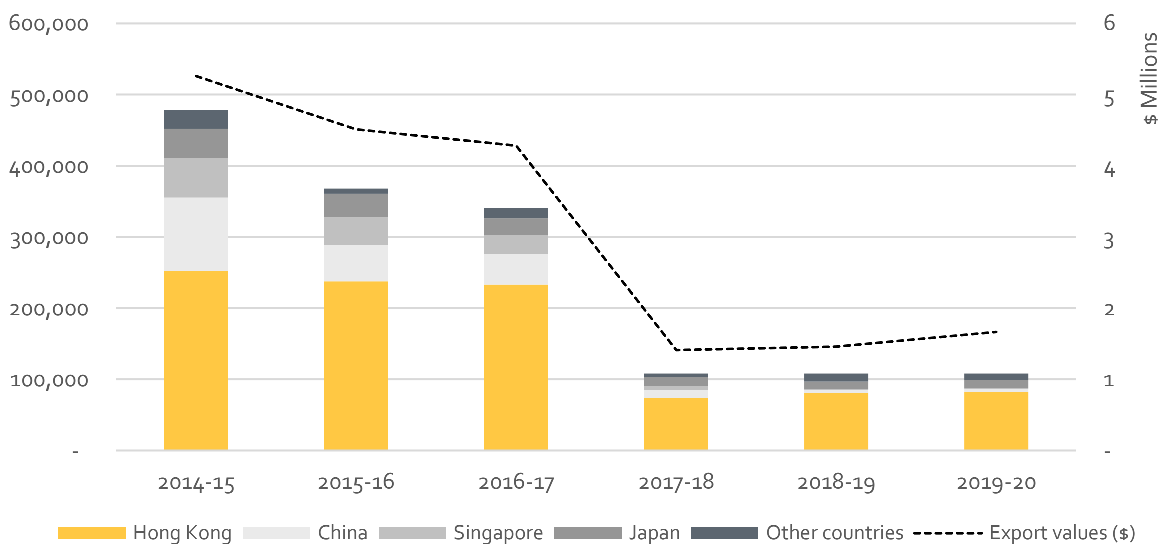
Source: Oysters Australia

Exports of Australia's oysters have shown a stronger downward trend over the same period, with average year-on-year declines of ~20% (skewed heavily by falls in 2016 and 2018). In 2018, export volumes and value dropped significantly as a result of a broader industry downturn in those years, evident by the concurrent national fall in production volumes as shown in FIGURE 2. The overall fall in export volumes is likely to have been due to declines in seed inputs which in turn has constrained the domestic supply of oysters.

Exports to Hong Kong have grown year-on-year and it is consistently the largest market, reaching a peak of 76% of total export volumes in 2020. Demand from China, Singapore and Japan share somewhat equally the majority of the remaining export demand for Australian oysters.

The implied price per dozen (derived from export volumes and total dollar values) have also increased year-on-year from a low of $11 to $15 per dozen.

FIGURE 3 OYSTER EXPORT BY DESTINATION



Source: Oysters Australia

5.5 Key success factors

As Australian farmers continue to battle waves of POMS, advancing research and innovative breeding/growing techniques are becoming increasingly available which is strengthening overall sentiment amongst industry players.

Some of the key success factors for continued success in the Pacific Oyster industry are:

- effective pro-active management of future POMS outbreaks and continual data collection for contribution to advancing research into preventative measures;
- successful roll-out of selective breeding methods to the vast majority of oyster farmers to support sub-optimal wild-catch spat;
- Acquisition and maintenance of quality water resources to ensure a balanced mix of optimal early stage growing conditions and steady 'at-size' holding environments;
- ability for producers to coordinate value chains to ensure seamless integration of dual-growth phases aimed at circumventing POMS; and
- robust export demand for quality Australian oysters from Asia.

6. Profile of Shellfish Culture

6.1 History and overview

SCL is a grower and producer of Australian Pacific Oyster, providing cultivation, nursery and farming facilities across multiple sites in southern Tasmania.

SCL was incorporated as an unlisted public company which provides access to equity capital markets via share issuances. It is also required to comply with public company obligations such as annual reporting and external auditor appointment.

The business employs 51 staff across its business functions under the Managing Director, James Calvert. Other key staff include Sandy Beard (Chairman) and Patrick Taskunas (Chief Financial Officer).

SCL has pioneered a proprietary tetraploid/triploid selective breeding program, operated out of its Pipe Clay Lagoon hatchery in Tasmanian. SCL is also replicating these processes at its majority owned subsidiary, ESPL. The breeding program allows SCL access to optimal brood stock for spat cultivation purposes — a proven method for substantially reducing POMS-related mortality rates.

6.2 Historical and forecast financial performance

SCL has provided Peloton with three audited historical financial years ["FY"] to June 2020 and a three-year forecast to FY23. The historical and forecast financial information in this section is presented on a standalone basis, i.e. not incorporating the expected outcomes of the Proposed Transaction.

SCL's statutory accounts have been subject to audit by KPMG.

The forecasts originate with a board-approved model that has been employed for impairment testing purposes and subsequently approved by SCL's auditors.

In order to isolate the financial performance of SCL from any abnormal or intercompany transactions for the purposes of this IER, we have made several adjustments to the reported Earnings Before Interest Tax Depreciation and Amortisation ["EBITDA"] and balance sheets items (see page 59). The following commentary is therefore based on the pro forma accounts. Note that these accounts represent SCL as an ongoing and standalone business, that is, they do not incorporate any revenue or costs arising from the Proposed Transaction.

TABLE 2 SHELLFISH CULTURE PRO FORMA PROFIT AND LOSS

(A$'000)	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	$3,649	$5,705	$6,882	$8,440	$12,265	$12,929
growth		56%	21%	23%	45.3%	53%
COGS	$3,580	$6,475	$6,204	$4,225	$4,856	$5,047
Gross profit	**$69**	**($770)**	**$678**	**$4,215**	**$7,409**	**$7,882**
margin %	*1.9%*	*-13.5%*	*9.9%*	*49.9%*	*60.4%*	*61.0%*
Other income	**$867**	**$594**	**$1,432**	**$391**	**$242**	**$246**
Administration	$388	$692	$1,376	$2,135	$2,417	$2,377
Occupancy costs	$47	$103	$245	$761	$939	$933
Sales & marketing	$19	$27	$122	$112	$354	$307
Total operating expenses	**$454**	**$822**	**$1,743**	**$3,008**	**$3,709**	**$3,617**
Normalised EBITDA	**$482**	**($998)**	**$368**	**$1,598**	**$3,943**	**$4,511**
margin %	*13.2%*	*-17.5%*	*5.3%*	*18.9%*	*32.1%*	*34.9%*

Source: Shellfish Culture financial accounts & forecast

The volatility in SCL's performance since FY18 can be explained by several factors, including:

- POMS legacy issues in FY18 as the impact lag from the 2016 outbreak significantly impaired growing conditions on its farms; and
- more recently, the ongoing development of ESPL — which had incurred approximately $2.6 million in operating expenditures alone in FY19;
- the further establishment (and cost commitments) of SCL's proprietary mature oyster farming division to support its transition from a sole focus on juvenile and oyster spat production.

Nonetheless, SCL has achieved year-on-year growth in its revenues since FY18 with a significant jump in FY19 supported by changes in biological asset values — with the total value of mature oysters also increasing 2.3x as the product mass held transitioned to later growth phases. Revenue in FY20 was affected partly by the onset of COVID-19 which had disrupted supply lines and impaired wholesale demand for oysters.

SCL expects strong year-on-year growth in revenue over the forecast period, growing at a 23% compound annual growth rate ["CAGR"] from FY20 to FY23, as a greater volume of mature oyster sales (the highest value product) is achieved.

Other income relates primarily to research and development tax incentives (hatchery breeding) and fuel tax credits. In practice, the latter is an offset to fuel used in operations, which is incorporated in COGS. SCL is forecasting a modest continuation of these two income streams through to FY23.

SCL aggregates expenses based on the nature of the expense as required under Australian Accounting Standards.

Administration, covering everything from indirect wages to accounting, is the largest expense for SCL having accounted for approximately 20% of revenues in FY20. Administration is forecast to fall relative to revenue over the forecast period as the business leverages its current cost base in servicing an increase in sales, thereby increasing margins.

Occupancy expenses relate to the costs of running its operation premises including administration offices and processing facilities, such as lease/rent fees, electricity, rates and taxes and repairs and maintenance. These costs have increased year-on-year since FY18; however they are expected, much like administration costs, to fall relative to revenue over the forecast period.

SCL has generally not been active in sales and marketing activities over the historical period, expending only 0.9% of total revenues on average from FY18 to FY20, reflecting its primary focused on the seed and juvenile input markets. Unlike the other expense categories, sales and marketing is forecast to increase its proportion of total expenses in line with the growth in mature oyster sales — demonstrating a greater focus on end-consumers.

6.3 Historical and forecast cash flow

The cash flow statement for FY18 to FY20 has been sourced from SCL's statutory accounts while FY21 onwards reflects SCL's internal forecast model.

TABLE 3 SHELLFISH CULTURE CASH FLOW

(A$'000)	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Cash receipts from customers	$4,529	$5,077	$6,415	$7,376	$10,598	$10,895
Cash receipts from COVID-19 assistance	-	-	$641			
Cash paid for suppliers, employees & tax	($5,154)	($5,530)	($7,535)	($6,015)	($6,532)	($7,391)
Cash paid for business acquisition costs	-	($594)	($193)	-	-	-
Interest received	$1	$9	$1	-	-	-
Interest paid	($116)	($188)	($230)	($162)	($97)	($14)
Net cash used in operating activities	**($740)**	**($1,226)**	**($901)**	**$1,199**	**$3,969**	**$3,490**
Proceeds on sale of PPE	$14	$245	$59	-	-	-
Payment for PPE	($1,202)	($6,349)	($1,824)	($1,326)	($398)	($409)
Payments for goodwill and intangible assets	($8)	($3,980)	($2,019)	-	-	-
Proceeds from sale of held for sale asset	$70	-	-	-	-	-
Purchase of Eyre Shellfish shares	-	-	-	($240)	-	-
Cash paid for inventory in business combinations	-	($1,522)	-	-	-	-
Net cash used in investing activities	**($1,125)**	**($11,605)**	**($3,784)**	**($1,566)**	**($398)**	**($409)**
Proceeds from NAB borrowings	$695	$2,253	$4,867	$321	-	-
Proceeds from other borrowings	-	-	$421			
Repayment of borrowings	($576)	($159)	($4,377)	-	($3,405)	($461)
Repayment of lease liabilities	-	-	($136)			
Proceeds from issue of shares	$848	$10,106	$3,972	$256	-	-
Net cash provided by financial activities	**$966**	**$12,201**	**$4,749**	**$577**	**($3,405)**	**($461)**
Net increase/(decrease) in cash held	($898)	($631)	$63	$210	$167	$2,620
Cash at beginning of year	$897	($2)	($633)	($570)	($360)	($193)
Cash at end of year	**($2)**	**($633)**	**($570)**	**($360)**	**($193)**	**$2,428**
Reconciliation						
Cash on balance sheet	$241	$157	$26	($360)	($193)	$2,428
Bank overdraft	($243)	($790)	($595)	-	-	-
Cash reconciliation total	**($2)**	**($633)**	**($570)**	**($360)**	**($193)**	**$2,428**

Source: Shellfish Culture financial accounts & forecast

SCL has not achieved positive operating cash flow over the historical period, with significant cash losses incurred in FY19 and FY20 due largely to business acquisitions during those years. However, SCL expects to be operating cash flow positive from FY21 onwards.

The purchase of property, plant and equipment ["PP&E"] and intangible assets relate to the acquisition of several independent oyster farms in FY19 and FY20, which were generally achieved by cash payments for identifiable net assets. Furthermore, these acquisitions also included leases that required significant capital expenditure of in-water infrastructure (i.e. racks) to increase holding capacity on these farms.

These acquisitions were funded primarily by the capital raise in FY19 where $10.1 million was raised via the issue of new shares in SCL. The increase in borrowings has further supported SCL's acquisition and development strategy with a $2.9 million term loan drawn in FY19 and use of a bank overdraft facility also contributed to increases in borrowings over the historical period.

The forecast cash flow statement has been developed such that cash reserves in excess of $100,000 (net of working capital requirements) are used to repay the principal on the outstanding term loan.

6.4 Historical and forecast financial position

The following section details SCL's historical and forecast financial position.

TABLE 4 SHELLFISH CULTURE PRO FORMA BALANCE SHEET

(A$'000)	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Cash & equivalents	$241	$157	$26	($360)	($193)	$2,428
Trade and other receivables	$793	$422	$1,349	$899	$952	$966
Biological assets	$1,557	$3,556	$4,878	$5,152	$5,119	$5,146
Other assets	$60	$58	$235	$175	$174	$172
PP&E	$6,786	$13,066	$15,466	$13,999	$13,229	$12,419
Intangibles	$1,150	$4,935	$5,731	$6,582	$6,582	$6,582
Total assets	**$10,587**	**$22,193**	**$27,685**	**$26,446**	**$25,862**	**$27,712**
Trade and other payables	$418	$879	$919	$621	$580	$567
Provisions	$162	$373	$1,594	$1,606	$1,944	$1,612
Tax payable	$379	$66	$141	$246	$705	$797
Borrowings	$2,293	$4,916	$5,681	$4,787	$1,382	$922
Total liabilities	**$3,252**	**$6,234**	**$8,335**	**$7,260**	**$4,612**	**$3,898**
Net assets	**$7,335**	**$15,959**	**$19,351**	**$19,187**	**$21,250**	**$23,814**

Source: Shellfish Culture financial accounts & forecast

SCL typically runs a small, and at times negative, cash balance relative to total assets. The negative cash holdings represent use of a bank overdraft facility used for working capital purposes as the business seeks to ring-fence excess cash flows to pay down its term loan obligations.

Trade and other receivables also account for a modest amount of assets, averaging just 4% over the historical period, which can be attributed to SCL's collection processes and strict debtor payment terms. Based on the reported debtor and revenue values, SCL turned over its accounts receivable 14 times per year on average over FY18 to FY20 which translates into a day's outstanding of approximately 28 days (or less than one calendar month).

Biological assets represent the values of oysters within SCL's farms and is accounted for using AASB 141 Self-Generating and Regenerating Assets ["SGARA"], which requires the value of stock to be carried at net market value (i.e. less extraction costs). Notwithstanding, the growth in biological assets over the historical period has arisen predominantly from acquisitions of other farms, whereas forecast growth is assumed to be from organic (internal) methods due to expanded farming capacity.

Other assets relate to prepayments for insurance and capitalised borrowing/legal expenses.

PP&E is SCL's largest asset group accounting for ~60% of total assets and includes all processing equipment, in-water infrastructures (racks and baskets) and administration equipment. Similarly, to the step change in biological assets recorded in FY19, the increase in PP&E arose from business acquisitions and the subsequent requirement for capital expenditure programs to upgrade existing lease infrastructure of farms purchased.

Intangibles relate primarily to the value of marine leases held and goodwill from business acquisitions in FY19.

As a result of SCL's vertically integrated business model, it does not typically purchase stock in the course of ordinary business, although it procures other supplies for use in its operations giving rise to a relatively small creditor balance.

Provisions mostly comprise future employee-related costs including annual leave, long-service and employee incentive provisions.

SCL borrowings include a combination of term loans and asset finance, which increased in FY19 to support its acquisition of smaller oyster farms and subsequent capital expenditure programs on these leases.

6.5 Capital structure

SCL is an unlisted public company.

The total number of ordinary shares on issue as reported in the financial statements to 30 June 2020 was 4,636,637 fully paid ordinary shares. No options were outstanding at the Valuation Date.

SCL's group debt was $4.8 million and $830,000 in current and non-current debt respectively as at the Valuation Date.

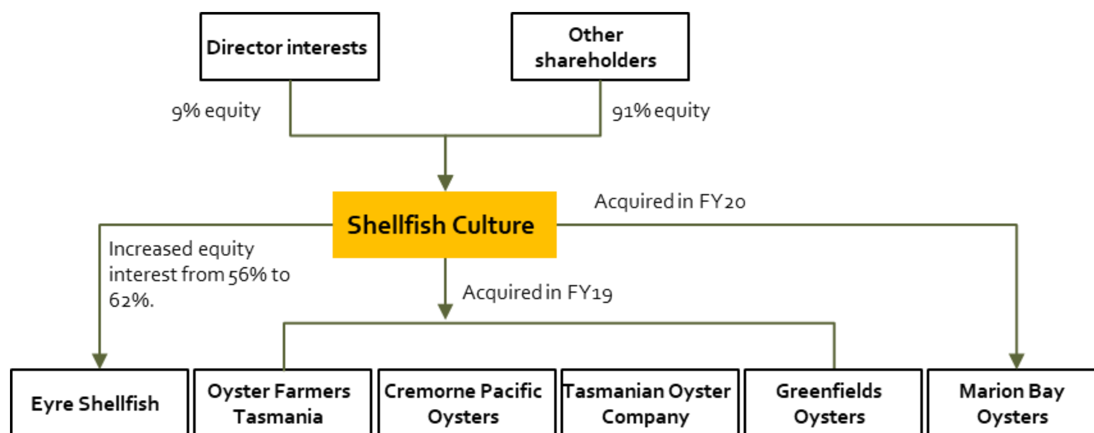
Of the total shares on issue, Director ownership accounts for approximately 9% of the total ordinary shares on issue in SCL. The remaining shares are held by several independent oyster businesses, previous oyster farmers and other private investors.

TABLE 5 SHELLFISH SHARE OWNERSHIP

Shareholder	Ordinary shares
James Calvert	168,904
Anthony Johnston	8,461
Jonathon Poke	109,715
James Hawson	7,787
Kenneth Fleming	66,030
Michael Cooper	11,680
Alexander Beard	66,666
Total ordinary shares held by Directors	**439,243**
Other shareholders	4,197,394
Total ordinary shares on issue	**4,636,637**

Source: Shellfish Culture share register

FIGURE 1 SHELLFISH CULTURE BUSINESS STRUCTURE



7. Profile of Bolduans Bay Oysters Pty Ltd

7.1 History and overview

BBO was established in 1979 by current owners, Jonathon and Annette Poke, following a three-year investigation of the fledgling oyster growing industry in Tasmania. The business commenced farming on 15 hectares with approximately 6,000 sticks that were initially caught with oyster spat in the Tamar River near Launceston. These sticks were then placed on its Duck Bay lease to grow with an initial aim of producing up to one million mature oysters per annum.

The acquisition of more lease area in Duck Bay and Big Bay has seen the company grow to now employ 25 fulltime staff and operates a factory floor space of approximately 3,000 square metres.

Since 1980, BBO has purchased oyster spat (seed) predominately from SCL hatcheries and grows this spat through to the predetermined sizes of 10mm to 60mm often required for further growing by farmers around Tasmania.

BBO is currently the largest supplier of juvenile oysters in Tasmania, which it serves via its farm networks consisting of four leases totalling 78 hectares. On these leases, about 50,000 metres of oyster racking has been built that has capacity to hold 100,000 basket and tray units used for housing oysters across various stages of growth.

7.2 Historical financial performance

Peloton has received financial accounts for BBO for four historical financial years to June 2020. Peloton notes the profit and loss statements for FY17–FY19 were provided as an abridged document with several normalisations already accounted for by its accountants, including the removal of owner-specific items such as director employment costs, owner vehicle expenses, entertainment expenses and other family member employment expenses.

Peloton has taken representation from SCL that these accounts and adjustments made are appropriate for its analysis.

Peloton has taken a similar approach for BBO's balance sheet to ensure all intercompany or abnormal items are removed. Therefore, the financials shown in this section reflect the normalised, pro forma accounts.

TABLE 6 BOLDUANS BAY OYSTERS PRO FORMA PROFIT AND LOSS

(A$'000)	FY17A	FY18A	FY19A	FY20A
Revenue	$3,453	$2,735	$2,438	$2,792
growth		-21%	-11%	15%
COGS	$968	$185	$318	$321
Gross profit	**$2,486**	**$2,550**	**$2,120**	**$2,471**
margin %	*72.0%*	*93.2%*	*87.0%*	*88.5%*
Other income	**$33**	**$18**	**$17**	**-**
Employee expenses	$1,136	$1,226	$1,350	$1,576
Operating	$388	$434	$311	$299
Administration	$48	$52	$63	$86
Occupancy costs	$27	$58	$74	$61
Total operating expenses	**$1,600**	**$1,770**	**$1,798**	**$2,022**
Normalised EBITDA	**$920**	**$798**	**$339**	**$449**
margin %	*26.6%*	*29.2%*	*13.9%*	*16.1%*

Source: Bolduans Bay Oysters unaudited financial statements

The revenue figure shown above reflects gross revenue, being the gross sales from Tarkine Fresh Oysters ["TFO"] (BBO's distribution brand) and direct sales to downstream processors with an allowance for discounts provided to customers.

Declining sales in FY18 emulated that of the broader industry falling by ~21% due to a decline in direct downstream sales. BBO attributes tough sales conditions to the POMS virus outbreak in Tasmania, which interrupted customers' input of oyster seed that manifested into a lack of available stock for sale. POMS did not directly impact BBO's oysters given its disease-free location in northern Tasmania.

Income recorded in FY20 shows a positive turnaround in the three-year trend boosted by increases in direct sales of $296,000 over FY19, however it is likely that COVID-19 dampened further growth in FY20 as supply lines and demand were disrupted. BBO continued to increase its sales, albeit from a negligible base, since FY17.

BBO has historically generated other income in the form of discounts, stock recoveries and royalties; however, this stream of income has declined year-on-year and is deemed immaterial going forward.

Employee costs have consistently been BBO's largest expense, averaging 48% of total revenue, as the business is heavily reliant on human capital to harvest oyster product. The fixed nature of these costs mean they continue to be incurred irrespective of revenue generated, which had resulted in these costs growing from 33% in FY17 to over 56% of total revenue in FY20 due to sharp declines in revenue in those years.

Operating expenses are those directly related to the daily operations and consumables of oyster farming and include bags and basket, freight and repairs. Unlike employee costs, operating expenses exhibit some variability however may be lagged by a year as BBO adjusts its current years spend based on last years' activity, these costs have not shown a clear trend over the historical year and has ranged from 11% to 16% of total revenue.

Administration and occupancy costs are less material on a total cost basis.

7.3 Historical financial position

Analysis of BBO's historical financial position is presented below.

TABLE 7 BOLDUANS BAY OYSTERS PRO FORMA BALANCE SHEET

(A$'000)	FY18A	FY19A	FY20A
Cash & equivalents	$203	$113	($840)
Trade and other receivables	$174	$844	$695
Biological assets	$560	$681	$569
Other assets	$649	$651	$539
PP&E	$1,047	$1,266	$1,760
Total assets	**$2,633**	**$3,556**	**$2,724**
Trade and other payables	$265	$278	$193
Provisions	$160	$181	$151
Borrowings	$807	$1,552	$619
Total liabilities	**$1,232**	**$2,012**	**$963**
Net assets	**$1,401**	**$1,544**	**$1,761**

Source: Bolduans Bay Oysters unaudited financial statements

BBO's negative cash balance in FY20 reflects the use of a bank overdraft drawn in FY20. While the business has not utilised such facilities historically the recent build-up of unsold stock due to COVID-19 (not reflected in inventories as BBO is not required to report using SGARA) has put pressure on working capital requirements.

Accounts receivable has increased disproportionately to revenues over the historical period where typically an increase in debtors would be commensurate with a rise in revenues, in the case of BBO it exhibited an inverse relationship. Consequently, debtor days outstanding jumped from 22 days in FY18 to 120 days in FY19, of which a large proportion is related to sales made to EOC (which would net out at a notionally consolidated level).

Other assets primarily compromise an unpaid present entitlement from the Poke Family Trust ($515,000). Given there will be a reconciliation to this and other items in the balance sheet prior to finalising the Proposed Transaction or alternatively via a dividend to the shareholder prior to this event, Peloton has treated this as a surplus asset of BBO and an adjustment to the equity valuation has been made for this amount.

Investment in PP&E has grown commensurate with the need for more in-water infrastructure to manage increasing stock capacity.

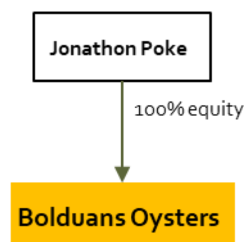
While the overall size of borrowings held by BBO is significant, with leverage ratios of ~2.0x on historical assets, the composition of the debt is a mix of many small asset finance loans (as little as $2k) with just two larger loans around $200,000–$300,000.

7.4 Capital structure

BBO is owned 100% by Jonathon Douglas Poke.

BBO's ownership and management structure is shown in the below chart.

FIGURE 2 **BOLDUANS BAY OYSTERS OWNERSHIP STRUCTURE**



8. Profile of Estuarine Oyster Company Pty Ltd

8.1 History and overview

EOC was established by Jonathon and Joshua Poke in 2011, operating a 20ha oyster farm in the Pittwater Estuary at Cambridge in Southern Tasmania.

The majority of the farm's output is mature shellfish, which are sold to Tas Prime Oysters.

EOC employs seven full-time staff including current shareholder and Director, Joshua Poke.

8.2 Historical financial performance

Like those provided for BBO, Peloton received unaudited financial statements for EOC for four historical years to 30 June 2020. The profit and loss statement for FY17–FY19 was provided as an abridged document by EOC's accountants with several normalisations already accounted for including the removal of owner-specific items.

Peloton has taken representation from SCL that these accounts and adjustments made are appropriate for its analysis.

Peloton has taken a similar approach for EOC's balance sheet to ensure all intercompany or abnormal items are removed. Therefore, the financials shown in this section reflect the normalised, pro forma accounts.

TABLE 8 ESTUARINE OYSTER COMPANY PRO FORMA PROFIT AND LOSS

(A$'000)	FY17A	FY18A	FY19A	FY20A
Revenue	$1,835	$1,221	$1,251	$1,274
growth		-33%	2%	2%
COGS	$371	$47	$22	$472
Gross profit	**$1,464**	**$1,174**	**$1,229**	**$803**
margin %	*79.8%*	*96.2%*	*98.2%*	*63.0%*
Other income	**$4**	**$5**	**-**	**$8**
Employee expenses	$249	$296	$323	$408
Operating	$119	$124	$124	$134
Administration	$18	$19	$18	$18
Occupancy costs	$16	$10	$25	$5
Total operating expenses	**$402**	**$449**	**$490**	**$565**
Normalised EBITDA	**$1,065**	**$730**	**$739**	**$245**
margin %	*58.1%*	*59.8%*	*59.1%*	*19.3%*

Source: Estuarine Oyster Company unaudited financial statements

Much like most of the industry in FY18, EOC experienced a substantial decline in revenues as POMS had restricted stock inputs throughout 2016/2017. This effect endured from February 2016 until mid-2018.

However, unlike BBO, EOC was able to capture modest revenue growth in FY19 as a large proportion of its sales volume are higher value, mature oysters. Similar revenue growth has since been achieved in FY20.

Robust, albeit volatile, gross margins over the historical period has been supported by the ability to move stock between BBO and EOC to capture more favourable in-water growing conditions. Margins have ranged from 80% to 98% over the four-year period.

Other income generated by EOC came by way of discounts received, stock recoveries and government subsidies. Much like BBO, the recurrence of this stream of income is highly uncertain and is likely to be immaterial going forward.

The composition of operating costs for EOC's mirrored that of BBO as outlined in section 7.2, as would be expected under a similar business model and related party ownership structure.

8.3 Historical financial position

The historical balance sheet and associated commentary for EOC is set out below.

TABLE 9 ESTUARINE OYSTER COMPANY PRO FORMA BALANCE SHEET

(A$'000)	FY18A	FY19A	FY20A
Cash & equivalents	$45	$20	$41
Trade and other receivables	$84	$174	$38
Biological assets	$655	$1,357	$1,337
Other assets	$26	$34	$40
PP&E	$791	$745	$688
Total assets	**$1,602**	**$2,330**	**$2,144**
Trade and other payables	$173	$817	$598
Provisions	$53	$94	$84
Borrowings	$1,283	$1,070	$927
Total liabilities	**$1,509**	**$1,981**	**$1,609**
Net assets	**$93**	**$349**	**$534**

Source: Estuarine Oyster Company financial accounts

The year-end debtor balances of EOC have been relatively small as compared to sales which indicates a rapid turnover of stock each year and/or efficient cash collection processes, the average debtor days outstanding over the FY18 to FY20 period was just 11 days (as compared to 77 in the case of BBO).

Inventories in FY18 accounted for ~41% of total assets and reached over 60% in FY19 as the value of inventories increased two-fold due to increases in oyster stock held following a period of destocking after the POMS outbreak in 2016.

EOC's declining PP&E balance over the historical period has been the result of several instant asset write-offs undertaken for tax purposes.

The increase in trade payables in FY19 relates to stock purchases from BBO, and as a result mirrors the rise in debtors for BBO.

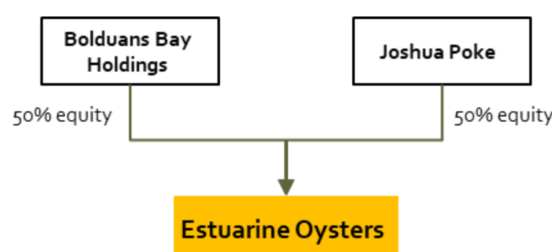
EOC's borrowings comprise several small asset finance loans, with the largest being a more than $200,000 from ANZ Bank. Leverage ratios for EOC have decreased from a high of 17.2x in FY18 to just 4.0x in FY20.

8.4 Capital structure

EOC is jointly owned by Bolduans Bay Holdings Pty Ltd (50%) and Joshua Poke (50%).

EOC's ownership structure is shown in the below chart.

FIGURE 3 ESTUARINE OYSTER COMPANY OWNERSHIP STRUCTURE



9. Target Companies forecast financial statements

Peloton has received a financial statement excerpt of a three-way model for the Target Companies including profit and loss, balance sheet and cash flow statement. The financial statements reflect a pre-acquisition view and do not include any potential synergies that might be realised by a post-acquisition SCL.

The forecast for the Target Companies has been developed using the same financial model as employed by SCL which incorporates SGARA accounting practices and therefore ensures the forecast is aligned with that of SCL.

Peloton has adopted the following forecast financials in its application of the DCF for the Target Companies.

9.1 Forecast profit and loss

The following section outlines the forecast financial performance of the Target Companies.

TABLE 10 TARGET COMPANIES FORECAST PROFIT AND LOSS

(A$'000)	FY21F	FY22F	FY23F
Revenue	$4,580	$7,110	$7,813
growth		55%	10%
COGS	$1,201	$1,215	$1,293
Gross profit	**$3,379**	**$5,895**	**$6,520**
margin %	*73.8%*	*82.9%*	*83.4%*
Other income	**$11**	**$11**	**$11**
Operating	$1,837	$1,877	$1,917
Administration	$261	$248	$251
Occupancy costs	$147	$149	$151
Indirect employee expenses	$96	$99	$101
Total operating expenses	**$2,341**	**$2,373**	**$2,420**
EBITDA	**$1,049**	**$3,534**	**$4,111**
margin %	*22.9%*	*49.7%*	*52.6%*

Source: Poke family forecast of Target Companies

As is evident in the Target Companies' historical financial performance, the impact of the POMS virus led to substantial volatility in both revenues and profitability as both businesses grappled with a reduced supply of seed oysters and even a complete loss of stock in the case of EOC's Pittwater Estuary in 2016.

It is known that the flow-through of a POMS outbreak in the financial performance is often observed some 12–24 months later due to the natural oyster breeding cycle. However, the Target Companies have since achieved significant gains in spat survivability and as a result have been able to build significant quantities of stock aided by SCL's establishment of bio-secure hatcheries and production of disease resistant oyster seed, all of which is expected to support future revenue growth.

Moreover, due to the impact of COVID-19 on customer demand in early 2020, the Target Companies will be entering FY21 with a significant holding of stock, which includes mostly the higher-value mature and ¾ finished product. As a consequence of the larger stock being sold throughout FY21 and FY22, the Target Companies' revenue is expected to increase 55% in FY22.

With favourable stock levels and a greater volume growth in mature oyster sales, it is expected that year-on-year revenue growth will be achieved over the three-year forecast period at a 31% compound annual growth rate ["CAGR"].

Total operating expenses are forecasted to remain somewhat flat at an average of about $2.4m, as most of its costs are fixed. Therefore, the strong growth in sales over the forecast period is expected to provide a material increase in EBITDA as the business capitalises on favourable operating leverage.

9.2 Forecast financial position

The forecast financial position of the Target Companies has been analysed below.

TABLE 11 TARGET COMPANIES FORECAST FINANCIAL POSITION

(A$'000)	FY20A	FY21F	FY22F	FY23F
Cash & equivalents	$48	$100	$1,323	$4,143
Trade and other receivables	$787	$541	$680	$714
Biological assets	$3,623	$2,498	$2,404	$2,644
Other assets	$639	$611	$611	$611
PP&E	$2,448	$3,163	$3,413	$3,417
Total assets	**$7,546**	**$6,913**	**$8,431**	**$11,529**
Trade and other payables	$808	$667	$986	$1,051
Provisions	$209	$405	$388	$409
Borrowings	$2,375	$1,315	-	-
Total liabilities	**$3,391**	**$2,386**	**$1,374**	**$1,459**
Net assets	**$4,155**	**$4,527**	**$7,057**	**$10,070**

Source: Poke family forecast of Target Companies

It is worth noting that the expected value of biological assets to be transferred to SCL under the Proposed Transaction is likely to be substantially higher than the sum-of-parts inventory values for each of BBO and EOC reported in FY20, as a result of being stocked at-capacity with 'at size' oysters to sell to the mature (highest value) market and the historical financials not adopting SGARA accounting practices for stock (i.e. not carried at market value).

The uplift in mature biological assets for BBO comes as a result of its season only opening in mid-December (closed for 7 to 8 months of the year due to rainfall) and EOC being closed throughout September and October 2020 due to heavy rainfall into bays which caused forced 21 day closures.

The subsequent decline in biological assets over FY21 is due to the forecast starting with a more advanced stock profile to what is considered 'normal' (due to COVID) and a lot of the larger stock is sold during the first year, where it then returns to a standard input level year-to-year.

Other assets include an Unpaid Present Entitlement ["UPE"] to Jon Poke which is expected to be dealt with via a distribution from BBO to the Poke Family Trust prior to the Proposed Transaction, resulting in a decrease in net assets equal to the value of the UPE.

Provisions relate to accrued employee leave entitlements and a deferred tax liability ["DTL"] which arises from revaluation of BBO's biological assets consistent with SGARA accounting practices.

The forecast also sees a rapid pay-down of current borrowings in FY20 and FY21, for which the Target Companies are then expected to operate free of debt.

9.3 Forecast cash flow

This section sets out our analysis of the forecast cash flow for the Target Companies.

TABLE 12 TARGET COMPANIES FORECAST CASH FLOW STATEMENT

(A$'000)	FY21F	FY22F	FY23F
Cash receipt from customers	$6,473	$7,296	$7,774
Cash paid to suppliers, employees & other	($4,407)	($4,318)	($4,789)
Interest paid	($76)	($16)	-
Net cash used in operating activities	**$1,991**	**$2,962**	**$2,985**
Proceeds/(purchase) of PP&E	($877)	($424)	($165)
Net cash used in investing activities	**($877)**	**($424)**	**($165)**
Repayment of borrowings	($1,062)	($1,315)	-
Net cash used in financing activities	**($1,062)**	**($1,315)**	**-**
Cash held at beginning of year	$52	$1,223	$2,820
Net increase/(decrease) in cash held	$48	$100	$1,323
Cash held at end of year	**$100**	**$1,323**	**$4,143**

Source: Poke family forecast of Target Companies

Analysis of any historical cash flows for the individual Target Companies has not been undertaken due to this information not being available given its reporting requirements as a private entity.

The Target Companies are expected to operating cash flow positive in every year of the forecast with a material increase in cash flow achieved in FY22 as a result of the sales of built-up mature oyster stock.

Further investment into PP&E is required to support the growth in mature oyster stock and includes in-water infrastructure items such as racks and baskets.

The Target Companies expect to ringfence majority of its positive cash flows to be utilised in paying down its outstanding debt obligations of which are likely to be fully repaid by the end of FY22.

10. Valuation

10.1 Approach

Peloton has considered the various valuation approaches available as outlined in section 4.1.

SCL and the Target Companies are all income generating entities with a reliable history of financial data and well-formed forecasts for financial performance.

Consequently, Peloton has considered the application of an income approach as its primary valuation methodology across all businesses.

10.1.1 Selected valuation methodology

SCL and the Target Companies have made available three-year forecast financials including profit and loss, balance sheet and cash flow statement of which, in the case of SCL, has been relied on for impairment testing purposes. The presence of such forecasts provides a view as to the future profitability, movement in working capital and capital expenditure schedules which ultimately allows for the implementation of a DCF.

A DCF is often used to estimate the value of an asset today, based on its expected future cashflows over some predetermined time period. It is often the case that a DCF will include a terminal value calculation in the final year of the forecast to reflect the ongoing value of the asset's cashflows with the expectation that the asset being valued will continue a going-concern (i.e. no expectation of being wound up). The present values of the cash flows are discounted using a required rate of return typically commensurate to the risk of the underlying asset.

Peloton has built-up the FCFF (i.e. cashflows available to all providers of capital, both debt and equity) using the three-year forecasts for SCL and the Target Companies. To capture the value of the entities beyond the forecast period, Peloton has assumed a hypothetical sale at the end of the forecast using observed market multiples of EBITDA for broadly similar businesses.

The assessed FCFF have been discounted to present value equivalents using a notional weighted average cost capital ["WACC"].

The equity value of SCL and the Target Companies is then derived as the present value of all FCFF, plus/minus adjustments for cash, debt, corporate assets/liabilities, and any surplus assets.

Peloton has cross-checked the equity values calculated by the DCF using a capitalised view of FME.

10.2 Assessment of market multiple

In determining a market multiple, Peloton has considered SCL and the Target Companies to be broadly similar in their operations and risk profiles, which allows for analysis of a common multiple applicable to all entities. Once a universe of multiples was observed, Peloton then considered the idiosyncrasies of each business in arriving at a tailored, adjusted multiple for SCL and the Target Companies.

Peloton undertook a screen for global, exchange listed companies that can be considered somewhat comparable to SCL and the Target Companies based on the nature of operations, and more explicitly those businesses engaging in oyster production, commercial fishing and seafood more broadly.

We note that SCL and the Target Companies are not directly comparable, and are of a significantly smaller scale, to those companies identified in the comparable analysis. SCL and the Target Companies also display several business-specific characteristics and risks which have been considered when selecting an appropriate valuation multiple range for each.

A total of 19 companies were identified, of which several had publicly available or meaningful EV/EBITDA multiple data. These were then broken down into four categories:

- oyster production;
- other Australian seafood;

- diversified seafood; and
- fish farming.

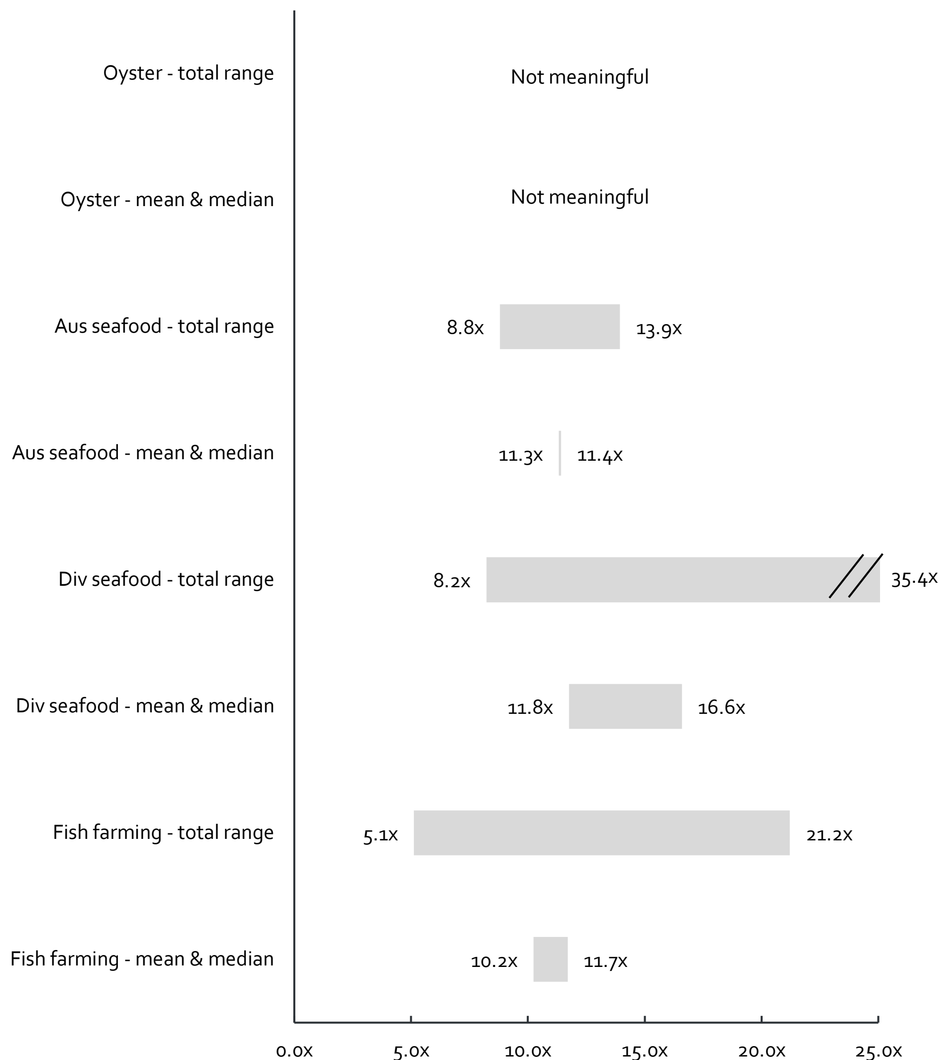
The observed listed company multiples are based on trading in a minority parcel of shares (i.e. non-control). It is therefore necessary to add a control premium to the market capitalisation of each comparable company in order to calculate EBITDA multiples on a control basis. Control premiums are typically in the range of 20–30%. We note however, that public companies are typically reluctant to acquire a target at a higher multiple than the acquirer's implied EV/EBITDA multiple — this can act as a ceiling for transaction values.

The observed multiples are also based on shares that are traded on a deep and liquid exchange. To determine the market value of a 100% equity holding in an unlisted business, it is necessary to include a discount for lack of marketability ["DLOM"] as equity in privately held companies does not transact on an open and liquid exchange. DLOM's typically range between 20% and 30%.

As such, Peloton's view is that the control premium and DLOM will more than likely offset one another, and it would be spurious to attempt to determine whether their combined impact is a net premium or discount. Consequently, the observed multiples shown below reflect an equity holding on a control, non-marketable basis.

Further detail on valuation discounts and premiums are shown in Appendix 6 — Discount rates.

FIGURE 4 **OBSERVED HISTORICAL EBITDA MULTIPLE SUMMARY**



Source: Capital IQ & Peloton analysis; "Aus" refers to Australian; "Div" refers to Diversified

On the basis that these multiples are not directly comparable to SCL and the Target Companies, Peloton has calculated an 'adjusted multiple' by:

1. taking the implied WACC of the observed multiples (i.e. 1 / multiple);
2. adding to a discount rate adjustment ["DRA"] of 10%; and
3. taking the inverse of the newly implied WACC (1 / WACC+ DRA).

This adjustment has been made to reflect the incremental risk profile of SCL and the Target Companies, which we believe are unlikely to be adequately captured in the face value multiple of the listed company universe. A summary of these risks is provided below.

TABLE 13 RISK MATRIX FOR ADJUSTMENT TO MARKET MULTIPLES

(A$'000)	Comparable set	Shellfish Culture	Target Companies
NTM revenue	$409,537[1]	$7,561	$4,580
NTM EBITDA	$129,633[1]	$1,598	$1,049
Geographical footprint	Global	Australia	Tasmania
Access to capital markets	Unrestricted	Unrestricted	Restricted
Key person risk	Minimal	Minimal	Significant
Product risk	Diversified	Single species	Single species

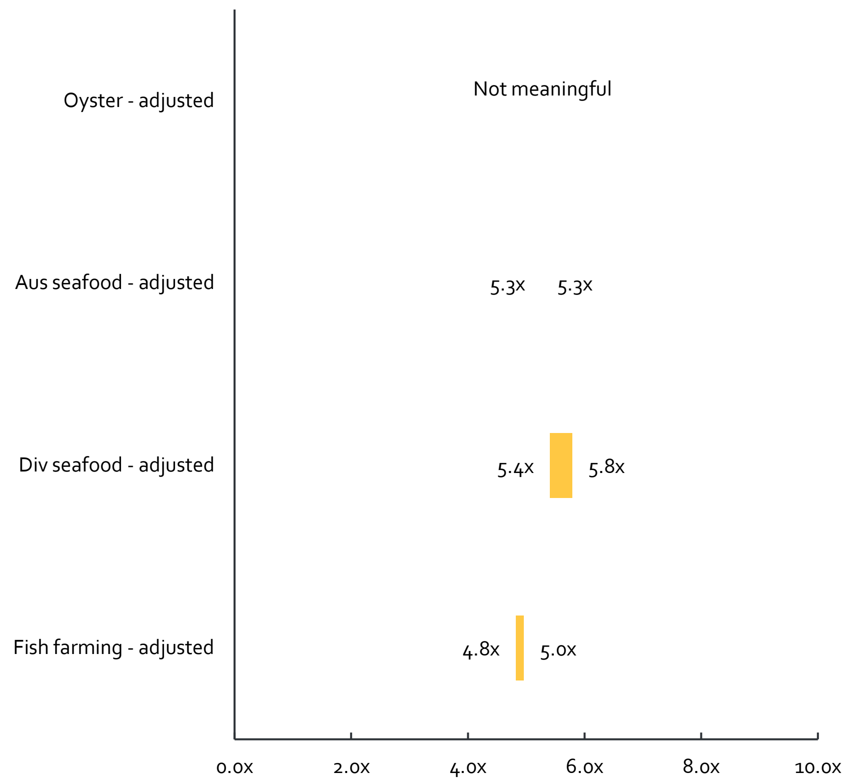
Notes: (1) Figures reflect the average of the comparable set.
Source: Capital IQ & Peloton analysis.

With reference to the above table, Peloton notes the following:

- SCL and the Target Companies are substantially smaller than the comparable companies;
- The same applies to business profitability with the comparable set exhibiting materially larger corporate profits (in part due to greater sales);
- Geographic risk exists amongst SCL and the Target Companies — albeit SCL to a lesser extent — with operations confined to just Tasmania. On the other hand, many of the comparable set includes businesses with global footprints which act to hedge geographical and idiosyncratic risks;
- Unlike SCL, given it is an unlisted public company, the Target Companies have limited access to equity capital markets as a primary funding source. As a consequence, the Target Companies may not have the ability to capture growth opportunities as they arise given that funding is likely to be restricted to that of owner capital and at discretion of debt providers considering existing leverage and broader economic factors;
- The Target Companies exhibit significant key person risk with the Poke family, which has owned and operated the business for over 40 years. As a result, a hypothetical purchaser (assuming little knowledge of oyster farming operations) would be reluctant to acquire without a prolonged succession period with the Poke family. On the other hand, this risk is not present in SCL given its extended board, deeper management structure and ability to retain key persons in its acquisitions; and
- The vast majority of the comparable universe exhibit a multi-product (or multi-species) seafood portfolio which may insulate financial performance from species-specific issues such as POMS. On the other hand, and as evidenced by the POMS outbreak in 2016–2018, SCL and the Target Companies are significantly exposed to oysters and where growing conditions are affected, this manifests into a sizable impact to business performance. As a result, an investor seeking a return from these businesses might require a premium to compensate for such risk.

With consideration to the above, and applying a 10% Discount Rate Adjustment ["DRA"] to the comparable company universe, the adjusted multiples are provided in FIGURE 5 below.

FIGURE 5 **ADJUSTED HISTORICAL EBITDA MULTIPLE SUMMARY — LISTED COMPARABLES**



Source: Capital IQ & Peloton analysis; "Aus" refers to Australian; "Div" refers to Diversified

More detail on the listed comparable company universe is shown in Appendix 3 — Comparable company analysis.

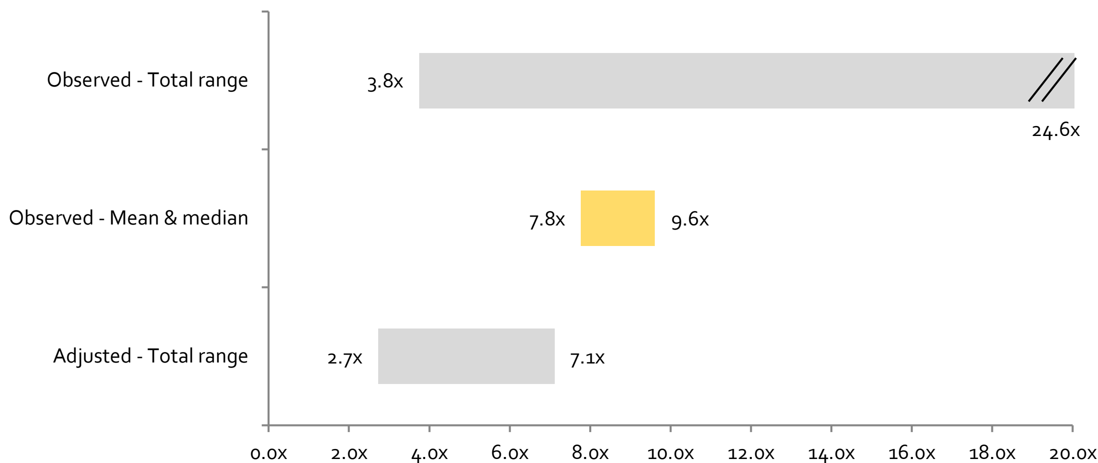
To validate our analysis, Peloton also undertook a screen for global oyster and/or seafood businesses that have been subject to takeover in the last three years.

We note again that neither SCL nor the Target Companies are not directly comparable to any of the companies identified due in part to a sparse history of related transactions with observable/meaningful market multiples. As a consequence, and similar to the listed comparable universe, Peloton has adjusted the reported EV/EBITDA multiples in order to properly calibrate multiples that capture the incremental risk profile of SCL and Target Companies by adopting the same 10% DRA.

A total of five broadly similar transactions were observed which had EV/EBITDA multiples available.

No premium for a controlling position was added as these transactions implicitly include control premiums as they were for a majority (i.e. >50%) equity interest.

FIGURE 6 ADJUSTED HISTORICAL EBITDA MULTIPLE SUMMARY — TRANSACTION COMPARABLES



Source: Capital IQ & Peloton analysis.

Based on the above analysis, the adjusted market multiple range of the transaction comparables has been assessed to be between 2.7x and 7.1x.

More detail on the listed comparable company universe is shown in Appendix 4 — Transaction comparables.

Peloton has also considered the historical acquisitions made by SCL to calibrate a transaction-based multiple for the Target Companies; however SCL advised that these acquisitions involved distressed businesses (i.e. depleted of stock since POMS) and were not operating in manner that is reflective of the past. As a consequence, Peloton does not consider these transactions to be appropriate and has not employed them in its analysis.

As a secondary validation to the market multiple, Peloton has considered the WACCs applied for impairment testing purposes by listed aquaculture companies. For instance, Tassal Group (ASX: TGR) uses 6.0%, and AS1 uses 11.4%, both post-tax nominal. If we assume a 7.0% WACC for a more mature company, and add the same 10% DRA as has been done in the previous two approaches, an adjusted WACC for a domestic aquaculture business with similar risk characteristics to that of SCL and the Target Companies would be 17%. It is then appropriate to deduct a notional perpetuity growth rate of 2% being the long-run inflation rate in Australia. Finally taking the inverse (i.e. 1 / x) of the now adjusted WACC of 15% arrives at a hypothesised market multiple of 6.0x.

We also note that the SCL Board Discussion Paper has a reference to an IPO multiple of 6.0x to 8.0x, which has been provided indicatively by Bell Potter ["BP"]; however this multiple likely applies to a post-merger group that is considerably larger, has achieved the expected synergies from the Proposed Transaction and demonstrates a history of consistent core earnings (which it has not done to date).

Considering all of the above, Peloton has selected a forward market multiple range as follows:

- SCL: 5.0x to 6.0x
- Target Companies: 4.0x to 5.0x

The discounted multiple of the Target Companies has been made to reflect the incremental risks evident in its business as outlined earlier in this section.

10.3 Assessment of discount rate

Peloton has assessed a notional WACC for SCL and the Target Companies for the purpose of discounting cash flows in the DCF.

There are a number of different definitions/formulae for WACC, each of which has a corresponding definition of the cash flows to which it must be applied. It is thus of great importance to ensure consistency between the definition of an entity's WACC and the cash flows to which that WACC is applied.

Peloton has used the nominal classical WACC (post-tax) which, mathematically, is expressed as:

$$WACC = \frac{D}{V}(1 - T)K_d + \frac{E}{V}K_e$$

The key components of the WACC formulae, for which Peloton has sought to assess is as follows:

- Cost of equity capital (Ke);
- Cost of debt capital (Kd); and
- Assessment of gearing (D/V) employed.

The following sections step out the build-up of these components. Please refer to Appendix 6 — Discount rates for more detail on each WACC component.

10.3.1 Cost of equity capital

The cost of equity capital (Ke) is not explicitly contractual/observable, so estimation of the cost of equity requires a model capturing the opportunity cost. The most widely used model for this is the Capital Asset Pricing Model ["CAPM"], which is defined as follows:

$$K_e = Rf + MRP \times \beta_e + \alpha$$

The CAPM assumes that investors hold a well-diversified portfolio comprising a mix of risk free and risky assets. Consequently, the risk of an asset/company is the impact of its inclusion on the risk of the well-diversified market portfolio.

The risk-free rate (Rf) is based on yields on Commonwealth Government bonds ["CGBs"] as a proxy because these bonds are considered to be the closest to riskless (i.e. free of default risk) financial security that trades in an open market. The appropriate maturity is 10 years, which is typically a compromise between matching the term of the assets being examined and requiring securities that trade in a liquid and well-attended market. Given SCL and the Target Companies have been valued on the basis of going-concern, Peloton has adopted 10-year CGBs as the most appropriate benchmark. As at 30 June 2020 (i.e. the Valuation Date), the 20-day trading average of the risk-free rate was observed as 0.92%.

The beta of equity (βe) for an unlisted asset is usually estimated via the "market model", in which an observation of a group of stock's (considered broadly comparable to the unlisted asset) historical total shareholder returns (including dividends) are regressed against those of a broad-based market index from the relevant country (e.g. ASX200). Peloton's standard practice is to observe these regressions using 60 monthly observations (i.e. 5 years) for the stock and an accumulation index.

In assessing the beta of equity for SCL and the Target Companies, Peloton has observed regression analyses of the monthly trading performance of a group of listed securities operating within the Australian seafood sector against the ASX200 index. However, we have elected to adopt the equity beta of Angel Seafood Limited (ASX:AS1) being Australia's only publicly listed pure-play oyster business. It is important that the observed beta was first 'unlevered' to remove the gearing effect of Angel Seafood Limited's capital structure and to reveal the beta that is explained by the core operations of the business (beta of asset). Peloton has assumed for the purpose of 'relevering' to the capital structures of SCL and Target Companies, that the 'optimal' gearing ratio for mature, domestic aquaculture businesses is 35% (see page 38 for more discussion on selection of gearing ratio) which generates an applicable beta of equity of 1.05.

The market risk premium ["MRP"] is the additional return an investor expects to receive from holding a risky market portfolio over the risk-free asset. Peloton's typical practice is to apply an MRP estimate of 6.5% (with some flexibility to increase this by up to 150 basis points), which is the long-term average estimate of market (equity) risk over CGBs yield. However, given the current environment — including the impact of COVID-19 on many businesses, uncertainty over the earnings outlook across the market, and sustained higher implied volatility — we consider that it is appropriate to adopt a higher MRP of 7.5%.

Peloton has also included an alpha (α) factor in the cost of equity assessment of 6.0% and 10.0% for SCL and the Target Companies respectively to reflect the incremental return that would be expected by equity investors over the market portfolio of diversified assets. This is a direct reflection of the idiosyncratic risks outlined in section 10.2, as well as:

- the shares in SCL and Target Companies, as a consequence of not trading on a listed exchange, do not offer sufficient liquidity to equity investors to realise the value of their investment in an efficient and timely manner (partial illiquidity premium);
- SCL and the Target Companies exhibit significant single-product risk exposure to Australian oysters, as a result any inadvertent event that impacts the future ability to grow (e.g. POMS) and sell (e.g. domestic and export demand) oysters may materially alter future equity returns;
- the Target Companies have not paid, nor are expected to commence paying over the forecast period, a dividend to equity investors. As a result, investors would likely expect a risk premium to compensate for the risk that they will not receive any financial returns for the foreseeable future and all returns will accrue as uncertain capital growth;
- both SCL and the Target Companies have demonstrated volatile financial performance and underperformance (relative to budgets) over the historical period. While some of this performance can be attributed to POMS, there may still be some concerns over the achievability of the respective sets of forecasts; and
- the governance framework employed by the Target Companies is unlikely to satisfy investor requirements and is far less developed than SCL which is subject to independent audit and public company regimes.

Based on the CAPM approach, Peloton estimates the cost of equity capital for SCL and the Target Companies to be 14.8% and 18.8%, respectively.

10.3.2 Cost of debt capital

A range of possible values can be obtained for the cost of debt (Kd) for a business depending on:

- whether the entity's actual debt rating or the market benchmark debt rating is used; and
- whether the current debt spread or a long-term average debt spread (for a selected debt rating) is used.

Peloton has derived a weighted-average cost of debt by observing SCL's existing debt facilities (which have a rolling 30 September maturity date) as the best indicator of current debt funding costs. This is a preferred approach over determining a notional funding cost based on published bond market spreads relative to CGBs for a market benchmark rating with the same tenor.

TABLE 14 SHELLFISH CULTURE DEBT FACILITIES AND COST OF DEBT

Loan type	Credit limit	Utilised @ 30-Jun-20	Nominal interest rate	Maturity
Overdraft	$1,050	$595	7.1% - 8.0%	2021
Bank loan	$5,950	$3,778	4.0% - 4.5%	2021
Asset purchase loan	$950	$828	4.62% - 6.04%	2020-2024

Loan type	Credit limit	%age of total	Nominal interest rate	Weighted average
Overdraft	$1,050	13%	8.00%	1.06%
Bank loan	$5,950	75%	4.50%	3.37%
Asset purchase loan	$950	12%	6.00%	0.72%
Totals	**$7,950**	**100%**		**5.20%**

Source: SCL FY20 audited financial accounts & Peloton analysis.

Applying weights to each of the debt facilities based on the relative sizing of each facility to the total debt available, Peloton has determined that the pre-tax cost of debt to be applied in the WACC is 5.20%.

While similar analysis cannot be performed for the Target Companies' cost of debt (information not available), we have considered this cost to be similar to that of SCL insofar as the businesses share similar risk components with regard to product, customers and how financial performance (and therefore debt serviceability) is affected by broader macroeconomic factors. Consequently, a lender is likely to perceive similar credit risk between SCL and the Target Companies which is likely to translate into a broadly similar interest rate on funds.

10.3.3 Gearing

The applied gearing level (i.e. debt/total capital) should incorporate the current market values of both debt and equity; however, it is difficult to ascertain these values for SCL and the Target Companies given that their capital is not traded in a liquid capital market such as the ASX. As a consequence, Peloton has observed the gearing ratios of publicly-listed seafood businesses operating in Australia, primarily Tassal Group (ASX:TGR) and Huon Aquaculture (ASX:HUO), to hypothesise what an 'optimal' level of gearing is for mature domestic aquaculture businesses.

Peloton has also considered the gearing ratio of Angel Seafood Limited (ASX:AS1) in its assessment; however, given its infancy as a publicly listed company it is unlikely to possess a mature capital structure and may not yet have sufficient access to the required debt funding to optimise its capital position. As a consequence, we have used Tassal Group and Huon Aquaculture as Australia's more prominent aquaculture businesses to derive an 'optimal' gearing ratio.

It is also important to note that it is common practice to employ a company's target gearing ratio when it is being valued. However, we understand that neither SCL nor the Target Companies have formed a view on their target gearing ratios, nor tested these with lenders in the context of a fully structured borrowing program.

Based on the observed gearing ratios for Tassal Group and Huon Aquaculture as of 30 June 2020 of 37% and 57%, respectively, Peloton has determined an appropriate gearing ratio for inclusion in the WACC assessment to be 35%. The perceived downward revision of the optimal gearing ratio over Huon's observed ratio as at 30 June 2020 is due to it being a momentary departure from its long-term gearing ratio, as a result of increased borrowings to fund capital expenditure programs, and has now been adjusted back to 32% following its capital raise completed in August 2020.

Peloton notes that as a result of the recent issue of convertible notes the mid-term (pre-conversion) gearing ratio for SCL will be higher than the proposed 35% adopted for the WACC assessment. However, given the equity characteristics of the convertible note the gearing ratio we assume that it is likely to revert back to the proposed 35% 'optimal' level in future.

In arriving at its assessment of an appropriate WACC for use in the valuation of SCL, Peloton has also considered the WACC employed in SCL's impairment testing undertaken at 30 June 2020 as part of the year-end audit process.

Combining all components outlined above into the prescribed WACC formulae, Peloton has assessed the WACC for SCL and the Target Companies to be 11.0% and 13.6%, respectively.

The component build-up of the respective WACC is set out below.

TABLE 15 SCL WEIGHTED AVERAGE COST OF CAPITAL BUILD-UP

Component	Value	Comments
Asset beta	0.75	Asset beta observed on Angel Seafood Limited
Debt/equity	54.00%	Peloton assumption
Equity beta	**1.05**	**Calculation**
Risk-free rate	0.92%	20-day average to 30 June 2020
Equity beta	1.05	Calculated above
MRP	7.50%	Assumption
Alpha	6.00%	Assumption
Cost of equity	**14.79%**	**Calculation**
Pre-tax cost of debt	5.20%	Weighted-average interest rate on debt facilities
Tax rate	26.00%	Assumption
After-tax cost of debt	**3.85%**	**Calculation**
D/V (gearing)	35.00%	Assessed 'optimal' debt level in mature aquaculture businesses
E/V	65.00%	Implied
WACC	**11.00%**	**Calculation**

Source: RBA, Capital IQ & Peloton analysis.

TABLE 16 TARGET COMPANIES WEIGHTED AVERAGE COST OF CAPITAL BUILD-UP

Component	Value	Comments
Asset beta	0.75	Asset beta observed on Angel Seafood Limited
Debt/equity	54.00%	Peloton assumption
Equity beta	**1.05**	**Calculation**
Risk-free rate	0.92%	20-day average to 30 June 2020
Equity beta	1.05	Calculated above
MRP	7.50%	Assumption
Alpha	10.00%	Assumption
Cost of equity	**18.79%**	**Calculation**
Pre-tax cost of debt	5.20%	Weighted-average interest rate on debt facilities
Tax rate	26.00%	Assumption
After-tax cost of debt	**3.85%**	**Calculation**
D/V (gearing)	35.00%	Assessed 'optimal' debt level in mature aquaculture businesses
E/V	65.00%	Implied
WACC	**13.60%**	**Calculation**

Source: RBA, Capital IQ & Peloton analysis.

10.4 Valuation of Shellfish Culture Limited

The following section outlines our selected methodology for, and subsequent valuation of, the SCL equity.

10.4.1 Discounted cash flow analysis — Shellfish Culture

The DCF has been developed based on an assessment of SCL's FCFF, or in other words the cash flows that are attributable to all providers of capital, and therefore calculates the total value of the SCL business as a whole (i.e. enterprise value).

Peloton has sourced the financial information pertaining to the DCF from SCL's forecast financial statements — primarily the cash flow statement.

Peloton has adopted its lower end of the assessed multiple range of 5.0x as the exit multiple for SCL and does not consider a 'discounted' multiple (to reflect achieved growth over forecast) to be appropriate on the basis that FY19 to FY23 is effectively a consolidation stage where SCL will look to build its farming footprint/capacity, re-stock farms, stock new racks and refine its multi-bay strategy.

Also during this period SCL will concurrently develop margin accretive branding and marketing strategies/initiatives such as laser etched oysters (to sell both domestically and internationally — focus on traceability and provenance), exclusive partnerships with high-end restaurants, focus on moving closer to the consumer, development of value-add retail offerings and focus on rebuilding the export market. All of which are expected to deliver sustained growth in underlying earnings beyond the initial forecast period.

Peloton notes however that there is inherent execution risk on the future growth strategies of SCL whereby failure to integrate into the current operation may warrant a smaller exit multiple than has currently been employed.

All FCFF have been discounted at the 11.0% WACC as calculated in TABLE 15.

TABLE 17 DISCOUNTED CASH FLOW ANALYSIS — SHELLFISH CULTURE

(A$'000)	FY21F	FY22F	FY23F	Terminal value
Normalised EBITDA (for TV calculation)	$1,598	$3,943	$4,511	
Cash flow from operations	**$1,199**	**$3,969**	**$3,490**	
Add: after-tax interest @ 26% tax rate	$120	$72	$10	
Less: capital expenditure	($1,326)	($398)	($409)	
Terminal value @ 5.0x				$22,553
Free cashflow to firm (FCFF)	**($7)**	**$3,643**	**$3,091**	**$22,553**
Discount factor @ 11.0% WACC	*0.9009*	*0.8116*	*0.7312*	*0.7312*
Present value of firm cashflows	**($6)**	**$2,957**	**$2,260**	**$16,491**
Valuation of firm (enterprise value)	**$21,702**			

Source: Peloton analysis.

By its very nature, valuation work cannot be regarded as an exact science and our conclusions are of a subjective nature and dependent on the exercise of individual judgement. There is, therefore, no indisputable single value and we normally express our opinion as falling within a likely range. However, it is often the case that a point estimate of value within an assessed range is provided. Consequently, Peloton has given particular attention to the sensitivity of enterprise value to changes in WACC (being a more subjective assessment as compared to market observed multiples) to derive our likely range of value.

TABLE 18 SCL ENTERPRISE VALUE SENSITIVITY ANALYSIS

WACC	EV/EBITDA multiple				
	4.0x	4.5x	5.0x	5.5x	6.0x
10.0%	$18,883	$20,577	$22,272	$23,966	$25,661
10.5%	$18,641	$20,313	$21,984	$23,656	$25,327
11.0%	$18,404	$20,053	$21,702	$23,351	$25,000
11.5%	$18,170	$19,797	$21,424	$23,051	$24,678
12.0%	$17,941	$19,546	$21,152	$22,757	$24,362

Source: Peloton analysis.

Based on the table above, we estimate the enterprise value of SCL to be in the range of $21.2 million to $22.3 million, with a mid-point estimate of $21.7 million.

On a forward-looking basis, using the mid-point enterprise value for SCL, the implied forward EV/EBITDA multiples are 10.2x, 7.2x and 4.8x for FY21 to FY23 respectively.

The value of the SCL equity can be inferred from the enterprise value after adjustments for corporate assets and liabilities including:

- cash and cash equivalents;
- borrowings held by the business;
- statutory liabilities (assets) including deferred income taxes payable (receivable); and
- any surplus asset not directly employed in the operations of the business.

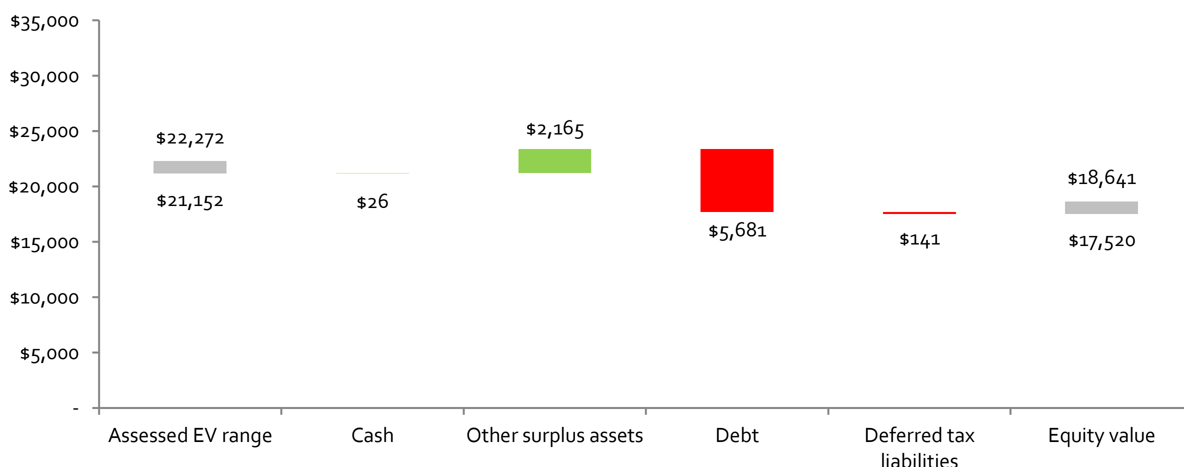
As of 30 June 2020, SCL held $26,000 in surplus cash, $5.7 million in borrowings (comprised of business loans and asset purchases loans) and a $141,000 Deferred Tax Liability ["DTL"] balance.

Peloton also understands that SCL holds several properties, with an estimated aggregate value of approximately $2.2million, that are not currently in direct use by the operations of SCL and are therefore considered a 'surplus asset' to the business. These properties are:

- 290 Bicheno Street, Clifton Beach — approximately 10ha of unused waterfront land attached to this title with an estimated market value of $1.0 million;
- Marine Farming Lease #10 at Blackman Bay — consists of 24ha of water (zone 9 & 15) that is currently undeveloped and has not been included in SCL's future cashflows. This has been independently valued at $480,000;
- Cowell Hatchery (ESPL) — 40ha of land with only 10ha currently being utilised. Current plans with Council are to subdivide a portion of the land into 2ha blocks with an estimated value of approximately $50,000 per 2ha parcel. Expected aggregate value of $750,000 with SCL claiming 62% in line with equity ownership; and
- 280A Bicheno Street — land-based shed purchased as part of the Cremorne Pacific Oysters acquisition in October 2018. Independent valuation undertaken estimated value of $220,000.

Based on management representations, Peloton has arrived at a valuation of the SCL equity in the range of $17.5 million to $18.6 million, with a mid-point estimate of $18.1 million

FIGURE 7 **SCL EQUITY VALUATION WATERFALL (A$'000)**



Source: Peloton analysis.

Furthermore, the implied price/value per share, based on the mid-point valuation assessment and total shares outstanding as of 30 June 2020 of 4,636,637, is approximately $3.90 per share.

Peloton acknowledges that this valuation is about a 13% discount over the last capital raise completed in June 2019 at $4.50 per share. As a consequence of the discount, we have sought to investigate its possible cause.

In June 2019 SCL raised approximately $6.0 million via the issue of 1.33 million ordinary shares valued at $4.50 per share. The per share valuation had been calculated at the time based on the net asset value ["NAV"] (permitted by the fact that all assets are carried at fair market value supported by independent valuations) which had been validated by SCL's capital raise advisor. While a forecast view of financial performance was provided in the information memorandum it is understood that this was not the primary driving factor behind the issue price.

Notwithstanding, COVID-19 materially impacted the financial performance of SCL in FY20 and required SCL to revise its FY21 forecast downward to account for any enduring effects of the pandemic. As Peloton's valuation of SCL is based primarily on its ability to generate future cash flows, the valuation is inherently affected by these events and thus should be viewed in conjunction with the 30 June 2020 NAV per share of approximately $4.20 per share.

10.4.2 Cross-check valuation

Peloton has used the capitalisation of FME approach as a cross-check to its primary methodology.

In arriving at our estimate of an appropriate FME, we have considered discussions with management as to the future growth prospects of SCL, in addition to the following:

- Notwithstanding the positive trajectory of historical revenues achieved by SCL, growth had been somewhat impaired by the POMS virus in 2016 causing a significant reduction in the volume of oyster seed available to growers over the following two year growth cycle which had constrained potential sales over these years;
- SCL's innovative breeding programs which have recently proven to be effective against POMS are likely to continue to provide the business with sufficient stock to support underlying sales growth;
- Gross profit margins have been volatile ranging from a low of -20.6% (FY19) to a high of 40.2% (FY20) as the first-order effect of low seed volumes and on-going costs associated with establishing the ESPL operation and proprietary mature oyster breeding directly impacted sales and cost of goods sold; however, as these events are expected to have a reduced future impact, it is likely that SCL can develop some operating leverage within its existing cost structure to bolster future gross margins;
- Operating expenses are expected to average 30% of total revenue over the forecast period. While further economies of scale and efficiencies may be achieved in the future, no current evidence exists to support a more efficient indirect operation on a maintainable basis at this time; and
- EBITDA over the previous three financial years has been volatile averaging just ~$44,000, and is unlikely to fall back to this level given the known implications of the operational difficulties (e.g. POMS) that affected performance during those years.

TABLE 19 ASSESSMENT OF SCL FUTURE MAINTAINABLE EARNINGS

(A$'000)	Low estimate	High estimate	Mid-point
Revenue	$11,000	$12,000	$11,500
Gross profit margin %	60%	60%	60%
Gross profit	$6,600	$7,200	$6,900
Operating expenses	($3,300)	($3,600)	($3,450)
FME	**$3,300**	**$3,600**	**$3,450**
Implied EBITDA margin	30%	30%	30%

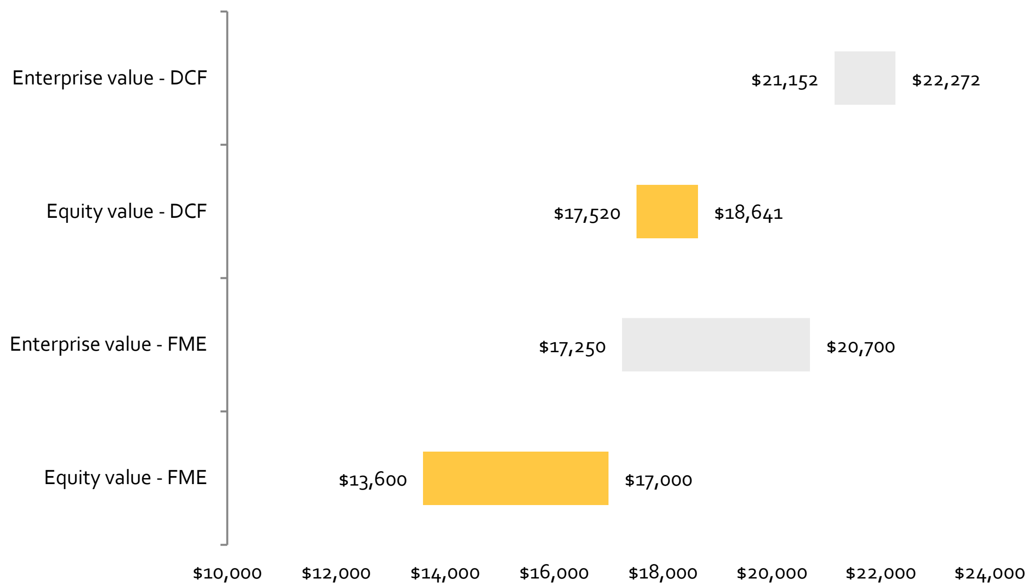
Source: Peloton analysis.

Based on the table above, Peloton has considered FME for SCL to be in the range of $3.3 million to $3.6 million, with a mid-point estimate of $3.5 million. It should be noted that this valuation approach is highly subjective and is rather simplistic as it is confines future profitability to a single mid-point estimate made with judgement to historical and forecast trends in financial performance.

Applying the mid-point FME to the market multiple range for SCL of 5.0x to 6.0x (outlined in Section 10.2) provides an enterprise value for the SCL business of $17.3 million to $20.7 million, and mid-point estimate of $19.0 million.

After making similar adjustments for cash, debt and other corporate items held the equity value of the SCL shares, under the cross-check methodology, is assessed as $14.1 million to $17.6 million ($15.8 million mid-point).

FIGURE 8 SCL VALUATION SUMMARY (A$'000)



Source: Peloton analysis.

Peloton notes that the assessed DCF valuation range is greater than the FME as the former better reflects the growth trajectory and outlook of SCL whereas the latter is confined to a mid-point view on the likely future profitability.

10.5 Valuation of Target Companies

10.5.1 Discounted cash flow analysis — Target Companies

Peloton has used the same FCFF build-up as done in the DCF for SCL, arriving initially at a valuation for the enterprise before adjusting to derive a value for the shareholding (equity) in the Target Companies.

The terminal value has been calculated using an exit-multiple of 3.0x, which is a discount on the observed market multiple range of 4.0x to 5.0x on the basis that a proportion of growth has already been achieved throughout FY21 to FY23 and as a result the market would not be willing to pay the same multiple of earnings on a reduced growth outlook.

All cash flows have been discounted to present value equivalents using a 13.6% WACC as calculated in TABLE 16.

TABLE 20 DISCOUNTED CASH FLOW ANALYSIS — TARGET COMPANIES

(A$'000)	FY21F	FY22F	FY23F	Terminal value
Normalised EBITDA (for TV calculation)	$1,049	$3,534	$4,111	
Cash flow from operations	**$1,991**	**$2,962**	**$2,985**	
Add: after-tax interest @ 26% tax rate	$56	$12	-	
Less: capital expenditure	($877)	($424)	($165)	
Terminal value @ 3.0x				$12,333
Free cashflow to firm (FCFF)	**$1,170**	**$2,550**	**$2,820**	**$12,333**
Discount factor @ 13.6% WACC	*0.8803*	*0.7749*	*0.6821*	*0.6821*
Present value of firm cashflows	**$1,030**	**$1,976**	**$1,924**	**$8,413**
Valuation of firm (enterprise value)	**$13,342**			

Source: Poke forecast of Target Companies & Peloton analysis.

Peloton has used the same sensitivity approach to identify the likely range of enterprise values for the Target Companies.

TABLE 21 TARGET COMPANIES ENTERPRISE VALUE SENSITIVITY ANALYSIS

	EV/EBITDA multiple				
WACC	2.0x	2.5x	3.0x	3.5x	4.0x
12.6%	$10,785	$12,224	$13,664	$15,104	$16,544
13.1%	$10,660	$12,081	$13,502	$14,923	$16,343
13.6%	$10,538	$11,940	$13,342	$14,744	$16,146
14.1%	$10,417	$11,801	$13,185	$14,569	$15,952
14.6%	$10,299	$11,665	$13,030	$14,396	$15,762

Source: Peloton analysis.

Relying on the WACC sensitivity shown in the above table, Peloton estimates the enterprise value of Target Companies to be in the range of $13.0 million to $13.7 million, with a mid-point estimate of $13.3 million.

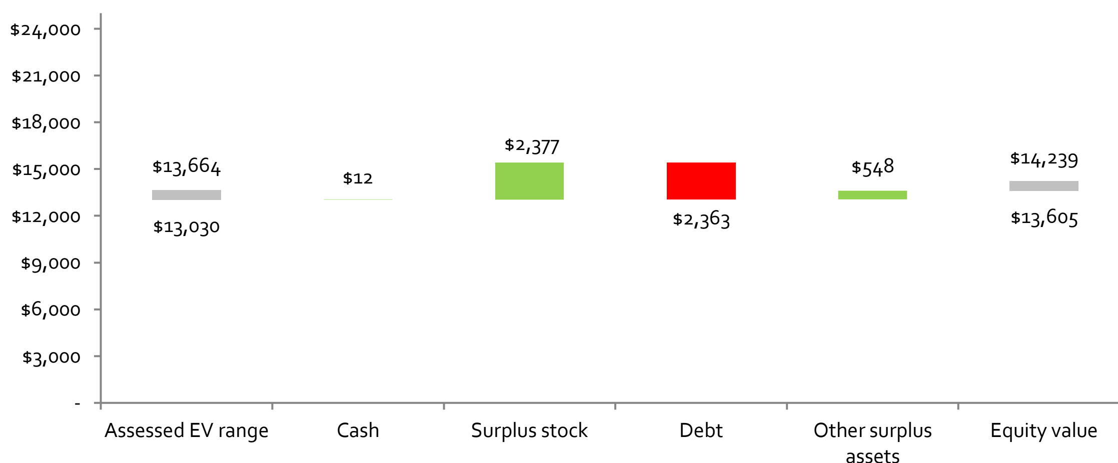
To align the equity value to the date of the Proposed Transaction, Peloton has employed the indicative completion balance sheet of the Target Companies as of November 2020, when the combined entity is expected to hold ~$2.4 million in borrowings and a surplus cash balance of ~$12,000.

Furthermore, given that the expected value of stock, and therefore purchase price payable by SCL under the Proposed Transaction is likely to be approximately $6.0 million (being an agreed 20% discount on the unadjusted value of $7.5 million) it is necessary to add the difference between the reported book value, which has been accounted for by movements in working capital in the DCF, and the $6.0 million as a 'surplus asset'. Based on the book value of stock as at 30 June 2020 of $3.6 million this results in an upward adjustment to enterprise value of $2.4 million.

Other adjustments to the enterprise value include the addition of an Unpaid Present Entitlement to the Poke Family Trust of $515,000 and value of shares held in private entities of $33,000 as both are considered 'surplus' to the operations and therefore are unlikely to be assumed by a hypothetical purchaser of the business.

As a consequence of the above adjustments, the valuation of the issued equity in the Target Companies is likely to be in the range of $13.6 million to $14.2 million, with a mid-point estimate of $13.9 million.

FIGURE 9 TARGET COMPANIES EQUITY VALUATION WATERFALL (A$'000)



Source: Peloton analysis.

10.5.2 Cross-check valuation

The FME for the Target Companies has been established based predominately on the forecast financial performance as a consideration of BBO and EOC on a standalone basis may not be directly comparable as intragroup transactions and duplication of operating costs may exist when compared to the combined financials. As such, and with regards to the forecast financials, Peloton notes the following:

- Revenue in FY22 is expected to rise approximately 55% ($4.6 million to $7.1 million) as a result of the sale of built-up mature oyster stock in that year, while more modest growth of ~10% has been forecast in FY23 as the Target Companies move to its 'natural' revenue level;
- Gross profit margins are expected to average 80% over the forecast period; however these are likely to be skewed somewhat by the abrupt spike in revenue achieved in FY22, as a result the forecast margin in FY21 of ~74% may provide a clearer view on a maintainable basis (Peloton has adopted 75% for the FME);
- Future operating expenses will average ~40% of total revenue over the three-year forecast, despite some economies perceived from FY22 onwards where the average drops to ~32%. However, the fall in relative operating costs may be due again to the sudden increase in revenue as opposed to mere efficiency gains, which has caused Peloton to adopt 40% as a blended consideration of current and potential cost structures; and
- Average EBITDA for the Target Companies over the forecast is $2.9 million despite neither BBO nor EOC having achieved a consistent EBITDA greater than $1.0 million on a standalone basis historically. However, given the known impacts of POMS on oyster seed availability within the businesses it is likely that these earnings would be considered abnormal and the such events are unlikely to be repeated at the same scale given innovative breeding programs and geographic protection. As such, the future earnings power of the Target Companies is expected to be much greater than historical years.

TABLE 22 ASSESSMENT OF TARGET COMPANIES FUTURE MAINTAINABLE EARNINGS

(A$'000)	Low estimate	High estimate	Mid-point
Revenue	$6,500	$7,500	$7,000
Gross profit margin %	75%	75%	75%
Gross profit	$4,875	$5,625	$5,250
Operating expenses	($2,600)	($3,000)	($2,800)
FME	**$2,275**	**$2,625**	**$2,450**
Implied EBITDA margin	35%	35%	35%

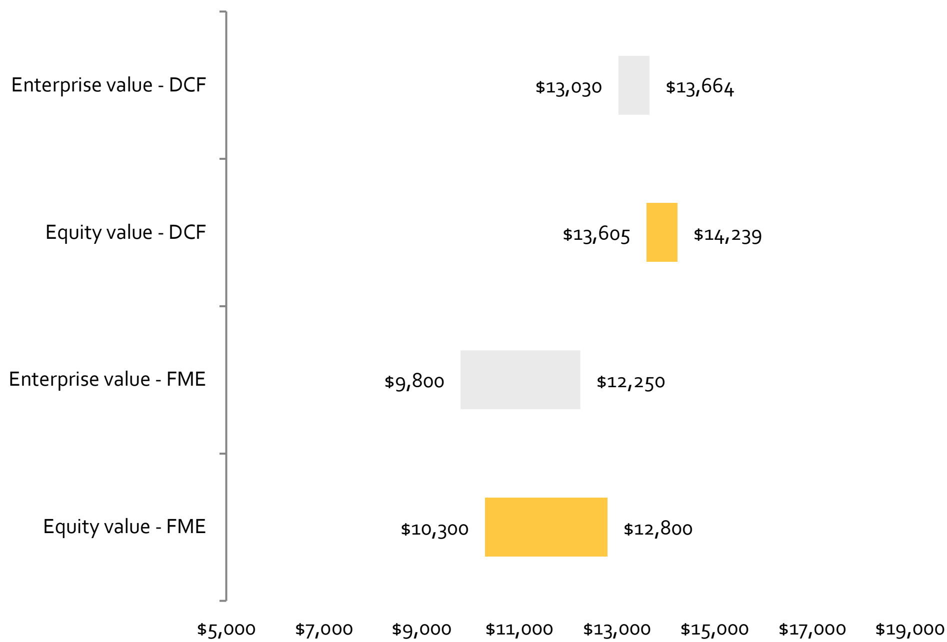
Source: Peloton analysis.

Based on TABLE 22, Peloton considers FME for the Target Companies to be in the range of $2.3 million to $2.6 million, with a mid-point estimate of $2.5 million.

Applying the market multiples outlined in Section 10.2 of 4.0x to 5.0x (4.5x mid-point) to the FME range above arrives at an estimated enterprise value of the Target Companies of $9.8 million to $12.3 million, and a mid-point estimate of $11.0 million.

After making similar adjustments for debt, cash and surplus assets of the Target Companies, as discussed in the DCF approach, the cross-check valuation of the Target Companies equity is likely to be in the range of $10.3 million to $12.8 million ($11.5 million mid-point).

FIGURE 10 TARGET COMPANIES VALUATION SUMMARY (A$'000)



Source: Peloton analysis.

10.6 Valuation summary

Peloton adopted the financial forecasts in its assessment of the respective enterprise values of both SCL and the Target Companies. The enterprise value was then adjusted for particular assets/liabilities to derive an estimate of value for the shareholdings (equity) in each business.

The two DCFs were developed on the basis of FCFF being a proxy for the cash flows available to all providers of capital including both debt and equity.

A terminal value was calculated in the final year of the forecast to reflect the on-going cash flows to each entity beyond the initial forecast period. The 'discounted' multiple adopted in the DCF for the Target Companies over the market multiples derived in Section 10.2 was made to capture the erosion of growth prospects over the forecast period, which is likely to have been 'priced in' to the NTM market multiple. In other words, a hypothetical investor buying shares in the terminal year would not be willing to pay the same multiple of earnings as a similar investor who had acquired shares in the beginning period of the DCF with the current foresight on growth — see Section 10.2

The total FCFF was then discounted to present value equivalents using a notional WACC estimate for both SCL and the Target Companies as outlined in Section 10.3.

FIGURE 11 below provides a summary of the assessed equity values, under both the DCF (primary) and FME (cross-check) approach, of each entity.

FIGURE 11 **EQUITY VALUATION SUMMARY (A$'000)**

Source: Peloton analysis.

11. Valuation of Poke Properties

As part of the Proposed Transaction, SCL has also committed to purchasing several properties and marine leases from the Poke family, which are currently held in Bolduans Bay Holdings, a holding company external (albeit related) to the Target Companies.

The Poke Properties subject to acquisition are outlined in the table below.

TABLE 23 DETAILS OF POKE PROPERTIES

Component	Description
Marine Farming Lease #23	
Lessee	Bolduans Bay Oysters Pty Ltd
Lease commencement date	Assumed post 1 January 1997
Expiry date	Assumed post 31 December
Lease area	Duck Bay, Tasmania
Zone	Zone 1A
Area	13.46 hectares
21 West Esplanade, Smithton	
Owner	Jonathon Douglas Poke and Annette Maree Poke
Land area	2,303 metres squared
Building area (freehold)	885 metres squared
Zoning	Light industrial
25 West Esplanade, Smithton	
Owner	Bolduans Bay Holdings Pty Ltd
Land area	2,720 metres squared
Building area (freehold)	764 metres squared
Zoning	Light industrial
Lot 4 Poke Street, Smithton	
Owner	Bolduans Bay Holdings Pty Ltd
Land area	3.2 hectares
Building area (freehold)	n/a
Zoning	Light industrial & general residential

Source: Independent valuation reports.

As SCL has since used these valuations in its assessment of the purchase price for the Proposed Transaction, Peloton has also relied on the independent valuations for the Poke Properties to determine the fair market value of each. Peloton has not undertaken to validate the approach or assumptions used by the valuer in its valuation report.

Based on the independent valuations, as of July 2018, the fair market value of the Poke Properties was:

- Marine Farming Lease #23: $605,000;
- 21-25 West Esplanade, Smithton: $880,000; and
- Lot 4 Poke Street, Smithton: $220,000.

Peloton acknowledges that the valuations are now over two years old and that the parties have made representations that the value has increased since these valuations were undertaken. However, in the absence of any reliable information and data, Peloton is not in a position to infer the magnitude (if any) of change in these valuations that would manifest and as a result has employed the values in the independent valuation reports as the properties' current fair market values.

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12. Assessment of the Proposed Transaction

12.1 SCL Board paper

Peloton acknowledges the document "Board Discussion Paper — Poke Acquisition" dated 12 July 2020.

The document references discussions with SCL's advisor, BP, with regards to the composition of the purchase price to the Poke family. BP had advised SCL that the offer should comprise a greater proportion of scrip (i.e. SCL shares) rather than a cash payment as a result of recent headwinds in business profitability and COVID-19 which would make raising capital difficult.

BP also affirms that the Proposed Transaction is integral to SCL in fulfilling its medium-term IPO strategy.

In a meeting with the Poke family on 1 July 2020, the Poke Family proposed its offer to take 100% scrip payment for the Target Companies and Poke Properties, with the stock on hand being acquired for cash at its net realisable value.

Initial assumptions made about the likely value of stock on hand was $4.75 million.

The document also references a third-party report which benchmarks the achievements of SCL to date against its investor presentations and strategic goal of IPO, along with an internal view of the implications of COVID-19 on company profitability, of which the following excerpt relates:

> SCL have considered implications of COVID, analysis of Deloitte report (Annexure C), achievements to date for SCL vs investor presentations and strategic goal of listing on ASX – which has yielded the following:
> - Both businesses are clearly 'impaired' from a valuation perspective, with all things considered
> - The estimated impairment impact is 20% - this is consistent with COVID impact on comparative listed entities and predicted COVID impact on mature oyster market price.
> - It is suggested that SCL consider issuing shares at 20% discount to last raise ($3.60) for both shares issued to the Pokes and additional shares issued to the market to pay for SaV.
> - The value of the Poke assets would be reduced by 20%.

Peloton notes that the 20% discount on the shares relates to the last capital raise (June 2019) done at $4.50 per share.

12.2 Heads of Agreement/Share Sale and Purchase Agreement

The SPA has been drafted by SCL's legal advisor based on the HoA executed between the parties on 15 September 2020.

The Poke family have committed to receiving shares in SCL, to be issued at $3.60 per share (implying a 8% discount on the assessed per share value of $3.90 outlined in Section 10.4.1) as remuneration for all components except biological assets which SCL will pay via a mix of cash and vendor finance.

The BBO SPA outlines the SCL share consideration for BBO as the aggregate of $4.224 million; plus $812,862 for the additional assets (i.e. recent capital expenditure made by BBO), plus a working capital adjustment, less any bank debt attributable to BBO and Bolduans Bay Holdings. In addition, the cash consideration component payable for BBO is equal to that of the BBO bank debt.

The EOC SPA outlines the SCL share consideration for EOC as the aggregate of $2.273 million; plus $484,000 for Marine Farm Lease #23, plus $88,000 for the additional assets (i.e. recent capital expenditure made by EOC), plus a working capital adjustment, less any bank debt attributable to EOC. A cash payment equal to the EOC bank debt is also considered.

An additional cash consideration is payable for the aggregate stock held by the Target Companies.

A Particulars of Sale, as the standard form contract for sale of real estate in Tasmania, has also been drafted in relation to the Poke Properties which excludes Marine Farm Lease #23 (already dealt with in the EOC SPA). The document outlines the aggregate purchase price of the Poke Properties to be $572,000.

Collectively, based on the above information, the aggregate purchase price for the Target Companies and Poke Properties is as follows:

- $7.55 million; less
- the aggregate amount of debt held by the Target Companies (share consideration adjustment); plus
- the agreed amount for the additional assets of $901,058; plus
- an aggregate working capital adjustment; plus
- the aggregate amount of debt held by the Target Companies (cash consideration); plus
- the aggregate stock value held by the Target Companies.

The basis of the working capital adjustment, as per the SPA, is as follows:

Working Capital Amount means the net working capital balance of the Company calculated by deducting the Working Capital Liabilities from Working Capital Assets.

Working Capital Assets means all of the assets on the Company's balance sheet excluding:

(a) goodwill;

(b) intellectual property assets;

(c) intangible assets;

(d) property plant and equipment; and

(e) stock;

calculated in accordance with the principles set out in Schedule 8.

Working Capital Liabilities means all of liabilities on the Company's balance sheet including (but not limited to):

(a) creditors;

(b) GST;

(c) income tax;

(d) withholding taxes; and

(e) Employee Leave Entitlements,

With reference to the indicative completion balance sheets of the Target Companies as at 30 November 2020 (i.e. the expected transaction completion date), the expected net assets of BBO and EOC is -$136,000 and $352,000, respectively. Combining the two together results in an aggregate net working capital adjustment of approximately $215,000.

The completion balance sheet also outlines the expected debt held by each of BBO and EOC as at 30 November 2020 of $1.5 million and $896,000, respectively. Therefore, the combined bank debt attributable to the Target Companies is approximately $2.4 million.

Furthermore, the current stock value estimate as of the completion date agreed by SCL and the Target Companies is approximately $7.5 million based on current forecasts at list price (as compared to $3.6 million reported on 30 June 2020 and hence the 'surplus asset' in Section 10.5.1). However, the parties have since agreed that SCL will be granted a 20% discount (i.e. $1.5 million) on the basis that the Target Companies will be at-capacity with predominately mature oysters ready to sell at market. Consequently, the total cash consideration payable by SCL for the biological stock is likely to be $6.0 million.

Peloton notes that its assessment is based on estimated values for debt and biological assets and that the actual values arrived at on the completion date may be different to those employed in this assessment. We have sought the most reasonable estimates with information available as of the date of this report.

TABLE 24 below provides the detailed calculations of the working capital, debt and biological asset adjustments.

TABLE 24 PURCHASE PRICE ADJUSTMENTS

(A$'000)	
BBO net assets at completion date (30-Nov-20)	($136)
EOC net assets at completion date (30-Nov-20)	$352
Target Companies net assets at completion date	**$215**
BBO debt at completion date (30-Nov-20)	$1,467
EOC debt at completion date (30-Nov-20)	$896
Target Companies debt at completion date	**$2,363**
Expected value of biological assets	**$7,500**
20% discount on value agreed between the parties	($1,500)
Adjusted value of biological assets at 20% discount	**$6,000**

Source: SPA, SCL/Target Companies assumptions, Peloton analysis.

TABLE 25 below introduces the working capital adjustment, aggregate bank debt and discounted stock values as components of the total purchase price which has been calculated to be approximately $14.7 million.

TABLE 25 PRESCRIBED ACQUISITION TERMS AS PER HEADS OF AGREEMENT

(A$'000)	
Purchase price of Lot 4 Poke Street, Smithton	$100
Purchase price of 21-25 West Esplanade, Smithton	$472
Purchase price of Marine Farm Lease #23	$484
Purchase price of Poke Properties	**$1,056**
Purchase price of BBO shares	$4,224
Purchase price of EOC shares	$2,273
Less: Poke debt attributable to shares (see table 24)	($2,363)
Poke working capital adjustment (see table 24)	$215
Add: Poke debt to be extinguished with cash	$2,363
Purchase price of Poke Properties & Target Companies	**$7,768**
Shed & Chiller Construction and Power Upgrade (BBO)	$596
Racking (BBO)	$177
Solar system (BBO)	$39
Koppers (EOC)	$46
Baskets (EOC)	$42
Biological assets at 20% discount (see table 24)	$6,000
Purchase price of Poke Properties & Target Companies & additional assets	**$14,669**

Source: SPA, SCL/Target Companies assumptions, Peloton analysis.

To further decompose the purchase price of $14.7 million, Peloton has been guided by the SPA to bifurcate into the scrip and cash remuneration components.

TABLE 26 COMPOSITION OF PURCHASE PRICE

(A$'000 except number of shares)	
Poke Properties	
Aggregate purchase price as per SPA and Particulars of Sale	$1,056
Allocated purchase price	**$1,056**
Share price of issued shares	3.60
Number of shares issued for Poke Properties	293,333
Target Companies & additional assets	
Aggregate purchase price as per SPA (pre-adjustments)	$6,497
Plus: additional assets (recent capex)	$901
Plus: working capital adjustments (see table 24)	$215
Less: bank debt attributed to Target Companies (see table 24)	($2,363)
Allocated purchase price	**$5,250**
Share price of issued shares	3.60
Number of shares issued for Target Companies	1,458,472
Other consideration paid with cash	
Cash payment to extinguish Poke debt	$2,363
Cash payment for biological assets at 20% discount (see table 24)	$6,000
Total purchase price of the Proposed Transaction	**$14,669**
Shares issued under the Proposed Transaction	**1,751,805**

Source: SPA, SCL/Target Companies assumptions & Peloton analysis.

Based on the assessed values in TABLE 26 and the prescribed issue price of the SCL shares of $3.60, the total number of shares to be issued to the Poke family under the Proposed Transaction is 1,751,805 shares.

SCL will also pay the 20% adjusted value for biological assets of $6.0 million and settle the current Poke debt obligation (with the intent of refinancing post-acquisition) of $2.4 million with cash.

Taking the number of shares to be issued under the Proposed Transaction of 1,751,805, the incoming shareholders' indicative shareholding in the post-acquisition SCL is likely to be approximately 27%.

TABLE 27 INDICATIVE SHAREHOLDINGS IN SCL POST ACQUISITION

Amounts as stated	Total shares held	%age held
Shellfish Director interests	439,243	6.9%
Other shareholder interests	4,197,394	65.7%
Incoming Target Companies' shareholders	1,751,805	27.4%
Total shares outstanding post-acquisition	**6,388,442**	**100.0%**

Source: Shellfish Culture Limited share register & Peloton analysis.

12.3 Assessment of fair and reasonable

The table below provides a summary of the calculations arrived at in the body of this report to assess whether the purchase price offered by SCL for the Proposed Transaction is fair and reasonable to SCL shareholders.

TABLE 28 EVALUATION OF PURCHASE PRICE

(A$'000)	
Fair value of Target Companies equity (DCF assessment)	$13,916
Fair value of Poke Properties (as per independent valuations)	$1,705
Fair value of the Proposed Transaction	**$15,621**
Assessment of fair and reasonable	
Fair value of equity and assets acquired	$15,621
Total consideration offered by SCL	$14,669
Premium/(discount) purchase price	**($952)**

Source: Peloton analysis.

As the total fair market value of the assets being acquired by SCL exceeds the consideration being paid, Peloton is of the view that the Proposed Transaction is fair and (in accordance with ASIC Regulatory Guide 111) therefore reasonable, and therefore in the best interests of SCL shareholders.

Peloton understands the internal view on the Poke Properties is that the current valuation is likely to be greater than those assessed by independent valuations completed two years ago. However, Bolduans Bay Holdings is not subject to audit (and therefore impairment testing) and recent due diligence completed did not consider these properties in detail, either of which may have presented a more current view on the likely fair market value. In the absence of such, we have employed the two-year-old valuations and note to the extent that the values have increased that the benefit will be to the SCL shareholders.

Given the Proposed Transaction is considered fair and in accordance with ASIC Regulatory Guide 111, Peloton has not separately assessed reasonableness.

13. General advice only

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders of SCL. The decision to accept or reject the Proposed Share Acquisition is a matter for individual shareholders. Shareholders of SCL should consider the advice in the context of their own circumstances and preferences. Shareholders of SCL who are in doubt as to the action they should take in relation to the proposed acquisition should consult their own professional adviser.

Peloton has prepared a Financial Services Guide in accordance with the Corporations Act. This is included in Appendix 8 to this report.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Appendix 1 — Glossary

Term	Definition
Act	Section 606 and Section 611 of the Corporations Act 2001 (Cth)
APES225	APES225 Valuation Services
ASI	Australian Seafood Industries
ASX	Australian Securities Exchange
BBO	Bolduans Bay Oysters Pty Ltd
BP	Bell Potter
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
CGBs	Commonwealth Government bonds
DCF	Discounted cash flow analysis
DLOM	Discount for lack of marketability
DRA	Discount rate adjustment
DTL	Deferred tax liability
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
EM	Explanatory memorandum
EOC	Estuarine Oyster Company Pty Ltd
ESPL	Eyre Shellfish Pty Ltd
FCFF	Free cash flows to firm
FME	Future maintainable earnings
FRDC	Fisheries Research and Development Corporation
FY	Financial year
HoA	Heads of Agreement
IER	Independent Expert Report
IPO	Initial Public Offering
IVSC	International Valuation Standards Council
MRP	Market risk premium
NAV	Net asset value
NTM	Next twelve months
Peloton	Peloton Corporate Pty Ltd
Poke Properties	Various properties and marine leases held by the Poke family subject to acquisition
POMS	Pacific Oyster Mortality Syndrome
PP&E	Property plant and equipment
Proposed Transaction	Acquisition of Bolduans Bay Oysters Pty Ltd, Estuarine Oyster Company Pty Ltd and certain related assets held by the owners of BBO and EOC
RG 111	Regulatory Guide 111 *Content of expert reports*
SCL	Shellfish Culture Limited
SGARA	AASB 141 Self-Generating and Regenerating Assets
SPA	Sale and Purchase Agreement
Target Companies	Bolduans Bay Oysters Pty Ltd and Estuarine Oyster Company Pty Ltd
TFO	Tarkine Fresh Oysters Pty Ltd
Valuation Date	1 July 2020
WACC	Weighted average cost capital

Appendix 2 — Sources of information

Shellfish Culture Limited

1. Forecast Model - SCL & ESPL - Peloton Model – 201013
2. 2. SHELLFISH_CULTURE_LTD__-_PL YTD_-_Management_Report – June
3. 4. SHELLFISH_CULTURE_LTD__-_CF YTD_-_Management_Report – June
4. 6. SHELLFISH_CULTURE_LTD__-_Balance Sheet_-_Management_Report – June
5. Financial Statements 2019 - Long Form - Shellfish Culture Ltd - 190630 – SIGNED
6. FY17 Shellfish Culture Ltd Balance Sheet - SCL – 20200929
7. FY20 Profit & Loss - SCL – 20201001
8. FY21 Investor Presentation Balance Sheet Corrected - SCL – 20200929
9. Investor Model - SCL - 200723 – Financials
10. Share Register - SCL – 200630
11. Shellfish Culture Limited long form - SCL - 20201026 – clean
12. shellfish-culture-tasmania_presentation_1905_1920x1080_190515_revised_3

Bolduans Bay Oysters & Estuarine Oyster Company

13. 2019 Financial Statements - Bolduans Bay Oysters
14. 2019-2020 BBO Profit and Loss
15. 200922 Company Profile
16. Adjustments to PL - Management Reports - EOC and BBO
17. BBO Consol June2017(26482449.1)
18. Bolduans Bay Oysters Pty Ltd - 2019 Abridged Profit & Loss
19. 2019 Financial Statements - Estuarine Oyster Company
20. 2019-2020 EOC Profit and Loss
21. Estuarine Oyster Company Pty Ltd - 2019 Abridged Profit & Loss
22. Outputs - Poke Forecasts – 201012
23. 201019 Peloton - BBO EOC Balance Sheet forecast - 2020(70174265.1)

Transaction related

24. Executed Heads of Agreement between SCL and Poke — signed 15 September 2020
25. v11 Share Sale and Purchase Agreement (BBO) – clean
26. v10 Share Sale and Purchase Agreement (EOC)
27. v3 Property - REIT Particulars of Sale (Pokes)
28. v2 Property - REIT Particulars of Sale (BBH)
29. SCL Board discussion paper — Poke Acquisition
30. K Fleming calculations and discussion
31. MD Analysis — Poke Acquisition — 190701
32. SCL Capital Raising Investor Presentation dated June 2019
33. Financial due diligence report in relation to proposed acquisition dated 15 June 2020
34. Discussions with management of SCL and BBO/EOC
35. Independent valuation report of Marine Farming Leases
36. Independent valuation report of Land and Buildings

Industry/other

37. Fisheries Research and Development Corporation
38. Institute for Marine & Antarctic Studies
39. Oysters Australia
40. Everblu Capital Research, Seafood Industry Report
41. CDI Pinnacle Management, Australian Oyster Industry Supply Chain Analysis
42. Angel Seafood Holdings Ltd, Q1 FY20-S Results announcement
43. East 33 prospectus
44. Capital IQ

Appendix 3 — Comparable company analysis

Company	Country	Asset beta	Market cap ($m)	Net debt ($m)	EV ($m)	LTM[1] EBITDA	NTM[2] EBITDA	LTM EV/EBITDA	Implied WACC	Plus DRA[3]	Adjusted LTM EV/EBITDA
Oyster companies											
Angel Seafood Holdings Limited	Australia	0.75	$18.5	$6.6	$25.1	($0.3)	n/a	n/a	n/a	n/a	n/a
General Oyster, Inc.	Japan	0.47	$34.0	$6.7	$40.7	($2.9)	n/a	n/a	n/a	n/a	n/a
Other Australian seafood											
Murray Cod Australia Limited	Australia	0.12	$70.5	($2.9)	$67.6	($3.3)	n/a	n/a	n/a	n/a	n/a
Seafarms Group Limited	Australia	0.80	$118.7	$29.3	$148.0	($16.4)	n/a	n/a	n/a	n/a	n/a
Ocean Grown Abalone Limited	Australia	1.13	$19.1	($2.0)	$17.0	($3.3)	n/a	n/a	n/a	n/a	n/a
Clean Seas Seafood Limited	Australia	1.54	$58.8	$4.2	$63.0	($24.9)	n/a	n/a	n/a	n/a	n/a
Tassal Group Limited	Australia	0.30	$721.5	$415.1	$1,136.5	$145.4	$151.8	7.8x	13.9%	23.9%	4.7x
Huon Aquaculture Group Limited	Australia	0.18	$255.6	$339.5	$595.1	$46.4	$75.9	12.8x	9.7%	19.7%	5.8x
Diversified seafood											
Chubu Suisan Co.,Ltd.	Japan	0.22	$57.4	($35.4)	$21.9	$3.8	n/a	5.8x	13.8%	23.8%	4.7x
Clearwater Seafoods Incorporated	Canada	0.08	$354.5	$532.1	$886.6	$116.4	$88.6	7.6x	14.7%	24.7%	4.5x
Sanford Limited	New Zealand	0.25	$549.1	$191.1	$740.2	$72.3	$74.9	10.2x	11.0%	21.0%	5.4x
Mowi ASA	Norway	0.32	$14,166.8	$2,998.3	$17,165.2	$564.1	$1,535.5	30.4x	5.3%	15.3%	7.8x
Lerøy Seafood Group ASA	Norway	0.03	$5,158.9	$698.0	$5,857.0	$368.5	$536.4	15.9x	7.8%	17.8%	6.5x
Fish farming											
Blue Island Plc	Cyprus	0.01	$15.9	$3.8	$19.6	$3.8	n/a	5.1x	19.5%	29.5%	3.7x
Andfjord Salmon AS	Norway	n/a	$252.7	($26.3)	$226.4	n/a	n/a	n/a	n/a	n/a	n/a
Brim hf.	Iceland	0.06	$752.3	$473.1	$1,225.4	$94.2	n/a	13.0x	9.3%	19.3%	5.9x
Compañía Pesquera Camanchaca S.A.	Chile	0.73	$400.2	$189.4	$589.5	$130.7	n/a	4.5x	22.0%	32.0%	3.4x
Pescanova, S.A.	Spain	n/a	$18.9	$20.5	$39.4	n/a	n/a	n/a	n/a	n/a	n/a
Pingtan Marine Enterprise Ltd.	China	n/a	$132.8	$525.4	$658.2	$32.3	n/a	20.4x	7.2%	17.2%	6.8x
Global median		**0.22**	**$132.8**	**$29.3**	**$226.4**	**$3.8**	**-**	**10.2x**	**11.0%**	**21.0%**	**5.4x**
Global Average		**0.37**	**$1,218.7**	**$335.1**	**$1,553.8**	**$80.4**	**$129.6**	**12.2x**	**12.2%**	**22.2%**	**5.4x**

Notes: (1) Last twelve months. (2) Next twelve months. (3) Adjusted multiple = (1 / (adjusted WACC – 2.5% perpetuity growth rate)). Information in table are at 30 June 2020.

Source: S&P Capital IQ

Appendix 4 — Transaction comparables

Announce Date	Buyer	Target	Description	EV/EBITDA
20-Jun-18	Andromeda Seafood Limited	Nireus Aquaculture S.A.	Nireus Aquaculture S.A. produces and trades in Mediterranean aquaculture species worldwide. The company operates in three segments: Aquaculture, Fishfeed, and Aviculture-Stockbreeding. It offers sea bream, sea bass, meagre, and pagrus; ready to cook fish products; fish juveniles; fish feeds; and aquaculture equipment. The company also produces processed fish, and stock and aviculture products; and provides integrated solutions and products to the poultry, swine, and cattle farming industries. Its customers include large super market chains, wholesalers, and processors, as well as aquaculture companies. Nireus Aquaculture S.A. was founded in 1988 and is based in Koropi, Greece. As of November 27, 2019, Nireus Aquaculture S.A. operates as a subsidiary of Andromeda Seafood Limited.	4.9x
4-Aug-18	AGROSUPER S.A.	Empresas AquaChile S.A.	Empresas AquaChile S.A. produces and distributes aquaculture products in Chile and internationally. It offers Atlantic and Coho salmon, Sea trout, and Tilapia products. The company owns 163 aquaculture concessions covering an area of 1,648.68 hectares. It also operates three stores in Santiago, Puerto Montt, and Aysén. The company was founded in 1979 and is based in Puerto Montt, Chile. As of January 20, 2019, Empresas AquaChile S.A. operates as a subsidiary of AGROSUPER S.A.	24.6x
11-Dec-18	Gruppa Kompani Korvet, Ooo	Public Joint Stock Company Nakhodka Active Marine Fishery Base	Public Joint Stock Company Nakhodka Active Marine Fishery Base, a fishing enterprise, engages in harvesting, processing, and sale of sea fish and sea products in Russia, Western Europe, and the Asia-Pacific Region. It owns a fishing fleet of 17 heavy-tonnage and 1 middle-tonnage vessel, and one transport refrigerator. The company was founded in 1952 and is based in Nakhodka, Russia. As of December 11, 2018, Public Joint Stock Company Nakhodka Active Marine Fishery Base operates as a subsidiary of Gruppa Kompani Korvet, Ooo.	3.8x
18-Jan-19	Sajodaerim Corporation	SAJOHAEPYO Corporation	As per the transaction announced on January 18, 2019, SAJOHAEPYO Corporation was acquired by Sajodaerim Corporation. AJOHAEPYO Corporation engages in the production, retail, import, and export of oils, fisheries, soybean pastes, and processed foods in South Korea and internationally. It offers edible oils, including grape seed, canola, olive, brown rice, and green tea oils; seasoned dried lavers, salt, noodles, sauces, and vinegared drinks; tuna products; and vegetable soybean oil that is used for paints, inks, and adhesives. The company also provides epoxidized soybean oil that is used in PVC floorings, leather, food, wrappings, sheets for interior design, car upholstery, and toys where chemical additives are contained; and soybean meals, which are used as ingredients for livestock fodders. SAJOHAEPYO Corporation was founded in 1966 and is based in Seoul, South Korea.	7.4x

25-Sep-19	P/F Bakkafrost	The Scottish Salmon Company PLC	The Scottish Salmon Company PLC produces, processes, markets, and sells Scottish seafood products primarily in Scotland. The company provides Scottish Salmon. It offers its products under the Native Hebridean Salmon, Tartan Salmon Label Rouge, and Lochlander Salmon brand names. The company also exports its products to 26 countries. The Scottish Salmon Company PLC was incorporated in 2009 and is headquartered in Edinburgh, the United Kingdom. As of October 8, 2019, The Scottish Salmon Company PLC operates as a subsidiary of P/F Bakkafrost.	9.9x
TOTAL - Max				**24.6x**
TOTAL - Median				**8.7x**
TOTAL - Average				**10.7x**
TOTAL - Min				**3.8x**

Source: S&P Capital IQ

Appendix 5 — Financial statement normalisations

Shellfish Culture Limited

Historical profit and loss normalisations

Profit and loss normalisations (A$'000)	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Impairment expense	$0	$362	$994	-	-	-
Acquisition costs	-	$594	$193	-	-	-
JobKeeper payment	-	-	($721)	($867)	-	-
Profit/(loss) on sale of assets	$7	($57)	($14)	-	-	-
Gain on acquisition	-	($54)	-	-	-	-
Effect on EBITDA	**$7**	**$844**	**$452**	**($867)**	**-**	**-**

SCL incurred impairment expenses in relation to its investment in EPSL, which was done to support the net asset base of the capital raise as at 30 June 2019. Given it is a non-cash charge, Peloton has removed from operating expenses.

Acquisition costs relate to financial and legal advice on its acquisitions of small independent oyster growers over FY18-FY20. Peloton views this expense as non-recurring and special in nature which supports its action to remove from operating expenses.

Peloton has backed out income received for JobKeeper on the premise that it is non-recurring in nature.

The effect of gains and losses on the sale of non-current assets have been removed as these are purely accounting treatments and do not reflect the actual performance of the business.

Historical balance sheet normalisations

None.

Bolduans Bay Oysters Pty Ltd

Historical profit and loss normalisations

Profit and loss normalisations (A$'000)	FY17A	FY18A	FY19A	FY20A
Rent — internal	$18	$15	-	$68
Capital items charged to P&L as consumables	-	-	-	$132
JobKeeper payment	-	-	-	($155)
Government subsidies	($38)	($20)	($16)	-
Effect on EBITDA	**($20)**	**($5)**	**($16)**	**$45**

BBO has expensed a notional rental charge for its use of freehold properties owned by separately by the Poke family however employed in the Smithton operation.

Over the historical period BBO had written off the cost of certain racks, rails and baskets instead of capitalizing these items and incurring depreciation charges. Peloton has removed this capex from EBITDA.

JobKeeper payments have been removed given its non-recurring nature.

Highly variable and unpredictable government subsidy income has also been removed to isolate the core earnings of BBO.

Historical balance sheet normalisations

Financial position normalisations (A$'000)	FY18A	FY19A	FY20A
Loans to Estuarine Oyster Company	($50)	($20)	-
Amounts receivable from Shareholders	-	($37)	($59)

Amounts receivable from Other related entities	($112)	($50)	$6
Effect on assets	**($162)**	**($106)**	**($53)**

Loans made to EOC have been removed from assets given the two companies are interrelated and to ensure individual balance sheets align with the combined group being acquired (i.e. Target Companies).

BBO has several receivable items outstanding from shareholders and other related entities, for the purpose of this analysis Peloton has assumed these receivables are fully recoverable at-call and removed from the balance sheet as such.

Estuarine Oyster Company Pty Ltd

Historical profit and loss normalisations

Profit and loss normalisations (A$'000)	FY17A	FY18A	FY19A	FY20A
Capital items charged to P&L as consumables	-	-	-	$34
Government subsidies	($45)	($8)	($6)	-
Effect on EBITDA	**($45)**	**($8)**	**($6)**	**$34**

Like BBO, EOC had written off the cost of certain racks, rails and baskets instead of capitalizing these items and incurring depreciation charges. Peloton has removed this capex from EBITDA.

Government subsidies have also been removed in line with BBO.

Historical balance sheet normalisations

Financial position normalisations (A$'000)	FY18A	FY19A	FY20A
Loans to Directors	($0)	-	-
Effect on assets	**($0)**	**-**	**-**
Loans from Bolduans Bay Oysters P/L	($50)	($20)	($10)
Effect on liabilities	**($50)**	**($20)**	**($10)**

A notional Director loan of $112 has been removed in FY18.

Loans from to BBO have been removed from assets given the two companies are interrelated and to ensure individual balance sheets align with the combined group being acquired (i.e. Target Companies).

Appendix 6 — Discount rates

WACC formula and cash flows

The WACC is a forward-looking concept based on the Capital Allocation Pricing Model (CAPM). There are a number of different definitions/formulae for WACC, each of which has a corresponding definition of the cash flows to which it must be applied.

The traditional nominal classical WACC (post-tax) approach, which is shown mathematically as:

$$WACC = \frac{D}{V}(1-T)K_d + \frac{E}{V}K_e$$

Where:

D/V is the target gearing ratio, including debt and quasi-debt liabilities (such as leases)
E/V is the proportion of equity in the capital structure
T is the corporate tax rate
Kd is the cost of debt
Ke is the cost of equity

The WACC that is derived from this formula should be applied to the nominal, expected, operating free cash flows. A notional amount of tax must be deducted from Earnings Before Interest and Tax (EBIT) at the corporate tax rate, regardless of whether the modelling is being done for financial reporting or investment decision-making. The debt tax shield is ignored when calculating the cash flows; instead, it is accounted for via adjustments to the WACC formula.

The cash flows must be adjusted to account for the value of imputation credits, as this is ignored in the classical WACC approach.

As the WACC formulation does not reflect the value to investors of the franking attached to dividends, it is necessary to incorporate an estimate of that value in the cashflows. The franking value estimate is the product of the tax paid, dividend payout ratio and the extent to which it is anticipated that investors will be able to utilise the franking.

In the event that cash flows are biased, but cannot be adjusted, the relevant WACC must then be adjusted to ensure consistency between the cash flows and WACC. For example, if cash flows are upwardly biased (above expected values), the relevant WACC must be increased by adding an appropriate “alpha” adjustment to ensure consistency. However, “alpha” adjustments are (at best) only rough approximations, so it is preferable to adjust cash flows, rather than WACC, wherever possible.

Applying the capital asset pricing model

Measuring risk-free investments

The risk-free rate is a critical component of both the cost of equity in the CAPM.

Yields on CGBs (Australian Commonwealth Government Bonds) are generally used as a proxy for the risk-free rate (Rf) because these bonds are considered to be the closest to riskless (i.e. free of default risk) financial security that trades in an open market. The appropriate maturity is 10 years, which is a compromise between matching the long-term nature of the assets being examined and requiring securities that trade in a liquid and well-attended market. The lack of long-term securities with these characteristics has led to the common use of 10-year CGBs.

Peloton’s standard practice is to estimate the risk-free rate — and other market data, such as the cost of debt — using average yields over 20 trading days (approximately 1 calendar month). This removes any short-term ‘noise’ that can occur in the market values from a spot (or specific day) estimate. As bond yields are generally stable over this timeframe — in the absence of market shocks — averaging over a 20 day period does not materially affect the assessed parameter values.

As macroeconomic forces can play out over several years and the economic cycle cannot be precisely defined, and longer-term structural changes to economies are always occurring that affect cross-country capital flows, it is not appropriate to adjust CGB yields for any perceived mean reversion to 'historical' levels.
Similarly, in the event of a market shock, observed yields represent the market's current view of the future and remain the most appropriate proxy for the risk-free rate required in the CAPM.

Accordingly, currently observed CGB yields should always be used when estimating Rf.

Measuring investment risk

The CAPM assumes that investors hold a well-diversified portfolio comprising a mix of risk free and risky assets. Consequently, the risk of a project/company is the impact of its inclusion on the risk of the well-diversified market portfolio.

From this, it is clear that the measurement of relative risks is integral to CAPM and hence the WACC. The two important measures are:

- equity beta (βe) captures the risk of holding an individual security relative to the market as a whole; and
- asset beta (βa) reflects the operational risk in a business and can be viewed as the risk of the business as if it is financed by equity alone.

The difference between the equity beta and asset beta arises from the partial debt funding of the business. The equity beta will rise above the asset beta when debt funding is employed. This occurs because debt investors contract for lower risk than the asset beta, thereby transferring a greater share of risk to equity investors.

This financing activity does not affect the asset beta — which is the operational risk — and it simply leads to a different sharing of the risk between equity and debt capital providers.

Gearing

The D/V and E/V ratios are determined by reference to a hypothetical optimal capital structure, or in practice, an industry benchmark or specific company's target level of gearing.

When the WACC is assessed for many companies, the key parameters cannot be observed or would be considered unreliable (for instance, if a company is listed but not actively traded). In these cases, benchmark data is used, including gearing levels that are considered typical across an industry based on risk profiles.

Even if a larger company is actively traded on a stock exchange the actual gearing might diverge at a point in time from the target gearing levels. In these cases, to ensure that the WACC is appropriately forward looking, the target gearing ratio are applied in the CAPM formula rather than the actual gearing ratio.

Market risk premium

The MRP measures the return of the market over the return on the risk-free rate. Measures of MRP typically consider the returns on the market over the risk-free yield curve. Peloton recognises that the MRP cannot be precisely measured.

Although the CAPM is a forward-looking model, which means all inputs need to be forward-looking, it is not unusual to rely heavily on historical data when estimating the MRP. Under these circumstances, using a long time series is best as it improves statistical "accuracy" and also captures weighting of events according to their likelihood of occurrence.

Long term estimates of the historical Australian MRP are provided below. These are derived from a broad-based stock market index and, in general, from the yield on 10-year Commonwealth Government Bonds.

Period		Value of imputation credits	
From	To	γ=0	γ=1
1883	2015	6.0%	6.4%
1958	2015	5.8%	6.6%

Sources:
1883-2005: Brailsford, T., J.C. Handley and K. Maheswaran, 2008, Re-examination of the historical equity risk premium in australia, *Accounting and finance* 48, 73-97.
2006-2015: Brailsford (for FTC impace), Bloomberg, RBA, Value Adviser Associates analysis

We note that, although franking tax (imputation) credits represent an additional source of value to shareholders, stock market indices do not usually include returns from these credits. When estimating MRP, the market return should imply value of imputation credits, to the extent that they are valued by the market, in addition to the dividend yield and capital gain.

Equity beta

Although the WACC (and hence beta) is a forward-looking concept, the equity beta for a listed stock is usually estimated via the "market model", in which the stock's historical total shareholder returns (including dividends) are regressed against those of a broad-based market index from the relevant country.

Typically, this is based on a regression of 60 monthly observations for the stock against an accumulation index (in order to include dividends in the measurement of a market's overall return).

While the equity beta would generally be stable over time — which is why a 60 month regression is used — actual gearing levels can materially change over time. Similarly, other business fundamentals such as perceived investment risk, or market liquidity, can change. Accordingly, careful attention must be paid to trends in the observed data equity betas and whether a medium-term averaging best represents a forward-looking measure of the risk of investing in a company's equity relative to the market.

In assessing the WACC, the equity betas and benchmark gearing from a set of comparable companies should always be used to broadly capture the range of risks and capital structure in similar companies or the industry.

Ideally, comparable companies would be based in Australia and thereby face similar market, tax and regulatory conditions. Further, as beta is a measure of risk that is relative to that of a well-diversified portfolio, it is preferable to use a portfolio that is reflective of the holdings of Australian investors. A home bias in investing means that an analyst would ideally want to assess the risks of the asset relative to a market index that is predominantly Australia-based.

For unlisted or illiquid companies, the equity beta is derived by reference to this set of comparable companies. For listed companies with sufficient liquidity, the equity beta is used as an important cross-check against the observed data, once adjusted to standardise gearing and corporate tax rates.

Discount for lack of liquidity/marketability

Two general types of empirical studies provide evidence for the existence and magnitude of discounts for lack of marketability, being restricted stock studies and pre-IPO studies.

- *Restricted stock studies* compare the trading prices of a company's publicly held stock sold on the open market with those of unregistered or restricted shares of the same company sold in private transactions. Examples include:
    - The Maher study examined restricted stock purchases made by four mutual funds in the period 1969–73 and concluded that they traded at an average discount of 35.43% on publicly traded stock in the same companies;
    - The Silber study examined restricted stock issues from 1981 to 1988 and found that the median discount for restricted stock was 33.75%;
    - Other studies confirm these findings of a substantial discount, with discounts ranging from 30% to 35%. One study by Bruce Johnson in 1999 found a smaller discount of 20%; and
    - It has been argued that the marketability discounts implied by these studies may be inflated since they are based on small sample sizes, spread out over long time periods, and the standard error of

these estimates are substantial. Moreover, the firms that issue restricted stock tend to be smaller, riskier, and less healthy than the typical firm that may warrant discounts for lack of marketability; and

- *Pre-IPO studies* examine the prices of transactions in shares of private entities, compared to the eventual IPO price of the same entities to estimate the premium paid for tradable, marketable shares, and conversely the implied discount for the lack of that marketability. These studies indicate that a range of marketability discounts may be in the order of 32% to 75%. The studies indicate that other factors may affect marketability discounts as well.

The following table and references were obtained from Discount for Lack of Marketability: Job Aid for IRS Valuation Professionals, September 25, 2009.

Empirical Study (citation below)	Time Period Covered	Average Discount %
SEC overall average	1/66 – 6/69	25.8
SEC non-reporting OTC companies	1/66 – 6/69	32.6
Gelman	1/68 – 12/70	33.0
Trout	1/68 – 12/72	33.5
Moroney	1/69 – 12/72	35.6
Maher	1/69 – 12/73	35.4
Standard Research Consultants	10/78 – 6/82	45.0 (median)
Willamette Management Associates	1981 – 1984	31.2 (median)
Silber	1/81 – 12/88	33.8
FMV Opinions, Inc.	1/79 – 4/92	23.0
Bruce Johnson Study	1/91 – 12/95	20.0
Columbia Financial Advisors	1/96 – 4/97	21.0
Columbia Financial Advisors	5/97 – 12/98	13.0

Due to the limitations of these studies summarised above and lack of direct comparability of the companies that form the basis of those studies, marketability discounts in the lower end of those ranges (e.g. 10% to 30%) are often applied to the enterprise value. This range is also supported by the Australian Private Equity and Venture Capital Association guidelines for the valuation of private equity investments, which states:

> *The Valuer might consider that under specific circumstances the Marketability Discount is not appropriate and should not be applied. When a discount is applied, the Valuer should consider all relevant factors in determining the appropriate Marketability Discount in each particular situation. A discount in the range of 10% to 30% (in steps of 5%) is generally used in practice, depending upon the particular circumstances.*

Based on our research and the academic studies we considered, we believe a marketability discount in the vicinity of 30% is not unreasonable. Expressed as a premium to an unlisted security, the premium is c.43%.

Control premium

Peloton has reviewed premium for control studies based on transactions occurring in Australia and internationally. RSM Bird Cameron conducted a control premium study based on 345 successful takeovers between 1 July 2005 and 30 June 2012. The study found that the implied control premium at 20 days pre-bid for the Australian market was:

- An average of 35.3%; and
- A median of 29.0%.

The RSM Bird Cameron study also found that control premiums vary considerably based on the level of existing shareholding in the target, with higher premiums being paid when acquirers have a material stake in the target. When buyers already hold between 10% and 50% of the target's equity, the average control premium is around 40% and the median between 30% and 35%. In contrast, when the acquirer has a lesser or no shareholding, the average premium is around 30% and the median premium in the range of 20% to 25%.

Deloitte conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 31 December 2011. This study was conducted by Deloitte Corporate Finance staff for internal research purposes. The merger and acquisition data were sourced from Bloomberg and Thomson Reuters and yielded 490 transactions that were completed during the period under review. The study found that the implied control premium for the Australian market was:

- An average of 34%; and
- A median of 29%.

Mergerstat conducted a study of transactions in the United States of America and internationally where 50.01% or more of a company was acquired. Transactions were analysed for the 12 months ending 31 December 2012. The study found that the implied control premiums were:

- An average of 55.8%; and
- A median of 37.1%.

The Mergerstat control premium findings are higher than the Australian studies conducted by RSM Bird Cameron and Deloitte. This may be due to the exclusion of transactions that had negative premiums. Further, transaction studies potentially include 'special value' that a specific acquirer may pay due to synergies that are not available to other market participants. Accordingly, the Mergerstat study may overstate the control premium.

A summary of these studies is included in the table below.

Study	Average control premium	Median control premium
RSM Bird Cameron	35.3%	**29.0%**
Deloitte	34.0%	**29.0%**
Mergerstat	**55.8%**	**37.1%**

Peloton also reviewed independent expert reports issued by valuation firms over the three years to 2013. Based on our research, the typical control premium ranges quoted in the independent expert reports are summarised below.

Independent Expert	Control premium range	Control premium midpoint
PwC	20%-40%	**30%**
KPMG	25%-40%	**32.5%**
Ernst & Young	20%-40%	**30%**
Deloitte	20%-40%	**30%**
Grant Samuel	20%-35%	**27.5%**
Lonergan Edwards & Associates	30%-35%	**32.5%**
BDO	25%-35%	**30%**
Grant Thornton	20%-40%	**30%**

Based on the research conducted in relation to control premiums, Peloton considers a control premium in the vicinity of 30% to be appropriate. This equates to minority discount of c.23%. For this valuation, we have used a minority discount range of 20–30%.

Sources for discount rate premiums/discounts:

- Discounts Involved in Purchases of Common Stock (1966-1969), Institutional Investor Study Report of the Securities and Exchange Commission, H.R. Do. No. 92-64, Part 5, 92nd Congress, 1st Session, 1971, 2444-2456.
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- Moroney, Robert E., Most Courts Overvalue Closely Held Stocks, Taxes, March 1993, 144-154.

- Maher, Michael J., Discounts for Lack-of-marketability for Closely Held Business Interests, Taxes, September 1976, 562-71.
- Pittock, William F., and Stryker, Charles H., Revenue Ruling 77-287 Revisited, SRC Quarterly Reports, Spring 1983.
- Willamette Management Associates study (unpublished)
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- Hall, Lance S., and Timothy C. Polacek, "Strategies for Obtaining the Largest Valuation Discounts," Estate Planning, January/February 1994. pp. 38-44.
- Johnson, Bruce, "Restricted Stock Discounts, 1991-95", Shannon Pratt's Business Valuation Update, Vol. 5, No. 3, March 1999, pp. 1-3. "Quantitative Support for Discounts for Lack of Marketability." Business Valuation Review, December, 1999, pp. 152-155.
- CFAI Study, Aschwald, Kathryn F., "Restricted Stock Discounts Decline as Result of 1-Year Holding Period — Studies After 1990 'No Longer Relevant' for Lack of Marketability Discounts", SHANNON PRATT'S BUSINESS VALUATION UPDATE, Vol. 6, No. 5, May 2000, pp. 1-5.
- Officer, M, "The price of corporate liquidity: Acquisition discounts for unlisted targets" 2005
- Damodaran, "Marketability and Value: Measuring the Illiquidity Discount" 2005
- De Jong and Driessen, "Liquidity Risk Premia in Corporate Bond Markets"

Appendix 7 — Statement of qualifications and declarations

Peloton Corporate is qualified to provide this report. It is a corporate authorised representative of Capital Value Securities Pty Ltd, which holds an Australian Financial Services Licence under the Act. The Peloton Corporate personnel responsible for this report have not provided financial advice to SCL in relation to the proposed acquisition. Prior to accepting this engagement, Peloton Corporate considered its independence with respect to SCL with reference to ASIC Regulatory Guide 112: *Independence of experts*. In our opinion, we are independent of SCL.

This report has been prepared specifically for the SCL's shareholders. Neither Peloton Corporate nor any member or employee thereof undertakes responsibility to any person, other than SCL shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Peloton Corporate has relied upon and considered information believed after due inquiry to be reliable and accurate. Peloton Corporate has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Peloton Corporate has evaluated the information provided to it by SCL, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially miss-stated or would not afford reasonable grounds upon which to base this report. Peloton Corporate does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose. The information we have had regard to in the preparation of this report is set out in Appendix 2 — Sources of Information.

The information provided to Peloton Corporate has been evaluated through analysis, enquiry and review to the extent it considered necessary for the purposes of forming an opinion. Peloton Corporate does not warrant that its enquiries have identified or verified all the matters that a formal audit or due diligence may disclose. Accordingly, this report and the opinions contained in it should be considered more in the nature of a commercial and financial review rather than a comprehensive audit or due diligence.

SCL has provided an indemnity to Peloton Corporate for any claims arising out of any miss-statement or omission in any material or information provided to it in the preparation of this report.

This report should be read in its entirety to ensure that no isolated statements, analyses or other factors are construed out of context. The preparation of an opinion is a complex process and subject to professional judgement. The overall opinion is not to partial analysis or summary.

Peloton Corporate provided a redacted draft copy of this report to the independent directors and management of SCL for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Peloton Corporate alone. Changes made to this report as a result of this review by the independent directors and management of SCL have not changed the methodology or conclusions reached by Peloton Corporate.

Peloton Corporate will receive a professional fee based on time spent in the preparation of this report, estimated at $26,000 (exclusive of GST). This fee is not contingent on the outcome of the proposed acquisition. Peloton Corporate will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Michael Churchill, Head of Valuations, has assumed overall responsibility for this report. He has over 30 years' experience in providing valuation advice and has professional qualifications appropriate to the advice being offered. Michael holds a Bachelor of Commerce, post graduate Diploma in Financial Analysis and Investment and is a Fellow of CPA Australia, a Senior Fellow of Finsia, a member of the Tax Institute and of the Institute of Company Directors.

In the preparation of this report Peloton Corporate has had regard to relevant Regulatory Guides issued by ASIC. It is not intended that the report should be used for any other purpose than to be sent to the Shareholders of SCL. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Share Acquisition is in the best interest of the SCL's non-participating shareholders.

This report conforms to the requirements of APES 225 "Valuation Services".

The financial forecasts considered in the preparation of this report reflect the judgement of directors and management of SCL based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Peloton Corporate consents to the issue of this report in the form and context in which it accompanies the Notice of Meeting to be sent to the shareholders of SCL.

Appendix 8 — Financial services guide

Peloton Corporate Pty Ltd ABN 15 633 105 558 ("Peloton Corporate" or "we" or "us" or "our" as appropriate) provides general advice in relation securities to retail clients as an authorised representative of Capital Value Securities Pty Ltd ABN 46 123 674 886 ("CVS" or "licensee") AFSL No 311705.

Financial Service Guide

In the above circumstances we are required to issue you, as a retail client, with a Financial Services Guide [FSG].

This FSG is designed to help retail clients make a decision as to their use of our general security advice.

This FSG includes information about:

1. Who we are and how we and the licensee can be contacted
2. The services we are authorised to provide under the licensee's Australian Financial Services Licence
3. Remuneration that we, the licensee and any associates receive in connection with our general advice
4. The licensee's complaints handling procedures and how you may access them.

The licensee has authorised this FSG.

Financial services we are authorised to provide

We hold Authorised Representative number 342572 authorising us to provide general security advice on behalf of the licensee.

General advice

We provide general advice, not personal advice because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing general advice. These fees will be agreed with, and paid by, the person who engages us. Fees will be agreed on either a fixed fee or time cost basis. Clients may request particulars within a reasonable time after receiving this Guide (and before any financial service is given).

Except for the fees referred to above, neither Peloton Corporate, CVS nor any of their directors, employees or related entities receive any pecuniary benefit or other benefit directly or indirectly for or in connection with the provision of financial product advice.

Referrals

We do not pay commissions or provide other benefits to any person for referring customers to CVS or us in connection with the advice that we are authorised to provide.

Associations and relationships

From time to time, we may provide professional services to financial product issuers in the ordinary course of our business.

Complaints resolution

Internal complaints resolution process

As a representative of an Australian Financial Services Licence holder, Peloton Corporate is required to have a system for handling complaints from retail clients to whom it and its representatives provide financial product advice. All complaints must be in writing, addressed to: The Complaints Officer, Peloton Corporate Pty Ltd, Level 40, 140 William St, Melbourne Vic 3000 or by email to sgeorgaras@peloton.group.

When Peloton Corporate receives a written complaint it will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practicable and not more than 45 days after receiving the written complaint, it will advise the complainant in writing of its determination.

Referral to External Dispute Resolution Proposed Acquisition

A complainant not satisfied with the outcome of the above process, or the licensee's determination, has the right to refer the matter to the Financial Ombudsman Service Ltd ["FOS"]. FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available from the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Ltd. GPO Box 3, Melbourne Victoria 3001 or Toll free 1300 78 08 08 or by facsimile (03) 9613 6399.