

***Private & Confidential***

The Board of Directors  
ELB Group Limited  
14 Atlas Road  
Anderbolt  
Boksburg  
1459

3 August 2020

Dear Sirs,

**RE: REPORT OF THE INDEPENDENT EXPERT REGARDING THE OFFER BY ELB GROUP LIMITED TO REPURCHASE ISSUED SHARES BY WAY OF A SCHEME OF ARRANGEMENT OR CONCURRENT GENERAL OFFER****1. INTRODUCTION**

In terms of the firm intention announcement published by ELB Group Limited (“**ELB**” or the “**Company**”) on the Stock Exchange News Service (“**SENS**”) of the exchange operated by the JSE Limited (“**JSE**”) on 1 July 2020 (“**Firm Intention Announcement**”), holders of ordinary shares of no par value in the issued share capital of ELB (“**ELB Shares**”) (“**Shareholders**”) were advised of the firm intention by the Company to make an offer to acquire all of their ELB Shares, except those ELB Shares held by Apex Partners Holdings Pty Ltd (“**Apex**”), for an offer consideration of R2.00 per ELB Share (the “**Offer Consideration**”) (the “**Offer**”). The proposed transaction (the “**Transaction**”) comprises:

- an offer to all Shareholders (except Apex) to acquire all of their ELB Shares (“**Scheme Shares**”) for the Offer Consideration, in accordance with the provisions of sections 48 and 114(1)(e) of the Companies Act, No. 71 of 2008, as amended (“**Companies Act**”) and paragraph 1.17(b) of the Listings Requirements of the JSE (“**Listings Requirements**”), by way of a scheme of arrangement (“**Scheme**”); and
- separate to the Scheme, but concurrently with it, a conditional general offer (“**General Offer**”) by ELB to all Shareholders (except Apex), to acquire all of their ELB Shares (“**General Offer Shares**”) for the Offer Consideration, in accordance with the provisions of sections 48 and 117(1)(c)(v) of the Companies Act and paragraphs 1.15(c) and 5.69 of the Listings Requirements, which will be implemented only if the Scheme fails; and
- the subsequent delisting of all of the ELB Shares from the JSE, in terms of paragraph 1.17(b) of the Listings Requirements (“**Delisting**”), pursuant to the implementation of the Scheme or, if the Scheme fails, pursuant to Shareholders approving the delisting as an ordinary resolution in terms of paragraphs 1.15 and 1.16 of the Listings Requirements (“**Delisting Resolution**”), and the General Offer being implemented.

Apex, the largest shareholder in ELB, holding 19.6% of the ELB Shares, will be excluded from the Offer.

The Scheme and General Offer are proposed concurrently on the basis that the implementation of the General Offer will be conditional upon, inter alia, the Scheme not becoming operative. In this regard, in the event that the Scheme becomes operative, the General Offer will lapse. Alternatively, if the Scheme does not become operative and the General Offer becomes wholly unconditional, the General Offer will be implemented.

As at the date of this Opinion (as defined below), the authorised and issued share capital of the Company comprises the following:

- Authorised no par value ordinary share capital comprising 500 000 000 shares; and
- Issued no par value ordinary share capital comprising 28 473 542 shares.

The effect of the Scheme will, inter alia, be that ELB will, upon implementation of the Scheme, become the registered and beneficial owner of all Scheme Shares (excluding, for the avoidance of doubt, the ELB Shares held by Apex), where after ELB will cancel such shares and have its securities register updated accordingly. As a consequence of the Scheme becoming operative, an application will be made to the JSE for the delisting of all ELB Shares from the JSE.

Should the General Offer become unconditional and be implemented, ELB will repurchase all ELB Shares tendered by Shareholders (other than Apex), including any ELB Shares which have not been tendered by non-accepting Shareholders in the event that (i) Shareholders holding 90% of the General Offer Shares accept the General Offer; and (ii) ELB exercises its rights to compulsorily acquire the remaining General Offer Shares in terms of section 124 of the Companies Act. Following the approval of the Delisting Resolution and the implementation of the General Offer, an application will be made to the JSE for the delisting of all ELB Shares from the JSE.

## **2. INTEREST OF THE DIRECTORS OF ELB IN ELB SHARES**

At 4 August 2020, being the last practicable date prior to the finalisation of the circular to Shareholders, dated Friday, 14 August 2020 (the “Circular”) (“**Last Practicable Date**”), the directors of ELB held, directly and indirectly, beneficial interests in 6 438 931 ELB Shares, representing approximately 22.61% of the total ELB Shares in issue at that date. The direct and indirect beneficial interests of the directors of ELB, including directors who have resigned over the last 18 months as at the last practicable date, are set out in paragraph 16.4.1 of the Circular to which this Opinion is annexed as **Annexure 1**.

Charles Pettit is the controlling shareholder of Apex and will therefore not participate in the Offer. Save for their direct and/or indirect participation in the Offer as Shareholders, the other directors do not have any direct or indirect beneficial interest in the Offer and will participate in the Offer alongside other Shareholders.

Copies of sections 115 and 164 of the Companies Act are included as **Annexure 5** of the Circular, to which this Opinion is annexed as **Annexure 1**.

## **3. SCOPE**

### **Fair and reasonable opinion required in terms of the Companies Act**

Each of the Scheme and the General Offer is an affected transaction as defined in section 117(1)(c) and section 117(c)(iv), respectively, of the Companies Act. In terms of section 114(2) of the Companies Act, as read with Regulations 90 and 110 of the Companies Regulations, 2011 (the “**Companies**

**Regulations**”), the board of ELB (the “**ELB Board**”) is required to retain an independent expert to provide an independent expert report (in the form of a fair and reasonable opinion) in terms of section 114(3) of the Companies Act (as well as in terms of section 48(8) of the Companies Act which is also applicable to each of the Scheme and the General Offer) and Regulation 90 of the Companies Regulations (the “**Fair and Reasonable Opinion**”).

Moore Advisory Jhb (Pty) Ltd (“**Moore**”) has been appointed as the independent expert by the Independent Board to assess each of the Scheme and the General Offer and the Offer Consideration as required in terms of section 114 of the Companies Act and Regulation 90 of the Companies Regulations. The Fair and Reasonable Opinion set out herein is provided to the ELB Board for the sole purpose of assisting the ELB Board in forming and expressing an opinion on the Scheme, the General Offer and the Offer Consideration for the benefit of Shareholders (other than Apex).

#### **Fairness opinion required in terms of the Listing Requirements**

In terms of paragraph 1.15(d) and, to the extent applicable, paragraph 5.69(e) of the Listings Requirements, the ELB Board is required to obtain a fairness opinion from an independent expert confirming whether the General Offer is fair insofar as Shareholders are concerned (the “**Fairness Opinion**”) and to advise Shareholders accordingly.

Moore has been appointed as the independent expert by the ELB Board to provide the Fairness Opinion in respect of the General Offer.

The Fair and Reasonable Opinion and the Fairness Opinion are together referred to as the “**Opinion**”.

#### **4. RESPONSIBILITY**

Compliance with the Listings Requirements, Companies Act and Companies Regulations is the responsibility of the ELB Board. Our responsibility is to report on whether the terms and conditions of the Scheme, the General Offer and Offer Consideration are fair and reasonable.

This Opinion is provided to the ELB Board in connection with and for the purpose of the Transaction and for the sole purpose of assisting each of the ELB Board and the independent board of ELB as contemplated in regulation 108 of the Companies Regulations (“**Independent Board**”) in forming and expressing an opinion for the benefit of Shareholders (other than Apex). This opinion is prepared solely for the ELB Board and the Independent Board and therefore should not be regarded as suitable for use by any other party or give rise to third party rights.

#### **5. EXPLANATION AS TO HOW THE TERMS “FAIR” AND “REASONABLENESS” APPLY IN THE CONTEXT OF THE TRANSACTION**

The “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received, as a result of the transaction, are equal to or greater than the value surrendered.

An offer may be considered to be fair to shareholders if the offer consideration is equal to or greater than the fair value of an ELB Share, or unfair if the offer consideration is less than the fair value of an ELB Share. Furthermore, in terms of Regulation 110(8) of the Companies Regulations, an offer with a consideration per offeree regulated company security within the fair-value range is generally considered to be fair.

The assessment of reasonableness of a transaction is generally based on qualitative considerations surrounding the transaction. Hence, even though the consideration to be paid in respect of an offer may be lower than the market value, the offer may be considered reasonable after considering other significant qualitative factors. In the context of the Transaction, the Offer may be said to be reasonable if the Offer Consideration is greater than the trading price of an ELB Share as at the time of announcement of the Transaction, or at some other more appropriate identifiable time.

## 6. SOURCE OF INFORMATION

In arriving at our conclusions, we have relied upon the following principal sources of information:

- The terms and conditions of the Transaction as set out in the Circular.
- ELB Group Limited integrated annual reports for the years ended 30 June 2018 and 30 June 2019 incorporating ELB and its subsidiaries (the “Group”).
- Unaudited management accounts of the Company and Group for the 12-month period ended 30 June 2019.
- Unaudited condensed consolidated interim financial results of the Group for the six-month period ended 31 December 2019.
- Unaudited management accounts of the Company and Group for the nine-month period ended 31 March 2020.
- Forecast financial information of the Company and Group for the year ending 30 June 2020.
- Forecast financial information of ELB Equipment (Pty) Ltd for the year ending 30 June 2021.
- A paper, prepared by management for the ELB Board, setting out the rationale for and structure of the Transaction.
- The ELB Engineering Services (Pty) Ltd (“ELBES”) business rescue application submitted to the Companies and Intellectual Property Commission on 6 April 2020.
- Discussions with the directors of ELB, advisors, the ELBES Business Rescue Practitioner and management regarding:
  - a. the rationale for the Transaction;
  - b. the historical and forecast financial information of the Company and the Group;
  - c. the prevailing market conditions which may affect underlying value; and
  - d. the guarantees and suretyships provided by ELB and the Group in favour of third parties and in respect of ELBES.
- Publicly available information relating to the engineering and construction industries in general; and
- Publicly available information relating to ELB that we deemed to be relevant, including Company announcements and media articles.

The information was obtained from:

- The executive directors and management of ELB and their advisors; and
- Third-party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing ELB.

## 7. PROCEDURES PERFORMED

In arriving at our opinion, we have undertaken the following procedures and taken into account the following factors:

- Reviewed the terms and conditions of the Scheme and the General Offer as contained in the Circular.
- Reviewed the financial and other information relating to ELB, as detailed above.

- Held discussions with the directors and management of ELB as to the long-term strategy and the rationale for the Transaction and considered such other matters as we considered necessary including assessing prevailing economic and market conditions and trends in the industries in which ELB operates and the associated exposure of ELB in terms of the various guarantees and suretyships provided to third parties on behalf of ELBES and as a consequence of the intervening business rescue .
- Obtained the 30, 60, 90-day VWAP and quoted closing market price per share as at the last practically available date.
- Reviewed ELB's historic traded share prices and trading volumes on the JSE to ascertain the relative trading activities, liquidity and volatility of the ELB shares.
- Assessed ELB's historic share price against its tangible net asset value ("TNAV") and benchmarked to that of its peers.
- Performed a sum-of-the-parts ("**SOTP**") valuation of ELB.
- Performed a sensitivity analysis on key assumptions included in the valuation.
- Where relevant, corroborated information and/or details with representative(s) of ELB.
- Reviewed certain publicly available information relating to ELB and the industry in which it operates that we deem to be relevant, including company announcements and media articles.

## 8. OTHER CONSIDERATIONS

In arriving at our opinion, we have considered, in addition to the procedures referred to above, other key quantitative and qualitative factors, which are set out below:

- Despite the successful implementation of the restructuring initiatives announced on 8 January 2020, including inter alia: the sale of the Australasian segment, downsizing of the head office function and the raising of a bridging facility, ELB has continued to experience steady losses, an increase in debt and a steady deterioration in the net asset value;
- ELB incurred a consolidated loss after tax of R31 million for the year ended 30 June 2019 and a consolidated loss after tax of R100 million for the six months ended 31 December 2019.
- ELBES new business forecasts have not materialised. This has placed unsustainable cash funding requirements on the Group and a decision was therefore made that the Group could no longer support ELBES. Accordingly, ELBES was placed into business rescue on 6 April 2020.
- ELBES had the following guarantees, supported by Group cross-sureties, in issue at the Last Practicable Date:
  - o Advance Payment Guarantees – R236.8 million;
  - o Performance Guarantees – R245.9 million;
  - o Retention Guarantees – R14.0 million.
- ELB has provided numerous suretyships and guarantees to third parties in respect of both the indebtedness of and due performance by ELBES of its obligations under ongoing contracts and including the parental guarantees provided in respect of the Gamsberg and Ngodwana projects, still to be completed (collectively, "**the Guarantees**").
- General trading conditions remain extremely challenging across the markets in which the rest of the Group operates, and the current situation is expected to worsen by the impact of the Covid-19 pandemic.
- ELB is not currently generating sufficient cash flows to cover operating expenses, capital expenditure and working capital requirements and consequently requires access to further external funding in the near term.

## 9. LIMITING CONDITIONS

This Opinion is provided to the Board and the Independent Board in connection with and for the purposes of the Transaction. The Opinion of the Independent Expert does not purport to cater for each

individual Shareholder's perspective, but rather that of the general body of Shareholders. Should an individual Shareholder have any doubts as to what action to take, such Shareholder should consult an independent advisor.

We have relied upon and assumed the accuracy of the information provided to and obtained by us in deriving our Opinion. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our Opinion, whether in writing or obtained in discussion with ELB management, by reference to publicly available or independently obtained information.

While our work has involved an analysis of, inter alia, the annual financial statements and other information provided to us, our engagement does not constitute an audit conducted in accordance with generally accepted auditing standards.

We confirm that the scope of our procedures and work performed were not subject to any limiting conditions excepting those referenced herein.

We have made the assumptions referred to hereinbefore and in paragraph 10 below and consequently accept that all agreements have full legal force and effect as represented to us, are furthermore lawful and duly authorised

This Opinion is provided in terms of the Listing Requirements, the Companies Act and the Companies Regulations. It does not constitute a recommendation to any Shareholder as to how to vote at any Shareholders' meeting relating to the Transaction or on any matter relating to it and is not to be regarded by the Board and/or the Independent Board as a substitute of or for its authority or responsibility, the Board and the Independent Board (as applicable) at all times and in all circumstances being required to make its own independent assessment and conclude on the necessary matters in terms of its own determinations and with due regard to its own responsibilities. Therefore, it should not be relied upon for any other purpose. We assume no responsibility to anyone if this opinion is used or relied upon for anything other than its intended purpose.

Budgets/projections/forecasts relate to future events and are based on assumptions which may not remain valid for the whole of the forecast period. Accordingly, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods.

We express no opinion as to how closely actual results will correspond to those projected/forecast by management of ELB. We have compared the projected/forecast financial information to past trends as well as discussed the assumptions inherent therein with management.

Our Opinion is based upon the market, regulatory and trading conditions as they currently exist and can only be evaluated as at the date of this report. It should be understood that subsequent developments may affect our Opinion, which we are under no obligation to update, revise or re-affirm.

The valuation of companies and businesses is not a precise science and conclusions arrived at, will, in many cases be subjective and dependent on the exercise of individual judgment.

## **10. ASSUMPTIONS**

We arrived at our findings based on the following assumptions:

- ELB is, at the date of this Opinion, not engaged in any advanced discussions relating to any acquisitions or transactions that will have a significant impact on the value of ELB, other than those disclosed in the Circular.

- Other than as specifically set out in the Circular, there are no undisclosed contingencies that could affect the value of ELB.
- The liability of ELB under the Guarantees is contractually established and is limited to the quantum of the respective security instruments.
- That all agreements that are to be entered into in terms of the Transaction will be legally enforceable.
- That all conditions precedent to the sale of Australian segment will be fulfilled.
- The Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of/by ELB.
- That reliance can be placed on the financial information of ELB.

## **11. APPROPRIATENESS AND REASONABLENESS OF UNDERLYING INFORMATION AND ASSUMPTIONS**

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our opinion by:

- Reliance on audit reports in the financial statements of ELB.
- Conducting analytical reviews on the historical financial results and forecast financial information, such as key ratio and trend analyses.
- Comparing and corroborating such information and assumptions with external sources of information, to the extent such information was available.
- Determining the extent to which representations from management were confirmed by documentary evidence, as well as our understanding of ELB and the Transaction.

## **12. VALUATION APPROACH**

Moore performed a valuation of ELB on a SOTP basis to determine whether the Offer Consideration in terms of the Scheme and/or General Offer is fair to ELB Shareholders.

The valuation was based on the following principle approach:

- Performed a valuation on a segment basis for each of the reported segments comprising the ELB Group, being “Equipment”, “Engineering Services”, “Australasia” and “Central”.
- With the exception of “Australasia” and “Engineering Services”, the primary valuation approach adopted was the capitalisation of maintainable earnings approach (otherwise also known as the “market approach”).
- The valuation results determined using the market approach were benchmarked to the attributable segmental net asset value for reasonability.
- The Australasian segment was valued with reference to the proposed terms of its sale, as set out in the ELB circular issued to Shareholders on Thursday, 23 April 2020, and the sale and purchase agreement.
- The Engineering Services segment was valued on a net asset valuation basis, taking into account that the segment is currently in business rescue.
- The risk and quantum of any liability of ELB under the Guarantees was considered.
- Other financial assets and financial liabilities were valued based on their carrying values.

Key internal and external value drivers of the capitalisation of maintainable earnings approach include:

- The sustainable earnings of each segment.
- Market-related earnings multiples applicable to comparable publicly traded companies, adjusted for differences between the segments and the market comparables to account for the risk profile of the segment relative to the basket of peers.

In addition, sensitivity analyses were performed in respect of the following:

- Increasing and decreasing the earnings multiples for unlisted investments by a maximum of 0.5x.

The sensitivity analyses did not indicate a sufficient effect to alter our opinion in respect of the Offer Consideration.

### **13. VALUATION RESULTS**

In undertaking the valuation exercise above, we determined a negative valuation range of (R6.43) per ELB Share to (R4.82) per ELB Share, and therefore determined that there is nominal value attributable per ELB Share. In arriving at the valuation range, we have considered the impact of the Guarantees on the company's operation. In the circumstances the Offer Consideration is considered to be fair as the Offer Consideration in the amount of R2.00 falls above the valuation per ELB Share.

The valuation determination is provided solely in respect of the Opinion and should not be used for any other purpose.

### **14. THE OFFER CONSIDERATION COMPARED TO THE TRADING PRICE**

The Offer Consideration represents a premium of 57.48% to the volume weighted average price ("VWAP") of ELB Shares on the JSE for the 30 (thirty) days up to the last trading date immediately prior to the Firm Intention Announcement.

The current trading price is not considered to be a fair reflection of the current market value of an ELB Share due to the low volume of trades.

### **15. KEY QUALITATIVE CONSIDERATIONS**

In arriving at our Opinion, we have also considered the following key qualitative considerations in evaluating the fairness of the Offer Consideration and the reasonableness of the Transaction:

- The rationale for the Transaction as set out in the Circular.
- The Company's continuation as a going concern being contingent upon:
  - A recovery in Equipment segment business and an improvement in margins in accordance with the Company's plans and forecast; and
  - The liabilities of ELB under the Guarantees not materialising.
- The factual solvency and liquidity of ELB after completing the Transaction.
- The fair value of the Offer Consideration being at a premium to the 30-day VWAP of ELB Shares up to the last trading date immediately prior to the Firm Intention Announcement; and
- The limited free float and tradability of the ELB Shares.

## **16. FAIRNESS AND REASONABLENESS OPINION**

### **16.1. REASONABLENESS OF THE TRANSACTION**

We have assessed the terms of the Transaction and based on and subject to the conditions set out herein, have found no indication that the Transaction will have any material adverse effect on the Company or its Shareholders and have identified no transaction parameters which could be considered unreasonable to the Company or its Shareholders (other than Apex).

### **16.2 FAIRNESS OF THE TRANSACTION**

We have assessed the terms and conditions of the Transaction and based on and subject to the conditions set out herein, are of the opinion that the terms and conditions thereof, based on quantitative considerations, is fair to Shareholders (other than Apex).

## **17. INDEPENDENCE, COMPETENCE AND FEES**

We confirm that Moore has no independence issues relating to directorships, employment, owning shares, management and fees earned in ELB or related parties.

We confirm that Moore and the directors responsible for this assignment have the necessary competencies relating to internal control systems, quality control, experience and qualifications.

We confirm that we have no financial interest and no relationship in ELB or related parties. Furthermore, we confirm that our professional fees of R300 000 (ex VAT) are not contingent upon the success of the Transaction.

## **18. CONSENT**

We hereby consent to the inclusion of this Opinion, in whole or in part, and references thereto in the Circular and any other announcement or document pertaining to the Transaction, in the form and context in which they appear.

Yours sincerely,



### **MOORE ADVISORY JHB (PTY) LTD**

Per: Olivier Barbeau  
Director