INDEPENDENT APPRAISAL REPORT
IN RELATION TO THE PROPOSED SALE OF ARBORGEN ANZ

GRANT SAMUEL & ASSOCIATES LIMITED

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GLOSSARY

TERM	DEFINITION
ArborGen Australia	The Australian operations and assets of ArborGen
ArborGen or the Company	ArborGen Holdings Limited
ArborGen NZ or ArborGen New Zealand	The New Zealand operations and assets of ArborGen
ArborGen ANZ	Combined operations and assets of ArborGen NZ and ArborGen Australia
CellFor	CellFor Inc.
Consideration	The total purchase price for ArborGen ANZ of NZ$22.25m on a cash and debt free basis
The Consortium	Investment consortium led by Mr. Hugh Fletcher
CP	Control Pollinated
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY20XX	The financial year ended 31 March 20XX
FIRB	Foreign Investment Review Board
Grant Samuel	Grant Samuel & Associates Limited
IP	Intellectual Property
MCP	Mass Control Pollinated
NZX	New Zealand Stock Exchange
OIO	Overseas Investment Office
OP	Open Pollinated
Proposed Transaction	The proposed sale of the business and assets of ArborGen ANZ
RPBC	Radiata Pine Breeding Company
RSUs	The Restricted Share Units under the 2021 LTI plan
Sub-Committee	The Sub-Committee of Independent Directors of ArborGen Holdings
TCLP	Tenon Clearwood Limited Partnership

1 Overview of the Proposed Transaction

1.1 Background

On 30 June 2021 ArborGen Holdings Limited (**ArborGen** or the **Company**) announced it had received a confidential, non-binding, indicative, incomplete and highly conditional proposal to acquire all the shares in, or assets of, ArborGen by way of a scheme of arrangement or other alternative acquisition structure. At the same time the Directors of ArborGen also announced a strategic review to consider all options to unlock value for the benefit of all ArborGen shareholders. The options considered included:

- a potential sale of ArborGen shares;
- divestment of some of the assets of ArborGen; and
- a US listing.

The parties expressing interest in acquiring the shares in ArborGen would all require approval from the Overseas Investment Office (**OIO**) in New Zealand to acquire the New Zealand assets and may require the approval of the Foreign Investment Review Board (**FIRB**) in Australia to acquire the Australian assets. This would be a long process and creates uncertainty for a potential transaction that involved the sale of ArborGen to an overseas purchaser. As part of the Strategic Review, the Directors sought expressions of interest from different parties in acquiring the Australian and New Zealand assets of ArborGen (**ArborGen ANZ**).

On 1 November 2021, ArborGen announced that it entered into a binding agreement to sell ArborGen ANZ to a consortium of investors and charitable trusts led by Mr Hugh Fletcher (the **Consortium**), (the **Proposed Transaction**). Mr Fletcher was a Director of Rubicon Limited (**Rubicon**)(now known as ArborGen Holdings Limited) until September 2019.

1.2 Details of the Proposed Transaction

The total purchase price for ArborGen ANZ is NZ$22.25 million on a debt free and cash free basis (the **Consideration**) which will be paid in cash (less a NZ$450,000 working capital adjustment on completion that reflects the seasonality in the business). The Consortium has agreed to acquire the business of ArborGen ANZ which comprises the assets (including goodwill) of ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited. The assets include premises, plant and equipment, vehicles, rights under leases, inventory, biological assets (mother plants and orchard trees), the benefit of business agreements, business records, IT systems, the shareholding in Radiata Pine Breeding Company (**RPBC**), Intellectual Property (**IP**), trade debtors, supplier deposits, prepayments, goodwill, cash in the business bank accounts but does not include (among other matters) cash in hand at the bank in the business bank accounts immediately prior to 1 October 2021 and any intragroup debt.

As part of the purchase price the Consortium has agreed to be responsible for assumed liabilities which comprise the obligations of the ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited in respect of trade creditors, accrued employee entitlements, inventory or services to be delivered in respect of customer deposits, customer deposits, accrued expenses, any liability in respect of product warranty claims arising after completion, any liabilities or obligations under the business agreements and any other obligations or liabilities incurred by ArborGen ANZ in the ordinary course of business.

The Proposed Transaction is subject to the satisfaction of the following two conditions:

- at least 75% of ArborGen ANZ permanent employees accepting new offers of employment of which such terms must be no less favourable than what they had prior to the Proposed Transaction; and
- ArborGen's RPBC shareholding and membership transferring to the purchasing entity on completion of the Proposed Transaction.

ArborGen will also provide a perpetual licence to the purchasing entity to use the "ArborGen" word mark, and a licence to use the ArborGen logo for six months from completion, royalty free, exclusively in Australia and New Zealand. At all times after the date six months after completion the "ArborGen" word mark can only be used if accompanied by the words "Australasia", "ANZ", "Australia", "New Zealand" or "NZ" in close proximity. The purchasing entity will also be granted a perpetual right to use the "www.ArborGen.co.nz" and "www.ArborGen.com.au" domain names. The rights described above are non-assignable and terminate if there is a change in more than 50% of the partnership interests in the purchasing entity from the position as at completion.

ArborGen, ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited are providing fundamental warranties in relation to the Proposed Transaction including the following:

- all these companies are duly incorporated and are authorised to enter the Proposed Transaction;
- no approvals from a government agency are required to be obtained to carry out for the Proposed Transaction;
- the obligations of each of these companies under the sale and purchase agreement are binding and enforceable;
- no leakage (i.e. essentially being payments outside the ordinary course of business by ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited) will occur up to and including completion; and
- the assets are legally and beneficially owned by (or leased or licensed to) the ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited and will pass to the purchasing entity free of encumbrances. These assets comprise all the assets used in the business of ArborGen ANZ and represent all the assets necessary for the conduct of the business.

ArborGen's aggregate total liability for any claims will not exceed the purchase price in relation to fundamental warranties and for all other claims will not exceed NZ$450,000. Claims are limited to a period of three months following completion, except for claims relating to assignment/novation of business agreements which last for up to 12 months following completion.

Key undertakings by ArborGen last for a period of three years and include not competing in New Zealand or Australia, not soliciting Australia and New Zealand customers and not soliciting employees (unless a person responds to a public advertisement).

1.3 Profile of the Buyer

The Consortium is a Limited Partnership. This is a standard structure used by private equity buyers. The members of the Consortium are all New Zealand domiciled and include a group of charitable trusts, families and private investors including Mr Hugh Fletcher. None have any involvement in ArborGen. Mr Hugh Fletcher is the sole owner of the General Partner and will be the only investor in the Consortium who is a prior director or officer of ArborGen.

As the Consortium is a New Zealand entity for OIO purposes no regulatory consent will be required. The Consortium is seeking to invest in New Zealand based assets and has indicated that they are long term holders of assets. No funding is required from outside of the Consortium and no bank debt will be employed in the Proposed Transaction.

1.4 Shareholder Approval

The Proposed Transaction does not amount to a Major Transaction for the purposes of section 129 of the Companies Act 1993 and therefore shareholder approval by way of special resolution is not required. The Proposed Transaction is not a takeover, scheme of arrangement, major transaction or related party

transaction for the purposes of the NZX Listing Rules. Grant Samuel understands that no shareholder approvals are required for the Proposed Transaction to proceed.

2 Scope of the Report

2.1 Purpose of the Report

The Sub-Committee of Independent Directors of ArborGen (the **Sub-Committee**) have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Report on the merits of the Proposed Transaction. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion of the Proposed Transaction. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix E. Grant Samuel is independent of ArborGen and the Consortium and has no involvement with, or interest in, the outcome of the Proposed Transaction.

2.2 Basis of Evaluation

The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit" the Takeovers Panel has interpreted the word "merits" to include both positives and negatives in respect of a transaction.

Grant Samuel has evaluated the Proposed Transaction by reviewing the following factors:

- the estimated value range of ArborGen ANZ's net operating assets and the value of the Proposed Transaction when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- any advantages or disadvantages for ArborGen's shareholders of the Proposed Transaction; and
- the current trading conditions for ArborGen ANZ and the timing and circumstances surrounding the Proposed Transaction.

3 Profile of ArborGen

3.1 History

ArborGen Inc. was formed in 2000 through the consolidation of the forestry research and development programmes at Fletcher Challenge Limited (**Fletcher Challenge**), International Paper Company and Westvaco. Fletcher Challenge was separated in 2001, resulting in the sale of Fletcher Energy, the listing of Fletcher Building and Rubicon (now known as ArborGen). The formation of Rubicon was to assist in the capitalisation of Fletcher Challenge Forests Limited and to allow it to become a stand-alone entity. As part of the separation Rubicon retained Fletcher Challenge's 31.7% shareholding in ArborGen Inc.

In 2007 ArborGen Inc. acquired the tree improvement businesses of International Paper, MeadWestvaco (formerly Westvaco) and Rubicon (being the Horizon2 business) for US$60 million. This transformed ArborGen Inc. into a company that produces and sells to thousands of established customers, with approximately 400 million treestocks today. The overall transaction was structured to allow International Paper, MeadWestvaco and Rubicon to maintain their 33.3% ownership interest in ArborGen Inc.

In 2012 ArborGen Inc. strengthened its position in the US through the acquisition of the assets, germplasm (i.e. genetics), technology and IP of commercial loblolly pine varietal company CellFor Inc. (**CellFor**). CellFor was a leading researcher, developer and supplier of elite varietal pine tree seedlings to foresters in the United States and South America. CellFor was the only global clonal pine competitor to ArborGen Inc.

In 2013 ArborGen Inc. licensed rights to produce and sell IP eucalyptus under a breeding programme in Brazil and expanded operations for both pine and eucalyptus products. ArborGen Inc. built on its existing geographies in 2014, with the acquisition of the Edendale nursery business in New Zealand and further production expansion in Brazil.

On 29 June 2017 Rubicon acquired the remaining 66.7% of the shares it did not own in ArborGen Inc. for US$28.5 million. Subsequently in January 2018 Rubicon sold its 44.88% interest in the Tenon Clearwood Limited Partnership (**TCLP**) which resulted in ArborGen Inc. becoming Rubicon's sole asset. In September 2019, Rubicon Limited was renamed ArborGen Holdings Limited.

Following the disposal of TCLP the following key operational developments have occurred:

- In February 2018 ArborGen entered into an exclusive 10-year agreement with the South Carolina Forestry Commission to exclusively lease and operate the Taylor Nursery in Trenton South Carolina.
- In November 2018 ArborGen entered into an agreement to lease TexMark Timber Treasury's (**TTT**) nursery and orchard operations in Texas. The agreement allowed ArborGen to increase its annual nursery production capacity by approximately 30 million seedlings annually. As part of this agreement ArborGen obtained the option to purchase this nursery and operations in 2023 and TTT have a corresponding put option to sell the leased properties. ArborGen also entered into an exclusive multi-year agreement to supply TTT all of its Texas seedling requirements for an initial term of 5 years, with term-renewal periods thereafter.
- In November 2018 ArborGen executed a eucalyptus genetic license agreement with Gerdau Acos Longos SA which gave it the exclusive right to develop and commercialize Gerdau's genetically improved eucalyptus clones in Brazil. Subsequently, in November 2019 ArborGen leased a 15 million seedling capacity nursery in Inimutaba Minas Gerais from Brotale. Another 15 million seedling nursery in Mato Grosso do Sul was also leased from Brotale effective from April 2020.
- On 11 November 2020 ArborGen announced an agreement with Vallourec S.A. that gave ArborGen the exclusive rights to develop and commercialise Vallourec's genetically improved eucalyptus clones in Brazil.

3.2 Group Overview

ArborGen is a leading global provider of tree seedling products. It owns one of the world's largest and most diverse genetic libraries for commercial tree germplasm and has catalogued over 30,000 tree families (including over 35,000 individual pine and eucalyptus species). ArborGen has 18 commercial scale nurseries and 14 seed producing orchards globally which have the capacity to produce ~540 million seedlings per year. The company employs 380 people globally. ArborGen produces conventional and advanced tree seedlings with improved growth rates, log quality, stress tolerance, disease resistance and wood quality. It is one of the world's largest providers of advanced genetic seedlings.

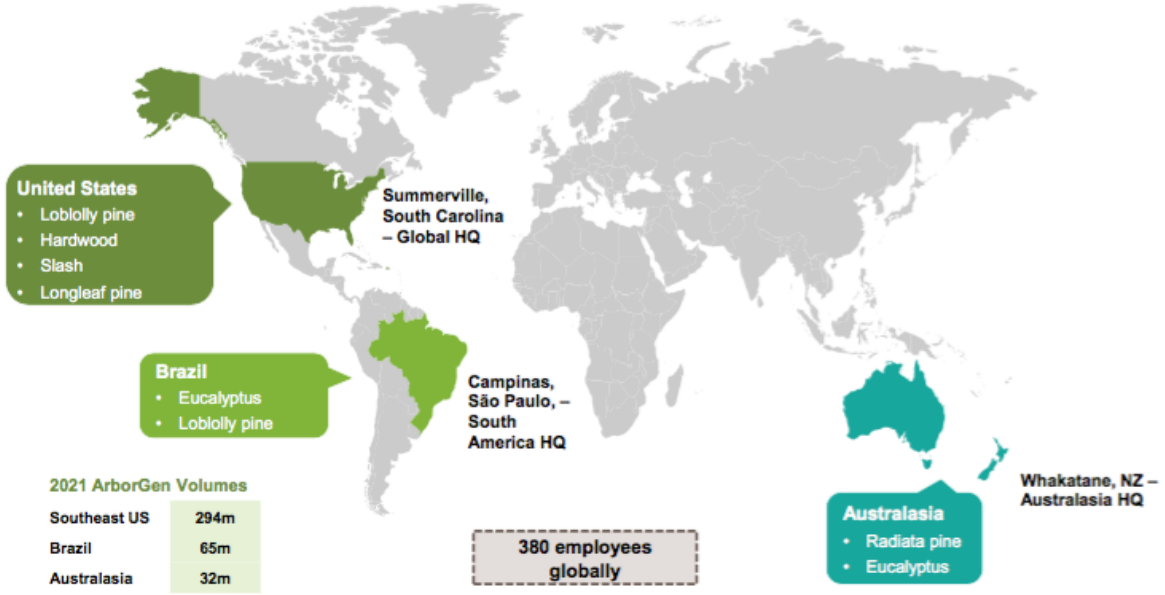
ArborGen is headquartered in South Carolina, USA with operations in the USA, Brazil, New Zealand and Australia. ArborGen is listed on the NZX and there are several entities within the Group. The primary trading entity is ArborGen Inc.

The following table and graphic provides an overview of ArborGen's operations by market:

OVERVIEW OF OPERATIONS BY MARKET

	UNITED STATES	NEW ZEALAND & AUSTRALIA	BRAZIL	GROUP TOTAL
FY21 Revenue (US$m)	36.8	9.9	6.0	52.7
% of Group Revenue	70%	19%	11%	100%
Seedling production capacity (p.a.)	~400m	~40m	~100m	~540m
Number of nurseries	8	7	3	18
Number of orchards	10	2	1	14
Key seedling species	Loblolly pine, slash, longleaf and other pine and hardwoods	Radiata pine, eucalyptus and other native and horticultural species	Loblolly pine and eucalyptus	

Source: ArborGen Corporate Information



3.3 Overview of Intellectual Property

ArborGen's IP encompasses the following components:

- ***Genetic library***. ArborGen owns one of the world's largest and most diverse repositories of commercial tree germplasm. It has a catalogue of more than 30,000 tree families with the ability to identify trees that will perform best in specific regions and sites.
- ***Tree improvement expertise.*** ArborGen has been built on 100+ years of tree improvement research. Its products are based on the most comprehensive and extensive field trial programme in forestry, currently conducting ~1,000 field trials containing more than 1 million trees.
- ***Proprietary production technologies.*** ArborGen's production know how enables the commercialisation of unique proprietary products and entry into new crop species.
- ***Genomics and bioinformatics***. ArborGen has been pioneering in the use of genomics in loblolly pine, which accelerates product development timelines. ArborGen uses advanced statistical models and proprietary growth and yield models to develop products with advanced genetics.
- ***Biotechnology product development***. ArborGen has developed eucalyptus products with herbicide resistance using its eucalyptus transformation system.

The trade secrets, protocols, operating procedures and know-how that comprise the IP owned by ArborGen's business operations in New Zealand and Australia are separate and distinct from that owned by any other ArborGen entity. In particular, the New Zealand and Australian IP pertaining to somatic embryogenesis and organogenesis does not overlap with other ArborGen entities. The Australasian somatic embryogenesis technology was developed to propagate radiata pine (pinus radiata), that of the other ArborGen entities was developed for loblolly pine (pinus taeda). In each case, IP is species-specific and was developed independently by the Australasian and U.S. research groups.

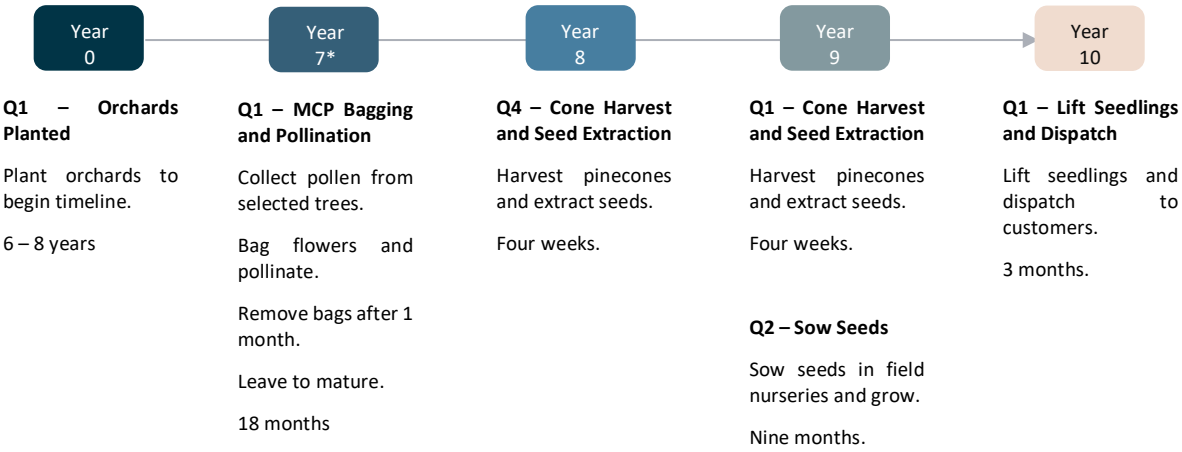
3.4 Overview of Products

ArborGen's loblolly and radiata seedlings are primarily produced from seed created through two different production processes: Mass Control Pollinated (**MCP** or **CP**) seedlings and Open Pollinated (**OP**) seedlings. In addition, it also sells varietals (or clones). An overview of each product is provided below:

Mass Control Pollinated Seedlings

ArborGen's advanced and proprietary loblolly MCP seedling capability is a core driver of ArborGen's growth in the US. This capability has come from decades of tree improvement R&D activities. In 2011-2012 ArborGen's MCP orchard capacity in the US South was expanded significantly, with the benefits of this now beginning to be realised as the large number of younger trees in its orchards (aged between seven and twelve years) are becoming highly productive. The margins earned on MCP seedlings are 6-8 times that of OP seedlings. The MCP seedling process is set out below.

ARBORGEN'S LOBLOLLY MCP SEEDLING PRODUCTION PROCESS



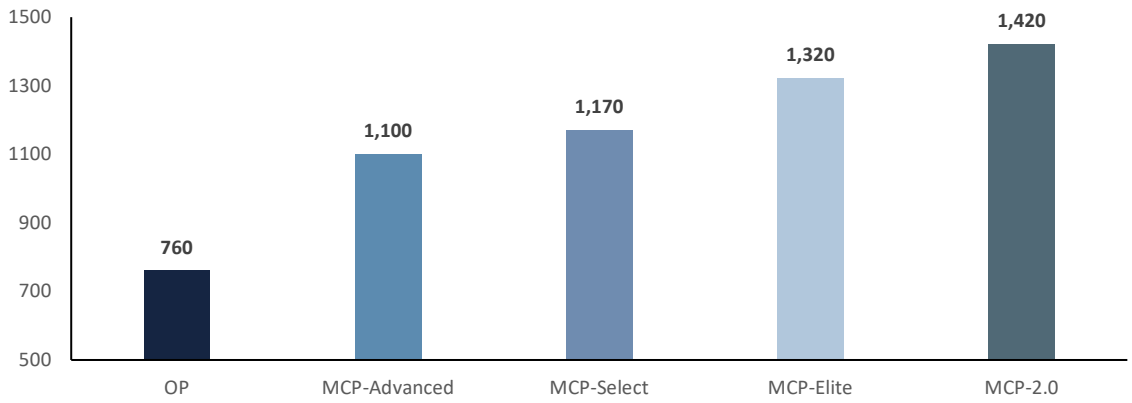
**First bagging can range from 6-8 years*

In addition to increasing the availability of MCP seeds, ArborGen is focusing on developing the pipeline of next generation advanced products to ensure the supply of superior seedlings with higher margins to maintain ArborGen's competitive position in the US South. ArborGen is projecting the availability of the higher-value MCP products such as MCP-Elite and MCP-2.0 in the US, where it has a strong competitive advantage, will increase substantially over the next five years.

The chart below is a simple illustration of the value created by ArborGen's high margin MCP products and varietal products relative to OP products. The term bare land value is a discounted cash flow valuation technique used for timberland investments that calculates the value of bare land in timber production and reflects the value of the crop.

ArborGen is also the only global developer and supplier of loblolly varietal products. Varietals are also used as parent trees to produce proprietary OP elite and MCP products.

BARE LAND VALUE – US$ PER ACRE



Open Pollinated Seedlings

Open Pollinated (**OP**) seedlings are the alternative to MCP. OP still comprises approximately 70% of ArborGen's production in the US. OP seedlings are produced using a superior mother tree and unknown father trees. OP seedlings are available in bareroot and containerised format. Bareroot tree stocks are produced by sowing seed (and also setting cuttings in the case of New Zealand) into formed beds in a nursery. Depending on tree species and nursery geographic location, bareroot seedlings and cuttings take between one and two years to reach maturity before being ready for harvest and forest planting. Container tree stocks are produced by sowing seed or setting cuttings into standard diameter cells that contain an optimised growing media blend. Container tree stocks can be delivered over a wider seasonal timeframe, allowing customers to plant in "shoulder" months which are earlier and later than the typical bare-root planting window.

Varietals

ArborGen's in vitro capabilities are a result of decades of research and investment. The core of these capabilities is the ability to execute clonal (varietal) propagation at scale, combined with cryopreservation and cell banking technology. Each varietal is a genetic copy of a specific tree rigorously tested for superior traits.

3.5 Overview of Operations by Country

3.5.1 New Zealand and Australia

A detailed overview of ArborGen's New Zealand and Australia operations is provided in section 4 of this report.

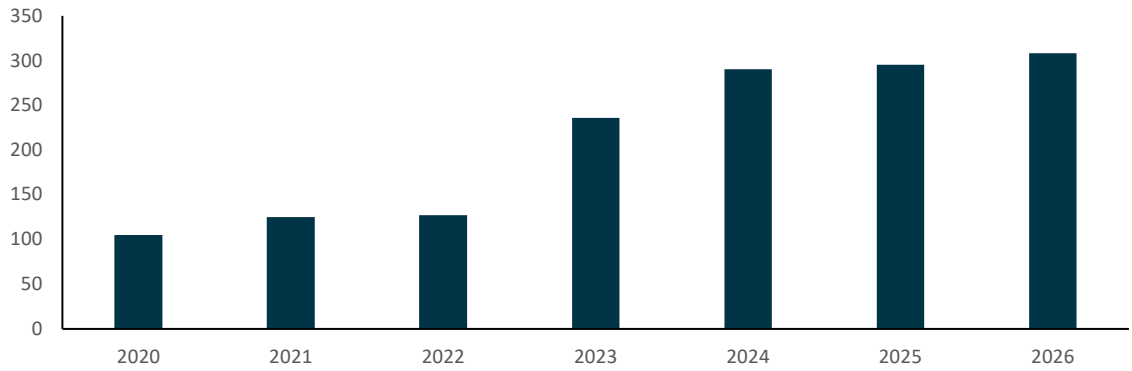
3.5.2 USA

The USA is ArborGen's largest market contributing ~70% of group revenues. During FY21, approximately 294 million seedlings were sold in the USA generating revenues of US$36.8 million. ArborGen is the largest supplier of loblolly pine seedlings in the Southern USA with a market share of approximately 45%. ArborGen has 8 nurseries and 10 orchards located throughout the USA. The nursery locations are shown below:

LOCATION OF US NURSERIES

ArborGen specialises in the sale of advanced genetics seedlings with an over 80% share of the addressable MCP market in the US South. It is the only supplier with a portfolio of MCP products that addresses the entire market. MCP sales are expected to increase substantially over the next few years with increasing supply from ArborGen's US orchards and continued demand growth. The following chart depicts the projected growth in ArborGen's supply of MCP seeds in the USA from just over 100 million p.a. currently to over 300 million p.a. through to the 2026 production year:

PROJECTED SUPPLY OF MCP SEEDS IN THE USA (MILLIONS OF SEEDLINGS) BY PRODUCTION YEAR[1]



MCP and varietals currently comprise ~30% of ArborGen's total loblolly seedlings sales in FY21, growing to ~40% in FY22. The focus in the US is on increasing the percentage of MCP seedlings used in forest plantings.

3.5.3 Brazil

ArborGen began operations in Brazil in 2004 and in 2013 the company started selling eucalyptus and loblolly pine seedlings. ArborGen now operates three nurseries in Brazil and has a network of contract producers. The majority of sales are in eucalyptus products, which are made available through ArborGen's distribution network in all of the primary eucalyptus growing regions in Brazil. During FY21 ArborGen sold 65 million seedlings generating revenues of US$6.0 million. ArborGen's strategy is to convert the market to products with superior genetics, as it is doing in the US market.

ArborGen's eucalyptus product offering comprises advanced eucalyptus products licensed from International Paper, Gerdau and Vallourec, as well as market clones. ArborGen's own eucalyptus tree improvement programme covers all key eucalyptus growing areas in Brazil with ArborGen's own products in the pre-commercial phase. ArborGen sells its own proprietary pine genetics and licensed genetics from Arauco and CMPC.

Increasing softwood product exports, new pulp mills, strong demand for eucalyptus based pulp and charcoal products, and increasing recognition of the value of ArborGen's proprietary products are all expected to contribute to sales increases in future years.

LOCATION OF BRAZILIAN NURSERIES

[1] The chart shows projected seed supply in seedling equivalents, rather than sales. Please note the 2020 year refers to the fiscal year ending March 2021. The same applies to each other year ie the 2021 year refers to the fiscal year ending March 2022.

3.6 Group Financial Performance

ArborGen's historical financial performance for the financial periods ended 31 March 2019, 2020 and 2021 (**FY19** to **FY21**) is summarised below. The reporting currency is US dollars.

ARBORGEN FINANCIAL PERFORMANCE (US$ MILLIONS)

AS AT 31 MARCH	2019A	2020A	2021A
Seedlings sold - millions			
USA - Loblolly pine – OP	155	210	181
USA - Loblolly pine – MCP & varietals	92	90	82
USA – Other seedlings	33	33	31
Total seedlings sold in USA	**280**	**333**	**294**
Brazil seedlings	50	65	65
Australasia seedlings	19	39	32
Total seedlings sold	**349**	**437**	**391**
Change in total seedling sales %	*-*	*24%*	*(11%)*
Revenue by region			
Revenue - USA	36.0	38.7	36.8
Revenue - Brazil	6.1	7.9	6.0
Revenue - Australasia	7.0	10.3	9.9
Total Revenue	**49.1**	**56.9**	**52.7**
Change in revenue %	*-*	*16%*	*(7%)*
Cost of sales	(30.3)	(34.7)	(31.8)
Gross profit	**18.8**	**22.2**	**20.9**
Gross profit margin %	*38.3%*	*39.0%*	*39.7%*
Administration expenses[2]	(9.8)	(10.0)	(8.8)
Change in fair value of biological assets	0.8	(0.6)	(0.1)
Other income	-	0.3	0.8
EBITDA	**9.8**	**11.9**	**12.8**
EBITDA margin %	*20.0%*	*20.9%*	*24.3%*
Depreciation of fixed assets	(2.9)	(3.6)	(4.0)
Amortisation of intellectual property	(5.8)	(5.9)	(6.2)
EBIT	**1.1**	**2.4**	**2.6**
One-off items	(3.6)	(3.9)	2.0
EBIT after one-off items	**(2.5)**	**(1.5)**	**4.6**
Financing costs	(2.2)	(2.3)	(2.0)
Taxation benefit	0.5	1.1	0.6
Net profit / (loss)	**(4.3)**	**(2.7)**	**3.2**

Source: ArborGen FY19, FY20 and FY21 Annual Reports.

The following comments are relevant when reviewing the table above:

- ArborGen's revenue decreased by US$4.2m, or 7% in FY21, impacted as follows:
  - ***USA*** (-US$1.9m). The decrease is due to the impact of COVID-19 and severe weather events. Sawmill closures in early calendar year 2020 resulted in delayed log harvesting and in turn site preparation activities for seedling planting. Restrictions on migrant labour into the US from Central America combined with planting crews contracting COVID-19 led to planting labour shortages

[2] Administration expenses excludes depreciation and amortization.

during the planting season. In addition, the effect of hurricanes impacted on site preparation in some regions.

- ***Brazil*** (-US$1.9m). The Brazil operations were materially impacted by COVID-19 and there was an extended drought season.
- ***Australasia*** (-US$0.4m). The Australasian operations experienced a more limited impact from COVID-19 with continued strong demand for timber and MCP products.

- The outlook for FY22 by market is summarised below:
  - ***USA***. The outlook is for the operations and sales to return to pre-COVID levels with easing migrant labour restrictions. Adoption of MCP seedlings is expected to grow and ArborGen will be focusing on growing the proportion of MCP seedlings sold. A ~30% increase in the MCP seedling supply is expected in FY22. There is strong underlying demand for solid wood products in the US and structural supply constraints in Canada, the Western USA and Europe driving expansion of sawmill capacity in the Southern USA.
  - ***Brazil***. Sales are expected to grow strongly with orders significantly up on the same time last year. Positive market drivers are increasing exports, new pulp mills and strong demand for eucalyptus and charcoal products.
  - ***Australasia.*** Underlying demand from the forestry sector remains strong with continued focus on the New Zealand horticulture business.
- In ArborGen's annual accounts, depreciation and amortisation costs are included in cost of sales and administration expenses. Grant Samuel has adjusted the cost of sales and administration expenses in the table above to exclude depreciation and amortisation expenses.
- ArborGen is targeting EBITDA for FY22 in the range of US$11.3 to US$11.7 million (previously expected to be US$13 - 14 million) on a US GAAP basis. Adjusted for one-off items US GAAP EBITDA would be approximately US$12.0 – 12.4 million. Additional rental income is expected to add a further US$0.5 million on an annualised basis.

One-off items

OVERVIEW OF NON-OPERATING ITEMS (US$ MILLIONS)

AS AT 31 MARCH	2019	2020	2021
1) Government grant income	-	-	3.7
2) COVID related costs and seedling write-offs	-	-	(1.7)
3) Inventory and varietal cost adjustments	-	(2.7)	-
4) Seedling mortality customer assistance	-	(1.0)	-
5) Transaction costs	(1.0)	(0.2)	-
6) Restructuring expenses	(3.1)	-	-
7) Gain on disposal of fixed assets	0.5	-	-
Total Non-Operating Items	**(3.6)**	**(3.9)**	**2.0**

Source: ArborGen FY21 Annual Report.

ArborGen has recognised the following one-off items between FY19 and FY21:

1. During FY21, ArborGen received US$4.6 million of assistance in the form of Government support grants in the US, Australia and New Zealand under the various COVID-19 support programmes. Of that cash received US$3.7 million has been deemed to either meet the threshold for forgiveness under the US CARES Act Paycheck Protection Program or is a grant and it has been treated as Government Grant income in FY21. The remaining US$0.9 million is recorded as a deferred grant income in the balance sheet and should meet the threshold for forgiveness in FY22.

2. ArborGen incurred significant costs directly related to COVID-19, primarily due to the cancellation seedling orders in the US. Sales orders cancelled due to COVID-19 left ArborGen with 25 million seedlings that had to be destroyed, resulting in a seedling write off of US$1.7 million.

3. A series of extreme weather events had the effect of lowering seed production volumes for the 2018/2019 seed harvest. This lower yield resulted in an abnormally high average cost per pound of seed produced. This adjustment returned the seed costs to a normal production cost, or standard cost, per seed. In the previous period approximately 1 million of bareroot varietal seedlings, for sale in FY21, were lost. As a consequence adjustment costs related to varietal writeoffs of US$0.4 million and inventory adjustment costs of US$2.3 million were made in FY20.

4. During FY19, the extremely unusual and widespread seedling survival issues occurring throughout the US South-Eastern region, affected the survival of some seedlings. While ArborGen did not believe this mortality issue could be attributed to its seedling quality, ArborGen recorded US$1 million as an expense in FY20 to assist customers to replace lost seedlings.

5. The transaction related cost of US$1.0 million in FY19 and US$0.2 million in FY20, is the expense under the ArborGen senior management retention plan that was put in place when the remaining 66.7% of the shares Rubicon did not own in ArborGen Inc. were acquired in June 2017.

6. The US$3.1 million of restructuring expenses in FY19 included severance payments made to former ArborGen and Rubicon employees totalling US$1.8 million plus US$1.3 million of costs relating to a settlement reached with the former CEO and CFO which was comprised of the issue of new shares and cash payments.

7. In FY19, ArborGen recorded a US$0.5 million one-off gain on the disposal of fixed assets.

3.7 Group Financial Position

ArborGen's financial position as at 31 March 2020 and 2021 is summarised below:

ARBORGEN FINANCIAL POSITION (US$ MILLIONS)

AS AT 31 MARCH	2020	2021
Inventories	29.3	34.5
Receivables	10.5	12.2
Payables	(13.1)	(13.1)
Net working capital	**26.7**	**33.6**
Intellectual property	103.8	101.3
Fixed assets	43.5	43.2
Deferred tax	(1.8)	(1.2)
Net operating assets	**172.2**	**176.9**
Net debt[3]	(29.6)	(27.4)
Other items	(0.7)	(1.3)
Net operating assets	**141.9**	**148.2**
Ratios		
Gearing %[4]	*17.2%*	*15.5%*

Source: ArborGen FY21 Annual Report

The following comments are relevant when reviewing the table above:

- Inventories relate to seeds and seedlings in both a work in progress and finished goods format.
- Intellectual property comprises of capitalised development costs. The carrying value of IP is reviewed annually to determine whether an impairment is required. A 10-year DCF model is used. During FY21 US$3.7 million of development costs were capitalised and US$6.2 million of costs were amortised. During FY20 the amount capitalised and amortised was US$4.1 million and US$5.9 million respectively.
- For FY21 of the fixed assets of US$43.2 million approximately US$16.0 million relates to land, US$22.5 million to buildings, US$4.8 million to plant & equipment and -US$0.1 million relates to the right-of-use asset less lease liabilities. Land is recorded at historical cost.
- ArborGen had net debt of US$27.4 million as at 31 March 2021 comprising US$33.6 million of bank borrowings less US$6.2 million of cash. The weighted average interest rate on term debt was approximately 4.5% in FY21.

[3] Net debt equals bank debt less cash balances.

[4] Gearing equals net debt divided by net operating assets.

3.8 Group Cash Flows

ArborGen's cash flows for FY19 to FY21 are summarised below:

ARBORGEN CASH FLOWS (US$ MILLIONS)

AS AT 31 MARCH	2019	2020	2021
Customer receipts	51.4	55.7	52.5
Payments to suppliers, employees & other	(47.3)	(50.9)	(47.2)
Government grants received	-	-	4.6
Net operating cash flow	**4.1**	**4.8**	**9.9**
Investment in IP	(4.7)	(4.1)	(3.7)
Net investment in fixed assets	(1.9)	(5.2)	(1.0)
Deferred settlement	(10.0)	-	-
Net investing cash flow	**(16.6)**	**(9.3)**	**(4.7)**
Net drawdown/(repayment) of debt	(9.0)	20.5	(3.9)
Repayment of lease liabilities	(0.9)	(12.6)	(1.3)
Interest paid	(2.1)	(2.5)	(2.0)
Net financing cash flow	**(12.0)**	**5.4**	**(7.2)**
Net cash from discontinued operation	2.4	-	-
Net cash flow	**(22.1)**	**0.9**	**(2.0)**
Opening cash	29.0	7.2	7.9
Foreign exchange impacts	0.3	(0.2)	0.3
Closing cash	**7.2**	**7.9**	**6.2**

Source: ArborGen FY20 and FY21 Annual Reports

The following comments are relevant when reviewing the table above:

- ArborGen's operating cash flows in FY21 were bolstered by Government grants of US$4.6 million.
- The investment in IP reflects the cash investment into developing the company's IP. These costs are capitalised and amortised by ArborGen.
- The deferred settlement payment of US$10 million in FY19 related to the acquisition of ArborGen Inc., which was settled on 30 June 2018.

3.9 Capital Structure and Ownership

ArborGen has approximately 501.2 million shares on issue. As at 28 October 2021, ArborGen had approximately 5,750 registered shareholders. The following are ArborGen's largest shareholders as at 11 October 2021:

ARBORGEN - MAJOR SHAREHOLDERS

	SHARES (MILLIONS)	PERCENTAGE
David Knott	137.7	27.5%
Ranjan Tandon	89.1	17.8%
Accident Compensation Corporation	31.3	6.2%
Irvin Kessler	25.0	5.0%
Subtotal - Top 5 shareholders	**283.0**	**56.5%**
Other shareholders	218.2	43.5%
Total	**501.2**	**100.0%**

Source: ArborGen Holdings, NZX SPH notices, Computershare registry

- ArborGen also operates a long term incentive plan, which allows the Board or Remuneration Committee to grant various equity-based awards (including stock options, restricted stock units and other types of equity and cash awards) to officers, employees and directors of ArborGen. Restricted Share Units (**RSUs**) and cash awards are granted on the basis of meeting performance targets and are distributed over a two-year period once the RSUs have been awarded.

3.10 Share Price Performance and Liquidity

3.10.1 Liquidity

The following table shows the volume of ArborGen shares traded in the 12 months prior to 28 October 2021:

ARBORGEN - SHARE PRICE HISTORY TO 28 OCTOBER 2021

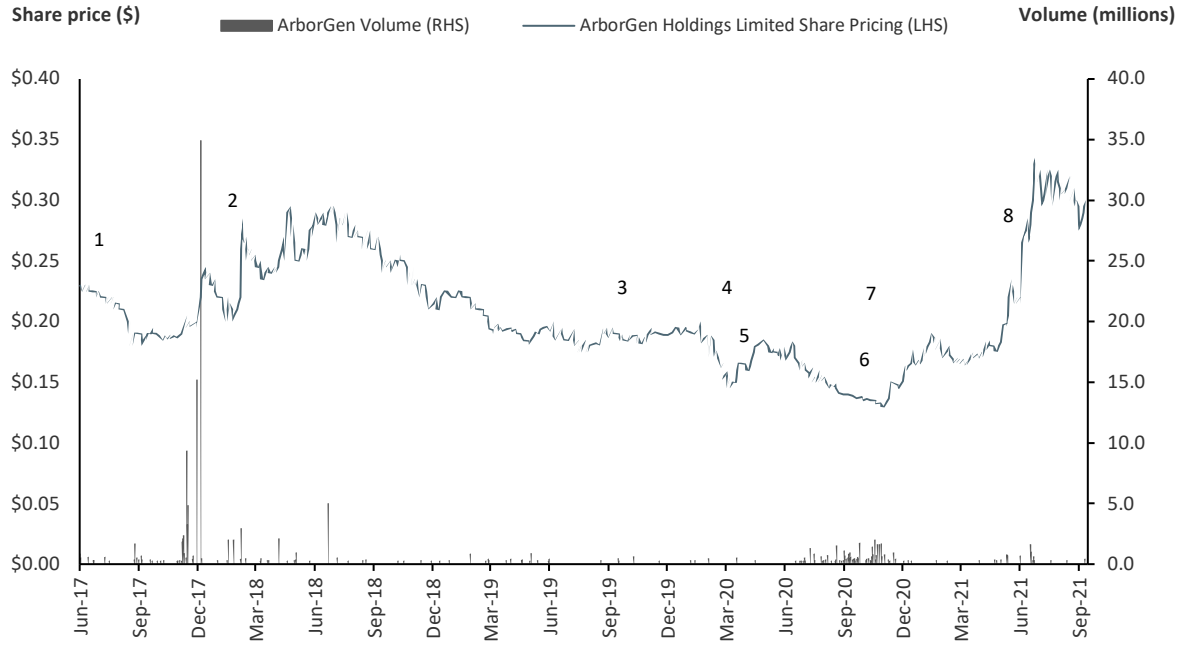
TIME PERIOD	LOW	HIGH	VWAP	VOLUME (000S)
1 month	$0.25	$0.31	$0.25	2,360
3 months	$0.25	$0.33	$0.30	6,531
6 months	$0.17	$0.34	$0.27	18,862
12 months	$0.13	$0.34	$0.20	43,445

Source: NZX Company Research

3.10.2 Share Price Performance

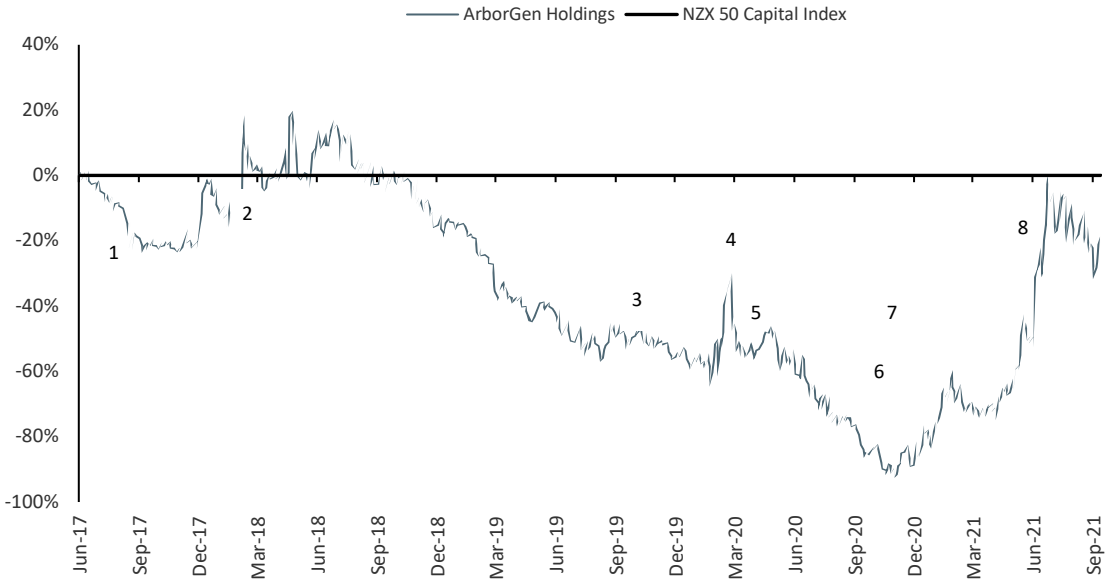
The share price and trading volume history of ArborGen shares since the minority shareholdings in ArborGen Inc. were acquired (29 June 2017) is depicted graphically below:

ARBORGEN SHARE PRICE PERFORMANCE (29 JUNE 2017 TO 12 OCT 2021)



ArborGen's share price during the dates observed ranged between NZ$0.13 (28 October 2020) and NZ$0.34 (16 July 2021). The share price prior to the announcement of the strategic review was NZ$0.22. ArborGen's share price against the NZX50 index is shown in the graph below:

ARBORGEN SHARE PRICE PERFORMANCE VERSUS NZX50 CAPITAL INDEX



The following reference points are referred to numerically in the charts above and relate to recent events in ArborGen's history:

1) On 29 June 2017 Rubicon acquired the remaining 66.7% stake in ArborGen Inc. from International Paper Company and WestRock Company.

2) On 1 February 2018 Dorset Management Corporation, Libra Partners NZ LLC and existing TCLP Limited Partners completed the acquisition of Rubicon's 44.88% stake in the TCLP. This resulted in ArborGen Inc. becoming Rubicon's sole business.

3) On 10 October 2019 Rubicon Limited changed its name to ArborGen Holdings Limited.

4) On 25 March 2020 the New Zealand Government announced a state of national emergency as a result of COVID-19. ArborGen's New Zealand nursery and orchard operations were substantially limited for a period during the first alert level four lockdown.

5) On 9 April 2020 ArborGen announced the continued expansion of its Brazil operations with the lease of a eucalyptus nursery from with the lease from Brotale.

6) During 2020 one of ArborGen's substantial shareholders (Perry Corp and Richard C. Perry who previously held over 6% of ArborGen's shares) engaged in significant selling activity which placed downward pressure on ArborGen's share price throughout 2020. This sell down ended in late November 2020.

7) On 11 November 2020 ArborGen announced an agreement with Vallourec S.A. that gave ArborGen the exclusive rights to develop and commercialise Vallourec's genetically improved eucalyptus clones in Brazil.

8) On 30 June 2021 ArborGen announced it had received a confidential, non-binding, indicative, incomplete and highly conditional proposal to acquire all the shares in, or assets of, ArborGen by way of a scheme of arrangement or other alternative acquisition structure. Within the same announcement it announced the strategic review.

4 Profile of ArborGen ANZ

4.1 Overview of Products

ArborGen NZ supplies a range of forestry products including:

- ***Open Pollinated (OP) and Control Pollinated (CP) radiata seedlings***. OP and CP radiata seedlings are produced from seed purchased from third party suppliers (PF Olsen and ProSeed), and seed produced from ArborGen NZ's own two orchards in New Zealand being:
  - a CP seed producing orchard in Marlborough (Awatere). Capacity is projected to grow to over 5 million CP seedling equivalents per annum; and
  - an elite OP producing orchard in Hawkes Bay (Whirinaki). This orchard is a joint venture with a large vertically integrated forestry company. Capacity is projected at 4 million seedling equivalents per annum.
- ***Radiata cuttings***. ArborGen NZ produces 7-8 million advanced genetics CP cuttings each year produced from CP seedling mother plants, which are planted to generate cuttings over a 3-year period. Cuttings expand the availability of advanced genetics as well as provide a more resilient product.
- ***Radiata varietals / clones***. ArborGen NZ produces varietals on a "make to order" basis for selected customers. These customers fully fund the three-year production process on a milestone payment basis and also pay the costs of trials in their estates. This programme is currently building to around 700,000 seedlings annually.

ArborGen NZ also offers other forestry products including douglas fir, eucalyptus and native species. It is also growing a horticulture business that propagates high value horticultural species including hops and blueberry varietals. This business leverages expertise in tissue culture and nursery production to rapidly produce elite germplasm plant material for growers. Services include:

- quarantine (inspection, testing and surveillance of new plant germplasm imported into New Zealand);
- stock management and multiplication; and
- tissue culture maintenance, multiplication and plant propagation.

ArborGen has a shareholder agreement with RPBC providing access to RPBC's extensive germplasm repository. If the Proposed Transaction proceeds ArborGen ANZ will retain access to this repository.

ArborGen Australia produces radiata and eucalyptus containerised seedlings from a nursery in Colac, Victoria. The annual production capacity of ~5.5 million seedlings p.a. is effectively sold out for the next several years pursuant to customer contracts.

4.2 Customers

Approximately 85% of ArborGen ANZ's revenues are generated from New Zealand operations, with the remaining 15% generated from Australia.

ArborGen NZ is the primary supplier to some of the largest forest land owners in New Zealand. Two thirds of revenues in FY21 were contributed by the top ten customers. ArborGen has well established relationships with the major forest landowners in New Zealand. Most contracts are on an annual basis. It currently has a three year rolling supply agreement with one large forest owner and a five-year term supply agreement with another.

The top ten customers in Australia accounted for 90% of total revenues in FY21. ArborGen has a supply agreement with Forestry Corporation of New South Wales until 2028 and a five-year agreement with another customer. The combined revenues from these two customers make up just under 40% of Australian revenues.

4.3 Operating Locations

ArborGen NZ operates from six nurseries and two orchards while ArborGen Australia has one nursery in Victoria. The New Zealand nurseries have a combined productive capacity of ~30 million tree stocks p.a. The following graphic shows the operating locations in New Zealand and Australia.

ARBORGEN ANZ ORCHARDS AND NURSERY LOCATIONS

The following table provides a breakdown of nursery land area of ArborGen NZ for 2022:

NEW ZEALAND NURSERY LAND AREA

	TOTAL AREA (HECTARES)	
NURSERY	**TOTAL LAND**	**OWNED LAND**
Puha	54.0	22.4
Tokoroa	38.8	32.9
Edendale	71.5	-
Nelson	9.3	7.1
Kaikohe	15.0	15.0
Te Teko	-	-
Total	**188.6**	**77.4**

Source: ArborGen NZ Nursery and Orchard Capacity Information

The production plan for 2022 is for 29.1 million treestocks, of which ~68% are bareroot seedlings, ~23% are cuttings and ~9% are containerised seedlings.

ArborGen NZ is the only seedling provider in New Zealand with operations throughout New Zealand. ArborGen's in-house product and technology development is done at ArborGen's laboratory facilities at Te Teko.

4.4 Market Information

After nearly a decade of slow growth, forestry planting is growing strongly in both New Zealand and Australia driven by robust market conditions.

4.4.1 New Zealand

In New Zealand growth has been driven by:

- increased harvesting due to the maturing of forestry estates planted in the 1990's (i.e. the wall of wood);
- strong demand from domestic processing operations and export markets (e.g. China);
- reforestation and forestation projects to reduce carbon emissions; and
- the New Zealand Government's One Billion Trees Programme.

These drivers have led to a major increase in plantings with a doubling in overall Radiata seedling demand to its current level of ~90 million treestocks planted p.a., plus another 10 - 15 million p.a. of douglas fir, manuka, eucalyptus and native trees. Radiata pine is used for a range of purposes including structural / building products, appearance grade products, furniture, plywood and other panels and paper. As at April 2020, New Zealand's forestry estate was estimated at 1.665 million hectares of planted area.[5]

In 2020, total seedling sales in New Zealand were estimated at 91.9 million units comprising 88.4 million of radiata pine seedlings (~95% of total) and 3.5 million of other varietals (~5% of total). The following graph shows the historical trend in tree stock sales between 2011 and 2020 based on annual survey data published by the Ministry of Primary Industries.[6] Seedling sales are expected to grow to ~100 million units for the 2021 season, implying growth of ~9% over the 2020 total.[7]

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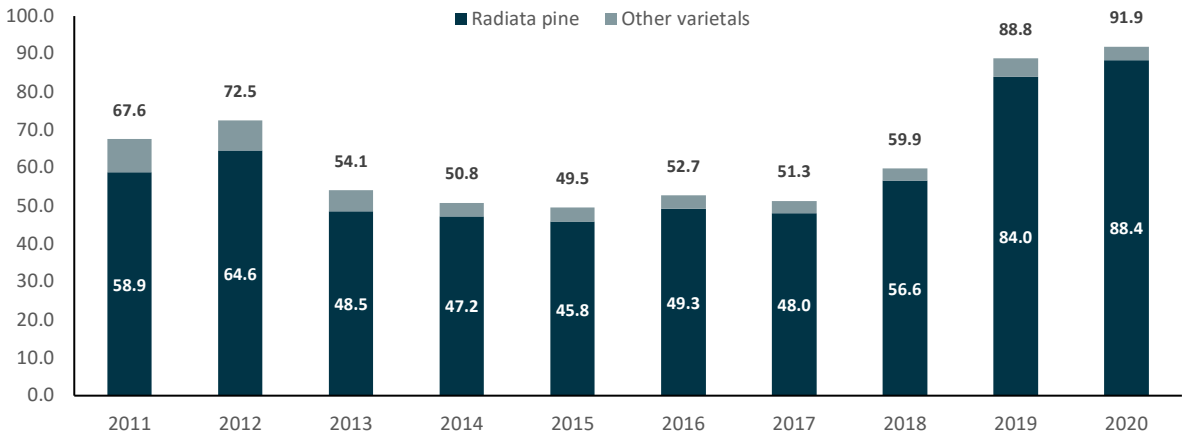
[5] Wood Availability Forecast from 2021 to 2026 prepared by Margules Groome.

[6] Each spring the Ministry of Primary Industries (MPI) undertakes a survey of tree stock sales from commercial forestry nurseries. The results are aggregated to produce estimates of total national sales and modelled to estimate the planted area by species. In 2020 all 25 commercial forestry nurseries completed the survey and 10 nurseries undertaking sales of manuka seedlings also completed the survey (some of which were also commercial forestry nurseries).

[7] Ministry of Primary Industries Annual Tree Stock Survey 2020.

HISTORICAL TREND IN TREE STOCK SALES IN NEW ZEALAND (MILLIONS OF SEEDLINGS)

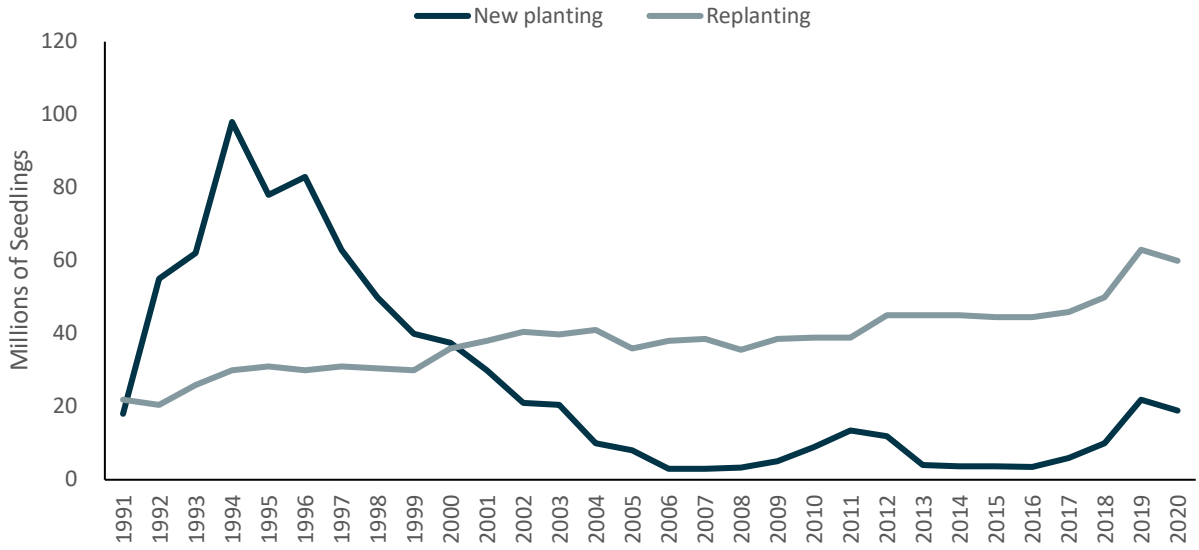


Source: Ministry of Primary Industries Annual Tree Stock Surveys 2011 to 2020.

Advanced genetics have been available in New Zealand for much longer than in the USA. There has been greater adoption of higher yielding CP products which has been driven by customers understanding the value gains from advanced genetics seeds, the available supply of advanced genetics and ownership of New Zealand forests, with large sophisticated owners. In FY21 advanced genetics sales comprised over 80% of ArborGen ANZ's radiata pine sales volume. The trend in New Zealand has been an increasing focus on CP seedlings.

The following graph shows the historical trend in the planting of seedlings between new plantings and replanting of existing trees over the past 30-year period in New Zealand. This graph illustrates the high levels of new planting that occurred during the 1990s. As these trees mature and are harvested this is likely to create a strong demand for seedlings to replant these forests.

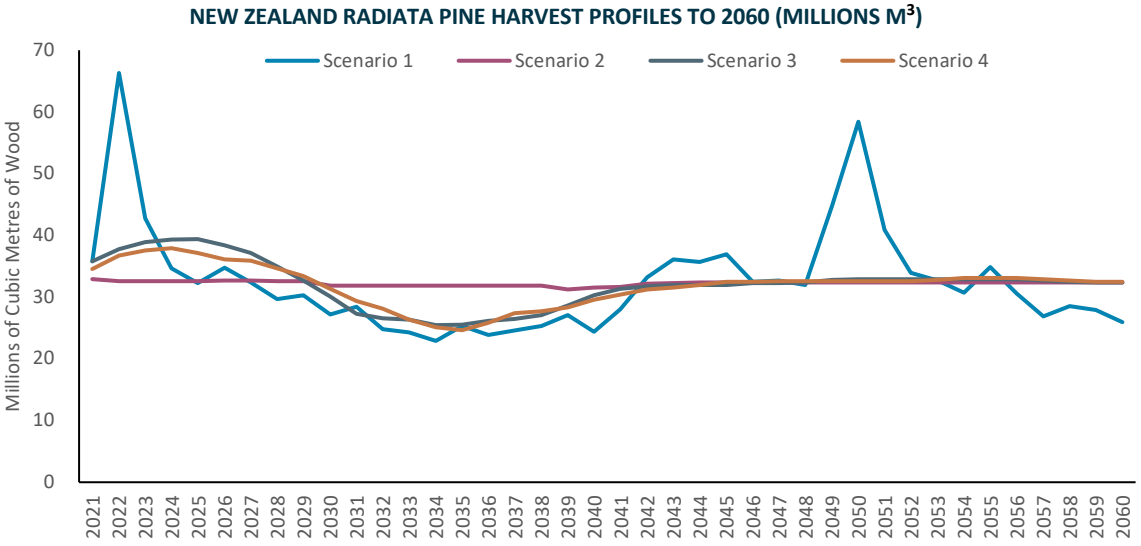
ESTIMATED AREAS OF NEW PLANTING AND REPLANTING IN NEW ZEALAND (MILLIONS OF SEEDLINGS)



Source: Ministry of Primary Industries Annual Tree Stock Survey Data.

Outlook

The Wood Availability Forecast for 2021 to 2060[8] shows strong harvest volumes are expected during the 2020s as the trees planted during the 1990s reach maturity and are harvested. The Wood Availability Forecast contains four scenarios for the harvesting of radiata pine. The following graph depicts these profiles:



Scenario 1 shows all forests in the small-scale owners' estate are assumed to be harvested at the regional target rotation ages. The fluctuations in the total volume harvested reflect the variations in the age-class distribution of the small-scale owners' estate. Changes in annual supply levels of this magnitude are unlikely to occur because of market and logistical constraints.

Scenario 2 is based on a long-term sustainable harvest of 32 million m^3 per annum. For small-scale owners' estates this would mean that trees are harvested at rotation ages significantly higher than the average target age of ~28 years during the 2030's.

Under Scenario 3 the total harvested wood volume increases over the next 4 years to around 39 million m^3 per annum. This is driven by the harvesting of small-scale owners' resources.

Under Scenario 4 the target harvest age is extended by two years.

Scenarios 3 and 4 are most likely and indicate sustained higher levels of harvesting activity through the period until 2030.

[8] MPI Wood Availability Forecast for 2021 to 2060.

4.5 Financial Performance

ArborGen ANZ historical financial performance FY19 to FY21, together with the revised forecast for FY22 is summarised below. All figures below are in New Zealand dollars:

ARBORGEN ANZ FINANCIAL PERFORMANCE (NZ$ MILLIONS)

YEAR END MARCH	2019A	2020A	2021A	2022F
Units volumes (millions)				
New Zealand – CP	12.7	16.4	18.3	11.1
New Zealand – OP & Other	6.4	17.9	8.6	15.2
New Zealand	**19.1**	**34.3**	**26.9**	**26.3**
Australia	4.0	4.4	5.1	5.5
Total units sold	**23.0**	**38.7**	**31.9**	**31.8**
Change in volume sold %		*68%*	*(18%)*	*-%*
Total revenue	**10.4**	**15.7**	**14.9**	**14.5**
Change in revenue %		*52%*	*(5%)*	*(3%)*
Cost of revenue	(7.7)	(10.2)	(10.5)	(10.3)
Gross profit	**2.7**	**5.6**	**4.4**	**4.1**
Gross margin %	*26%*	*35%*	*29%*	*29%*
Operating expenses	(1.0)	(1.5)	(1.3)	(1.4)
Other income	-	-	0.2	-
EBITDA	**1.7**	**4.0**	**3.2**	**2.7**
EBITDA margin %	*16.1%*	*25.7%*	*21.5%*	*18.9%*
Depreciation & Amortisation	(0.6)	(0.5)	(0.6)	(0.8)
EBIT	**1.0**	**3.5**	**2.6**	**2.0**

Source: ArborGen ANZ Management Accounts for FY19 to FY21 and Revised Forecast for FY22.

The following comments are relevant when reviewing the table above:

- The significant growth in sales in FY20 was driven by the New Zealand Government's One Billion Trees Programme. Sales growth in FY22 is supported by a growing forestry and carbon market. In particular management believes tree stock market demand will remain at its current very high levels over the next several years. Forest harvesting is now occurring as a result from the late 1980s to mid-1990s planting boom and is driving demand for replanting.
- While demand has been and is expected to remain high, ArborGen ANZ faces supply challenges. Specifically, the FY22 revised forecast is impacted by the following:
  - ArborGen ANZ has had production/land utilisation issues resulting in lower tree stock yields than previous years. ArborGen ANZ's FY21 and FY22 crop available for sale was lower than expected due to prior year higher nursery utilisation or planting levels than optimum resulting in poorer seedling yields. Initiatives are in place to minimize this risk going forward, including not planting beyond optimum nursery capacities.
  - ArborGen NZ has seen a reduction in internally produced CP seed from ArborGen's own orchards, as well as a reduction in third party seedling supply. The consequence is that there has been a much lower proportion of CP (i.e. higher value) seedling sales in FY22 when compared with FY21. There has also been a significant increase in CP seed costs in FY22.
- The forecast decrease in gross margin in FY22 is largely impacted by an unfavourable product mix due to ArborGen ANZ's production issues for higher margin CP seed. An increase in labour costs has also

been a factor resulting in a decrease in the gross margin in FY22. A recovery in CP seed production is expected following recent operational changes, however the benefits of this will not be seen for several years.

- Other income in FY21 relates to COVID-19 related grants net of one-off costs.

4.6 Financial Position

ArborGen ANZ's financial position as at 31 March 2019, 2020 and 2021 and as at 30 September 2021 is summarised below:

ARBORGEN ANZ FINANCIAL POSITION (NZ$ MILLIONS)

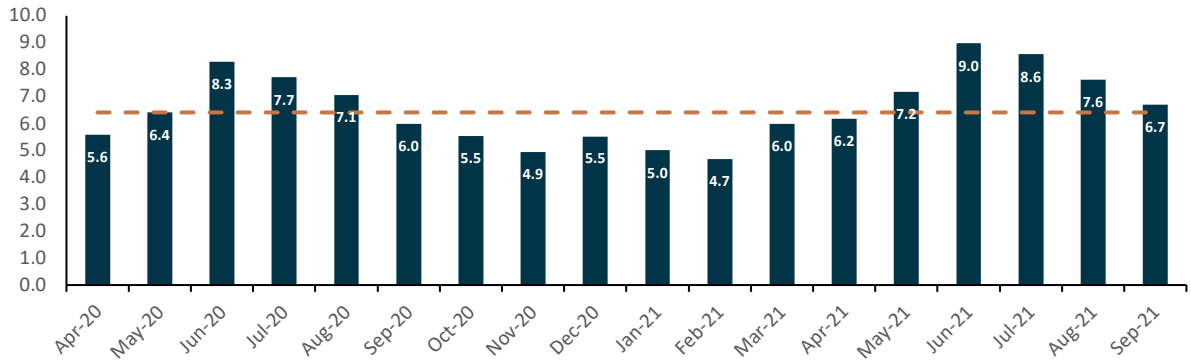
AS AT	MAR 2019	MAR 2020	MAR 2021	SEP 2021
Inventories	8.7	9.1	10.6	7.5
Deferred revenue	(4.7)	(3.2)	(4.3)	(1.6)
Other working capital items	(0.6)	(1.0)	(0.3)	(0.7)
Net working capital	**3.4**	**4.9**	**6.0**	**6.7**
Property, plant & equipment	12.6	11.2	13.1	13.0
Other assets	1.7	1.6	1.6	1.7
Net operating assets	**17.7**	**17.7**	**20.6**	**21.4**

Source: ArborGen ANZ Management Accounts

The following comments are relevant when reviewing the table above:

- ArborGen ANZ's net working capital follows a cycle during the year reflecting the planting season for new trees. Net working capital is highest during the winter period of June to August and lowest in the summer months of December to February. The following chart shows the trend in ArborGen ANZ's net working capital between April 2020 and September 2021. The average net working capital over the 12 months to September 2021 was NZ$6.4 million.

ARBORGEN – TREND IN NET WORKING CAPITAL (NZ$ MILLIONS)



- Working capital comprises inventories, deferred revenue, debtors, creditors and accruals.
- Inventories primarily consist of finished goods (plant material and seeds) and work in progress (i.e. seedlings and cuttings). Inventories typically reduce over the June – August period each year as sales are made. This coincides with an increase in accounts receivable causing net working capital to increase. In FY22 inventory also dropped in September due to COVID-19 lockdowns delaying lifting activities.
- Deferred revenue reflects advance payments from customers for trees to be delivered in the future. The majority of customers typically pay approximately 40% in advance with the remainder being paid upon delivery.
- As at 31 March 2021, the total cost of property, plant and equipment was NZ$15.2 million consisting of land (NZ$6.1 million), buildings (NZ$4.4 million), machinery and equipment (NZ$3.7 million) and other assets (NZ$1.0 million). Total depreciation was NZ$2.2 million. The book value of land represents the cost price. The latest Council capital valuations for the land, building and improvements is NZ$14.3 million.

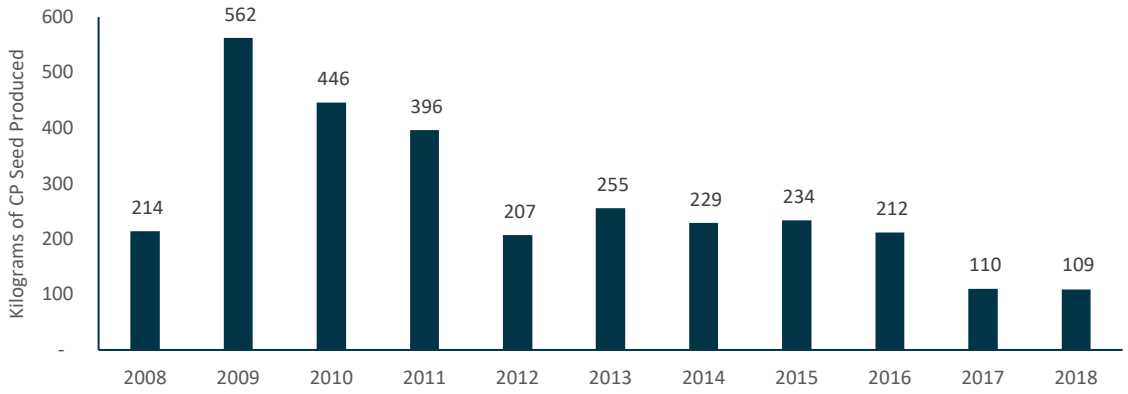
- Other assets largely comprise of mother trees which are capitalised when they are planted as well as orchard trees. The cost of the mother trees is then amortised as cuttings are taken from the trees.

4.7 CP Production Issues & Forecast

ArborGen ANZ produces CP seeds for internal use at its seed orchards at Awatere, Marlborough. CP seed is produced from the pollination of flowers on 'mother' trees with selected pollen from 'father' trees. Bags are placed over the flowers immediately before they become receptive to pollination. After two and a half to three years the resulting cones are harvested and the seed extracted. It takes a further year for the seedlings to be produced and sold with seedling sales recognised a year after seed is sown in the nurseries. For example, flowers pollinated in June/July 2018, the cones are harvested in Oct/Nov 2020 and the seed is extracted in early-mid 2021. The seedling would be sold in 2022 once grown and recognised in sales for the financial year ending 31 March 2023.

During the 2017 to 2019 pollination years ArborGen experienced issues with both the level of pollination activity on the Awatere orchard and the level of output of cones and seeds harvested. From the beginning of the 2020 pollination season, ArborGen took over management of the Awatere orchard from a third party. This resulted in a significant increase in the pollination activity with the number of bags used in the pollination process increasing from 50k in 2019 to 162k in 2020. Pollination activity was lower in the 2021 pollination season compared with 2020 with approximately 127k bags being used, however this is above the long-term average of ~70k bags. The goal is that with higher pollination activity cone and seed output will increase proportionally. However, it will only become evident in Oct/Nov 2022 whether the strategy of boosting pollination has the desired impact of increasing output. The following chart shows the historical trend in the volume of seed produced (as measured in kgs) for the 2008 to 2018 pollination seasons. It can be seen that the seed output in both 2017 and 2018 is approximately 110 kgs. The number of cones collected from the 2019 pollination season, which is 28% down on the 2018 season suggests that seed production in 2021 will also be low and likely below 100 kgs. Each kilogram of seed produces ~17,500 seedlings (on average). Therefore ~110kg of seed translates to ~1.9 million seedlings produced.

CP SEED PRODUCED BY POLLINATION SEASON (KILOGRAMS)



Because of ArborGen ANZ's CP production issues, the business has been unable to meet the market demand for CP seedlings. The low production of CP seed has also increased CP costs as orchard costs are spread across a lower volume of seed. The high market demand for CP seed has also meant that ArborGen has not been able to secure sufficient third party supply to grow seedlings to meet the market demand.

ArborGen ANZ management forecast that if the production issues are resolved then the Awatere orchard can return to producing sufficient seed to support seedling sales in the order of 5.0 million seedlings p.a.

4.8 Cash Flow Projections

ArborGen ANZ management have prepared cash flow projections to March 2030. These reflect the recovery in CP seed production as described in section 4.7 above. Grant Samuel has used these cash flow projections as part of its discounted cash flow analysis in section 5.

The following comments are relevant in relation to ArborGen ANZ's forecast cash flow projections:

- Total seedling sales are forecast to remain stable at 33.3 million seedlings per year between FY24 to FY30. The number of CP seedlings and cuttings sold recovers to a level 13.6 million units in FY25 as production at the Awatere seed orchard recovers, and volumes range between 13.9 million to 14.2 million units p.a. between FY26 and FY30.
- The size of the markets in which ArborGen ANZ operates is assumed to remain consistent at approximately 100 million seedlings planted in New Zealand each year. ArborGen ANZ's market share is forecast to remain stable at ~30% in New Zealand, ~10% in Australia for pine and 2% for other hardwood species.
- Gross margins are forecasted to improve from FY25 onwards. This is attributable to an improved sales mix from CP seedlings which earn significantly higher margins and increased internal CP seed production (lowering unit seed costs per seedling).
- Operating expenses are forecasted to remain relatively stable at NZ$1.7 million to NZ$2.0 million p.a. Operating expenses include NZ$200k p.a. for additional overheads that are expected to be incurred by a new private owner including ERP licensing costs and governance (i.e. director) expenses.
- Capital expenditure is forecasted to be slightly higher than depreciation until FY26 at which point these are assumed to be equal. No orchard or nursery expansions or acquisitions are forecast, which is consistent with seedling sales remaining constant.
- Depreciation & amortisation have together been maintained at NZ$0.7 million, with capex approximating depreciation and amortisation in the later years.

5 Valuation of ArborGen ANZ

5.1 Preferred Methodology

5.1.1 Overview

Grant Samuel's valuation of ArborGen ANZ has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of ArborGen ANZ is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in ArborGen ANZ could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix C.

5.1.2 Approach for ArborGen ANZ

Grant Samuel has placed primary reliance on the discounted cash flow (**DCF**) approach when valuing ArborGen ANZ. This is due to the availability of a long term forecast from management reflecting changes in future production based on the current orchard and nursery operations. The discounted cash flow approach allows the impact of recovering CP volumes to be reflected in the valuation. The valuation range using the DCF approach has been cross checked against the multiples implied by transactions involving agricultural businesses in New Zealand and Australia and listed agricultural businesses with operations in New Zealand and Australia (i.e. the capitalisation of earnings approach).

5.2 Summary

Grant Samuel has valued ArborGen ANZ on an ungeared basis (i.e. enterprise value) in the range **NZ$20.7 million to NZ$23.0 million** using a DCF valuation approach. The valuation range compares to a purchase price of NZ$22.25 million. The valuation is summarised below:

ARBORGEN ANZ – VALUATION SUMMARY (NZ$ MILLIONS)

	VALUE RANGE (NZ$ MILLIONS)	
	LOW	HIGH
Post-tax discount rate for valuation purposes (%)	*12.5%*	*11.5%*
Terminal growth rate of free cash flows (%)	*1.5%*	*1.5%*
Sum of discounted cash flows to March 2030	12.0	12.5
Terminal value of cash flows from April 2030 onwards	8.7	10.5
Discounted cash flow valuation	**20.7**	**23.0**

The Proposed Transaction is targeted to settle at the end of November 2021. This represents a point in ArborGen's working capital cycle which is below the average level for the year. As a consequence, a NZ$450k working capital adjustment amount has been agreed to the purchase price, reducing the consideration paid to approximately NZ$21.8 million.

A value range has been attributed to ArborGen ANZ's business operations. This valuation range is an overall judgement having regard to:

- ArborGen's long term cash flow forecasts to March 2030 as prepared by management;
- the risks associated with the achievement of the cash flow forecasts;
- the attractiveness of the ArborGen ANZ business;
- the outlook for the New Zealand and Australian forestry sector; and
- the earnings multiples implied by transactions involving agricultural businesses and the earnings multiples implied by listed agricultural businesses.

5.3 Discounted Cash Flow Assumptions

Projected Cash flows

ArborGen NZ's forecast cash flows to March 2030 as discussed in section 4.8 have been used as the basis for the cash flow projections.

Discount rate and terminal growth rate

The cash flows are discounted to a present value (i.e. today's dollars) using a discount rate, which reflects the risk associated with the cash flow stream. The discount rate is not observable and must be inferred from other historical data. None of this data is particularly reliable so estimates of the discount rate involve a substantial element of judgment. The capital asset pricing model (**CAPM**) is the most widely accepted and used methodology for determining the cost of equity capital. While the theory underlying CAPM is rigorous, the practical application is subject to substantial shortcomings and limitations. There is a tendency to regard the discount rates calculated using CAPM as inviolate, however, a mechanistic application of formulae derived from the theory can obscure the reality that there is no "correct" discount rate. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice. For the purposes of valuing ArborGen ANZ, Grant Samuel has utilised CAPM and has calculated a discount rate range of 11.5-12.5%.

The DCF valuation also involves a terminal value assumption for the cash flows after the explicit cash flow forecast period (i.e. for the cash flows post FY30). Grant Samuel has assumed that the terminal year cash flow grows in perpetuity at a rate of 1.5% p.a.

5.4 Qualitative Factors

The valuation reflects the strengths and weaknesses of ArborGen ANZ and takes into account the following factors:

- ArborGen ANZ is a very different business to the United States and Brazil businesses. ArborGen ANZ is a relatively small mature business by comparison and has fewer growth opportunities. MCP seedlings have been available in Australia and New Zealand for many years, hence the market is well established. By contrast, the United States and Brazil have had limited exposure to MCP seedlings and there is greater opportunity for earnings growth as more of these superior quality seedlings are introduced to those markets. Accordingly, on a capitalisation of earnings basis the ANZ business would be expected to transact at lower multiples than the United States and Brazil businesses.
- ArborGen ANZ is subject to Australia and New Zealand weather and environmental conditions. ArborGen ANZ has two orchards and seven nurseries. If a severe weather event were to occur this could impact one nursery reducing ArborGen ANZ's ability to produce seedlings. Events such as droughts are common in New Zealand and Australia and in the recent past the impact of severe droughts in 2019 resulted in seed production falling significantly in FY21. While unlikely, damage to or destruction of one of the two ArborGen ANZ orchards would significantly impact earnings across multiple years.
- ArborGen ANZ has a ~30% share of NZ Radiata market and ~10% share of the Australian Radiata market, with strong and enduring customer relationships. The market position in New Zealand is attractive.
- In the New Zealand market, the demand for radiata seedlings is currently strong driven by replanting of forests established in the late 1990s, which are now being harvested. In addition, central and local government policies and climate change are adding to the demand for existing forests to be replanted and for the establishment of new forests.
- ArborGen's New Zealand and Australian nurseries are currently operating at their maximum volume. Additional volume will only be possible if there is new capital expenditure. However, seedling production is expected to increase in the medium term.
- ArborGen ANZ is continuing to grow its horticultural species, leveraging its expertise to produce elite germplasm plant material for growers.
- Gross margins are forecast to increase from 28.6% in the current financial year to 33.5% in the year ending 31 March 2025 and remaining at this level for the foreseeable future. This is partly attributable to ArborGen ANZ's expected recovery of in-house CP seed production.

5.5 Earnings Multiple Analysis

5.5.1 Implied multiples

Grant Samuel's valuation range of NZ$20.7 million to NZ$23.0 million implies the following multiples:

ARBORGEN ANZ – IMPLIED VALUATION PARAMETERS

	VARIABLE (NZ$ MILLION)	IMPLIED MULTIPLES	
		LOW	HIGH
Value range ($million)		***20.7***	***23.0***
Multiple of Adjusted EBITDA (times)			
Year ended 31 March 2021 – actual	$2.5m	8.3x	9.2x
Year ending 31 March 2022 – revised budget	$2.5m	8.3x	9.2x
Multiple of Adjusted EBIT[10] (times)			
Year ended 31 March 2021 – actual	$1.8m	11.5x	12.8x
Year ending 31 March 2022 – revised budget	$1.8m	11.5x	12.8x
Multiple of ungeared NTA (times)			
Book value as at 30 September 2021	$21.4m	0.9x	1.1x
Adjusted book value as at 30 September 2021	$24.9m	0.8x	0.9x

Operating ArborGen ANZ as a standalone business EBITDA has been adjusted for approximately NZ$200k p.a. of expenses that are expected to be incurred by the Purchaser including ERP licensing costs, governance (i.e. director) expenses.

While Grant Samuel has not valued ArborGen ANZ on a realisation of asset basis we note that:

- as at 30 September 2021 ArborGen ANZ had unaudited net operating assets of NZ$21.4 million comprising NZ$6.7 million in net working capital and non-current assets with a book value of NZ$14.7 million.
- If ArborGen ANZ's owned land and building assets were recorded at the latest Council Valuation of NZ$14.3 million and net working capital is assumed to be equal to the average level NZ$6.4 million, then the net operating assets would be NZ$24.9 million.

An explanation regarding interpreting the above multiples is included at Appendix D. The implied multiples are consistent with multiples implied by the share prices of listed agricultural companies and recent transactions in the agricultural/aquacultural sector in New Zealand and Australia as set out below.

[10] Adjusted EBIT means Adjusted EBITDA less depreciation & amortisation expenses.

5.5.2 Transaction Evidence

The following table sets out the EBITDA and EBIT implied by transactions involving the acquisition of agri-businesses within New Zealand and Australia since the beginning of 2011.

TRANSACTION EVIDENCE

DATE	TARGET	PURCHASER	IMPLIED ENTERPRISE VALUE (MILLIONS)	EBITDA MULTIPLE (TIMES)		EBIT MULTIPLE (TIMES)	
				HISTORICAL	FORECAST	HISTORICAL	FORECAST
Pending	*Arborgen ANZ*	*Purchaser*	*NZ$22.25*	*8.9*	*8.9*	*12.4*	*12.4*
Jun 21	2PH Farms	Costa	A$200	n.a.	6.9	n.a.	9.3
Mar 19	Aongatete Coolstores	SEEKA	NZ$25	n.a.	6.3[11]	n.a.	n.a.
Aug 18	PGG Wrightson Seeds	DLF Seeds	NZ$444	12.5	12.3	15.0	15.7
Jan 17	Allied Pinnacle	Pacific Equity Partners	A$435	10.0	n.a.	16.6	n.a.
Aug 15	BFP	SEEKA	A$22	n.a.	6.1[12]	n.a.	n.a.
Apr 14	Apollo Apples	Turners & Growers	NZ$44	n.a.	n.a.	7.0	n.a.
Mar 12	Turners & Growers	BayWa	NZ$307	7.0	n.a.	12.1	n.a.
Jun 11	Scales	Direct Capital	NZ$174	6.0	4.8	8.6	6.4
Median				**8.5**	**6.3**	**12.1**	**9.3**
Average				**8.9**	**7.3**	**11.9**	**10.5**

Source: Grant Samuel analysis[13] (see Appendix A)

Grant Samuel has been unable to identify recent transactions globally for businesses that are involved in the production of tree seedlings where multiples were able to be calculated. In the absence of this evidence, it is necessary to review transactions involving agri-businesses in New Zealand and Australia. As shown in the table above these transactions involve target companies of varying size and types of operation. The transaction sizes range between ~NZ$25 million to ~NZ$450 million and span from 2011 and 2021. Caution should therefore be exercised when comparing these transactions to the sale of ArborGen ANZ.

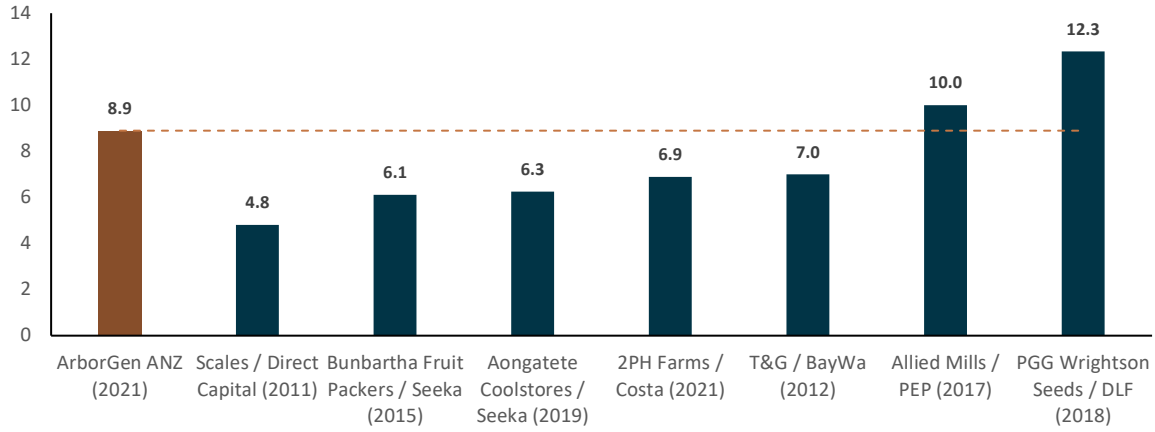
The following graphs compare the EBITDA and EBIT multiples implied by the ArborGen ANZ transaction to the multiples implied by enterprise values for each of the transactions. Where possible Grant Samuel has shown forecast multiples as this provides a better representation of the future earnings and cash flows of the business being acquired.

[11] The EBITDA multiple of 6.3 times represents the midpoint estimate for this transaction.

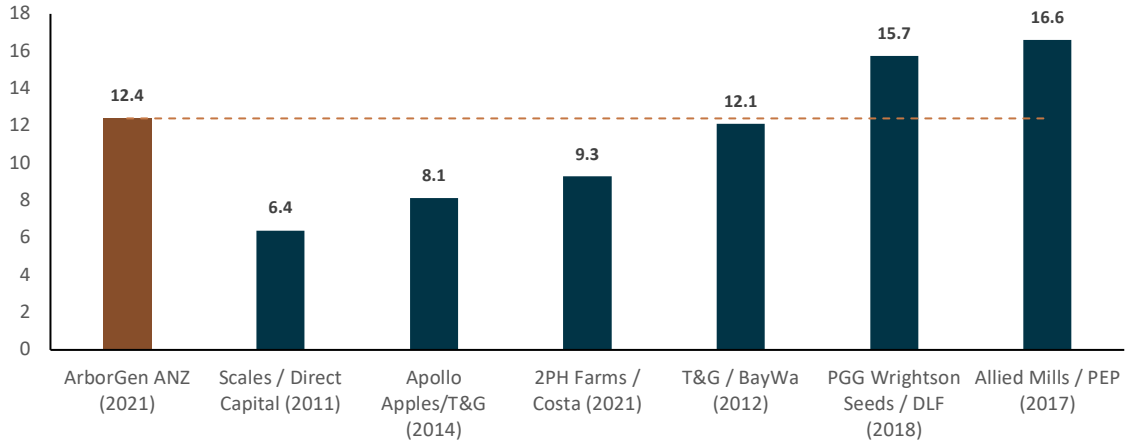
[12] The EBITDA multiple of 6.1 times represents the midpoint estimate for this transaction.

[13] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

ARBORGEN ANZ VERSUS TRANSACTION EVIDENCE - IMPLIED MULTIPLES OF EBITDA



ARBORGEN ANZ VERSUS TRANSACTION EVIDENCE - IMPLIED MULTIPLES OF EBIT



The EBITDA and EBIT multiples implied by the ArborGen ANZ transaction fall within the range of multiples implied by transactions involving agri-businesses in New Zealand and Australia.

The more recent transactions have tended at be at higher multiples reflecting the increase in multiples for listed investments since 2011. The transactions with the highest multiples involve the sale of large businesses - PGG Wrighton's seeds business to DLF Seeds in 2018 (at 12.3 times forecast EBITDA and 15.7 times forecast EBIT) and the purchase by Pacific Equity Partners by Allied Mills in 2017 (at 10 times historical EBITDA and 16.6 times historical EBIT). Larger businesses tend to transact at higher multiples than small businesses as they are more attractive to buyers and also attract more buyers. Large companies also tend of have more diversified earnings streams than small companies.

New Zealand kiwifruit company Seeka features in two transactions above with the purchase of Aongatete Coolstores in 2019 for NZ$25m and the purchase of Bunbartha Fruit Packers in 2015 for A$22 million. The midpoint EBITDA multiples for these transactions were 6.3 and 6.1 times respectively. The transaction sizes are more comparable to ArborGen ANZ at NZ$22.25 million. The ArborGen ANZ transaction implies a forecast EBITDA multiple of 8.9 times which is above the EBITDA multiples implied by both of these transactions.

Grant Samuel observes that the multiples implied by the purchase price for ArborGen ANZ is relatively consistent with transaction evidence.

Descriptions of each transaction are provided in Appendix A.

5.5.3 Sharemarket Evidence

With the exception of ArborGen, Grant Samuel has been unable to identify any listed companies that focus on the production of tree seedlings or forestry genetics. Grant Samuel has therefore examined companies that operate in similar industries, are exposed to similar economic factors and/or operate within Australia and New Zealand. Accordingly, Grant Samuel has primarily examined mature listed agricultural and aquaculture businesses that are based in Australia and New Zealand.

The following table sets out the implied EBITDA and EBIT multiples for a range of listed comparable companies:[14]

SHAREMARKET RATINGS OF SELECTED LISTED COMPANIES[15]

ENTITY	MARKET CAPITALISATION (NZ$ MILLIONS)	EBITDA MULTIPLE (TIMES)[16]		EBIT MULTIPLE (TIMES)[17]	
		HISTORICAL	FORECAST	HISTORICAL	FORECAST
ArborGen ANZ (offer price)	*NZ$22.25*	*8.9*	*8.9*	*12.4*	*12.4*
ArborGen Holdings	145	9.5	7.8	29.7	17.5
Costa Group	1,495	11.5	10.4	18.7	18.8
Delegat Group	1,483	16.4	16.4	19.5	19.8
GrainCorp[18]	1,460	12.0	n.m.	25.7	n.m.
Scales Corporation	772	12.3	11.9	15.3	14.7
Tassal Group	760	10.4	7.8	16.0	11.5
Sanford	478	11.3	13.7	18.3	31.6
Ridley Corporation	450	8.4	7.7	13.8	11.3
Ricegrowers	390	12.3	7.8	23.4	12.9
PGG Wrightson	300	6.9	10.5	8.3	14.2
Seeka	188	8.4	7.7	13.3	13.6
Foley Wines	105	10.6	n.a.	15.9	n.a.
Median		**11.3**	**10.4**	**16.0**	**14.2**
Average		**11.0**	**10.4**	**17.1**	**16.4**

Source: Grant Samuel analysis (see Appendix B), n.a. means not available. n.m. means not meaningful.

A description of each of the companies above is set out in Appendix B. A graphic representation of the EBITDA and EBIT multiples implied by the share prices of comparable companies is set out in the chart below:

[14] Grant Samuel analysis based on data obtained from S&P Capital IQ, company annual reports and announcements and broker forecasts. Where broker forecasts are used, the median of the financial forecasts has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

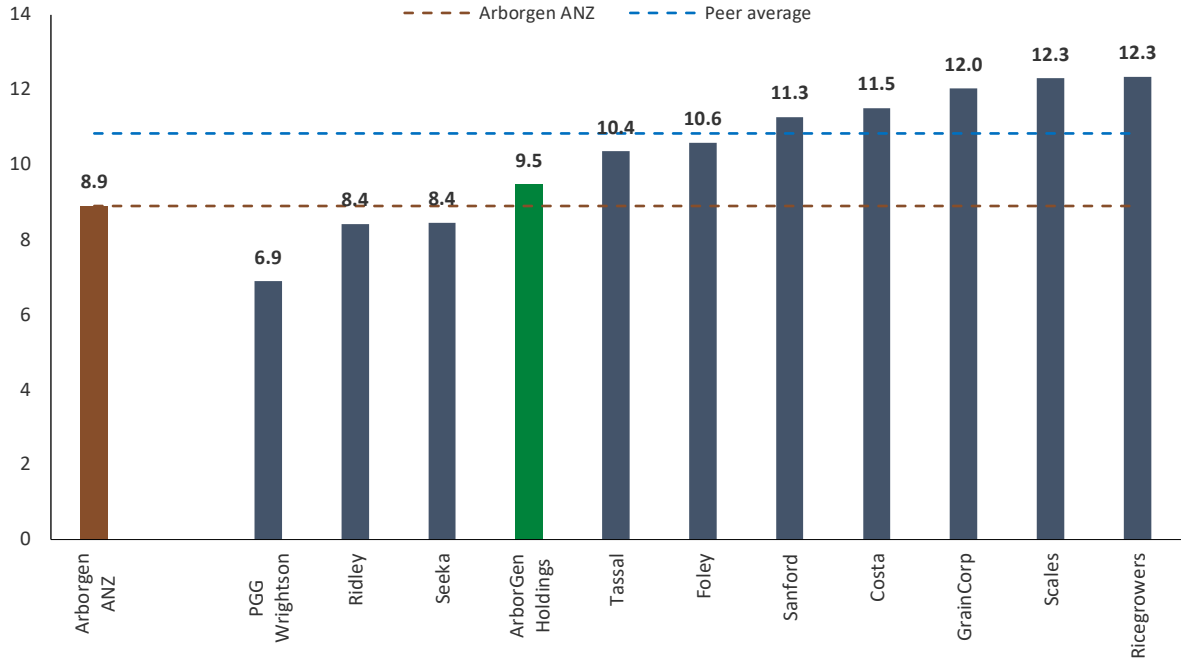
[15] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

[16] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

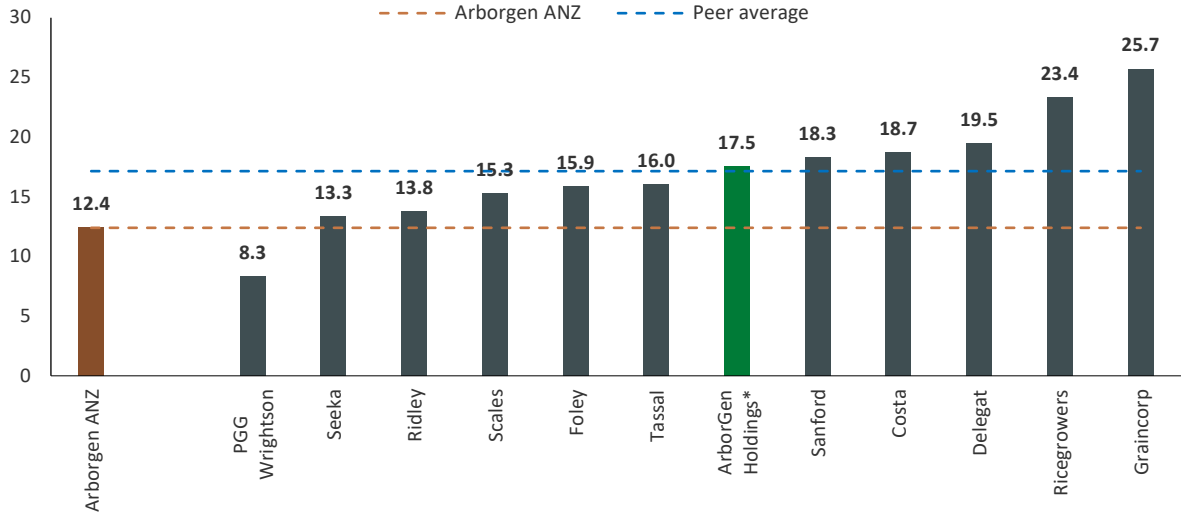
[17] Represents gross capitalisation divided by EBIT.

[18] EBIT and EBITDA provided by broker forecasts did not reflect the sale of GrainCorp's Australian bulk liquid storage terminals business and have been excluded from the analysis.

EBITDA MULTIPLES OF SELECTED LISTED COMPANIES



EBIT MULTIPLES OF SELECTED LISTED COMPANIES



Source: Grant Samuel analysis (see Appendix B), * represents forecast EBITDA multiple.

When observing the table above the following points should be noted:

- The multiples are based on closing share prices as at 4 October 2021. The share prices and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole.
- The companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year.
- The EBITDA and EBIT multiples implied by the Proposed Transaction fall within the range of the listed mature agri-business companies examined.

- There are considerable differences between the operations and scale of the comparable companies when compared with ArborGen ANZ. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.
- Each of the above companies has adopted IFRS16.[19] Grant Samuel has calculated trading multiples on a pre-IFRS16 basis. A pre-IFRS16 approach:
  - enables consideration of trends in each business (in particular EBITDA and EBIT margins) on a consistent basis; and
  - is consistent with the comparable transaction multiples, the vast majority of which took place prior to the introduction of IFRS16 (from January 2019).

  ArborGen ANZ's long term forecasts have been prepared on a pre-IFRS16 basis and therefore adjustments to the cash flow projections were not required.
- The data presented for each company is the most recent annual historical result and the forecast is an average of earnings forecast from available broker reports. The financial data has not been adjusted to align the year end for each company.
- While the above companies have a significantly different operations they are generally trading at multiples between 8.4 times and 12.3 times historical EBITDA.

The data shows a range of trading multiples, largely reflecting the characteristics and market exposures of different businesses:

- The larger listed companies tend to trade at higher multiples. The largest listed companies examined are Delegat Group Limited (**Delegat**), GrainCorp Limited (**GrainCorp**) and Costa Group Holdings Limited (**Costa**). The market capitalisations of these companies are each around NZ$1.5 billion. As shown above all of these companies are trading at multiples towards the top end of the range of companies.
- PGG Wrightson is trading at lower multiples of 6.9 times EBITDA and 8.3 times historical EBIT. Having sold its seeds business in 2018, the company has operations in rural distribution, livestock trading and agency trading and other rural services. These are all mature businesses with limited growth opportunities which contribute to the company trading at lower multiples.

Grant Samuel has considered but has excluded from its analysis large listed companies that engage in forestry management and ownership such as CatchMark Timber Trust, Inc., PotlatchDeltic Corporation and Weyerhaeuser Company. These companies are much larger than ArborGen ANZ and forestry genetics is either not a part of their business or is not a significant focus. While Weyerhaeuser is a strong operator in the forestry genetics industry it is one of the largest owners of timberlands and operates as a real estate investment trust. In addition, its seedling operations are primarily for in-house production.

Other competitors in the United States (such as IFCO Seedlings PRT Growing Services) are not listed and insufficient information is available to make comparisons with ArborGen ANZ.

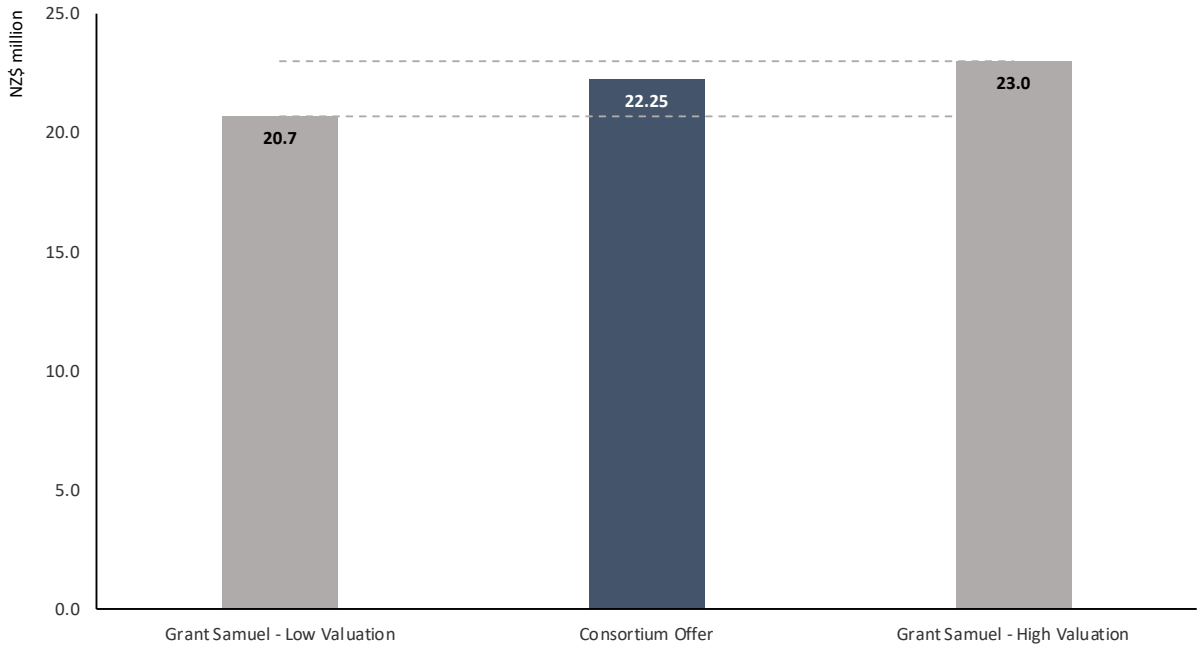
[19] The impact of IFRS 16 has been reversed by excluding lease liabilities from net borrowings in determining the enterprise value and adjusting broker forecasts of EBITDA and EBIT (to include estimated lease payments using lease depreciation and lease interest as a proxy) to the extent that brokers appear to have adjusted forecast earnings for the impact of IFRS16. It should be noted that IFRS16 is an accounting concept and its application does not have any impact on the cash flow of a business or a company. A valuation prepared on a post IFRS16 basis should give the same result as a valuation prepared on a pre-IFRS16 basis provided that all elements of the valuation (earnings, multiples, net debt) are determined and applied on a consistent basis.

6 Merits of the Proposed Transaction

6.1 Evaluation of the Sale Price and Terms of the Proposed Transaction

In Grant Samuel's opinion the full underlying value of ArborGen ANZ is in the range of NZ$20.7 million to NZ$23.0 million as set out in section 5. The full underlying value is the price a person or entity would be expected to pay to acquire ArborGen ANZ as a whole and, accordingly, includes a premium for control. The Consortium has offered to acquire ArborGen ANZ for NZ$22.25 million, which is within Grant Samuel's assessed value range for ArborGen ANZ, and at the upper end of the range as depicted below:

COMPARISON OF THE PROPOSED TRANSACTION PRICE WITH GRANT SAMUEL'S VALUATION RANGE



The Proposed Transaction implies multiples of 7.6 times historical adjusted EBITDA and 8.9 times ArborGen ANZ's revised EBITDA budget for FY22. Grant Samuel's analysis suggests the historical EBITDA multiple implied by the Proposed Transaction is within the range of multiples paid for controlling shareholdings in comparable companies. The EBITDA multiples implied by the Proposed Transaction are within the range of EBITDA multiples for mature listed Australasian Agri/Aqua companies set out in section 5.5.3.

Accordingly, in Grant Samuel's opinion the Consideration offered for ArborGen ANZ is fair.

6.2 Evaluation of the Impact on ArborGen's Earnings and Financial Position

Financial analysis comparing the status quo (i.e. the Proposed Transaction does not proceed) with the pro forma financials if the Proposed Transaction proceeds is outlined below. The financial information used is the FY21 financial performance and position:

EVALUATION OF THE FINANCIAL IMPACT OF THE PROPOSED TRANSACTION (US$ MILLIONS)

	STATUS QUO	IF THE PROPOSED TRANSACTION PROCEEDS
Financial performance for 12 months to 31 March 2021		
Revenue	52.7	42.8
Gross profit	18.2	15.7
EBITDA (before one-off items)	12.8	10.9
EBIT (before one-off items)	2.6	1.1
Financial position as at 31 March 2021		
Net operating assets	175.6	160.6
Net debt (excluding proeprty leases)	(27.4)	(12.4)
Net assets	148.2	148.3
Financial leverage ratios		
Gearing ratio (net debt / net operating assets)	15.6%	7.7%
Leverage ratio (net debt / EBITDA)	2.1	1.1

The following points should be taken into consideration when reviewing the table above:

- If the Proposed Transaction proceeds the net bank debt decreases from US$27.4 million to US$12.4 million. Gearing reduces from 15.6% to 7.7% and the leverage ratio reduces from 2.1 to 1.1 times. The cash realised from the Proposed Transaction could be utilised for growth opportunities in the USA or Brazil.
- The Proposed Transaction results in FY21 EBITDA reducing by US$1.9 million and EBIT reducing by US$1.5 million.

6.3 Future Opportunities

The Proposed Transaction will likely assist ArborGen in pursuing future opportunities that are available to it. These opportunities include one or several of the following:

- a potential sale of ArborGen;
- a potential US listing of ArborGen;
- freeing up capital for debt reduction and/or increased capital expenditure;
- expanding the operations in the US and Brazil.

One of these opportunities is a potential future sale of ArborGen. By selling ArborGen ANZ first this simplifies the ArborGen business. ArborGen will then be focussed on two countries, the US and Brazil. The Proposed Transaction would also likely reduce regulatory approvals required for a potential future transaction. In particular, by selling ArborGen ANZ first this may remove the requirement to obtain OIO approval in New Zealand if a sale of the remaining businesses were to occur.

The US and Brazil businesses are very different to ArborGen ANZ's business. ArborGen ANZ is an operationally separate, mature and smaller Australasian business when compared with the US and Brazil businesses. The Australasian markets have long had exposure to MCP seedlings and ArborGen's offerings in

Australasia are well established, while Brazil and the US has significant upside growth potential from advanced genetics adoption/conversion from lower end genetics. This means there are relatively fewer growth opportunities for ArborGen ANZ when compared with the Brazil and US businesses. In other words, the Australasian business and US/Brazil businesses are very different propositions and therefore appeal to different acquirers. The Consortium wishes to acquire New Zealand businesses that can generate a consistent return and has indicated that it plans to hold businesses for the long term. While potential buyers of the US and Brazil businesses likely desire the business for potential expansion of ArborGen's offerings in those markets. For these reasons if the Proposed Transaction proceeds ArborGen is potentially a more attractive proposition than it is currently for large overseas buyers (particularly without the OIO approval hurdles).

6.4 Board and Management Focus

The Proposed Transaction will result in ArborGen and ArborGen ANZ having separate management teams and boards focussed on their own businesses. This will allow each business to have a regional focus, have their own strategic objectives and priorities and make decisions that are suitable for each business' risk/return profile as well as address specific regulatory and operational issues.

While the management teams of ArborGen and ArborGen ANZ are largely separate, ArborGen's CEO and other ArborGen Holdings head office staff have oversight responsibilities with respect to the Australia and New Zealand businesses. The Proposed Transaction will enable ArborGen to pursue growth and strategic opportunities that are focussed on its largest market, the United States.

6.5 Regional Impacts

The Proposed Transaction will result in ArborGen only having orchard and nursery exposure to the US and Brazil. This will result in exposure to fewer geographic areas and will allow ArborGen to concentrate on its core growth markets. ArborGen ANZ will also be able to focus on Australasia. As outlined at 6.3 above the businesses are operationally separate. The New Zealand business has the additional difference that only trees grown in New Zealand can be planted in New Zealand for biosecurity reasons.

In recent history ArborGen has been exploring expansion in the US and Brazil. The potential sale of ArborGen ANZ will allow ANZ to become a regionally focussed business, pursuing Australasian opportunities. It will be strongly positioned to take advantage of potential replanting demand. Other opportunities exist in terms of adding nurseries and orchards as ArborGen ANZ's facilities are currently operating at full capacity. By having a New Zealand domiciled owner there is likely to be more focus on the Australasian market and there may be more desire to explore local expansion options.

If the Proposed Transaction proceeds this will also mean both ArborGen businesses will be smaller and less regionally diversified than they are currently. ArborGen may be less able to readily absorb the financial and business consequences of significant adverse events as these will have a greater relative impact. Such adverse events include extreme weather and climate change related events and the resulting destruction of ArborGen ANZ's facilities and the impact on seedlings. Events such as hurricanes in the US have impacted the operations and profitability of ArborGen in the past.

6.6 Dividends

ArborGen listed (as Rubicon) in March 2001 and has never paid a dividend. The Proposed Transaction will allow for the reduction of debt with the potential result being the ability to pay dividends over the longer term. Management has indicated its desire to reduce debt and pursue growth opportunities in the US and Brazil as priorities if the Proposed Transaction were to proceed.

6.7 Market Value and Liquidity Considerations

The Proposed Transaction will not impact ArborGen's listing on the NZX and will not prevent any potential future sale of the rest of the business or another aspect of the business. There may be changes to ArborGen's liquidity and market price following the Proposed Transaction. For example, ArborGen may be seen as more of a target for a takeover (without the added uncertainty of OIO approval requirement for a potential buyer) and this could boost the share price and liquidity. However, such consequences cannot be known with certainty.

Following the Proposed Transaction ArborGen has several options available, including a United States listing which may be more appropriate as over 70% of the business (by revenue) is generated from the United States operations. While this is a consideration:

- there are existing companies listed on the NZX that have the bulk of their operations conducted offshore;
- ArborGen's share register consists predominantly of New Zealand investors and it would take time to develop a meaningful investor base on another exchange; and
- ArborGen can decide to redomicile to another stock exchange in due course and if it makes commercial sense to do so.

6.8 Transition

The sale of part of a business can be a complicated exercise and entails risks at an operational level. There are potential risks relating to the Proposed Transaction, including:

- disruption to management resulting from the sale process and transfer of ownership;
- delays and increased cost in achieving a sale of ArborGen ANZ; and
- retaining key management personnel.

Grant Samuel does not consider these risks outside the norm of any transaction. In any event:

- ArborGen ANZ is operationally distinct from the US and Brazil operations and has always had its own General Manager, sales and finance function. In terms of a separation of ArborGen ANZ this would have no operational impact on ArborGen.
- Since beginning ArborGen ANZ has been a stand-alone commercial entity, while the other businesses were historically research based businesses in development. There is also very limited overlap between ArborGen ANZ's customers and those served by the US and Brazil operations. ArborGen ANZ has separate internal processes and has developed its own intellectual property/trade secrets independent of the US and Brazil operations. In some circumstances the businesses have the same or very similar trade practices and processes but these have been developed independently. Grant Samuel understands that the Proposed Transaction is not expected to result in any intellectual property or trade practices being lost or forfeited for either ArborGen or ArborGen ANZ.
- Limited consents need to be obtained from lessors and key suppliers to allow the Proposed Transaction to occur.

6.9 The Likelihood of an Alternative Offer

The Sub-Committee of Independent Directors of ArborGen ran a third party sales process in relation to its interest in ArborGen ANZ as part of its strategic review. The Proposed Transaction represents the outcome of a sales process run by PWC on behalf of the Sub-Committee of Independent Directors. Interest in ArborGen ANZ was solicited from a wide range of domestic and international industry and financial market participants. There has been an active expression of interest and bidding process. The non-binding offer

received from the Consortium is the highest price and most reasonable terms received from interested parties.

ArborGen has not entered into an exclusivity agreement with the Consortium. It has entered into an agreement to reimburse the costs of the Consortium (to a set limit) in a number of circumstances including if ArborGen decides not to sell ArborGen ANZ to the Consortium. In Grant Samuel's view the prospects of an alternative offer are low when taking into account the parties approached as part of the strategic review, the costs ArborGen would be required to incur if it chose to engage with another party and the time that has elapsed since the start of the strategic review.

6.10 Alternatives to the Proposed Transaction

The primary alternatives to selling ArborGen ANZ to the Consortium are to either:

- retain ArborGen ANZ and continue to operate it as part of the wider group; or
- seek a purchaser for the wider ArborGen group.

As explained in section 6.3 ArborGen ANZ is a very different business to its Brazil and US counterparts. There is a risk that any offer to acquire ArborGen as a whole will result in an insufficient multiple being paid for the ANZ business (if a capitalisation of earnings approach is applied). In terms of the two bullet points above, parties interested in ArborGen's higher growth US and Brazil operations are less likely to be interested in the operationally separate, mature and smaller Australasian business. If a potential sale of ArborGen US and Brazil were to occur at a future date this will be the sale of a more regionally focussed, growth orientated business.

6.11 Rationale, timing and circumstances surrounding the Offer

The Proposed Transaction has been considered by the board of ArborGen following the strategic review that has taken place over the past three months. As part of this a number of options were considered by the ArborGen's Board and included (but were not limited to) a potential sale of all the shares in, or all or some of the assets of the Company or a US listing. The objective of the strategic review was to determine what the best outcome would be for shareholders and the future of ArborGen. Following the announcement of the strategic review ArborGen share price has increased significantly from (NZ$0.22 on Tuesday 29 June prior to the announcement to NZ$0.29 on 29 October).

6.12 Conclusion

Grant Samuel has been requested to provide an opinion on the merits of the Proposed Transaction. In Grant Samuel's opinion, based on the analysis of the merits outlined above, the Proposed Transaction is in the best interests of ArborGen Holdings and its shareholders. The consideration offered by the Consortium is within Grant Samuel's valuation range. The Proposed Transaction will allow ArborGen to reduce debt. It will also allow ArborGen to become more focussed on its primary markets of US and Brazil. If ArborGen ANZ is sold then ArborGen will be better placed for a future US listing or a potential sale of the remaining business should ArborGen's shareholders decide to do so.

GRANT SAMUEL & ASSOCIATES LIMITED

November 2021

APPENDIX A – RECENT TRANSACTION EVIDENCE

A brief description of each of the transactions listed in Section 5.5.2 is outlined below:

2PH Farms Pty Ltd / Costa Group Holdings Limited

On 23 June 2021 Costa Group Holdings Limited (**Costa**) announced that it had agreed to acquire the business and assets of 2PH Farms Pty Ltd (**2PH**), a Central Queensland based citrus grower for upfront consideration of approximately A$200m in cash. Costa will also pay A$31m for an additional property where a new citrus crop is currently being planted. 2PH is expected to generate ~A$29m of EBITDA and ~A21.5m of EBIT for Costa. The relatively young citrus orchards are still in growth phase with yield forecast to more than double as the orchards mature. The purchase price implies multiples of 6.9 times EBITDA and 9.3 times EBIT. Costa is Australia's leading grower, packer and marketer of fresh fruits and vegetables.

Aongatete Coolstores Limited / Seeka Limited

On 13 March 2019 Seeka Limited (**Seeka**) announced that it had agreed to purchase 100% of Aongatete Coolstores Limited for NZ$25m. The business is expected to an estimated 4 million to 4.5 million trays to Seeka's catchment and to deliver sustainable EBITDA of NZ$3.5m and NZ$4.5m. Aongatete is an integrated kiwifruit orcharding and post-harvest company operating across the Bay of Plenty. The assets acquired are of excellent quality. The purchase price implies an EBITDA multiple range of 5.6 to 7.1 times (with a midpoint of 6.3 times). Seeka is New Zealand's largest fully integrated kiwifruit business.

PGG Wrightson Seeds / DLF Seeds

On 5 August 2018 PGG Wrightson Limited (**PGW**) entered into an agreement to sell its seed business for NZ$421 million to DLF Seeds A/S, a leading global seeds group. In addition, DLF assumed debt of NZ$18 million. PGW Seeds is a leading provider of seeds in Australasia with revenues of approximately NZ$450 million, EBITDA of NZ$35.6 million and EBIT of NZ$29.6 million in the year prior to the transaction. DLF is a Danish based cooperative and is active in more than 80 countries. It has 1,200 employees and revenues of approximately NZ$810 million p.a. The transaction implied multiples of 12.5 times historical EBITDA, 12.3 forecast EBITDA, 15.0 times historical EBIT and 15.7 times forecast EBIT. The multiples paid reflect PGW Seeds' leading market position, size and attractiveness to global seed companies.

Allied Pinnacle / Pacific Equity Partners

On 31 January 2017 GrainCorp Limited (**GrainCorp**) announced the sale of its 60% investment in Allied Mills Australia Pty Ltd to Pacific Equity Partners for A$190 million. Venture partner Cargill also sold its 40% interest. The sale price equated to an enterprise value of A$455 million. The purchase price implied multiples of 10 times historical EBITDA and 16.6 times historical EBIT. Allied Mills is Australia's largest supplier of flour and bakery pre-mixes to bread stores, in-store supermarket bakeries and the industrial food service sector.

BFP / SEEKA

On 5 August 2015 Seeka announced that it has agreed to acquire the kiwifruit and orcharding business and assets of Australian company Bunbartha Fruit Packers Pty Ltd (**BFP**) for A$22 million. The acquisition made Seeka the largest kiwifruit grower in Australia, building on its position in New Zealand. The purchase included 505 hectares of land. BFP has revenues of approximately NZ$17m and is expected to increase Seeka's EBITDA by between NZ$3.2m to NZ$4.0m. The purchase price implies an EBITDA multiple range of 5.5 to 6.9 times (with a midpoint of 6.1 times).

Apollo Apples / Turners & Growers

On 16 April 2014 Turners & Growers Limited (**T&G**) announced that it had agreed to acquire the business and assets of Apollo Apples Limited. Apollo is a vertically integrated apple operator growing, packing and exporting approximately 1.4 million cartons of apples in 2013. Apollo owns and leases over 500 hectares of apple orchards in the Hawke's Bay. It also owns and operates a large packhouse and coolstore in Whakatu. In the year ended 31 December 2013 Apollo's sales were NZ$50 million and EBIT was NZ$6.3 million. The purchase price comprised an initial payment of NZ$36.05 million, an additional payment of NZ$7.1 million for working capital, plus a further NZ$8 million to be paid over the four years following completion in the event that certain performance benchmarks (e.g. growth in apple volume) are met or exceeded by the business. The purchase price implies a multiple of 8.1 times EBIT (including the earn out payments).

Turners & Growers / BayWa

On 10 November 2011 Guinness Peat Group plc (**GPG**) confirmed that it had entered into a lock up agreement with German company BayWa Aktiengesellschaft (**BayWa**) for GPG's 63.46% shareholding in T&G. BayWa is an international trading and services company with annual EBIT of ~EUR 130 million on revenues of EUR 8 billion and has a workforce of 16,000 employees. The enterprise value implied multiples of 7.0 times historical EBITDA and 12.1 times historical EBIT. T&G grows, markets and distributes fresh produce in New Zealand.

Scales / Direct Capital

On 3 May 2011 Direct Capital agreed to buy South Canterbury Finance's 79.7% shareholding in Scales Corp from the receivers for NZ$44 million. Co-investors included the NZ Superannuation Fund and Accident Compensation Corporation. Scales is a horticultural and primary sector processing company with interests in logistics and exports. The purchase implied an enterprise value of NZ$174 million and multiples of 6.0 times historical EBITDA and 8.6 times historical EBIT.

APPENDIX B – COMPARABLE LISTED COMPANIES

A brief description of each of the companies listed in Section 5.5.3 is outlined below:

ArborGen Holdings Limited (NZSE: ARB)

See description in section 3.

Foley Wines Limited (NZSE: FWL)

Foley Wines Limited (**Foley**), an integrated wine company, produces, markets, and sells wines in New Zealand. It offers wines under the Martinborough Vineyard, Te Kairanga, Lighthouse Gin, Grove Mill, Vavasour, and Mt Difficulty brands. It also exports its products. Approximately 46% of revenue is generated from New Zealand sales, with the remaining 54% being from overseas sales. Foley was incorporated in 1986 and is headquartered in Blenheim, New Zealand.

Seeka Limited (NZSE: SEK)

Seeka Limited (**Seeka**), together with its subsidiaries, provides orchard lease and management, and post harvest services to the horticulture industry primarily in New Zealand. It operates through Orchard Operations, Post Harvest Operations, Retail Service Operations and has an Australian segment. The Orchard Operations segment offers on-orchard management services to orchard owners who produce kiwifruit, avocado, and kiwiberry crops. The Post Harvest Operations segment provides post-harvest services to the kiwifruit, avocado, and kiwiberry industries. The Retail Service Operations segment offers fruit marketing services, retail and ripening services for imported fruit produce, and operates a wholesale market. Approximately 56% of Seeka's revenue is generated from post harvest operations, with another 30% generated from the Orchard Operations segment. Seeka was founded in 1987 and is headquartered in Te Puke, New Zealand.

Delegat Group Limited (NZSE:DGL)

Delegat Group Limited (**Delegat**) engages in the production, marketing, distribution, and sale of wine. The company markets and sells its products primarily under the Oyster Bay, Barossa Valley Estate, and Delegat brands to retailers and distributors in the United Kingdom, Ireland, and rest of Europe, the United States, Canada, Australia, New Zealand, and the Asia Pacific. Delegat was founded in 1947 and is based in Auckland, New Zealand.

Sanford Limited (NZSE: SAN)

Sanford Limited (**Sanford**) engages in farming, harvesting, processing, storing, and marketing of seafood products. It operates through Wildcatch and Aquaculture segments. The company catches and processes inshore and deepwater fish species, as well as farms, harvests, and processes mussels and salmon. Sanford also provides auction, wharf, and research services and retails and wholesales seafood. The business primarily operates in New Zealand with approximately 94% of revenue generated from the New Zealand segment and approximately 6% from its Australian segment. Sanford was founded in 1881 and is headquartered in Auckland, New Zealand.

Scales Corporation (NZSE: SCL)

Scales Corporation Limited (**Scales**) engages in agribusiness activities in New Zealand. The company operates through Food Ingredients, Horticulture, and Logistics segments. The Food Ingredients segment processes and markets food ingredients, such as pet food ingredients and juice concentrates. This segment also manufactures

and sells apple, kiwifruit, and pear juice concentrates. The Horticulture segment is involved in growing, packaging, marketing, and exporting apples under the Mr Apple, Fern Ridge Fresh, Dazzle, and Posy brands. The Logistics segment provides supply chain services for exporters, importers, and FMCG businesses. This segment also engages in the sea and air freight of produce. Approximately 52% of revenue is generated from the Horticulture segment and 37% from the Food Ingredients segment. The company was founded in 1897 and is headquartered in Christchurch, New Zealand.

PGG Wrightson (NZSE: PGW)

PGG Wrightson Limited (**PGG Wrightson**) provides goods and services for agricultural and horticultural sectors in New Zealand. The company operates in two segments, Agency, and Retail & Water. It operates rural supplies stores that offer a range of products in various categories, such as fencing, agricultural chemicals, animal health, animal equipment and handling and irrigation supplies. The company also provides agency services for the sale and purchase of livestock through auction, private and on-farm sales, and specialist stud stock sales, irrigation and water services to farmers and horticulturists and markets and exports wool products. In addition, it offers insurance products as well as farm machinery and equipment and real estate services. The Retail & Water segment comprises approximately 78% of revenues while the Agency segment accounts for the other 22%. PGG Wrightson was founded in 1841 and is headquartered in Christchurch, New Zealand.

Tassal Group Limited (ASC: TGR)

Tassal Group Limited (**Tassal**), together with its subsidiaries, engages in the hatching, farming, processing, marketing, and sale of Atlantic salmon and tiger prawns in Australia. It offers fresh, smoked, canned, and frozen salmon and Australian black tiger prawns. The company also procures, processes, markets, and sells salmon, prawns, and other seafood species. It provides its products under the Tassal, Tropic Co, Superior Gold, Tasmanian Smokehouse, and De Costi Seafoods brands through retail and wholesale channels. Domestic segment sales comprised approximately 84% of revenue, with international sales making up the remaining 16%. Tassal was founded in 1986 and is headquartered in Hobart, Australia.

Ridley Corporation Limited (ASX: RIC)

Ridley Corporation Limited (**Ridley**), together with its subsidiaries, provides animal nutrition solutions in Australia. It operates in two segments, Packaged Feeds and Ingredients, and Bulk Stockfeeds. The company offers its products primarily under the Ridley, Barastoc, Rumevite, Cobber, Primo, and Food for Dogs brands. It provides nutrition solutions to various food producers in the dairy, poultry, pig, aquaculture, sheep, and beef industries. Approximately 66% of revenues are generated from the Bulk Stockfeeds segment, with the remaining 34% from the Packaged Feeds and Ingredients segment. Ridley was incorporated in 1987 and is headquartered in Melbourne, Australia.

GrainCorp Limited (ASX: GNC)

GrainCorp Limited (**GrainCorp**) operates as a food ingredients and agribusiness company in Australasia and internationally. It operates through two segments Agribusiness and Processing. Key activities include receiving, transports, tests, stores, and imports grains comprising wheat, barley, canola, and sorghum, as well as other bulk commodities. It also markets grain and agricultural products and operates grain pools. GrainCorp is also involved in processing and crushing oilseeds, supplying edible oils and feeds, operating bulk liquid port terminals and the provision of storage, packaging, transportation, and logistics services. GrainCorp's Agribusiness division accounts for approximately 83% of revenue. GrainCorp was founded in 1916 and is headquartered in Sydney, Australia.

Ricegrowers Limited (ASX: SGLLV)

Ricegrowers Limited (**Sunrice**), operates as a rice food company in Australia and internationally. The company operates through Rice Pool, International Rice, Rice Food, Riviana Foods, and CopRice segments. It engages in the receipt and storage of paddy rice, milling, manufacturing, procurement, distribution, and marketing of rice and related products, as well as other grocery products. The company offers its products under the Sunwhite, Solrice, Trukai, CopRice, Hinode, Always Fresh, Admiral, Captain, Riviana, Mahatma, Menu Master, Garden Supreme, and Ocean Supreme brands. Sunrice's international rice segment is its largest accounting for approximately 53% of revenue. Sunrice was founded in 1950 and is based in Sydney, Australia.

Costa Group Holdings Limited (ASX: CGC)

Costa Group Holdings Limited (**Costa**) produces, packs, and markets fruits and vegetables to food retailers. It operates through three segments: Produce, Costa Farms & Logistics, and International. The company offers mushrooms, raspberries, strawberries, blackberries, tomatoes, citrus, avocados, bananas, grapes, and other fruits. It also provides chilled logistics warehousing and services, as well as wholesale and marketing services. As of June 23, 2021, it had approximately 5,000 planted hectares of farmland, 30 hectares of glasshouse facilities, and 3 mushroom growing facilities in Australia. Approximately 76% of revenue is generated from the Produce segment, 12% from Costa Farms & Logistics and 12% from the International Segment. Costa was founded in 1888 and is based in Ravenhall, Australia.

APPENDIX C – VALUATION METHODOLOGY DESCRIPTIONS

Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or

reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value ArborGen ANZ. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in ArborGen ANZ's case.

APPENDIX D – INTERPRETATION OF MULTIPLES

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;

- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
  - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
  - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

APPENDIX E – QUALIFICATIONS, DECLARATIONS AND CONSENTS

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Christopher Smith, BCom, PGDipFin, MAppFin, Jake Sheehan, BCom (Hons) and Myles Snaddon, LLB, BCom, CFA. Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel believes that is opinions must be considered in their entirety and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of opinions such as those set out in this report is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by ArborGen and their respective advisers. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, enquiry, and review for the purposes of assessing the Proposed Transaction. However in such assignments time is limited and Grant Samuel does not warrant that these enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate enquiries for the purposes of forming its opinions, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, product disclosure statements or profit forecasts is beyond the scope of an independent expert.

The limited timeframe restricts the ability to undertake a detailed investigation of ArborGen and ArborGen ANZ. Grant Samuel has not undertaken a due diligence investigation of ArborGen or ArborGen ANZ. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of ArborGen or ArborGen ANZ. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

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 the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of ArborGen ANZ was prepared by their respective management teams and advisers. Grant Samuel has used

these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for ArborGen ANZ. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by ArborGen is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of ArborGen ANZ, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of ArborGen, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. Grant Samuel expressly disclaims any liability to any ArborGen security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

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

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with ArborGen or the Consortium that could affect its ability to provide an unbiased opinion in relation to the Proposed Transaction. Grant Samuel had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Samuel will receive no other benefit for the preparation of this report.

5. Information

The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- ArborGen's 2019, 2020 and 2021 annual report;
- ArborGen NZX announcements;
- brokers' reports and press articles on ArborGen;
- industry reports such as those provided by MPI; and
- share market data and related information on ArborGen and other businesses in the agricultural and aquaculture industries.

5.2 Non Public Information

- ArborGen NZ nursery and orchard capacity information;
- ArborGen ANZ management accounts;
- ArborGen ANZ long term forecast model;
- transaction related presentations (including presentations from financial advisers); and
- other information provided in the ArborGen ANZ virtual data room.

Grant Samuel has also had discussions with and obtained information from Senior Management of ArborGen.

6. Declarations

ArborGen Holdings has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. ArborGen Holdings has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by ArborGen are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of ArborGen. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which is to be sent to security holders of ArborGen. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.