

The Independent Board  
 Zarclear Holdings Limited  
 9th floor, Katherine Towers  
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Dear Sirs

3 September 2020

**INDEPENDENT EXPERT OPINION TO ZARCLEAR HOLDINGS LIMITED (“Zarclear” or the “Company”) REGARDING AN OFFER BY LEGAE PERESEC CAPITAL PROPRIETARY LIMITED (“Legae Peresec Capital” or the “Offeror”) TO ACQUIRE PART OR ALL OF THE ORDINARY ISSUED SHARE CAPITAL OF ZARCLEAR**

**Introduction**

Zarclear announced on the Stock Exchange News Service of the JSE Limited (“**JSE**”) (“**SENS**”) and the news service of the exchange operated by A2X Proprietary Limited (“**A2X**”) (“**ANS**”) on 5 August 2020 (the “**Announcement**”) that Legae Peresec Capital, which currently holds (directly or indirectly) ~30.08% of Zarclear’s issued share capital, has expressed its desire to the Zarclear Board (the “**Board**”) to further increase its strategic holding in the Company and has informed the Board that Legae Peresec Capital will proceed with a general offer to Zarclear shareholders to purchase Zarclear’s listed securities (“**ZCL shares**” or “**Zarclear Shares**”) at an offer price of R4.40 per ZCL share (the “**Offer Price**”) (the “**Offer**” or the “**General Offer**”).

The General Offer will be made in compliance with the relevant provisions of the Companies Act 71 of 2008 (the “**Companies Act**”) and the Takeover Regulations promulgated thereunder (the “**Takeover Regulations**”).

The General Offer, if accepted by shareholders holding at least 11 122 994 Zarclear Shares, will result in Legae Peresec Capital acquiring Zarclear Shares equal to or exceeding 35% of the issued share capital of Zarclear. In consequence, a mandatory offer at R4.40 per Zarclear Share (the “**Mandatory Offer Price**”) will be triggered by Legae Peresec Capital in favour of holders of Zarclear Shares in terms of section 123 of the Companies Act and the Takeover Regulations (the “**Mandatory Offer**”). The General Offer will, accordingly, be in fulfilment of the mandatory offer provisions of Chapter 5 of the Companies Act and the Takeover Regulations.

As at the date of this opinion, the share capital of the Company comprises the following:

- Authorised share capital comprising 500 000 000 no par value shares; and
- Issued share capital comprising 226 065 696 Zarclear Shares.

Full details of the Offer are contained in the circular to shareholders (the “**Circular**”), which will be posted to shareholders on or about [2 September 2020] and includes a copy of this letter.

The material interests of the Zarclear directors are set out in paragraph [8] of Part II of the Circular.

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**Nodus Capital TS (Pty) Ltd.**  
 Directors: D.P.W. André | G. Bryce-Borthwick | G.G. Christopulo |  
 J.W.S. le Roux | H.S. Pieterse  
 Registration Number: 2014/226782/07

The Offer and/or Mandatory Offer provides Zarclear Shareholders with an opportunity to realise their investment in Zarclear at the following premiums to the share price as at the Announcement date:

	<b>Announcement</b>
Closing price	8.6%
30-day VWAP*	4.5%
60-day VWAP	1.6%
90-day VWAP	2.1%

\* volume weighted average price (“VWAP”)

### **Scope**

The Offer may result in Legae Peresec Capital acquiring Zarclear Shares equal to or exceeding 35% of the issued share capital of Zarclear and may therefore result in the Mandatory Offer being triggered. Accordingly, the terms of the Mandatory Offer will be subject to the requirements of Regulation 90 of the Fundamental Transactions and Takeover Regulations, as read with Section 117(c)(iv) and Section 123 of the Companies Act. Zarclear is therefore required to obtain a fair and reasonable opinion from an independent expert in terms of the provisions of Regulation 110(1) of the Takeover Regulations, on whether the terms and conditions of the Offer and/or Mandatory Offer are fair and reasonable to the Zarclear Shareholders (the “**Opinion**” or “**Fair and Reasonable Opinion**”).

Nodus Capital TS Proprietary Limited (“**Nodus**”) has been appointed by the Independent Board as the Independent Expert to advise on whether the terms and conditions of the Offer are fair and reasonable to the Shareholders of Zarclear.

### **Responsibility**

Compliance with the Companies Act and the Takeover Regulations is the responsibility of the Independent Board. Our responsibility is to report on the terms and conditions of the Offer in compliance with the related provisions of the Companies Act and the Takeover Regulations.

We confirm that our Fair and Reasonable opinion has been provided to the Independent Board for the sole purpose of assisting them in forming and expressing an opinion for the benefit of Zarclear Shareholders in relation to the Offer.

### **Definition of the terms “fair” and “reasonable”**

The “fairness” of a transaction is based on quantitative issues. A transaction may be said to be fair if the benefits received by the shareholders, as a result of the transaction, are equal to or greater than the value ceded by the shareholders.

The Offer Price and/or Mandatory Offer Price may be said to be fair if the Offer Price and/or Mandatory Offer Price is greater than or equal to the value of one Zarclear Share or unfair if the Offer Price and/or Mandatory Offer Price is less than the value of one Zarclear Share.

In terms of the Takeover Regulations, a transaction will be considered reasonable if the offer consideration received by shareholders in terms of the corporate action is higher than the market price of the company’s securities at the time that the corporate action was announced, or at some other more appropriate identifiable time. In addition, other qualitative considerations may be taken into account when considering the reasonableness of the corporate action. Even though the consideration may differ from the market value of the assets being acquired, a transaction may still be reasonable after considering other significant qualitative factors.

### **Our approach in considering the Offer**

In considering the Offer, we have independently calculated the fair value of one Zarclear Share and compared our fair value of one Zarclear Share to the Offer Price.



## Details and sources of information

The principal sources of information used in performing our work include:

- The Announcement;
- The terms and conditions of the Offer, as set out in the Circular;
- Representations and assumptions made available by, and discussions held with, the management of Zarclear and the Independent Board;
- Publicly available information relating to the industries in which Zarclear operates;
- Publicly available information relating to Zarclear that we deemed to be relevant, including company announcements, media articles and analyst presentations, where applicable;
- Share price information of Zarclear over the last 12 months to assess the relative liquidity and relative volatility of Zarclear Shares;
- Published market data on Zarclear;
- Audited annual financial statements of Zarclear for the 3 years ended 31 March 2019;
- Interim financial results of Zarclear, for the 6 months ended 30 September 2019;
- Unaudited management accounts of Zarclear, for the periods ended and 31 March 2020 and 30 June 2020;
- Share price information of the listed share portfolios, namely Stenprop Limited (“**Stenprop**”) and African Phoenix Investments Limited (“**African Phoenix**”), owned by Zarclear (the “**Zarclear Listed Portfolio**”) over the last 12 months to assess the relative liquidity and relative volatility of the shares comprising the Zarclear Listed Portfolio;
- SENS announcements by Stenprop on or about 26 March, 21 April and 5 May 2020 (the “**Stenprop SENS Announcements**”);
- The delisting circular released by African Phoenix on 8 May 2020 (the “**African Phoenix Delisting Circular**”); and
- The 30-day, 60-day and 90-day VWAP as at date preceding the date of the Announcement.

The information above was obtained from:

- Directors and management of Zarclear; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing Zarclear.

## Procedures performed

In arriving at our Opinion we have undertaken the following procedures in evaluating the fairness of the Offer:

- Considered the rationale for the Offer as represented by Zarclear management and the Independent Board;
- Reviewed the terms and conditions of the Offer;
- Supplemented our knowledge and understanding Zarclear as well as the industries in which it operates;
- Held discussions with management on the prospects of the underlying businesses within Zarclear, as applicable;
- Reviewed and analysed the historical financial information of Zarclear;



- Considered the value of Zarclear using a sum of the parts (“SOTP”) valuation, as described in more detail in the Valuation section of this Opinion;
- Reviewed Zarclear’s historic traded share prices and trading volumes on the JSE and A2X to ascertain the relative trading activities, liquidity and volatility of the Zarclear Shares;
- Reviewed certain publicly available information relating to Zarclear and the industries in which it operates that we deemed to be relevant, including company announcements and media articles;
- Reviewed the Stenprop SENS Announcements;
- Reviewed the African Phoenix Delisting Circular and noted that shareholders of African Phoenix approved its delisting;
- Performed an analysis of other information considered pertinent to our valuation and Opinion;
- Considered the fact that Zarclear shareholders holding in aggregate 89 988 122 Zarclear shares, representing 39.81% of all Zarclear shares in issue have provided irrevocable undertakings to not accept the Offer and remain as Zarclear shareholders;
- Considered the fact that Zarclear’s Shares are tightly held, minimal capital has been raised from the market and that trading in Zarclear Shares are low;
- Considered the prevailing economic and market conditions, including the impact of the COVID-19 pandemic as far as practical possible, on Zarclear;
- Considered the fact that the Offer is settled in cash; and
- Obtained from the management of Zarclear a letter of representation in respect of amongst other things the information shared and/or statements made to us and upon which we have relied.

We have not interviewed any of the Zarclear Shareholders to obtain their views on the Offer.

Based on the results of the procedures mentioned above, we determined the fairness and reasonableness of the Offer to Zarclear Shareholders. We believe that the above considerations justify the opinion outlined below.

### **Limiting conditions**

This Opinion of the Independent Expert is provided to the Independent Board in connection with and for the purposes of the Offer. The Opinion of the Independent Expert does not purport to cater for each individual Zarclear Shareholder’s perspective, but rather that of the general body of Zarclear Shareholders.

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

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

This Opinion of the Independent Expert is provided in terms of the Companies Act and the Takeover Regulations. Therefore, it should not be relied upon for any other purpose. We assume no responsibility to anyone if this Opinion of the Independent Expert is used or relied upon for anything other than its intended purpose. Should an individual Zarclear Shareholder have any doubts as to what action to take, such Shareholder should consult an independent advisor.

Our Opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such developments. We have assumed that all conditions precedent in



the transaction agreements, including any material regulatory and other approvals, if any, will be properly fulfilled/obtained.

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

### Valuation

Nodus performed an independent valuation of Zarclear to determine whether the Offer and/or the Mandatory Offer represents fair value to the Zarclear Shareholders.

For the purposes of our valuation of Zarclear we used a SOTP valuation. Zarclear's value comprises a number of material assets, namely significant cash balances, cash investments and the Zarclear Listed Portfolio. Although Zarclear has limited liabilities, it does incur costs to maintain its operations and investments (the "**Head Office Costs**"). We performed a high-level income approach (discounted cash flow) valuation on the Head Office Costs and deducted this from the results of the SOTP valuation.

The valuation of the Head Office Costs was performed taking cognisance of risk and other market and industry factors affecting Zarclear. Additionally, sensitivity analyses were performed considering key assumptions. Prevailing market and industry conditions were also considered in assessing the risk profile of the Head Office Costs.

Key internal value drivers included the discount rate.

Key external value drivers including headline inflation rates and prevailing market and industry conditions in respect of the industry in which Zarclear operates were also considered in assessing the forecast costs of Zarclear.

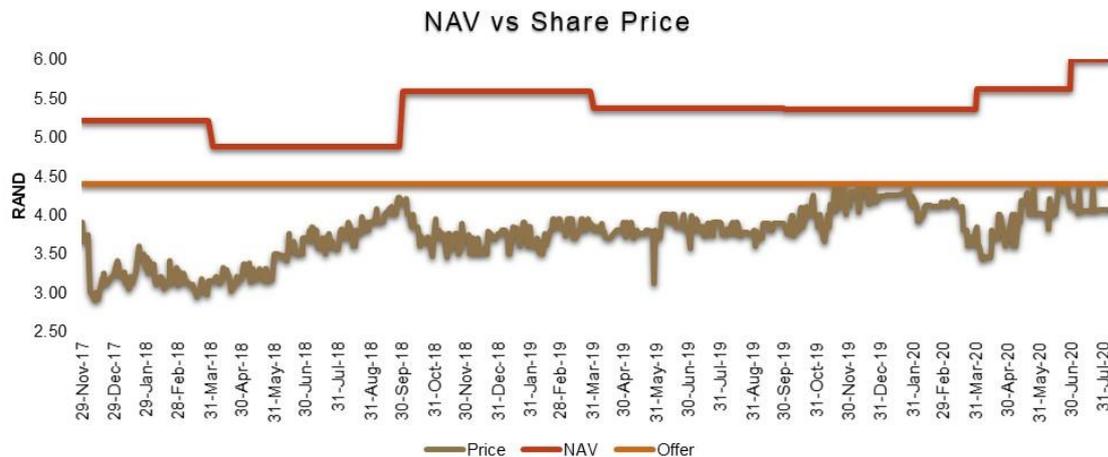
The inflation rate utilised in the income approach valuation approximated 4.5%. A change of 0.5% in the discount rate would result in a ~4% change in the value attributable to the Head Office Costs and have an insignificant impact on the overall value of Zarclear.

The Zarclear Listed Portfolio comprises of shares held in Stenprop and, until its delisting, African Phoenix. These investments represent minority interests and we performed a market valuation thereof as at the date preceding the Announcement. In performing the analysis we considered the individual share price closing values as at these dates, the 30-, 60- and 90-day VWAP prior to these dates, applicable analyst coverage and share liquidity. In addition, we considered the closing share prices of the Zarclear Listed Portfolio as at 31 August 2020 as well as the offer price in terms of the African Phoenix Delisting Circular – we note that Zarclear did not accept this offer. The value of the Zarclear Listed Portfolio has been impacted by the unprecedented volatility and uncertainty experienced in the current market due to, amongst other factors, the COVID-19 pandemic.

Lastly, we performed a net asset value ("**NAV**") analysis of Zarclear. This analysis, dating back to 29 November 2017, revealed that Zarclear's share price has historically traded at a substantial discount to NAV. This discount approximated ~47.9% at the date preceding the Announcement, 42.3% based on the 30-day VWAP preceding the Announcement and ~43% on average since 29 November 2017. The Offer and/or the Mandatory Offer reduces this discount to ~36%. An analysis of a selection of investment companies listed on the JSE revealed an average discount of market price to NAV of ~43% and a median discount of ~44%, based on latest published results as at the end of June 2020. In addition, the Head Office Costs are not reflected in the NAV.



Zarclear's share price performance *viz a viz* its NAV since 29 November 2017 to the date preceding the Announcement is graphically represented below:



### Assumptions

Our Opinion is based on the following key assumptions:

- Any agreements that will or have been entered into in terms of the Offer will be legally enforceable;
- The Offer will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of Zarclear;
- Reliance can be placed on the financial information of Zarclear;
- For the purposes of this Opinion of the Independent Expert, we assumed Zarclear's existing businesses to be ongoing under current business plans and management;
- Global financial markets are currently faced with significant uncertainty as a result of the COVID-19 pandemic, with the full impact remaining uncertain at this stage. We have assumed economic, regulatory and market conditions remain stable over the forecast period after factoring in the impact of COVID-19, as far as practically possible. There is, however, significant uncertainty, which could persist for some time, as to the full impact of COVID-19 on Zarclear and its underlying investments, and as a result, our work may not have identified or reliably quantified the impact of all such uncertainties; and
- Representations made by Zarclear management and their advisors during the course of forming this Opinion of the Independent Expert.

### Appropriateness and reasonableness of underlying information and assumptions

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

- Placing reliance on audit reports in the financial statements of Zarclear;
- Conducting analytical reviews on the historical financial results and the forecast financial information, such as key ratio and trend analyses, where applicable; and
- Determining the extent to which representations from management were confirmed by documentary and audited financial evidence, as well as our understanding of Zarclear and the economic environment in which it operates.

### Valuation results

In undertaking the valuation exercise of Zarclear above, we determined a valuation range of the Zarclear Shares of R4.60 to R5.15 per share.



The Offer and/or the Mandatory Offer falls below our concluded valuation range of Zarclear.

The valuation above is provided solely in respect of this Opinion and should not be used for any other purposes.

### **Qualitative considerations**

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

- The rationale for the Offer, as set out in the Circular;
- The trading liquidity of the Zarclear Shares;
- The fact that Zarclear shareholders may choose to remain as shareholders in an unlisted structure;
- The historic trading price of Zarclear Shares;
  - In evaluating the reasonableness of the Offer to arrive at our Opinion, we have considered that the Offer is at a premium to the traded price of the Zarclear Shares as well as the 30-, 60-, and 90-day VWAP price immediately prior to the Announcement; and
- The Offer provides Zarclear Shareholders the opportunity to exit an illiquid share at a premium and for a cash consideration.

### **Opinion**

Nodus has considered the terms and conditions of the Offer and, based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Offer, based on quantitative considerations, are unfair to the Zarclear Shareholders.

Based on qualitative factors, we are of the opinion that the terms and conditions of the Offer are reasonable from the perspective of the Zarclear Shareholders.

Our Opinion is necessarily based upon the information available to us up to 31 August 2020, including in respect of the financial information as well as other conditions and circumstances existing and disclosed to us.

### **Independence, competence and fees**

We confirm that we have no direct or indirect interest in Zarclear or the Offer nor do we have any relationship with Zarclear or any person related to Zarclear such as would lead a reasonable and informed third party to conclude that our integrity, impartiality or objectivity has been compromised by such relationship. We also confirm that we have the necessary competence and experience to provide the Independent Expert Report.

Furthermore, we confirm that our professional fee of R350 000 (excluding VAT) is not contingent upon the success of the Offer.

### **Consent**

We consent to the inclusion of this letter and the reference to our Opinion in the Circular to be issued to the Shareholders of Zarclear in the form and context in which it appears and in any required regulatory announcement or documentation.



Yours faithfully



**Johan le Roux CA(SA)**

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