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BLUE SKY MEATS (N.Z.) LIMITED

TARGET COMPANY STATEMENT

**IN RESPONSE TO A FULL TAKEOVER OFFER
FROM SOUTHERN LAMB INVESTMENTS LIMITED**

1 APRIL 2022

This is an important document and requires your urgent attention. If you have any questions in respect of this document or the offer, you should seek advice from your financial or legal adviser.

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LETTER FROM THE CHAIR OF THE INDEPENDENT COMMITTEE

1 April 2022

Dear Blue Sky Meats (N.Z.) Limited shareholder,

Introduction

Southern Lamb Investments Limited ("**Southern Lamb**") has made a full takeover offer under the Takeovers Code ("**Offer**") for all of the shares in Blue Sky Meats (N.Z.) Limited ("**Blue Sky**").

Southern Lamb is 50% owned by ODFI Limited which, in turn, is owned by interests associated with Blue Sky Director Scott O'Donnell. The remaining 50% of the shares in Southern Lamb are owned by Andrew Lowe Trustee Company No. 2 Limited ("**Lowe**"), a company associated with Blue Sky Director Andrew Lowe, as trustee of The Andrew Lowe No. 2 Trust.

As at 30 March 2022, Southern Lamb had received acceptances for 50.35% of the ordinary shares in Blue Sky ("**Blue Sky Shares**"). The acceptances so far include all of the Blue Sky Shares held by Blue Sky's second, third, and fourth largest shareholders, which had each pre-agreed with Southern Lamb that it would accept the Offer. Those shareholders are Lowe, which holds 18.01% of the Blue Sky Shares, H. W. Richardson Group Limited ("**Richardson's**") (a company owned by interests associated with Blue Sky Director Scott O'Donnell), which holds 16.74% of the Blue Sky Shares, and Blue Star Corporation Limited, which holds 11.25% of the Blue Sky Shares.

This letter forms part of Blue Sky's Target Company Statement in response to Southern Lamb's Offer. The Target Company Statement is required by the Takeovers Code and includes the Independent Committee's recommendation on the Offer, as well as an Independent Adviser's Report on the merits of the Offer, prepared by Campbell MacPherson Limited. You should read the Target Company Statement, including the Independent Adviser's Report, carefully and in full when considering whether to accept the Offer.

Key terms of Southern Lamb's Offer

The full terms of Southern Lamb's Offer are set out in Southern Lamb's Offer Document, which has been sent to you separately by Southern Lamb. The Offer price is **\$3.00** per share in cash. The Offer is now unconditional as Southern Lamb has received acceptances for more than 50% of the Blue Sky Shares.

Independent Committee of Directors

Your Board has formed an Independent Committee of Directors, comprising Sarah Brown (Chair) and Melvin Sutton, to consider Southern Lamb's Offer, and to oversee preparation of this Target Company Statement. The Independent Committee sought advice from Harmos Horton Lusk as legal adviser, and carefully considered Campbell MacPherson's Independent Adviser's Report.

Material increase in Blue Sky's financial performance

As advised to shareholders on 18 March 2022, participants in New Zealand's meat processing sector, including Blue Sky, are currently experiencing very favourable trading conditions. There has been a material year-to-date increase in Blue Sky's earnings compared with the prior period last year. Further information on this is set out in

Part A of the “Factors for Shareholders to Consider” section and paragraph 18 of the “Takeovers Code Disclosures” section.

Recommendation of the Independent Committee

The Independent Committee’s views on the Offer are set out in the “Recommendation” section that follows this letter. In short, you have two options, which are summarised in the following paragraph.

You could accept the Offer for all (but not part only) of your Shares. You may wish to do this if you consider the Offer price is fair, if you believe a higher priced competing offer is unlikely, or if you do not wish to take the risks of remaining a shareholder in a company controlled by Southern Lamb. Alternatively, you could reject (i.e. not accept) the Offer. You may wish to do this if you are prepared to take the risks of remaining a shareholder in a company controlled by Southern Lamb and believe that Southern Lamb will implement or support strategies that will enhance the value of your Blue Sky Shares.

The key factors that the Independent Committee has taken into account are set out in the “Factors for Shareholders to Consider” section and in the Independent Adviser’s Report. **You are encouraged to read those factors carefully and in full.**

Ultimately, it is your decision whether or not to accept the Offer. When making this decision you should consider your own individual circumstances, views on value and the merits of the Offer, and investment time horizon. You are encouraged to consider taking your own separate professional advice (e.g. from your lawyer or financial adviser) tailored to your circumstances.

Independent Committee shareholdings

No member of the Independent Committee holds Blue Sky Shares.

Outcomes of the Offer

The Offer is now unconditional. As a result, Southern Lamb will become the new controlling shareholder in Blue Sky. For the reasons set out in the “Factors for Shareholder to Consider” section of this Target Company Statement, the Independent Committee considers that there is a reasonable prospect that Southern Lamb will acquire between 50.35% (acceptances as at 30 March 2022) and 80.16% of the Blue Sky Shares under the Offer. If this occurs, Southern Lamb will be the controlling shareholder, but will not be entitled to compulsorily acquire the remaining Blue Sky Shares. Southern Lamb will be able to determine the composition of the Blue Sky Board which will allow Southern Lamb to, amongst other things, control Blue Sky’s business strategy, capital structure and dividends. In this regard, Southern Lamb has stated that it does not intend to make material changes to the business, but that it may raise new capital and/or review Blue Sky’s dividend policy to assist to fund future capital expenditure.

For further information about the potential outcomes of the Offer, the implications of those outcomes and Southern Lamb’s intentions for Blue Sky, see the “Factors for Shareholders to Consider” section of this Target Company Statement and section 11 of Schedule 1 to Southern Lamb’s Offer Document.

Acceptance of the Offer

If you wish to accept the Offer, please use the Acceptance Form that accompanies Southern Lamb’s Offer Document. Complete and return your Acceptance Form before the Offer closes in accordance with the instructions on that form. **Acceptances, once given, cannot be withdrawn** unless Southern Lamb fails to pay you for your Blue Sky Shares in accordance with the Takeovers Code.

If you wish to accept the Offer you can only do so for all of your Blue Sky Shares. That is, you cannot accept the Offer for part of your shares.

If you wish to reject (i.e. not accept) the Offer, you do not need to take any action.

Timing

The Offer will close at 11.59pm on Friday, 6 May 2022, unless extended by Southern Lamb in accordance with the Takeovers Code. Southern Lamb will write to you to advise you if it extends the Offer.

If you accept the Offer, Southern Lamb will pay you for your Blue Sky Shares within five working days after the date that Southern Lamb receives your acceptance. Accordingly, if you intend to accept the Offer and desire prompt payment, you should accept the Offer as soon as possible. However, if you are considering accepting the Offer but wish to wait to see whether a competing proposal emerges (see paragraph 4 of the “Factors for Shareholders to Consider” section), you may wish to wait and accept the Offer closer to the closing date.

Conclusion

If new material information arises, or if there is a material change in circumstances, the Independent Committee will update shareholders by way of announcements to the USX trading platform. You can check those announcements at: www.usx.co.nz under the “BLU” code.

On behalf of the Independent Committee and the Board, I thank you for your support of Blue Sky.

Yours faithfully



Sarah Brown

Chair of the Independent Committee
Blue Sky Meats (N.Z.) Limited

RECOMMENDATION

The Takeovers Code requires the Independent Committee (being the directors who have been delegated the responsibility to respond to the Offer by the Board) to recommend that shareholders either “accept” or “reject” the Offer or include a statement that the Independent Committee does not make or is unable to make a recommendation (and the reasons for this).

The Independent Committee considers that Southern Lamb’s Offer price of \$3.00 per Blue Sky Share undervalues Blue Sky. It is below the Independent Adviser’s assessed value range for the Blue Sky Shares of \$3.12 to \$3.67 per share.¹ It is also below the Independent Adviser’s assessed net tangible asset value of \$3.15 per Blue Sky Share. On a standalone basis, these valuation factors would tend towards the Independent Committee recommending that shareholders reject the Offer.

However, the Independent Committee is also mindful that the Offer is now unconditional and, as of 30 March 2022, Southern Lamb had received acceptances to the Offer for 50.35% of the Blue Sky Shares. This means that Southern Lamb will become the controlling shareholder of Blue Sky. For the reasons set out in paragraph 7 of the “Factors for Shareholders to Consider” section, the Independent Committee considers that there is a reasonable prospect that Southern Lamb will acquire between 50.35% (acceptances as of 30 March 2022) and 80.16% of the Blue Sky Shares. This is very important for shareholders. As Blue Sky’s new majority shareholder, Southern Lamb will be able to effectively control (amongst other things) the composition of the Board, the strategic direction of the company, dividend policy and future capital raisings. The decisions made by Southern Lamb (including, for example, whether to raise equity capital after the Offer) will significantly affect the future value of the Blue Sky Shares held by shareholders who reject the Offer and shareholders’ ability to realise that value.

Accordingly, the Independent Committee does not make a recommendation that shareholders accept or reject the Offer. Rather, the key question for shareholders is whether to remain invested in a company controlled by Southern Lamb. There are potential benefits and risks of doing so. Those potential benefits and risks are addressed in Part C of the “Factors for Shareholders to Consider” section.

You may wish to accept the Offer if one or more of the following apply:

- You believe the Offer price is a fair value for your Blue Sky Shares.
- You wish to achieve a certain cash price for your Blue Sky Shares now, rather than take a risk on the likelihood, timing or pricing of any future liquidity event (such as a future takeover offer or similar proposal).
- You do not wish to take the risk that you may be asked to contribute additional capital to the company (see paragraph 13 of the “Factors for Shareholders to Consider” section) or take the other risks of remaining a minority shareholder in Blue Sky with Southern Lamb as controlling shareholder.

Alternatively, you may wish to reject the Offer if you are willing to take the risks of remaining a minority shareholder in Blue Sky where Blue Sky is controlled by Southern Lamb (including, as addressed in paragraph 13

¹ Section 6 of the Independent Adviser’s Report sets out the basis (including valuation assumptions) on which the Independent Adviser has valued the Blue Sky Shares. Shareholders should read that section carefully.

of the “Factors for Shareholders to Consider” section, the potential for you to be asked to contribute additional capital to the company) and either or both of the following applies to you:

- You believe that Southern Lamb as controlling shareholder of Blue Sky will implement or support strategies that enhance value for remaining shareholders above the Offer price.
- You believe that a higher-priced future liquidity event (such as a takeover offer or similar proposal) is likely to emerge within a reasonable period of the Offer **and** that Southern Lamb will be supportive of that liquidity event.

Factors for you to consider

The factors that influenced the Independent Committee’s considerations are addressed in more detail in the “Factors for Shareholders to Consider” section that follows and in the Independent Adviser’s Report. **You encouraged to read those factors carefully and in full.**

The Independent Committee has not taken into account your individual investment objectives, financial or tax situation or needs. If you have questions or if you are in doubt as to what you should do in respect of the Offer, you should seek your own professional advice.

FACTORS FOR SHAREHOLDERS TO CONSIDER

1. INTRODUCTION

1.1 This “Factors for Shareholders to Consider” section is in three parts, as follows:

- (a) Part A sets out an assessment of the Offer price and certain other key factors relevant to your decision as to whether to accept or reject the Offer;
- (b) Part B sets out the options for Blue Sky shareholders and addresses potential outcomes of the Offer; and
- (c) Part C sets out certain key matters that you should be aware of if you intend to reject (i.e. not accept) the Offer.

Part A: Assessment of the Offer price and other key factors relevant to your decision

2. YEAR-TO-DATE FINANCIAL PERFORMANCE

- 2.1 Strong global demand is currently resulting in record pricing for New Zealand meat products and significantly enhanced revenue for participants in the New Zealand meat processing sector. As a result, Blue Sky is currently experiencing very favourable trading conditions. In the eight months to 28 February 2022 (being the latest month for which Blue Sky has completed management accounts), Blue Sky’s unaudited earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) was \$15,156,187, compared with EBITDA of \$1,257,823 for the eight months to 28 February 2021.
- 2.2 In light of year-to-date performance, the Independent Committee expects that full-year EBITDA for the current financial year will significantly exceed EBITDA for the previous financial year, but is unable to give specific earnings guidance. Further information on Blue Sky’s prospects and key risks and uncertainties that may adversely affect earnings is set out in paragraph 18 of the “Takeovers Code Disclosures” section of this Target Company Statement.

3. ASSESSMENT OF THE OFFER PRICE

Independent Adviser’s value range

- 3.1 The Independent Adviser assesses the value of Blue Sky’s Shares in the range of \$3.12 to \$3.67 per share, with a midpoint of \$3.40 per share. Southern Lamb’s Offer price is \$3.00 per share. Accordingly, the Offer price is below the low end of the Independent Adviser’s value range.

Adjusted net tangible assets per share

- 3.2 The Independent Adviser’s Report estimates that, as at 31 March 2022, Blue Sky has adjusted net tangible assets of \$36,258,000. This equates to adjusted net tangible assets of \$3.15 per Blue Sky Share.² The Offer price is below this value.

² See section 6.6 of the Independent Adviser’s Report for the Independent Adviser’s calculation of adjusted net tangible assets.

USX trading price

- 3.3 Blue Sky Shares were first quoted on USX on 1 December 2003. In the six months before announcement of Southern Lamb's intention to make a takeover offer, Blue Sky Shares have traded on USX in a range between \$1.10 and \$1.40 per Blue Sky Share.
- 3.4 The Offer price represents a:
- (a) 131% premium to the last traded price on USX prior to Blue Sky's announcement of Southern Lamb's Offer on 7 March 2022 (being \$1.30 on 26 January 2022).
 - (b) 118% premium to the three month volume weighted average price ("VWAP") for Blue Sky Shares on USX prior to the announcement of Southern Lamb's intention to make a takeover offer (being \$1.38).
 - (c) 128% premium to the six month VWAP for Blue Sky Shares on USX prior to the announcement of Southern Lamb's intention to make a takeover offer (being \$1.32).
- 3.5 Shareholders should note, however, that historical market prices on USX do not necessarily reflect the current value of Blue Sky Shares, including due to the liquidity constraints described in paragraph 5 of this section and the significant improvement in Blue Sky's earnings in this financial year, as described in paragraph 2 of this section and paragraph 18 of the "Takeovers Code Disclosures" section.

2021 non-binding indicative offer

- 3.6 In mid-2021, Blue Sky received a confidential, non-binding indicative proposal from a potential bidder who was considering making a full takeover offer for Blue Sky at \$2.50 per Blue Sky Share. The proposal was conditional on Blue Sky providing due diligence access to the potential bidder and the shareholders associated with Blue Sky Directors (i.e. Binxi, Lowe and Richardsons) providing commitments to accept the offer. After confidential feedback from Binxi, Lowe and Richardsons that they would not accept a \$2.50 per share price, the Board declined to provide due diligence access and the proposal did not proceed.
- 3.7 Southern Lamb's Offer price is a 20% premium to the indicative price proposed by the potential bidder. However, shareholders should note that the indicative proposal was submitted before the significant improvement in Blue Sky's financial performance in the current financial year, as described in paragraph 2 of this section and paragraph 18 of the "Takeovers Code Disclosures" section.

Independent Committee's view on value

- 3.8 Having regard to the matters set out in this "Factors for Shareholders to Consider" section (including, in particular, paragraph 13.3) the Independent Committee believes that Southern Lamb's Offer price of \$3.00 Blue Sky Share undervalues the company and does not adequately compensate you for the current and potential future benefits of ownership of Blue Sky Shares. Despite this, as noted in the "Recommendation" section, the Independent Committee suggests that shareholders respond to the Offer depending on their specific circumstances, risk tolerances and perspectives on the factors set out in this "Factors for Shareholders to Consider" section.

4. COMPETING OFFERS ARE UNLIKELY

- 4.1 Blue Sky received Southern Lamb's notice of intention to make a full takeover offer on the evening of 4 March 2022 and disclosed that notice, including the Offer price, to USX and shareholders on 7

March 2022. In addition, on 18 March 2022 the Independent Committee wrote to shareholders to update them on year-to-date earnings and released a copy of the letter to USX. The takeover notice and the earnings update have received coverage in various media outlets, including the NBR, Farmers Weekly, and the Otago Daily Times. This publicity has not, as at the date of this Target Company Statement, resulted in a competing takeover offer or any similar competing proposal.

- 4.2 While it is possible that a competing proposal could emerge, it is important for shareholders to be aware that the Offer is unconditional and, as of 30 March 2022, Southern Lamb had received acceptances for 50.35% of the Blue Sky Shares. This means that no competing offer or competing proposal could be implemented unless Southern Lamb supported that proposal. As a result, the Independent Committee considers that it is unlikely that a competing offer or competing proposal will be made during the Offer period.

5. THE OFFER PROVIDES YOU WITH A CERTAIN OPPORTUNITY TO SELL ALL OF YOUR BLUE SKY SHARES AT A CASH PRICE IN ONE TRANSACTION AND FREE OF BROKERAGE

- 5.1 Blue Sky Shares are quoted on the USX online trading platform.
- 5.2 Historically, there have been low volumes of trading of, and persons seeking to trade, Blue Sky Shares on USX (often called share trading liquidity). This affects both the market price of Blue Sky Shares and the ability to buy and sell shares in Blue Sky in reasonable parcel sizes. The fact that, prior to the Offer, the four largest shareholders together held 65.83% of the Blue Sky Shares was a factor in this, as these holdings significantly restricted the free float of Blue Sky Shares (the number of shares available for buying and selling on the market). In the 12 months prior to Blue Sky's announcement of Southern Lamb's Offer, a total of 166,040 Blue Sky Shares traded through USX, representing just 1.44% of the total number of Blue Sky Shares.
- 5.3 Limited liquidity can have important consequences. It can hamper your ability to sell your Blue Sky Shares on USX at the time that you wish at a price that you consider acceptable. Accordingly, a key benefit of Southern Lamb's Offer is that it provides you with a certain opportunity to sell all of your Blue Sky Shares at a cash price per share significantly above historical levels on USX, in one transaction and free of brokerage.
- 5.4 If, after the Offer, Blue Sky Shares remain quoted on USX (see paragraph 14 of this section, which addresses the potential for Blue Sky Shares to cease quotation on USX):
- (a) share trading liquidity could decline, as Southern Lamb will hold a majority of the Blue Sky Shares; and
 - (b) the market price is likely to be significantly below the Offer price. This is because the Offer price (and Independent Adviser's value range) incorporates a premium for control of Blue Sky. Small parcels of shares do not confer control and typically trade at a discount.

Part B: Options for shareholders and potential outcomes of the Offer

6. WHAT ARE YOUR OPTIONS?

- 6.1 You have two options in response to the Offer. You can:
- (a) reject (i.e. not accept) the Offer; or

(b) accept the Offer for all of your Blue Sky Shares.

6.2 You cannot accept the Offer for some, but not all, of your Blue Sky Shares.

What happens if you accept the Offer

6.3 If you accept the Offer, Southern Lamb will pay you the Offer price in cash within five working days after the date that Southern Lamb receives your Acceptance Form. This provides you with the benefit of a certain cash price for all of your Blue Sky Shares, free of brokerage. You will no longer be exposed to the future benefits of an investment in Blue Sky (for example, future dividends (see paragraph 12 of this section) or the ability to participate in a future competing proposal at a price above the Offer price (see paragraph 15 of this section)), but will no longer be exposed to the future risks of that investment (see Part C of this section, including paragraph 13).

What happens if you do not accept the Offer

6.4 If you do not accept the Offer, then you will remain a shareholder in Blue Sky and will face one of the potential outcomes of the Offer which are set out in paragraph 7 of this section.

7. WHAT ARE THE POTENTIAL OUTCOMES OF THE OFFER?

Current position

7.1 As of 30 March 2022, Southern Lamb had received acceptances for 50.35% of the Blue Sky Shares under the Offer. Those acceptances include the shares held by three of the four large shareholders in Blue Sky, being the Blue Sky Shares held by Lowe (18.01% of the total Blue Sky Shares), Richardson's (16.74% of the total Blue Sky Shares) and Blue Star (11.25% of the total Blue Sky Shares). The only large shareholder which has not accepted the Offer is NZ Binx (Oamaru) Foods Limited ("**Binx**").

7.2 Binx holds 19.84% of the total Blue Sky Shares. Binx has advised the Independent Committee that:

- (a) Binx's present intention is to not accept the Offer.
- (b) Binx's present intention is based on its parent company's circumstances in China and is unrelated to the terms of the Offer.
- (c) Binx does not anticipate its present intention changing and, if it does change, it will be driven by a change in circumstances with Binx's parent company rather than any change in the terms of the Offer.

7.3 The Independent Committee has no visibility to the circumstances of Binx's parent company in China and, therefore, cannot advise shareholders as to how or when those circumstances may change. However, shareholders should also be aware of the following:

- (a) the Takeovers Panel (the government body which is responsible for regulating compliance with the Takeovers Code) requires that takeover participants (including shareholders) who give statements of intention (such as set out in paragraph 7.2) act in a manner which is consistent with those statements; and
- (b) the Takeovers Panel has advised Binx that it may not be able to rely on the qualification in paragraph 7.2(c) (because the qualification is not sufficiently clear) and, therefore, the effect of the statement of intention in paragraph 7.2 is that Binx may be unable to accept the Offer even if circumstances were to change.

- 7.4 Accordingly, the Independent Committee considers that there is a reasonable prospect that Binxi will not accept the Offer.

Potential outcomes of the Offer

- 7.5 The Offer is now unconditional and, as of 30 March 2022, Southern Lamb had received acceptances for 50.35% of the Blue Sky Shares. Accordingly, the Independent Committee considers that the most likely potential outcomes of the Offer are as follows:

- (a) Southern Lamb acquires between 50.35% (acceptances as of 30 March 2022) and 80.16% of the Blue Sky Shares under the Offer (i.e. if Binxi does not accept the Offer); or
- (b) Southern Lamb acquires 90% or more of the Blue Sky Shares under the Offer (this would require Binxi to accept the Offer and for Southern Lamb to receive total acceptances in respect of 90% or more of the Blue Sky Shares).

- 7.6 These two outcomes are discussed below in paragraphs 7.8 and 7.9. Given Binxi's stated intentions in respect of the Offer (see paragraph 7.2 above), the Independent Committee considers the first outcome is more likely, but that the second outcome remains a possibility.

- 7.7 There is a further potential outcome, which is that Binxi accepts the Offer but Southern Lamb does not receive acceptances for 90% or more of the Blue Sky Shares. The Independent Committee considers that this outcome is unlikely and has not addressed it below. However, if Binxi accepts the Offer and there is sufficient time to do so before the Offer closes, the Independent Committee intends to write to shareholders to advise on the implications of Binxi's acceptance.

What happens if Southern Lamb acquires between 50.35% and 80.14% of the Blue Sky Shares?

- 7.8 If:

- (a) you do not accept the Offer; **and**
- (b) Binxi does not accept the Offer (i.e. such that the maximum shareholding in Blue Sky that Southern Lamb could acquire under the Offer is 80.14%),

then you will remain a shareholder in Blue Sky. You will retain the future benefits, but will also be exposed to the future risks, of an investment in Blue Sky. Crucially, if you do not accept the Offer then you will be invested in a company that is controlled by Southern Lamb. Key implications of this are set out in Part C.

What happens if Southern Lamb receives acceptances for 90% or more of the Blue Sky Shares?

- 7.9 If Southern Lamb receives acceptances to the offer for 90% or more of the Blue Sky Shares (which would require Binxi to accept the Offer), Southern Lamb will become entitled to, and intends to, compulsorily acquire the remaining shares in Blue Sky in accordance with the Takeovers Code. If this occurs then:

- (a) Blue Sky Shares will cease to be quoted on USX; and
- (b) if you remain a shareholder in Blue Sky, your Blue Sky Shares will be compulsorily acquired from you by Southern Lamb. The compulsory acquisition price will be the Offer price.

Part C: Key matters that you should be aware of if you intend to reject the Offer

8. SOUTHERN LAMB WILL CONTROL BLUE SKY

- 8.1 As noted above, the Offer is now unconditional and Southern Lamb has, as of 30 March 2022, received acceptances for 50.35% of the Blue Sky Shares. The Independent Committee believes, based on the matters discussed above, that there is a reasonable prospect that Southern Lamb's Offer will result in Southern Lamb acquiring between 50.35% (acceptances as of 30 March 2022) and 80.16% of the Blue Sky Shares under the Offer. If this is the case then, if you do not accept the Offer, you will remain a minority shareholder in a company controlled by Southern Lamb. The key implications of this are addressed below in this Part C.
- 8.2 For clarity, Part C sets out the position if Southern Lamb acquires between 50.35% and 80.16% of the Blue Sky Shares under the Offer. Part C does not apply if Southern Lamb receives acceptances for 90% or more of the Blue Sky Shares.

9. SOUTHERN LAMB'S RIGHTS AS A CONTROLLING SHAREHOLDER

- 9.1 With a majority shareholding less than 75%, Southern Lamb will have effective, but not absolute, control of Blue Sky:
- (a) Southern Lamb will be able to pass an ordinary resolution (a resolution requiring a bare majority of the votes cast) by itself. This will allow Southern Lamb to control the composition of the Board of Blue Sky. Control of the Board will allow Southern Lamb to, amongst other things, determine Blue Sky's business strategy, change the company's dividend policy and approve certain changes to the company's capital structure.
 - (b) Southern Lamb will also have significant influence over special resolutions (a resolution requiring a 75% majority of the votes cast) and, depending on the degree to which other Shareholders vote on the resolution, may be able to determine the outcome of special resolutions. Special resolutions are required for major transactions, changes to the Blue Sky constitution and certain other matters.
- 9.2 At a shareholding of 75% or greater, Southern Lamb will have the effective control described in paragraph 9.1(a) and will also be able to pass a special resolution by itself. This would allow Southern Lamb to, amongst other things, approve a major transaction or changes to the Blue Sky constitution.

10. THE VALUE OF YOUR SHARES

- 10.1 If you remain a shareholder in Blue Sky after the Offer, the value of your Blue Sky Shares will be determined by the factors which usually affect prices of shares, including general economic and market factors, as well as factors specific to Blue Sky including post-Offer business strategy, dividends, capital structure, share trading liquidity and future change of control events. Those factors are discussed below.

11. BUSINESS STRATEGY

- 11.1 After the Offer, Southern Lamb will control the composition of the Blue Sky Board and, accordingly, will control Blue Sky's business strategy. Blue Sky's business performance will be fundamental to the

future value of your Blue Sky Shares. You will bear the upside benefits (the potential for enhanced shareholder value) and downside risks (the potential for reduced shareholder value) associated with company's strategy and its ability to implement that strategy.

11.2 Southern Lamb has stated in the Offer Document that Blue Sky's business and material assets will not be materially changed other than the need to fund capital expenditure of \$30 million (see paragraph 13). On this basis, the Independent Committee expects that, after the Offer, the Southern Lamb-controlled Blue Sky will continue with the company's existing strategy (albeit that it is still a work in progress) (information on the current performance of Blue Sky's business, and risks which may adversely affect earnings, is set out in paragraph 2 of this section and paragraph 18 of the "Takeovers Code Disclosures" section). This may include taking steps to implement value-enhancing opportunities identified by the Board in the company's existing business plan. If implemented successfully after the Offer, those opportunities could enhance earnings and shareholders value (although the Independent Committee is unable to control and, therefore, assess the likelihood, timing, or extent of this).

11.3 It is possible that, after the Offer, Blue Sky could change business strategy in the future (for example, to adjust to changing economic conditions). As any future change in strategy cannot be known now, the Independent Committee are unable to assess the impact on value and risk profile of any change.

12. DIVIDENDS

12.1 Blue Sky has historically paid an annual dividend to shareholders. The last (fully imputed) final dividend, paid on 1 December 2021, was 6.9 cents per Blue Sky Share (being 5 cents per share in cash and 1.9 cents per share in imputation credits). After the Offer, Southern Lamb will control the composition of the Blue Sky Board and, accordingly, Blue Sky's approach to dividends.

12.2 Southern Lamb has stated in the Offer Document that it may review Blue Sky's dividend policy after the Offer, having regard to the availability of capital to fund capital expenditure. Accordingly, it is possible that, after the Offer, Blue Sky could suspend, or reduce the quantum of, dividend payments to shareholders.

13. CAPITAL EXPENDITURE AND FUNDING

13.1 Southern Lamb has indicated that, if the Offer is successful, it may require Blue Sky to undertake a \$30 million pro rata offer of new shares to shareholders to fund \$30 million of capital expenditure.

13.2 The Independent Committee considers that the nature (cash flow, equity and/or debt) and extent of the required funding for capital expenditure is influenced by various factors, including future earnings/free cash flow, the timing of capital expenditure, the timing and extent of dividend payments, and view of the post-Offer Blue Sky Board as to optimal capital structure. The financial scenario provided to the Independent Adviser assumes \$38 million of inflation adjusted capital expenditure over five-years (this is the same as the \$30 million of capital expenditure referred to by Southern Lamb in the Offer Document, adjusted for inflation over the five-year period), with expenditure staged to give priority to the projects which will be the most earnings accretive ("**Staged Capex Plan**"). The expected enhanced earnings from those priority projects are intended to assist to fund the later capital expenditure contemplated by the Staged Capex Plan.

13.3 Subject to the key assumptions which underlie the projected financial scenario (as set out in section 5.10 of the Independent Adviser's Report) and assuming that dividends do not exceed 10% of net profit after tax, the Independent Committee believes that, while some equity funding could be required in the

later years of the Staged Capex Plan, there is a reasonable prospect that the Staged Capex Plan could be funded primarily out of cashflow and existing banking facilities. Blue Sky's bank has informally indicated a willingness to provide some additional debt funding to Blue Sky for capital expenditure if required. Provision of that facility is indicative only and subject to bank requirements, such as formal credit approval and entry of formal finance documentation. Blue Sky's bank has no obligation to provide that facility.

- 13.4 However, shareholders should be aware that decisions as to the extent, timing and staging of capital expenditure and the way in which that capital expenditure is funded will be made by the post-Offer Board (and, as noted above, Southern Lamb will control the composition of the Board). The post-Offer Board could, for example, decide to raise equity capital:

- (a) to accelerate capital expenditure in comparison to the Staged Capex Plan;
- (b) to ensure certainty of funding if the Board is concerned about the risk of future free cashflow; or
- (c) if existing banking facilities are withdrawn or unable to be used at the relevant time for capital expenditure.

- 13.5 If the post-Offer Board decides to undertake a pro rata offer of new shares to shareholders and you wish to maintain your proportionate shareholding in Blue Sky, you will need pay to Blue Sky the amount necessary to subscribe for your full pro rata entitlement. If you do not subscribe for your full pro rata entitlement, your proportionate shareholding in Blue Sky will be diluted. The subscription price will be set by the post-Offer Board.

14. FUTURE LIQUIDITY AND USX QUOTATION

- 14.1 Southern Lamb has stated in the Offer Document that if there are a "small number of shareholders" remaining after the Offer, it intends to cease quotation of Blue Sky Shares on the USX trading platform. Southern Lamb has not specified what constitutes a "small number". The cessation of quotation of Blue Sky Shares does not require shareholder approval.

- 14.2 If Blue Sky Shares cease quotation on USX, remaining shareholders will lose both the price discovery and liquidity provided by USX. All future share transfers would need to occur off-market and there may be no easy or efficient way for shareholders to find buyers for their Blue Sky Shares. In addition, even if Blue Sky Shares remain quoted on USX after the Offer, there may be a decline in liquidity, as discussed in paragraph 5 of this section. This may adversely affect the market price for Blue Sky Shares and could also adversely affect your ability to sell your Blue Sky Shares.

15. FUTURE CONTROL TRANSACTIONS

Third party change of control transactions

- 15.1 With Southern Lamb as majority shareholder, no future change of control transaction (such as a full takeover offer by a third party or a takeover by way of scheme of arrangement promoted by a third party) affecting Blue Sky can be successful unless that transaction is supported by Southern Lamb.

Future increases in control by Southern Lamb³

- 15.2 After waiting 12 months from the completion of the Offer, Southern Lamb is entitled to acquire an additional 5% shareholding in Blue Sky in each 12-month period, by way of on-market (if Blue Sky Shares remain quoted on USX) and off-market transactions, under the “creep” provisions of the Takeovers Code. There are no pricing restrictions on these transactions.
- 15.3 In addition to “creeping” acquisitions, Southern Lamb can make another takeover offer for Blue Sky after the current Offer is completed (often called a “follow-on offer”), unless Southern Lamb announces that it will not do so. There are no timing restrictions on when Southern Lamb can make a follow-on offer other than the procedural requirements in the Takeovers Code (e.g. that Southern Lamb would be required to give notice of its intention to make a follow-on offer and wait between 10 and 20 working days after giving notice of its intention before making the follow-on offer). Southern Lamb can make a follow-on offer at a higher (or lower) price in comparison to the current Offer price.
- 15.4 If Southern Lamb makes a follow-on offer in the future at a higher price, it is not required to pay that higher price to Blue Sky shareholders who accept the current Offer. Accordingly, if you accept the current Offer, you will not receive any uplift if a higher price follow-on offer is made.
- 15.5 If Southern Lamb increases its holding of Blue Sky Shares to 90% or more (which, if Binxi remains a 19.84% shareholder after the Offer, would require Binxi to sell shares to Southern Lamb), whether as a result of a “creeping” acquisition or a future takeover offer, Southern Lamb is entitled, within a specified period, to compulsorily acquire the remaining Blue Sky Shares. If Southern Lamb chooses not to do so then, within a specified period, remaining holders of Blue Sky Shares can require Southern Lamb to purchase those Shares.
- 15.6 The compulsory acquisition price will depend on the manner in which Southern Lamb increased its shareholding to 90% or above. In some cases (for example, if Southern Lamb increased its shareholding to 90% or above as a result of “creeping” acquisition), the compulsory acquisition price must be a cash sum certified as fair and reasonable by an independent adviser.

Loss of rights under the Takeovers Code

- 15.7 Under the Takeovers Code, after completion of the Offer, Southern Lamb cannot increase its shareholding in Blue Sky, except by way of one of the following:
- (a) another takeover (including by way of a scheme of arrangement);
 - (b) with prior shareholder approval by ordinary resolution (on which Southern Lamb cannot vote);
or
 - (c) the “creep” rules.⁴
- 15.8 The Takeovers Code sets out certain rules for takeover offers for the benefit of minority shareholders, including a requirement that a bidder provide the same price and terms to all shareholders of the same class.

³ Paragraphs 15.2 to 15.6 of this section assume that, after the Offer, Blue Sky will remain subject to the Takeovers Code. See the discussion in paragraphs 15.7 to 15.9 of this section.

⁴ There are also a number of exemptions that would permit Southern Lamb to temporarily increase its shareholding in certain circumstances, provided it reduced that shareholding within a specified time period. See paragraph 15.2.

- 15.9 Importantly, for companies like Blue Sky which are not listed on the New Zealand Stock Exchange, the Takeovers Code only applies while the company has 50 or more shareholders and meets certain financial thresholds. Accordingly, if the Offer was to result in Blue Sky having less than 50 shareholders, Blue Sky would cease to be subject to the Takeovers Code and the matters described in paragraphs 15.7 and 15.8 above would cease to apply. In addition, the matters described in paragraphs 15.2 to 15.6 would not apply.

16. MINORITY PROTECTIONS

- 16.1 The Companies Act 1993 provides a limited number of protections for minority shareholders.
- 16.2 For example, amendments to Blue Sky's constitution or the approval of a major transaction (being, in broad terms, a transaction involving the acquisition or disposition of assets by Blue Sky having a value greater than 50% of the value of Blue Sky's gross assets before the transaction) require shareholder approval by special resolution (a 75% majority of the votes). Importantly, if Southern Lamb acquires 75% or more of the Blue Sky Shares it will be able to pass a special resolution by itself (for further information, see paragraph 9 of this section). Shareholders who vote all of their Blue Sky Shares against certain constitutional amendments or against a major transaction, where such constitutional amendments or major transaction is approved, have minority buyout rights (being the right to require Blue Sky to acquire, or to procure that a third party agree to acquire, their Blue Sky Shares for a fair and reasonable price).
- 16.3 If Southern Lamb or the post-Offer Board wished to take an action affecting the rights attaching to Blue Sky Shares held by minority shareholders as an "interest group", the action would require the approval of the minority shareholders by special resolution. Where such a proposal is approved, minority shareholders who voted all of their Blue Sky Shares against that proposal would have minority buyout rights.
- 16.4 A shareholder who considers that the affairs of Blue Sky have been, are being, or are likely to be, conducted in manner that is oppressive, unfairly discriminatory or unfairly prejudicial may apply to the Court for relief. If the Court considers it is just and equitable to do so it may grant any relief that it thinks fit, including requiring the company to acquire the shareholder's shares.
- 16.5 This paragraph 16 is for general information only. It is not intended to be, and should not be relied on as, legal advice to any shareholder. If you have any legal questions relating to the rights of minority shareholders or otherwise in respect of the Offer, you should seek your own legal advice.

TAKEOVERS CODE DISCLOSURES

This Target Company Statement has been prepared by Blue Sky Meats (N. Z.) Limited (“**Blue Sky**”) pursuant to Rule 46 and Schedule 2 of the Takeovers Code in relation to a full takeover offer made by Southern Lamb Investments Limited (“**Southern Lamb**”). Where any information required by Schedule 2 to the Takeovers Code is not applicable, no statement is made regarding that information. The following matters are stated as at the date of this Target Company Statement.

1. DATE

1.1 This Target Company Statement is dated 1 April 2022.

2. OFFER

2.1 This Target Company Statement relates to a full takeover offer by Southern Lamb (“**Offer**”) to purchase all of the fully paid ordinary shares in Blue Sky (“**Blue Sky Shares**”). Southern Lamb is a company owned by Andrew Lowe Trustee Company No. 2 Limited (“**Lowe**”) as trustee of The Andrew Lowe No. 2 Trust and ODFI Limited.

2.2 At the date of this Target Company Statement:

- (a) Lowe is the current holder of 18.01% of the Blue Sky Shares and is the second largest holder of Blue Sky Shares; and
- (b) H.W. Richardson Group Limited (“**Richardson’s**”) is the current holder of 16.74% of the Blue Sky Shares and is the third largest holder of Blue Sky Shares.

Each of Lowe and Richardson’s have accepted the Offer.

2.3 The full terms of the Offer are set out in Southern Lamb’s Offer Document dated 18 March 2022 (“**Offer Document**”).

3. TARGET COMPANY

3.1 The name of the target company is Blue Sky Meats (N. Z.) Limited.

4. DIRECTORS OF BLUE SKY

4.1 The names of the Directors of Blue Sky are:

- (a) Scott O'Donnell (Chair of the Board);
- (b) Sarah Jane Brown (Chair of the Independent Committee);
- (c) Melvin Gordon Sutton;
- (d) Andrew Graeme Lowe; and
- (e) Arron Hoyle.

5. OWNERSHIP OF EQUITY SECURITIES OF BLUE SKY

5.1 The only class of equity securities on issue in Blue Sky at the date of this Target Company Statement is Blue Sky Shares. The number and the percentage of Blue Sky Shares held or controlled by each

Director or Senior Manager⁵ of Blue Sky, or their associates, as at the date of this Target Company Statement is set out in the following table:

Director, Senior Manager or associate	Description	Number of Blue Sky Shares held or controlled by Director, Senior Manager or associate	Designation of Blue Sky Shares	Percentage of total number of Blue Sky Shares
Lowe as sole trustee of The Andrew Lowe No. 2 Trust ⁶	Associate of Director (Andrew Lowe)*	2,075,853	Ordinary	18.01%
Richardson's ⁷	Associate of Director (Scott O'Donnell)*	1,929,290	Ordinary	16.74%
NZ Binxi (Oamaru) Foods Limited ⁸ ("Binxi")	Associate of Director (Arron Hoyle)	2,286,250	Ordinary	19.84%
Hikanui Investments Limited ⁹	Associate of Senior Manager (Jim Goodall)	58,667	Ordinary	0.51%

The information in the above table was provided by or on behalf of the persons named in that table in response to questionnaires circulated by Blue Sky after receipt of Southern Lamb's Takeover Notice.

**It is possible that Lowe and Richardson's are associates and, therefore, that Lowe may be an associate of Scott O'Donnell and that Richardson's may be an associate of Andrew Lowe.*

- 5.2 Except as set out in paragraph 5.1, no Director or Senior Manager of Blue Sky, or their associates, holds or controls any Blue Sky Shares.
- 5.3 The number and the percentage of Blue Sky Shares held or controlled by the persons known by Blue Sky to hold or control 5% or more of the Blue Sky Shares is set out in the following table:

Holder or controller of 5% or more of the Blue Sky Shares	Number of Blue Sky Shares held or controlled	Designation of Blue Sky Shares	Percentage of total number of Blue Sky Shares
Binxi	2,286,250	Ordinary	19.84%
Lowe as sole trustee of The Andrew Lowe No. 2 Trust	2,075,853	Ordinary	18.01%
Richardson's	1,929,290	Ordinary	16.74%

⁵ For the purposes of this Target Company Statement, Blue Sky's Independent Committee has determined that the Senior Managers of Blue Sky are Jim Goodall (Chief Executive Officer) and Gary Smith (Interim Chief Financial Officer).

⁶ Andrew Lowe is a beneficiary of The Andrew Lowe No. 2 Trust.

⁷ Scott O'Donnell is a joint shareholder of all of the shares in H. W. Richardson Group Limited in his capacity as trustee of the Richardson Family Trust.

⁸ Arron Hoyle represents Binxi as a Director on the Board of Blue Sky.

⁹ Jim Goodall is the majority shareholder of Hikanui Investments Limited. On 22 March 2022 Hikanui Investments Limited accepted Southern Lamb's Offer.

Holder or controller of 5% or more of the Blue Sky Shares	Number of Blue Sky Shares held or controlled	Designation of Blue Sky Shares	Percentage of total number of Blue Sky Shares
Blue Star Corporation Limited (" Blue Star ")	1,296,748	Ordinary	11.25%

The information in the above table was provided in Schedule 1 to Offer Document or on behalf of Binxi or Blue Star in response to questionnaires circulated by Blue Sky to Binxi and Blue Star after receipt of Southern Lamb's Takeover Notice.

5.4 Except as set out in paragraph 5.3, no other person is known by Blue Sky to hold or control 5% or more of the Blue Sky Shares.

5.5 No Director or Senior Manager of Blue Sky or their associates, and no person who, to Blue Sky's knowledge, holds or controls 5% or more of the Blue Sky Shares, has a relevant interest in a derivative for which the underlying is Blue Sky Shares.

5.6 The number and price of equity securities of Blue Sky (including Blue Sky Shares):

- (a) issued to any Director or Senior Manager of Blue Sky, or their associates; or
- (b) in which any Director or Senior Manager of Blue Sky, or their associates, obtained a beneficial interest under any Blue Sky employee share scheme or other remuneration arrangement,

in the two year period ending on the date of this Target Company Statement is set out in the following table:

Director, Senior Manager or associate	Description	Number of equity securities of Blue Sky issued or provided to Director, Senior Manager or associate	Designation of equity securities of Blue Sky	Price of total number of equity securities of Blue Sky issued or provided to Director, Senior Manager or associate
Hikanui Investments Limited	Associate of Senior Manager (Jim Goodall)	On 4 November 2021, Blue Sky paid a bonus to Jim Goodall for the purposes of enabling Jim Goodall to procure that Hikanui Investments Limited acquire 20,834 Blue Sky Shares from Richardson's, and 20,833 Blue Sky Shares from Lowe as trustee of the Andrew Lowe No.2 Trust (being, in total, 41,667 Blue Sky Shares) at \$1.35 per Blue Sky Share.	Blue Sky Shares, ordinary	\$56,250.45

5.7 Except as set out in paragraph 5.6, no Director or Senior Manager of Blue Sky, or their associates, have, in the two year period ending on the date of this Target Company Statement:

- (a) been issued with any equity securities of Blue Sky; or
- (b) obtained a beneficial interest in any equity securities of Blue Sky under any Blue Sky employee share scheme or other remuneration arrangement.

6. TRADING IN BLUE SKY EQUITY SECURITIES

6.1 During the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement) Directors and Senior Managers of Blue Sky, or their associates, acquired or disposed of equity securities of Blue Sky as set out in the table below.

Date of acquisition or disposal	Director, Senior Manager or associate	Acquisition or disposal	Number of equity securities of Blue Sky acquired or disposed of	Designation of equity security of Blue Sky	Consideration per equity security of Blue Sky
15 October 2021	Andrew Graeme Lowe (Director)	Acquisition	1,750	Blue Sky Shares, ordinary	\$1.25
15 October 2021	Andrew Graeme Lowe (Director)	Acquisition	9,562	Blue Sky Shares, ordinary	\$1.35
04 November 2021	Lowe as trustee of The Andrew Lowe No 2. Trust (Associate of Director)	Disposal*	20,833	Blue Sky Shares, ordinary	\$1.35
04 November 2021	Hikanui Investments Limited (Associate of Senior Manager)	Acquisition*	20,833	Blue Sky Shares, ordinary	\$1.35
04 November 2021	Richardson's (Associate of Director)	Disposal*	20,834	Blue Sky Shares, ordinary	\$1.35
04 November 2021	Hikanui Investments Limited (Associate of Senior Manager)	Acquisition*	20,834	Blue Sky Shares, ordinary	\$1.35
08 November 2021	Andrew Graeme Lowe (Director)	Acquisition	17,000	Blue Sky Shares, ordinary	\$1.35
22 November 2021	Andrew Graeme Lowe (Director)	Disposal	28,312	Blue Sky Shares, ordinary	\$1.34
22 November 2021	Lowe as trustee of The Andrew Lowe No 2. Trust	Acquisition	28,312	Blue Sky Shares, ordinary	\$1.34

Date of acquisition or disposal	Director, Senior Manager or associate	Acquisition or disposal	Number of equity securities of Blue Sky acquired or disposed of	Designation of equity security of Blue Sky	Consideration per equity security of Blue Sky
	(Associate of Director)				
14 December 2021	Hikanui Investments Limited (Associate of Senior Manager)	Acquisition	8,000	Blue Sky Shares, ordinary	\$1.40
17 January 2022	Hikanui Investments Limited (Associate of Senior Manager)	Acquisition	9,000	Blue Sky Shares, ordinary	\$1.40

The information in the above table was provided in Schedule 1 to Offer Document or in response to questionnaires circulated by Blue Sky after receipt of Southern Lamb's Takeover Notice.

* See paragraph 5.6 for an explanation of these transactions.

6.2 Except as set out in in paragraph 6.1, no Director or Senior Manager of Blue Sky, or any of their associates, has during the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement) acquired or disposed of equity securities of Blue Sky.

6.3 Persons known by Blue Sky to hold or control 5% or more of the Blue Sky Shares have, during the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement), acquired or disposed of Blue Sky Shares as set out in the table below.

Holder or controller of 5% or more of Blue Sky Shares	Aggregate number of Blue Sky Shares acquired or disposed of	Week commencing of acquisition or disposal	Consideration per Blue Sky Share / weighted average consideration per Blue Sky Share	Designation of Blue Sky Shares	Acquisition or disposal
Lowe as trustee of The Andrew Lowe No 2. Trust	20,833	1 November 2021	\$1.35	Ordinary	Disposal
Richardson's	20,834	1 November 2021	\$1.35	Ordinary	Disposal
Lowe as trustee of The Andrew Lowe No 2. Trust	28,312	22 November 2021	\$1.34	Ordinary	Acquisition

The information in the above table was provided in Schedule 1 to Offer Document or in response to questionnaires circulated by Blue Sky after receipt of Southern Lamb's Takeover Notice.

- 6.4 Except as set out in paragraph 6.3, no person known by Blue Sky to hold or control 5% or more of the Blue Sky Shares has during the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement) acquired or disposed of Blue Sky Shares.

7. ACCEPTANCE OF OFFER

- 7.1 At the date of this Target Company Statement Binxi (an associate of Blue Sky Director Arron Hoyle) has advised Blue Sky that:
- (a) Binxi's present intention is to not accept the Offer.
 - (b) Binxi's present intention is based on its parent company's circumstances in China and is unrelated to the terms of the Offer.
 - (c) Binxi does not anticipate its present intention changing and, if it does change, it will be driven by a change in circumstances with Binxi's parent company rather than any change in the terms of the Offer.
- 7.2 On 10 February 2022 and 11 February 2022 respectively, Lowe as trustee of The Andrew Lowe No. 2 Trust (an associate of Blue Sky Director Andrew Lowe) and Richardson's (an associate of Blue Sky Director Scott O'Donnell) entered into Lock Up Agreements with Southern Lamb in relation to the Offer under which each of them agreed to accept the Offer in respect of all of their Blue Sky Shares no later than two working days after the Offer Document is received by them. The terms of the Lock Up Agreements are summarised in Schedule 1 to the Offer Document. As required by the Lock Up Agreements, Lowe as trustee of The Andrew Lowe No. 2 Trust has accepted the Offer for 2,075,853 Blue Sky Shares and Richardson's has accepted the Offer for 1,929,290 Blue Sky Shares.
- 7.3 On 22 March 2022 Hikanui Investments Limited (an associate of Blue Sky Chief Executive Officer Jim Goodall) accepted the Offer for 58,667 Blue Sky Shares.

8. OWNERSHIP OF EQUITY SECURITIES OF BLUE SKY

- 8.1 Blue Sky does not hold or control any class of equity security of Southern Lamb ("**Southern Lamb Shares**").
- 8.2 ODFI Limited (an associate of Blue Sky Director Scott O'Donnell)¹⁰ holds 60 ordinary shares in Southern Lamb, being 50% of all ordinary shares in Southern Lamb on issue.
- 8.3 Lowe as trustee of The Andrew Lowe No.2 Trust (an associate of Blue Sky Director Andrew Lowe) 60 ordinary shares in Southern Lamb, being 50% of all ordinary shares in Southern Lamb on issue.
- 8.4 Except as set out in paragraphs 8.2 and 8.3, no Director or Senior Manager of Blue Sky, or their associates, holds or controls any Southern Lamb Shares.
- 8.5 No Director or Senior Manager of Blue Sky, or their associates, holds or controls any class of equity security of any related company of Southern Lamb.

¹⁰ Scott O'Donnell is a joint shareholder of all of the shares in ODFI Limited in his capacity as trustee of the Richardson Family Trust.

9. TRADING IN EQUITY SECURITIES OF SOUTHERN LAMB

9.1 Blue Sky has neither acquired nor disposed of any Southern Lamb Shares during the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement).

9.2 On 8 December 2021:

- (a) ODFI Limited (an associate of Blue Sky Director Scott O'Donnell) acquired 60 ordinary shares in Southern Lamb for a consideration of \$1.00 per ordinary share in Southern Lamb.
- (b) Lowe as trustee of The Andrew Lowe No.2 Trust (an associate of Blue Sky Director Andrew Lowe) acquired 60 ordinary shares in Southern Lamb for a consideration of \$1.00 per ordinary share in Southern Lamb.

9.3 Except as set out in paragraph 9.2, no Director or Senior Manager of Blue Sky, or their associates, holds or controls any Southern Lamb Shares.

9.4 No Director or Senior Manager of Blue Sky, or their associates, has acquired or disposed of any class of equity security of any related company of Southern Lamb during the six month period before 31 March 2022 (being the latest practicable date before the date of this Target Company Statement).

10. ARRANGEMENTS BETWEEN SOUTHERN LAMB OR ITS ASSOCIATES AND BLUE SKY OR ITS RELATED COMPANIES

10.1 On or about 14 December 2021, Blue Sky and Southern Lamb entered into a Non-Disclosure Agreement under which Southern Lamb agreed to keep confidential any information that Blue Sky provided to Southern Lamb to assist Southern Lamb to evaluate making a takeover offer for Blue Sky under the Takeovers Code.

10.2 On 25 March 2022, to provide the Independent Committee with clarity as to the earliest date that Southern Lamb would acquire Blue Sky Shares under the Offer, Southern Lamb confirmed to Blue Sky that it would not acquire Blue Sky Shares under the Offer until 4 April 2022 at the earliest if the Offer becomes unconditional after 27 March 2022.

10.3 As at the date of this Target Company Statement, except as set out in paragraph 10.1 and 10.2, Blue Sky is not aware of any agreement or arrangement (whether legally enforceable or not) that has been made, or is proposed to be made, between Southern Lamb or any of its associates and Blue Sky or any related company of Blue Sky, in connection with, in anticipation of, or in response to, the Offer.

11. RELATIONSHIP BETWEEN SOUTHERN LAMB, AND DIRECTORS AND SENIOR MANAGERS OF BLUE SKY

Arrangements

11.1 Blue Sky is not aware of any agreement or arrangement (whether legally enforceable or not) that has been made, or is proposed to be made, between Southern Lamb or any associate of Southern Lamb and any of the Directors or Senior Managers of Blue Sky or any related company of Blue Sky in connection with, or in anticipation of, or in response to, the Offer.

Relationship with Southern Lamb

11.2 Scott O'Donnell is a Director of each of Blue Sky and Southern Lamb.

11.3 Andrew Lowe is a Director of each of Blue Sky and Southern Lamb.

11.4 Except as set out in paragraphs 11.2 and 11.3, no Director or Senior Manager of Blue Sky is also a Director or Senior Manager of Southern Lamb, or any related company of Southern Lamb.

12. AGREEMENTS BETWEEN BLUE SKY, AND DIRECTORS AND SENIOR MANAGERS

12.1 Under the employment arrangements between Blue Sky and Jim Goodall, Blue Sky's Chief Executive Officer dated 25 February 2021, Mr Goodall was entitled to an agreed number of Blue Sky Shares over a four year period. On 7 March 2022, Blue Sky and Mr Goodall agreed that this entitlement would be satisfied by a cash payment of \$125,000 (gross), rather than in Blue Sky Shares.

12.2 Except as set out in paragraph 12.1, Blue Sky is not aware of any agreement or arrangement (whether legally enforceable or not) that has been made, or is proposed to be made, between Blue Sky or any related company of Blue Sky, and any of the Directors or Senior Managers or their associates of Blue Sky or any related company of Blue Sky, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, or in anticipation of, or in response to, the Offer.

13. INTERESTS OF DIRECTORS AND SENIOR MANAGERS OF BLUE SKY IN CONTRACTS OF SOUTHERN LAMB OR RELATED COMPANY

13.1 The Directors or Senior Managers of Blue Sky, or their associates, with an interest in any contract to which Southern Lamb, or any related company of Southern Lamb, is a party are set out in the table below.

Director, Senior Manager or associate	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Lowe as trustee of The Andrew Lowe No.2 Trust	On 10 February 2022, Southern Lamb and Lowe as trustee of The Andrew Lowe No.2 Trust (an associate of Blue Sky Director Andrew Lowe) entered into a Lock Up Agreement. The particulars of the Lock Up Agreement are summarised in paragraphs 6.1, 6.2 and 9.2 of Schedule 1 to the Offer Document.	\$6,227,559
Richardson's	On 11 February 2022, Southern Lamb and Richardson's (an associate of Blue Sky Director Scott O'Donnell) entered into a Lock Up Agreement. The particulars of the Lock Up Agreement are summarised in paragraphs 6.1, 6.2 and 9.2 of Schedule 1 to the Offer Document.	\$5,787,870

13.2 Except as set out in paragraph 13.1, Blue Sky is not aware that any Director or Senior Manager of Blue Sky, or their associates, has an interest in any contract to which Southern Lamb, or any related company of Southern Lamb, is a party.

13A INTERESTS OF BLUE SKY'S SUBSTANTIAL SECURITY HOLDERS IN MATERIAL CONTRACTS OF SOUTHERN LAMB OR RELATED COMPANY

13A.1 The persons who, to the knowledge of the Directors or the Senior Managers of Blue Sky, hold or control 5% or more of the Blue Sky Shares and who have an interest in any material contract to which Southern Lamb, or any related company of Southern Lamb, is a party, and the nature, extent and monetary value of that interest, are set out in the following table:

Party to the material contract to which Southern Lamb or a related company of Southern Lamb is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Lowe as trustee of The Andrew Lowe No.2 Trust	On 10 February 2022, Southern Lamb and Lowe as trustee of The Andrew Lowe No.2 Trust entered into a Lock Up Agreement. The particulars of the Lock Up Agreement are summarised in paragraphs 6.1, 6.2 and 9.2 of Schedule 1 to the Offer Document.	\$6,227,559
Richardson's	On 11 February 2022, Southern Lamb and Richardson's entered into a Lock Up Agreement. The particulars of the Lock Up Agreement are summarised in paragraphs 6.1, 6.2 and 9.2 of Schedule 1 to the Offer Document.	\$5,787,870
Blue Star	On 5 January 2022, Southern Lamb and Blue Star entered into a Lock Up Agreement. The particulars of the Lock Up Agreement are summarised in paragraphs 6.1, 6.2 and 9.2 of Schedule 1 to the Offer Document.	\$3,890,244

13A.2 Except as set out in paragraph 13A.1 above, no person, who, to the knowledge of the Directors or the Senior Managers of Blue Sky, holds or controls 5% or more of Blue Sky Shares, has an interest in any material contract to which Southern Lamb, or any related company of Southern Lamb, is a party.

14. ADDITIONAL INFORMATION

14.1 Southern Lamb has indicated that, if the Offer is successful, it may require Blue Sky to undertake a \$30 million pro rata offer of new shares to shareholders to fund \$30 million of capital expenditure. The Independent Committee does not believe this statement to be misleading, but notes the following for clarity:

- (a) the projected financial scenario provided to the Independent Adviser contemplates \$38 million of capital expenditure over a five-year period. This is the same as the \$30 million referred to by Southern Lamb in the Offer Document, except that it has been adjusted for inflation; and

- (b) the nature (cashflow, equity and/or debt) and extent of the required funding for capital expenditure is influenced by various factors, including future earnings/free cash flow, the timing of capital expenditure, the timing and extent of dividend payments, and view of the post-Offer Blue Sky Board as to optimal capital structure.

For further information, see paragraph 13 of the “Factors for Shareholders to Consider” section.

- 14.2 In the opinion of the Independent Committee, no additional information, to the knowledge of Blue Sky, is required to make the information in Southern Lamb’s Offer Document correct or not misleading.

15. RECOMMENDATION

Independent Committee

- 15.1 The Blue Sky Board formed an Independent Committee of Directors to consider, and oversee Blue Sky’s response to, the Offer. The members of the Independent Committee are Sarah Brown (Chair), and Melvin Sutton.

Recommendation

- 15.2 The Independent Committee does not give a recommendation to accept or reject the Offer, for the reasons set out in the “Recommendation” section of this Target Company Statement.
- 15.3 The factors which influenced the Independent Committee’s position are addressed in more detail in the “Factors for Shareholders to Consider” section of this Target Company Statement and in the Independent Adviser’s Report. You are encouraged to read those factors carefully and in full.

Abstentions

- 15.4 Andrew Lowe represents Lowe on the Blue Sky Board and Scott O’Donnell represents Richardson’s on the Blue Sky Board. Each of those shareholders has accepted the Offer. In addition, Andrew Lowe and Scott O’Donnell are directors of Southern Lamb. Accordingly, Messrs Lowe and O’Donnell are not members of the Independent Committee and abstain from making a recommendation in respect of the Offer.
- 15.5 Arron Hoyle represents Binxi on the Blue Sky Board. Binxi has informed the Independent Committee that, subject to certain qualifications, Binxi does not intend to accept the Offer (see paragraph 7.1). Accordingly, Mr Hoyle abstains from making a recommendation in respect of the Offer.

16. ACTIONS OF BLUE SKY

No material arrangements

- 16.1 Except as set out in this “Takeovers Code Disclosures” section, Blue Sky is not aware of any material agreements or arrangements (whether legally enforceable or not) of Blue Sky and its related companies entered into as a consequence of, in response to, or in connection with, the Offer.

No material negotiations

- 16.2 Except as set out in paragraphs 12 and 13 of the “Factors for Shareholders to Consider” section, and as disclosed in clauses 8 and 11 of Schedule 1 to the Offer Document, Blue Sky is not aware of any

negotiations underway as a consequence of, or in response to, or in connection with, the offer that relate to or could result in:

- (a) an extraordinary event such as a merger, amalgamation, or reorganisation involving Blue Sky or any of its related companies; or
- (b) the acquisition or disposition of material assets of Blue Sky or any of its related companies; or
- (c) an acquisition of equity securities by, or of Blue Sky or any related company of Blue Sky; or
- (d) any material change in the equity securities on issue, or policy relating to distributions, of Blue Sky.

16.3 As at the date of this Target Company Statement, there are no discussions or negotiations underway between Blue Sky and any other party in respect of a competing takeover offer or any other similar transaction. The Independent Committee does not anticipate any discussions or negotiations of this nature during the Offer period.

17. EQUITY SECURITIES OF BLUE SKY

17.1 As at the date of this Target Company Statement Blue Sky has 11,526,098 ordinary shares on issue. The rights of Blue Sky Shareholders in respect of capital, distributions and voting are as follows:

- (a) the right to an equal share with other Blue Sky Shareholders in dividends authorised by the Board of Blue Sky;
- (b) the right to an equal share with other Blue Sky Shareholders in the distribution of surplus assets on liquidation of Blue Sky; and
- (c) subject to the restrictions and prohibitions contained in Blue Sky's constitution, the right to cast one vote on a show of hands, or by voice, or the right to cast one vote for each share held on a poll, in each case at a meeting of Blue Sky Shareholders on any resolution, including a resolution to:
 - (i) appoint or remove a Director or auditor;
 - (ii) alter Blue Sky's constitution;
 - (iii) approve a major transaction;
 - (iv) approve an amalgamation of Blue Sky; and
 - (v) put Blue Sky into liquidation.

17.2 As at the date of this Target Company Statement, Blue Sky has not issued any options, or rights to acquire, Blue Sky Shares or other Blue Sky equity securities.

18. FINANCIAL INFORMATION

2021 Annual Report

- 18.1 Every person to whom the Offer is made is entitled to obtain from Blue Sky a non-electronic copy of Blue Sky's most recent annual report (being the annual report for the 12 months ended 30 June 2021) by making a written request to:

Blue Sky Meats (N. Z.) Limited
C/- McCulloch + Partners, Chartered Accountants
Level 1, 20 Don Street
Invercargill 9810

NEW ZEALAND

Email: bsm@mcp.co.nz

- 18.2 You can also obtain an electronic copy of Blue Sky's most recent annual report from Blue Sky's website: <https://bluesky.co.nz/latest/category/annual-reports#latestNews>.

- 18.3 No half-yearly or interim report has been issued by Blue Sky since the issue of the annual report referred to in paragraph 18.1 above.

Changes in the financial position, trading position or prospects of Blue Sky since the 2021 Annual Report

Current financial year

- 18.4 Strong global demand is currently resulting in record pricing for New Zealand meat products and significantly enhanced revenue for participants in the New Zealand meat processing sector. As a result, Blue Sky is currently experiencing very favourable trading conditions. In the eight months to 28 February 2022 (being the latest month for which Blue Sky has completed management accounts), Blue Sky's unaudited earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was \$15,156,187, compared with EBITDA of \$1,257,823 for the eight months to 28 February 2021.
- 18.5 In light of year-to-date performance, the Independent Committee expects that full-year EBITDA for the 12 months to 30 June 2022 ("**FY22**") will significantly exceed the full year EBITDA achieved in the previous financial year, the 12 months ended 30 June 2021 ("**FY21**") (being \$7,635,312). However, the Independent Committee cautions shareholders as follows:
- (a) The Independent Adviser's Report contains information about projected earnings, including for FY22.
 - (b) The projected earnings for FY22 in the Independent Adviser's Report ("**FY22 Projected Earnings**") combines year-to-date results (up to and including February 2022) with Blue Sky's internal budget for the remaining months in FY22. That internal budget was prepared at the beginning of FY22 and has not been updated. The Independent Committee considers that the budget remains reasonable in the circumstances as it takes into account the potential impact of the risk factors summarised in paragraph 18.6.
 - (c) FY22 Projected Earnings are taken from, and form part of, a projected financial scenario provided to the Independent Adviser. Paragraph 21 applies to FY22 Projected Earnings and the projected financial scenario. In summary, the projected financial scenario is based on internal

management information and was prepared for the purposes of the Independent Adviser's Report and not for the purposes of external reporting. The projected financial scenario is not a formal forecast. Actual results may differ from the FY22 Projected Earnings (including due to the risks and uncertainties addressed in paragraph 18.6 below) and FY22 Projected Earnings should not be interpreted as earnings guidance to shareholders.

18.6 Key risks and uncertainties that could adversely affect full-year FY22 earnings include the following:

- (a) *Logistical constraints:* There is a current shortage in container shipping capacity, including due to a shortage in shipping containers, a current limitation on cold storage capacity in the market and a shortage of skilled labour resource. These constraints could adversely affect Blue Sky's ability to ship product to customers and earn revenue.
- (b) *Export licences:* A business risk facing all New Zealand meat industry participants is the potential loss of an export licence. Currently, a significant amount of Blue Sky's product is exported and, therefore, a loss of certain export licences would have a significant adverse effect on Blue Sky's earnings. However, at the date of this Target Company Statement, Blue Sky does not anticipate a cancellation of any export licence Blue Sky requires to export products.
- (c) *Resource consents:* A business risk facing Blue Sky is its ability to maintain the resource consents necessary for the operation of its business. Blue Sky has commenced a process to renew its current resource consents and, at the date of this Target Company Statement, Blue Sky has no reason to believe that those consents will not be renewed.
- (d) *Global:* Current global uncertainty, including in respect of ongoing risks posed by COVID-19 and geopolitical risks in Europe, represents a potential risk to Blue Sky earnings (for example, if those uncertainties were to lead to a worsening of the logistical constraints referred to in paragraph 18.6(a) or result in decreased demand for or pricing of Blue Sky products).
- (e) *Domestic:* Other potential risk factors facing all New Zealand meat industry participants, including Blue Sky, include a potential worsening of current labour shortages across the industry as well as uncertainties regarding climate change and environmental regulations.
- (f) *Other:* The Independent Adviser's assessment of other risks applicable to the broader New Zealand meat industry or specific to Blue Sky is set out, respectively, in sections 4.6 and 4.8 of the Independent Adviser's Report.

Future financial years

18.7 It is very difficult for the Independent Committee to assess the extent to which year-to-date earnings in FY22 will be repeated in future financial years. As noted above, the market for New Zealand meat products is experiencing record pricing because of strong global demand. The Independent Committee expects there will be an easing in global demand and pricing for New Zealand meat products in the short to medium term. In addition, the risks referred to in paragraph 18.6 will continue, at least, into the financial year ending 30 June 2023 ("**FY23**") (and some risk factors are likely to continue beyond that).

- 18.8 In light of these matters, the Independent Committee considers there is a reasonable prospect that FY23 EBITDA will be below FY22 earnings but above FY21 earnings. However, the Independent Committee is unable to give specific guidance for FY23 and beyond.

Other material information about the assets, liabilities, profitability and financial affairs of Blue Sky

- 18.9 Other than as set out in this Target Company Statement and the Independent Adviser's Report, there is no other information about the assets, liabilities, profitability and financial affairs of Blue Sky that could reasonably be expected to be material to the making of a decision by Blue Sky Shareholders to accept or reject the Offer.

19. INDEPENDENT ADVICE ON MERITS OF OFFER

- 19.1 Campbell MacPherson Limited, as Independent Adviser, has prepared a report on the merits of the Offer under Rule 21 of the Takeovers Code ("**Independent Adviser's Report**"). A full copy of the Independent Adviser's Report is set out in the Appendix to this Target Company Statement.

- 19.2 The Independent Adviser's Report includes:

- (a) a statement of the qualifications and expertise of Campbell MacPherson Limited; and
- (b) a statement that Campbell MacPherson Limited has no conflict of interest that could affect its ability to provide an unbiased report.

20. ASSET VALUATION

- 20.1 No information provided in this Target Company Statement refers to a valuation of any asset of Blue Sky.

- 20.2 The Independent Adviser's Report refers to the valuation of Blue Sky. The basis of computation and key assumptions on which that valuation is based is set out in the Independent Adviser's Report.

21. PROSPECTIVE FINANCIAL INFORMATION

- 21.1 None of the information provided in this Target Company Statement is prospective financial information of Blue Sky.

- 21.2 The Independent Adviser's Report refers to prospective financial information of Blue Sky. The principal assumptions on which the prospective financial information is based are set out in that report.

- 21.3 While it is not Blue Sky's normal practice to provide guidance on forecast earnings, the Independent Adviser's Report sets out certain projected financial information for Blue Sky for the financial year ending 30 June 2022 (FY22) and the financial year ending 30 June 2023 (FY23). As noted in paragraph 18.5(c), that projected financial information is taken from, and forms part of, a projected financial scenario provided to the Independent Adviser. The projected financial scenario and any projected financial information taken from it:

- (a) is not a formal forecast;

- (b) is based on internal management information; and
 - (c) was prepared for the purposes of the Independent Adviser's Report and not for the purposes of external reporting or giving public guidance as to Blue Sky's expected financial performance (and, therefore, the basis of preparation differs from that which would be adopted when preparing a formal forecast or financial information for external reporting purposes).
- 21.4 The projected financial scenario was approved for the purposes of inclusion in the Independent Adviser's Report, as follows:
- (a) All Blue Sky Directors approved the FY22 and FY23 projections forming part of the projected financial scenario.
 - (b) The projections for the financial years ending 30 June 2024, 2025 and 2026 ("**FY24 – 26 Projections**") which form part of the projected financial scenario were approved by a majority of the Blue Sky Directors (including the members of the Independent Committee). The two Blue Sky Directors who are associated with Southern Lamb did not approve the FY24 – 26 Projections, because they are opposed in general to Blue Sky adopting projections beyond FY23 due to the inherent uncertainties involved in making longer term financial estimates.
- 21.5 For clarity, the disclaimers set out in paragraphs 24.7 to 24.10 below apply to the projected financial scenario and any aspects of the projected financial scenario contained in this Target Company Statement or in the Independent Adviser's Report.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

- 22.1 The Blue Sky Shares that are the subject of the Offer are quoted on the USX trading platform with ticker code "BLU". The USX trading platform is not a stock exchange.
- 22.2 All of the information that Blue Sky has as to the number of Blue Sky Shares that have been disposed of in the 12 months ending on 31 March 2022 (being the latest practicable date before the date on which this Target Company Statement is sent to Blue Sky Shareholders) and the consideration of those dispositions, is set out in the following table:

Date of disposition	Number of Blue Sky Shares	Consideration (gross)	Consideration (per share)
26 January 2022	1,000	\$1,300	\$1.30
18 January 2022	9,000	\$12,600	\$1.40
18 January 2022	1,700	\$2,210	\$1.30
17 December 2021	1,500	\$1,950	\$1.30
15 December 2021	8,924	\$11,601.20	\$1.30
23 November 2021	6,750	\$9,450	\$1.40

Date of disposition	Number of Blue Sky Shares	Consideration (gross)	Consideration (per share)
18 November 2021	7,000	\$7,700	\$1.10
18 November 2021	20,000	\$27,000	\$1.35
26 October 2021	17,000	\$22,950	\$1.35
07 October 2021	9,562	\$12,908.70	\$1.35
07 October 2021	1,750	\$2,187.50	\$1.25
05 October 2021	5,500	\$6,765	\$1.23
05 October 2021	5,000	\$6,150	\$1.23
20 September 2021	3,000	\$3,750	\$1.25
1 July 2021	6,975	\$8,370	\$1.20
03 June 2021	11,250	\$13,500	\$1.20
01 June 2021	6,975	\$7,951.50	\$1.14
01 June 2021	43,154	\$49,627.10	\$1.15

The information in the above table was obtained from trade history obtained from <https://www.usx.co.nz/>.

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

- 23.1 The Blue Sky Shares that are the subject of the Offer are quoted on the USX trading platform with ticker code “BLU”. The USX trading platform is not a stock exchange.
- 23.2 The closing price on the USX trading platform of the Blue Sky Shares on:
- (a) 31 March 2022, being the latest practicable working day before the date on which this Target Company Statement is sent to Blue Sky shareholders, was \$1.30 per Blue Sky Share; and
 - (b) 3 March 2022, being the last day the USX trading platform was open for business before the date on which Blue Sky received Southern Lamb’s Takeover Notice, was \$1.30 per Blue Sky Share.
- 23.3 The highest and lowest closing market price of the Blue Sky Shares on the USX trading platform (and the relevant dates) during the six months before the date on which Blue Sky received Southern Lamb’s Takeover Notice were as follows:

- (a) highest closing market price was \$1.40 per Blue Sky share (from 23 November 2021 to 14 December 2021 inclusive); and
 - (b) lowest closing market price was \$1.10 per Blue Sky share (from 18 November 2021 to 22 November 2021 inclusive).
- 23.4 A number of off market trades occurred during the six months before the date on which Blue Sky received Southern Lamb's Takeover Notice. During this period the highest value off market trade was \$38,046.20 for 28,312 Blue Sky Shares (being \$1.34 per Blue Sky Share) on 22 November 2021, which is lower than the highest closing market price on the Unlisted trading platform during the same period. The parties to this transaction were Blue Sky Director Andrew Lowe (as vendor) and Lowe as trustee of The Andrew Lowe No. 2 Trust (as purchaser) and was undertaken to consolidate shares held by Andrew Lowe personally and Lowe as trustee of The Andrew Lowe No. 2 Trust into one shareholding entity.
- 23.5 There were, in the six month period prior to the date of this Target Company Statement, no issues of equity securities of Blue Sky or changes in the equity securities on issue that could have affected the market prices referred to in this paragraph 23.
- 23.6 On 1 December 2021, Blue Sky paid a fully imputed dividend of 6.9 cents per Blue Sky Share (comprised of 5 cents cash and 1.9 cents imputation credits per Blue Sky Share). The record date for the dividend was 17 November 2021.

24. OTHER INFORMATION

Rounding

- 24.1 All shareholding percentages in this Target Company Statement are rounded to two decimal places.

Reliance on information

- 24.2 In preparing this Target Company Statement, Blue Sky has relied on the completeness and accuracy of the information in Schedule 1 to the Offer Document and the information provided to it by or on behalf of various persons, including Campbell MacPherson Limited, Blue Sky Directors, Blue Sky Senior Managers, Lowe, Richardson's, Binxi, Blue Star and Southern Lamb.

Dominant ownership

- 24.3 Under the Takeovers Code, if Southern Lamb becomes the holder or controller of 90% or more of the voting rights in Blue Sky then it will become a 'dominant owner' and be entitled to compulsorily acquire the then outstanding Blue Sky Shares in accordance with the Takeovers Code. Southern Lamb has indicated its intention to implement the right to compulsorily acquire the then outstanding Blue Sky Shares should Southern Lamb become a dominant owner.
- 24.4 Given Binxi's stated intention regarding the Offer (see paragraph 7.1), the Independent Committee considers that there is a reasonable prospect that Binxi, the holder and controller of 19.84% of the voting rights in Blue Sky, will not accept the Offer. This means that there is a reasonable prospect that Southern Lamb will not become the dominant owner of Blue Sky as a result of the Offer.

Your decision

- 24.5 You are responsible for making your own decision as to whether to accept the Offer. This Target Company Statement does not take into account your individual investment objectives, financial or tax situation or needs. If you have questions or if you are in doubt as to what you should do in respect of the Offer, you should seek your own professional advice.

Websites

- 24.6 References in this Target Company Statement to any website are for informational purposes only. To the extent permitted by law, Blue Sky and the Independent Committee do not assume responsibility for the contents of any such website.

Forward looking statements

- 24.7 This Target Company Statement (including the Independent Adviser's Report) contains certain forward looking statements. These statements generally may be identified by the use of forward looking words such as, aim, anticipate, believe, estimate, expect, forecast, foresee, future, intended, likely, may, planned, potential, projection, should and other similar words.
- 24.8 You should be aware that there are risks (known and unknown, including risks associated with the COVID-19 pandemic), uncertainties, assumptions and other important factors that could cause actual conduct, results, performance or achievements of Blue Sky to be materially different to the future conduct, results, performance or achievements expressed or implied by any forward looking statements.
- 24.9 Future conduct, results, performance or achievements could be materially different from historical conduct, results, performance or achievements. Such deviations are both normal and to be expected.
- 24.10 No person, including the members of the Independent Committee and Blue Sky, gives any warranty, representation or assurance that any conduct, results, performance or achievements expressed or implied by any forward looking statements in this Target Company Statement (including the Independent Adviser's Report) will actually occur.

25. APPROVAL OF THIS STATEMENT

- 25.1 This Target Company Statement has been approved by the Independent Committee under delegated authority from the Blue Sky Board.
- 25.2 Scott O'Donnell, Andrew Lowe and Arron Hoyle are not members of the Independent Committee for the reasons stated in paragraphs 15.4 and 15.5. They have not participated in the preparation of, and abstain from approving, this Target Company Statement.

26. CERTIFICATE

- 26.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Target Company Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise and includes all the information required to be disclosed by Blue Sky under the Takeovers Code.

Signed by:



Sarah Brown

Director and Chair of the Independent
Committee



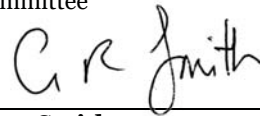
David James Goodall

Chief Executive Officer



Melvin Sutton

Director and member of the Independent
Committee



Gary Smith

Interim Chief Financial Officer (fulfilling the
role of Chief Financial Officer)

Appendix

Independent Adviser's Report



BLUE SKY MEATS (N.Z.) LIMITED INDEPENDENT ADVISER'S REPORT

**IN RESPECT OF THE FULL TAKEOVER OFFER BY
SOUTHERN LAMB INVESTMENTS LIMITED**

31 MARCH 2022

CAMPBELL MACPHERSON

C O R P O R A T E A D V I S O R S

STATEMENT OF INDEPENDENCE

Campbell MacPherson Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and,
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Campbell MacPherson Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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GLOSSARY

\$	New Zealand Dollars
Alliance	Alliance Group Limited
ALTC	Andrew Lowe Trustee Company No 2 Limited
Blue Star	Blue Star Corporation Limited
Blue Sky; BSM; the Company	Blue Sky Meats (N.Z.) Limited
Board	The Board of Directors of Blue Sky
Bovine	Relating to beef cattle
BRC	British Retail Consortium
Campbell MacPherson	Campbell MacPherson Limited
CAPM	Capital Asset Pricing Model
Code	The Takeovers Code
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before net interest, tax, depreciation and amortisation
EU	European Union
EV	Enterprise value
FCL	Full Container Loads
FY	Financial Year
Gore Plant	Blue Sky's previously owned bovine processing plant located in Gore.
HIL	Hikanui Investments Limited
Horizon Meats	Horizon Meats New Zealand Limited
HWR	H. W. Richardson Group Limited
Independent Directors	The Independent Directors of BSM, none of whom are associated with the Offeror.
Lean Meats	Lean Meats Oamaru Limited
Locked-up Shareholders	ALTC, HWR and Blue Star
Lowe Corporation	Lowe Corporation Limited
Morton Mains Plant; the Plant	Blue Sky's ovine processing plant located near Invercargill
NPV	Net present value
NTA	Net Tangible Assets
NZ Binxi	NZ Binxi (Oamaru) Foods Limited
ODFI	ODFI Limited
Offer	A full takeover offer by SLI for all of the equity securities of Blue Sky that SLI does not already own.

Offer Document	Offer Document issued by SLI dated 18 March 2022
OIO	Overseas Investment Office
Ovation	Ovation New Zealand Limited
Ovine	Relating to sheep species
Report	This Independent Adviser's Report
SFF	Silver Fern Farms
Shares	Blue Sky Meats (N.Z.) Limited ordinary shares
SLI; the Offeror	Southern Lamb Investments Limited
Unlisted; USX	Unlisted Securities Exchange
VWAP	Volume weighted average price
WACC	Weighted Average Cost of Capital

1 EXECUTIVE SUMMARY

1.1 Introduction

Blue Sky Meats (N.Z.) Limited (**BSM**; the **Company**; **Blue Sky**), is a New Zealand incorporated company based near Invercargill. BSM operates an ovine (sheep meat) processing plant and sources sheep and lambs for processing throughout Southland and Otago. The processed meat and by-products are sold within New Zealand and to a wide range of export markets. BSM shares are quoted on the USX online share trading platform.

On 4 March 2022, Southern Lamb Investments Limited (**SLI** the **Offeror**) gave notice to BSM of its intention to make a full takeover offer for all of the shares in BSM at price of \$3.00 per share (the **Offer**). The formal Offer document (**Offer Document**) was dispatched to shareholders on 18 March 2022.

SLI is a company formed in late 2021 and is owned by Andrew Lowe Trustee Company No 2 Limited (**ALTC**) and ODFI Limited (**ODFI**). ALTC is an existing BSM shareholder, with 18.01% of the voting securities on issue, and ODFI is owned by the shareholders of H. W. Richardson Group Limited (**HWR**). HWR is also an existing BSM shareholder, with 16.74% of the voting securities on issue. Both ALTC and HWR have accepted the Offer.

The Offer has a minimum acceptance condition whereby SLI must receive acceptances that would result in SLI holding more than 50% of the voting securities in BSM. This condition was satisfied on 30 March 2022, and the Offer has been declared unconditional. SLI has received acceptances for 50.35% of the Shares (as at 30 March 2022). The Offer closes on 6 May 2022 unless extended by SLI.

The full terms of the Offer are set out in SLI's Offer Document dated 18 March 2022.

The largest shareholder in BSM is NZ Binxi (Oamaru) Foods Limited (**NZ Binxi**), which holds 19.84% of the voting securities on issue. NZ Binxi has advised the Independent Directors that its intention is not to accept the Offer. On the basis that NZ Binxi holds 19.84% of the BSM shares, and does not intend to accept the Offer, the maximum shareholding that SLI is able to obtain in BSM as a result of the Offer would be 80.16% (below the 90% threshold required to trigger the compulsory acquisition provisions under the Code).

1.2 Potential Outcomes of the Offer

In our opinion, the most likely outcome of the Offer is that SLI secures more than 50% of the Shares but less than 90% of the Shares. Our opinion is underpinned by the level of acceptances received to-date (greater than 50%) and also NZ Binxi's stated intention to not accept the Offer.

Shareholders should be aware of the following points:

- By holding over 50% of the BSM shares, SLI will be able to pass an ordinary resolution by itself.
- SLI will be able to control the composition of the Board and then influence business strategy, capital raising etc.
- SLI will have significant influence over special resolutions (i.e. requiring a 75% majority of the votes cast).
- Depending on the level of acceptances received under the Offer, BSM may no longer be captured by the provisions of the Takeovers Code following the completion of the Offer.

- SLI has stated in its Offer Document that it may choose to review BSM's dividend policy having regard to the availability of capital to fund future capital expenditure.
- SLI has signalled it may require BSM to undertake a \$30¹ million pro rata offer of new shares to shareholders to fund capital expenditure. If such a share offer occurs, those shareholders who do not subscribe for their full pro rata entitlement of new shares would have their proportionate shareholding in BSM diluted.
- SLI has also stated in their Offer Document that if there is a small number of shareholders remaining after the Offer closes, it intends ceasing quotation on the USX share trading platform.
- Importantly for companies like BSM, the Takeovers Code only applies while the Company has 50 or more shareholders and meets certain financial thresholds.

1.3 Key Issues to be Considered by Shareholders

For shareholders deciding whether to accept or reject the Offer, key issues to be considered include:

- Our assessed valuation range is \$3.12 to \$3.67 per Share with a mid-point of \$3.40 per Share. The Offer price at \$3.00 per Share sits below the bottom of our valuation range.
- Our valuation range includes a premium for control and we would not expect minority share parcels to trade within this value range in the absence of a full takeover offer.
- The \$3.00 per share Offer allows shareholders to release cash for their investment in BSM and represents a premium of 131% above the most recent traded price on the USX prior to the announcement of SLI's Offer, which was \$1.30 per share.
- BSM's projected financial scenario demonstrates strong profitability over the FY22 to FY26 period. However, BSM is also projecting significant capital expenditure requirements of approximately \$38¹ million over the same period which will impact the Company's medium-term free cash flow.
- There is no certainty that the post-Offer Board of Directors will continue with the 5 cent per Share cash dividend policy evident in recent years.
- Given SLI has already received acceptances above 50%, in our opinion, it is highly unlikely than any competing takeover offer will be received for BSM.

In Campbell MacPherson's opinion the Offer is unreasonable.

The above summary should be read in conjunction with our analysis of the merits to the Offer as set out in Section 3 of this Report.

The decision for shareholders to accept or reject the Offer is a matter for individual shareholders based on their own views as to value and future market conditions, including their risk profile, liquidity preference, tax position, portfolio strategy and other factors. Shareholders need to consider these consequences and if appropriate consult their own professional advisers.

¹ We note that the projected capital expenditure of approximately \$38 million included in BSM's projected financial scenario differs to the \$30 million referred to in the Offer Document. This variance is due to an adjustment for inflation in BSM's projected financial scenario whereby the projected capital expenditure is staged over the FY22 to FY26 period.

2 INTRODUCTION

2.1 Background

BSM, which also trades under the brand Blue Sky Pastures, is a New Zealand meat processing business which operates a single processing plant near Invercargill in the South Island of New Zealand. BSM primarily produces a range of lamb and mutton products, mainly for export to international markets.

BSM has a single class of equity securities on issue, being 11,526,098 ordinary shares (**Shares**) which are quoted on the Unlisted Securities Exchange (**USX**). BSM has a market capitalisation on the USX of approximately \$15 million based on the most recent trade at \$1.30 per Share (which occurred on 26 January 2022). BSM is a Code Company, as defined by the Takeovers Code (the **Code**), and therefore, must comply with the provisions of Code.

BSM's substantial shareholders are:

- NZ Binxi, with 2,286,250 Shares representing 19.84% of the voting securities on issue.
- ALTC, with 2,075,853 Shares representing 18.01% of the voting securities on issue.
- HWR, with 1,929,290 Shares representing 16.74% of the voting securities on issue.
- Blue Star Corporation Limited (**Blue Star**), with 1,296,748 Shares representing 11.25% of the voting securities on issue.

On 4 March 2022, BSM received a takeover notice from SLI giving notice of its intention to make a full takeover offer for all of the Shares in BSM at a price of \$3.00 per Share. The formal Offer document was dispatched to shareholders on 18 March 2022, and the Offer closes on 6 May 2022, unless extended by the Offeror in accordance with the Code.

The Independent Directors of BSM, none of whom are associated with the Offeror (the **Independent Directors**), have engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare an Independent Adviser's Report in accordance with Rule 21 of the Code (the **Report**). This Report provides an evaluation of the merits of the Offer.

2.2 Agreements to Accept the Offer

SLI is a new investment holding company which was established for the sole purpose of acquiring BSM. SLI is equally owned by ALTC and ODFI. ODFI is owned by the shareholders of HWR. As set out above, both ALTC and HWR are existing cornerstone shareholders in BSM, and collectively hold 4,005,143 Shares representing 34.75% of the voting securities on issue.

In accordance with a lock up agreement entered into with SLI prior to the Offer being made, both ALTC and HWR have agreed to accept the Offer in relation to all of their BSM Shares.

Furthermore, BSM's fourth largest shareholder, Blue Star, which holds 1,296,748 Shares (or 11.25% of the Shares on issue), had also entered into lock up agreement with SLI prior to the Offer being made, pursuant to which it had agreed to accept the Offer. A key condition of the lock up agreement between SLI and Blue Star was that the Offer price had to be no less than \$2.50 per Share (i.e. Blue Star was prepared to accept a price of \$2.50 per Share, which is below the Offer of \$3.00 per Share). Blue Star has no association with SLI (other than its commitment to accept the Offer).

Having entered into lock up agreements with ALTC, HWR and Blue Star (collectively the **Locked-up Shareholders**), SLI had secured prior commitments from the Locked-up Shareholders to accept the Offer. The Locked-up Shareholders collectively held 5,301,891 Shares prior to the Offer being made (equivalent to 46.00% of the Shares on issue). All of the Locked-up Shareholders have now accepted the Offer for all of their Shares.

2.3 Intentions of the Independent Directors & Substantial Security Holders

BSM's Independent Directors (Sarah Brown and Melvin Sutton) do not hold any Shares in BSM.

NZ Binxi is BSM's largest shareholder (19.84%) and is the only substantial BSM shareholder not to enter into a lock up agreement with the Offeror. The NZ Binxi representative on the BSM Board is Arron Hoyle.

NZ Binxi has advised the Independent Directors as follows:

- NZ Binxi's present intention is to not accept the Offer.
- NZ Binxi's present intention is based on its parent company's circumstances in China and is unrelated to the terms of the Offer.
- NZ Binxi does not anticipate its present intention changing and, if it does change, it will be driven by a change in circumstances with NZ Binxi's parent company rather than any change in the terms of the Offer.

The Independent Directors have informed Campbell MacPherson that they have no visibility to the circumstances of NZ Binxi's parent company in China and, therefore, cannot advise shareholders as to how those circumstances may change. However, based on NZ Binxi's stated intentions and correspondence from the Takeovers Panel, the Independent Directors believe that there is a reasonable prospect that NZ Binxi will not accept the Offer.

BSM's Chief Executive Officer, Jim Goodall (through Hikanui Investments Limited (**HIL**)) holds 58,667 Shares in BSM (equivalent to 0.51% of the Shares on issue). We are advised that HIL has accepted the Offer.

2.4 Offer Terms and Conditions

Offer and Consideration

The Offer by SLI is a full takeover offer for all of the fully paid ordinary Shares in BSM.

SLI is offering BSM shareholders a cash consideration of **\$3.00 per Share**.

If the Offer is accepted, BSM shareholders will be paid no later than five working days after the later of the date on which their acceptance is received and the date on which the Offer becomes unconditional.

Condition

The Offer is subject to the following condition.

Key Condition	
Minimum acceptance	SLI receiving acceptances that would result in SLI holding more than 50% of the voting securities in BSM.

The minimum acceptance condition was satisfied on 30 March 2022, and the Offer has now been declared unconditional. SLI has received acceptances for 50.35% of the Shares (as at 30 March 2022).

Further details on the Offer are contained in the Offer Document issued by SLI dated 18 March 2022.

2.5 Takeovers Code Requirements

Rule 6 of the Code (the “Fundamental Rule”) states that, except as provided in Rule 7, a person who holds or controls:

- no voting rights, or less than 20% of the voting rights, in a Code company may not become the holder or controller of an increased percentage of the voting rights in the Code company unless, after that event, that person and that person’s associates hold or control in total not more than 20% of the voting rights in the Code company; or
- 20% or more of the voting rights in a Code company may not become the holder or controller of an increased percentage of the voting rights in the Code company.

One of the exceptions, set out in Rule 7(a) of the Code, enables a person to increase its shareholding beyond 20% of the voting rights by making a full takeover offer for all the equity securities in the target company that it does not already hold. Rule 21 of the Code requires that the Directors of the target company must obtain an Independent Adviser’s Report on the merits of any takeover offer. The Independent Adviser’s Report is required to accompany the Target Company Statement to be sent to all of the Target Company’s shareholders.

2.6 Issue of the Report

The Independent Directors of BSM have engaged Campbell MacPherson to prepare an Independent Adviser’s Report on the Offer in accordance with Rule 21 of the Code. Campbell MacPherson was approved by the Takeovers Panel on 18 February 2022 to prepare the Independent Adviser’s Report.

Campbell MacPherson issues this Report to assist the shareholders of BSM in forming their own opinion on whether to accept the Offer.

We note that each shareholder’s circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Offer in relation to each individual shareholder. This Report is therefore necessarily general in nature. This Report is not to be used for any other purpose without our prior written consent.

2.7 Other

The sources of information that Campbell MacPherson has had access to and relied upon in relation to the preparation of this Report are set out in Appendix III. This Report is provided to the shareholders of BSM subject to the statements set out in Appendix III.

References to \$ relate to New Zealand dollars unless otherwise specified. References to years or financial years (**FY**) means BSM's financial year ending 30 June (or 31 March prior to FY20 given BSM changed its financial year end from 31 March to 30 June in FY20). Summary information and tables may not add due to rounding.

3 MERITS OF THE OFFER

3.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the Offer. There is no legal definition of the term “merits” in New Zealand in either the Code or in any statute dealing with securities or commercial law. In the absence of an explicit definition of “merits”, guidance can be taken from:

- The Takeovers Panel guidance note on the role of Independent Advisers;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the Offer;
- Overseas precedents; and
- The ordinary meaning of the term “merits”.

We are of the view that an assessment of the merits of the Offer should focus on the following:

- The rationale for the Offer.
- Our assessed value of 100% of the Shares in BSM.
- Potential outcomes of the Offer and implications for the ownership and control of BSM.
- Any alternative offers received by BSM.
- Other positive or negative aspects of the Offer.

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

3.2 Rationale for the Offer

As set out in the Offer Document, current BSM Directors, Andrew Lowe and Scott O'Donnell have been long-term investors in BSM (through their interests in ALTC and HWR respectively), and want to ensure that BSM is able to continue to support local farmer suppliers and the wider Southland rural community over the long-term.

As set out in Section 5 of this Report, BSM is projecting significant capital expenditure requirements of circa \$38¹ million over the FY22 to FY26 period as part of its continuous improvement strategy, but also to future proof the business and ensure its facilities conform to industry standards.

SLI has stated in the Offer Document that:

- If the Offer is successful, SLI expects BSM to undertake a pro-rata offer of new Shares to the remaining BSM shareholders in order to raise \$30 million of equity capital to support the proposed capital expenditure requirements¹.
- SLI is committed to funding the full \$30 million¹ if required following the successful completion of the Offer.
- ALTC and HWR are not prepared to fund BSM and the associated capital expenditure requirements under the current restrictions of the Code (and the associated costs), where shareholder approval would be required if either (or both parties) were to increase their shareholding above 20% as a result of any capital raise.

- BSM's current banker has indicated that it will not fund the Company's capital expenditure requirements, so the funding will be required from BSM shareholders.
- If BSM cannot obtain the equity funding required for the proposed capital expenditure from BSM shareholders, and is unable to secure capital from another funder, BSM will not be able to fund the much required capital expenditure.

Notwithstanding the representations made in the Offer Document, we highlight the following key points:

- BSM may still remain a Code company following the completion of the Offer (depending on the level of acceptances received). As a result, BSM may remain subject to the requirements of the Code, which would require shareholder approval for SLI to increase its shareholding as part of any capital raising following the completion of the Offer, unless any such capital raise was to result in SLI increasing its shareholding by no more than 5% per year (commencing 12 months after the completion of the Offer), as per the rule 7 (e) of the Code.
- In our opinion, the Company's current projected financial scenario demonstrates that the proposed capital expenditure can be internally funded by BSM out of cash flow and existing bank facilities, with no requirement for BSM to raise additional equity capital. We note that the nature (cash flow, equity and/or debt) and extent of the required funding for the proposed capital expenditure in the projected financial scenario will be influenced by various factors, including future earnings / cash flow, the timing of capital expenditure, the timing and extent of dividend payments, and the view of the post-Offer BSM Board as to the optimal capital structure for the Company.
- Notwithstanding the above comment, BSM would need to obtain the approval of its current banker (Westpac) to undertake the proposed capital expenditure. Westpac has historically imposed annual limits on capital expenditure as part of its seasonal working capital facility (e.g. a \$2 million capital expenditure limit was in place during FY22). No formal approval / commitment from Westpac has been obtained in relation to BSM's projected capital requirements and neither BSM nor Campbell MacPherson are able to comment on any conditions to Westpac's potential approval. However, we are advised by BSM that Westpac has informally indicated a willingness to provide some additional debt funding to BSM for capital expenditure if required.

In our opinion, subject to BSM being able to achieve its projected financial scenario and obtain the formal support of its bank, there is a reasonable prospect that the projected capital expenditure could be funded out of Company cash flow and existing banking facilities. However, as set out in Section 5, we believe there remains a moderate to high degree of risk associated with BSM's projected financial scenario. Under-performance relative to this projected financial scenario, a change in the timing or quantum of the proposed capital expenditure, or the inability to secure and retain the support of its bank may result in BSM being unable to fund this capital expenditure without alternative sources of capital.

On the basis that the Offer is now unconditional, and SLI will acquire more than 50% of the Shares in BSM, it will control the composition of the Board and will have effective control over the decisions as to the timing and extent of any capital expenditure, and also the optimal capital structure of BSM. The Board of BSM (which will be controlled by SLI) could also decide to raise equity to fund an accelerated capital expenditure programme. Any such equity capital raise may result in dilution for the remaining BSM shareholders, depending on the extent to which they participate in any capital raise.

We highlight that BSM's projected financial information, as set out in Section 5, reflects a financial scenario prepared by BSM's senior management team, and does not reflect a formal

forecast. This projected financial scenario was prepared for the purpose of this Report and has been approved as follows:

- All BSM Directors approved the FY22 and FY23 projections forming part of the projected financial scenario.
- The projections for the financial years ending 30 June 2024, 2025 and 2026 (FY24 – 26 Projections) which form part of the projected financial scenario were approved by a majority of the BSM Directors (including the Independent Directors). The two BSM Directors who are associated with SLI did not approve the FY24 – 26 Projections, because they are opposed in general to BSM adopting projections beyond FY23 due to the inherent uncertainties involved in making longer term financial estimates.

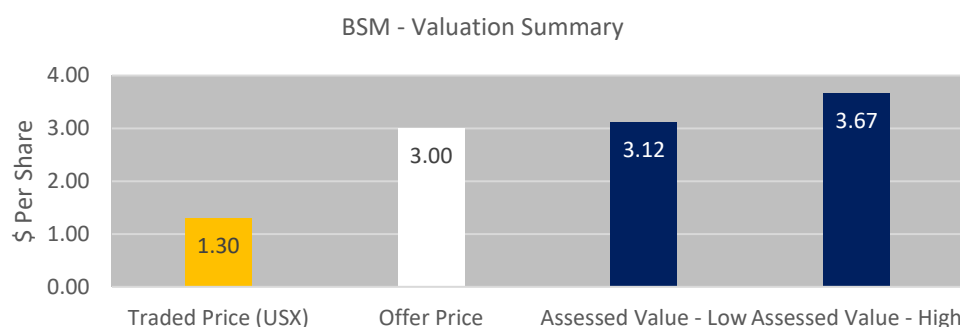
Further information on BSM’s projected financial scenario is set out in Section 5.10.

3.3 Pricing and Valuation

Assessed Value of the BSM Shares

Campbell MacPherson has assessed the value of BSM to be in the range of \$3.12 to \$3.67 per Share, as set out in more detail in Section 6. Our assessed value range reflects the value of 100% of the Company and is therefore inclusive of a premium for control.

On the basis that the cash consideration offered by SLI of \$3.00 per Share is less than our assessed value range, we believe that the Offer from SLI undervalues 100% of the Company.



Source: USX, the Offer Document and Campbell MacPherson analysis

We reiterate our comments in Section 3.2 as to the nature of the projected financial scenario. In our opinion this increases the level of risk associated with the projected financial scenario.

Notwithstanding the above comments, in our opinion the projected financial scenario constitutes a forecast for the purpose of this Report and our valuation of BSM.

In the absence of a takeover offer for 100% of the Company, we would not expect BSM’s traded Share price for a minority parcel of Shares to reflect our assessed valuation. The traded Share price for a minority shareholding in BSM would typically incorporate a minority discount, reflecting the lack of control inherent in a minority position. When 100% of a company is acquired, the purchaser will typically pay a price which reflects the full value of the company (inclusive of a premium for control).

Implied Premium to the Traded Share Price

Prior to the announcement of the Offer, BSM's closing Share price on the USX was \$1.30 per share, with the most recent trade recorded on the USX trading platform occurring on 26 January 2022.

While the Offer price is at a significant premium to the most recent traded price for BSM Shares on the USX, we do not believe the traded price reflects the true market value of BSM Shares, particularly given the projected uplift in BSM's profitability (which had not been reported to the market or shareholders prior to the Offer being made). Furthermore, BSM's traded Share price is based on very low levels of liquidity (i.e. share trading).

The Offer price of \$3.00 per Share reflects a premium of approximately 131% over the Company's closing traded Share price on the USX (as at 26 January 2022).

3.4 Potential Outcomes of the Offer

Minimum Acceptance Condition (50%)

The Offer has a minimum acceptance condition whereby SLI must receive acceptances that would result in SLI holding more than 50% of the voting securities in BSM. This condition was satisfied on 30 March 2022, and the Offer has been declared unconditional. SLI has received acceptances for 50.35% of the Shares (as at 30 March 2022).

Potential Outcomes

There are a range of potential outcomes of the Offer, as summarised below.

Outcome	Commentary
<i>SLI secures 90% or more of the Shares</i>	<p>In the event that SLI secures 90% or more of the Shares, then SLI is entitled to enact the compulsory acquisition provisions under the Code and move to compulsorily acquire 100% of the equity securities outstanding (i.e. any remaining Shares). If SLI does not enact the compulsory acquisition provisions, the remaining BSM shareholders can require SLI to acquire their Shares at the Offer price.</p> <p>SLI has indicated that it intends to exercise its right to compulsorily acquire all of the BSM Shares it does not acquire under the Offer if the 90% threshold is met.</p> <p>On the basis NZ Binxi holds 19.84% of the BSM Shares, if NZ Binxi rejects the Offer, then the maximum shareholding that SLI would be able to obtain in BSM as a result of the Offer would be 80.16% (below the 90% threshold required to trigger the compulsory acquisition provisions under the Code). As set out in Section 2.3, NZ Binxi has advised the Independent Directors that, subject to certain qualifications, it does not presently intend to accept the Offer.</p>
<i>SLI secures more than 50% of the Shares but less than 90% of the shares</i>	<p>In the event that SLI secures more than 50% of the Shares but less than 90% of the Shares, then the Offer will be declared unconditional and proceed based on the level of acceptances received by SLI.</p>

	<p>SLI would not be able to compulsorily acquire the Shares of the BSM shareholders who do not accept the Offer under this Scenario.</p> <p>As discussed below, we believe this is the most likely outcome.</p>
<i>A third party makes a competing takeover offer</i>	<p>It is possible that another party could make a competing takeover offer for BSM Shares, or seek to build a blocking stake of less than 20% during the Offer period. This acknowledges BSM's record of takeover interest, the fact the \$3.00 per Share is below NTA and the 2021 unsolicited approach from an industry player. Any shareholders who have already accepted the Offer from SLI cannot accept any other offer. Shareholders who have not accepted the Offer from SLI would be able to accept (or reject) any competing offer.</p>

SLI could also launch a new takeover offer at any time following the completion of the current Offer, at any price. Any shareholders who accept the current Offer will not receive the benefit of any price uplift (if any) resulting from any future offer.

Most Likely Potential Outcome

While each of the potential outcomes set out above remains a possibility, based on the information made available to us, in our opinion, the most likely outcome is that SLI secures more than 50% of the Shares but less than 90% of the Shares. Our opinion is underpinned by the level of acceptances received to-date (greater than 50%) and also NZ Binxi's stated intention to not accept the Offer.

BSM as a Code Company

On the basis that BSM has 50 or more shareholders and 50 or more Share parcels and is "at least medium sized" (as that term is defined in the Code), it is a Code Company, as defined by the Code, and therefore, is subject to the provisions of the Code. The Code governs transactions and events that impact the voting rights attaching to the shares owned by the shareholders of "Code Companies" and provides an increased level of protection and governance for shareholders.

If SLI ultimately ends up holding less than 100% of the Shares in BSM, then depending on the number of BSM shareholders who rejected the Offer, BSM may no longer be classified as a Code Company (i.e. it may have less than 50 shareholders). As a result, BSM would no longer be captured by the provisions of the Code and the associated protections for BSM shareholders would no longer apply.

Examples of how the provisions of the Code may no longer apply include:

- A BSM shareholder which holds less than 20% of the Shares in BSM would be entitled to increase its shareholding to above 20% without seeking the approval of then non-associated BSM shareholders.
- A BSM shareholder which holds more than 50% of the Shares in BSM would be able to increase its shareholding in any given 12 month period by more than 5% without seeking the approval of the non-associated BSM shareholders.
- The Compulsory acquisition provisions of the Code (as summarised above) would no longer apply.
- Any future takeover offer for BSM (by any party) would not be governed by the provisions of the Code.

Ultimately, whether BSM will remain a Code Company following the completion of the Offer will depend on the extent to which BSM shareholders accept or reject the Offer.

We note that BSM will be required to comply with the provisions of its Constitution and the Companies Act, including Section 129 in relation to major transactions, Section 109 and 110 in relation to minority buyout rights and Sections 117 and 118 in relation to actions that affect the rights attaching to shares. These provisions provide a degree of protection for minority shareholders in the event of;

- Alteration of the Constitution where such alteration imposes or removes a restriction on the activities of the Company;
- Approval of a major transaction or an amalgamation; or
- Alteration of the constitution which affects the rights attaching to Shares held by minority shareholders.

BSM's USX Listing

BSM's Shares are currently listed on the USX, which provides the BSM shareholders (as well as other investors) with a platform on which they can buy and sell BSM Shares.

The Offer Document states that if the Offer is successful and there are only a small number of BSM shareholders remaining (with no guidance provided around what constitutes a "small number"), then SLI's intention is to delist BSM from the USX.

As a result, any remaining BSM shareholders would have reduced ability to trade their BSM Shares (as all trades would be off market). However, we also highlight that BSM's Shares have been thinly traded on the USX, with limited liquidity (as set out in Section 5.8).

3.5 Implications of SLI's Shareholding Position Resulting from the Offer

Ownership & Control Implications of the Offer

SLI will, as a result of the Offer, hold more than 50% and up to 100% of the voting securities of BSM. The key implications for BSM shareholders are summarised below for the following key ownership and control scenarios which could be reached by SLI as a result of the Offer.

Scenario 1	Full Takeover – SLI holds 100% of the voting securities.
Scenario 2	SLI holds more than 50%, but less than 90% of the voting securities.
▪ Scenario 2(a)	SLI holds more than 50%, but less than 75% of the voting securities.
▪ Scenario 2(b)	SLI holds 75% or more, but less than 90% of the voting securities.

Scenario 1 – SLI Acquires 100% of the Voting Securities

In the event that SLI secures 100% of the voting securities of BSM (i.e. its full takeover Offer is successful), SLI will become the sole owner of BSM and have full control of the Company. In practice, this would likely occur as a result of SLI receiving acceptances for 90% or more of the Shares and then compulsorily acquiring the remaining Shares.

Scenario 2 – SLI acquires more than 50%, but less than 90% of the Voting Securities

In the event that SLI holds more than 50% of the voting securities of BSM, it will be able to appoint or remove Directors of BSM. This may result in changes to the current Board of Directors post Offer, however, we are advised that no such discussions have occurred at Board level to-date. BSM is not subject to any regulatory requirement to have Independent Directors.

Under the “creep” provisions of the Code, SLI would be entitled, following a 12-month period after the Offer, to acquire up to an additional 5% shareholding in BSM per annum without the need to make a further takeover offer or seek shareholder approval.

Given the terms of the Offer, a trade player or investor may seek to acquire a shareholding at a higher price to give themselves the potential to influence the ultimate outcome as to the ownership of BSM.

As discussed above, in the event that BSM ceases to be a Code Company following the completion of the Offer, then there would be no regulatory restrictions on the extent to which SLI could increase its shareholding in the future. However, if SLI remains a Code Company, then the provisions of the Code with regard to SLI being able to increase its shareholding would apply.

Scenario 2(a) – SLI Acquires more than 50%, but less than 75% of the Voting Securities

This scenario is a subset of Scenario 2 and therefore all of our comments under that scenario are relevant, together with the following additional comments.

In the event that SLI increases its shareholding in BSM to above 50%, but it remains below 75%, then it will become the majority shareholder in the Company and will be able to block or pass ordinary resolutions. This will result in SLI (ALTC and ODFI collectively) materially increasing its control of the Company. Under this scenario minority shareholders in BSM would likely have very limited (or, in many cases, no) ability to influence the Company, its future direction or the future timing and quantum of distributions to shareholders. Shareholders may also be subject to dilution in the event that the Board (which would be controlled by SLI) approved future new Share issues, as referred to in the Offer Document.

Assuming all shareholders are eligible to vote and choose to vote against a special resolution, then SLI would not be able to pass a special resolution. However, the closer SLI gets to the 75% threshold, the more likely that it may be able to pass a special resolution (even with a shareholding of less than 75%), depending on the number of other BSM shareholders who are eligible and/or elect to exercise their vote on any given resolution.

Scenario 2(b) – SLI Acquires 75% or more, but less than 90% of the Voting Securities

This scenario is a subset of scenario 2 and therefore all of our comments under that scenario are relevant together with the following additional comments.

In the event that SLI secures 75% or more of the voting securities, but less than 90% of the voting securities, it would have sufficient voting rights to pass special resolutions of BSM. This would place SLI in a very strong majority control position. Under this scenario minority shareholders in BSM would likely have even less ability to influence the Company, its future direction or the future timing and quantum of distributions to shareholders. Shareholders may also be subject to dilution in the event that the Board (which would be controlled by SLI) approved future Share issues, as referred to in the Offer Document.

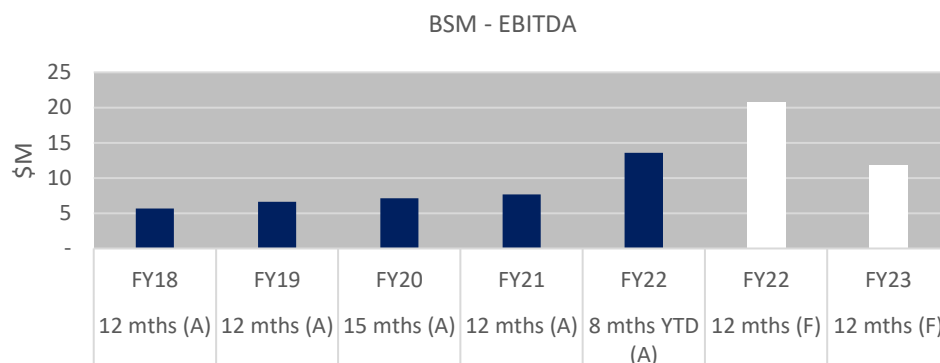
3.6 Other Factors for BSM Shareholders to Consider

Projected Financial Information

As discussed in Section 5.10, BSM’s projected financial scenario demonstrates strong profitability. The projected level of profitability reflects both company specific initiatives, but also strong global demand (which is currently resulting in record pricing for New Zealand meat products and significantly enhanced revenue and margins for participants in the New Zealand

meat processing sector). The Independent Directors expect there will be an easing in global demand and pricing for New Zealand meat products in the short to medium term.

BSM's projected financial information beyond FY23 has not been disclosed in this Report for reasons of commercial sensitivity.



Source: BSM and Campbell MacPherson analysis.

We reiterate our comments in Section 3.2 as to the nature of the projected financial scenario.

In our opinion there is a moderate to high degree of risk associated with BSM being able to achieve and maintain the projected financial scenario. However, at the projected level of BSM profitability, the Company would be in a strong position to fund key capital expenditure requirements / plant upgrades in order to future proof the business and also generate strong free cash flow following the completion of the proposed \$38¹ million capital expenditure programme (which comprises multiple projects over a number of years as opposed to a single project).

The BSM Board of Directors has not committed to any long-term dividend policy, with any future dividends to be discussed and approved by the BSM Board of Directors on an annual basis.

Likelihood of Additional Information being Provided

In recent discussions with the Independent Directors, they confirmed to Campbell MacPherson that all relevant and material information had been released to the BSM shareholders. Therefore, we believe it unlikely that additional company information will be provided.

Likelihood of SLI extending the Offer Period

The Offer is open from 18 March 2022 until the closing date of 6 May 2022, unless otherwise extended by SLI in accordance with the Code.

SLI is entitled to extend the Offer up to a maximum period of 60 working days from 18 March 2022.

Likelihood of SLI increasing its Offer Price

The likelihood of SLI increasing its Offer price is subject to a number of factors including:

- The total level of acceptances received during the Offer period.
- The acceptance (or non-acceptance) of the Offer by NZ Binxi, which will determine SLI's ability to achieve the 90% compulsory acquisition threshold.

- The existence (or absence) of any competing offer and the price and terms of that offer.

Given that the Offer does not include a 90% minimum acceptance condition and only includes a minimum acceptance condition of 'greater than 50%' (which is required by the Code), SLI appears to be willing to accept a majority control position if full control cannot be acquired at the current Offer price.

Likelihood of an Alternative Offer

As set out in Section 5, BSM has been subject to multiple full takeover offers / interest (including the current Offer by SLI), indicating the attractiveness of BSM as a takeover target. SLI is not an existing participant in the New Zealand red meat processing and export sector.

Following the receipt of the current Offer from SLI, the Independent Directors of BSM have not held any discussions with other potential acquirers of BSM to ascertain their interest in potentially making a competing bid for BSM. Any competing bid for BSM would provide a degree of competitive tension, and may result in upward pressure on the Offer price.

On the basis that the minimum acceptance condition has been met and the current Offer has been declared unconditional, in order for any competing offer for a full takeover to be successful, SLI would need to accept any such competing offer, which we believe is unlikely.

Given SLI has already received acceptances above 50%, in our opinion the likelihood of any such offer is significantly reduced.

While we believe that a competing bid for BSM is highly unlikely given the level of acceptances received for the current SLI Offer (greater than 50%) and NZ Binxi disclosing its intentions not to accept the Offer, there remains the possibility that a trade player or investor could seek a share stake in BSM (of less than 20%) at a higher price and work closely with the supplier shareholders in BSM.

It is important to note that, in the event that SLI receives acceptances such that it holds more than 50% of the Shares but less than 90% of the shares, the likelihood of a takeover offer by a third party in the short-term will be much lower, since any takeover offer at that point would not succeed unless accepted by SLI.

Opportunity to Exit

The Offer price of \$3.00 per Share provides an opportunity for those shareholders wishing to exit their investment in the Company to do so at a significant premium to the last traded price on the USX market (prior to the Offer) of \$1.30 per Share.

We note that historically BSM Shares have been highly illiquid, and the completion of the Offer may result in a substantial reduction in the free float of available shares which may further exacerbate the lack of liquidity in the stock in the future. This would be further impacted by any decision by SLI to delist the Company from the USX following the completion of the Offer (as discussed above).

3.7 Conclusions on the Merits of the Offer

In our view, there are a range of key issues that the shareholders of BSM should consider before making a decision on whether to accept or reject the SLI Offer. These issues are summarised below:

- Our assessed valuation range for BSM is \$3.12 to \$3.67 per Share, as set out in Section 6. This valuation range represents our view on the value of 100% of the Company, and we would not expect minority parcels of Shares to trade within this value range in the absence of a full takeover offer.
- The Offer price of \$3.00 per Share is below our assessed valuation range.
- BSM's projected financial scenario, which underpins our assessed value for the BSM Shares, has been prepared by BSM's senior management team. This projected financial scenario was prepared for the purpose of this Report and has been approved as follows:
 - All BSM Directors approved the FY22 and FY23 projections forming part of the projected financial scenario.
 - The projections for the financial years ending 30 June 2024, 2025 and 2026 (FY24 – 26 Projections) which form part of the projected financial scenario were approved by a majority of the BSM Directors (including the Independent Directors). The two BSM Directors who are associated with SLI did not approve the FY24 – 26 Projections, because they are opposed in general to BSM adopting projections beyond FY23 due to the inherent uncertainties involved in making longer term financial estimates.
- BSM's projected financial scenario demonstrates strong profitability over the FY22 to FY26 period. However, BSM is also projecting significant capital expenditure requirements of approximately \$38¹ million over the same period which will impact the Company's medium-term free cash flow.
- The Offer is payable in cash.
- While BSM shares are listed on the USX, there has been limited liquidity. Notwithstanding our assessed value range for the BSM Shares, which is above the Offer price of \$3.00 per Share, the Offer does allow BSM shareholders to realise some value (in cash) for their investment in BSM at a significant premium (131%) to the most recent traded price of \$1.30 per Share on the USX.
- Three of BSM's four largest shareholders, being HWR, ALTC and Blue Star entered into lock-up agreements with SLI whereby they agreed to accept the Offer. We note that both ALTC and HWR are associated with the Offeror. These three BSM shareholders, which held 46% of the BSM Shares have formally accepted the Offer. As at 30 March 2022, SLI had received acceptances for 50.35% of the voting securities in BSM and the Offer was declared unconditional.
- In recent years BSM has paid an annual cash dividend to shareholders of 5 cents per Share. While the BSM Board of Directors has not committed to any long-term dividend policy, any uplift in BSM's future financial performance may allow the Company to reassess its dividend policy. We also note that the requirement for significant capital expenditure over the FY22 to FY26 period could impact BSM's dividend policy over that period.
- Notwithstanding the comments made by SLI in the Offer Document, in our opinion, based on the projected financial scenario, there is a reasonable prospect that the projected capital expenditure could be funded out of Company cash flow and existing banking facilities with no requirement for BSM to raise additional equity capital. We highlight that this view requires BSM to be able to achieve the projected financial

scenario and also obtain formal approval from its bank with regard to capital expenditure covenants and ongoing seasonal debt and trade finance facilities.

- The Independent Directors have not held discussions with any other potential acquirers of BSM to ascertain the likelihood of a competing offer. In order to be successful, a competing full takeover offer requiring minimum acceptances of 90% would require the support of SLI (on the basis that the minimum acceptance condition has been met and the Offer has been declared unconditional). As a result, any such offer is highly unlikely .

3.8 Acceptance or Rejection of the Offer

The closing date of the Offer is 6 May 2022, unless otherwise extended by SLI in accordance with the Code. Not accepting the Offer or waiting until near the time the Offer closes could potentially result in an increase in the Offer price for some or all of the Shares. However, there is no certainty that the Offer price will be increased. Shareholders that accept the Offer will receive the benefit of any increase in the Offer price for those shares which they held and for which the Offer price is increased, regardless of when they accept the Offer.

In the event that the current Offer does not result in SLI acquiring full ownership of BSM then it is possible (but not certain) that SLI could make a further offer in the future. If SLI makes a subsequent offer for the Company at a higher price, any shareholders who accept the current Offer would not receive the benefit of any price uplift resulting from any subsequent offer.

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views regarding the value and other merits of the Offer, as well as their views on future market conditions, risk profile, liquidity preferences, portfolio strategy, tax position and other relevant factors. Shareholders will need to consider all of these factors and, if appropriate, consult their own professional adviser.

4 OVERVIEW OF THE GLOBAL AND NEW ZEALAND MEAT INDUSTRY

4.1 Overview of the Global Meat Industry

The total value of the global meat sector was estimated to be USD\$840 billion in 2020 and is forecast to increase to USD\$1,158 billion over the next few years driven by population growth and growing Asian markets.

The worldwide production volume of meat has increased between 2016 and 2021 from 317 million metric tonnes to circa 334 million metric tonnes. Production of pork and poultry are significantly higher than both beef and sheep meat.

Production of Meat Worldwide (million metric tonnes)						
Type	2016	2017	2018	2019	2020	2021 ¹
Pork	118.40	118.08	120.71	117.84	106.53	112.86
Poultry	115.19	117.98	123.21	125.64	132.07	135.07
Beef and Veal	69.11	69.94	71.72	70.38	71.14	70.37
Sheep ²	14.47	14.71	14.87	15.04	15.43	16.17
Total	317.17	320.71	330.51	328.90	325.17	334.47

¹ Projected data

² Lamb and Mutton

Source: Statista

The United States is the world's leading producer of beef and veal. In 2020 the United States' beef production amounted to 12.36 million metric tonnes. During 2021, the United States saw the highest revenue from meat products and sausages worldwide. Germany, Russia, France, and Brazil make up the remaining top five countries with the largest revenue from processed meats. In addition to producing the highest revenue from meat sales, the United States is also a major exporter of meat, especially beef.

Production of Beef by Country (million metric tonnes)					
Country	2016	2017	2018	2019	2020
United States	11.47	11.91	12.22	12.35	12.36
Brazil	9.28	9.55	9.90	10.20	10.10
China	6.17	6.35	6.44	6.65	6.71
Argentina	2.64	2.84	3.07	3.14	3.17
India	2.51	2.49	2.57	2.54	2.52
Australia	2.32	2.07	2.24	2.35	2.37
Pakistan	1.81	2.08	2.15	2.22	2.30
Mexico	1.88	1.93	1.98	2.03	2.08
Russia	1.59	1.57	1.61	1.63	1.63
Other	28.29	28.50	28.78	28.89	28.79
Total	67.96	69.29	70.96	72.00	72.03

Source: Tridge Intelligence

In terms of sheep meat, China produced 2.75 million metric tonnes of lamb in 2020 and is the world's largest lamb producer. Australia and New Zealand produced 0.69 and 0.46 million metric tonnes respectively. However, despite China's large production figures (mainly driven by domestic consumption), New Zealand is the world's largest exporter of lamb in dollar terms.

Production of Lamb by Country (million metric tonnes)					
Country	2016	2017	2018	2019	2020
China	2.35	2.40	2.42	2.46	2.75
Australia	0.71	0.67	0.74	0.73	0.69
New Zealand	0.48	0.45	0.47	0.45	0.46
Algeria	0.32	0.33	0.33	0.33	0.34
United Kingdom	0.29	0.30	0.29	0.31	0.30
India	0.26	0.26	0.27	0.28	0.28
Iran	0.29	0.29	0.23	0.20	0.27
Sudan	0.26	0.26	0.26	0.27	0.27
Pakistan	0.17	0.24	0.24	0.24	0.24
Other	4.03	4.05	4.14	4.20	4.27
Total	9.16	9.25	9.38	9.46	9.86

Source: Tridge Intelligence

Overall, global projected per capita meat consumption is expected to remain steady at around 35 kilograms of meat per year. However, as the global population continues to climb, the total consumption of meat is expected to rise steadily in the upcoming years.

As the demand for meat rises worldwide, so must the production of meat. Most of the world's meat is produced in Asia, which generated 136 million metric tonnes of meat. Pork and poultry are the most widely produced types of meat, with sheep being the least produced. Although many people abstain from pork for nutritional or religious reasons, pork is widely produced in China and Europe.

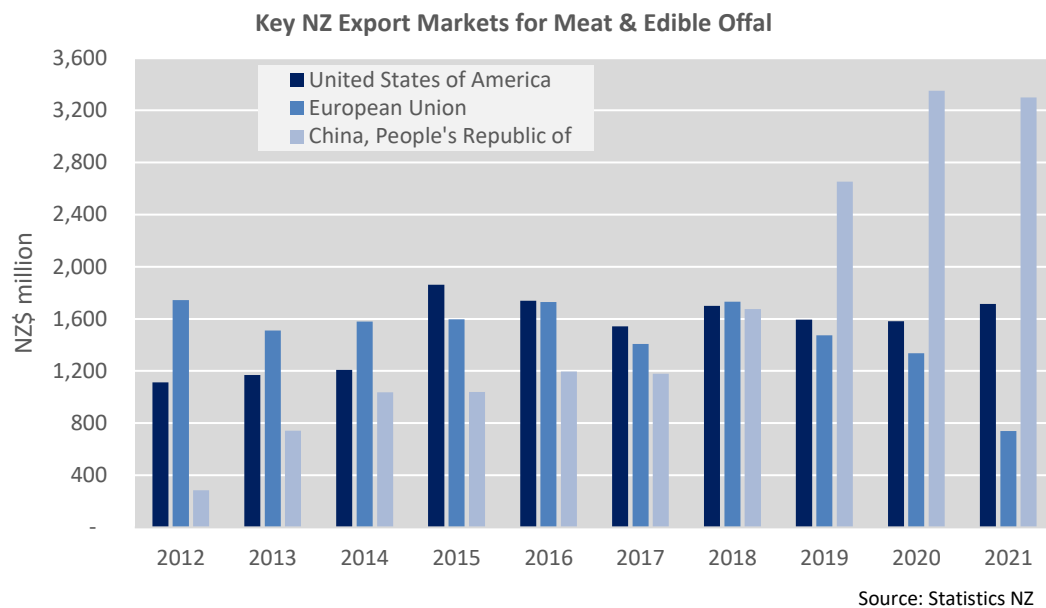
4.2 Overview of the New Zealand Meat Industry

The meat industry is New Zealand's second largest goods exporter behind dairy, generating NZ\$9.1 billion in export revenue in 2021, of which approximately 90% was exported (pre-Covid-19, meat export revenue ranked third behind dairy and tourism). Furthermore, the meat industry is New Zealand's largest manufacturing sector providing jobs for circa 25,000 people.

Key features of the New Zealand meat industry include:

- New Zealand is a global leader in lamb and deer meat and has a strong position in beef exports.
- Lamb exports from New Zealand represent over 50% of the world trade and the top five New Zealand lamb meat processors account for 71% of New Zealand kill volumes.
- The Chinese market for New Zealand meat products **has grown rapidly**. China is now the largest market for New Zealand meat exports (by value) with New Zealand exporting circa \$3.6 billion of red meat to China in 2020/21.
- China has grown from producing a fifth as much lamb as New Zealand 45 years ago to more than six times as much today. However, we note that during 2020/21, China imported circa \$1.91 billion of New Zealand sheep meat.
- Despite strong demand for New Zealand beef from China (accounting for 9% of Chinese beef imports), during 2020/21, Brazil and Argentina have increased their Chinese import share to 40% and 23%, respectively.
- New Zealand is the largest producer and exporter of farmed venison in the world.

- Falling Chinese demand for New Zealand meat poses a huge risk to the New Zealand industry whether this be by way of Covid impacts or any changes in trading dynamics between the two nations.
- A major industry development in the past 6 years included the re-capitalisation of leading industry player Silver Fern Farms (SFF) in late 2015. SFF shareholders approved a deal struck with Chinese company Shanghai Maling to invest NZ\$260 million to acquire a 50% shareholding in SFF. The investment was structured so that SFF would remain a 100% farmer-controlled cooperative. This transaction was approved by the OIO and completed in 2016.
- Key exports markets for New Zealand meat are shown in the table below.



4.3 Historical Structure and Performance of the New Zealand Meat Industry

Historically, the New Zealand meat processing industry has faced significant structural challenges that have delivered both weak financial performance and income / profit volatility for meat processors and farmers. Campbell MacPherson's assessment of key historical industry characteristics include:

- Inadequate and inconsistent farm gate returns.
- Inadequate processor returns / ROE / ROA.
- Self-interested larger industry participants continually undercutting other players' customer and supplier base and markets which has seen industry profits driven down.
- Poor company governance and discipline.
- Historical influence of third-party livestock agents and traders with the ability to exert undue influence, channel procurement and influence prices.
- Change of land use (particularly from sheep and beef to dairy production and more recently to forestry operations).
- The significant reduction in national livestock numbers, particularly sheep and lamb numbers and some historical meat processing over capacity.

- Inefficient use of capital-intensive meat processing plants leading to poor utilisation and higher operating costs.
- Poor capital budgeting analysis.
- Lack of “in-market” co-ordination amongst New Zealand producers in key overseas markets.
- A proliferation of smaller New Zealand meat processors / exporters with mixed fortunes.

On the positive side, there is a global shortage of protein and New Zealand lamb in particular has started to move from being seen as a commodity market product to a high value delicacy. New Zealand’s clean and green pastoral farming further enhances the image where both beef and lamb exports are seen as healthy and safe to eat. To the extent this is used as a marketing point of difference, it will continue to underpin the fortunes of the New Zealand meat industry.

4.4 Profile and Key Statistics for the New Zealand Meat Processing Industry

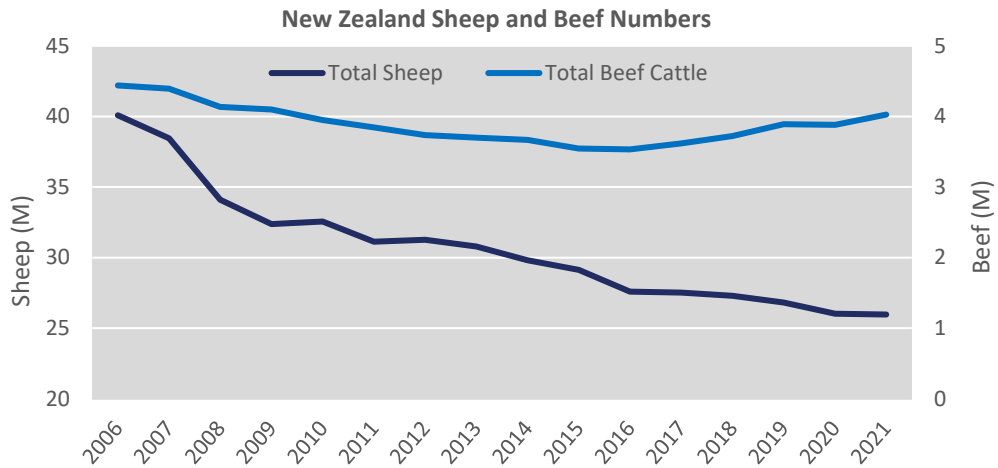
Of the over 20 meat processors in New Zealand, the five largest sheep and beef processors kill circa 75% of all sheep (including lamb) and beef while a range of predominantly single plant operators including BSM make up the remaining 25%. Deregulation of the industry in the late 1970’s led to the emergence of new entrants with smaller plants which were more efficiently configured than their larger (multi-plant) competitors.

Some over-capacity in the industry has become evident with a reduction in the national sheep kill from 45.5 million in 1984 to 21.8 million in 2021. Whilst livestock supply for beef has remained relatively stable, there has been a switch to an increasing number of dairy cows at the expense of steers and bulls being raised for beef production. Due to technological improvements, increased operational efficiencies and the emergence of Chinese driven demand for value added lamb products, the packed weight per carcass extracted from each sheep carcass has increased over time which has also been influenced by the increase in average lamb weights.

Sheep Kill - Domestic vs Export							
(000s)	2015	2016	2017	2018	2019	2020	2021
Graded for Domestic	506	377	279	235	177	163	154
Graded for Export	25,564	22,820	23,655	23,260	21,989	22,718	21,641
Condemned	42	36	44	45	36	41	38
Total Sheep Kill	26,112	23,232	23,978	23,540	22,202	22,923	21,832

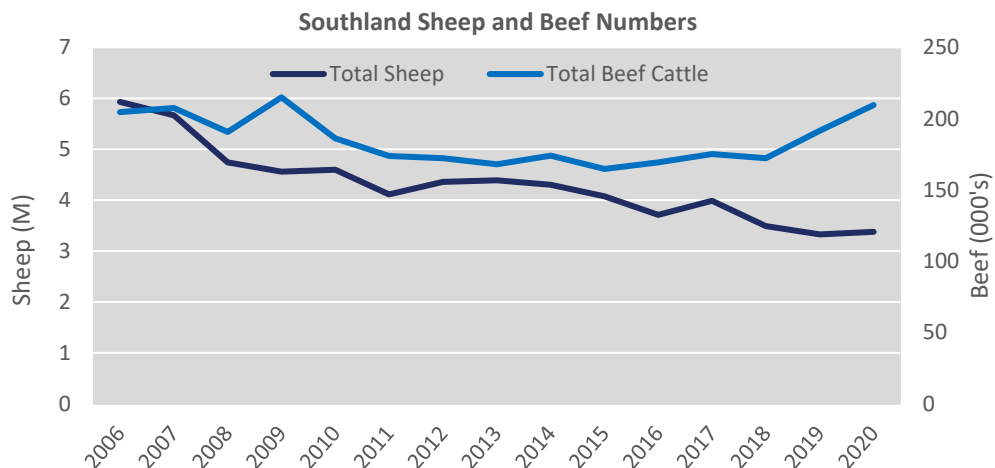
Source: Statistics NZ

Fluctuations in livestock numbers vary throughout New Zealand reflecting specific weather events and pasture growing conditions. Cold and wet weather particularly during lambing is considered a major threat to lamb kill numbers. Lamb kill numbers are also dependant on geographical environment.



Source: Statistics NZ

Sheep farming productivity has improved in recent years due to various factors including changes in pastures / fertilisers and use of winter feeds, and also new breeding genetics leading to higher lambing percentages. Campbell MacPherson notes that the current industry focus is on eating quality of the meat. Furthermore, while sheep and beef numbers have been declining, improved farming productivity has led to an increase in the number of stock units per farm and an increase in lamb weights / yields. Fresh and chilled New Zealand lamb has been successfully promoted internationally as a premium meat product but still much New Zealand lamb exports are sold as a commodity. An increasing number of meat processing companies are now providing speciality cuts and packaging to appeal to discerning customers and directly marketing their products to end users and supermarkets.



Source: Statistics NZ

As illustrated above, Southland sheep numbers have gradually decreased from 5.93 million sheep in 2006 to 3.37 million sheep in 2020. On the basis of “peak milk” and the often-emphasised dairy farming effects on the environment, there is a foreseeable scenario where the large wave of historical dairy farming conversions begin to reverse in favour of other alternatives (i.e. forestry blocks, sheep farming or crop farming).

Key Market Players

The New Zealand Meat Industry Association currently has 21 processor / exporter members of significance. In addition, there are some 56 processing plants certified to process and / or pack meat products for export (see Appendix V).

Market players can be grouped into two key groups, “Tier 1” comprising the five largest meat processors, Silver Fern Farms (**SFF**), Alliance Group (**Alliance**), AFFCO, ANZCO and Ovation New Zealand (**Ovation**), and “Tier 2” comprising the smaller processors including Blue Sky. A brief summary of the major New Zealand industry players is set out below²:

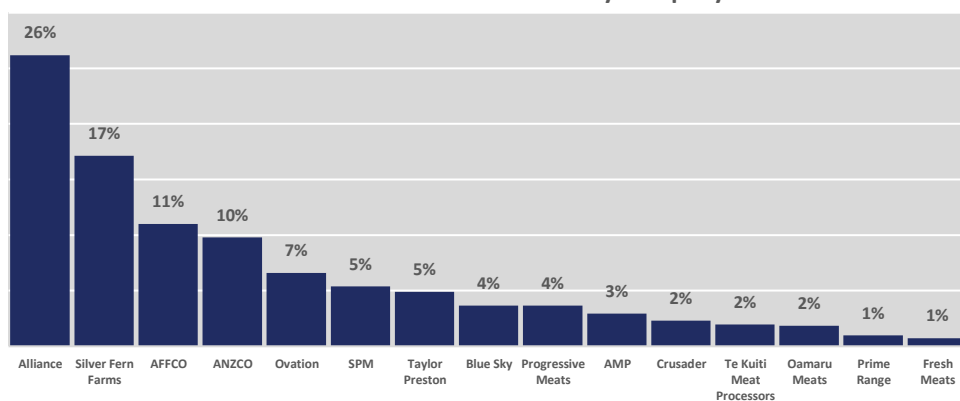
Tier 1 Processors	
Silver Fern Farms	
<ul style="list-style-type: none">➤ NZ’s largest meat processor.➤ As of 2016, SFF is 50% owned by Shanghai Maling and 50% owned by Silver Fern Farms Co-operative.➤ Annual turnover of over \$2.5 billion during FY20.➤ Second largest ovine market share with 17% and the largest beef kill market share.➤ Nine bovine and five ovine sites (with three in the South Island).	
Alliance Group	AFFCO
<ul style="list-style-type: none">➤ Annual turnover of circa NZ\$1.8 billion during FY21.➤ Primarily a South Island ovine co-operative.➤ Largest ovine market share with 26%.➤ Six ovine sites, with two smaller plants in the North Island.➤ One large ovine site (Lorneville) which Campbell MacPherson understands is in excess of 30% of the company’s capacity.➤ Two bovine sites in the South Island and one smaller plant in the North Island.	<ul style="list-style-type: none">➤ A private NZ company owned by the Talley’s Group.➤ Third largest ovine market share with 11%.➤ Second largest bovine processor with 22% market share.➤ Six ovine sites with two in the South Island.➤ Seven bovine sites across New Zealand.
ANZCO	Ovation New Zealand
<ul style="list-style-type: none">➤ As of 2015, ANZCO is 100% owned by Japan based, Itoham Foods.➤ Turnover of circa NZ \$1.53 billion during FY20.➤ Has the fourth largest ovine market share with 10%. Third largest bovine processor with 8% market share.➤ Operates New Zealand’s only and highly successful beef feedlot near Ashburton.	<ul style="list-style-type: none">➤ Privately owned by Hawkes Bay Meat Company (HBMC) and is based in the North Island.➤ Has the fifth largest ovine market share with 7%.➤ Operates three slaughter and processing plants in Gisborne, Feilding and Te Kuiti.

² Metrics on market share have been provided by BSM

Tier 2 Processors (Excluding Blue Sky)

Taylor Preston	➤ Wellington based with a multi specie plant for export and local market. The major shareholder (HBMC) is the parent company of Ovation.
Auckland Meat Processors	➤ Auckland based with a large multi-specie plant. Wilson Hellaby is the trading arm of the business.
Universal Beef Packers	➤ Te Kuiti based and regarded as one of the better operations in the beef processing sector with good throughput and low overheads.
Crusader Meats	➤ Privately owned single plant ovine processor in the North Island.
Other	<ul style="list-style-type: none"> ➤ Prime Range, Oamaru Meats (BX Foods), Fresh Meats, Greenlea, and Progressive Meats. ➤ Davmet (Is not a processor, but is an exporter who toll processes lamb procured through Progressive Meats Hastings).

Ovine Kill - Market Share by Company



Source: BSM Internal Data

Competitive Metrics

The table below highlights key metrics for some key competitors within the New Zealand meat processing industry compared to BSM. We highlight the subjectivity of the below metrics due to the varying balance dates of the companies with market events potentially impacting different reporting periods.

Key Metrics for Competitors - FY20

Competitors	Revenue (\$NZDbn)	Gross Margin	EBITDA Margin	ROE
Silver Fern Farms ¹	2.497	N/A	5.03%	10.70%
Alliance Group ²	1.834	4.88%	2.14%	2.02%
ANZCO ³	1.527	10.65%	4.14%	13.00%
Blue Sky Meats ⁴	0.204	9.72%	3.50%	11.98%

¹ Year end 31 Dec 2020

² Year end 30 Sept 2020

³ Year end 31 Dec 2020

⁴ Year end 30 Jun 2020 and a 15-month period. This period also includes the circa \$2.3 million wage subsidy

Source: Publicly available financial statements and Campbell MacPherson analysis.

Key Metrics for Competitors - FY21				
	Revenue (\$NZDbn)	Gross Margin	EBITDA Margin	ROE
Silver Fern Farms ¹	N/A	N/A	N/A	N/A
Alliance Group ²	1.847	5.76%	3.36%	6.60%
ANZCO ³	N/A	N/A	N/A	N/A
Blue Sky Meats ⁴	0.163	12.12%	4.69%	13.03%

1. Silver Fern Farms' FY21 results are not yet public.

2. Year end 30 Sept 2021.

3. ANZCO's FY21 results are not yet public.

4. Year end 30 June 2021.

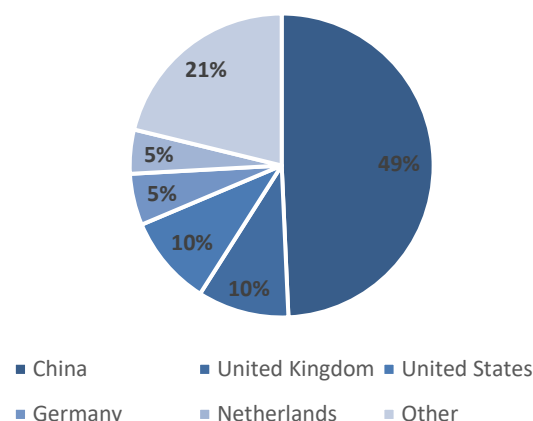
Source: Publicly available financial statements, Capital IQ, and Campbell MacPherson analysis.

4.5 Global Markets for New Zealand Meat Products

Major Trading Partners

The European Union, China and North America are New Zealand's three largest export destinations for red meat. Europe has traditionally been New Zealand's strongest trade partner for sheep exports, however, China is currently the largest overall importer of New Zealand sheep meat by volume and has steadily increased its consumption over the past 5 years. By volume, the European Union, the United Kingdom and China together accounted for 72% of sheep meat exports. Although China is the largest importer of sheep meat by volume, the average receipts per tonne are well below that achieved by receipts from the European Union, reflecting the different product mixes exported to the two regions.

New Zealand Sheep Meat Export Markets -
12 Months to 30 June 2021



Source: NZ Meat Industry Association

Trade Barriers

New Zealand exports circa 87% of its beef and circa 94% of its sheep meat production. Easy access to key export markets is therefore critical to the success of the industry. Many countries continue to charge tariffs on agricultural products exported from New Zealand, and in 2020 alone, tariffs on sheep and beef cost the country more than NZ\$122 million. New Zealand producers not only have to contend with demand and supply factors for their products, they also compete with offshore producers lobbying their Governments to provide them with protection against New Zealand's "low cost" meat products.

As a result of the Uruguay round of negotiations for the General Agreement on Tariffs and Trade, New Zealand obtained country specific tariff quota access to the European Union, United States and Canada.

New Zealand Country Specific Tariff Quotas	
Importing Country	Tariff Quota
European Union	Export 114,184 tonnes of sheep meat and goat meat with zero tariff and 846 tonnes of “high quality beef” at a 20% tariff rate.
United States	Export 213,402 tonnes of beef and veal at a preferential rate of US\$4.4cents/kg.
United Kingdom	Export 114,205 tonnes of sheep meat and goat meat with zero tariff and 454 tonnes of “high quality beef” at a 20% tariff rate.

Source: BSM and public reports.

Free Trade Agreements

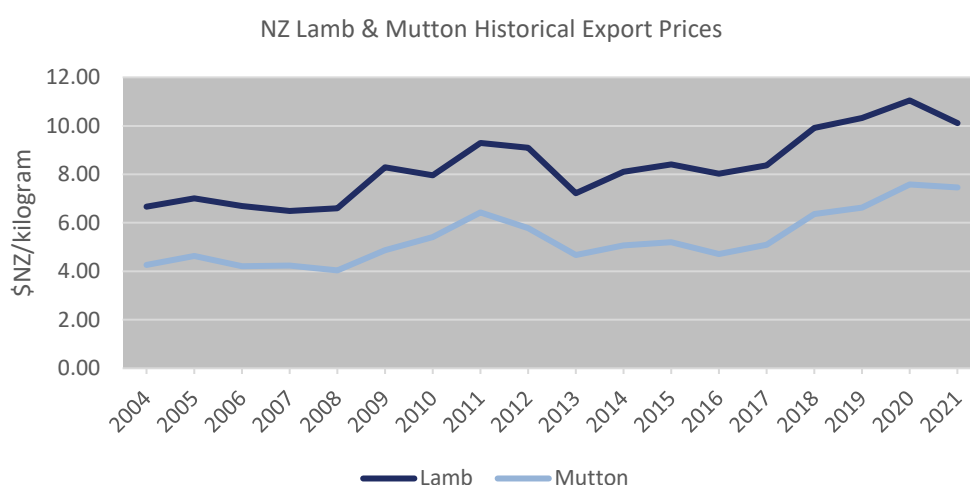
As a significant exporter of red meat products to international markets, New Zealand’s sales success is determined by a wide range of trade barriers including tariff and non-tariff barriers put in place in overseas markets. Many of New Zealand’s traditional trading partners seek to protect in some way their politically important domestic agricultural sector. New Zealand has long championed increased international trade through removal of trade barriers. New Zealand has a number of FTA agreements in place as follows:

New Zealand’s Current Free Trade Agreements		
Country	Agreement	Date
Australia	Closer Economic Relationship	1963
Singapore	Closer Economic Relationship	2001
Thailand	Closer Economic Relationship	2005
China	New Zealand/China Free Trade Agreement	2008
ASEAN & Australia	ASEAN, Australia & New Zealand Free Trade Agreement	2010
Malaysia	New Zealand/Malaysia Free Trade Agreement	2010
Hong Kong	Closer Economic Partnership	2011
South Korea	New Zealand/South Korea Free Trade agreement	2015
Trans-Pacific	Comprehensive and Progressive Agreement for Trans-Pacific Partnership	2018
ASEAN, East Asia & Australia	Regional Comprehensive Economic Partnership	2020
United Kingdom	New Zealand/United Kingdom Free Trade agreement	2022

4.6 Changes in the New Zealand Meat Processing Sector/ Current Industry Dynamics / Future Risks and Opportunities

The New Zealand red meat industry has undertaken numerous reports and set up task forces to review and recommend changes over many years given past shortcomings discussed above.

Campbell MacPherson notes (as a result of a variety of industry interviews and analysis) that the structure and behaviours now evident in the New Zealand meat industry have improved which is now resulting in stronger margins for all processors and acceptable risk adjusted profitability returning to the sector. Stronger more disciplined leadership in the major processors including SFF has resulted in less influence from third party stock agents, more efficient cost structures and less wastage, pricing transparency, stronger relationships direct with farmers and clearer messaging to consumers and less desire to force smaller players out of the industry.



Source: MPI SOPI December 2021

The changes in the industry have benefitted BSM, and in Campbell MacPherson's view, recent industry dynamics have benefitted BSM more than any company specific measures or changes that may have taken place. We believe there are currently internal changes underway at BSM that will allow BSM to retain consistent profitability. The major industry participants still largely set the pricing floors via various contracts on lamb and beef and others for volume (sometimes the floor on prices is set 4 months ahead of time), however the primary livestock pricing schedule is set through weekly published schedules with some operators offering premiums on top of the weekly schedule. We are aware of the use of seasonal minimum price contracts used by some industry participants. As per the graph above, both lamb and mutton export prices (finished goods) have increased by over \$2/kg over the past 6 years which has been a big factor driving industry fortunes. Over the past 12-months (not shown in the graph above), we understand lamb export prices have increased by \$2/kg.

The domestic meat market is competitive, and prices can fluctuate depending on how often both local and Australian exporters off-load meat into the domestic market that would have otherwise been exported.

There is a risk of product substitution for red meat by non-meat proteins. Alternative proteins can be classified into three categories: plant-based (i.e. Beyond Meat products), fermented (i.e. using soybeans for tempeh) and cell-based (i.e. creating products from cell cultures). Plant-based protein companies (such as Beyond Meat) have recently faced challenges with consumer preferences (taste, price, degree of processing and ease of preparation) leading to

disappointing FY21 results. With the current uptake in plant-based proteins worldwide, intuitively, demand for traditional red meat products could be impacted. However, with the reputation that New Zealand lamb has built over many decades, we favour a scenario where New Zealand lamb (due to the quality) becomes an even more premium choice of meat as it is gaining consumer popularity due to changing demographics (i.e. generational changes). Real animal protein will be seen as preferable to man-made proteins, which will be the key point of difference.

Ongoing industry opportunities for New Zealand processors including BSM include:

- Increasing opportunities in the US and Canadian markets, where younger consumers are now eating lamb (when their parents didn't) and the UK market where some New Zealand operators have exited thus, creating demand opportunities particularly in packaging and cut differentiation at the higher end of the market.
- Halal certification - The Halal meat market is potentially large for New Zealand. Halal certifications require time and cost, however, can provide more market opportunities. We are advised, however, Halal lamb / sheep products generally do not incur a pricing premium, but provide wider market opportunity.
- Further free trade relationships.

Ongoing industry risks for New Zealand processors include:

- Potential forfeiture of export licences.
- Potential for more intensive MPI monitoring and compliance and associated costs.
- Trade war and potential broadening of sanctions to other nations, particularly China.
- Fluctuations in export meat prices.

4.7 Industry Outlook³

Livestock Numbers

Key recent trends in livestock numbers include:

- Estimated Sheep numbers: 25.97 million as at 30 June 2021, down 0.2% on the prior year and down circa 40% in comparison to 2000. This year-on-year change can be attributed to strong mutton prices (driving improved trading), difficult spring conditions and droughts.
- Estimated Beef cattle numbers: 4.02 million as at 30 June 2021, up 3.7% on the prior year as a result of greater retentions of cattle.

Lamb

Lambs slaughtered for export over the 12-month period ending 30 September 2022 are estimated to decrease slightly by 0.3% to 18.3 million.

Receipts from lamb exports for the 2021-22 season are estimated to exceed \$3.79 billion (free on board), up 12.9% on the prior year. This increase can be attributed to the post Covid-19 economic recovery and tightening global lamb supplies. The average farm-gate lamb price for the season is estimated at \$8.02 per kilogram, an increase of 15% on the 2020-21 season.

³ Source: NZ Beef and Lamb: Mid-Season Update 2021-22.

Beef

Cattle slaughtered for export over the 12-month period ending 30 September 2022 is estimated to fall 1.8% to 2.76 million, reflecting more sustainable slaughter trends going forward. The 2020-21 season was believed to have a one-off processing rise due to a larger beef cow herd in 2019.

Receipts from beef and veal exports for the 2021-22 season are estimated to total \$4.9 billion (free on board), up 11.1% on the prior year. The average estimated 2021-22 farm-gate prices for steers/heifers, cows and bulls are \$5.60, \$3.90 and \$5.43 per kilogram, respectively.

4.8 Specific Risks / Opportunities for BSM

BSM has benefitted significantly from structural changes in the industry driven by behaviours and leadership rather than legislation. BSM has demonstrated an improved sales pipeline, greater plant utilisation and margin management (although we note that significant capex is required to futureproof and expand the operations). This coupled with strong growing seasons for lambs and less competition for livestock in Southland, higher pricing and significantly increased demand (particularly from China) has all resulted in significant increases in profits for BSM and other industry participants alike. This all bodes well for the foreseeable future.

However, Campbell MacPherson believe that downside industry risks exist for BSM and similar New Zealand processors as follows:

- **Broadening of Sanctions against Russia** - Rural lender Rabobank recently warned that “the potential spread of sanctions to China would present a “dire situation” for China and trading partners such as New Zealand. For New Zealand, the stakes could certainly not be higher”.
- **Escalation of War in Eastern Europe** - This has far reaching implications beyond the scope of this report.
- **Surrender of Export Licences** - This could be due to several reasons with the consequence ranging from short term (i.e. 3 to 6 months) to long term depending on the circumstances.
- **Resource Consents** - A business risk facing Blue Sky is its ability to maintain the resource consents necessary for the operation of its business.
- **Continuing Shipping and Supply Chain Disruptions** - Could result in a change in business models from chilled to frozen, as well as an increased focus on enhancing chilled shelf life.
- **Commodity Provider** - BSM is largely a commodity provider and is not currently configured to supply in retail-oriented packaging formats or product specification that discerning consumers want. They are a reactive and market driven exporter. BSM does not have a mature direct to customer business model nor has it developed its markets (e.g. direct supermarket customers) in any of its major markets.
- **Limited Domestic Market** - BSM has historically not had a significant domestic market presence due to fierce competition and price sensitivity.
- **Unions** – Membership is higher in the south (circa 98%), and lower in the north (circa 50%).

5 PROFILE OF BLUE SKY MEATS

5.1 Background & History

BSM was established in October 1986 by a small group of Southland farmers. The Company was established as a single site small stock processor with a focus on adding value through processing of products and received significant support from farmers throughout the lower South Island. The Company's brands include Blue Sky Pastures, Horizon and Star.

BSM operates a small stock processing plant located near Invercargill at Morton Mains. On an annual basis that plant processes over 800,000 animals per year. Over the past 25 years the Company has grown its farmer supplier base and has continued to reinvest in the business.

BSM was the subject of a full takeover offer by Lowe Corporation in 2002 which was ultimately unsuccessful. Lowe Corporation also sought to increase its holding in BSM in 2014 via a conditional agreement to acquire the BSM Shares held by HW Richardson Group for \$1.71 per Share. This transaction did not receive Board approval and did not proceed.

In 2014 Blue Star acquired an 11.25% stake in BSM at \$1.84 per Share through an off-market purchase of shares held by Danish company DAT-Schaub Group.

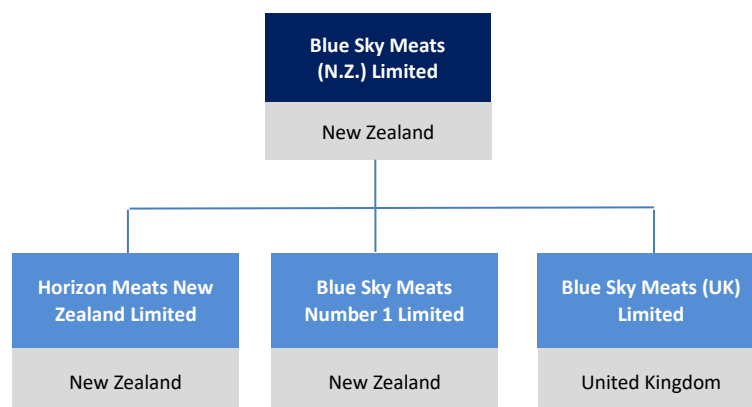
During November 2016 NZ Binxi, a Chinese controlled company made a bid for BSM at \$2.20 per Share, but that bid was not completed. NZ Binxi still holds a 19% stake in the Company and has a representative on the BSM Board.

Key events in Blue Sky's history are summarised below.

1986	↻	BSM established.
1998	↻	Completion of a new boning room.
2001	↻	Formation of Blue Sky Meats (UK) Limited to market products to EU countries.
2002	↻	Unsuccessful takeover offer by Lowe Corporation.
2003	↻	Horizon Meats New Zealand Limited acquired by BSM.
2009	↻	Completion of a new rendering plant at Morton Mains.
2011	↻	Completion of a new skin salting facility at Morton Mains.
2013	↻	Merger talks with Alliance Group terminated.
2014	↻	Auckland based Blue Star Corporation purchases a 11.25% Blue Sky stake from DAT-Schaub Group.
2014	↻	Acquisition of the Clover Export Limited – multi-specie plant in Gore.
2015	↻	Completion of a chilled meat facility at Morton Mains.
2016	↻	BSM Board initiates a sale process seeking offers for the Company.
2016	↻	NZ Binxi launches full takeover offer that was unsuccessful. Prior to the formal takeover offer being received, NZ Binxi had acquired a 13.53% shareholding in BSM.
2017	↻	NZ Binxi increased their shareholding in BSM to 19.84% via two separate share acquisitions.
2020	↻	The Covid 19 Global Pandemic arrives in NZ.
2021	↻	The Gore plant is divested.
2022	↻	Southern Lamb Investments launches their takeover offer.

5.2 Ownership & Capital Structure

Parent company Blue Sky Meats (N.Z.) Limited has three wholly-owned subsidiaries, two of which are located in New Zealand, and one trades with the UK as shown below. Blue Sky Meats Number 1 Limited is a non-trading subsidiary associated with the former Gore bovine operations and is likely to be wound up.



BSM has an equity capital structure comprising a single class of 11,526,098 ordinary Shares held by a total of 333 shareholders. The top ten shareholders of BSM are shown in the table below:

BSM - Top Ten Shareholders (28 February 2022)		
Shareholder	No. of Shares	%
NZ Binxi (Oamaru) Foods	2,286,250	19.84%
Andrew Lowe Trustee Company	2,075,853	18.01%
H.W. Richardson Group	1,929,290	16.74%
Blue Star Corporation	1,296,748	11.25%
N & E Thwaites	116,302	1.01%
G.C. Ward & Co	113,376	0.98%
R.J. & S.W. Cotton	63,250	0.55%
Fernhill Partnership	62,754	0.54%
M.L. & M.J. Anderson	60,126	0.52%
Hikanui Investments Limited	58,667	0.51%
Subtotal	8,062,616	69.95%
Other (323 shareholders)	3,463,482	30.05%
Total	11,526,098	100.00%

Source: BSM's shareholder register

Hikanui Investments Ltd, is controlled by Jim Goodall, the BSM CEO.

There are currently four substantial shareholders of BSM comprising NZ Binxi (19.84%), ALTC (18.01%), HWR (16.74%), and Blue Star (11.25%).

The Company does not have a formal annual dividend policy given the inherent market volatility with being a significant red meat exporter to a variety of export markets. However, in the past four years an annual cash dividend of 5 cents per Share as been paid out to shareholders.

The shareholders of BSM comprise a mix of “supplier shareholders” (those shareholders who also supply livestock to the Company) and “dry shareholders” who do not supply any livestock to the Company. BSM estimates that around 116 shareholders are current suppliers to the Company, and these suppliers hold approximately 14% of the total shares on issue. None of the top 4 shareholders above supply livestock to the Company for processing. We understand that BSM does not provide preferential terms of supply to supplier shareholders.

BSM’s Shares are not traded on a registered stock exchange. However, the Company is a member of the USX trading platform (www.usx.co.nz). Shareholder communication has typically been the mail out of the annual report. Further information on trading in BSM Shares is provided in Section 5.11.

5.3 Board of Directors/Management

The BSM Board comprises five Directors, as summarised below:

Director	Position	Date of Appointment
Scott O’Donnell	Non-executive Chairman	2011
Andrew Lowe	Non-executive Director	2014
Arron Hoyle	Non-executive Director	2017
Melvin Sutton	Independent Director	2019
Sarah Brown	Independent Director	2021

Chairman Scott O’Donnell is a Director of HWR and represents its interests on the Board of BSM. Andrew Lowe is a Director of ALTC and represents its interests on the Board of BSM. Aaron Hoyle is a shareholder in NZ Binxi, the largest single shareholder in BSM and represents its interests on the Board.

In the past three years, two Independent Directors have been appointed to the Board, namely Melvin Sutton and Sarah Brown. Neither hold shares in the Company.

BSM has an experienced senior management team led by CEO Jim Goodall. Mr Goodall was appointed to the role in July 2021 and comes with an extensive red meat processing and marketing background. The senior management team of BSM is summarised in the table below.

Executive	Position
Jim Goodall	Chief Executive Officer
Gary Smith	Interim Chief Financial Officer
Steve Paynter	GM Operations
Grant Mitchell	GM Supply
Chad Brown	GM Sales
Ben Nally	Innovation and Technology

In the past twelve months BSM has made a number of key appointments to build the strength of its management team and evolve its culture toward becoming a leading red meat processor, exporter and marketer supplying international and domestic consumers with lamb and mutton products. Ideally these consumers will pay a premium for pasture raised sheep meats that are grown and raised in the lower South Island of New Zealand.

5.4 Business Model & Operations

BSM's business model is focused on producing premium quality lamb and mutton products for export to key international markets in the UK, Europe, North America and Asia/Pacific regions. The Company's key activities include livestock procurement, processing, marketing and distribution of chilled and frozen lamb and mutton products. BSM also processes a small amount veal product.



BSM employs circa 350 people at its Morton Mains site and a further 5 staff at the Blue Sky Pasture Sales Office based in Auckland (where BSM issues invoices and employs the sales team).

Key drivers of the current BSM business model include:

- Seasonality (i.e. weather conditions and the impact on livestock growth and availability).
- Access to livestock supply including contracted supply.
- Plant utilisation rates (which are primarily a function of the spread of procurement, the timing and volume of livestock supply).
- Export market requirements for Covid-19 testing of staff, workplaces and product contamination.
- Supply chain and logistical impacts on shipping availability and freight costs.
- Knock on effects from the recent Russian invasion of Ukraine (e.g. fuel and forex impacts).
- International consumer demand for grass fed red meat.
- EU/USA meat quotas, export demand, domestic demand and market prices.
- Export market foreign exchange rates against the NZ Dollar.

Livestock Procurement

BSM was the first meat processor in the New Zealand Industry to offer its livestock suppliers a contracted commitment to killing space, a feature of the Company that has been maintained. Livestock is sourced from farms across the Southern part of the South Island, with strong focus on Southland and Otago.

BSM currently contracts around 71% of its livestock on an annual basis. Contracts cover the period from late November to June and allow production planning and the ability to identify likely gaps early in the season. BSM has recently strengthened its procurement function and are focussed on building stronger alliances with key farmers and associated stock and station companies.

Strong relationships with farmer producers are an objective to help BSM build a pasture to plate provenance for chilled lamb products that are becoming sought after in supermarkets and butcher shops in key export markets.

Processing

BSM operates an ovine plant at Morton Mains, 25 kilometres east of Invercargill. The peak processing period runs from December to May each year. Last year the plant shut for 6 weeks, however, BSM expect to shut for only 3 weeks this year.

Morton Mains Plant

The Morton Mains Plant (**the Plant**) is located on 130 hectares of freehold land owned by the Company. The site includes covered yards, a slaughterhouse, boning and cutting rooms, blast freezers, chiller rooms, a rendering plant and a skin salting facility. The Plant has a processing capacity of 24,750 stock units per week on a single chain, equating to around 800,000 small stock per annum. Current processing rates (2021/2022 season) are approximately 0.86 million stock units per annum.

BSM holds a Meat Export certificate issued by the Ministry of Primary Industries (ME80). The Morton Mains Plant is Ministry of Primary certified, HACCP accredited and EU and USDA approved. It also holds European accreditation from the British Retail Consortium (**BRC**). The table above lists those markets BSM can export to currently under their meat export licence.

BSM (ME80) - Countries Listed for Export		
Country	Ovine	Bobby
Brazil	✓	✓
Canada	✓	✓
China	✓	✓
European Union	✓	✓
Great Britain	✓	✓
Japan	✓	✓
Korea	✓	✓
Mexico	✓	✓
Peru	✓	✓
Philippines	✓	✓
Russia	✓	✓*
Saudi Arabia	✓	✓
Singapore	✓	✓
South Africa	✓	✓
Thailand	✓	✓
USA	✓	✗
Vietnam	✓	✓

*Temporary Restrictions

Source: BSM

Marketing and Distribution

BSM markets its products internationally through its sales office based in Auckland. The Company's products are sold under three brands, Blue Sky Pasture, Horizon and Star brands.

BSM received a 2021 sheep and goat quota allocation of 7,132 tonnes into the EU and a 2016 beef and veal quota allocation of 211 tonnes into the USA.

BSM Quota Allocations			
(tonnes)	2019	2020	2021
EU Sheep meat & Goat meat	5,902	6,270	7,132
Total Industry Allocation	228,049	228,049	228,049
	2.59%	2.75%	3.13%
US Beef & Veal	430	219	211
Total Industry Allocation	213,397	213,397	213,397
	0.20%	0.10%	0.10%

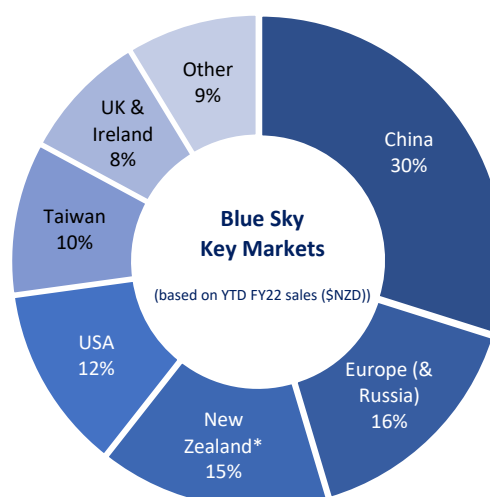
Source: BSM

5.5 Key Markets

BSM derives the majority of its revenue from exports with the balance sold in the NZ market.

FY22 YTD sales (by \$NZD) indicate that China, is the largest market for the Company generating 30% of FY22 YTD sales (by \$NZD). Other major export markets are Europe (including Russia), USA, Taiwan and the UK (including Ireland). We note New Zealand based pelt and skin sales have been excluded from this analysis.

BSM is continually seeking to diversify its export markets and market channels to reduce specific country risk (e.g. anti-competitive / regulatory changes) and foreign exchange rate risk.



*Includes sales to export traders (7.6%) and domestic sales (7.6%). Dates range from 5/7/21 to 20/2/22. Excludes New Zealand based pelt and skin sales. Source: BSM analysis.

We note that BSM has recently increased sales to New Zealand based export traders to take advantage of those traders' shipping space that otherwise BSM may not have been able to access. Of the 15% sold in New Zealand, 7.6% is exported (via traders) and 7.6% is sold for domestic consumption.

BSM currently engages in related party transactions with HWR and Lowe Corporation. During YTD FY22, BSM made purchases of circa \$2.8 million (including GST) from HWR and HWR related companies in relation to transport services and rental arrangements. In addition, BSM received circa \$2.1 million (including GST) for pelt and skin sales made to Lowe Corporation.

5.6 Strategic Progress since 2016

Following the appointment of former CEO Todd Grave in September 2016 the Company commenced a comprehensive review of its operations and potential for improvements to its operating and financial performance. Todd Grave left Blue Sky in March 2021 and Reece Oliver was appointed Interim CEO from March to July 2021. Reece Oliver was a senior manager on secondment from HWR to help cover the period before the permanent CEO Jim Goodall was able to take up his new role in July 2021.

During the three-year period to June 2021⁴ BSM invested over \$12 million in capital expenditure, as set out in Section 5.9.

An important strategy taken by the Board in 2021 was to close and sell the Gore bovine processing plant which had been loss making. This exit has allowed BSM to become fully focussed on its Morton Main ovine operation.

Key initiatives identified by the Board and CEO include:

- Marketing initiatives (i.e. channels, customers and branding).

⁴ Based on BSM's financial year (which included a 15-month period in FY20).

- Processing improvements.
- Slaughter board improvements.
- Livestock procurement.

It is important to note that these improvements are mainly incremental with formal capex and funding plans not yet signed off by the Board. The Company engaged leading consulting engineers Beca to help develop a Master Plan for the site in order to address bottlenecks to growth and the requirement for additional services to the plant (e.g. electricity). That Master Plan was agreed in principle by the Board in 2021. The key building blocks from a capital expenditure perspective are:

- Install spray chilling to reduce carcass weight loss during chilling.
- Increase blast chilling and chilled product holding to improve chilled product shelf life.
- Increase blast freezing to allow all product to be blast frozen onsite and for direct loading of FCL's.
- Upgrading the refrigeration systems used on site to remove Freon Refrigerant.
- Reducing the use of carbon fuel and lowering greenhouse gas emissions.
- Upgrading the Company's boning facility to balance boning with slaughter output, improving chilled shelf life, reducing processing costs, and employee injury risk.

We note that without increasing term debt and relying on operating cashflow BSM funded over \$12 million of capex spend over the three-year period to 30 June 2021⁵. Subsequent to that date, the Gore beef & venison plant was sold and the Company's banker, Westpac has informally indicated a willingness to provide some additional debt funding to BSM for capital expenditure if required.

5.7 The Impact of the Covid 19 Pandemic

Since New Zealand went into first lockdown in late March 2020 the impact of Covid-19 on the economy and international supply chain has been challenging. Covid-19 related lockdowns have also reduced New Zealand market demand particularly from the food service and hospitality sector. A further complication has been the unprecedented worldwide shock to shipping capacity, limiting the amount of product that could be sent to international customers. This lack of shipping space led to a lack of onshore storage space and shortage of available cold storage.

Notwithstanding the above comments, BSM has managed key risks associated with Covid-19 and has reported strong results in recent years.

BSM has developed a risk mitigation plan including:

- Everyone who enters the Morton Mains site has their temperature recorded on entry.
- All staff are actively encouraged to get vaccinated and have booster shots.
- Use of sanitisers and masks are required.
- Anyone who has Covid-like symptoms must stay at home, take a test and self-isolate.
- Daily negative RAT tests are required of all staff and contractors on arrival before they enter the site.

⁵ Based on BSM's financial year (which included a 15-month period in FY20).

Export Licences

- While BSM believes it has taken all necessary steps to protect and retain its licence to export product, and is effectively managing this risk, the Company has undertaken high-level analysis to assess the potential impact on the business if it were to lose its export licences.
- This analysis demonstrates that the resulting operating / cash losses would be significant, with the viability of the BSM business being underpinned by its ability to continue to export product.
- We note that as a single plant operation, BSM is more exposed to the financial impact of losing its export licences.
- BSM has advised it does not anticipate a cancellation of any export licence that BSM requires to export products to its current markets.

5.8 Past Takeover Activity with BSM

BSM has a long track record of receiving investor interest particularly from existing industry players. These include the Lowe Corporation takeover bid to gain control in 2002, which was rejected. During April 2014, BSM announced that Blue Star had acquired 11.25% of BSM in an off-market share trade at \$1.80 per share. The vendor was DAT-Schaub, a global casings producer that inherited the Share parcel when it acquired Waikiwi Casings in 2010.

During 2013 as a result of farmer lobbying, the Meat Industry Excellence Group was formed to drive improvements in red meat profitability by promoting throughout the NZ farming sector:

- Reduction in meat industry processing capacity match to falling flock numbers.
- Greater use of best practice in the supply chain including processing plants.
- Aligned procurement or contracted supply commitments between farmer and meat processor; and
- More coordination in market behaviour (between New Zealand meat exporters) in key export markets.

This led to media reports in 2013 that the Invercargill based cooperative Alliance Group approached BSM about a possible takeover but BSM withdrew from talks after failure to agree on key terms.

After posting a loss in 2016 BSM retained advisors to seek out potential suitors for the Company. From this sale process in November 2016 NZ Binxi launched a takeover bid for BSM with a cash offer of \$2.20 per share. NZ Binxi, a majority Chinese owned company had in the previous year purchased the Lean Meats operation in Oamaru. Key conditions were the approval of the Overseas Investment Office and acquisition of at least 50% of the issued shares. Despite receiving strong acceptances from BSM shareholders, NZ Binxi withdrew from the process, citing Overseas Investment Office approval not being received by a set date and also a material adverse change in BSM's value.

We understand that during 2021 an unsolicited, confidential, non-binding indicative proposal from a potential bidder who was considering making a full takeover offer for BSM was made by a major New Zealand meat industry player. That proposal was conditional on Blue Sky providing due diligence access to the potential bidder and the shareholders associated with

Blue Sky directors (i.e. NZ Binxi, ALTC and HWR) providing commitments to accept the offer. After confidential feedback from NZ Binxi, ALTC and HWR (together holding 54.58% of the BSM Shares at that time) that they would not accept the indicative price per BSM share, the Board declined to provide due diligence access and the proposal did not proceed.

We note that the latest Takeover Offer for the Company from SLI dated 18th March 2022 is the subject of this Report.

5.9 Summary Historical Financial Information

Historical Financial Performance

A summary of BSM's audited historical financial performance for the FY18 to FY21 period, along with year-to-date FY22 performance (based on internal management accounts) is summarised below.

Blue Sky Meats - Summary Financial Performance					
NZ\$000's	12 mths Mar-18	12 mths Mar-19	15 mths Jun-20	12 mths Jun-21	8 mths Feb-22
Revenue	104,590	140,063	203,961	163,487	123,780
Cost of Goods Sold	(91,163)	(124,402)	(184,140)	(143,674)	(100,686)
Gross Profit	13,427	15,660	19,820	19,813	23,094
<i>Gross Margin</i>	<i>12.8%</i>	<i>11.2%</i>	<i>9.7%</i>	<i>12.1%</i>	<i>18.7%</i>
Other Income / Costs	79	9	2,777	(125)	
Operating Expenses	(7,837)	(9,031)	(15,467)	(12,025)	(9,531)
EBITDA	5,668	6,638	7,131	7,664	13,563²
<i>EBITDA Margin</i>	<i>5.4%</i>	<i>4.7%</i>	<i>3.5%</i>	<i>4.7%</i>	<i>11.0%</i>
Depreciation ¹	(1,589)	(1,174)	(2,248)	(1,975)	(821)
EBIT	4,079	5,464	4,883	5,689	12,743

1. Includes gains / loss on sale and asset impairments.

2. Campbell Macpherson has excluded a \$369k impairment reversal from the reported YTD FY22 EBITDA (with this gain recorded in the depreciation line). We have also excluded a \$1.22 million margin on unsold inventory which was recorded in the BSM management accounts (this reversal is recorded in the cost of goods sold line). This treatment differs to the reported YTD FY22 EBITDA in the BSM management accounts, and the associated EBITDA reported to shareholders by the Independent Directors in the letter dated 18 March 2022 (which reported a year-to-date EBITDA of \$11.36 million as at 31 January 2022).

Source: BSM annual accounts and management accounts.

Key factors driving the increase in BSM's financial performance in recent years include:

- Increased livestock volumes, up from 595,000 units in FY18 to 803,000 units in FY21. A further increase is projected for FY22 (i.e. 863,000 units – as discussed below). This reflects significant improvements in BSM's procurement model.
- Increased revenue and gross margin per carcass, reflecting a combination of improved production efficiencies, increased sales of chilled products and strong market pricing.

We highlight that reported financial metrics for FY20 (revenue and profitability) are distorted by a change in BSM's reporting period (i.e. a 15 month period).

Improved revenue metrics were offset by a fall in gross margin in FY19 as uncertainty associated with Brexit impacted margins. Margins were further impacted in FY20 as schedule prices increased disproportionately to international meat product prices. BSM also faced some operational inefficiencies as a result of Covid-19 restrictions. This trend reversed in FY21 following a fall in per unit cost of goods sold (e.g. production and procurement costs), resulting in a gross margin uplift.

BSM is currently experiencing unprecedented conditions in the global and domestic meat market, with inflated meat prices, as the global economy recovers from Covid-19 and demand for lamb product remains strong, and a disproportional increase in direct costs / livestock costs. This has resulted in elevated (and possibly unsustainable) profit margins during FY22.

We highlight that BSM received \$2.3 million in Covid-19 wage subsidy payments FY20 (included in other income).

BSM's indirect operating costs have increased over the reported period. We highlight that reported FY20 costs include a one-off \$2.2 million expense in relation to the settlement of an employment ruling with regard to rest-breaks. Increased FY21 costs include strategic planning costs, plant repairs and maintenance, wage / staff costs and resource consenting costs.

The above factors have contributed to improved profitability in recent years, with a reported EBITDA of \$7.7 million in FY21 and a YTD FY22 EBITDA of \$13.6 million (with a full year FY22 EBITDA of \$20.8 million projected). We highlight that the adjustments described in footnote two in the above table apply to these EBITDA figures. We reiterate that BSM does not believe the projected FY22 result is sustainable over the short-term. Further information on BSM's projected financial information beyond FY22 is set out in Section 5.10 below.

While Covid-19 has impacted the BSM business in a number of ways, including international uncertainty, logistics / supply chain constraints and operational constraints (such as social distancing and absenteeism), fundamentally, the Company has performed well throughout the pandemic.

Historical Financial Position

A summary of BSM's audited historical financial position for the FY18 to FY21 period, along with year-to-date FY22 position (based on internal management accounts) is summarised below.

Blue Sky Meats - Summary Financial Position					
NZ\$000's	12 mths Mar-18	12 mths Mar-19	15 mths Jun-20	12 mths Jun-21	8 mths Feb-22
<u>Current Assets</u>					
Cash and Equivalents	404	1,500	882	2,934	880
Accounts Receivable	18,159	18,667	14,167	13,353	21,923
Inventory	9,781	16,644	13,003	7,451	15,787 ¹
Derivative Instruments	-	-	931	-	-
Other ²	2,286	311	37	1,716	419
	30,629	37,123	29,020	25,453	39,009
<u>Non-Current Assets</u>					
Property Plant and Equipment	10,995	14,290	20,466	18,518	18,658
Goodwill	3,222	3,222	3,222	3,222	3,222
Right of Use Assets ³	-	-	438	382	n/a
Other / Assets Held for Sale	98	19	8	160	-
	14,315	17,531	24,134	22,283	21,880
<u>Current Liabilities</u>					
Accounts Payable and Accruals	9,097	9,056	7,780	3,908	13,289
Income Received in Advance	634	813	637	1,857	-
Borrowings	13,420	19,157	16,001	9,651	5,701
Tax	-	639	503	1,085	3,441
Lease Liabilities ³	-	-	40	46	n/a
Derivative Instruments	198	44	-	449	-
	23,349	29,709	24,960	16,996	22,431
<u>Non-Current Liabilities</u>					
Lease Liabilities ³	-	-	416	362	n/a
Deferred Tax	-	195	122	-	-
	-	195	538	362	-
Net Assets⁴	21,595	24,750	27,656	30,378	38,458

1. Campbell MacPherson has excluded a \$1.22 million margin on unsold inventory as at February 2022 which was recorded in the BSM management accounts.

2. During FY21 BSM reclassified the fixed assets associated with its Gore bovine operation as "assets held for sale".

3. BSM does not record right of use assets (IFRS 16) and the associated liabilities in its management accounts.

4. The ETS units referred to in Section 6 are not recorded on BSM's balance sheet (valued at circa \$0.46 million).

Source: BSM annual accounts and management accounts.

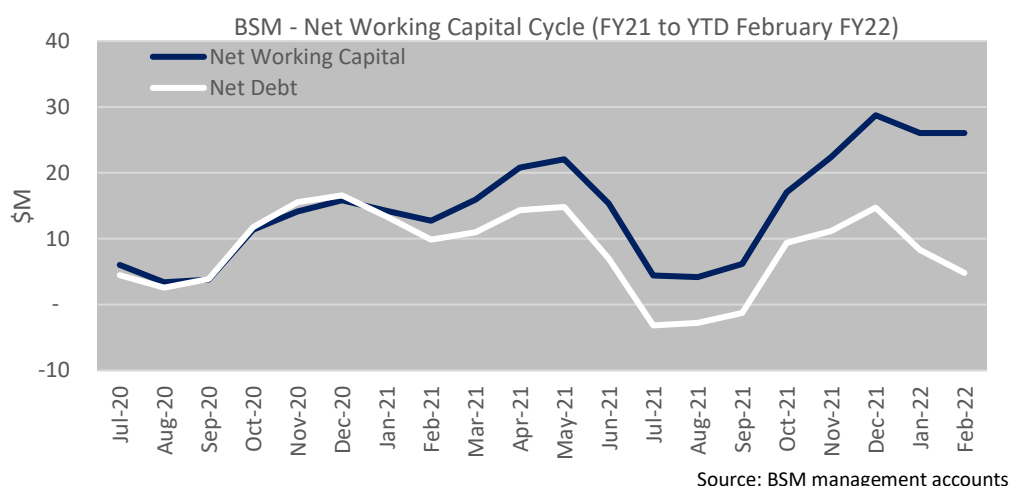
BSM's underlying net asset base has increased over the reported period, largely reflecting significant capital expenditure and also a reduction in bank debt on the back of improved profitability in recent years. We note that BSM's change of balance date to June in FY20 distorts the ability to compare the company's working capital and debt position from year to year given the seasonality of BSM's business. We do however highlight that BSM has reduced its inventory position significantly in recent years, reflecting improved inventory and product management, and also increased chilled product sales.

BSM reported net assets of circa \$38.5 million as at 28 February 2022 (excluding the ETS units held by the Company – valued at circa \$0.46 million but including \$3.2 million of goodwill), with increased working capital reflecting the seasonality of BSM's business. This increase in

working capital has not been funded by an increase in debt given the strong operating cash flow being generated in the current environment.

Working Capital and Net Debt

The seasonal nature of the meat processing industry is such that BSM's working capital and net debt position fluctuates significantly throughout the financial year. This seasonality largely reflects the uplift in lamb volumes over the summer period. BSM's financial position as at 28 February 2022 is near the high point of the Company's working capital cycle. The increase in FY22 net working capital relative to FY21 primarily relates to increased debtors on the back of higher sales volumes and values.



BSM has various debt facilities with Westpac, including a seasonal working capital facility, a trade finance facility and an overdraft facility. We are advised by BSM that Westpac has informally indicated a willingness to provide some additional debt funding to BSM for capital expenditure if required.

As at 28 February 2022, BSM's Westpac borrowings totalled \$5.7 million. However, we highlight that BSM has become less reliant on its seasonal debt facility in recent months as a result of the high level of operating cash flow being generated by the Company and cash proceeds from the sale of the Gore plant (as illustrated by the widening gap between the Company's working capital position and the associated level of net debt).

Historical Cash Flows

A summary of BSM's audited cash flows over the four-year period ending 30 June 2021 is set out below. A year-to-date FY22 cash flow statement has not been prepared.

Blue Sky Meats - Summary Cash Flows				
NZ\$000's	12 mths Mar-18	12 mths Mar-19	15 mths Jun-20	12 mths Jun-21
Cash from Operating Activities	5,225	(1,872)	11,667	10,733
Cash from Investing Activities	(878)	(2,195)	(8,470)	(1,688)
Cash from Financing Activities	(4,081)	5,164	(3,816)	(6,994)
Net increase / (decrease) in cash	266	1,097	(619)	2,052

Source: BSM annual accounts and management accounts.

BSM's significantly improved operating cashflow reflects improved trading conditions, as well as a reduction in the level of working capital being held by the Company (e.g. inventory). We also highlight the impact of the change in balance date on FY20 operating cash flow (i.e. a 15 month period which coincides with a low point in the working capital cycle).

BSM completed a significant capital expenditure programme over the FY19 – FY20 period, which focused on improved waste water facilities, refrigeration and health and safety. Future capital expenditure requirements are discussed below in Section 5.10.

Negative cash flow from financing activities during FY20 and FY21 reflects a significant reduction in bank debt following strong operating cash flow.

BSM completed the sale of its Bovine business assets during FY22, from which it realised circa \$2.0 million.

5.10 Projected Financial Information

Due to a range of industry factors, including seasonality in procurement of livestock, changes in livestock schedule prices, changes in international demand and price, changes in foreign exchange rates, weather and other factors, it is difficult to accurately forecast BSM's long-term financial performance. This is further exacerbated by current international tensions and the global Covid-19 pandemic.

BSM's management team has prepared quarterly financial projections for the period 1 January 2022 to 30 June 2026 (a 4.5 year period). This projected financial information reflects a financial scenario, and does not reflect a formal financial forecast. It was prepared for the purpose of this Report and has been approved for that purpose as follows:

- All BSM Directors approved the FY22 and FY23 projections forming part of the projected financial scenario.
- The projections for the financial years ending 30 June 2024, 2025 and 2026 (FY24 – 26 Projections) which form part of the projected financial scenario were approved by a majority of the BSM Directors (including the Independent Directors). The two BSM Directors who are associated with SLI did not approve the FY24 – 26 Projections, because they are opposed in general to BSM adopting projections beyond FY23 due to the inherent uncertainties involved in making longer term financial estimates.

This projected financial scenario, which was finalised in March 2022, is based on a number of macro-economic and commercial assumptions as determined by BSM (with actual trading results being used for the eight months ending 28 February 2022).

Notwithstanding the above comments, in our opinion the projected financial scenario constitutes a forecast for the purpose of this Report and our valuation of BSM. BSM's management is highly supportive of the Company's projected financial information and the ability of BSM to achieve the projected outcome.

Principal Assumptions

The principal assumptions which underpin BSM's projected financial information include:

- Annual livestock kill volumes are projected to remain stable over the forecast period:
 - Lamb: 654,000 units.
 - Mutton: 164,000 units.

- Calf: 45,000 units.
- BSM's retains its key export licences over the long-term and is able to continue supplying key markets.
- An average trading margin of \$72.0 per carcass in FY22 and \$63.2 per carcass in FY23. The drop in FY23 reflects BSM's view that the market conditions experienced during FY22 are unsustainable over the short-term. It is assumed that per unit trading margins will improve over the FY24 to FY26 period, reflecting:
 - Improved yields from an investment in spray chilling technology and focus on carcass chiller performance.
 - Increased chilled product sales.
 - Reduced cold storage costs following an investment in onsite cold storage capacity.
- BSM is successful in its resource consent renewal process on terms which do not restrict the operational performance of BSM.
- Total capital expenditure over the forecast period of \$38.1¹ million, including:
 - A heat recovery / energy strategy initiatives (a shift towards a reduced reliance on coal) – FY22 / FY23.
 - Carcass spray chilling technology (FY23).
 - A boning room expansion (FY23).
 - Cold storage expansion / refrigeration upgrades (FY23 / FY24).
 - A new boning room (FY25 / FY26).
- BSM's projected financial information allows for a notional annual dividend payment based on 10% of post-tax profits. Any actual dividends paid to shareholders over the forecast period will be assessed by the Board on an annual basis.

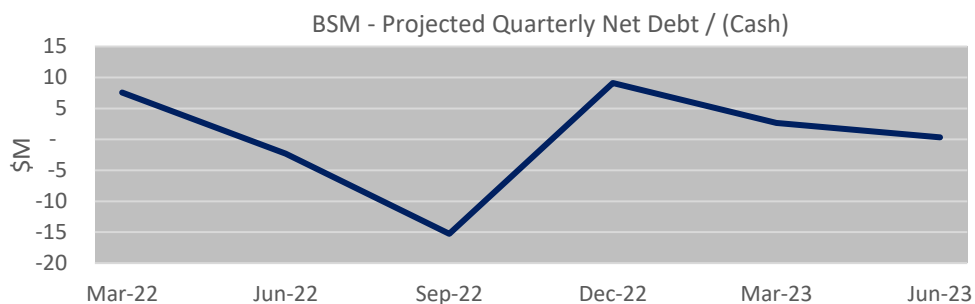
Key Outputs

For reasons of commercial sensitivity, we have not presented BSM's projected financial information beyond FY23.

BSM - Projected Financial Information		
\$M's	FY22	FY23
EBITDA	20.8 ²	11.9

2. Campbell Macpherson has excluded a \$369k impairment reversal from the projected FY22 EBITDA. We have also excluded a \$0.51 million margin on unsold inventory.

Source: BSM's projected financial scenario.



Source: BSM's projected financial scenario.

Key points include:

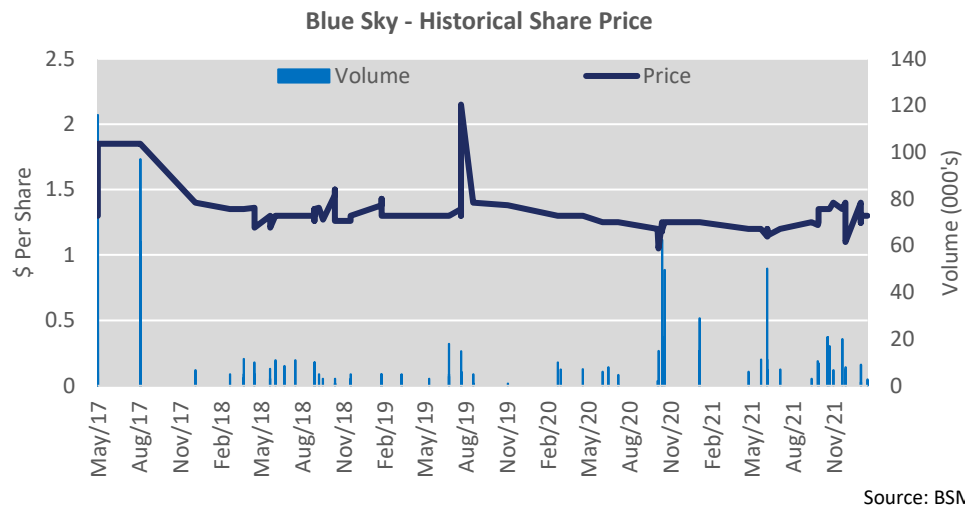
- As set out in Section 5.9 above, BSM's is currently experiencing elevated market conditions which have contributed to in a significant uplift in FY22 profitability. BSM management does not believe that these market conditions are sustainable in the short to medium-term and expects market fundamentals to normalise during FY23, particularly as markets stabilise post Covid-19 and current global tensions impact economic activity.
- However, BSM management also believes that industry dynamics have shifted in recent years, with an increased focus by New Zealand processors on maintaining profit margins and generating an improved return on investment. As such, BSM management expects market fundamentals / profitability to remain above historical averages.
- There is a significant variance between BSM's projected EBITDA and projected free cash flow. This can be attributed to the significant capital expenditure projected over the forecast period (circa \$38¹ million (inflation adjusted)) and also increased investment in working capital. The cash impact of these investments is not reflected in the EBITDA metric.
- Covid-19 represents an industry-wide risk, not only from an operational / short-term production perspective (e.g. staff shortages), but also from a sales / international demand perspective.
- The temporary or permanent loss of a company's export licence is a significant risk for red meat export industry participants, including the Company. BSM has advised it does not anticipate a cancellation of any export licence BSM requires to export products. As such, the Company has prepared its projected financial scenario on the basis that there is no disruption to the business due to loss of key export licences. While the risk of losing a key export licence is not a new risk, we believe this risk is material.
- BSM's projected profitability (based on EBITDA) over the FY23 – FY26 period is below that projected for FY22, however, we highlight that the projected level of profitability remains above what the Company has achieved prior to FY22. Some of this uplift relates to improved market fundamentals, while other aspects relate to specific improvement initiatives (and the associated capital expenditure) being implemented by BSM. In our opinion, BSM's projected profitability carries a moderate to high degree of risk.
- In our opinion, BSM's projected financial scenario indicates that BSM is able to fund its capital expenditure requirements while maintaining a net debt position which is below historical limits (assuming the Company's projected financial scenario is achieved).
- BSM's projected financial scenario demonstrate a reduction in seasonal debt funding when compared to historical data.

5.11 Share Price and Traded Volume

As set out above, BSM's Shares are not traded on a registered stock exchange (such as the NZX). However, the Company is a member of the Unlisted Securities Exchange (**USX**), which facilitates trades between willing buyers and sellers. Notwithstanding this, trading of BSM Shares is often completed "off-market".

Similar to other USX listed companies, trading of BSM shares is infrequent, with very little liquidity. However, over the 12-month period to 3 March 2022, we note an increased level of trading compared to historical volumes, with the traded volume of BSM Shares (excluding related party trades) totalling 239,932 Shares (equivalent to circa 2.08% of the Share on issue). Over the same 12-month period, the volume weighted average share price (**VWAP**) of all trades (both recorded on the USX trading platform and off market trades) equated to \$1.27 per share. The most recent trade took place on 26 January 2022 at a price of \$1.30 per share.

We note the shares traded and VWAP differ to what is mentioned in the Offer Document and Target Company Statement, as we have included on market trades as well as off market trades in this calculation (whereas the Offer Document and Target Company Statement only used on market trades).



On 4 November 2021, Blue Sky paid a bonus to Jim Goodall for the purposes of enabling Jim Goodall to procure that Hikanui Investments Limited acquire 20,834 Blue Sky Shares from HWR, and 20,833 Blue Sky Shares from ALTC (being, in total, 41,667 Blue Sky Shares) at \$1.35 per Blue Sky Share. In addition, during December 2021 and January 2022, HIL purchased a further 8,000 and 9,000 shares, respectively, bringing HIL's total BSM shareholding up to 58,667. This is equivalent to 0.51% of the Shares on issue.

6 VALUATION OF BLUE SKY MEATS

6.1 Valuation Basis and Methodology

Campbell MacPherson considers that the most appropriate valuation approach is to assess the value of 100% of BSM on the basis of fair market value. Fair market value is defined as:

“The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, both acting at arm’s length.”

A range of valuation methodologies can be applied to determine fair market value, including:

- Discounted cash flow (DCF).
- Capitalisation of earnings / dividends.
- Net asset value / liquidation value.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the availability of information, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

A brief summary of potential valuation methodologies is outlined in Appendix I.

6.2 Valuation Approach

We consider that the most appropriate method for assessing the value of the Company is the DCF methodology, which directly takes into consideration the Company’s future free cash flow projections and the associated capital expenditure and working capital requirements. The DCF methodology is applicable to the valuation of businesses where historical / current earnings are not representative of projected future earnings, or significant / non-recurring capital expenditure is projected.

As set out in Section 5.10, BSM’s future earnings, based on the projected financial scenario, are expected to be materially higher than historical performance prior to FY22. BSM is also projecting significant capital expenditure requirements over the short to medium-term which must be considered as part of our valuation assessment.

The results of our DCF valuation analysis, have been cross-checked with reference to the valuation multiples implied by our DCF analysis, and also the Company’s projected net tangible asset backing.

Campbell MacPherson has assessed the fair market value of 100% of BSM as at 31 March 2022.

Covid-19 and International Disruptions

We highlight that Covid-19 has had a significant impact on the New Zealand and global economy and has led to considerable economic uncertainty. This economic uncertainty has been exacerbated globally following recent conflict between Russia and Ukraine.

In the current market environment, which appears to be highly dynamic, both business and economic conditions are rapidly changing. As such, the assessed value of a company may fluctuate over a relatively short period of time due to volatility associated with key valuation assumptions. This is particularly relevant when a company has been valued based on forecast earnings which are underpinned by key economic and commercial assumptions.

6.3 Discounted Cash Flow Valuation – Key Assumptions

Projected Free Cash Flow

Free cash flow reflects the cash generated by a business which is available to be distributed amongst all security holders (e.g. debt and equity providers). Free cash flow is not influenced by a company's capital structure and reflects the required investment in both working capital and capital expenditure. BSM's projected free cash flow has been estimated based on the projected financial scenario prepared by BSM, as discussed in Section 5.10.

We highlight that BSM's projected free cash flow has been prepared on the basis that operating lease payments are included in the free cash flow calculation (i.e. BSM's projections do not allow for the impact of IFRS 16).

Cost of Capital / Discount Rate

The discount rate used to determine the net present value of a company's future free cash flow should represent the company's Weighted Average Cost of Capital (**WACC**). A company's WACC is an average of the cost of debt and equity funding based on a target capital structure, and effectively reflects the risks associated with the company and its cash flow. The discount rate is an important driver of any valuation, and the final enterprise value of a business is often highly sensitive to the discount rate used.

A company's WACC (in particular a company's cost of equity) is not observable and must be assessed based on a number of assumptions, typically with reference to historical market data. However, the availability of relevant market data which is directly applicable to the company being valued can be limited. As a result, key assumptions used to assess a company's cost of equity and WACC are often highly subjective and involve professional judgement.

The Capital Asset Pricing Model (**CAPM**) is a widely accepted and adopted methodology for determining a company's cost of equity. However, fundamentally, the valuation of a company is an estimate of what value a willing buyer and willing seller would ascribe to a business, and as such, key valuation assumptions need to align with the expectations of market buyers and sellers of such business assets. A company specific risk premium (based on professional opinion) is often built into the CAPM / cost of equity calculation.

Campbell MacPherson has used the simplified Brennan-Lally CAPM in determining an appropriate cost of equity for BSM. We have also considered our assessment of the Company's risk profile, and the perceived risks associated with the Company's projected financial performance.

For the purpose of assessing the value of BSM, Campbell MacPherson has adopted a WACC ranging from 13.0% to 14.5%.

As highlighted in Section 4 and 5 of this Report. Key risks faced by the BSM business presently include:

- A correction of current market fundamentals, where current conditions are not considered sustainable. The extent and timing of any correction (by way of reduced margins for meat processors) remains uncertain. We also highlight the risk of future volatility in meat processor profits as industry dynamics continue to evolve.
- Global uncertainty and the potential economic and political impact of the current conflict between Russia and Ukraine (e.g. broadening of sanctions to include China if China seek to support the Russia militarily).
- Currently, a significant amount of BSM's product is exported and, therefore, the importance of BSM maintaining its licence to export product to international customers is significant.
- The successful execution of a significant capital expenditure programme, and the ability of BSM's to derive the expected operational and financial benefits. We also highlight risks around BSM's ability to fund this capital expenditure if projected profits / cash flow are not achieved.
- Ongoing international supply chains risks and disruptions.
- The ability to attract and retain skilled labour over the medium to long-term.
- The near-term impact of Covid-19 on BSM's staff and operational output.
- BSM being able to maintain increased procurement / stock volumes over the long-term.

Terminal Value / Terminal Growth Rate

The terminal value of a company represents the net present value of its free cash flow realised beyond the explicit forecast period. In order to determine the net present value of BSM's free cash flow beyond FY26, an assumption must be made in relation to the future growth of the Company's free cash flow beyond the forecast period.

For the purposes of this valuation, we have assumed a terminal growth rate of 2.0% per annum beyond FY26.

BSM's terminal value has been estimated based on projected free cash flow beyond FY26, assuming a sustainable level of capital expenditure following the completion of the proposed \$38¹ million capital expenditure plan.

Net Debt for Valuation Purposes

In order to calculate the equity value of BSM, Campbell MacPherson has deducted net debt of \$7.51 million from our assessed enterprise value.

Our assessed net debt position for valuation purposes is based on the Company's projected financial position as at 31 March 2022 as per the projected financial scenario provided by BSM. We highlight that BSM's projected net debt position as at 31 March 2022 is lower than previous years as a result of strong operating cash flow.

Consistent with our calculation of free cash flow, any lease liabilities (as established under IFRS 16) have been excluded from our net debt calculation.

Surplus Assets

Campbell MacPherson has been advised by BSM that the Company owns the following assets which are deemed to be surplus assets for the purposes of this valuation:

- 6,204 ETS units – which have an assumed value of \$0.46 million based on an assumed ETS unit price of \$73.50. The sale of these units has been built into the Company's projected free cash flow, and is therefore reflected in our assessed enterprise value. No further adjustment is required.

These ETS units are not included in BSM's projected financial position as at 31 March 2022 (as set out in Section 6.6 below).

6.4 Assessed Value of BSM – DCF Methodology

Using the DCF methodology and the assumptions set out above, Campbell MacPherson has assessed the enterprise value of BSM to be in the range of \$43.51 million to \$49.84 million.

After allowing for BSM's projected net debt position, Campbell MacPherson's has assessed the value of 100% of BSM's ordinary equity to be in the range of \$36.00 million to \$42.33 million. This is equivalent to \$3.12 to \$3.67 per share (with a mid-point of \$3.40 per share).

BSM - DCF Valuation Results		
\$000's	Value Range	
	Low	High
Enterprise Value	43,509	49,840
Less Net Debt	(7,512)	(7,512)
Equity Value (100%)	35,997	42,328
Midpoint	39,163	
Shares Outstanding (000's)	11,526	11,526
Assessed Value per Share (\$)	3.12	3.67
Midpoint (\$)	3.40	

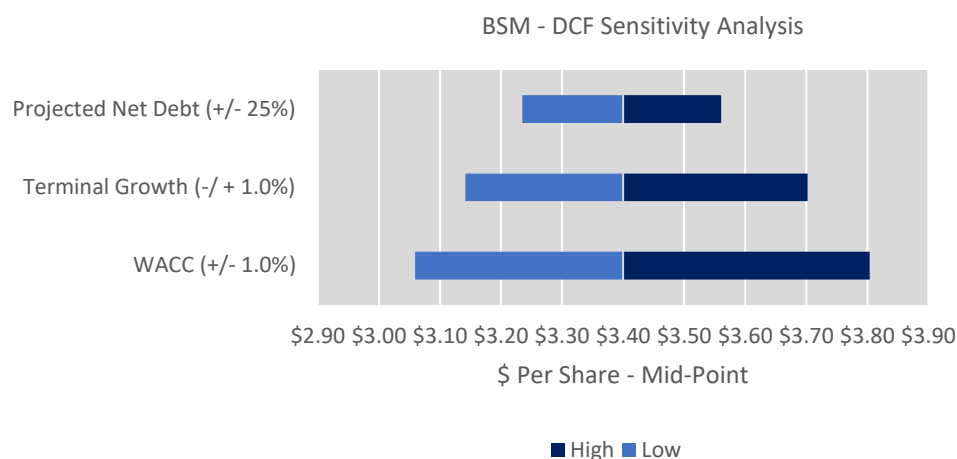
Source: Campbell MacPherson analysis.

Our assessed value range is inclusive of a premium for control and therefore reflects the value of 100% of the Company. In the absence of a takeover offer for 100% of the Company, we would not expect BSM's traded share price to reflect this valuation. Shares of listed companies typically trade at a discount to the underlying value of the company, reflecting the lack of control inherent in a minority position.

Sensitivity Analysis

We have summarised below the impact of adjusting key valuation assumptions on the mid-point of our assessed value range per Share for BSM. The following adjustments have been made (keeping all else equal):

- WACC: +/- 1.0%.
- Terminal growth rate: +/- 1.0%.
- Projected Net Debt: + / - 25%.



Source: Campbell MacPherson Analysis

6.5 Valuation Cross-Check – Capitalisation of Earnings

The results of our DCF valuation have been cross-checked using the Capitalisation of Earnings approach. Our assessed Enterprise Value (based on the DCF methodology) implies the following earnings multiples over the FY21 to FY23 period.

BSM - Implied Multiple Analysis			
	Historical	Projected	
	FY21	FY22	FY23
EBITDA ¹ - \$M's	9.1	20.5	11.9
Implied EV / EBITDA - Low	4.8	2.1	3.7
Implied EV / EBITDA - High	5.5	2.4	4.2

1. BSM's FY21 and projected FY22 EBITDA has been normalised for the purpose of calculating the implied valuation multiples. The impact of losses associated with the Gore plant, foreign exchange adjustments, the sale of BSM's ETS units and other one-off costs have been removed. The above FY21 and projected FY22 EBITDA differs to that reported in Section 5.9 and 5.10 as a result of these normalisations.

Source: Campbell MacPherson analysis.

We highlight that the following factors must be taken into consideration when interpreting the implied multiples set out above.

- BSM's FY22 EBITDA is not considered to be sustainable over the near-term. As such the implied forward FY22 multiple is lower than the implied forward FY23 multiple.
- BSM's projected financial scenario demonstrates profitability / EBITDA over the FY22 to FY26 period which exceeds the reported FY21 result.
- BSM's significant capital expenditure requirements over the forecast period are reflected in our assessed Enterprise Value (by way of reducing free cash flow). This cash outlay is not captured in the reported EBITDA figures, contributing to the implied multiples being significantly lower than if BSM's near-term capital expenditure requirements were more consistent with a long-term sustainable level of annual capital expenditure (which would contribute to a higher enterprise value).

The above factors make it difficult to draw a meaningful conclusion when comparing BSM's implied EBITDA multiples with available market data. However, for completeness we have presented this data.

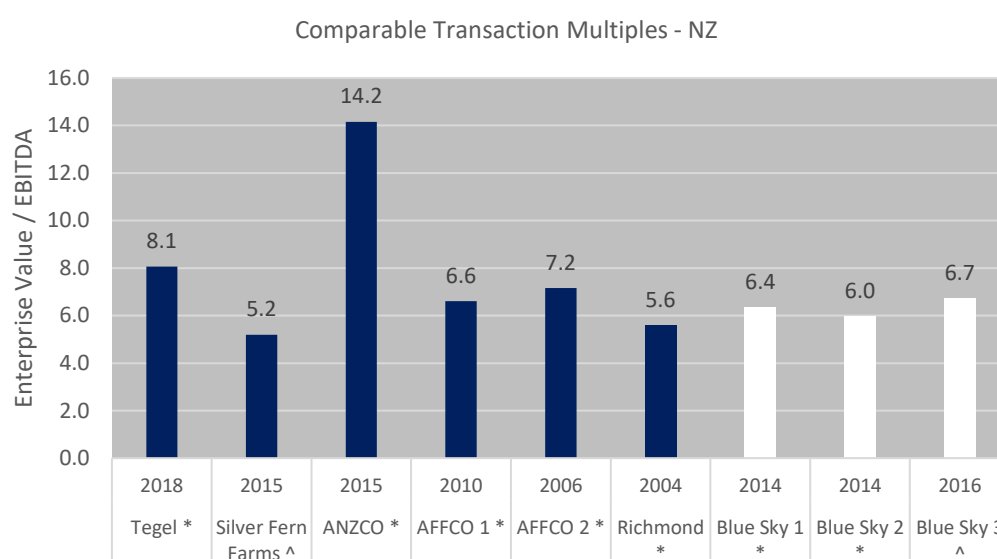
We have summarised below market data for both transaction multiples and trading multiples. Further information is set out in Appendix II.

Comparable Valuation Multiples

Campbell MacPherson has reviewed a range of transactions (and the implied valuation multiples) across the meat processing and meat products sector in both New Zealand and internationally. We have also reviewed trading multiples for selected meat processing and meat products companies internationally.

As set out in Appendix I multiples derived from comparable transactions are often more relevant than comparable trading multiples when assessing the fair market value of 100% of a company.

Transaction Multiples – New Zealand



* Based on historical earnings.

^ Based on forecast or assumed sustainable earnings.

Source: Capital IQ, public reports and Campbell MacPherson analysis.

Major transactions in the New Zealand meat processing industry include:

- PPCS' successful takeover of 100% of Richmond in 2004.
- Talley's acquisition of an additional 10.01% shareholding in AFFCO in 2006 (taking its total shareholding to 50.01%).
- Talley's successful takeover of 100% of AFFCO in 2010.
- Itoham Foods' acquisition of an additional 16.7% shareholding in ANZCO in 2015 (taking its total shareholding to 65%). Itoham Foods subsequently increased its shareholding to 100% in 2017 (however valuation metrics were not publicly available).
- Shanghai Maling's \$261 million investment in Silver Fern Farms, representing a 50% shareholding.
- Bounty Fresh Foods takeover of NZX listed Tegel Group in 2018.

We have also reviewed three relevant transactions involving BSM:

- In January 2014, Lowe Corporation entered into a conditional agreement to acquire an additional 14.4% shareholding in BSM from H.W Richardson Group at a price of \$1.71 per share (taking its total shareholding to 32.4%). This transaction was not approved by the Board and was therefore not able to be completed. However, we note that there was both a willing buyer and a willing seller at this price.
- In April 2014, Blue Star acquired an 11.25% shareholding in BSM at a price of \$1.84 per share.
- In November 2016 NZ Binxi made a full takeover offer for BSM at a price of \$2.20 per share. Despite receiving strong acceptances from BSM shareholders, NZ Binxi withdrew from the process, citing Overseas Investment Office approval not being received by a set date and also a material adverse change in BSM's value.

We note that, the 2014 Lowe Corporation and Blue Star transactions are unlikely to include a premium for control given the acquirer's shareholding post transaction would have been less than 50%.

The above implied EBITDA multiples range from 5.2x to 8.1x (excluding the ANZCO transaction). The ANZCO EBITDA multiple is significantly higher than the other transactions summarised above, and has been treated as an outlier for the purposes of our analysis.

The reported implied EBITDA multiples for the three BSM transactions range from 6.0x to 6.7x. We note that the most recent implied EBITDA multiple of 6.7x in 2016 associated with the NZ Binxi takeover offer (which ultimately did not proceed), was based on assumed sustainable EBITDA (as opposed to historical EBITDA).

Transaction Multiples – International

For comparative purposes Campbell MacPherson has also reviewed a range of international transactions in the meat processing industry. However, when considering international transactions / data, a range of factors must be taken into consideration including political, regulatory and economic factors, which can make direct comparison difficult. Further information is set out in Appendix II.

International Transaction Multiples - Meat Processing / Meat Products	
Sample Size	18
Average enterprise value (\$M)	3,183
Median enterprise value (\$M)	1,577
Average Historic EV/EBITDA multiple	6.3
Median Historic EV/EBITDA multiple	7.0

Source: Capital IQ

Trading Multiples

Campbell MacPherson has also considered trading multiples for listed companies in the international meat processing / meat products industry. However, it is important to note that trading multiples are calculated based on a company's traded share price, and therefore, do not include a premium for control. Shares typically trade at a discount to the underlying value of the company, reflecting the lack of control inherent in a minority position. We again highlight that caution must be applied when considering international data. There are no comparable meat processing companies listed on the NZX.

International Transaction Multiples - Meat Processing / Meat Products

Sample Size	18
Average market cap (\$M)	6,658
Median market cap (\$M)	2,212
Average historical EV/EBITDA multiple	6.9
Median historical EV/EBITDA multiple	6.7
Average forecast EV/EBITDA multiple	6.0
Median forecast EV/EBITDA multiple	6.1

Source: Capital IQ

6.6 Valuation Cross-Check – Net Tangible Assets

The results of our DCF valuation have also been cross checked against the Company's net tangible asset backing. The value of a company's net tangible assets is often used as a guide to set a lower limit on the value of a company, as businesses are seldom sold for below the value of their net tangible assets, unless they are under operating or financial distress. However, given the specialist nature of BSM's fixed asset base, the market value of the Company's net tangible assets (without considering the associated profits which could be generated from these assets) could be less than book value, particularly given historical underinvestment in the Company's asset base.

Campbell MacPherson has assessed the value BSM's net tangible assets based on projected book values as at 31 March 2022 (as per BSM's projected financial scenario as described in Section 5.10). BSM's actual financial position as at 31 March 2022 was not available as at the date this Report was finalised.

BSM – Projected Net Tangible Asset Analysis	
\$000's	Mar-22
Projected Net Tangible Assets ¹	35,802
Plus assumed value of ETS Units ²	456
Adjusted Net Tangible Asset Value	36,258
Shares Outstanding (000's)	11,526
Adjusted Net Tangible Asset Value per Share (\$)	3.15

1. Adjusted to exclude projected unrealised profits on inventory of circa \$1.2 million.

2. Not included in BSM's projected financial position.

Source: BSM's projected financial scenario and Campbell MacPherson analysis.

As summarised above, the projected book value of BSM adjusted net tangible assets as at 31 March 2022 is \$36.3 million, which equates to \$3.15 per Share.

On the basis that BSM's adjusted net tangible asset backing is in line with the lower limit of our assessed equity value based on the DCF methodology, we have not considered the net tangible asset methodology any further. As set out above, the value of a company's net tangible assets is often used as a guide to set a lower limit on the value of a company.

Overview

SLI was established in December 2021, and we believe it was established with the intention of making a bid for acquiring BSM. The company is 50% owned by ODFI and 50% owned by ALTC. ODFI is controlled by Scott and Jocelyn O'Donnell. Both Andrew Lowe and Scott O'Donnell are currently Directors of BSM. Through direct and / or indirect shareholdings they each hold a substantial shareholding in BSM:

- ALTC holds 2,075,853 BSM Shares (18.01%).
- HWR holds 1,929,290 Shares (16.74%)

O'Donnell and Richardson Family Interests

The O'Donnell and Richardson Family have broad commercial interests throughout New Zealand and in Australia. The HWR Group employs over 2,500 people. Within New Zealand they are a leading ready mix concrete company through Allied Concrete. In petrol and oil supply they are a significant player on both sides of the Tasman through Allied Petroleum. Throughout New Zealand they own and operate a wide range of road transport companies including Farmers Transport, Freight Haulage, Ryal Bush Transport, Herbert Transport, Allied Bulk etc.

During the past decade they have also been a catalyst to help rejuvenate / rebuild the CBD of Invercargill and actively promote the tourism benefits of the region including owning the Bill Richardson Transport Museum. They have other business interests in the quarrying and waste collection sectors.

Currently O'Donnell and Richardson Family interests provide BSM with road transport services for livestock cartage which for FY21 was valued at \$4.7 million (YTD FY22 valued at \$2.8 million, including GST). In addition, Reece Oliver, a director of Southern Lamb Investments was seconded to BSM from March 2021 to July 2021 in the role of Interim CEO. Scott O'Donnell is Chairman and Director of both BSM and HWR.

Andrew Lowe Interests

Graeme Lowe founded the Lowe Corporation based in the Hawkes Bay in 1964. Lowe Corporation is widely recognised in the New Zealand meat industry as a leader in the animal by-products sector. In the past decade their focus has increased on the production and exports of hides, skins and pelts from both sheep and cattle. They continue to trade and broker the sale and export of bone & bone meal, proteins and tallow etc.

Andy Lowe took over leadership of the family business in 2008 and also runs a portfolio of farming and property interests. Lowe Corporation make significant contributions to the community as the lead sponsor of the regional rescue 24-hour helicopter service and Hawkes Bay Rugby. In 2016 Andy Lowe was awarded the NZ Order of Merit for his services to conservation. This was in recognition of his leadership in the establishment of the Cape Sanctuary, which involved fencing and creating a 2,500 hectare pest and predator-free sanctuary at Cape Kidnappers to protect native bird life there.

Lowe Corporation currently purchases pelts and skins from BSM and also sells certain by-products on commission. During FY21, Lowe Corporation made purchases of circa \$2.7 million from BSM (YTD FY22 valued at circa \$2.1 million, including GST) and received circa \$0.3 million in commissions from BSM.

APPENDIX I. VALUATION METHODOLOGIES

Discounted Cash Flow Methodology

The Discounted Cash Flow (**DCF**) methodology estimates the value of a company based on the net present value (**NPV**) of its future free cash flows, recognising the time value of money and company specific risk factors. The DCF method requires management to prepare detailed, long-range cash flow projections for the business, together with an assessment of the cost of capital or “discount rate” that should be applied to determine the NPV of those cash flows. The NPV of a company’s free cash flow represents the value of the business as a whole, prior to considering how the company is financed (commonly referred to as enterprise value or **EV**). Net debt and the value of any non-voting and/or preferential equity instruments is then deducted to determine the ordinary equity value of the business.

The EV of a company determined by the DCF method is usually calculated in a two-stage process which combines the NPV of expected future free cash flow over an explicit forecast period and a terminal value representing the NPV of free cash flow beyond that period. Valuations derived using the DCF method are often highly sensitive to the cost of capital and the terminal value.

Capitalisation of Earnings Methodology

The capitalisation of earnings methodology is an adaptation of the DCF methodology. It requires an assessment of the future sustainable earnings of the business and the selection of a capitalisation rate (or earnings multiple) appropriate for that particular business. This method is based on the principle that comparable companies engaged in similar business activities will have similar operating and financial risks and returns and can therefore be valued using a similar multiple of earnings.

The advantage of the capitalisation of earnings methodology over the DCF methodology is that earnings multiples can often be directly observed in the market. A multiple is often applied to earnings before interest, tax, depreciation and amortisation (**EBITDA**) or earnings before interest and tax (**EBIT**) in order to determine the enterprise value of the business. The capitalisation of earnings methodology is generally most appropriate for established companies with stable earnings.

Comparable multiples are generally derived using two key sources of information:

- Earnings multiples based on recent transactions of comparable companies.
- Earnings multiples based on the current share price of comparable listed companies.

Multiples derived from comparable transactions are often the most relevant when determining the fair market value of 100% of a company. However, this data is often confidential and can be difficult to obtain due to its commercial sensitivity. Earnings multiples calculated using the current share price of comparable listed companies are generally easier to obtain, but are typically less relevant as issues of size, liquidity and the implicit minority discount must be taken into consideration.

Capitalisation of Dividends Methodology

The capitalisation of dividends method is similar to the capitalisation of earnings approach and is generally used to value minority equity shareholdings. This method involves a direct determination of the equity value of a company using an assessment of its future maintainable dividends. The future maintainable dividends are capitalised using an appropriate dividend yield to determine the equity value per share. This method is often used in situations where minority share parcels of stable dividend paying companies are being valued.

Asset-based Methodologies

An asset-based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them.

A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

APPENDIX II. TRANSACTION AND TRADING VALUATION MULTIPLES

Comparable Listed International Companies

HKScan: Operates from Finland and produces and sells poultry, beef, pork and lamb products for varying food sectors across Scandinavia in addition to exporting to over 50 countries.

JBS: A conglomerated based out of São Paulo, Brazil, JBS processes and exports beef, pork, chicken and lamb worldwide.

Marfrig Global Foods: Based in São Paulo, Brazil, Marfrig Global Foods processes, distributes and sells beef, lamb, fish and other plant-based proteins (in addition to frozen vegetables and sauces).

Minerva: Operating over 25 plants across Brazil, Paraguay, Argentina, Uruguay and Colombia, Minerva specialises in the processing (i.e. slaughtering and deboning) and sale of beef, livestock and by-products.

Tyson Foods: Tyson Foods operates through four segments; beef, chicken, pork and prepared foods, selling directly to grocery retailers and wholesalers across the United States as well as exporting their products. Tyson Foods processes live cattle, raises and processes chickens and sells ready to eat products such as sandwiches, pepperoni, bacon and prepared meals.

WH Group: Based out of Hong Kong, WH Group is involved in the processing and distribution of meat products (primarily pork) across China, the United States and Europe.

Hilton Food Group: A worldwide company that engages in food processing and packing for products such as steaks, chops and mince, in addition to offering value-added products consisting of barbecue ranges, marinated meats and serving sauces.

Inghams Group: Inghams Group (listed on the Australian Stock Exchange in 2016) processes and sells chicken and turkey products across Australia and New Zealand.

Pilgrim's Pride Corp: Operating out of the United States, Pilgrim's Pride Corp engages in the processing and distribution of varying chicken and pork products. Pilgrim's Pride Corp services multiple international customers across Europe, Asia, the United States and the Middle East.

Sanderson Farms: Based out of Mississippi, Sanderson Farms operates a fully integrated chicken farming and processing business, primarily servicing domestic retailers, distributors and casual dining operators.

NH Foods: NH Foods operates as a vertically integrated, multi-meat business based in Japan. NH Foods engages in the processing and packing meat products.

BRF: As one of the largest global food companies, supported by 95,000 employees, BRF primarily engages in the raising, slaughtering, processing and distribution of pork and poultry products in addition to producing frozen ready to eat products. BRF is based on Brazil.

Itoham Yonekyu: Formerly known under two separate companies (Itoham Foods Inc. and Yonekyu Corporation), after a merger in 2016, Itoham Yonekyu now operates as a processor and distributor of meat products across Japan. In 2017, Itoham Foods subsequently increased its shareholding in ANZCO Foods to 100%.

Starzen Company: Starzen Company engages in the processing and distribution of a multitude of various meat products both domestically within Japan and across the globe.

Atria Oyj: Based out of Finland, Atria Oyj produces and markets various meat and food products across multiple brand names. In addition, Atria exports beef, pork, turkey and chicken products.

Scandi Standard: Scandi Standard specialises in the farming, slaughtering, marketing and distribution of poultry products across Sweden, Finland, Norway, Ireland and Denmark.

Dongwoo: Operating out of South Korea, Dongwoo engages in the hatching, breeding, slaughtering, processing and distribution of chicken products. Dongwoo is known for their farm to table approach.

Maniker F&G: Specialises in the processing and marketing of various frozen / chilled meat and retorted food products across South Korea, in addition to exporting products to the United States.

Gobarto: Based in Poland, Gobarto focuses on the slaughtering, production and distribution of pork, beef, poultry, and game in Poland and internationally. Gobarto also operates a cattle breeding farm.

Trading Multiples - Meat Processing / Meat Products						
Company	Country	Market Cap (\$M)	Historical		Forward	
			EV/EBIT	EV/EBITDA	EV/EBIT	EV/EBITDA
Hilton Food Group plc	United Kingdom	1,774	17.7	9.7	17.8	10.5
HKScan Oyj	Finland	222	27.4	6.6	n/a	n/a
JBS S.A.	Brazil	23,754	5.3	4.3	6.8	4.8
Marfrig Global Foods S.A.	Brazil	3,907	3.0	2.7	4.3	3.5
Minerva S.A.	Brazil	1,913	6.0	5.2	5.9	4.9
Tyson Foods, Inc.	United States	46,579	7.6	5.7	10.2	7.9
WH Group Limited	Hong Kong	12,258	8.8	5.8	5.2	4.1
Inghams Group Limited	Australia	1,211	17.4	7.0	16.5	6.9
Pilgrim's Pride Corporation	United States	8,254	46.0	13.2	9.8	7.0
Sanderson Farms, Inc.	United States	5,859	5.7	2.9	5.4	4.3
NH Foods Ltd.	Japan	5,314	9.9	6.3	12.4	7.0
BRF S.A.	Brazil	4,831	10.8	6.8	12.3	6.3
Itoham Yonekyu Holdings Inc.	Japan	2,511	7.9	5.2	8.9	5.8
Starzen Company Limited	Japan	497	10.3	7.7	n/a	n/a
Atria Oyj	Finland	446	37.6	7.2	10.8	4.9
Scandi Standard AB (publ)	Sweden	335	20.3	7.6	15.7	6.8
Dongwoo Farm To Table Co.,Ltd	South Korea	99	19.6	9.2	n/a	n/a
Maniker F&G Co., Ltd.	South Korea	81	33.5	12.0	n/a	n/a
Average		6,658	16.4	6.9	10.1	6.0
Median		2,212	10.6	6.7	10.0	6.1

Source – Capital IQ. Data as at March 2022

Comparable Transactions – New Zealand

Richmond (2004): PPCS (now known as Silver Fern Farms) successfully bought out the remaining 37% of Richmond in 2004. Silver Fern Farms is discussed in detail within Section 4. This was a hostile takeover embroiled in legal proceedings.

AFFCO (2006): Talley's acquired an additional 10.01% shareholding in AFFCO during 2006 for approximately 39 cents per share (taking its total shareholding to 50.01%). AFFCO is discussed in detail within Section 4.

AFFCO (2010): Following the Talley's further investment in AFFCO during 2006, the Talley's completed a successful takeover for 100% of AFFCO in 2010. AFFCO is discussed in detail within Section 4.

ANZCO (2015): As profiled above, Itoham Foods made multiple advances in their shareholding of ANZCO over a two-year period, acquiring an additional 16.7% shareholding in ANZCO in 2015 (taking its total shareholding to 65%). Itoham Foods subsequently increased its shareholding to 100% in 2017. ANZCO is discussed in detail within Section 4.

Silver Fern Farms (2016): In late 2015 SFF shareholders approved a deal with Chinese company Shanghai Maling to invest \$260 million to acquire a 50% shareholding in SFF. The investment was structured so that SFF would remain a 100% farmer-controlled cooperative. Silver Fern Farms is profiled in detail within Section 4.

Tegel Group (2018): During 2018, Bounty Fresh Foods (BFF) completed the takeover of NZX listed Tegel Group offering \$1.23 per share (a premium to the previously traded price of \$0.82 per share), plus further performance rights. After the offer closed, BFF had circa 96% of Tegel shares and in September 2018 gave notice to the remaining shareholders that BFF was exercising their compulsory acquisition rights. BFF is based in the Philippines and specialises in various meat products including poultry, pork and beef.

New Zealand Transaction Multiples - Meat Processing / Meat Products					
Target	Acquirer	Date Announced	Implied EV (\$M)	Implied EV/EBIT	Implied EV/EBITDA
Tegel Group	Bounty Fresh Food	Apr-2018	574	11.0	8.1
Silver Fern Farms ¹	Shanghai Maling	Sep-2015	503	7.3	5.2
ANZCO	Itoham Foods Inc.	Feb-2015	424	23.2	14.2
AFFCO	Talley's Group	Jun-2010	267	10.0	6.6
AFFCO	Talley's Group	Mar-2006	283	10.5	7.2
Richmond	PPCS	Jun-2004	285	n/a	5.6
<u>Blue Sky Transactions</u>					
Blue Sky ^{2, 3}	Blue Star Corporation	Apr-2014	26	8.5	6.4
Blue Sky ^{2, 3, 4}	Lowe Corporation	Jan-2014	24	8.0	6.0
Blue Sky ^{5, 6}	NZ Binxi	Nov-2016	43	8.2	6.7
Average			270	10.8	7.3
Median			283	9.2	6.6
Average (excl ANZCO)			251	9.1	6.5
Median (excl ANZCO)			275	8.5	6.5

1. Silver Fern Farm's transaction multiples are based on forecast earnings for the 12 month period ending 30 September 2015.

2. Blue Sky's transaction multiples are based on actual earnings for the 12-month period ending 31 March 2014.

3. Blue Sky's implied enterprise value has been estimated based on the Company's seasonally adjusted net debt position as at March 2014.

4. This transaction was not approved by the Board and was therefore not completed.

5. Blue Sky's implied enterprise value has been estimated based on the Company's seasonally adjusted net debt position as at September 2016

6. Transaction multiples are based on sustainable EBITDA as assumed in the associated Independent Adviser's Report dated November 2016

Source: Capital IQ and publicly available data.

Comparable Transactions – International

Transaction Multiples - Meat Processing / Meat Products						
Target	Country (Target)	Acquirer	Date	Implied EV (\$M)	Historical	
					Implied EV/EBIT	Implied EV/EBITDA
Pilgrim's Pride Corp (Cancelled)	United States	JBS	Aug-2021	14,107	14.5	8.2
Sanderson Farms (Announced)	United States	Cargill and Continental Grain	Aug-2021	6,290	10.1	4.2
National Beef Packing	United States	Marfrig Global Foods	Nov-2019	5,067	5.3	4.6
Quickfood S.A. Yonekyu Corporation	Argentina	Marfrig Global Foods	Dec-2018	96	8.4	7.1
Cargill Pork	Japan	Itoham Foods	Sep-2015	620	6.9	5.2
Moy Park	United States	JBS	Jul-2015	2,146	n/a	6.8
Polski Koncern Miesny	United Kingdom	JBS	Jun-2015	2,176	n/a	0.0
Campofrio Food Group	Poland	Cedrob	May-2015	124	14.5	7.5
Smithfield Foods National Beef Packing	Spain	Sigma Alimentos	Nov-2013	1,203	11.6	5.7
		Henan Luohe Shuanghui Industry Group	May-2013	8,569	13.3	9.2
	United States	Leucadia National Corporation	Dec-2011	1,996	5.7	4.8
Keystone Foods	United States	Marfrig Global Foods	Jun-2010	1,795	n/a	n/a
Tasman Group	Australia	JBS	Mar-2008	186	n/a	5.6
Smithfield Beef Group	United States	JBS	Mar-2008	720.4	n/a	8.3
Sokolow		Leverandørselskabet Danish Crown and HK Ruokatalo Group	Apr-2006	309	17.1	7.9
Swift Foods Company	Poland					
BHJ	United States	Hicks, Muse, Tate & Furst	Sep-2004	1,359	33.9	7.4
IBP Inc	Denmark	The Lauridsen Group	Sep-2004	202	15.1	7.0
	United States	Tyson Foods	Dec-2000	10,333	12.1	8.2
Average				3,183	13.0	6.3
Median				1,577	12.1	7.0

APPENDIX III. INFORMATION, DISCLAIMER & INDEMNITY

a Sources of Information

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

- The draft Target Company Statement.
- SLI's takeover offer document dated 18 March 2022.
- BSM audited annual reports for the years ended 31 March 2018 – 2021.
- Financial Projections for BSM through to 30 June 2026.
- Recent BSM Board Reports.
- New Zealand Companies Office records.
- Various market announcements by BSM via the USX.
- Publicly available information on BSM.
- Capital IQ (share price data and company financials).
- Correspondence and / or discussions with the Directors and Senior Management of BSM and the Company's legal and accounting advisers.
- A range of publicly available industry reports and data sets.

During the course of preparing this Report, we have had discussions with and/or received information from the Directors who are not associated with the Offeror, and senior management of BSM.

The Independent Directors of BSM have confirmed that we have been provided, for the purpose of this Report, with all information relevant to the Offer that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Report. In our opinion, the information set out in this Report is sufficient to enable the Independent Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision.

b Reliance on Information

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

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

c Disclaimer

We have prepared this Report with care and diligence and the statements in this Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

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

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

We have had no involvement in the preparation of the Target Company Statement issued by BSM and have not verified or approved the contents of the Target Company Statement. We do not accept any responsibility for the contents of the Target Company Statement except for this Report.

d Indemnity

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

APPENDIX IV. QUALIFICATIONS, DECLARATIONS & CONSENTS

a Qualifications

Campbell MacPherson Limited

Campbell MacPherson is a private New Zealand-owned investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations. Further information on Campbell MacPherson can be found on our website www.campbellmacpherson.com.

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Stephen Burns, and Brad Caldwell. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

Alistair Ward B.Com (Hons), M INST D, AFNZIM

Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

Stephen Burns B.Sc, B.M.S., Dip.Com (Accounting), C.A, CM Inst D.

Stephen together with Alistair Ward formed Campbell MacPherson in 2002. Stephen was formerly a senior executive with the ANZ Banking Group in New Zealand and prior to that was Director - Debt Securities for Auckland investment bank, Northington Partners.

Stephen has over 25 years blue-chip experience in corporate and investment banking in New Zealand and the United Kingdom, covering property, corporate and structured finance roles. As a Principal of Campbell MacPherson, he has considerable experience in mergers and acquisitions, corporate valuation and all aspects of debt and equity financing, including management/leveraged buyouts, general corporate and project and development funding.

Stephen is a Chartered Accountant and is affiliated to a number of other professional bodies, including being a Chartered Director by the Institute of Directors in New Zealand (Inc).

Brad Caldwell *B.Com, M.Bus*

Brad joined Campbell MacPherson in 2010 and has worked on numerous corporate advisory assignments including mergers and acquisitions, capital raising and other projects. His expertise includes valuation, financial modelling and market/industry research.

Brad is a graduate of the University of Otago where he completed a Bachelor of Commerce, majoring in finance, followed by a Masters in Business, majoring in finance.

b Independence

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with BSM or the Offeror that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Offer nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

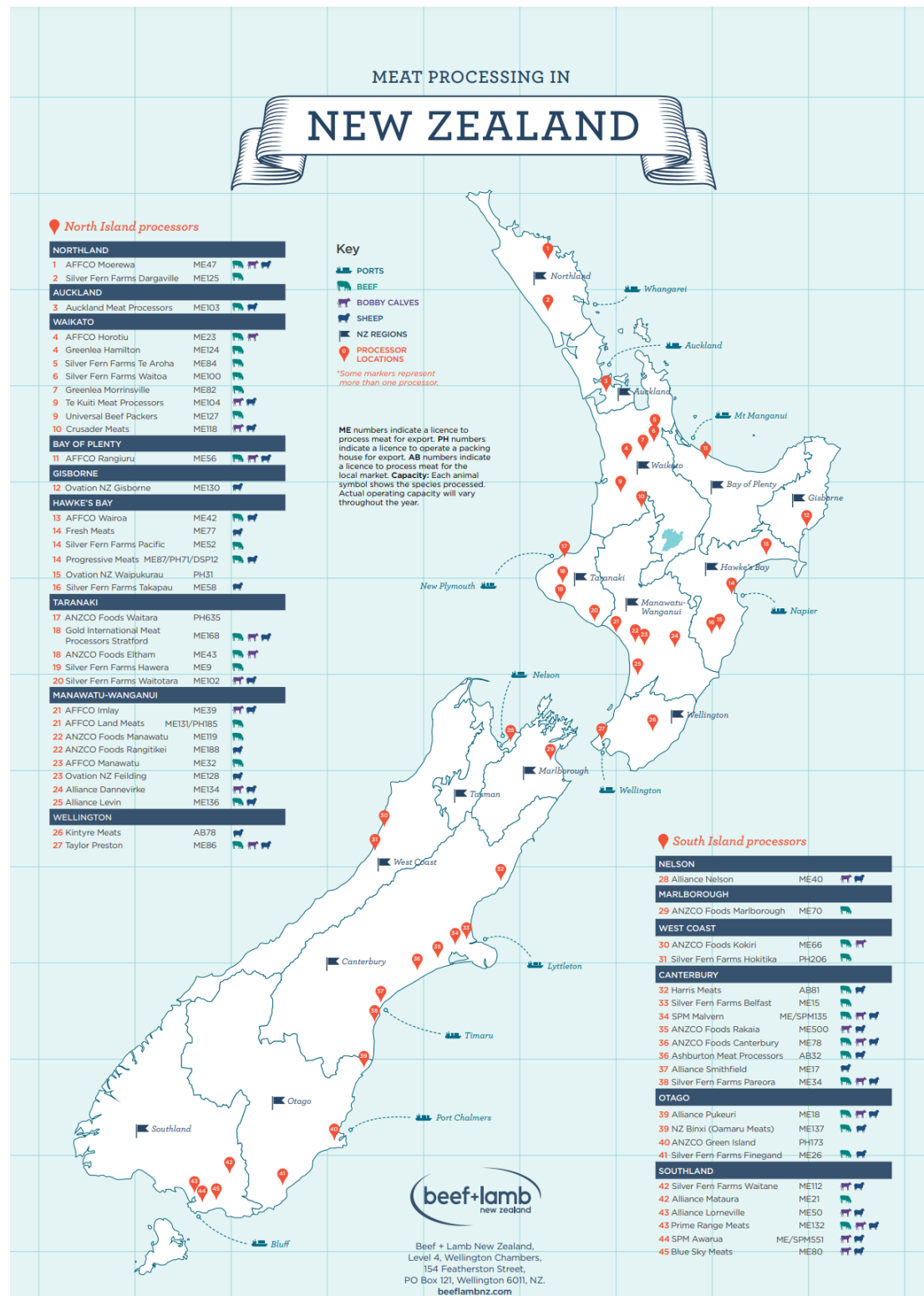
c Declarations

Advance drafts of this Report were provided to the BSM Independent Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson. Our terms of reference for this engagement did not contain any term which materially restricted the scope of this Report.

d Consents

We consent to the issuing of this Report in the form and context in which it is to be included in the Target Company Statement to be sent to BSM's shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

APPENDIX V. CURRENT NZ MEAT PROCESSORS



Glossary

TERM	DEFINITION
Binxi	NZ Binxi (Oamaru) Foods Limited
Blue Sky	Blue Sky Meats (N.Z.) Limited
Blue Sky Shares	The fully paid ordinary shares in Blue Sky
Blue Star	Blue Star Corporation Limited
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY21	Blue Sky's financial year ended 30 June 2021
FY22	Blue Sky's financial year ending 30 June 2022
FY23	Blue Sky's financial year ending 30 June 2023
Independent Adviser	Campbell MacPherson Limited
Independent Adviser's Report	The report prepared by the Independent Adviser on the merits of the Offer under Rule 21 of the Takeovers Code
Independent Committee	The Independent Committee of Directors, comprising Sarah Brown and Melvin Sutton
Lock Up Agreement	Lock up agreements dated 10 February 2022, 11 February 2022 and 5 January 2022 between Southern Lamb and each of Lowe as trustee of The Andrew Lowe No.2 Trust, Richardson's and Blue Star
Lowe	Andrew Lowe Trustee Company No. 2 Limited
Offer	The full takeover offer made by Southern Lamb under the Takeovers Code for all of the Blue Sky Shares
Offer Document	Southern Lamb's Offer Document dated 18 March 2022 which sets out the full terms and conditions of the Offer
Richardson's	H. W. Richardson Group Limited

TERM	DEFINITION
Southern Lamb	Southern Lamb Investments Limited
Southern Lamb Shares	Any class of equity security of Southern Lamb

Directory

Board of Directors	<p>Scott O'Donnell (Chair)</p> <p>Sarah Brown (Chair of the Independent Committee)</p> <p>Andrew Lowe</p> <p>Melvin Sutton</p> <p>Arron Hoyle</p>
Independent Adviser	Campbell MacPherson Limited
Legal Adviser	Harmos Horton Lusk Limited
Share Registry	McCulloch + Partners, Chartered Accountants
Postal Address	<p>Blue Sky Meats (N.Z.) Limited</p> <p>C/- McCulloch + Partners, Chartered Accountants</p> <p>Level 1, 20 Don Street</p> <p>Invercargill 9810</p> <p>NEW ZEALAND</p>
Contact Phone Number	<p>(03) 231 3421 or</p> <p>(09) 366 6234</p>
Website	www.bluesky.co.nz