Auckland
+64 9 913 4600
Level 26, 151 Queen St
PO Box 105-384
Auckland 1143

Christchurch
+64 3 378 2105
L4, 70 Gloucester Street
PO Box 13-804
Christchurch 8011

www.northington.co.nz

2 October 2020

The Board of Directors
The New Zealand Merino Company Limited
Level 2, 123 Victoria Street
Christchurch 8013

Dear Directors

NZM Valuation Summary

1.0 Introduction

Northington Partners Limited ("**Northington Partners**") has been engaged by The New Zealand Merino Company Limited ("**NZM**" or the "**Company**") as Lead Manager for its pro rata non-renounceable rights offer, shortfall offer and strategic investor offer ("**Offer**"), as detailed in NZM's Product Disclosure Statement ("**PDS**") dated 23 October 2020. The PDS sets out the terms and conditions of the Offer and is available on the Offer Register at https://disclose-register.companiesoffice.govt.nz (Offer number: OFR12964). As part of our role as Lead Manager we have provided valuation advice to NZM to assist in establishing an appropriate issue price under the Offer ("**Issue Price**").

NZM is also offering NZM shareholders with a registered address in New Zealand on the record date who do not participate in the Offer a liquidity opportunity to exit their investment through a share buy-back (the "**Share Buy-Back**"). Details of the Share Buy-Back are set out in the Share Buy-Back Disclosure Document (dated 3 November 2020) which was sent to NZM shareholders (and which is also available on the Offer Register).

Our valuation advice has been considered by the Board of NZM in setting both the Issue Price and the price for the Share Buy-Back. Both prices (together the "**Share Price**") are the same.

In order to assist NZM shareholders to determine whether to participate in the Offer or Share Buy-Back and provide transparency around how the Share Price was determined, this letter summarises our valuation advice to the Board of NZM. This report is provided to shareholders for information only, and for no other purpose, whether under the Companies Act 1993 or otherwise. This letter should not be considered or construed as providing advice to individual shareholders or other investors as to the value of NZM or its shares, or the merits or otherwise of participating in the Offer or Share Buy-Back. This letter should also be read in conjunction with the Important Notice set out on page 7.

Nothing in this report constitutes an invitation to subscribe for, or an offer of, shares, securities, or financial products to any person in any country in which it would be unlawful to do so. You should read and consider the PDS in full and consult your financial, legal, taxation or other professional advisers before making a decision to acquire any shares.

2.0 Summary Valuation of NZM

Table 1 summarises our assessment of the current value of NZM.

Table 1: Valuation Summary

$ million (unless stated)	Low	High
Maintainable EBIT	$4.0	$4.0
Assessed EBIT multiple	7.5x	8.5x

$ million (unless stated)	Low	High
Enterprise Value	**$30.0**	**$34.0**
less net debt	($12.0)	($12.0)
Gross value of NZM equity	$18.0	$22.0
Less 15% marketability discount	($2.7)	($3.3)
Market value of NZM equity	**$15.3**	**$18.7**
Value per NZM share	$4.63	$5.66

We conclude that the current value of a minority position in NZM is $4.63 to $5.66 per share. The key assumptions underlying the valuation are provided in the following section.

3.0 Valuation Assumptions

The key assumptions used in our valuation are summarised in Table 2.

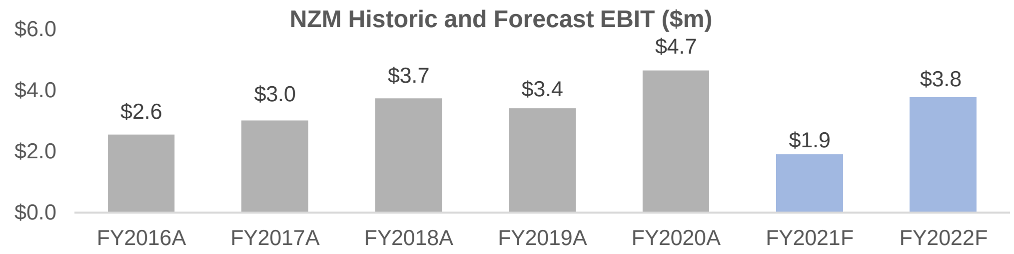
Table 2: Summary Valuation Inputs

Valuation Methodology

- We assessed NZM's value using a multiple of earnings approach. Earnings reflect our estimate of "maintainable" Earnings Before Interest and Tax ("**EBIT**").
- This is a common valuation method for determining the enterprise value ("**EV**") of a company with relatively consistent earnings. EV measures the value of a company's operating assets, prior to any allowance for debt and other claims on the company which are deducted to determine the equity value of NZM.

NZM Maintainable EBIT

- In determining appropriate maintainable earnings for NZM, we have "normalised" for the impact of COVID-19 and considered both NZM's historic earnings growth and its future earnings prospects. We have assessed maintainable EBIT at $4.0 million.
- This compares to NZM's historic and forecast EBIT performance as summarised in the chart below.



Source: NZM PFI

Earnings Multiple

- We have applied an earnings multiple range of 7.5x to 8.5x.
- The multiple reflects the value for a minority interest in NZM and is based on comparable company trading evidence as opposed to transaction evidence which typically includes a premium for control.
- The EBIT multiple of 7.5x to 8.5x has been assessed relative to the comparable New Zealand listed companies in the agriculture sector as summarised below.

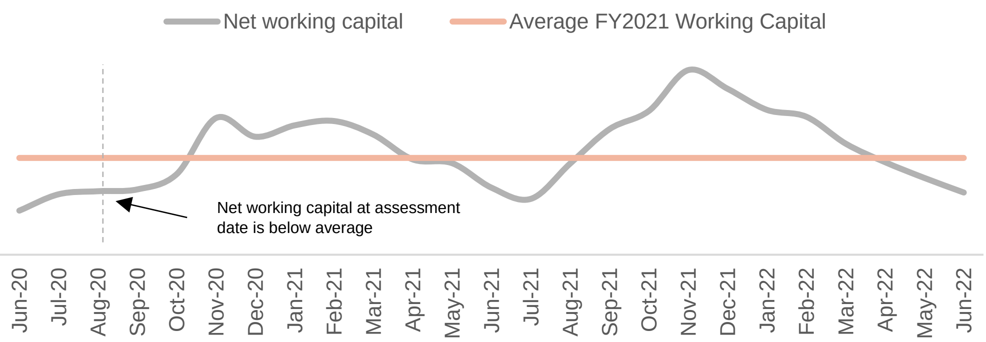
Company	EV ($m)	EV / FY21 EBIT
Zespri Group Limited	$1,193	4.3x
PGG Wrightson Limited	$238	10.7x
Sanford Limited	$674	13.3x
Seeka Limited	$235	13.0x
NZ King Salmon Investments Limited	$275	19.8x
Scales Corporation Limited	$696	16.0x
Cavalier Corporation Limited	$43	na
Average		**12.8x**
Median		**13.1x**

Source: Capital IQ as of 1 October 2020.

- The comparable companies currently trade at an average EV to earnings multiple of 12.8x 2021 earnings. Our assessed multiple range for NZM represents a discount to this average to reflect:
  - NZM's significantly smaller scale. The comparable companies have current EVs in the range of $43 to $1,193 million and are generally significantly larger than our assessed EV for NZM of $30 - $34 million. All else equal, we would anticipate larger companies to trade at a higher multiple than a company of NZM's size;
  - The comparable company multiples reflect multiples for FY2021, which for many of the companies is likely to reflect depressed earnings as a result of COVID-19. Conversely, the $4.0 million assessed maintainable earnings for NZM is significantly higher than the FY2021 forecast EBIT of $1.9 million and is unlikely to be achieved until after FY2022 (based on PFI for FY2022 of $3.8 million). The multiples for the comparable companies would likely be lower if they were assessed based on projected earnings for FY2022 and beyond; and
  - NZM's higher earnings variability compared to the majority of the comparable companies, particularly through the COVID-19 period. Companies with higher earnings variability and higher risks generally results in a higher risk premium and lower multiple.

Current net debt (including working capital adjustment)

- As of 31 August 2020 (the assumed date of our valuation assessment), NZM's net debt was approximately $4.0 million.
- For seasonal businesses with large fluctuations in working capital, it is common to compare the average working capital required to sustain the business' earnings through the year relative to its working capital as at the valuation date. If working capital is higher than average working capital at the time of the assessment, a positive adjustment is made to the valuation and vice versa for lower working capital. The chart below provides an illustrative example of this adjustment using NZM's seasonal working capital movements as a proxy.



- Based on NZM's PFI, average monthly working capital for FY2021 is approximately $23 million relative to $15 million as of 30 August 2020. This means that NZM had a "deficit" of approximately $8 million in net working capital when compared to average levels required to undertake its operations. Because the build-up in working capital through the year will be debt funded, we have therefore added $8 million to our estimate of NZM's net debt.

Marketability discount

- For companies with restricted share trading (e.g. limited to only one group of investors such as suppliers) and marketability (due to a small pool of potential investors), it is common to apply a discount to reflect the reduced liquidity of the shares.
- We have applied a discount of 15% for NZM, but have seen discounts greater than 30% applied in many cases. For instance, a discount of 20% - 30% was applied by Fonterra when determining fair value under Fonterra's share standard prior to implementation of "Trading Amongst Farmers".
- While a marketability discount significantly higher than 15% could be applied to NZM given its extremely limited recent share trading activity, we believe that 15% is reasonable after taking account of NZM's newly adopted constitution which allows broader share ownership.

4.0 Issue Price

The assessed market value of NZM is an important benchmark when determining the Share Price for both the Offer and the Buy-Back. However, the pricing for rights issues typically reflect a discount to the prevailing market value of a company in order to encourage participation from existing shareholders in the rights issue and provide greater certainty of raising the necessary capital. Discounts for recent rights issues of NZX listed companies have tended to be between 20% - 25% to the ex-rights price (see Appendix 1). However, there are a broad range of factors which may impact on the rights issue price, including:

- Companies with more share price volatility typically reflect higher discounts;
- Companies with lower share liquidity and a higher "bid – ask" spread may exhibit higher discounts to reflect the reduced ability to realise value for the shares and rights entitlements relative to a more liquid company; and
- Specific features of the rights offer are also important. These include whether the offer is underwritten, whether the rights are renounceable (ability to trade or transfer the entitlements) or non-renounceable (where entitlements cannot be traded or transferred), the purpose of the offer (to fund an acquisition or repay debt, etc), or whether the rights offer was anticipated by shareholders such that the market price already reflects the expectation of an offer.

A number of unique features of NZM also impact on the appropriate Share Price, including:

- Liquidity in NZM shares is significantly lower than other companies with similarly broad ownership (particularly those listed on the NZX), and there is very limited price transparency for its shares. This is illustrated by recent trading in NZM shares which has been at around $1.00 per NZM share. This is significantly below our assessed value for NZM but reflects the historic illiquidity of NZM shares; and
- Shareholder participation in the Buy-Back will be influenced by the Share Price relative to the assessed underlying value of the shares, as well as the ability of shareholders to realise that value in the absence of the Buy-Back.

Taking all the above factors into account, we recommended a Share Price of $3.80 per share. This price reflects a discount of between 18% and 33% to our assessed value for the NZM shares.

We believe that the $3.80 Share Price is fair and reasonable to NZM shareholders and in the best interests of the Company when balancing the following considerations:

- NZM's primary motivation is to raise new capital to provide increased financial flexibility and support its growth plans as detailed in the PDS (see Section 3). Therefore, encouraging strong participation from existing NZM shareholders is important;
- All existing NZM shareholders are treated equally under the Rights Issue and Buy-Back and can choose whether to participate in either offer or not at all. Existing shareholders also have priority in the Offer over other investors who can participate only if there is a shortfall available through the Rights Issue;
- Participation in the Buy-Back is not compulsory. Although the Share Price is below our assessed value range for NZM, it still presents a potentially attractive liquidity option for shareholders to exit their shareholding at a price level significantly above recent trading prices and at a volume which has not previously been available. Following completion of the Buy-Back, the liquidity of the NZM shares may continue to be relatively low. Existing shareholders' ability to sell their shares at or above $3.80 in the future will depend on a range of factors, but is highly uncertain; and
- Assuming strong participation from existing shareholders in the Offer and the primary participants in the Buy-Back being non-Grower shareholders, the Offer and Buy-Back together are likely to create greater alignment of shareholders.

5.0 Conclusion

On balance, we consider that for the purposes of the Companies Act 1993, the Share Price:

- under the Offer is fair and reasonable to all NZM shareholders and the Company;

- under the Share Buy-Back is fair and reasonable to the Company and the NZM shareholders who decide to participate in the Offer; and
- in each case is in the best interests of the Company.

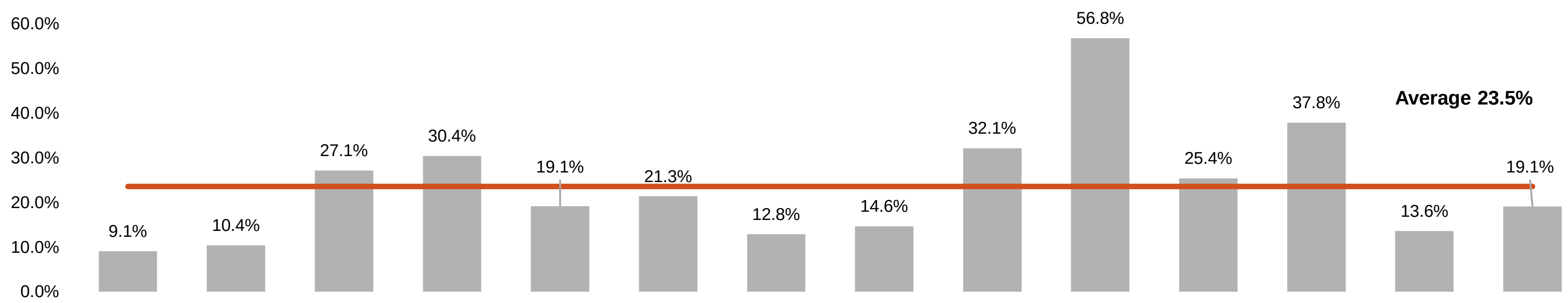
The Share Price also strikes an appropriate balance between the Company's objectives in conducting the Offer and Buy-Back.

Yours faithfully
Northington Partners Limited

Greg Anderson
Director

Appendix 1: Precedent NZX Rights Issues

NZX Rights Issue Pricing Discount to TERP (last 12 months based on closing market price)*



Company	Asset Plus	IkeGPS	Comvita	Sky TV	Augusta	Vista	Moa	Enprise	Kathmandu	PaySauce	Pacific Edge	Wellington Drive	Kathmandu	Tower
Date	Sep 20	Jul 20	May 20	May 20	May 20	Apr 20	Apr 20	Apr 20	Apr 20	Jan 20	Nov 19	Oct 19	Oct 19	Sep 19
Capital Raised (NZDm)	$48.1	$9.9	$30.0	$148.0	$32.6	$40.0	$5.2	$1.1	$177.0	$5.8	$13.1	$5.3	$144.5	$47.2
Offer Size Relative to pre-Offer (%)	99%	14%	24%	35%	11%	23%	33%	17%	83%	14%	24%	20%	25%	25%

Source: Northington Partners.
**discounts based on the rights offer price relative to the theoretical ex-rights price ("TERP").*

Important Notice

NZM shareholders should note the following important information in regard to this letter:

- Northington Partners was engaged by NZM as Lead Manager to the Offer. Under the terms of Northington Partners engagement, nobody other than NZM may rely on Northington Partners' advice.
- Northington Partners was not engaged to provide any advice or assistance to the shareholders of NZM and neither this letter (or the fact that is being supplied to NZM shareholders) nor the valuation to which it refers are intended to provide, and should not be considered or construed as providing, any advice to any shareholder on the value of NZM or its shares, the merits of, or whether to participate in, the proposed Offer or Share Buy-Back or whether to buy, sell or hold NZM shares.
- Our valuation advice was prepared for the purposes of assisting the Board in setting the Share Price and for no other purpose (whether under the Companies Act 1993 or otherwise). The advice may not have included all the information that the Board may have required, or which was necessary, for that purpose. The NZM Board exercised its own judgement in considering and using the advice in determining the Share Price.
- The advice and this letter were prepared on 1 October 2020. The actual Offer and Share Buy-Back are likely to occur in November to December 2020. There is no guarantee that the assumptions and advice described in this letter will still be relevant at that time. Northington Partners has no obligation to, and will not be, updating its advice between 1 October 2020 and the date of the Offer or Share Buy-Back.

In preparing this letter, Northington Partners has relied on information provided by NZM, including the prospective financial information. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this letter resulting directly or indirectly from any such circumstances or from any assumptions upon which this letter is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our letter if any additional information which was in existence on the date of this letter was not brought to our attention, or subsequently comes to light.