NAMOI COTTON CO-OPERATIVE LIMITED

PROPOSED RESTRUCTURE

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE
10 AUGUST 2017

10 August 2017

The Directors
Namoi Cotton Co-operative Limited
21-27 Trucking Yards Lane
Wee Waa NSW 2388

Dear Directors,

Independent Expert's Report for Namoi Cotton Co-operative Limited

1. Introduction

Namoi Cotton Co-operative Limited ("**Namoi Cotton**") is an ASX listed cotton processing and marketing organisation which currently has two classes of equity:

- **Grower Shares** – Only active cotton growers are permitted to hold Grower Shares, with each grower holding 800 Grower Shares. Active membership is determined by holding at least 800 Grower Shares, producing cotton from a minimum of 40 hectares of land and conducting a minimum of 20% of member's total cotton business with the co-operative in the relevant cotton season. Grower Shares have a fixed redemption price of $2.70 each and holders will be entitled to a rebate, if declared, capped at 7.5% of net profit after tax. Grower Members are entitled to one vote each.
- **Co-operative Capital Units ("CCUs")** – CCUs are listed on the ASX. Holders are entitled to all the surplus assets and profits of Namoi Cotton after the fixed claims of the Grower Shares have been satisfied. Holders of CCUs have limited voting rights. No CCU Holder may hold a relevant interest in more than 20% of CCUs on issue.

With the current structure, Namoi Cotton faces constraints in raising capital to meet its strategic objectives, restricting its ability for growth. As a result of a strategic review, the Namoi Cotton board has proposed to change the company's capital structure, to a new structure with only one class of security for both growers (former Grower Members) and investors (former CCU Holders) ("**Proposed Transaction**").

Further information regarding the Proposed Transaction is set out in Section 1 of this report.

2. Purpose of the report

The Directors of Namoi Cotton have prepared a restructure booklet ("**Booklet**") in relation to the Proposed Transaction. The directors of Namoi Cotton have requested Leadenhall Corporate Advisory Pty Limited ("**Leadenhall**") to prepare an independent expert's report for inclusion in the Booklet advising whether the Proposed Transaction is in the best interest of each of:

- Holders of Grower Shares ("**Grower Shareholders**")
- Holders of CCUs ("**CCU Holders**")

We refer to Grower Shareholders and CCU Holders together as ("**Securityholders**")

Further information regarding the purpose of this report is provided in Section 2 of this report.

3. Basis of evaluation

In order to assess whether the Proposed Transaction is in the best interests of Securityholders we have considered whether it is fair and reasonable. In this regard, we have:

- Assessed it as fair if the value of their interest in Namoi Cotton after the Proposed Transaction is greater than or equal to the value prior to the Proposed Transaction
- Assessed it as reasonable if it is fair, or if despite not being fair the advantages to Securityholders outweigh the disadvantages

We have undertaken this assessment separately for Grower Shareholders and CCU Holders. Further details of the basis of evaluation are provided in Section 2 of this report.

4. Analysis of fairness

We have assessed the fair market value of Namoi Cotton to be in the range of $107.8 to $129.2 million, using the capitalisation of future maintainable earnings ("**CFME**") methodology as follows:

Table 1: CFME valuation summary

($'000)	Low	High
Selected maintainable earnings	21,355	21,355
Selected multiple	8.0x	9.0x
Enterprise value	**170,840**	**192,195**
Net debt	(63,041)	(63,041)
Equity value	**107,799**	**129,154**

Source: Leadenhall analysis

In applying the CFME methodology we have:

- Determined a maintainable level of EBITDA of $21.4 million driven predominantly by a sustainable level of cotton ginning volume based on a review over a five-year period to capture the variability in the Australian cotton industry. In addition, we have considered historical earnings (normalised to remove non-recurring items) and FY18 management forecasts.
- Applied an EBITDA multiple of 8.0x to 9.0x, derived from an analysis of both public company trading multiples and transaction multiples for entities with similar businesses to Namoi Cotton.

The result from this methodology was cross-checked against the net asset value of Namoi Cotton as at 28 February 2017. The result from this analysis provided additional support for the assessed valuation range pursuant to the CFME approach presented above.

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Namoi Cotton security, before and after the Proposed Transaction. This comparison is set out in the table below.

Table 2: Assessment of fairness

	Grower Shares		CCUs	
	Low	High	Low	High
Value per share before Proposed Transaction ($)	**7.00**	**7.50**	**0.73**	**0.87**
Ordinary shares per security	198	198	1	1
Assessed value per ordinary share ($)	0.76	0.91	0.76	0.91
Value per share after Proposed Transaction ($)	**150**	**179**	**0.76**	**0.91**

Source: Leadenhall analysis

As the value of their interest in Namoi Cotton after the Proposed Transaction is greater than the value prior, the Proposed Transaction is fair to both Grower Shareholders and CCU Holders.

5. Analysis of reasonableness

Introduction and summary

We have defined the Proposed Transaction as being reasonable if it is fair, or if despite not being fair, the overall advantages of the proposal outweigh its disadvantages to Securityholders. We have therefore considered the advantages and disadvantages of the Proposed Transaction as summarised in the following table:

Table 3: Summary of reasonableness factors

	Advantages	Disadvantages
All Securityholders	♦ **Access to capital** – With a simpler structure, Namoi Cotton can more easily raise capital, allowing it to better respond to market challenges and business opportunities. ♦ **Likelihood of a takeover offer** – There will be fewer impediment to a takeover offer for Namoi Cotton under the new structure. Should an offer be received it would typically provide an opportunity for Securityholders to benefit from the payment of a control premium.	♦ We have not identified any significant disadvantages of the Proposed Transaction that affect both Grower Shareholders and CCU Holders.
Grower Shareholders	♦ **Liquidity** – Provides an opportunity and a market for Grower Shareholders to sell their shares should they wish to do so. ♦ **Capital appreciation** – Grower Shareholders are able to participate in the capital appreciation of the Namoi Cotton business over time.	♦ **Loss of control** – Grower Shareholders will lose their collective control of Namoi Cotton should the Proposed Transaction be approved. However, Grower Shareholders will be compensated for the loss of control in the form of a significant gain in value of their shareholdings. ♦ **Divergence of interests** – If the Proposed Transaction is approved, investors who are non-Growers will have an increased ability to influence the direction of the company which may not be in the interests of Growers.
CCU Holders	♦ **Increased liquidity** – If the Proposed Transaction is approved, this may lead to an increased liquidity in Namoi Cotton security trading on the ASX. ♦ **Increased voting rights** - If the Proposed Transaction is approved, CCU Holders will acquire normal voting rights associated with an ordinary Shareholding.	♦ **Benefits disproportionately flow to Growers** - The economic benefit to Growers from the Proposed Transaction are significant, as compared with the CCU holders who receive little immediate economic benefit with the real benefits coming over time.

Source: Leadenhall analysis

Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable since the advantages outweigh the disadvantages for both Grower Shareholders and CCU Holders.

6. Opinion

In our opinion, the Proposed Transaction is fair and reasonable and in the best interests of both Grower Shareholders and CCU Holders.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Richard Norris
Director

Dave Pearson
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.

Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

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Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

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Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.org.au

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10 August 2017

CONTENTS

1 THE PROPOSED TRANSACTION

1.1 Background

Namoi Cotton was established in 1962 as a cotton processing and marketing business. In 1998, it became the first co-operative to list on the ASX through the issue of CCUs. In response to a number of changes in the cotton industry, the board has developed a strategic plan that requires additional capital to allow for investment in and growth of the business. However, the market for CCUs is limited. In discussions with advisors and potential investors, the board has received feedback and advice that a simplified capital structure would be preferable.

As a result, the Namoi Cotton board has proposed to change the company's capital structure, to a new structure with only one class of security for both growers (currently Grower Shareholders) and investors (currently CCU Holders).

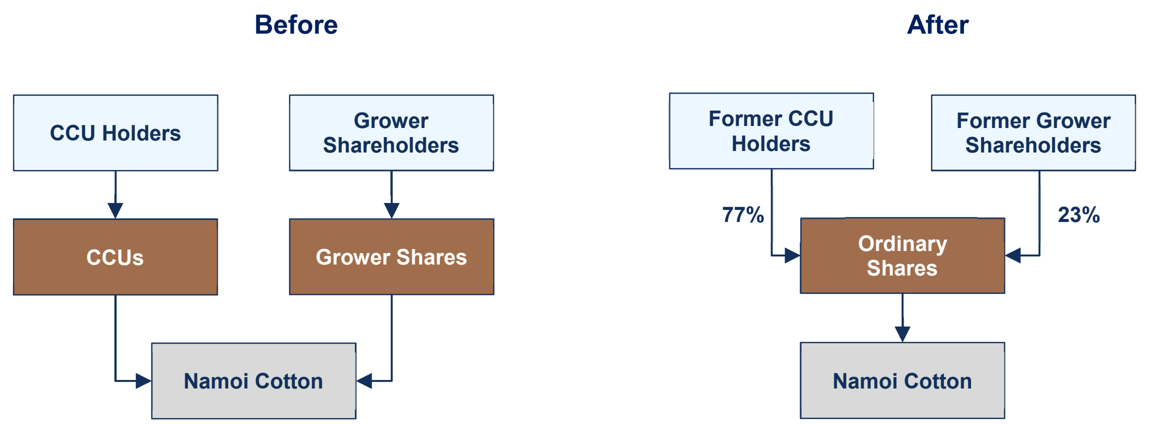
1.2 Proposed Transaction details

We have provided a brief summary of the steps proposed to implement the Proposed Transaction. We note this summary is fairly brief as further details are set out in the Booklet and the key issue for Securityholders is the change in their position before and after the Proposed Transaction, and not the precise process to achieve the new structure.

- The rights to CCUs will be varied such that each CCU becomes a residual capital stock unit which provides the holder with a right to convert into ordinary shares after Namoi has converted to a public company (the next step in the process). The conversion of CCU rights is to be achieved in conjunction with a scheme of arrangement ("**CCU Scheme**").
- Conversion of Namoi Cotton from a co-operative to a public company.
- Grower shares will be converted into ordinary shares, such that each grower will hold 158,504 ordinary shares instead of currently holding 800 Grower Shares. This step is to be achieved through a scheme of arrangement ("**Grower Scheme**").

The effect of the Proposed Transaction is summarised in the diagram below:

Figure 1 Impact of Proposed Transaction



Source: Namoi Cotton
Note: Subsidiaries, investments and joint ventures are not included in the diagram for simplicity.

A summary of the key rights for Securityholders before and after the Proposed Transaction is as follows:

Table 4: Summary of key rights

	Pre-Restructure		Post-Restructure
	Grower Shares	**CCUs**	**Ordinary shares**
Rebate	Growers are entitled to a rebate (if declared) of up to 7.5% of NPAT, although no rebate was paid in the past two financial years	No rebate	No rebate
Dividends	No dividend	Distributions if declared, although no distributions have been paid in the past two financial years	Dividends if declared
Transfer	Not transferable	Freely traded on ASX, although limited liquidity	Freely traded on ASX, expected improvement in liquidity
Voting	One vote per Grower Member	One vote per CCU on very limited matters[1]	One vote per share
Ownership by non-growers	Grower Shares are redeemed when a grower is deemed inactive	No restriction	No restriction
Redemption	Fixed redemption price of \$2.70 per share	No redemption	No redemption
Winding-up	No entitlement to surplus beyond redemption amount	CCU Holders share equally in any surplus assets (after redemption of Grower Shares)	Equal entitlement to surplus
Shareholding cap	800 shares per Grower Member	20% individual shareholding cap	Initial 20% individual shareholder cap, subject to renewal in 2022

Source: Namoi Cotton
Note 1: Such as nominations of up to three independent directors.

Further details of the terms of the Proposed Transaction are set out in the Booklet.

1.3 Approval

For the Proposed Transaction to become effective, among other requirements, the Grower Scheme and CCU Scheme will need to be approved by Grower Shareholders and CCU Holders respectively. Approval requires both of:

- At least 75% of the votes in respect of each resolution to be cast in favour of the Proposed Transaction.
- A majority in number (i.e. more than 50%) of CCU Holders present and voting (either in person or by proxy) at the meeting to vote in favour of the Proposed Transaction.

If approved by Securityholders, the schemes will then require approval by the Supreme Court of New South Wales.

1.4 Capital Raising

Following the Proposed Transaction, the Board is proposing to undertake a capital raising of up to \$35 million to enable the implementation of the strategic plan. However, the Proposed Transaction is not dependent on the capital raising and we have therefore evaluated the Proposed Transaction independently from the potential impact of a capital raising. We note that the impact of a capital raising would not change our opinion unless it was significantly dilutive to Securityholders, which we understand will not be the case as Securityholders will be offered a right to participate in the proposed capital raising on a pro-rata basis.

2 SCOPE

2.1 Purpose of the report

Corporations Act requirement

The Proposed Transaction is to be implemented by two schemes of arrangement under Section 428 of the Co-operatives National Law ("**Section 428**"). Under Section 428, the schemes must be approved by Securityholders as described in Section 1.3 above.

Co-operative registrar

The Registry of Co-operatives and Associations division within the Department of Finance, Services and Innovation of the NSW Government ("**Registry**"), has requested Namoi Cotton to obtain an independent expert's report that takes into account the matters specified in Regulatory Guide 111: Content of Expert Reports ("**RG 111**") issued by the Australian Securities and Investments Commission ("**ASIC**"). The Registry has specified that the independent expert's report should provide opinions on whether the Proposed Transaction is fair and reasonable and in the best interests of Grower Shareholders and CCU Holders.

The directors of Namoi Cotton have therefore requested Leadenhall to include consideration of these matters in our report.

2.2 Basis of evaluation

Best Interests

We have been asked to prepare this report to determine whether a transaction is in the best interests of Securityholders. In assessing the meaning of '*in the best interests*' we have referred to RG 111.

RG 111 does not provide specific guidance on the basis of evaluation of a transaction of this nature. However, it does recommend the assessment of whether a transaction is in the Securityholders' best interests based on whether it is fair and reasonable in alternative circumstances. We have therefore considered whether the Proposed Transaction is fair and reasonable to Securityholders as a basis for assessing whether it is in their best interests.

Consistent with the requirements of RG 111, we have assessed the Proposed Transaction as being '*in the best interests*' of Securityholders if it is either '*fair and reasonable*' or '*not fair but reasonable*'. We have assessed the Proposed Transaction as '*not in the best interests*' of Securityholders if it is '*neither fair nor reasonable*'.

In most circumstances contemplated by the guide, RG 111 states that there should be separate assessments of whether a transaction is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately as discussed below.

Fairness

RG111 generally treats fairness as a comparison of values before and after a transaction. We have therefore assessed the Proposed Transaction as fair for each class of Securityholder if the value of their interest in Namoi Cotton after the transaction is greater than or equal to the value prior to the Proposed Transaction.

We have assessed the values of Namoi Cotton securities before and after the Proposed Transaction using the concept of fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG 111, this definition of fair market value is consistent with the basis of value described at RG 111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset.

However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Our valuations of Namoi Cotton securities do not include any special value in accordance with RG 111.

Reasonableness

In accordance with RG 111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Securityholders to approve the transaction. We have therefore considered whether the advantages of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the factors recommended by RG 111.13 and other significant advantages and disadvantages to Securityholders of the Proposed Transaction.

2.3 Individual circumstances

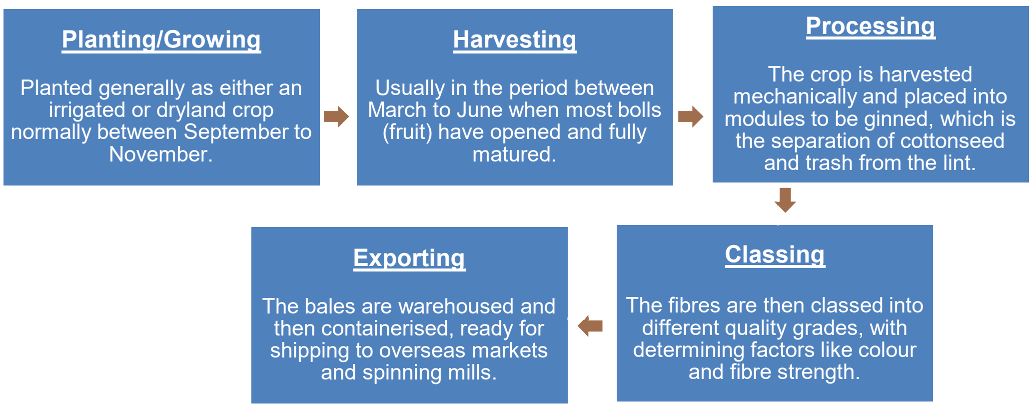
We have evaluated the Proposed Transaction for Grower Shareholders as a whole and separately for CCU Holders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is in their best interests. If in doubt, investors should consult an independent financial adviser about the impact of this Proposed Transaction on their specific financial circumstances.

3 COTTON INDUSTRY

3.1 Introduction

Cotton is the most widely produced natural fibre in the world, used predominantly in the manufacturing of textile products. A single cotton bale is sufficient to produce over a thousand t-shirts or around 680,000 cotton balls. Figure 2 below depicts the key steps involved in cotton production in Australia.

Figure 2: Cycle of cotton production for sale



Source: Cotton Australia

Cotton is a globally traded commodity with individual buyers and sellers being price takers. The key drivers of supply and demand are discussed below.

3.2 Supply

Cotton is grown by more than a hundred countries in the world, producing approximately 21 million tons ("**Mt**") in the 2015/16 crop year. A crop year in Australia starts with planting in September and finishes with harvesting in the period between March to June. Figure 3 below shows that more than half of global production was contributed by China and India, with Australia contributing only 3%.

Figure 3: 2015/16 Global cotton production

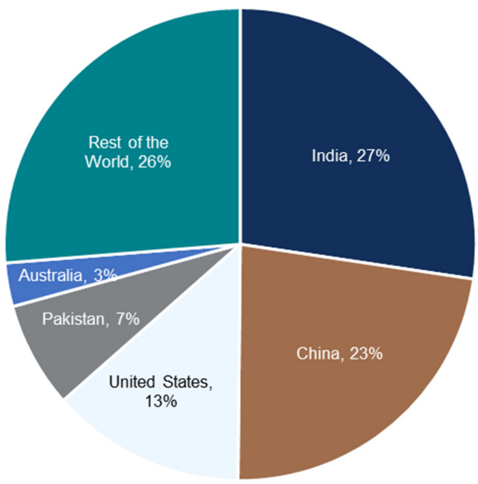
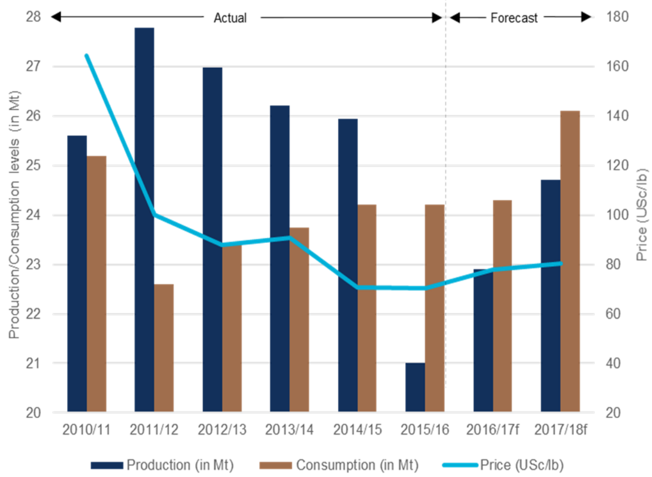


Figure 4: Global production & consumption



Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

Cotton production is broadly influenced by two main factors, which are stock and consumption (or mill use) levels. As shown in Figure 4 above, global cotton production gradually dropped between 2011/12 and 2014/15 before significantly reducing in 2015/16. A reason for the decline was the accumulation of stock as production rose in the period when consumption drastically fell between 2010/11 and 2011/12. The opening stock balances for 2010/11 and 2011/12 were between 10 and 11 Mt but these balances steadily rose to between 16 and 24 Mt from 2012/13 to 2015/16. This unprecedented build up in stock drastically reduced the demand for additional production. During the 2015/16 crop year, with the average global annual consumption in the preceding five periods at around 24 Mt, farmers commenced growing alternative crops, like pulses, at the expense of cotton acreage to maximise their profits. Furthermore, the El Nino in 2015/16 had raised fears of drought, accelerating the shift among growers in the Pacific region as cultivating pulses requires less water than other crops.

3.3 Demand

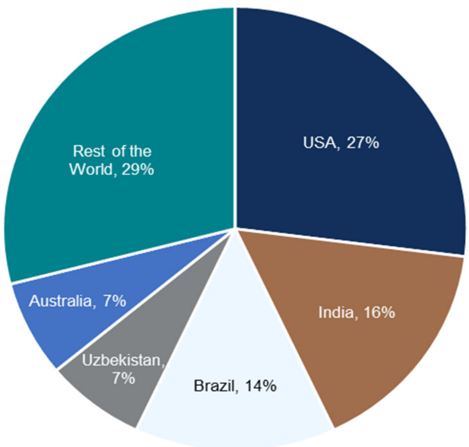
Almost all parts of the cotton plant have commercial applications, with its fibre spun into yarn and used to make a soft, breathable textile for clothing, bedding and bath linen. A cotton plant's linters provide cellulose for making plastics and explosives and is also incorporated into high quality paper products. Cotton seed oil is used primarily for shortening and cooking oil while its meal and hulls are used in livestock and fish feed.

Global consumption is mainly determined by two factors, population and price. World population has grown significantly since 1970 and has highly influenced the doubling of cotton production and consumption levels, with most of the demand coming from developing countries due to their lower labour costs for production of textiles and apparel than developed countries. On the other hand, cotton prices have fluctuated between USD 0.42 to USD 1.64 per pound, affecting consumption behaviour within the period.

Australian cotton is renowned for its high quality and for producing zero contamination cotton which provides spinning mills with economic savings relative to other grades. Australian cotton is also highly regarded due to its white colour and extremely 'spinnable' staple length. Thus, supporting the premium price which it attracts.

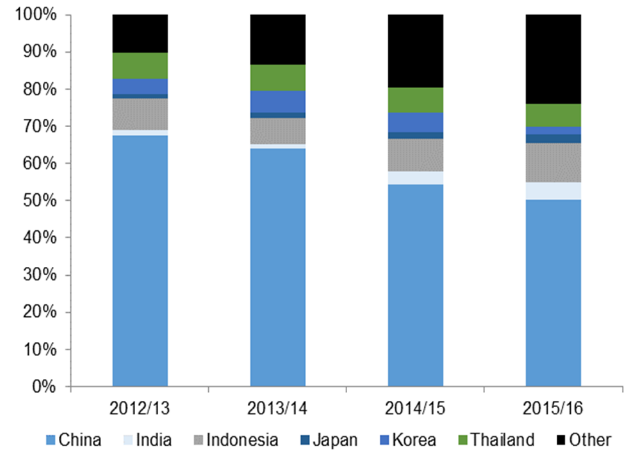
Despite producing just 3% of the world's cotton, Australia contributes 7% of global exports, as shown in Figure 5 below. However, in the past decade, Australia has lost some of its market share to the likes of Brazil and India.

Figure 5: 2015/16 Global cotton exports



Source: International Cotton Advisory Committee 2016 report

Figure 6: Australian cotton export destinations



Source: ABARES

According to the latest available Australian Grown Cotton Sustainability Report[1], Australia exports more than 99% of its cotton production. Figure 6 above shows the export destinations for Australian cotton, with China consistently the largest importer, despite being the second largest global producer of cotton itself. This shows the extent of the demand from China which then produces and exports textiles to the world.

[1] *Prepared by Cotton Australia and Cotton Research and Development Corporation, 2014*

3.4 Pricing

Cotton prices reached their peak at an average of USD 2.24 per pound in March 2011 due to a combination of factors including, supply constraints in some cotton producing countries like Pakistan, unexpected surges in demand and speculation on cotton futures. This was a sharp rise in price from the preceding period of USD 0.78 per pound. In comparison with alternatives such as non-cellulosic fibres, of which polyester forms the largest proportion. Cotton prices were extremely volatile and at a significant negative spread to man-made fibres. According to Cotton Outlook Ltd, which publishes specialised information services related to the cotton industry, cotton was approximately 2.5 times the price of Chinese polyester at the peak of the price spike, driving cotton consumption down in 2011/12. Cotton prices have since declined and more recently stabilised in a range of USD 0.65 to USD 0.75 per pound.

3.5 Outlook

Current settlement prices for cotton futures contracts for delivery in December 2017 are approximately USD 0.71 per pound, indicating that the demand for cotton is returning. However, price trends in 2016/17 will be largely dependent on the effects of Chinese policies, such as the extent of the sale of their amassed cotton stock reserves which largely influences the global cotton trade and hence prices. The United States Department of Agriculture recently forecast American farmers to have their largest yield in a decade. This, coupled with the increments in India's cotton output, is expected to have a major impact on global cotton price.

According to the International Cotton Advisory Committee, production is forecast to rise again in the near term due to an increase in planted area after two seasons of contraction, as well as to capitalise on the slightly higher cotton prices. Australia producers are expected to follow the trend with a sharp rise in production from 0.6 Mt in 2015/16 to around 1.0 Mt in 2016/17. Other than the attractiveness of cotton prices, favourable growing conditions in Australia, as a result of heavy rainfalls, have encouraged irrigators and dryland farmers to plant more cotton in the year.

In 2011/12, the Australian cotton industry produced a record crop of 5.4 million bales and since then, there has been further expansion in cotton production in the Murrumbidgee area of New South Wales.

The volume of Australian exports is forecast to increase in the near future, occurring simultaneously with the increased production and global consumption levels shown in Figure 4 above.

4 PROFILE OF NAMOI COTTON

4.1 Background

Namoi Cotton was established as a grower co-operative in 1962 and was listed on the Australian Stock Exchange in 1998 with the issue of CCUs. In 2013, Namoi Cotton, via its subsidiary (Namcott Marketing Pty Ltd), established a cotton marketing and commodities packing services joint venture with Louis Dreyfus Company ("**LDC**"), via its subsidiary Louis Dreyfus Company Melbourne JVP Pty Ltd. Under the operating name of Namoi Cotton Alliance ("**NCA**") the joint venture markets lint cotton and under the name of NC Packing Services Pty Ltd ("**NCPS**") provides packing services for cotton seed, coarse grains and pulses. Namoi holds a 51% interest in both NCA and NCPS.

Namoi Cotton has the largest cotton ginning network in Australia, comprising twelve cotton ginning facilities, seven of which are associated with cotton seed warehouses, which are positioned throughout the cotton growing regions of NSW and southern Queensland. Namoi Cotton achieves processing efficiencies and competitive volumes through ginning technology, research and development and in-house servicing teams for growers. Namoi Cotton procures cotton from growers to be marketed by NCA.

NCA owns and operates warehouse facilities in Wee Waa, Warren and Goondiwindi. In addition, NCPS operates commodity packing facilities in Wee Waa, Trangie and Goondiwindi.

4.2 Overview of operations

Namoi Cotton's main operating segments are:

- **Cotton Ginning** – Namoi Cotton operates twelve cotton gins, providing services including the separation of lint cotton from seed and other foreign matter, and the conversion of cotton in module form to bale form. Through its ginning network, it has the capacity to gin over 1.5 million bales per year.
- **Cotton Marketing** – Namoi Cotton, through NCA, is one of Australia's largest marketers of Australian cotton and is the only merchant operating in Australia which exclusively handles Australian cotton. Namoi Cotton procures Australian cotton from the farm gate for NCA to sell and distribute to international spinning mills.
- **Cotton Seed Marketing** – Namoi Cotton's ginning operations produce high quality cotton seed, available for distribution to both domestic and international markets, such as China and Japan.
- **Commodity Packing Services** – Provision of commodity packing services through NCPS to third party clients, packing cotton seed, wheat, chick peas and other grains and pulses on request. Services also include fumigation, Australian Quarantine and Inspection Service approvals and deliveries to port.

Namoi Cotton also holds the following investments:

- A 15% interest in each of Cargill Processing Ltd ("**CPL**") and Cargill Oilseeds Australia Partnership ("**COA**"). CPL owns facilities used in the processing and marketing of cotton seed, canola and other oilseeds by COA, while COA is the processor and marketer of the oil and by-products. COA is a partnership between Cargill Australia Ltd, Auscott Ltd and Namcott Investments Pty Ltd ("**Namcott**"), which is a subsidiary of Namoi Cotton.
- A 50% interest in Australian Classing Services Pty Ltd ("**ACS**"), a joint venture with Twynam Agricultural Group which provides independent classing services to the Australian cotton industry.
- 50% interest in each of the joint operations with Wathagar Ginning Company and Moomin Ginning Company, providing ginning services to cotton growers in the Gwydir valley.
- 40% interest in the jointly controlled asset comprising the white cotton seed handling and storage facilities at Mungindi.

4.3 Directors and Executive Management

The executive management team of Namoi Cotton include:

Table 5: Namoi Cotton executive team

Name and title	Experience
Jeremy Callachor Chief Executive Officer	Mr Callachor was appointed Chief Executive Officer in November 2010 and is responsible for all of Namoi Cotton's business operations. Between January 2008 and November 2010, he held the role of General Manager – Operations & Human Resources. Between June 2003 and January 2008, he was Namoi Cotton's Chief Financial Officer managing all financial, taxation, treasury and statutory reporting activities. Mr Callachor has been involved with Namoi Cotton for more than 20 years and has a strong knowledge of Namoi Cotton's various business operations and strategic capability. He is also on the board of Cotton Australia.
David Lindsay General Manager Grower Services and Marketing	Mr Lindsay joined Namoi Cotton in 1991 and is responsible for domestic marketing, grower finance, risk management with growers, pool management, joint venture management and trading. He has previously held a number of positions with Namoi Cotton in the Grower Services and Trading departments.
Bailey Garcha Company Secretary / General Counsel	Mr Garcha joined Namoi Cotton in 2003. His duties include major contract negotiations, management of litigation, ASIC and ASX compliance, insurance, superannuation, employment law management, joint venture, board and investor relations, corporate governance, internal legal advice, commercial law and management of transactions. He is also involved in the implementation of commercial, corporate and operational projects. Mr Garcha has previously held legal and corporate positions with Sparke Helmore Lawyers, Minter Ellison Lawyers and the NSW Treasury.
Stuart Greenwood Chief Financial Officer	Mr Greenwood joined Namoi Cotton in 2001 and was appointed Chief Financial Officer in January 2008, following four years as Financial Controller. Prior to this, he held various senior accounting positions within Namoi Cotton.
Shane McGregor Chief Operations Officer	Mr McGregor joined Namoi Cotton in 1999 and was previously the General Manager Commodities for Namoi Cotton. In November 2013, he became the Chief Operations Officer with responsibility for the performance of the ginning, ginning technical support services, cotton seed marketing, occupational health and safety and environmental business functions.

Source: Namoi Cotton

In addition, the board comprises seven board members which include four grower directors and three non-grower directors.

4.4 Competitive position

The table below sets out the strengths, weaknesses, opportunities and threats analysis ("**SWOT**") for Namoi Cotton.

Table 6: SWOT analysis of Namoi Cotton

Strengths	Weaknesses
♦ Availability of an extensive network integrating ginning, marketing and logistics operations throughout the Australian cotton growing regions, thereby generating economies of scale. ♦ Longstanding relationships with Australian growers which allows for reliable access to cotton production. ♦ Experienced board and management teams with a continuity of specific industry and organisation knowledge from the stability of both teams. ♦ Substantial customer base with top tier international spinning mill clients in Asia and the sub-continent, therefore minimising the reliance on any one customer.	♦ Cotton production variability impacts profitability.
Opportunities	**Threats**
♦ Expected continued population growth and rapid urbanisation in the developing worlds, which are key drivers for the demand of cotton. ♦ Widespread rainfall in 2016 winter and spring provided sufficient irrigation for a larger planted area. Therefore, able to produce more cotton crop to be ginned and exported, in the near term. ♦ Continual investments in its core infrastructures increase the capacity for ginning, improve services for growers and generate cost savings for the business. ♦ Growing requirement for supply chain services for food based commodity production in Namoi Cotton's existing geographic footprint.	♦ Exposure to a variety of market risks, including movements in cotton prices and currencies, inflation risks, as well as, substitutability and availability of cheaper alternatives, such as non-natural fibres like polyester. ♦ Heavy reliance on weather and therefore, more prone to natural disasters such as droughts and floods which could potentially impact the quantity and quality of cotton to be processed and exported. ♦ Increased competition from developing cotton markets such as Brazil and India, continues to ensure a competitive landscape for Australian cotton in the global trade market. ♦ Lower levels of global cotton trade in the near term due to the Chinese cotton policies, with the recent sale of cotton from their large national reserves, coupled with subsidies for growers in Xinjiang.

Source: Namoi Cotton and Leadenhall analysis

4.5 Financial performance

The financial year for Namoi Cotton is a twelve-months period ending 28 February ("**FY**"). The audited consolidated statements of financial performance for FY14 to FY17 are set out in the table below.

Table 7: Statement of Financial Performance for Namoi Cotton

$'000	FY14	FY15	FY16	FY17
Bales				
Ginned ('000)	1,244	1,123	535	689
Marketed ('000)	603	575	378	507
Revenue				
Ginning	170,458	165,576	98,483	112,422
Marketing	335,626	254,325	180,791	242,407
Others	1,252	538	438	515
Total revenue	**507,336**	**420,439**	**279,712**	**355,344**
Net financial instrument (losses)/gains	(8,958)	688	(312)	1,486
Other income	8,636	104	26	60
Changes in inventories of finished goods	(64,301)	785	(2,771)	993
Raw materials and consumables used	(382,464)	(365,732)	(249,855)	(320,203)
Employee benefits expense	(24,027)	(23,599)	(15,712)	(18,309)
Other expenses	(15,420)	(13,309)	(8,827)	(10,426)
EBITDA	**20,802**	**19,376**	**2,261**	**8,945**
Depreciation	(10,182)	(9,939)	(6,171)	(6,206)
EBIT	**10,620**	**9,437**	**(3,910)**	**2,739**
Finance costs	(6,369)	(3,773)	(2,650)	(2,611)
Share of profit/(loss) of associates and JV	3,428	3,437	(4,139)	(90)
Profit/(Loss) before income tax	**7,679**	**9,101**	**(10,699)**	**38**
Income tax (expense)/benefit	(2,367)	(2,793)	3,140	245
Net (loss)/profit after income tax	**5,312**	**6,308**	**(7,559)**	**283**
Other comprehensive income	-	-	6,504	-
Total comprehensive (loss)/income net of tax	**5,312**	**6,308**	**(1,055)**	**283**
Ginning segment revenue per bale ($)	137	147	184	163
EBITDA margin %	4%	5%	1%	3%
EBIT margin %	2%	2%	-1%	1%

Source: Namoi Cotton

In relation to the financial performance of Namoi Cotton set out above, we note the following:

- Revenues fluctuate in line with movements in Australian cotton production volumes and therefore ginning and marketing volumes. Total amount of cotton ginned dropped from approximately 1.2 million bales in FY14 to 535,000 bales in FY16 before increasing to 689,000 bales in FY17 (volumes include 100% of the joint venture gin volumes). This also resulted in a similar fluctuation in exports of cotton lint from 603,000 bales to 378,000 bales before recovering to 507,000 bales, in the respective periods.
- The amount of raw materials and consumables used has followed similar trends and explains the bulk of the movements in total expenses.
- Other income pertains to gain on disposal of property, plant and equipment with the FY14 figure inflated by the net gain on disposal of 49% of Namoi Cotton's lint marketing and packing businesses, including warehouse buildings, land, commodity packing and operating equipment, goodwill and shares in NCPS to LDC on the creation of the NCA joint venture.

- Net financial instrument gains or losses arise from the fair value treatment of forward sales and purchase contracts of both lint cotton (to end FY14) and cotton seed. These mark-to-market gains or losses reflect the timing of commodity price market movements on net commodity position(s) and are fully negated once contracted volumes are physically delivered. Transactional currency exposures exist in respect to some cotton seed sales being denominated in USD as opposed to their functional AUD currency which denominates all payments to growers. Therefore, Namoi Cotton enters into forward exchange contracts at the time it enters into a firm sale commitment for a USD cotton seed sale. Until the formation of NCA, Namoi Cotton utilised both Intercontinental Exchange ("**ICE**") cotton futures and foreign exchange contracts to mitigate price risk associated with fixed price lint cotton purchases from growers which were offset by fixed price sales of lint cotton with mills. These contracts are now entered into by NCA who manages these risks.
- Out of the $8.96 million net financial instrument loss in FY14, $8.13 million was in respect of the residual position of Namoi Cotton's lint marketing business not sold on the establishment of the NCA business.
- Significant losses from associates and JV had resulted in a net share of loss in FY16 before experiencing significant improvements in performance, with the net loss falling from approximately $4.1 million to only $90,000 in FY17. This improvement is predominantly attributed to the investment in NCA, which changed from a loss of approximately $3.4 million to a small profit of $60,000. The other contributors are the investments in ACS and NCPS, which changed from a combined loss of $402,000 to a profit of $652,000. These were offset by an increase in losses from the investment in COA, which has seen a doubling of losses from $378,000 to $872,000.
- EBITDA and EBIT margins were stable at 5% and 3% respectively in FY14 and FY15, before dropping to a negative margin in FY16. The margins have since recovered to 2% and 1% respectively, with little fluctuations in other expenses from the prior period.
- Namoi Cotton accounts for income tax on its profits or losses and has included a benefit of $67,000 in FY16 and $280,000 in FY17 from the utilisation of previously unrecognised tax losses from individual entities outside the tax consolidated group. The tax consolidated group consists of eight wholly owned controlled entities.
- As Namoi Cotton's ginning assets are carried on a fair value basis, the other comprehensive income of $6.5 million in FY16 pertains to the net of tax gain on a revaluation of the assets with the revaluation based upon a directors' valuation supported by an independent valuer.

Normalised earnings

The following table sets out our assessment of normalised EBITDA for Namoi Cotton from FY14 to FY17 removing the impact of non-recurring items:

Table 8: Normalised EBITDA from FY14 to FY17

$'000	Notes	FY14	FY15	FY16	FY17
Unadjusted EBITDA		**20,802**	**19,376**	**2,261**	**8,945**
Lint cotton and cottonseed net sales & purchase contracts	1	8,132	241	191	(929)
Currency and commodity derivatives (net)	2	826	(929)	121	(557)
Other income	3	(8,636)	(104)	(26)	(60)
Strategic restructure consulting	4	-	-	119	620
Rebate on Grower Shares	5	-	502	-	-
Interest revenue	6	(18)	(29)	(1)	(1)
Normalised EBITDA		**21,106**	**19,057**	**2,665**	**8,018**

Source: Namoi Cotton and Leadenhall analysis

Each of the adjustments are explained below:

1. Lint cotton and cottonseed net sales and purchase contracts

As mentioned above, these adjustments represent temporary, timing differences between contracting and execution. Therefore, they are reversed out for the calculation of normalised EBITDA.

2. Currency and commodity derivatives (net)

Similar to note 1, these are reversed out for the calculation of normalised EBITDA.

3. Other income

Gains or losses are recognised upon the sale of property, plant and equipment. In FY14, the gains included the sale of Namoi Cotton's lint marketing and commodity packing businesses associated with the establishment of NCA. Therefore, these have been removed to reflect only the continuing businesses.

4. Strategic restructure consulting

These expenses are non-recurring in nature, incurred for the purpose of restructuring its capital structure, as described in section 1.

5. Rebate on Grower Shares

The expense incurred in FY15 pertained to the rebates for Namoi Cotton's Grower Members. As the rebates are distributed infrequently and are not expected to continue if the Proposed Transaction proceeds, this has been removed to reflect the performance of the continuing business.

6. Interest revenue

Interest revenue has been excluded from the EBITDA calculations.

4.6 Financial position

The audited consolidated statements of financial position of Namoi Cotton as at 29 February 2016 and 28 February 2017 are set out in the table below.

Table 9: Statement of Financial Position of Namoi Cotton

$'000	29-Feb-16	28-Feb-17
Current assets		
Cash and cash equivalents	1,790	2,256
Trade and other receivables	4,561	5,288
Inventories	5,901	7,614
Prepayments	372	541
Derivative financial instruments	4,352	14,665
Total current assets	**16,976**	**30,364**
Non-current assets		
Investments in associates and JV	41,966	41,876
Property, plant and equipment	140,910	138,473
Total non-current assets	**182,876**	**180,349**
Total assets	**199,852**	**210,713**
Current liabilities		
Trade and other payables	(5,022)	(8,401)
Interest bearing liabilities	(59,270)	(16,590)
Provisions	(2,062)	(1,979)
Derivative financial instruments	(5,463)	(14,141)
Total current liabilities	**(71,817)**	**(41,111)**
Non-current liabilities		
Trade and other payables	(456)	-
Interest bearing liabilities	(1,409)	(43,330)
Provisions	(799)	(863)
Deferred tax liabilities (net)	(1,379)	(1,134)
Co-operative grower member shares	(447)	(447)
Total non-current liabilities	**(4,490)**	**(45,774)**
Total liabilities	**(76,307)**	**(86,885)**
Net assets	**123,545**	**123,828**

Source: Namoi Cotton

In relation to the financial position of Namoi Cotton set out above, we note the following:

- Trade debtors are non-interest bearing and arise from the domestic sales of white cotton seed, commodities and ginning by-products, settled under a range of agreed payment terms. Approximately 91% of the outstanding trade receivables balance is within its payment terms with the bulk of the remaining balance expected to be recovered.
- Derivative financial instruments have significant asset and liability balances largely reflecting movements in market prices for cotton seed from the time of contracting until balance date. Due to limitations on net exposures between purchase and sale quantities, the marked-to-market contracts essentially offset, other than to the extent of the net commodity position. On a net basis, this exposure is small.

- The current carrying amount of the investment in the associates is approximately $2.7 million, which is around $800,000 lower in value from FY16 due to losses incurred by COA. Namcott is jointly and severally liable for the COA liabilities and as this investment is accounted for under equity accounting principles, losses are recognised when incurred by COA resulting in a negative investment.
- The current carrying amount of the NCA joint venture is approximately $40 million, a modest increase of $60,000 from FY16 due to the share of profit in the period.
- The total, current carrying value of the ACS and NCPS JVs is at a net liability of $805,000, but is $652,000 lesser than in FY16 from the share of profit in the period. Both are accounted for under equity accounting principles.
- Namoi Cotton's investments are carried at cost such that at each reporting date, Namoi Cotton determines if there is objective evidence that impairment may exist. If so, an impairment test would be required with any resultant impairment being recognised.
- Property, plant and equipment forms the largest component of Namoi Cotton's assets, the bulk of which are ginning infrastructure and equipment. The infrastructure and major equipment is recognised at fair value, assessed by the directors at reporting intervals and periodically, the directors' valuations are assessed by reference to an independent valuer.
- There was a prospective change in the assessment of the remaining useful life of ginning assets at the start of FY17. The remaining useful life increased with the effect of reducing depreciation for the year from $7.3 million to $6.2 million. Ginning infrastructure assets are depreciated on a units of production basis over the rolling estimated remaining useful lives of 20 years.
- The total current and non-current interest bearing liabilities have seen a $760,000 decrease due to an improvement in cash balances. There was also a refinancing of Namoi Cotton's term debt, which is utilised to fund capital projects relating to the plant, property and equipment of the business. The term debt facilities have maturity dates of 28 February 2020 and the balances are within the respective facility limits provided by Commonwealth Bank of Australia. All financial covenants were complied with during the financial years set out above and to date.

4.7 Capital structure and shareholders

As at 10 August 2017, Namoi Cotton had the following securities on issue:

- 165,600 Grower Shares, currently there are 207 Grower Members holding 800 shares. Grower Members, subject to being active, are entitled to voting rights and a share in the grower rebate (distributions to Grower Members) of up to 7.5% of Namoi's profit after tax (subject to Board approval); but Grower Shares are not entitled to a dividend.
- 109.84 million CCUs, listed on the ASX. CCUs carry a distribution entitlement (if declared) and limited voting rights.

Namoi Cotton's top five CCU Holders are shown in the table below:

Table 10: Namoi Cotton's top five CCU Holders

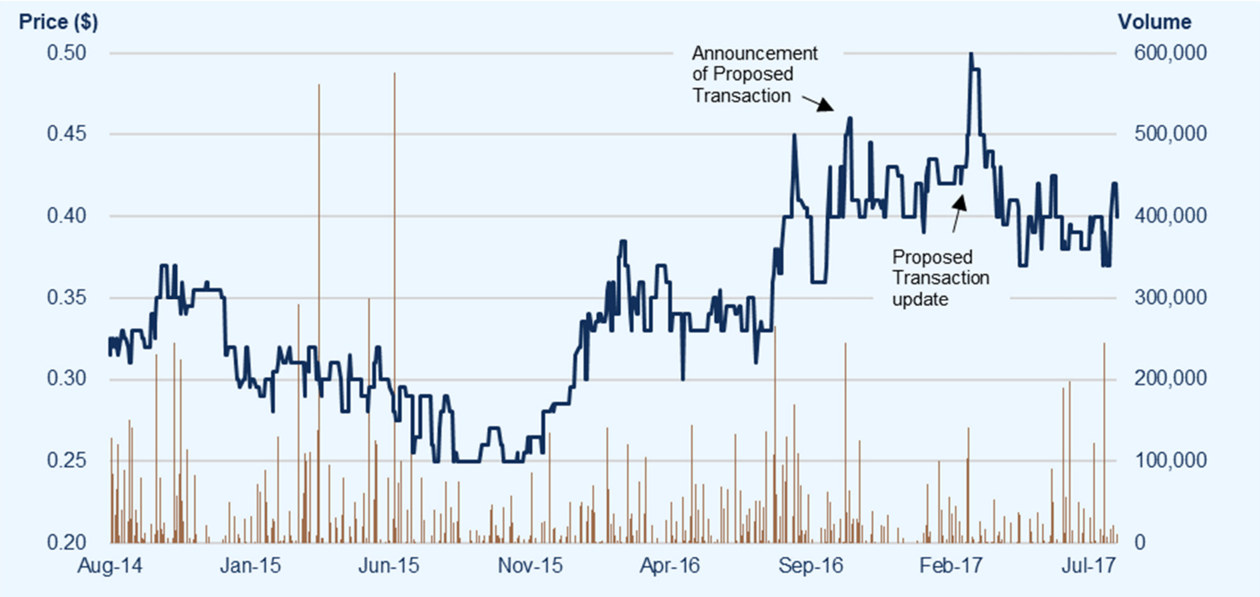
CCU Holder	Number of CCUs	% holding
Louis Dreyfus Company Asia Pte Ltd	14,327,384	13.0%
Australian Rural Capital Ltd	11,857,249	10.8%
National Nominees Ltd	8,915,981	8.1%
Citicorp Nominees Pty Ltd	5,872,664	5.3%
JVH Cotton Pty Ltd	4,110,353	3.7%
Other	64,759,648	59.0%
Total	**109,843,279**	**100.0%**

Source: Namoi Cotton and ASX announcements

4.8 Share price performance

The following chart shows the share market trading of Namoi Cotton CCUs for the past three years:

Figure 7: Namoi Cotton CCU price performance



Source: FactSet

In relation to the trading of Namoi Cotton CCUs over the last three years we note the following:

- The volume of CCUs traded has trended down noticeably over the last two years, coinciding with a gradual rise in price from a low of $0.25 per unit in July 2015 to a high of $0.50 per unit in February 2017. The average daily volume traded in the first third of the period was approximately 53,000 CCUs compared to the average daily volume over the last two years of approximately 33,000 CCUs. Over the three-year period, the average daily volume was approximately 40,000 CCUs, with a volume-weighted average price ("**VWAP**") at approximately $0.34, below its current price of $0.40.
- When the Proposed Transaction was first announced on 20 October 2016, it received negative response from investors with the CCU price falling from $0.46 per unit (the closing price on the trading day before) to $0.41 per unit on the announcement day. However, when it was subsequently confirmed, via a market and restructure update announcement on 22 February 2017, subject to stakeholder and regulatory approvals, the CCU price rose to a high of $0.50 per unit on 27 February 2017.
- The CCU price has fallen since the update announcement, but has recently stabilised around $0.40 per unit, with the recent announcement of the full year (ended 28 February 2017) financial results showing a reverse of fortunes from the prior year.

5 VALUATION METHODOLOGY

5.1 Available valuation methodologies

To estimate the fair market value of Namoi Cotton we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied, at least as a secondary cross-check to a primary method. The choice of methods depends on factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

5.2 Selected methodology

In selecting an appropriate valuation methodology to value Namoi Cotton, we have considered the following factors:

- Namoi Cotton is a mature operating business with a number of listed companies engaged in somewhat similar businesses. Thus, the capitalisation of earnings approach is possible.
- Namoi Cotton has a significant asset base, with its major items of property, plant and equipment revalued to a fair value at each reporting date; thus an asset approach may also be applied.
- Whilst some short-term projections have been prepared by Namoi Cotton, it is difficult to reliably forecast the variability of Australian cotton harvest on a year by year basis over the long-term. Therefore, a discounted cash flow approach is no more reliable than the capitalisation of earnings approach based on a maintainable level of earnings allowing for fluctuations in the cotton harvest.
- Namoi Cotton's CCUs are traded on the ASX, thus an analysis of share market trading is also possible.
- We are not aware of any relevant industry specific rules of thumb.

Accordingly, we are of the opinion that the most appropriate methodology to value Namoi Cotton is the capitalisation of earnings method, with an analysis of the net assets of Namoi Cotton and share market trading of CCUs as cross-checks.

6 VALUATION OF NAMOI COTTON

6.1 Background

We have assessed the fair market value of Namoi Cotton using the capitalisation of earnings method, with cross-checks by reference to the net asset value of Namoi Cotton and market trading in CCUs.

We have used Namoi Cotton's latest publicly disclosed information as at 28 February 2017. We note that based on unaudited management accounts to 30 June 2017 its net asset position has not changed significantly, nor is it expected to change significantly in the period to when the Securityholders' meeting is currently scheduled to be held at the end of September 2017.

6.2 Capitalisation of Future Maintainable Earnings

Determining the fair market value of Namoi Cotton using the capitalisation of earnings approach requires consideration of the following factors:

- An appropriate earnings base for assessing maintainable earnings.
- An appropriate level of maintainable earnings.
- An appropriate earnings multiple.
- The value of any non-operating assets and liabilities.

These are discussed in more detail below.

6.2.1 Bases of maintainable earnings

The first step in the valuation process is to determine the measure of earnings to be capitalised for valuation purposes. The following measures of earnings are often used for business valuations:

- **Revenue:** mostly used for companies that are not expected to be profitable in the near term or as a cross-check of a valuation conclusion derived using another method.
- **EBITDA:** most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.
- **EBITA:** in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.
- **EBIT:** whilst EBIT is commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is typically a non-cash accounting entry that may not reflect a need for future capital investment (unlike depreciation).
- **NPAT:** relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value the whole business for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing a minority interest in a company as the investor has no control over the level of debt.

We have selected to analyse multiples of EBITDA because:

- Earnings multiples based on EBITDA and EBIT are not affected by different financing structures which impact multiples of net profit after tax.
- Namoi Cotton has a very high level of depreciation, that is not matched by a similar level of maintenance capital expenditure, thus EBIT multiples would tend to understate the value of Namoi Cotton.

Level of maintainable earnings

As Namoi Cotton's financial performance is highly susceptible to the variability in Australian cotton volumes, it is necessary to select a level of maintainable earnings based on a long-term review of cotton ginning volume. The table below sets out our selection of the maintainable earnings.

Table 11: Selection of maintainable earnings

$'000	FY15	FY16	FY17	Average[1]	Maintainable level
Ginning volume[2] ('000)	1,008	491	661	892	950
Ginning segment EBITDA/bale ($)	24.56	18.72	18.52	23.01	24.50
Ginning segment EBITDA	**24,767**	**9,200**	**12,248**	**20,530**	**23,275**
Marketing segment EBITDA[3]	**711**	**(877)**	**1,330**	**644**	**650**
Commodities segment EBITDA[3]	**249**	**147**	**247**	**212**	**215**
Rental revenue	197	200	213	190	215
Other overheads	(6,867)	(6,005)	(6,020)	(5,931)	(6,000)
Normalised EBITDA (excluding JV & associates)	**19,057**	**2,665**	**8,018**	**15,644**	**18,355**
Share of EBITDA from JV & associates	5,366	(2,017)	2,408	3,005	3,000
Total EBITDA (including JV & associates)	**24,423**	**648**	**10,426**	**18,649**	**21,355**

Source: Namoi Cotton and Leadenhall Analysis
Notes:
1. *The average figures were taken over five years from FY13 to capture the cyclical nature of the industry. The selected period of five years was deemed sufficient as it covered the fluctuations between peak and trough of the Australian cotton industry.*
2. *Ginning volume includes Namoi Cotton's 50% share in the Moomin and Wathagar joint ventures gin volume.*
3. *As the NCA joint venture was only formed in FY14, the average EBITDA figures for the marketing and commodities segments were calculated over four years.*

Ginning volume
While the average ginning volume for the five years to FY17 was just under 900,000 bales, Namoi Cotton is expecting to gin 1.02 million bales in FY18. We have therefore selected 950,000 bales as a maintainable annual ginning volume.

Ginning segment EBITDA/bale
A maintainable level of EBITDA/bale for the ginning segment was selected by reference to the five-year average rate, allowing for an increase to account for the impact of fixed costs being spread over a greater than average ginning volume.

Marketing and commodities segments EBITDA
Maintainable levels of EBITDA for the marketing and commodities segments were selected based on the four-year average, allowing for a small increase due to inflation.

Rental revenue
The maintainable level of rental revenue was selected based on FY17, allowing for a small increase due to inflation.

Other overheads
This component broadly comprises of employee benefits that are not directly related to the three main business segments, such as corporate staff, and other corporate administrative expenses, including audit and consulting fees, bank charges and insurance premiums. Therefore, the maintainable costs were selected by reference to the FY17 costs.

Share of EBITDA from associates and joint ventures

The selection of the maintainable earnings from the share of EBITDA from associates and joint ventures was by reference to the five-year average. The five-year average is an appropriate basis as the performance has historically been volatile with no indications that this volatility will subside.

6.2.2 Earnings multiple

The multiples selected to apply to maintainable earnings implicitly reflect expectations about future growth, risk and the time value of money. Multiples can be derived from three main sources:

- The trading prices of companies that are engaged in the same or similar lines of business and that are actively traded on a public stock market.
- Transactions of significant interests in companies engaged in the same or similar lines of business.
- It is also possible to build a multiple from first principles based on an appropriate discount rate and growth expectations.

We have conducted an analysis of both public company trading multiples and transaction multiples in order to determine an appropriate earnings multiple to apply to the valuation of Namoi Cotton.

In respect of public company trading multiples, there are no specialised cotton processors and exporters listed on the ASX. However, there are a number of listed Australian companies that operate in the crop and agriculture sectors that have similar profit drivers to Namoi Cotton. We have also included a limited number of overseas companies that operate cotton processing and exporting businesses or that have a cotton processing or exporting segment as part of a more diversified crop and agriculture business.

The following table sets out the historical and forecast trading EBITDA multiples for the selected comparable companies.

Table 12: Trading multiples of comparable companies

Company	Enterprise value (A$m)	Gearing (D-EV ratio)	EBITDA multiple FY17	EBITDA multiple FY18f
Australian agriculture companies				
Costa Group Holdings Ltd	1,625	7%	15.4x	13.4x
Elders Ltd	744	23%	10.9x	10.8x
Ruralco Holdings Ltd	435	31%	6.3x	5.7x
Select Harvests Ltd	416	24%	10.4x	9.7x
Webster Ltd	631	25%	13.0x	10.5x
Average			**11.2x**	**10.0x**
Median			**10.9x**	**10.5x**
International cotton companies				
Ahmed Hassan Textile Mills Ltd (Pakistan)	29	84%	7.7x	N/a
Laxmi Cotspin Ltd (India)	12	48%	5.0x	N/a
Adecoagro SA (United States)	2,272	44%	6.3x	5.6x
Bunge Ltd (US)	20,926	35%	9.9x	8.0x
PGG Wrightson Ltd (New Zealand)	568	27%	9.6x	8.8x
Average			**7.7x**	**7.5x**
Median			**7.7x**	**8.0x**

Source: FactSet, S&P Capital IQ and Leadenhall Analysis
Note: Data as at 7 August 2017

It should be noted that these multiples are based on trading of minority shareholders. As we are valuing Namoi Cotton on a minority basis, no adjustment for this factor is required.

In addition to our analysis of trading multiples, we have also reviewed relevant transaction multiples, from Australia and overseas. The table below shows the historical and forecast (where available) EBITDA and EBIT multiples from relevant transactions with publicly available data.

Table 13: Transaction multiples

Target	Acquirer	Date	Target country	Target Description	Transaction value (A$m)	Implied control premium	EBITDA Historical	EBITDA Forward
Australian agriculture companies								
Bengerang Ltd	Webster Ltd	Feb-15	Australia	Cotton producer	140	N/a	55.6x	N/a
Tandou Ltd	Webster Ltd	Feb-15	Australia	Irrigated cotton and cereal crops producer and exporter	149	22%	51.0x	10.1x
Average (Australian)							**53.3x**	**10.1x**
International agriculture companies								
Advanta Ltd	UPL Ltd	Nov-15	India	Agronomic and seed retailer	501	N/a	22.6x	N/a
Chiquita Brands International Inc	Succocitrico Cutrale Ltda and Grupo Safra SA	Aug-14	United States	Agricultural produce marketer and distributor	1,551	44%	13.1x	8.3x
Palm Tech India Ltd	Ruchi Soya Industries Ltd	Feb-10	India	Palm oil producer and marketer	46	N/a	70.0x	N/a
Average (International)							**35.2x**	**8.3x**

Source: FactSet and S&P Capital IQ

The observed multiples from comparable transactions are control multiples and include any premium paid for control.

In selecting an appropriate earnings multiple to apply to the valuation of Namoi Cotton we have considered the following:

- Namoi Cotton is smaller than the majority of the comparable listed companies. All other things being equal, smaller companies trade on lower multiples.
- With reference to the FY18 forecast prepared by Namoi Cotton's management, Namoi Cotton is expected to have significant earnings growth which is predicted to continue in the near term. As the comparable listed companies have only a small to moderate earnings growth implied from their FY18 EBITDA multiples, a higher multiple for Namoi Cotton is therefore appropriate.
- The only listed companies that are predominantly cotton businesses are Ahmed Hassan Textile Mills Ltd and Laxmi Cotspin Ltd. These operate in Pakistan and India respectively and are exposed to very different operating environments to Namoi Cotton. Their multiples are therefore of limited relevance.
- The level of maintainable earnings for Namoi Cotton was selected by taking into consideration the long-term earnings potential for Namoi Cotton despite the highly variable level of the Australian cotton crop. The multiples presented in the tables above are based on financial results for a given year which may be impacted by above or below average agriculture conditions for the various companies. Therefore, a higher multiple is appropriate for Namoi Cotton with the agriculture conditions for the Australian cotton industry expected to recover in the near future.
- Tandou Ltd and Bengerang Ltd have operations somewhat similar to Namoi Cotton and are of a similar size and EBITDA margins.
- Namoi Cotton's business is supported by a relatively high level of asset backing, providing downside protection which would increase the multiple.
- In addition, as evidenced by comparable companies shown in Table 12, companies with lower gearing ratios generally have higher multiples compared to their peers in the respective regions.
- The selection of the multiple, within a fairly broad range, does not impact our conclusion on the Proposed Transaction.

Based on the above, we have selected an EBITDA multiple of 8.0x to 9.0x to apply to our valuation of Namoi Cotton.

6.2.3 Other assets and liabilities

In order to assess the value of Namoi Cotton, it is necessary to identify any other assets and liabilities not included in the enterprise value calculated. These can be:

- **Surplus assets:** assets held by the company that are not utilised in its business operation, noting that the net derivative financial instruments position as at 28 February 2017 is immaterial. We have not identified any material surplus assets held by Namoi Cotton.
- **Net debt:** comprising of debt used to fund a business, less surplus cash held by the company. Namoi Cotton's net debt is therefore assessed below.
- **Non-operating liabilities:** liabilities of a company not directly related to its current business operations. We have not identified any material non-operating liabilities owed by Namoi Cotton.

Each of these factors are considered below.

Net debt

The net debt of Namoi Cotton, including the share of the net debt of its associates and joint ventures, as at 28 February 2017 was as follows:

Table 14: Net debt as at 28 February 2017

Net debt ($'000)	28-Feb-17
Cash	2,256
Borrowings	(59,920)
Share of associates & JV net debt	(5,377)
Net debt	**(63,041)**

Source: Namoi Cotton

6.2.4 Valuation summary

Based on the analysis set out above, the value of Namoi Cotton's equity is set out in the table below.

Table 15: CFME valuation summary

($'000)	Low	High
Selected maintainable earnings	21,355	21,355
Selected multiple	8.0x	9.0x
Enterprise value	**170,840**	**192,195**
Net debt	(63,041)	(63,041)
Equity value	**107,799**	**129,154**

Source: Leadenhall Analysis

6.3 Net asset cross-check

We have cross-checked the equity values against the net asset value of Namoi Cotton as at 28 February 2017, with the high-end minority equity values broadly consistent with its net asset value of $123.8 million. The low-end minority equity value implies a discount to the net assets of 13%. However, as more than half of Namoi Cotton's net assets is attributable to the asset revaluation reserve, which has benefitted from a recent revaluation and is influenced by changes in the supply and demand metrics for agriculture properties, this element is therefore not directly captured in our CFME analysis. In addition, the net asset value is on a control basis whereas the multiples applied are on minority basis hence contributing to the variance.

Based on the above comparison, we consider the net asset cross-check provides broad support for our assessed value for Namoi Cotton.

6.4 Allocation to shares before Proposed Transaction

Grower Shares

In assessing the value of the Grower Shares we have considered the following:

- Grower Shares are entitled to a fixed redemption price of $2.70 per share. This price does not increase over time.
- Grower Shares are not transferable. Once a grower is deemed to be inactive for two cotton seasons, where active membership is determined by holding at least 800 Grower Shares, producing cotton from a minimum of 40 hectares of land and conducting a minimum of 20% of member's total cotton business with the co-operative in the relevant cotton season, Namoi Cotton redeems the shares at the redemption price of $2.70.
- Grower Shareholders are entitled to one vote per Grower Member, and collectively provide effective control of Namoi Cotton. However, due to the lack of transferability it would not be possible for Growers to realise a control value from their shares under the current structure.
- Holders are entitled to a rebate, capped at 7.5% of NPAT. In the past five years the rebate has ranged between nil to $3.00 per share, with no rebate in four of the five years. Thus, while active Growers may receive an income from their shares, the amount has been variable in recent years.
- Given the high degree of variability and discretion in rebates, as well as the lack of transferability of Grower Shares, we consider a yield of 20% to be reasonable for the Grower Shares. We have considered private equity returns given the volatility of returns and the capital structure of Namoi Cotton, basing it on the 2016 Pepperdine Private Capital Markets report which showed a first-quartile return of 20% for private equity groups with between $10 and $50 million EBITDA.

In consideration of the fixed redemption price, historic trend and quantum of the rebates, as well as the FY18 operating plan should the Proposed Transaction not materialise, we have assessed the value of a Grower Share to be between $7.00 to $7.50 with the high-end based on a sustainable rebate of $1.50 per share capitalised at 20%. This would result in the total assessed value of Grower Shares as shown in the table below.

Table 16: Assessed value of Grower Shares

	Low	High
Value per Grower Share ($)	7.00	7.50
Number of Grower Shares	165,600	165,600
Assessed value of Grower Shares ($'000)	**1,159**	**1,242**

Source: Leadenhall Analysis

CCUs

We have assessed the value of a CCU based on the total value of Namoi Cotton equity less the assessed value of Grower Shares. We have also applied a marketability discount, known as the discount for lack of marketability ("**DLOM**").

A marketability discount arises as a result of investors placing significant value on liquidity, which is the ability to sell an investment quickly at a reasonable price. In selecting a marketability discount, we have considered the following:

- DLOMs generally fall in the range between 10% and 40% as set out in Appendix 4.
- The high volatility of distributions, with FY15 being the only year in the recent five-year period where distributions had been declared and paid.
- The restrictive nature of a CCU as the holder has an interest in the capital but not the share capital of a co-operative.
- The relatively low volume of CCU trading activities observed in the past three years, with the average daily value of CCUs traded at approximately $14,850. This is below the level of which most institutional investors would invest.

Having regard to the above general factors, we have applied a marketability discount of 25%.

The table below shows the calculation of the value of a CCU:

Table 17: CCU valuation summary

($'000)	Low	High
Total equity value	107,799	129,154
Assessed value of Grower Shares	(1,159)	(1,242)
CCU value (marketable basis)	**106,640**	**127,912**
Less: marketability discount at 25%	(26,660)	(31,978)
Assessed CCU value	**79,980**	**95,934**
Number of CCUs on issue	109,843	109,843
Assessed value per CCU ($)	**0.73**	**0.87**

Source: Leadenhall Analysis

We note this is a significant premium to the trading price of CCUs. This may be due to the operational volatility and that Namoi Cotton is not well understood by the market.

6.5 Allocation to shares after Proposed Transaction

As the Proposed Transaction does not result in a change to the total equity value of Namoi Cotton, the value per share is determined based on the total equity value calculated in Section 6.2. The table below shows the calculation of the value per share after the Proposed Transaction:

Table 18: Value per share after the Proposed Transaction

($'000)	Low	High
Total equity value	107,799	129,154
Shares on issue	142,654	142,654
Value per share ($)	**0.76**	**0.91**

Source: Leadenhall Analysis

If the Proposed Transaction is approved there will be no limitations on transferability as currently apply to Grower Shares. We also believe the simpler structure and proposed capital raising will increase the liquidity for Namoi Cotton compared to the current market for trading in CCUs. Therefore, we have not applied a marketability discount to the assessed value per share shown above.

Shares on issue has been calculated as the sum of 207 active Grower Members each being converted to 158,504 ordinary shares and the conversion of 109,843,279 CCUs currently on issue.

7 EVALUATION

7.1 Fairness

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Namoi Cotton share, before and after the Proposed Transaction. This comparison is set out in the table below.

Table 19: Assessment of fairness

	Grower Shares		CCUs	
	Low	High	Low	High
Value per share[1] before Proposed Transaction ($)	**7.00**	**7.50**	**0.73**	**0.87**
Ordinary shares per security	198	198	1	1
Assessed value per ordinary share ($)	0.76	0.91	0.76	0.91
Value per share after Proposed Transaction ($)	**150**	**179**	**0.76**	**0.91**

Source: Leadenhall Analysis
Note 1: This refers to each individual share of the 800 Grower Shares allocated to every active Grower Member.

Based on the information in the table above, the Proposed Transaction is fair to both Grower Shareholders and CCU Holders.

To assess the impact of variations in key assumptions, we have conducted a sensitivity analysis discussed below:

- **Maintainable earnings:** Any level of maintainable earnings above $8.5 million would not change our opinion on the fairness of the Proposed Transaction for both Grower Shareholders and CCU Holders.
- **Multiples:** Any EBITDA multiples greater than 3.1x would not change our opinion on the fairness of the Proposed Transaction for both Grower Shareholders and CCU Holders.
- **Marketability discount:** Any marketability discount above 7% would not change our opinion on the fairness of the Proposed Transaction for both Grower Shareholders and CCU Holders.
- **Grower Share valuation:** Any reasonable set of assumptions, in relation to the capitalisation rate of the rebate per share and estimated FY18 operating plan, would not change our opinion on the fairness of the Proposed Transaction for both Grower Shareholders and CCU Holders.

As a result of the sensitivity analysis performed, any reasonable assumptions of the key inputs will not change the outcome of our opinion on the fairness of the Proposed Transaction for both Grower Shareholders and CCU Holders.

7.2 Reasonableness

We have defined the Proposed Transaction as being reasonable if it is fair, or if despite not being fair, the overall advantages of the proposal outweigh its disadvantages to Securityholders. We have therefore considered the advantages and disadvantages of the Proposed Transaction as set out in the following table:

Table 20: Summary of reasonableness factors

	Advantages	Disadvantages
All Securityholders	♦ **Access to capital** – By providing a simpler structure, it is expected that Namoi Cotton will more easily be able to raise capital. This will allow Namoi Cotton to better respond to market challenges and business opportunities. ♦ **Likelihood of a takeover offer** – If the Proposed Transaction is approved there will be fewer impediment to a takeover offer for Namoi Cotton. Should an offer be received it would typically provide an opportunity for Securityholders to benefit from the payment of a control premium. However, Namoi Cotton has in place a shareholding limit of 20% for at least four years to avoid a change of control occurring too quickly.	♦ We have not identified any significant disadvantages of the Proposed Transaction that affect both Grower Shareholders and CCU Holders.
Grower Shareholders	♦ **Liquidity** – Currently Grower Shareholders are unable to sell their shares. If the Proposed Transaction is approved they will hold shares that are traded on the ASX providing a market for them to sell their shares should they wish to do so. ♦ **Capital appreciation** – The redemption amount on Grower Shares is fixed, thus Grower Shareholders will not participate in the capital appreciation of the Namoi Cotton business over time. If the Proposed Transaction is approved, Growers will hold ordinary shares that may appreciate over time if the Namoi Cotton business is able to achieve the goals set out for it by management.	♦ **Loss of control** - At present Grower Shareholders collectively have effective control of Namoi Cotton. If the Proposed Transaction is approved, this will no longer be the case. However, we note that Grower Shareholders do not individually have control of Namoi Cotton at present and are unable to transfer their Grower Shares, thus cannot realise the value of their control. However, if the Proposed Transaction is approved, Grower Shareholders will be compensated for the loss of control in the form of a significant gain in value of their shareholdings. ♦ **Divergence of interests** – Shareholders who are not growers may have different interests to Grower Members. If the Proposed Transaction is approved these investors will have an increased ability to influence the direction of the company. This may not be in the interests of Growers.

	Advantages	Disadvantages
CCU Holders	♦ **Increased liquidity** – If the Proposed Transaction is approved, the simplified structure may lead to increased liquidity in Namoi Cotton security trading on the ASX. This liquidity is likely to improve further if a capital raising is also successfully completed. ♦ **Increased voting rights** - CCU Holders currently have very limited voting rights. If the Proposed Transaction is approved, they will acquire normal voting rights associated with an ordinary Shareholding.	♦ **Benefits disproportionately flow to Growers** - The economic benefit to Growers from the Proposed Transaction are significant, as set out in Table 19 above. This contrasts with CCU Holders who receive little immediate economic benefit, with the real benefits coming over time if management is able to execute its strategies and increase the value of the business as a whole as the size of the Growers' shareholdings in the new structure increases.

Source: Leadenhall Analysis

Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable since the advantages outweigh the disadvantages for both Grower Shareholders and CCU Holders.

7.3 Opinion

The Proposed Transaction is fair and reasonable and in the best interests of both Grower Shareholders and CCU Holders.

APPENDIX 1: GLOSSARY

Term	Meaning
Act	The Co-operatives Act 1992
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUD	Australian Dollar
CCU	Co-operative capital unit
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair Market Value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
Member	A Namoi grower member
Members	Namoi's grower members
Namoi Cotton	Namoi Cotton Co-operative Limited
NPAT	Net profit after tax
Proposed Transaction	A restructure whereby all Securityholders will hold the same class of shares
RG111	Regulatory Guide 111: Content of Expert Reports
SWOT	Strengths, weaknesses, opportunities and threats
USD	US Dollar

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by FactSet.

Company	Description
Adecoagro SA	Adecoagro SA operates as a holding company, which is engaged in agricultural, manufacturing and land transformation activities. It operates in the following businesses: Farming; Sugar, Ethanol & Energy and Land Transformation. The Farming business is subdivided into the following business areas: Crops, Rice, Dairy, and all other segments. The Crops business area provides a range of agricultural commodities, which includes grains, oilseeds and fibers. The Rice business area involves in rice operation, which produces rough rice. The Dairy business area comprises the production and sale of raw milk. The All other segments include coffee farm and cattle business which primarily consists of leasing land to a third party based on the price of beef. The Sugar, Ethanol & Energy business involves the cultivation and harvest of sugar cane, which is processed to produce sugar, ethanol and electric energy. The Land Transformation business includes the acquisition and transformation of underdeveloped or underutilized farmlands for productive capabilities. The company was founded by Alan Leland Boyce, Ezequiel Garbers, Mariano Bosch, and Walter Marcelo Sanchez in 2002 and is headquartered in Luxembourg.
Ahmed Hassan Textile Mills Ltd	Ahmed Hassan Textile Mills Ltd. manufactures yarn and fabric. It also engages in the cotton ginning business. It operates through the following segments: Ginning, Spinning, and Weaving. The Ginning segment produces cotton lint from raw cotton. The Spinning segment offers different qualities of yarn by using natural and artificial fibers. The Weaving segment focuses on different qualities of fabric using yarn. The company was founded on December 3, 1989 and is headquartered in Multan, Pakistan.
Bunge Ltd	Bunge Ltd. is a global agribusiness and food company, with integrated operations that stretch from the farm field to consumer foods. It operates its business through five segments: Agribusiness, Sugar & Bioenergy, Edible Oil Products, Milling Products and Fertilizer. The Agribusiness segment is an integrated business involved in the purchase, storage, transport, processing and sale of agricultural commodities and commodity products. Its principal agricultural commodities include oilseeds and grains, primarily soybeans, rapeseed or canola, sunflower seed, wheat and corn. The Sugar & Bioenergy segment produces and sells sugar and ethanol derived from sugarcane, as well as energy derived from its production process. The Edible Oil Products segment include packaged and bulk oils, shortenings, margarines, mayonnaise and other products derived from the vegetable oil refining process. The Milling Products segment includes the production and sale of wheat flours and bakery mixes in Brazil and corn-based products derived from the corn dry milling process, as well as rice milling in North America. The Fertilizer segment includes blending and distribution of crop fertilizers to farmers producing and marketing solid and liquid fertilizer formulations. The company was founded by Johann Peter Gottlieb Bunge in 1818 and is headquartered in White Plains, NY.
Costa Group Holdings Ltd	Costa Group Holdings Ltd. engages in horticultural business. It operates through the following segments: Produce, International and Costa Farms & Logistics. Produce segment operates in four categories: berries, mushrooms, glasshouse-grown tomatoes and citrus. International segment comprises licensing of proprietary blueberry varieties and expansion of berry farming in attractive international markets, such as Morocco and China. Costa Farms & Logistics incorporates interrelated logistics, wholesale, avocado marketing and banana farming and banana marketing operations. The company is headquartered in Ravenhall, Australia.

Company	Description
Elders Ltd	Elders Ltd. is engaged in providing financial, real estate services to rural, agricultural and automotive businesses. The company operates its business through the following segments: Network, Feed & Processing, Live Export and Other. The Network segment includes the provision of a range of agricultural products and services through a common distribution channel. The Feed and Processing segment includes the Australian cattle feedlot near Tamworth in New South Wales, the Indonesian cattle feedlot near Lampung and Elders Fine Foods which is involved in the importation and distribution of Australian and New Zealand food products throughout China. The Live Export segment facilitates principle position trades of dairy, beef feeder, beef slaughter and beef breeding cattle from Australia and New Zealand to international markets by sea or air freight. The Other segment includes the general investment activities not associated with the other business segments and the administrative corporate office activities. Elders was founded by Alexander Lang Elder in 1839 and is headquartered in Adelaide, Australia.
Laxmi Cotspin Ltd	Laxmi Cotspin Ltd. engages in the business of cotton processing in the textile industry. Its products include spinning of open end and ring yarn; and ginning and pressing of cotton bales and cotton seeds. The company is was founded in 2006 and is headquartered in Jalna, India.
Namoi Cotton Co-operative Ltd	Namoi Cotton Cooperative Ltd. engages in the cotton industry. It operates through the Ginning and Marketing segments. The Ginning segment provides to the growers during the production process such as the separation of lint cotton from seed and other foreign matter, and the conversion of cotton in module form to bale form. The Marketing segment refers to the purchase of lint cotton from Australian growers using a variety of forward contracts. The company was founded in 1962, and is headquartered in Wee Waa, Australia.
PGG Wrightson Ltd	PGG Wrightson Ltd. engages in the provision of rural services. It operates through the Rural Services and Seed & Grain divisions. The Rural Services division includes three segments namely, Retail, Livestock, and Other Rural Services. The Retail segment comprises of rural supplies and fruitfed retail operations, AgNZ (Consulting), agritrade and ancillary sales support, supply chain and marketing functions. The Livestock segment consists of rural livestock trading activities and export livestock. The Other Rural Services segment offers insurance, real estate, wool, PGG Wrightson Water, AgNZ (Training), Regional Admin, Finance Commission, and other related activities. The Seed & Grain division composes of different activities such as New Zealand and Australian manufacturing and distribution of forage seed and turf; sale of cereal seed and grain trading; various related activities in the developing seeds markets including the sale of pasture and crop seed and farm inputs, together with operations in the areas of livestock, real estate and irrigation; and research and development, international, production, and corporate seeds. The company was founded in 1851 and is headquartered in Christchurch, New Zealand.
Ruralco Holdings Ltd	Ruralco Holdings Ltd. provides merchandising services. It operates through the following business segments: Rural Services, Water Services, Live Export, Financial Services and Corporate & Other. The Rural Services segment offers livestock agency, wool broking and real estate services and sells rural merchandise and fertilizer. The Water Services segment supplies and installs water related products, which provides irrigation and planning services. The Live Export segment supplies dairy, feeder, slaughter, breeding cattle and sheep from Australia to International markets, primarily in South East Asia. The Financial Services segment comprises finance broking including insurance and agricultural advisory services. The Corporate & Other segment comprises the group's back office corporate and supply chain and procurement cost centers. The company was founded in 1865 and is headquartered in Macquarie Park, Australia.

Company	Description
Select Harvests Ltd	Select Harvests Ltd. It engages in the processing, packaging, marketing and distribution of edible nuts, dried fruits, seeds, and a range of natural health products. It also provides management services to external owners of almond orchards, including orchard development, tree supply, farm management, land rental and irrigation infrastructure, and the marketing selling of almonds on behalf of external investors. The company operates through the following segments: Food Division and Almond Division. The Food segment processes, markets, and distributes edible nuts, dried fruits, seeds, and a range of natural health foods. The Almond segment grows, processes and sells almonds to the food industry from company owned almond orchards, and provides a range of management services to external owners of almond orchards, including orchard development, tree supply, farm management, land andirrigation infrastructure rental, and the sale of almonds on behalf of external investors. Select Harvests is headquartered in Thomastown, Australia.
Webster Ltd	Webster Ltd. is a food and agribusiness company, which engages in producing, processing, marketing, and exporting vegetables and walnuts. It operates through the Agriculture and Horticulture segments. The Agriculture segment offers annual row crops including cotton, wheat and maize as well as livestock. The Horticulture segment pertains to tree crops which are currently walnuts. The company was founded in 1831 and is headquartered in Leeton, Australia.

APPENDIX 4: MARKETABILITY DISCOUNT

Introduction

Non-controlling interests in unlisted companies generally sell at a discount to the price of comparable listed securities. This difference is known as the discount for lack of marketability ("DLOM") or liquidity discount. It arises because investors place a significant value on liquidity – the ability to sell an investment quickly at a reasonable price. DLOMs generally fall in the range between 10% and 40%. However, there are circumstances where the appropriate discount could be significantly in excess of 40%.

Evidence for DLOM

Restricted stock studies

Many US companies with publicly traded stocks also issue shares that are subject to resale and transfer restrictions (restricted stock). These shares are identical to the publicly traded shares in all respects except for the lack of registration and the restrictions on trading. There have been many studies that compare the prices of restricted stock transactions to the public market trading prices of the freely traded securities on the same day. As the shares are identical in every respect except for their trading status, the difference is solely due to the illiquidity or lack of marketability of the restricted stock. The following table, compiled by John Stockdale, Sr., summarises a number of such studies.

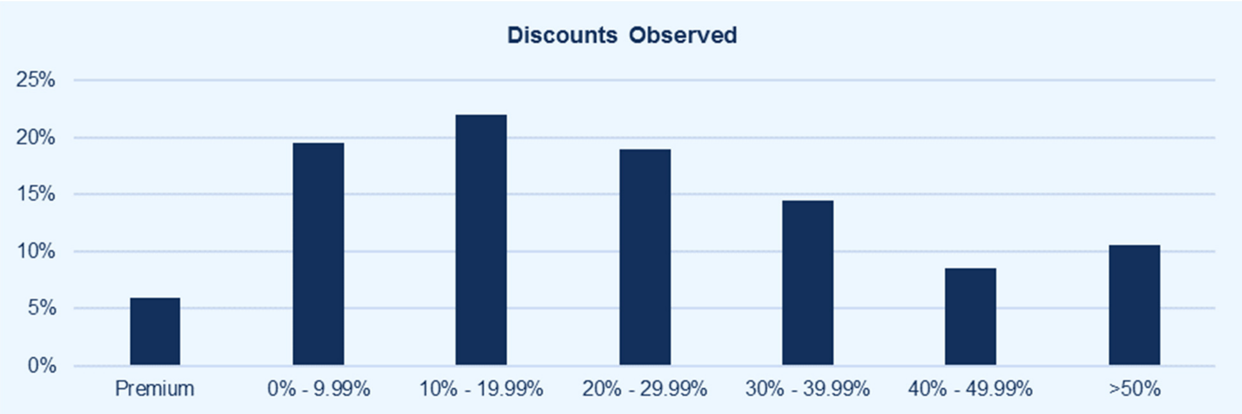
Study	Period	Number of companies	DLOM Mean	DLOM Median
SEC Institutional Investor	1966 – 1969	398	24%	-
Gelman	1968 – 1970	89	33%	33%
Moroney	1968 – 1970	145	36%	33%
Maher	1969 – 1973	34	36%	33%
Trout	1968 – 1970	60	34%	-
Standard Research Consultants	1978 – 1982	28	-	45%
Johnson & Racette	1967 – 1973	86	34%	-
Williamette Management Associates	1981 – 1984	33	-	31%
Wruck – Registered	1979 – 1984	36	-4%	2%
Wruck – Unregistered	1979 – 1984	37	14%	12%
Silber	1981 – 1988	69	34%	-
Hertzel & Smith	1980 – 1987	106	20%	13%
Management Planning Inc.	1980 – 1995	49	28%	29%
Johnson	1991 – 1995	72	20%	-
Columbia Financial Advisers	1996 – 1997	23	21%	14%
Columbia Financial Advisers	1997 – 1998	15	13%	9%
Bajaj, Dennis, Ferris & Sarin	1990 – 1995	88	22%	21%
FMV database	1980 – 1997	243	23%	21%
FMV database	1997 – 2007	311	21%	16%
FMV database	2007 – 2008	43	9%	6%
Finnerty	1991 – 1997	101	20%	16%
Wu	1986 – 1997	301	9%	20%
Barclay, Holderness & Sheehan	1979 – 1997	594	19%	17%
Trugman Associates	2007 – 2008	80	18%	14%

Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

The more recent studies tend to show a smaller level of discount due to the Securities and Exchange Commission ("SEC") relaxing the conditions attached to restricted stock as follows:

- In 1990 the SEC allowed trading among qualified investors holding restricted stock. This appears to have reduced the discount in restricted stock transactions, as none of the studies after this change found a mean or median discount greater than 22%, while many of the earlier studies reported figures in excess of 30%.
- In 1997 the SEC reduced the holding period for restricted stock from two years to one year. This had a limited impact on the discount for restricted stock transactions, as shown by the 2% reduction in the mean discount from the transactions in the FMV database.
- In 2008 the holding period was further reduced from one year to six months. Observed discounts were notably lower after this change, with both relevant studies finding a mean discount below 20%. This highlights the importance of expected time to realisation in assessing a suitable DLOM.

Restricted stock studies generally show a positively skewed distribution. This is perhaps best illustrated by the following summary of six separate studies, collated by Stockdale:



Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

Restricted stock studies have some limitations; in particular they tend to involve relatively small and risky firms; and the individual discounts observed are widely dispersed (although mostly in the range of 0% to 50%). Also, the restrictions typically relate to an escrow period which is not directly comparable with a lack of marketability, where the security can be transferred at any time if a willing buyer can be found.

Pre-IPO studies

Pre-IPO studies attempt to quantify the DLOM by comparing share prices in IPO transactions with transaction prices in the same shares prior to the IPO. The data available to us from these studies is US based, with two of the most widely referenced studies summarised in the following tables:

Time between transaction and IPO	DLOM	
	Mean	Median
0-30 days	30%	25%
31-60 days	40%	38%
61-90 days	42%	43%
91-120 days	49%	50%
121-153 days	55%	54%

Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

As with the restricted stock studies, these studies show the importance of expected time to realisation. A potential caution with pre-IPO studies is the issue of sample bias, in that only companies that achieved an IPO are included. It is possible that such companies are those that have been successful over the period between the benchmark transaction and the IPO date, possibly overstating the impact of illiquidity, particularly where the time between the benchmark transaction and the IPO is relatively long.

Event studies

Event studies consider the abnormal return on a stock around a specific event such as a listing or delisting. Two such studies are discussed briefly below.

Sanger and McConnell studied the excess returns to stocks moving from over-the counter ("OTC") trading to a listing on the New York Stock Exchange over the period 1966 to 1977. The study computed an average DLOM of 20.4% before the introduction of NASDAQ in 1971, and 16.9% thereafter. It is important to note that the study does not consider the element of DLOM that should exist between a private company compared to one listed for OTC trading.

In 2003 Abbott studied the returns from stocks that delisted from NASDAQ during the period 1982 to 2001. The study identified an average DLOM of 18%. Abbott also identified three factors affecting the size of DLOM:

- **Market value** – the larger the company, the smaller the DLOM.
- **Cumulative return** – the higher the return (including dividends) before the event, the smaller the resulting DLOM.
- **Volume** – the larger the turnover of shares in the market, the smaller the DLOM.

Other studies

Various other studies have been performed, with results generally consistent with those presented in this appendix. However we consider the studies referred to above to be more reliable. Some examples of other studies undertaken include:

- **Listed Private Equity** - in these studies a comparison is made between the market price of listed private equity investments and their net asset value. However, this difference would include the discount for lack of control as well as the DLOM. Further, the base value (book value of net assets) is an opinion provided by management or consultants, and so not necessarily very reliable evidence of market value. These studies do highlight an important issue which is that the level of DLOM changes significantly over time.
- **Bid-Ask Spread** - these studies analyse the bid-ask spread of listed companies. They measure relative illiquidity among listed companies and so are not necessarily a good indication of DLOM for private companies. A bid-ask spread study by Damodaran highlighted that spread decreases when:
  - revenue increases
  - companies are profitable as opposed to loss making
  - cash as a % of value increases
  - trading volume increases
- **Private company transactions** - these studies compare the prices paid in minority transactions involving private companies with a base price representing the value on a liquid basis. The problem with such studies is determining a base price for comparison to the transaction price. A 1975 survey by H Calvin Coolidge used net asset value as a base price, which he believed was reasonable for the asset intensive companies in the study, which resulted in a mean DLOM of 36%, with the median DLOM also 36%.
- **Surveys** - for example the Pepperdine survey found a median DLOM of 20% for private equity and venture capital investors. However, only 5% of these investors responded that they would make an investment without suitable investor protection such as shareholder agreements, buy/sell agreements and employment agreements. This is not always representative of the circumstances of the company for which a DLOM is to be determined.

Quantitative Models

Various quantitative models for determining DLOM have been developed. At present these models have many limitations, typically including:

- The models proposed to date do not generally fit the observed data well.
- Many of the models require inputs, such as volatility or time horizon to realise an investment, which are unknown for most of the circumstances where we need to apply a DLOM.
- A number of models move from subjectively determining an overall DLOM, to subjectively determining a number of other factors, leading to a DLOM that appears more scientific than it actually is.

Factors impacting DLOM

Several studies have sought to identify factors affecting DLOM and if possible to quantify that impact. The studies to date identified a number of key factors, however there is insufficient evidence to point to any specific numerical relationships between the factors impacting DLOM and the level of DLOM itself, thus after evaluating how the relevant factors apply to the specific circumstances, we are left with a subjective judgement of what an appropriate DLOM should be. The key factors identified are listed below.

Factor	Smaller DLOM (< 20%)	Larger DLOM (>30%)
Size		
Revenue	Higher	Lower
Market value	Higher	Lower
Financial Stability		
Rate of return - profitability	Higher	Lower
Earnings stability	Stable	Volatile
Financial distress	Low risk	High risk
Market / Book value	Low	High
Financial Markets		
Interest rates	Low	High
Volatility	Low	High
Company structure		
Non-executive directors	Many	Few
Block size	Large	Small
Other holdings	Fragmented	Large blocks
Time to sale	Short	Long
Shareholder rights		
Shareholders agreement	Extensive	None
Tag along / drag along rights	Extensive	None
Right to appoint director(s)	Extensive	None
Restrictions on transferability	None	Severe
Expected disposal period		
Exit intentions of majority	Short term	None
Potential buyers of block	Many	One or none
Other		
Industry	The relationship between industry and DLOM is inconclusive from empirical studies. However, it may be the case that at certain points in time industries that are in demand with investors would experience relatively lower DLOMs than other industries.	
Dividends	It is often suggested that the payment of dividends reduces DLOM. While this is intuitively appealing, after adjusting for size and financial strength, empirical studies have failed to find a significant relationship between dividends and DLOM.	
Complexity of group	A complex group structure may not be appealing to investors. However, this factor should not be double counted, if it has been taken into account in determining a control value, eg. through the discount rate applied.	

Source: Leadenhall analysis

Note: 'Higher' and 'Lower' refer to the market as a whole and not specifically to the comparable companies (if any) used to determine a base value. Thus, to allow for factors such as size or earnings stability in determining suitable base value and then in assessing the DLOM to be applied would not be double counting.

The list of factors highlighted above, is a general indication of the main factors to be considered in determining a DLOM. However, the selection of a DLOM remains a subjective issue. It is important to ensure factors that have been considered in selecting a base (pre-DLOM) value are not double counted when applying the DLOM. In this regard allowing for size in the DLOM and for example the discount rate is NOT double counting, as the observed DLOM % for transactions involving smaller companies is higher than for larger companies. It is also important to remember that in a given set of circumstances one single factor can outweigh several contradictory factors, for example the existence of a savoy clause[1] in a shareholders' agreement may outweigh many other factors, leading to a very low DLOM.

Note 1: A savoy clause allows one party to a joint venture to nominate a price, at which the other party can choose to sell its own interest or buy out the proposing party's interest.

APPENDIX 5: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Namoi Cotton's Securityholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by Namoi Cotton being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to Namoi Cotton's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of Namoi Cotton's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for Namoi Cotton, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of Namoi Cotton referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by Namoi Cotton and their officers, employees, agents or advisors, Namoi Cotton have agreed that they will not make any claim against Leadenhall to recover any loss or damage which they may suffer as a result of that reliance and that they will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by Namoi Cotton and their officers, employees, agents or advisors or the failure by Namoi Cotton and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Simon Dalgarno, B.Ec, FCA, F.FINSIA and Bruce Li, BCom., CA.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of Namoi Cotton. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.