OBJ LIMITED – FAQs REGARDING PROPOSED TRANSACTION

Regarding OBJ Limited's proposed agreement to acquire Export Corporation (Australia) Pty Ltd, the Board of OBJ wishes to provide further clarity in the market by answering some of the most frequently asked questions relating to the proposed transaction.

1. **Q: The BDO report states the proposed transaction is "not fair". Please explain.**

A: OBJ Board requested BDO Corporate Finance (WA) to prepare an Independent Expert's Report (IER) to express an opinion as to whether or not the Proposed Transaction is "fair and reasonable" to the non-associated shareholders of OBJ.

BDO concluded that *in the absence of an alternative offer*, the Proposed Transaction is not fair but it is reasonable to the Shareholders of OBJ.

BDO concludes the OBJ deal is not fair on the basis that the value range of an OBJ share prior to transaction (Low: 30.8c, High 40.8c post-consolidation) is below the value range of an OBJ share post transaction (Low: 23.3c, High 30.8c) (refer to Section 12 of IER). Under ASIC guidelines RG 111, 'an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer'. [It should be noted that the Directors of OBJ, in their independent research, were unable to find *a single instance* of a small/smaller company acquiring a large/larger company wherein the IER found the transaction to be "Fair".]

BDO are compelled to base their estimate on the basis that the full purchase price is paid up front and that any equity consideration is at the same price as the capital raise. This affects the share price estimate as (a) less than half of the acquisition price is paid for up front (b) a significant amount of the future cash payment are made from new earnings (c) future payments made in the form of OBJ equity are reasonably expected to be made at a higher share price (d) total cash and equity is $70m, with a final balloon equity payment of up to $15m as described below:

The final equity payment of $15m is structured to incentivise performance. In effect, average EBIT for the combined 2019, 2020 and 2021 financial years needs to be equal to or exceed EBIT for 2018 ($9.5m). For every $1m drop in average EBIT below the FY2018 EBIT, the final equity payment is discounted by $5m. When including FY2019 EBIT, EBIT for each of the 2020 and 2021 financial years needs to be equal to or in excess of $11.5m for the vendor to achieve the full payment of $15m. The total maximum purchase price as calculated in the BDO report is $85m.

While investors have undoubtedly been concerned as to why BDO deemed the offer to be "not fair", BDO also states in the IER that <u>the position of Shareholders if the Proposed Transaction is approved is more favourable than the position if the Proposed Transaction is not approved</u>.

In its assessment of reasonableness, BDO concluded "there is a very significant benefit for OBJ to acquire an established business with strong cash flows."

BDO stated: "Nutrition Systems is a profitable business with strong cash flows from operations established over many years and these cash flows will be available within the expanded OBJ/Wellfully entity potentially to support the development and commercialisation of OBJ's products."

As highlighted in section 13.4 of the IER, BDO notes that in addition to future cash flows, the transaction will facilitate fuller utilisation of OBJ's manufacturing partnerships, increase experience on OBJ's board of directors, potential synergistical benefits, and increased market capitalisation.

In addition, it is important to note the consequences of not approving the transaction. As stated by BDO in the IER, termination of the transaction would require OBJ to explore new opportunities to take the Company forward and / or (given its $1.5 million in cash position at the end of the September Quarter) conduct a capital raising *at a lower price than current market price* which would be dilutive to existing shareholders.

2. Q: The proposed transaction looks like it will heavily dilute existing OBJ shareholders' investments. Is this correct?

A: OBJ Investors are undoubtedly concerned their shareholding will be diluted if the transaction takes place.

The OBJ Board have expended much effort to structure the acquisition in such a way as to ensure that any dilution is minimised.

First, of the $50m cash sought to be raised, $20m of that will be debt-funded. So, 40% of the cash requirement has no dilutive effect at all. Further offsetting any dilution is the recognition that despite only paying $40m cash up-front – less than half of the total acquisition price – OBJ receives 100% of the revenue and EBITDA. This increases the value of an OBJ share (usually calculated as multiple of P/E) by the full amount despite having only paid for less than half of the purchase up front.

Second, the Proposed Transaction provides for the Stage One, Two and Three Equity Consideration to be issued at a price which is **the higher of the Floor Price of 24 cents per share and the 30-day VWAP** at the appropriate time for each stage. The Board has the reasonable expectation that the issue price will be based on a 30-day VWAP which is *greater than 24 cents per share* and hence a lesser number of shares will be issued to the Vendors; the dilution of existing shareholders **will therefore be reduced** proportionately.

3. **Q: Mr Pavlovich will eventually take a controlling stake in the business. Is this just a reverse takeover?**

   A: Mr Pavlovich has had approaches from others to buy the business he has built over the past 30 years. Only the OBJ opportunity enabled him to stay with the company, remain as an indirect shareholder, and benefit from OBJ's expertise in (a) growing the business geographically (b) improving KPI's with local manufacture and (c) dramatically drive the digital business. Control of OBJ is simply not a factor, and nor is it desirable.

   The OBJ Board would like to dispel the myth regarding Mr Pavlovich taking "control" of the combined entity:

   i. If the proposed transaction is successful, then the Vendors will hold an interest of up to a maximum of approximately 45% in OBJ/Wellfully. *This is assumes "worst case", with no increase in share price and no correction in the final $15m equity payment.*
   ii. Assuming Mr Pavlovich joins the Board, as is expected if the transaction is successful, OBJ's Board will comprise of six directors with Mr Pavlovich representing 1/6th of the total board.

   Mr. Pavlovich's involvement in the company is very important and his contribution is highly regarded; it is imperative that all interests are aligned, with unity and a sharing of objectives being critical to any successful organisation.

4. **Q: How concerned is the OBJ Board regarding the recent performance of Export Corporation Group's business?**

   A: Mr. Pavlovich's business is 30 years old and – as with any business – there are cycles and movements year-on-year. Suffice to say that there are peaks and troughs and an explanation for each. The performance of Export Corporation for FY2019 is reflective of a decline in revenue across the business as a result of less discounting, avoiding retailers whose cost-cutting affected brand positioning, increased pressure on margins owing to competition from house brands and cheaper imported products, and retail price pressure resulting from significant fx movements.

   However, the OBJ Board have studied Export's performance in great depth and spent many months pouring over the details. Importantly, by looking at the performance of other businesses in a similar space we are of the opinion that Export has fared at least as well (if not better) than others. Accordingly, we are highly optimistic in the future performance of Export Corporation Group. Further reinforcing this belief, Export has increased its focus on developing pharmacy and digital channels, and expects to see an upturn in upcoming years in this area. Attractive efficiency gains will also be made when local manufacturing commences.

   It should be noted that cheaper, illegal / noncompliant product imports are expected to decline in the near future in the face of tighter legal controls over the industry, thereby reducing the competitive frame in which Exports' products exist with a consequential lift of margins expected.

   As stated in the IER, BDO considers a level of future maintainable EBITDA in a range between the most recent FY19 performance and the previous three years to FY18 performance (FY16, FY17 & FY18) is appropriate and this is supported by the FY20 budget and the performance for the year to date.

BDO have considered the FY20 budget for the nutrition business is consistent with a range for the future maintainable EBITDA earnings of the business from $7.0 million to $8.0 million.

5. **Q: Will the Company have sufficient working capital once the transaction is complete and how will it fund the first $5m payment to the Vendor?**

   A: The Company expects to fund the payment from operating cashflow, in addition to surplus funds from the capital raise and debt facility. Furthermore, OBJ is (as part of the transaction) acquiring fresh (in-date) inventory and net Accounts Receivable totaling approx. $23m.

   The exact amount will be calculated at settlement but it is expected that net Accounts Receivable over Accounts Payable at settlement will be in the order of approx. $7 million, which is expected to be a direct cashflow into the company shortly after completion.

6. **Q: If the proposed transaction doesn't occur, will the $20 million loan facility OBJ has negotiated with ANZ still be available?**

   A: No. The ANZ loan is conditional upon the proposed transaction and capital raising.

7. **Q: Why does the acquisition of the NSW distribution centre makes sense?**

   A: The acquisition, which includes a 4,440m^2 warehouse and 808m^2 office space, is pivotal to the transaction as it is the primary distribution centre for the Nutrition Systems business.

   If one thinks of a distribution centre as just a 4-sided box from which to operate a logistics function, then the argument against buying the DC is compelling. However, the NSW DC in question is a centre of excellence in operational efficiency, and is one of the differentiators that gives Nutritional Systems a sustainable competitive advantage. The design and layout of the DC is configured to the business of NS, and this will be further entrenched when local manufacture begins. When negotiating the deal to acquire Nutrition Systems it became immediately evident that the acquisition of the distribution centre would add several benefits to the financing of the deal and the future prospects of production capacity and cost reduction.

   The value and nature of this asset made it also attractive to first tier lenders. The $20m debt facility negotiated with ANZ is guaranteed both by the strength of the cashflow and the security of the real estate. It is uncertain whether a major bank would have provided funding without both elements being present.

   The facility has a dedicated space that will be used to set up Nutrition Systems' own manufacturing which will further improve the efficiency of the asset while simultaneously reducing cost of goods and shortening lead times.

   Finally, it was the view of the Board that an added benefit was greater control over operations and the avoidance of potential conflict by not having to negotiate regularly with a Landlord.

8. **Q: OBJ directors will receive substantial new shares in Wellfully as rewards for their involvement in this deal. Is this true?**

   A: This is incorrect. On the contrary, OBJ directors have expressed interest to participate meaningfully in the capital raising. As they are recommending the deal, they are backing this up by meaningful participation in the capital raising alongside all other investors.

For compliance and good governance purposes, OBJ is seeking formal shareholder approval for directors to participate in the capital raising.

ENDS

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