

**Cryosite Limited  
(ACN 090 919 476)**

**NOTICE OF GENERAL MEETING  
AND EXPLANATORY STATEMENT**

**Meeting to be held at 13A Ferndell Street, South Granville, NSW 2142 at 10.30am on  
15 January 2018.**

This Notice of General Meeting and Explanatory Statement should be read in its entirety. If you are in doubt as to how to vote on any of the resolutions, you should seek advice from your accountant, solicitor or other professional adviser without delay.

## NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders of Cryosite Limited ACN 090 919 476 (“Company”) will be held at 13A Ferndell Street, South Granville NSW 2142 at 10.30am on 15 January 2018.

Where not otherwise defined, capitalised terms used in this Notice have the meanings given to those terms in the Glossary on page 13 of the accompanying Explanatory Statement.

### CONTENTS

---

|  |   |
|--|---|
| Notice of General Meeting (setting out the proposed resolutions) |   |
| 4  | Explanatory Statement (explaining the proposed resolutions) |
| 13   | Glossary  |
| Annexure A   | Independent Expert’s Report                                 |
|  | Proxy Form  |

### SPECIAL BUSINESS

#### Resolution 1 – Disposal of Certain Assets Relating to the Company’s Cord Blood and Tissue Banking Business to Cell Care Australia Pty Ltd

To consider and, if thought fit, pass the following resolution:

*“Subject to the passing of resolution 2, that, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company to dispose of Certain Assets Relating to its Cord Blood and Tissue Banking Business and to the buy-back of the shares referred to in resolution 2 on the terms summarised in the notice of this meeting.”*

##### Voting Exclusion

The Company will disregard any votes cast on this resolution by or on behalf of any party to the transaction contemplated by Resolution 1 (including Cell Care Australia Pty Ltd) and any associate of that party.

However, the Company need not disregard a vote if it is cast by a person:

- a) as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### Resolution 2 – Selective Share Buy-Back

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

*“Subject to the passing of resolution 1, that, for the purposes of section 257D of the Corporations Act and for all other purposes, the terms of the buy-back agreement for the selective buy-back of 9,229,995 Shares from Cell Care Australia Pty Ltd summarised in the notice of this meeting are approved.”*

##### Voting Restriction

No votes may be cast in favour of this resolution by or on behalf of Cell Care Australia Pty Ltd or any of its associates.

## **Accompanying Explanatory Statement**

The accompanying Explanatory Statement forms part of this Notice and should be read in conjunction with it.

Shareholders are specifically referred to the Glossary in the Explanatory Statement which contains definitions of capitalised terms used in this Notice and the Explanatory Statement.

## **Proxies**

Please note that:

- (a) a Shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company;
- (c) a Shareholder may appoint a body corporate or an individual as its proxy;
- (d) a body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy, in accordance with the instructions on the Proxy Form; and
- (e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, in accordance with the instructions on the Proxy Form. Where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, the body corporate should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company or its share registry in advance of the General Meeting or handed in at the General Meeting when registering as a corporate representative.

Completed proxy forms (along with copies of any power of attorney under which the form is signed) must be delivered no later than 48 hours prior the General Meeting online, by mobile device, by mail, by fax or by hand, as directed in the Proxy Form.

The Chair of the meeting intends to vote undirected proxies in favour of each item of business.

## **Voting Entitlements**

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that a person's entitlement to vote at the General Meeting will be the entitlement of that person set out in the register of Shareholders as at 7.00pm (AEDT) on 13 January 2018. Accordingly, transactions registered after that time will be disregarded in determining Shareholder's entitlement to attend and vote at the General Meeting.

## **By Order of the Board of Directors**

-----  
**Bryan Dulhunty**  
**Company Secretary**

14 December 2017

## Explanatory Statement

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolution in the accompanying Notice.

This Explanatory Statement should be read in conjunction with the Notice. Capitalised terms in this Explanatory Statement are defined in the Glossary.

### 1. Resolution 1 – Disposal of Certain Assets Relating to the Company's Cord Blood and Tissue Banking Business to Cell Care Australia Pty Ltd

---

#### 1.1 Background

On 23 June 2017, the Company entered into a Cord Blood and Tissue Banking Asset Sale Agreement (**Agreement**) with Cell Care Australia Pty Ltd (**Cell Care**). As announced to the market on that day, the Agreement involves the licensing, under the Cryosite brand, of the marketing, collection, processing and storage of umbilical cord blood and tissue, and the sale of certain of its assets relating to its cord blood and tissue banking operations, to Cell Care (**Transaction**).

The purchase consideration for the Transaction comprises:

- (a) cash consideration of \$500,000;
- (b) earn-out payments over a period of five years with a minimum fixed and guaranteed payment of \$500,000 per annum (additional earn out payments being conditional on the achievement of certain performance targets); and
- (c) the selective buy-back, and thereafter cancellation, of the 9,229,995 shares which Cell Care holds in the Company.

The earn-out payments referred to in paragraph (b) above are to be calculated as follows: the amount payable in a year will be \$125 for each of the first 3,500 Banked Samples (being the paid collection and storage of cord blood and/or cord tissue) in that year, and \$325 for each Banked Sample in excess of 3,500 in that year.

Completion of the Transaction including the buy-back is conditional on the approval of the Company's shareholders, including under Listing Rule 10.1. That approval is sought under Resolution 1.

Approval of the terms of the buy-back agreement is the subject of Resolution 2, which is explained in Section 2 below.

The Agreement contains a provision to the effect that, in the event that the ACCC announces an intention to, or undertakes, an investigation or assessment in relation to the Transaction, the Company may, by notice to Cell Care, elect to resume carrying on its Cord Blood and Tissue Banking Business, suspend the period in which earn-outs are paid, and suspend the operation of the restraint provisions in the Agreement until completion of the Transaction. During that period, the parties will use their best endeavours to fulfil the conditions precedent to the Transaction, and to complete the Transaction, unless specifically legally impeded from doing so.

The Agreement as amended further provides that completion of the Transaction is to occur by 15 January 2018, or on any other date as the Company and Cell Care agree, unless completion is impeded by a government agency (which is defined to include any governmental or semi-governmental commission).

Further details of the Transaction are available in the Company's ASX announcement dated 23 June 2017, headed '*Cryosite to license its CB&T brand and sell certain assets*', available on the Company's website at the following URL:

<http://services.cryosite.com/docs/20170623%20-%20CTE%20-%20Cryosite%20to%20license%20its%20CB&T%20brand%20and%20sell%20certain%20assets.pdf>

## 1.2 Public Review of the Transaction by the ACCC

As the Company announced to the market on 4 August 2017, the ACCC has notified the Company that the ACCC will publicly review the Transaction.

Cryosite has given the following undertakings to ACCC:

- (a) the Company (or any of its related bodies corporate) will not dispose of any interest in the shares or assets of the Company to Cell Care (or any of its related bodies corporate) before the ACCC has completed a public merger review and confirms with Cryosite that the ACCC does not intend to intervene in the proposed acquisition pursuant to section 50 of the *Competition and Consumer Act 2010* (Cth); and
- (b) in the event that the ACCC opposes the proposed acquisition, the Company will provide the ACCC with at least five business days' notice of its intention to proceed with any steps to dispose of any of the assets or shares in the Company to Cell Care.

According to guidelines published by the ACCC,<sup>1</sup> the public review process generally involves the following steps:

- (a) An indicative timeline will be set and market inquiries will commence.
- (b) The ACCC will advise the merger parties of issues and/or concerns which arise, and will provide an opportunity for a response.
- (c) After receiving any response from the merger parties, the ACCC will publish a proposed decision date.
- (d) The ACCC will announce its findings, being either a final decision or a Statement of Issues (**SOI**).
- (e) If an SOI is published, the ACCC will:
  - (i) set a secondary timeline for the review and commence public consultation regarding the SOI, then

---

<sup>1</sup> Australian Competition & Consumer Commission, '*Informal Merger Review Process Guidelines*' (September 2013), accessed 4 August 2017 at:

[https://www.accc.gov.au/system/files/Merger%20Review%20Process%20Guidelines%20-%2026%20September%202013\\_0.pdf](https://www.accc.gov.au/system/files/Merger%20Review%20Process%20Guidelines%20-%2026%20September%202013_0.pdf) (**Informal Merger Review Process Guidelines**)

- (ii) advise merger parties of issues and/or concerns arising or remaining, and provide an opportunity for them to respond, then
- (iii) after receiving any response from the merger parties, update the proposed decision date, then
- (iv) announce its final decision.

According to ACCC guidance, the duration of the above steps will typically be 6-12 weeks where there is a final decision without a SOI having been published. If a SOI is published, the above steps will typically take an additional 6-12 weeks.

The above is subject to the ACCC's discretion as to whether each stage of the public review process is required in the particular case.<sup>2</sup> The ACCC has the discretion at each of the above steps to discontinue its review of the Transaction. However, should it choose not to do so, completion of the Transaction is likely to be delayed.

The potential outcomes of the ACCC review process may include the following:

- The ACCC may form the view that the Transaction is likely to have the effect of substantially lessening competition in a market (that is, form a view to oppose the merger). If this view is formed and the Transaction is not abandoned or modified, the ACCC can apply to the Federal Court for orders which may include penalties, divestiture or injunctive relief.<sup>3</sup>
- The ACCC may decide not to oppose the Transaction<sup>4</sup>
- The ACCC may decide not to oppose the Transaction, but make that decision subject to the acceptance of undertakings under section 87B of the *Competition and Consumer Act 2010* (Cth) (including an undertaking to remedy any competition concerns raised by the ACCC).<sup>5</sup>

Details of the ACCC's review of the Transaction will be recorded on the ACCC's public register, available at:

<http://registers.accc.gov.au/content/index.phtml/itemId/1203306/fromItemId/750991>.

The ACCC had set a provisional date of 16 November 2017 for the announcement of its findings in relation to its review of the Transaction. As announced to the market on 8 November 2017, the ACCC has suspended its review timeline as additional information has been sought to assist with the investigation, including from the Company,

The ACCC has not yet set a new provisional date for the announcement of its findings. The Company is continuing to cooperate and assist the ACCC with its investigation.

The Company will update the market as necessary prior to the General Meeting of the status of the public review of the Transaction by the ACCC.

---

<sup>2</sup> Informal Merger Review Process Guidelines, p 11, para 2.30

<sup>3</sup> Informal Merger Review Process Guidelines, p 6

<sup>4</sup> Informal Merger Review Process Guidelines, p 6

<sup>5</sup> Informal Merger Review Process Guidelines, pp 19, 21

### 1.3 Independent Expert's Report

An independent expert's report has been prepared by Grant Thornton Corporate Finance Pty Ltd (**Expert**) in relation to the Transaction (**IER**). The conclusion of the Expert is that **the Transaction is fair and reasonable to the Non-Associated Shareholders** whose votes are not to be disregarded. More details regarding the IER are available at paragraph 1.7(b) below.

ASX has informed the Company that Listing Rules 11.1.2, 11.1.3 and 11.2 do not apply to the Transaction, which relate to entities proposing to make a significant change to the nature or scale of their activities. Approval of the Company's shareholders in relation to those Listing Rules is therefore not sought.

### 1.4 Interdependency

Resolution 1 is interdependent with Resolution 2 and vice versa, meaning that neither of them will be effective if passed unless the other is also passed.

### 1.5 Listing Rule 10.1

Listing Rule 10.1 states, among other things, that an entity must ensure that it does not acquire or dispose of a substantial asset to a substantial holder of the entity without shareholder approval, if the substantial holder and/or its associates have a relevant interest in at least 10% of the total votes attaching to voting securities in the entity.

An asset is a 'substantial asset' if its value, or the value of the consideration is, is 5% or more of the equity interests in the entity. The consideration for the Transaction exceeds 5% of the equity interests in the Company, so a 'substantial asset' is being disposed to Cell Care. Arguably the buy-back of the shares held by Cell Care constitutes an 'acquisition' for the purposes of the Listing Rule (even though the shares will be cancelled following completion of the buy-back agreement).

In the Listing Rules, 'substantial holder' has the meaning given in section 671B of the Corporations Act; that is, a person who, between themselves and their associates, has a relevant interest in not less than 5% of the total votes attached to voting shares in the company. Because Cell Care holds 19.7% of the Company's issued capital, it is a substantial holder in the Company.

Therefore, the Transaction, including the buy-back of Cell Care's shares, requires shareholder approval under Listing Rule 10.1.

### 1.6 Corporations Act approval not required

Chapter 2E of the Corporations Act has the purpose of preventing public companies from giving financial benefits to related parties without the approval of its shareholders.

In the opinion of the Company, approval of the Company's shareholders is not required under Chapter 2E of the Corporations Act. That is because Cell Care is not a 'related party' within the meaning of section 228 of the Corporations Act. In particular, Cell Care does not 'control' the Company as it lacks the capacity to determine the outcome of decisions about the Company's financial and operating policies (Corporations Act ss 228(1), 50AA). That is because it holds only 19.7% of the Company's issued capital. Further, Cell Care's associates do not control sufficient of the Company's issued capital for Chapter 2E of the Corporations Act to be relevant for present purposes.

## 1.7 Information required by Listing Rule 10.10

Listing Rule 10.10 states that a notice of meeting under rule 10.1 must include certain information. That information is laid out below:

(a) Voting exclusion statement

This is to be found under the text of Resolution 1 in the Notice.

(b) Independent expert's report

The IER required by Listing Rule 10.10, and referred to at section 1.2 above, is attached as **Annexure A** to this Notice of Meeting and Explanatory Statement. As required by Listing Rule 10.10.2:

- (i) the IER states the expert's opinion as to whether the transaction is fair and reasonable to the Company's Non-Associated Shareholders, and
- (ii) that opinion is displayed prominently in the Notice, of which the Explanatory Statement forms part (see section 1.1 of this Explanatory Statement above).

As required by Listing Rule 10.10A:

- (iii) the IER has been, or will be, given individually to each holder of the Company's ordinary securities using the same method as that used to give notice of the meeting;
- (iv) the IER is easily accessible on the Company's website at the following URL: [www.cryosite.com](http://www.cryosite.com); and
- (v) any shareholder of the Company is entitled to request and be sent a hard copy of the IER at no cost to the shareholder.

## 1.8 Directors' recommendation

In the absence of a superior proposal, and subject to the Expert's opinion continuing to be that the Transaction is fair and reasonable to Shareholders other than Cell Care, the Directors unanimously recommend that shareholders vote in favour of Resolution 7. The Directors make their recommendation on the basis that each Director views the Transaction as being in the best interests of Shareholders.

## 2. Resolution 2 – Selective Share Buy-Back

---

### 2.1 Background

Resolution 2 is proposed in relation to the Transaction, which was outlined in section 1.1 above. As announced to the market on 23 June 2017 (and as referred to in section 1.1 (above)), part of the consideration for the Transaction is the selective buy-back of 9,229,995 Shares which Cell Care holds in the Company (the **Buy-Back**). The transaction is also conditional on the Buy-Back. The Company and Cell Care have entered into a Buy-Back Agreement conditional among other things on Resolution 2 being passed. The Agreement will effect the Buy-Back on completion of the Transaction.

Through Resolution 2, the Company seeks the approval of its shareholders for the Buy-Back. Resolution 2 is proposed as a special resolution.

## 2.2 Interdependency

Resolution 2 is interdependent with Resolution 1 and vice versa, meaning that neither of them will be effective if passed unless the other is also passed.

## 2.3 Corporations Act

Part 2J.1, Division 2 of the Corporations Act states the rules to be followed by a company in conducting share buy-backs. Because the Buy-Back is a selective share buy-back, the regulatory requirements are more stringent than for other types of buy-back.

Under section 257A of the Corporations Act, a company may buy back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors, and the company follows the procedures laid down in Part 2J.1 Division 2 of the Corporations Act, including that a special resolution approving the buy-back is passed at a general meeting of the Company, with no votes being cast in favour of the resolution by Cell Care (as the person whose shares are to be bought back) or by its associates. Resolution 2 is proposed to satisfy the requirements for the special resolution.

The Company's constitution does not restrict the Company's legal capacity to buy-back its shares.

## 2.4 Information required to be disclosed to shareholders

Section 257D(2) of the Corporations Act states that a company must include with the notice of meeting a statement setting out all information known to the company that is material to the decision how to vote on a proposed resolution for approval to conduct a selective buy-back.

That requirement is supplemented by ASIC Regulatory Guide 110, in which ASIC sets out the information which it expects to be disclosed to shareholders in relation to a proposed share buy-back.

The Company's disclosure to shareholders is as follows:

(a) *The number of shares on issue:*

The Company has 46,859,563 Shares on issue, which comprises the entirety of its share capital.

(b) *The number and percentage of shares to be bought back:*

Under the Buy-Back, the Company will buy back 9,229,995 Shares, which represents 19.7% of the Company's issued capital.

(c) *Particulars of the terms of the Buy-Back:*

9,229,995 Shares will be bought back from Cell Care as part of the consideration for the Transaction. There will be no separate monetary consideration paid by the Company for the shares bought back. The Buy-Back is intended to occur on or around 15 January 2018.

(d) *The offer price or a simple formula to calculate the price:*

There is no offer price or simple formula available to calculate the price. This is because the Buy-Back forms the non-cash part of the consideration for the Transaction.

(e) *The reasons for the Buy-Back:*

The Buy-Back is an intrinsic element of the Transaction. Viewed in the context of the Transaction, the Buy-Back allows Cell Care to divest its holdings in the Company while acquiring the Cord Blood and Tissue Banking aspect of the Company's business.

Other methods of returning excess capital have not been chosen because the Buy-Back will result in Cell Care's divestiture from the Company, which is a key aspect of the Transaction.

(f) *The interests of any director who may participate in the Buy-Back:*

No directors are entitled to participate in the Buy-Back.

(g) *The financial effect of the Buy-Back on the Company:*

Through the Transaction, the Company intends to wind back its Individualised Consumer Biologics services to only provide storage facilities to parties with whom it has existing contracts.

For the full year ended 30 June 2017, the Individualised Consumer Biologics division generated \$5,497,999 in revenue and \$219,044 in profit before ITDA, and had total segment assets of \$6,068,701.

In the same period, the Scientific Processing and Logistics division generated \$4,665,029 in revenue and \$633,697 in profit before ITDA, and had total segment assets of \$3,749,367.]

The Buy-Back will have no effect on any franking credits of the Company, as no franking credits are currently available to the Company.

The effect of the Transaction on the financial position of the Company is otherwise as set out in the IER.

(h) *The source of funds for the Buy-Back:*

Not applicable. Cell Care's participation in the Buy-Back is part of the consideration for the sale of assets contemplated under the Transaction. No funds will be paid to Cell Care pursuant to the Buy-Back.

(i) *Advantages of the Buy-Back:*

As a result of the Buy-Back, each shareholder who does not participate in the Buy-Back will increase its percentage shareholding in the Company.

In the opinion of the Company, the Buy-Back should be considered in the wider context of the Transaction. The Transaction (of which the Buy-Back is part) will allow the Company to redeploy its resources into the more profitable division of its business, being the Scientific Processing and Logistics division.

Under the Transaction, the Company will continue to receive revenues from existing customers of the Cord Blood and Tissue Banking Business in relation to their retained banked samples. These revenues have a comparatively higher margin given that the costs associated with on-going storage are low.

If the Transaction does not proceed, the Company would consider recommencing the Cord Blood and Tissue Banking. However, this would be likely to entail a substantial re-investment which may only be justified in conjunction with a significant improvement in the industry

The Company considers that there is little scope for a superior proposal to emerge for the acquisition of the Company's Cord Blood and Tissue Banking business.

The only significant financial impact on the Company of the Transaction (including the Buy-Back) is a reduction in revenue, a reduction of assets recorded on the Company's balance sheet and an increase in profit and EBITDA.

(j) *Disadvantages of the Buy-Back:*

Upon completion of the Transaction (of which the Buy-Back forms part), the Company will no longer have the assets which are being disposed to Cell Care, which are central to the Company's individualised consumer biologics division. This means the Company will not have the revenue and profit which would flow from the Company owning those assets, and will forgo any potential upside of that division in the future.

The Transaction will also have implications on the control of the Company, which are outlined below.

(k) *The effect the Buy-Back will have on the control of the Company:*

Upon completion of the Buy-Back, all shareholders who do not participate in it (being all shareholders but Cell Care) will increase their percentage interest in the Company.

The largest holder of the Company's quoted shares is Mr Andrew Kroger and related entities, with Cell Care being the second largest holder. The most significant effect on the control of the Company is that Mr Kroger and related entities will increase their control of the Company from 34.18% to 42.56%.

(l) *The identity of the selling shareholders:*

The selling shareholder is Cell Care Australia Pty Ltd ACN 110 312 537.

(m) *The latest set of audited financial statements:*

The Company's latest set of audited financial statements are the accounts for the year ended 30 June 2017, which are available on the Company's ASX platform in the announcement headed '*Appendix 4E and Annual Accounts*', made on 23 August 2017.

(n) *Information about the current share price:*

The close price on the 7<sup>th</sup> December 2017 on the ASX was 13.5 cents. Previous to this date the stock last traded on the 4<sup>th</sup> December 2017. Over the preceding 60

days the stock has traded within a range of a low of 13.5 cents per share and a high of 16 cents per share.

(o) Any additional information required by the Listing Rules:

Not applicable.

(p) A valuation of the assets offered as consideration for the Buy-Back

This is found in the IER, principally from page 14 onwards.

(q) Date of proposed buy-back:

On or around 15 January 2018.

## **2.5 Directors' recommendation**

In the absence of a superior proposal, and subject to the Expert's opinion continuing to be that the Transaction is fair and reasonable to Shareholders other than Cell Care, the Directors unanimously recommend that shareholders vote in favour of Resolution 2. The Directors make their recommendation on the basis that each Director views the Transaction as being in the best interests of Shareholders.

## **2.6 Lodgment**

- (a) A copy of the Notice of Meeting and Explanatory Statement has been lodged with ASIC in accordance with section 257D(3) of the Corporations Act. ASIC takes no responsibility for their contents.
- (b) ASX has been informed about the selective buy-back in accordance with ASX Listing Rule 3.8A.

## **ENQUIRIES**

Shareholders are requested to contact Company Secretary, Bryan Dulhunty on +61433 217 876 if they have any queries in respect of the matters set out in these documents

## Glossary

In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

|                                   |   |
|-----------------------------------|---|
| <b>ACCC</b>                       | the Australian Competition & Consumer Commission.   |
| <b>AEDT</b>                       | Australian Eastern Daylight Time, being the time in Sydney, New South Wales.  |
| <b>Annual Report</b>              | the Financial Report, Directors' Report and the Auditor's Report for the year ended 30 June 2017.                         |
| <b>ASIC</b>                       | the Australian Securities and Investment Commission.  |
| <b>ASX</b>                        | ASX Limited ACN 008 624 691 trading as the Australian Securities Exchange.  |
| <b>Auditor's Report</b>           | the auditor's report on the Financial Report.   |
| <b>Board</b>                      | the board of Directors.   |
| <b>Chair</b>                      | the person appointed to chair the meeting of the Company convened by this Notice.   |
| <b>Cell Care</b>                  | Cell Care Australia Pty Ltd   |
| <b>Company</b>                    | Cryosite Limited ACN 090 919 476  |
| <b>Corporations Act</b>           | <i>Corporations Act 2001</i> (Cth).   |
| <b>Director</b>                   | a director of the Company.  |
| <b>Explanatory Statement</b>      | this explanatory statement accompanying and forming part of the Notice.   |
| <b>Financial Report</b>           | the annual financial report prepared under Chapter 2M of the Corporations Act of the Company and its controlled entities. |
| <b>Listing Rules</b>              | the listing rules of ASX.   |
| <b>Non-Associated Shareholder</b> | a shareholder of the Company other than Cell Care or any of its associates  |
| <b>Notice</b>                     | the Notice of Extraordinary General Meeting accompanying the Explanatory Statement.                                       |
| <b>Proxy Form</b>                 | the proxy form accompanying the Notice.   |
| <b>Resolution</b>                 | a resolution contained in the Notice.   |
| <b>Section</b>                    | a section contained in this Explanatory Statement.  |
| <b>Share</b>                      | a fully paid ordinary share in the capital of the Company.  |
| <b>Shareholder</b>                | a holder of Shares.   |

**ANNEXURE A**  
**INDEPENDENT EXPERT'S REPORT FOLLOWS**

## LODGE YOUR VOTE

 **ONLINE**  
www.linkmarketservices.com.au

 **BY MAIL**  
Cryosite Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia

 **BY FAX**  
+61 2 9287 0309

 **BY HAND**  
Link Market Services Limited  
1A Homebush Bay Drive, Rhodes NSW 2138

 **ALL ENQUIRIES TO**  
Telephone: +61 1300 554 474



**X99999999999**

## VOTING FORM

I/We being a member(s) of Cryosite Limited and entitled to attend and vote hereby appoint:

**STEP 1** Please mark either A or B

### A VOTE DIRECTLY

elect to lodge my/our vote(s) directly (mark box)

 in relation to the General Meeting of the Company to be held at **10:30am on Monday, 15 January 2018**, and at any adjournment or postponement of the Meeting.

You should mark either "for" or "against" for each item. Do not mark the "abstain" box.

OR

### B APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:30am on Monday, 15 January 2018 at 13A Ferndell Street, South Granville, NSW 2142 (the Meeting)** and at any postponement or adjournment of the Meeting.

**The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.**

**STEP 2**

## VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an

### Resolutions

- Disposal of Certain Assets Relating to the Company's Cord Blood and Tissue Banking Business to Cell Care Australia Pty Ltd
- Selective Share Buy-Back

For Against Abstain\*

|                          |                          |                          |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |



\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**STEP 3**

## SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



## HOW TO COMPLETE THIS SHAREHOLDER VOTING FORM

### YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### VOTING UNDER BOX A

If you ticked the box under Box A you are indicating that you wish to vote directly. Please only mark either "for" or "against" for each item. Do not mark the "abstain" box. If you mark the "abstain" box for an item, your vote for that item will be invalid.

If no direction is given on all of the items, or if you complete both Box A and Box B, your vote may be passed to the Chairman of the Meeting as your proxy.

Custodians and nominees may, with the Share Registrar's consent, identify on the Voting Form the total number of votes in each of the categories "for" and "against" and their votes will be valid.

If you have lodged a direct vote, and then you attend the Meeting, your attendance will cancel your direct vote.

The Chairman's decision as to whether a direct vote is valid is conclusive.

### VOTING UNDER BOX B – APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

### DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Voting Form.

### VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Voting Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Voting Form and the second Voting Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

### SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

### LODGEMENT OF A VOTING FORM

This Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:30am on Saturday, 13 January 2018**, being not later than 48 hours before the commencement of the Meeting. Any Voting Form received after that time will not be valid for the scheduled Meeting.

Voting Forms may be lodged using the reply paid envelope or:



#### ONLINE

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the Voting Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Voting Form).



#### BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your vote by scanning the QR code adjacent or enter the voting link [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

#### QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



#### BY MAIL

Cryosite Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



#### BY FAX

+61 2 9287 0309



#### BY HAND

delivering it to Link Market Services Limited\*  
1A Homebush Bay Drive  
Rhodes NSW 2138

\* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.  
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**



**Grant Thornton**

An instinct for growth™

# Cryosite Limited

Independent Expert's Report and Financial Services Guide

7 December 2017

The Directors  
Cryosite Limited  
13a Ferndell Street  
South Granville NSW 2142

**Grant Thornton Corporate Finance Pty Ltd**  
ABN 59 003 265 987  
AFSL 247140

Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230  
T + 61 2 8297 2400  
F + 61 2 9299 4445  
E [info@qtnsw.com.au](mailto:info@qtnsw.com.au)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

7 December 2017

Dear Directors

## **Independent Expert's Report and Financial Services Guide**

### **Introduction**

Cryosite Limited ("Cryosite" or the "Company") is a biotechnology and biologistics company listed on the Australian Securities Exchange ("ASX") and as at 27 November 2017 it had a market capitalisation of approximately \$6.3 million. Its activities are organised in two divisions:

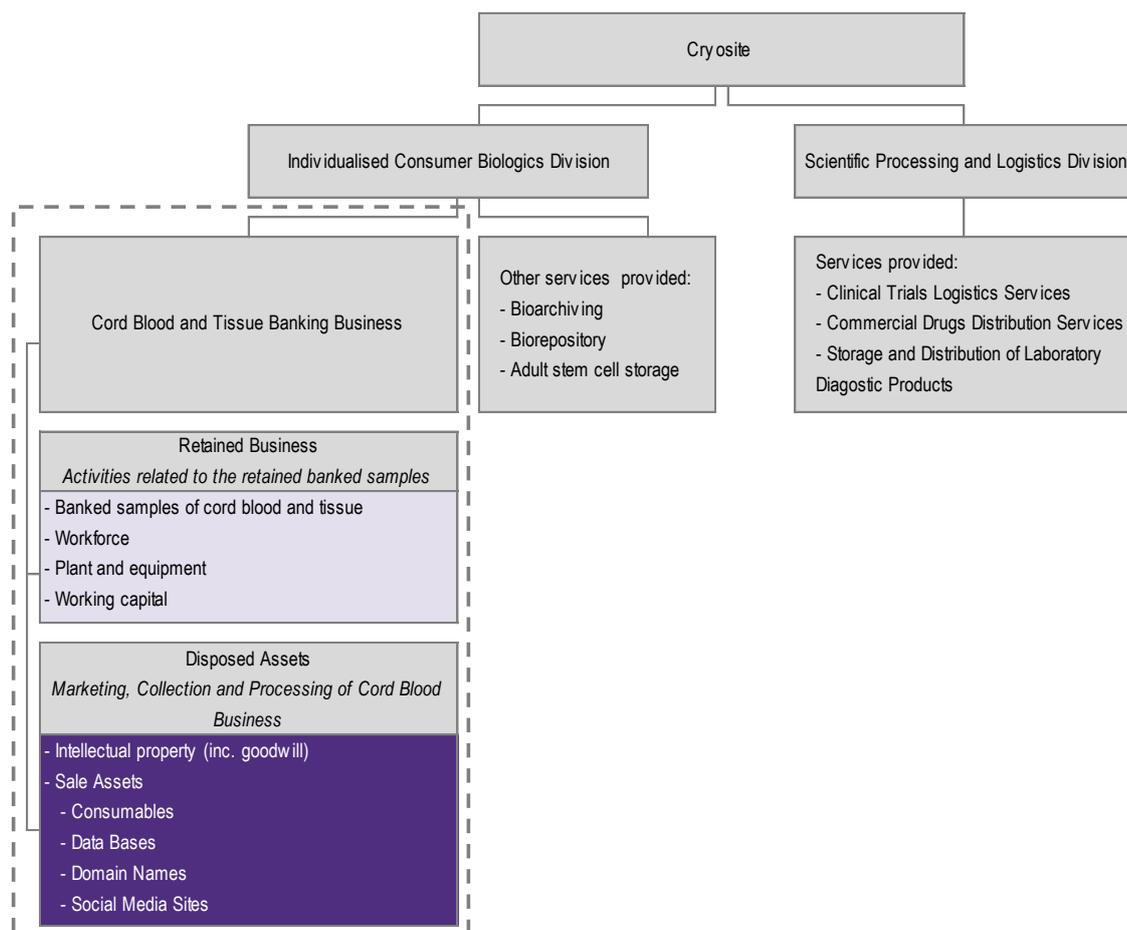
- Individualised Consumer Biologics division which principally provides private cord blood and tissue banking ("Cord Blood and Tissue Banking Business"); and
- Scientific Processing and Logistics division which principally offers clinical trials logistics services and commercial drug distribution services.

On 23 June 2017, Cryosite announced it had decided to cease the marketing, selling, collection and processing of cord blood and tissue, being part of its activities relating to the Cord Blood and Tissue Banking Business. Consequently, Cryosite had entered into an agreement, to license under the Cryosite brand<sup>1</sup>, the collection, processing and storage of umbilical cord blood and tissue ("Marketing, Collection and Processing of Cord Blood Business") and to sell certain of its Cord Blood and Tissue Banking Business assets ("Sale Assets") to Cell Care Australia Pty Ltd. ("Cell Care") ("Proposed Transaction"). Cell Care is an Australian company providing cord blood and tissue banking services. Cell Care holds a 19.7% equity interest in Cryosite and is therefore a substantial shareholder.

Cryosite has now ceased activities relating to the marketing, selling, collection and processing of cord blood and tissue. Cryosite continues to provide cord blood and tissue banking services to existing customers in relation to already banked samples of cord blood and tissue (the "retained banked samples"). In addition, the Company continues the other services it provides within its Individualised Consumer Biologics division as well as the services in its Scientific Processing and Logistics division. The following diagram illustrates what is proposed to be disposed of and what is being retained.

---

<sup>1</sup> Includes business names and all associated goodwill, registered and unregistered trademarks and all associated goodwill, logos, designs, design rights, copyrights and similar industrial or intellectual property rights used in the cord blood and tissue banking business.



The Proposed Transaction is subject to shareholders' approval and other conditions precedent customary for a transaction of this type.

The purchase consideration ("Consideration") comprises:

- Upfront non-refundable cash consideration of \$500,000 ("Cash Consideration").
- Earn-out payments over a period of five years with a minimum fixed and guaranteed payment of \$500,000 per annum ("Deferred Consideration"). Additional earn out payments will be conditional on the achievement of certain performance targets<sup>2</sup>.
- A selective buyback and cancellation for no monetary consideration of approximately 9.23 million shares (19.7% of Cryosite's shares) ("Buy-Back Shares") which Cell Care holds in Cryosite (the "Buy-Back").

## Purpose of the report

Cell Care holds in excess of a 10% interest in Cryosite and the Marketing, Collection and Processing of Cord Blood Business and Sale Assets under the Proposed Transaction are considered substantial assets. Therefore, the Proposed Transaction is considered to be the disposition of material assets to a substantial shareholder. Accordingly, the Directors have commissioned Grant Thornton Corporate Finance Pty Limited

<sup>2</sup> Performance targets relate to future banked samples of cord blood and tissue.

(“GTCF” or “Grant Thornton Corporate Finance”) to prepare an independent expert’s report to assess whether the Proposed Transaction is fair and reasonable to the shareholders other than Cell Care (the “Non-Associated Shareholders”) for the purposes of Chapter 10 of the ASX Listing Rules.

## Summary of opinion

**Grant Thornton Corporate Finance has concluded that the Proposed Transaction is FAIR AND REASONABLE to the Non-Associated Shareholders.**

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders and other quantitative and qualitative considerations.

### ***Fairness assessment***

In accordance with the requirements of the Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 *Contents of expert reports* (“RG 111”), in forming our opinion in relation to the fairness of the Proposed Transaction to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared the value of the Marketing, Collection and Processing of Cord Blood Business and Sale Assets to the Consideration. Whilst the Marketing, Collection and Processing of Cord Blood Business has been ceased by Cryosite, our rationale for this approach is:

- Cryosite until recently operated its Marketing, Collection and Processing of Cord Blood Business which it did so for approximately 18 years. During this period, significant brand value has been created by Cryosite which, in our opinion, is still of significant value for a pool of potential purchasers.
- Owing to the commercial challenges faced by the business, Cryosite made a decision to cease the Marketing, Collection and Processing of Cord Blood Business and entered into the Proposed Transaction. However it still retains the know-how and goodwill attached to it.
- The Proposed Transaction involves the disposal to Cellcare of the activities relating to the marketing, collection and processing of cord blood and tissue as well as the Sale Assets, all of which are required to operate the Cord Blood and Tissue Banking Business, excluding that part of the business that relates to retained banked samples.
- Cryosite is ultimately disposing of its opportunity to recommence its recently closed Marketing, Collection and Processing of Cord Blood Business, although it reserves its right to commence an analogous business in the future.

In our assessment of the Marketing, Collection and Processing of Cord Blood Business and Sale Assets, we have undertaken a valuation assessment of the Cord Blood and Tissue Banking Business as a whole and excluded the retained banked samples.

The following table summarises our fairness assessment:

| Fairness assessment<br>A\$'000s  | Section Reference | Low   | High  |
|--|-------------------|-------|-------|
| Marketing, Collection and Processing of Cord Blood Business plus Sale Assets | Section 6         | 2,440 | 2,712 |
| Consideration <sup>1</sup>   | Section 7         | 3,940 | 4,125 |
| <b>Premium/(discount) in value</b>   |                   | 1,500 | 1,413 |
| <i>Premium/(discount) in value (%)</i>                                       |                   | 61.5% | 52.1% |

Source: GTCF calculations

Note (1): Net of transaction and redundancy costs

The Consideration received is above our assessed valuation range of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets. Accordingly, we conclude that the Proposed Transaction is **FAIR** to the Non-Associated Shareholders.

We have assessed the value of Consideration by adding:

- Cash Consideration less transaction costs<sup>3</sup>.
- The present value of the Deferred Consideration.
- The fair market value of the Buy-Back Shares.

Whilst the Consideration comprises elements of deferred payments relating to achievements of performance targets, for the purpose of the Fairness Assessment we have only included those payments that are prescribed minimum payments and excluded additional earn-out payments which are based on performance targets given the difficulty of ascertaining the extent to which the performance targets will be achieved. In our valuation of the Buy-Back Shares, we have had regard to the market prices of Cryosite shares before the announcement of the Proposed Transaction.

The value of the Marketing, Collection and Processing of Cord Blood Business and Sale Assets has been established using a discounted cash flow method ("DCF Method") based on projections provided by the Company. The projections provided by the Company are for the entire Cord Blood and Tissue Banking Business if it were to continue which we have adjusted for the part of the business that Cryosite is retaining (i.e. the part relating to retained banked samples). This represents the opportunity costs for Cryosite and the value for a pool of potential purchasers. We have undertaken various procedures to assess whether the information provided is appropriate for the purpose of assessing the fairness of the Proposed Transaction in accordance with RG 111 and we have made adjustments where appropriate.

### ***Reasonableness assessment***

For the purpose of assessing whether or not the Proposed Transaction is reasonable to Cryosite's Non-Associated Shareholders, we have considered the following likely advantages, disadvantages and other factors associated with the Proposed Transaction. We note that in accordance with RG 111, the Proposed Transaction is reasonable if it is fair.

<sup>3</sup> Transaction costs relate to redundancy costs and other costs associated with the Proposed Transaction that will be incurred by Cryosite

### *Advantages*

#### *Ability to achieve an exit value for a challenged business*

The Proposed Transaction represents an opportunity for Cryosite to obtain shareholder value for the opportunity costs of continuing the marketing, selling, collection and processing of future samples of cord blood and tissue, which owing to decreased collection volumes was becoming increasingly challenging for the Company. The Proposed Transaction allows the Company to focus on the other services undertaken in the Individualised Consumer Biologics Division. In addition the services within the more profitable Scientific Processing and Logistics division will continue. The Consideration offers value for a partial exit<sup>4</sup> from a business that has over the last few years been declining and operating in challenging conditions. In particular, it is noted that over the last three years (FY15-FY17), contract volumes have decreased and EBITDA margins for the Individualised Consumer Biologics division which is dominated by the Cord Blood and Tissue Banking Business have declined. The Company has spent a considerable amount of money on marketing in order to stimulate growth in the volume of new contracts, with no success.

The business of marketing, collection and processing of cord blood and tissue is challenging given:

- the low uptake of cord blood and tissue banking;
- the low public awareness in relation to the advantages of cord blood and tissue banking;
- the discretionary nature of the spend associated with cord blood and tissue banking;
- the competition that exists from public cord blood and tissue banks which are usually government funded and receive deposits of cord blood and tissue from individuals at no cost; and
- the move by public banks to allow private banking of cord blood and tissue banking for families at risk<sup>5</sup> is presenting a new challenge to private cord blood and tissue banks such as Cryosite.

#### *Allows the Company to retain significant future cash flows from already banked samples.*

The Proposed Transaction allows the Company to continue its Cord Blood and Tissue Banking Business in relation to retained banked samples. Whilst Cryosite will no longer generate revenues from new samples, the Proposed Transaction enables revenues to be continued to be received from existing customers of the retained banked samples. These revenues attract a higher margin as there is little variable cost associated with on-going storage.

In addition to the above, the Proposed Transaction also allows for the Company to receive payments over the next five years in relation to newly banked samples of cord blood and tissue from Cell Care's business. The Consideration is every year is for a minimum of \$500,000 per year with no upper limit. Although we note that in order to trigger a payment in excess of \$500,000, Cell Care would need to bank more than 3,692 samples.

#### *Allows the Company to focus on the more profitable Scientific Processing and Logistics division*

Cryosite's Scientific and Processing Logistics division is more profitable than its Individualised Consumer Biologics division and it has better growth prospects. Notwithstanding the fact that over the last three years

---

<sup>4</sup> Cryosite will continue its business relating to the retained bank samples and will also receive Deferred Consideration for Cell Care carrying out its business of cord blood and tissue banking

<sup>5</sup> Being families with a known genetic disease

An instinct for growth™

it has contributed less to revenue than the Individualised Consumer Biologics division, it contributes more to EBITDA. For the year ended 30 June 2017, the Scientific Processing and Logistics division had an EBITDA margin of 14%.

Management have informed us that the Proposed Transaction allows the Company to more heavily invest in sales and marketing initiatives for the Scientific Processing and Logistics division and to also invest in equipment that would improve the attractiveness of the division's offerings to its potential clients. To date, expenditure by the Company in these areas has been limited.

*Greater focus of future capital expenditure.*

Over recent years, Cryosite has deferred its capital expenditure on the Cord Blood and Tissue Banking Business in relation to the upgrade of the laboratory and expansion of the cord blood and tissue storage capacity. In the absence of the Proposed Transaction, if the Company were to recommence the marketing, selling, collection and processing of cord blood and tissue business, would need to incur significant "catch-up" capital expenditure. The Proposed Transaction allows the Company to focus its future capital expenditure on the more profitable Scientific Processing and Logistics division.

*The Non-Associated Shareholders will increase their percentage interest in the Company*

As a result of the Proposed Transaction, which involves the Buy-Back, each of the Non-Associated Shareholders will increase their percentage shareholding in Cryosite.

### **Disadvantages**

*Reduced participation in future potential upside of the Cord Blood and Tissue Banking business*

Under the Proposed Transaction, the Non-Associated Shareholders will if it proceeds as planned forgo any potential upside of Cryosite recommencing the marketing, selling, collecting and processing of cord blood and tissue business if the Board decides to do so. However, via the Deferred Consideration structure, Cryosite retains some exposure to the industry. At the same time, given the Deferred Consideration includes a minimum amount of earn-out per year, the downside is capped.

Based on discussions with Management and our research in the industry at present, an improvement in the market seems unlikely in the short term. In particular, we note that approximately only 1% of newborn babies have their cord blood and/or tissue collected. Coupled with declining year on year ("y-o-y") growth in birth rates in Australia, the industry in Australia is challenging. In addition, a lag in scientific improvements to approved therapies that utilise stem cells derived from umbilical cords and/or tissue is also negatively impacting the industry. At present there are currently no approved therapeutic uses for cord tissue stem cells in Australia.

*Increases the majority shareholder's interest in the Company*

The largest Non-Associated shareholder of the Company is Mr. Andrew Kroger and related entities. The effect on the control of the Company is that Mr. Kroger and related entities will increase their shareholding in the Company from 34.2% to 42.6%. This may reduce the appeal of Cryosite to the market resulting in a further reduction of trading volume and liquidity which may diminish the ability of the other Non-Associated Shareholders to sell their shares at fair market value.

**Other factors***Impact on the balance sheet*

We have not been provided with a pro-forma balance sheet that demonstrates the effect of the Proposed Transaction on Cryosite's balance sheet. We understand from the Company that the Proposed Transaction will have the effect of reducing Cryosite's assets recorded on its balance sheet. The carrying value of consumables, some intangible assets and an amount of plant and equipment are expected to reduce. Most items of plant and equipment and other assets relating to the Cord Blood and Tissue Banking Business will be retained as they will be required in order to support the part of the business that is being retained as well as the business conducted by the Scientific Processing and Logistics division.

*Tax implications*

We have been advised by the Company that based on third party advice, the Proposed Transaction does not have adverse tax implications and hence we have not reduced the Consideration for the effects of tax.

*Limited prospects of a superior proposal*

If the Proposed Transaction does not proceed, the Company will receive no consideration and the Company has indicated that in those circumstances they will consider all options. Any decision to recommence the marketing, selling, collection and processing of cord blood and tissue would according to the Company entail a substantial re-investment which may only be justified in conjunction with a significant improvement in the industry. The sale to Cell Care offers up-front value which has been partly used to meet immediate costs<sup>6</sup> as well as on-going payments for a period of time. In addition, Cell Care's shares in Cryosite will be bought back for no monetary consideration.

Finally, we note that Cell Care is the only other private large Australian operator of cord blood and tissue banking, accordingly, the likelihood of another private market participant offering a superior proposal in the short term is limited. Also, the likelihood of the public sector proposing an alternative transaction is remote.

*Directors' recommendations and intentions*

In the absence of a superior proposal and subject to the independent expert's opinion that the Proposed Transaction is (and continues) to be fair and reasonable to the Non-Associated Shareholders, the Directors of Cryosite unanimously recommend that all Non-Associated Shareholders vote in favour of the Proposed Transaction.

All Cryosite Directors intend to vote in favour of the Proposed Transaction in respect of all Cryosite Shares that they own or control.

---

<sup>6</sup> The Company has utilised part of the up-front Consideration to pay staff redundancy costs



## Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Transaction is **REASONABLE** to the Non-Associated Shareholders.

## Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Transaction is **FAIR AND REASONABLE** to the Cryosite Shareholders in the absence of a superior alternative proposal emerging.

## Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Proposed Transaction is a matter for each Cryosite Shareholder to decide based on their own views of value of Cryosite and expectations about future market conditions, Cryosite's performance, risk profile and investment strategy. If Cryosite Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully,

GRANT THORNTON CORPORATE FINANCE PTY LTD

Handwritten signature of Andrea De Cian in black ink.

ANDREA DE CIAN  
Director

Handwritten signature of Jannaya James in black ink.

JANNAYA JAMES  
Director

7 December 2017

## **Financial Services Guide**

### **1 Grant Thornton Corporate Finance Pty Ltd**

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Cryosite to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Transaction. This report is included in Cryosite's Notice of Meeting.

### **2 Financial Services Guide**

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

### **3 General financial product advice**

In our report we provide general financial product advice. The advice in our report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

### **4 Remuneration**

When providing the report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the report, Grant Thornton Corporate Finance will receive from Cryosite fees in the order of \$60,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

## 5 Independence

Grant Thornton Corporate Finance is required to be independent of Cryosite and Cell Care in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("RG 112"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Cryosite or Cell Care (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."*

## 6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West  
Melbourne, VIC 8007  
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the Target's Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

## 7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act 2001.

# Contents

|  | <b>Page</b> |
|--|-------------|
| 1 Outline of the Proposed Transaction  | 13          |
| 2 Purpose and scope of the report  | 16          |
| 3 Industry overview  | 19          |
| 4 Overview of Cryosite   | 24          |
| 5 Valuation methodologies  | 31          |
| 6 Valuation assessment of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets | 34          |
| 7 Value of Consideration   | 41          |
| 8 Source of information, disclaimer and consents   | 45          |
| Appendix A – Valuation methodology   | 47          |
| Appendix B – Discount rate   | 49          |
| Appendix C – Trading comparable company descriptions   | 56          |
| Appendix D – Control premium   | 59          |
| Appendix E – Glossary  | 61          |

## 1 Outline of the Proposed Transaction

### 1.1 Background

Cryosite is a biotechnology company offering services in two distinct divisions: the Individualised Consumer Biologics division and the Scientific Processing and Logistics division. The Individualised Consumer Biologics division provides:

- private cord blood and tissue banking (i.e. its Cord Blood and Tissue Banking Business).
- adult stem cell storage; and
- bioarchiving and biorepository services<sup>7</sup>

The Scientific Processing and Logistics segment offers:

- clinical trials logistics services;
- commercial drug distribution services
- other storage and distribution based services such as the import and distribution of laboratory diagnostic products.

A full description of Cryosite's activities is presented in Section 4 of this report. Cryosite was founded in 1999 and listed on the ASX on 9 May 2002.

On 23 June 2017, Cryosite announced it had decided to cease the marketing, selling, collection and processing of cord blood and tissue and consequently, entered into a Cord Blood and Tissue Banking Asset Sale Agreement ("Agreement"), to license the Marketing, Collection and Processing of Cord Blood Business and to sell the Sale Assets to Cell Care. Cryosite has now ceased the marketing, selling, collection and processing of cord blood and tissue, though it retains the assets underlying this business such as brand, know-how and intellectual property. The Marketing, Collection and Processing of Cord Blood Business comprises intellectual property rights owned by and used by or licensed to Cryosite in the conduct of its Cord Blood and Tissue Banking Business. Specifically, the Marketing, Collection and Processing of Cord Blood Business includes the Cryosite business name, registered and unregistered trademarks, logos, designs, design rights, copyrights, similar intellectual property and associate goodwill owned and or used by Cryosite in the Cord Blood and Tissue Banking Business.

The Sale Assets comprise:

- Consumables – being the inventory of laboratory consumables, collection kit inventory and associated consumables for the purposes of processing cord blood and tissue.
- Data Bases – being the data base of Cryosite's customer relationship management ("CRM") of client information by Eligible Product<sup>8</sup> relating to the source of all enrolments for the cord blood and tissue banking business over the last five years divided by origination source; and the data base of current

<sup>7</sup> These services relate to the provision of controlled cryogenic storage, manipulation and logistics of biological samples

<sup>8</sup> Eligible Product means prepaid 12 and 24 month plans for:

- (a) Cord Blood and Tissue 18 years;
- (b) Cord Blood Only 18 years;
- (c) Cord Blood and Tissue 25 years; and
- (d) Cord Blood Only 25 years

Cryosite lead information for the cord blood and tissue banking business for potential future clients for customer contracts and/or product purchases (collectively referred to as the “Database”).

- Domain Names – being Cordblood.cryosite.com.
- Social Media Sites – being the Facebook site: <https://www.facebook.com/Cryositecordblood>.

The Cord Blood and Tissue Banking Business comprises most of the activities that were undertaken in Cryosite’s Individualised Consumer Biologics division. Cryosite continues to provide storage services of cord blood and tissue to existing customers in relation to the retained banked samples of cord blood and tissue. It also continues the other activities undertaken in Cryosite’s Individualised Consumer Biologics division such as bioarchiving and biorepository services.

Cell Care is an Australian company providing cord blood and tissue banking services. Cell Care holds a 19.7% equity interest in Cryosite and is therefore a substantial shareholder.

## 1.2 Key terms of the Proposed Transaction

Key terms of the Proposed Transaction pursuant to the Agreement are outlined below:

- All of the Marketing, Collection and Processing of Cord Blood Business pre-existing as at the date of signing the Agreement, developed independently of Cryosite’s obligations under the Agreement or developed internally by the Vendor without contribution by Cell Care remains the property and vests in Cryosite.
- Cryosite grants to Cell Care an exclusive, perpetual, transferrable, royalty-free license to undertake the Marketing, Collection and Processing of Cord Blood Business in Australia and New Zealand for the purposes of conducting its business of cord blood and tissue banking.
- The Purchase Price for the Sale Assets comprises:
  - Cash Consideration of \$500,000<sup>9</sup>;
  - the Buy-Back for no monetary consideration; and
  - Deferred Consideration.
- Deferred Consideration is a series of payments over five years from the date of signing the Agreement and subject to a minimum of \$500,000 per year. Deferred Consideration is calculated each year as:

$$(A \times B) + (C \times D)$$

Where A is the first 3,500 banked samples in that year, B is \$125, C is every banked sample processed over 3,500 and D is \$325 for that year.

Banked samples refer to the paid collection and storage of:

- Cord blood

---

<sup>9</sup> Cash Consideration has been received by Cryosite prior to the date of this Report.

- Cord tissue ; and
- Cord blood and tissue.
- Payments for Deferred Consideration are to be made quarterly, with the sum of \$125,000 paid at the end of each quarter from the signing date during the earn out period with the a final payment on the last day of each earn out period for the difference between \$500,000 and the amount calculated in accordance with the formula set out above.
- Completion of the Agreement is subject to shareholder approval.
- Refer to Sections 1 and 2 of the Notice of Meeting for further details in relation to the conditions of the Proposed Transaction.

### **1.3 Effects of the Proposed Transaction**

If implemented, the Proposed Transaction will have the following effects:

- Cryosite will be unable to undertake activities relating to the marketing, selling, collection and processing of cord blood and tissue under the Cryosite brand. Cryosite will however continue to provide storage services of cord blood and tissue to existing customers in relation to retained banked samples of cord blood and tissue. It will also continue the other activities undertaken in Cryosite's Individualised Consumer Biologics division such as bioarchiving and biorepository services and its services in the Scientific Processing and Logistics division. Cryosite's continuing activities will continue to use the Cryosite name.
- Cryosite has received a non-refundable deposit of \$500,000 upfront in cash and will receive a minimum of \$500,000 per year each year for five years for Consideration. Cryosite has the potential to receive more than \$500,000 provided Cell Care's banked samples exceed 3,692.
- Cell Care will have its 9.23 million shares bought back and cancelled for no monetary consideration and therefore cease being a shareholder of Cryosite resulting in the Non-Associated Shareholders increasing their percentage shareholding in Cryosite.
- The largest Non-Associated Shareholder in Cryosite, Mr. Kroger and related entities will increase their shareholding in the Company from 34.2% to 42.6%.
- As set out in the Notice of General Meeting, Cryosite expects to achieve reduced revenues initially, but higher underlying EBITDA and profit. The Proposed Transaction will allow Cryosite to focus on its more profitable Scientific Processing and Logistics division.

## **2 Purpose and scope of the report**

### **2.1 Purpose**

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose of a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX.

In regards to the Proposed Transaction, we note that Cell Care is a “substantial shareholder” with over 10% interest in Cryosite, and the Consideration in relation to the Marketing, Collection and Processing of Cord Blood Business and Sale Assets to be divested by Cryosite represents more than 5% of the equity interest of Cryosite as at 31 December 2016 and therefore it constitutes a disposal of a “substantial asset” for the purposes of the ASX Listing Rules. In addition, the Buy-back of the 9.23 million shares as part of the Proposed Transaction may constitute an acquisition of a “substantial asset” for the purposes of the ASX Listing Rules.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

Accordingly, the Directors of Cryosite have requested Grant Thornton Corporate Finance to prepare an independent expert’s report stating, whether in its opinion, the Proposed Transaction, including the buy-back is fair and reasonable to the Non-Associated Shareholders for the purpose of ASX Listing Rule 10.1.

### **2.2 Basis of assessment**

Grant Thornton Corporate Finance has had regard to RG 111 in relation to the content of independent expert’s reports and RG 76 in relation to related party transactions. RG 76 largely refers to RG 111 in relation to the approach to related party transactions.

RG 111 establishes certain guidelines in respect of independent expert’s reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of “fair and reasonable” in the context of a takeover offer. RG 111 also regulates independent expert’s reports prepared for related party transactions in clauses 52 to 63. RG 111 notes that an expert should focus on the substance of the related party transaction, rather than the legal mechanism and, in particular where a related party transaction is one component of a broader transaction, the expert should consider what level of analysis of the related party aspect is required.

We note that RG 111 clause 56 states the following:

*RG 111.56 Where an expert assesses whether a related party transaction is ‘fair and reasonable’ (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is ‘fair’ and ‘reasonable’, as in a control transaction. An expert should not assess whether the transaction is ‘fair and reasonable’ based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this*

*provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details).*

Accordingly, in the consideration of the Proposed Transaction, the expert should undertake a separate test of the fairness and then analyse the advantages and disadvantages for the Non-Associated Shareholders.

RG 111 notes that a related party transaction is:

- Fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

In considering the fairness of the Proposed Transaction, we have compared the fair market value of the Consideration to the fair market value of the Cord Blood and Tissue Banking Business as operated by Cryosite excluding the existing customers (i.e. retained banked samples). This approach acknowledges:

- Cryosite until recently operated its Marketing, Collection and Processing of Cord Blood Business which it did so for approximately 18 years. During this period, significant brand value has been created by Cryosite which in our opinion is of significant value for a pool of potential purchasers.
- Owing to the commercial challenges faced by the business, Cryosite made a decision to cease the Marketing, Collection and Processing of Cord Blood Business and entered into the Proposed Transaction. However it still retains the know-how and goodwill attached to it.
- Cryosite is ultimately disposing of its opportunity to recommence its recently closed Marketing, Collection and Processing of Cord Blood Business, although it reserves the right to commence an analogous business in the future.

The fair market value of the Consideration has been assessed by adding the Cash Consideration net of transaction costs, the present value of Deferred Consideration and the fair market value of the Buy-Back Shares.

In considering whether the Proposed Transaction is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Transaction is fair.
- The implications to Cryosite and the Non-Associated Shareholders if the Proposed Transaction is not approved.
- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG 111.
- Other costs and risks associated with the Proposed Transaction that could potentially affect the Non-Associated Shareholders.

### **2.3 Independence**

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Transaction with reference to the RG 112.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

### **2.4 Consent and other matters**

Our report is to be read in conjunction with Cryosite's Notice of Meeting and Explanatory Statement dated on or around 1 December 2017 in which this report accompanies, and is prepared for the exclusive purpose of assisting the Cryosite Shareholders in their consideration of the Proposed Transaction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in Cryosite's Notice of Meeting and Explanatory Statement.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to the Cryosite Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to accept the Proposed Transaction is a matter for each Cryosite Shareholder based on their own views of the value of Marketing, Collection and Processing of Cord Blood Business and Sale Assets and expectations about future market conditions, Cryosite's performance, their individual risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.



### 3 Industry overview

The Proposed Transaction involves Cryosite's recently ceased Cord Blood and Tissue Banking Business. This Australian based business is engaged in cryogenic preservation ("cryopreservation"), a process where biological constructs (such as are umbilical cord blood and tissue cells) are preserved in controlled temperatures. Cryogenics, the study of the behaviour and production of materials at very low temperatures, falls under the broader biotechnology ("biotech") industry.

In addition to cryogenics, Cryosite is also involved in the clinical trials, warehousing and logistics of biologic based drugs. As the Proposed Transaction only relates to the Cord Blood and Tissue Banking Business, we have focused this section of our Report on the cryogenic industry and where possible in the area of cord blood and tissue banking, where the information is limited we have considered the general biotechnology industry.

Private cord blood and tissue banking differs from public cord blood and tissue banking. A private cord blood bank charges a fee to collect, freeze and store cord blood for the benefit of the donor's family's future medical use whereas a public cord and tissue bank stores cord blood for the use of anyone in the world, hence there is no cost incurred by the donor. This difference intrinsically results in private banking constituting a discretionary spend by donors.

#### 3.1 Introduction

Cord blood is the blood that remains in a baby's umbilical cord and placenta immediately after the umbilical cord is clamped and cut at birth. Cord tissue refers to the rest of the umbilical cord obtained at birth. Contained in the cord blood, cord tissue and the placenta is a diverse mixture of important cells, particularly stem cells which have the ability to create and heal organs, blood and the immune system.

According to ongoing studies, transplants of cord blood stem cells can cure over 80 diseases. In recent years, clinical trials with cord blood are focused on treating conditions such as cerebral palsy, autism and leukaemia<sup>10</sup>.

Collected cord blood can be donated to a public bank for free, where it may help patients seeking blood for a transplant. Alternatively, parents can save cord blood in a private family bank for a fee, where it may be used exclusively for transplants for the baby's or baby's siblings benefit. Cryosite provides private banking of cord blood and tissue.

#### 3.2 Australian regulatory requirements

The collection, procession, and storing of cord stem cells in Australia requires compliance with a variety of regulatory and statutory bodies. Depending on the extent of the clinical program and treatment being carried out by the cord blood bank, it may be required to comply with the standard of care and regulations set by the following bodies:

- The Therapeutic Goods Administration ("TGA");
- The Department of Agriculture, Fisheries and Forestry ("DAFF");
- The Office of the Gene Technology Regulator ("OGTR"); and

---

<sup>10</sup> Parent's Guide to Cord Blood Foundation 2007-2017

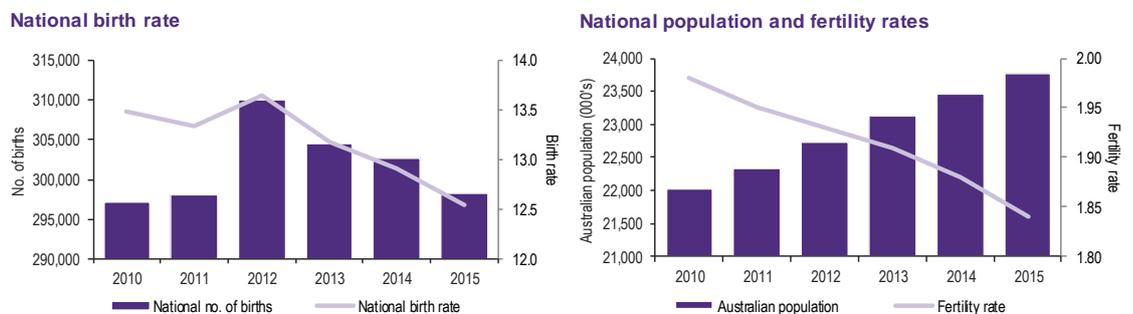
- The NSW Department of Health.

In Australia, the TGA is responsible for the regulation of approved facilities for storing cord blood stem cells. There are a number of approved facilities for storing cord blood stem cells, however there are no other TGA approved facilities for the storage of other stem cells in Australia.

### 3.3 Key revenue drivers

The key drivers of revenue growth for the cord blood and tissue banking industry are listed below:

- *National birth rate* – the demand and revenue drivers for cord blood and tissue banking are inherently correlated to the national birth rate. In recent years, the Australian national birth rate has experienced subdued growth. The following graphs illustrate the number of births in Australia including the birth rate and the national population over time with the fertility rate.



Source: Department of Birth, Death and Marriages of each Australian states and Australian Bureau of Statistics

Note (1): Birth rate = no. of births per thousand of population

Note (2): Fertility rate = average no. of births per woman

The graphs illustrate that since the spike in national births in 2012, the number of births in Australia has declined with birth rates falling at a higher rate. Also shown above is that whilst the Australian population is growing, mostly because of immigration, the fertility rate has been decreasing.

In order to boost the birth and fertility rates in Australia, the Australian Government introduced incentive payments such as the baby bonus in 2004, which was an allowance intended to help families with the costs of a newborn baby or adopted child under the age of 16. The baby bonus was subsequently replaced from 1 March 2014 with the family payments reform, which comprises of a rate increase of family tax benefits such as newborn upfront payment and newborn supplement to provide economic incentives to increase the national birth rate.

- *Public awareness* – Increased public awareness around the ability to privately store cord blood and tissue as well as the potential benefits of storage stimulate growth in the industry. At present the low awareness levels remain a substantial limitation to the cord blood market potential. In the current Australian market, c. 1%<sup>11</sup> of newborn babies have their cord blood and tissue extracted and collected for private banking, compared with c. 8% in Europe and c. 10% in the United States. The overseas market is generally more mature with higher public awareness of the benefits of banking cord blood and tissue and more advanced biotechnology, hence having higher numbers of cord blood units banked relative to the population. Increasing public awareness in the Australian market will directly boost the revenue growth of the local cord blood and tissue banking industry.

<sup>11</sup> Estimate obtained from Management

- *Government incentives* – Government incentives and funding targeted to public cord blood banks and biotechnology companies generally improves the prospects for cord blood and tissue banking. The high costs related to developing biotechnology products and therapies means that companies typically rely on a high level of funding for success. Over 2009 to 2014, the Australian Government provided c. \$18.1 million to increase the level of funding for the Australian National Cord Blood Collection and Banking Network (“AusCord”)<sup>12</sup>. The increase in funding was aimed to improve the sustainability of AusCord and ensure the supply of cord blood units is adequate to meet the needs of the Australian population. Whilst this represents an investment in public cord blood banking it can have mixed effect on private cord blood banking. Whilst it may result in improving awareness for cord blood and tissue banking, benefiting all cord blood and tissue companies including Cryosite, it may result in a push towards public banking instead of private banking. The high level of government funding allows the public banks to become increasingly competitive.
- *Changing regulations* – Typically, public cord blood and tissue banks collect samples for the benefit of any patient seeking blood or tissue for a transplant, as opposed to only for the benefit of the donor and their family. Various medical bodies<sup>13</sup> are increasingly pushing for public cord blood and tissue banks to store cord blood for families at risk (i.e. families with a known genetic disease). The introduction of such a practice would be in direct competition to the services offered by a private cord blood and tissue banking provider. In addition, given public cord blood and tissue banks do not charge a fee to the donor for the collection and storage of samples, it may result in a reduction in volumes for the private cord blood and tissue banks and making their service highly discretionary.
- *Technological improvements* – If scientific improvements are made including approved therapies that utilise stem cells derived from umbilical cord tissue, demand for cord blood and tissue banking may increase. In Australia the current use of stem cells derived from cord blood is limited to reconstituting the body’s blood cell and platelets after treatment for leukaemia and other childhood cancers. There are currently no approved therapeutic uses for cord tissue stem cells in Australia.

### **3.4 Recent sector performance and outlook for the Australian biotechnology industry**

No performance related information exists specifically in relation to cord blood and tissue banking. As the study of cryogenics falls under the broader biotech industry, we have had regard to the Australian biotech industry’s performance. The primary activities of the biotech industry include but are not limited to cell and tissue culture engineering, DNA coding, process biotechnologies and sub-cellular organisms.

The Australian biotech industry has historically experienced slow growth, however due to government incentives funding increased research and development activities over 2009 to 2014, industry growth improved slightly from 2010 (revenue growth of 3.6% in 2010 compared to -4.1% in 2009). As the industry is heavily dependent on funding either from government or large organisations, the extent to which funding is available has a direct impact on the industry’s performance.

Revenue in the Australian biotechnology industry grew 5.5% in 2016 and is expected to grow by 3.7% in 2017. The subdued growth evidenced in the last couple of years is a reflection of the federal budget cuts in 2014-2015 which reduced two major biotech support schemes. Furthermore, as part of the Budget Savings (Omnibus) Act 2016, research and development tax incentives have been cut by 1.5%. The resulting

---

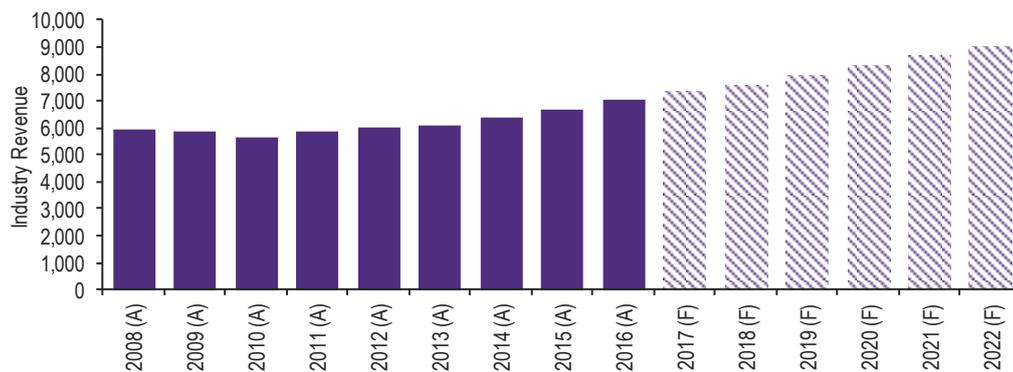
<sup>12</sup> AusCord is the network of public cord blood banks in Australia, comprising Sydney Cord Blood Banks, BMDI Cord Blood Bank (Melbourne) and Queensland Cord Blood Bank at the Mater (Brisbane).

<sup>13</sup> For example, the Royal Australian and New Zealand College of Obstetricians and Gynaecologists

industry uncertainty and negative sentiment are expected to last until 2019 with only modest growth being forecast for the industry.

Effective commercialisation of some biotech research and products is expected to account for the long term upward trend. However, the key drivers are most likely the ageing population in Australia and the growing focus on the need for sustainable and environmental friendly bioenergy, which will stimulate demand for targeted biotech products and stimulate biotech advances. As depicted in the following chart, industry revenue is forecast to increase at an average annual growth rate of approximately 4.2% over the next five years through to 2021-2022.

#### Historical performance of the Australian biotech industry



Source: IBISWorld Industry Report X0001 Biotechnology in Australia, January 2017

As depicted in the graph, revenue is expected to continue to increase. Existing cord blood banks (in Australia and globally) are better capitalised and storing larger quantities of cord blood and tissue units than they were historically. Large cord blood banks are prone to pursuing more acquisitions to increase operating efficiency, merge storage facilities and diversify into storage of other types of biomaterials, and increase their capacity to facilitate cord blood related research and development.

### 3.5 Cord blood and tissue banking outlook

The global industry for cord blood and tissue banking is reasonably mature. As public banks throughout the world can provide cord blood to any suitable match around the world, the industry can be considered truly global. As mentioned, the following broadly sets out the trends in different regions of the world:

- *Australia:* currently approximately 1% of the Australian newborn babies have their cord blood and tissue banked privately. Going forward this level is not expected to greatly change. However, growing awareness of AusCord amongst mothers is expected to encourage public cord blood banking in Australia. Currently, AusCord has access to over 650,000 cord blood units around the world and it is expecting to expand its local and global reach to help existing patients find suitable donors for transplants.
- *U.S.:* the performance of the U.S. cord blood banking industry is expected to remain flat, as it is currently the most mature cord blood banking market in the world. The U.S. is the pioneer of the technology, having the largest total number of industry participants and greatest number of cord blood units banked relative to population.
- *Europe:* the industry's performance in Europe is forecast to remain flat or even declining due to a slowdown in activities over the past five years and the fact that it is illegal to privately store one's cord



blood in Italy and France, which eliminated the market potential for private cord blood banking within these regions.

- *Asia*: the cord blood banking industry in Asia has a high growth potential as public awareness continues to increase in the region along with a growing rate of diagnosed hematologic cancers<sup>14</sup>, especially in India and China. In addition, studies show that non-Caucasian patients are disadvantaged in finding a match via donor programs due to various reasons. For example, the probability of Caucasians finding a matched stem cell through a donor program is around 75% whereas that of Asians is approximately 40%<sup>15</sup>. Consequently, privately banking cord blood and tissue is increasingly preferred in Asia as public awareness of its benefits grows.

---

<sup>14</sup> Cancer that begins in blood-forming tissues, such as cells in the immune system and bone marrow. Examples of hematologic cancer include leukaemia, lymphoma, myeloma, etc.

<sup>15</sup> *Race/Ethnicity Affects the Probability of Finding an HLA-A, -B, -C and-DRB1 Allele-Matched Unrelated Donor and Likelihood of Subsequent Transplant Utilisation*, 6 August 2012, US National Centre for Biotechnology Information

## 4 Overview of Cryosite

### 4.1 Introduction

Cryosite is an Australian biotechnology and biologics logistics company established in 1999 as a pioneer of private autologous cord blood banking. Following its inception, the Company expanded its services to provide bioarchiving and biorepository services, clinical trials logistics services, commercial drug distribution services and other storage and distribution based services. Cryosite listed on the ASX in 2002 and is fully licensed by the TGA, and accredited by National Association of Testing Authorities (“NATA”).

### 4.2 Business segments

The Company operates in two business segments: Individualised Consumer Biologics and Scientific Processing Logistics. A brief overview of Cryosite’s business segments is as follows:

- *Individualised Consumer Biologics* – includes:
  - the Cord Blood and Tissue Banking Business which was involved in the marketing, collection, processing and storage of cord blood and tissue and is now only involved in the storage of retained banked samples.
  - adult stem cell storage services involving storing adult stem cells.
  - bioarchiving and biorepository services, being services that manage or archive biological samples (such as plasma, DNA, cell lines, and other clinical specimens) in a secure repository.

The segment, under Cryosite’s TGA license, focuses on extraction and cryogenic storage of blood and tissue samples from umbilical cords for a period up to 18 or 25 years (the Cord and Tissue Banking Business). Samples collected by the business segment can be released immediately for autologous or directed allogeneic use with little charge for the release within Australia.

Payment for cord blood and tissue storage varies depending on what is stored, the period of storage and how the customer prefers to pay. The table below summarises the payment plans that were offered by Cryosite for cord blood and tissue banking.

| Cryosite - cord blood            |                                      |                                      |
|----------------------------------|--------------------------------------|--------------------------------------|
| Contract period                  | 18 year                              | 25 year                              |
| Prepaid plan                     | \$3,045 on storage                   | \$3,395 on storage                   |
| 12-month plan                    | \$275.00 per month                   | \$304.16 per month                   |
| 24-month plan                    | \$145.83 per month                   | \$160.20 per month                   |
| Annual plan                      | \$1,575 on storage + \$175 per annum | \$1,575 on storage + \$175 per annum |
| Cryosite - cord blood and tissue |                                      |                                      |
| Contract period                  | 18 year                              | 25 year                              |
| Prepaid plan                     | \$5,000 on storage                   | \$5,600 on storage                   |
| 12-month plan                    | \$433.33 per month                   | \$483.33 per month                   |
| 24-month plan                    | \$224.99 per month                   | \$249.99 per month                   |
| Annual plan                      | \$2,225 on storage + \$300 per annum | \$2,225 on storage + \$300 per annum |

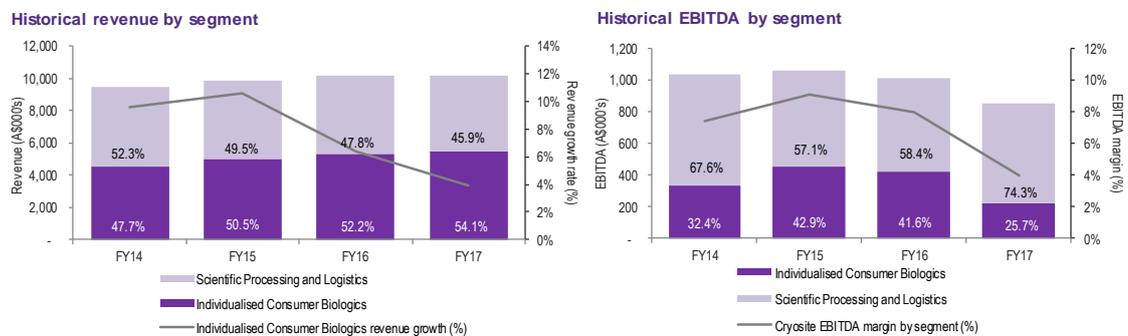
Source: Cryosite website

Note (1): Cord blood fees are in addition to one-off initial enrolment fee of \$150.

Note (2): Cord blood and tissue fees are in addition to one-off initial enrolment fee of \$250

- *Scientific Processing and Logistics* – provides:
  - clinical trials logistics services, which are support services provided to companies undertaking clinical trials of mostly new drugs.
  - commercial drug distribution services.
  - other storage and distribution-based services involving the import and distribution of laboratory diagnostics products.

The following charts set out the contribution of each division to Cryosite’s historical revenue and EBITDA for the financial years ended 30 June 2014 (“FY14”), 30 June 2015 (“FY15”), 30 June 2016 (“FY16”), and 30 June 2017 (“FY17”). Also shown is the revenue growth for the Individualised Consumer Biologics division and the EBITDA margin for the division:



Source: Cryosite Annual Reports

Note (1): An analysis of the breakdown of the reported historical EBITDA figures was performed and no adjustment for one-off expenses was noted.

In relation to the above charts, whilst contribution from the Individualised Consumer Biologics segment to historical revenue averaged around 51% over FY14 – FY17, the contribution to EBITDA averaged 35% in the same period. Furthermore as shown in the charts, revenue growth for the Individualised Consumer Biologics division ranged between 9% to 10% in earlier years, in FY16 it dropped to 6.4% and further declined to 3.9% in FY17, The EBITDA margin for the Individualised Consumer Biologics segment was 7.9% for FY16 reducing to 4.0% for FY17.

As previously mentioned, most of the activities within Cryosite’s Individualised Consumer Biologics segment relate to the Cord Blood and Tissue Banking Business. This business has experienced a decline in its contract volumes and profits for reasons including subdued awareness of the benefits of cord blood and tissue banking in Australia resulting in low levels of services uptake. Information provided by the Company shows that over the period from 2013 to 2017, total contracts entered into for the storage of cord blood and/or tissue has declined on average by 4% per year. The pricing of Cryosite’s contracts is further discussed in Section 7.2.1 of this Report.



### 4.3 Financial information

#### 4.3.1 Financial performance

Set out below is a summary of Cryosite's audited financial performance for FY15, FY16 and FY17. In addition we have also considered the Company's results for the four month period to 31 October 2017 ("YTD18"), however for reasons of commercial sensitivity we have not disclosed these results in the table.

| Consolidated statement of comprehensive income<br>A\$000's | FY15<br>Audited | FY16<br>Audited | FY17<br>Audited |
|--|-----------------|-----------------|-----------------|
| Revenue  |                 |                 |                 |
| Individualised Consumer Biologics                          | 4,976           | 5,293           | 5,498           |
| Scientific Processing and Logistics                        | 4,868           | 4,844           | 4,665           |
| <b>Total revenue</b>                                       | <b>9,844</b>    | <b>10,137</b>   | <b>10,163</b>   |
| Revenue growth (%)   | 4.5%            | 3.0%            | 0.3%            |
| Individualised Consumer Biologics revenue growth (%)       | 10.6%           | 6.4%            | 3.9%            |
| Scientific Processing and Logistics revenue growth (%)     | -1.1%           | -0.5%           | -3.7%           |
| Less: Interest revenue                                     | (210)           | (93)            | (69)            |
| Expenses   |                 |                 |                 |
| Cost of services   | (5,396)         | (6,021)         | (5,932)         |
| Other operating expenses                                   | (3,839)         | (3,676)         | (3,896)         |
| Add: Depreciation & Amortisation                           | 658             | 664             | 588             |
| <b>Total operating expenses</b>                            | <b>(8,577)</b>  | <b>(9,033)</b>  | <b>(9,241)</b>  |
| <b>Reported EBITDA</b>                                     | <b>1,056</b>    | <b>1,011</b>    | <b>853</b>      |
| Individualised Consumer Biologics                          | 453             | 420             | 219             |
| Scientific Processing and Logistics                        | 603             | 591             | 634             |
| Reported EBITDA margin (%)                                 | 10.7%           | 10.0%           | 8.4%            |
| Individualised Consumer Biologics (%)                      | 9.1%            | 7.9%            | 4.0%            |
| Scientific Processing and Logistics (%)                    | 12.4%           | 12.2%           | 13.6%           |
| Less: Depreciation & Amortisation                          | (658)           | (664)           | (588)           |
| <b>Reported EBIT</b>                                       | <b>399</b>      | <b>346</b>      | <b>265</b>      |
| Reported EBIT margin (%)                                   | 4.0%            | 3.4%            | 2.6%            |
| Finance expenses   | (2)             | -               | -               |
| Add: Interest revenue                                      | 210             | 93              | 69              |
| <b>Net Profit before tax</b>                               | <b>607</b>      | <b>439</b>      | <b>334</b>      |
| Income tax (expense)/benefit                               | (151)           | (137)           | (109)           |
| <b>Net Profit after tax</b>                                | <b>455</b>      | <b>302</b>      | <b>225</b>      |
| NPAT margin (%)  | 4.6%            | 3.0%            | 2.2%            |

Source: Cryosite Annual Report 2015-2017

We note the following in relation to the above financial statements:

- **Revenue** – total revenue has increased at modest levels of no more than 4.5% over the last couple of years. The uplift in revenue in FY16 from the Individualised Consumer Biologics segment was a result of revenue from the bioarchiving and biorepository services (which are retained by Cryosite) and heavy expenditure on marketing initiatives to improve public awareness of the cord banking sector and stimulate revenue. The decline in FY16 revenue in the Scientific Processing and Logistics division was attributed to a reduction in the volume of work for a major client as a result of completion of a particular clinical trial. This was partially offset through the introduction of a new service. In relation to FY17, included in Individualised Consumer Biologics division is the up-front Cash Consideration of \$500,000. Normalising for this amount results in revenue of approximately \$4,998,000 which is a decline from the prior year of about 6%. According to the Company this is a reflection of increased competition in the

cord blood banking sector affecting revenue for the segment. Revenue for the Scientific Processing and Logistics division for FY17 is below the level observed in FY15 due to the reduction in volume of services provided to a particular contract in the segment. In relation to YTD18 revenue from the Individualised Consumer Biologics segment has continued to decline. In contrast, YTD18 revenue from the Scientific Processing and Logistics division continues in a similar quantum to FY17.

- *EBITDA and EBITDA margins* – Reported EBITDA and EBITDA margins overall have declined over recent years. The decline in FY17 was mostly attributed to the Individualised Consumer Biologics segment, where heavy marketing expenditure has not stimulated growth in contracts and instead squeezed margins. For YTD18 EBITDA margins for the Scientific Processing and Logistics Division are higher compared to FY17, whereas for the Individualised Consumer Biologics segment presents a loss. The Company have also advised that as a result of restructuring and impairment costs, Cryosite as a whole is expected to make a loss for the first half of FY18.

#### 4.3.2 Financial position

A summary of Cryosite’s consolidated statement of financial position as at 30 June 2016 and 30 June 2017 is set out below:

| Consolidated statement of financial position<br>A\$000's | 30-Jun-16<br>Audited | 30-Jun-17<br>Audited |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Cash and cash equivalents                                | 3,652                | 5,089                |
| Trade and other receivables                              | 2,876                | 2,310                |
| Inventories  | 120                  | 82                   |
| Prepayments  | 290                  | 132                  |
| <b>Total current assets</b>                              | <b>6,938</b>         | <b>7,613</b>         |
| Trade and other receivables                              | 637                  | 532                  |
| Deferred tax asset                                       | 313                  | 204                  |
| Plant and equipment                                      | 1,206                | 919                  |
| Intangible assets  | 564                  | 559                  |
| <b>Total non-current assets</b>                          | <b>2,720</b>         | <b>2,214</b>         |
| <b>Total assets</b>                                      | <b>9,657</b>         | <b>9,827</b>         |
| <b>Liabilities</b>                                       |                      |                      |
| Trade and other payables                                 | 1,110                | 1,086                |
| Unearned income  | 370                  | 394                  |
| Provisions   | 480                  | 432                  |
| <b>Total current liabilities</b>                         | <b>1,960</b>         | <b>1,911</b>         |
| Trade and other payables                                 | 442                  | 442                  |
| Unearned income  | 3,612                | 4,090                |
| Provisions   | 266                  | 235                  |
| <b>Total non-current liabilities</b>                     | <b>4,319</b>         | <b>4,767</b>         |
| <b>Total liabilities</b>                                 | <b>6,279</b>         | <b>6,678</b>         |
| <b>Net assets</b>  | <b>3,378</b>         | <b>3,149</b>         |

Source: Cryosite Annual Report 2015-2017

We note the following in relation to Cryosite’s consolidated balance sheet as at 30 June 2017:

- *Inventories* – comprise consumables relating to the Cord Blood and Tissue Banking Business which are part of the Sale Assets.

- *Plant and equipment* – include leasehold improvements, fixtures and fittings, information technology, warehouse equipment and office furniture and equipment. We note a fall of c. \$280,000 as at 30 June 2017 in comparison to FY16 as a result of depreciation charge outweighing acquisitions of plant and equipment.
- *Intangible assets* – comprise in-house software development to improve operational capabilities, Stemlife storage contracts<sup>16</sup>, and a license relating to an exclusive agreement with a third party to assist with the in-house development of new technologies relating to stem cell service offerings.
- *Unearned income* – relates to cord blood and tissue revenues received in advance for storage services to be rendered under long-term storage contracts. Cryosite recognises most of its revenue from its Cord Blood and Tissue Banking Business upon enrolment and storage of samples as the costs incurred by Cryosite are greatest at the beginning. The initial costs are in relation to cryopreservation, infectious and quality tests, and cryogenic storage. The cost of on-going storage is much smaller in comparison. Notwithstanding this, where customers commit to pre-paid plans a portion of the revenue is recognised as unearned revenue and is unwound into revenue over the life of the plan.

The balance sheet as at 31 October 2017 shows a reduction in net assets which is mostly explained by a reduction in cash, receivables and creditors driven as a result of the restructuring costs referred to earlier. In addition, the Company have indicated that there are likely to be impairments of the carrying value of plant and equipment, intangibles and consumables.

#### 4.4 Capital Structure

As at the date of this report, Cryosite had 46,859,563 ordinary shares on issue.

##### 4.4.1 Top Shareholders

The following table sets out the top ten shareholders for Cryosite as at 31 October 2017:

| Shareholder name                        | Number of shares  | Ownership %  |
|---|-------------------|--------------|
| Andrew Kroger and related entities      | 16,016,906        | 34.2%        |
| Cell Care Australia Pty Ltd             | 9,229,995         | 19.7%        |
| Alistair David Strong                   | 2,000,000         | 4.3%         |
| Bell Potter Nominees Ltd                | 1,758,236         | 3.8%         |
| Jane Susan Milliken                     | 1,302,917         | 2.8%         |
| Talston Pty Limited                     | 1,172,500         | 2.5%         |
| Tootcan Superannuation Services Pty Ltd | 1,008,753         | 2.2%         |
| Stephen Roberts                         | 967,662           | 2.1%         |
| Naron Nominees Pty Ltd                  | 839,416           | 1.8%         |
| BNP Paribas Nominees Pty Limited        | 730,010           | 1.6%         |
| <b>Top 10 shareholders</b>              | <b>35,026,395</b> | <b>74.7%</b> |
| Other shareholders                      | 11,833,168        | 25.3%        |
| <b>Total shares</b>                     | <b>46,859,563</b> |              |

Source: the Company and GTCF calculations

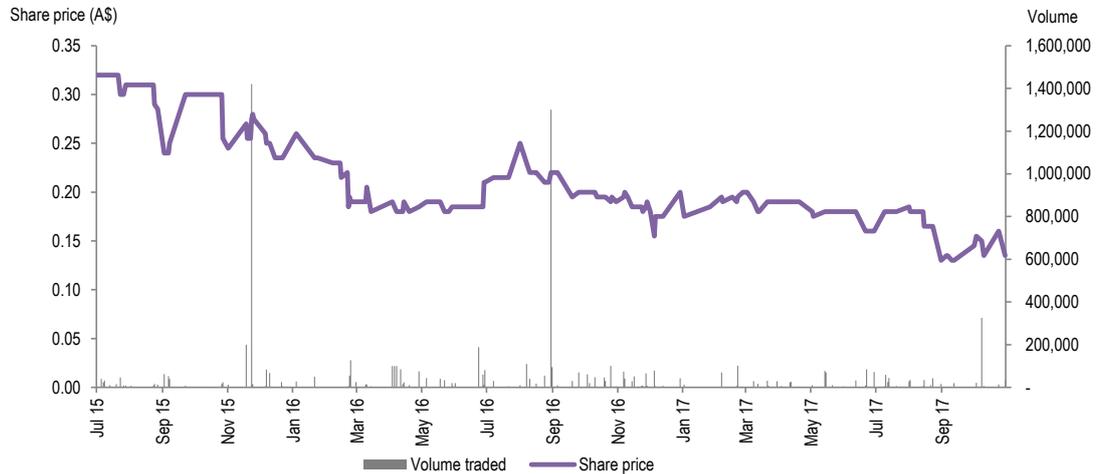
Note (1): We note that as at 30 June 2017 Mr. Kroger purchased an additional interest of approximately 1.4 million shares but the transaction was only effective in July. The transaction has been reflected in this table.

<sup>16</sup> Following Stemlife's liquidation in 2016, Cryosite acquired for nil consideration a number of Stemlife's assets (principally stored cord blood and tissue) to be leveraged in conjunction with the Company's existing assets within the Individualised Consumer Biologics segment.

#### 4.4.2 Historical trading analysis

The daily movements in Cryosite's share price and volumes of shares traded over the last two years are set out in the chart below:

**Cryosite's share price performance and volume traded**



Source: S&P Global and GTCF calculations

As evidenced in the above graph, Cryosite's share price over the last two years has generally been trending downward from \$0.35 to \$0.13. We noted a decline in share price from \$0.29 to \$0.24 on 3 September 2015 following the announcement of resignation of the Company's CEO, Joseph Saad. However, the graph also illustrates the thinly traded nature of Cryosite shares with the exception of the two spikes in the volumes of shares traded in 24 November 2015 and 31 August 2016, possibly attributed to Mr. Kroger and related entities' on-market acquisition of a material number of Cryosite shares. The limited liquidity is also evident in the following table which summarises the monthly share price performance since September 2016 and the weekly share price performance of Cryosite over the last 16 weeks.

| Cryosite Limited<br>\$ per share | Share Price |           |             | Average<br>weekly volume<br>(000's) |
|----------------------------------|-------------|-----------|-------------|-------------------------------------|
|                                  | High<br>\$  | Low<br>\$ | Close<br>\$ |                                     |
| <b>Month ended</b>               |             |           |             |                                     |
| Sep 2016                         | 0.230       | 0.195     | 0.200       | 46                                  |
| Oct 2016                         | 0.200       | 0.180     | 0.190       | 76                                  |
| Nov 2016                         | 0.200       | 0.180     | 0.190       | 65                                  |
| Dec 2016                         | 0.200       | 0.155     | 0.200       | 31                                  |
| Jan 2017                         | 0.185       | 0.175     | 0.185       | 3                                   |
| Feb 2017                         | 0.200       | 0.190     | 0.200       | 46                                  |
| Mar 2017                         | 0.200       | 0.180     | 0.190       | 25                                  |
| Apr 2017                         | 0.190       | 0.190     | 0.190       | 15                                  |
| May 2017                         | 0.180       | 0.175     | 0.180       | 37                                  |
| Jun 2017                         | 0.180       | 0.160     | 0.160       | 46                                  |
| Jul 2017                         | 0.180       | 0.180     | 0.180       | 33                                  |
| Aug 2017                         | 0.185       | 0.165     | 0.165       | 35                                  |
| Sep 2017                         | 0.135       | 0.130     | 0.130       | 10                                  |
| <b>Week ended</b>                |             |           |             |                                     |
| 14 Jul 2017                      | 0.180       | 0.180     | 0.180       | 133                                 |
| 21 Jul 2017                      | 0.180       | 0.180     | 0.180       | 6                                   |
| 28 Jul 2017                      | -           | -         | 0.180       | -                                   |
| 4 Aug 2017                       | 0.185       | 0.180     | 0.180       | 64                                  |
| 11 Aug 2017                      | -           | -         | 0.180       | -                                   |
| 18 Aug 2017                      | 0.180       | 0.165     | 0.165       | 44                                  |
| 25 Aug 2017                      | 0.165       | 0.165     | 0.165       | 53                                  |
| 1 Sep 2017                       | 0.130       | 0.130     | 0.130       | 17                                  |
| 8 Sep 2017                       | 0.135       | 0.135     | 0.135       | 4                                   |
| 15 Sep 2017                      | 0.135       | 0.130     | 0.130       | 21                                  |
| 22 Sep 2017                      | -           | -         | 0.130       | -                                   |
| 29 Sep 2017                      | -           | -         | 0.130       | -                                   |
| 6 Oct 2017                       | 0.155       | 0.145     | 0.155       | 24                                  |
| 13 Oct 2017                      | 0.150       | 0.135     | 0.135       | 331                                 |
| 20 Oct 2017                      | -           | -         | 0.135       | -                                   |
| 27 Oct 2017                      | 0.160       | 0.160     | 0.160       | 14                                  |

Source: S&P Global and GTCF calculations

## **5 Valuation methodologies**

### **5.1 Introduction**

In accordance with our basis of assessment set out in Section 2.2, our fairness assessment involves comparing the fair market value of Cryosite's Marketing, Collection and Processing of Cord Blood Business plus Sale Assets to the Consideration.

Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

*"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

### **5.2 Valuation methodologies**

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets ("FME Method").
- Discounted cash flow method and the estimated realisable value of any surplus assets ("DCF Method").
- Amount available for distribution to security holders on an orderly realisation of assets ("NAV Method").
- Quoted price for listed securities, when there is a liquid and active market ("Quoted Security Price Method").
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG 111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

### **5.3 Methodologies selected**

In our assessment of the fair market value of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets, Grant Thornton Corporate Finance has relied on the DCF Method as discussed below.

#### **5.3.1 DCF Method**

Grant Thornton Corporate Finance has adopted a DCF Method to value Cryosite's Marketing, Collection and Processing of Cord Blood Business plus Sale Assets given:

- The Company prepared a financial model that considered the long-term cash flow forecasts in relation to Cryosite's Cord Blood and Tissue Banking Business assuming it was continued. We have relied on the projections in the Company's financial model as a starting point to assess the fair market value of Cryosite's Marketing, Collection and Processing of Cord Blood Business assuming continuation plus Sale Assets.
- The DCF Method is arguably a robust and technically superior methodology.
- The DCF Method is one of the most commonly used methodologies for valuation of operating business enterprises.
- The DCF Method is appropriate for businesses like Cryosite's Marketing, Collection and Processing of Cord Blood Business plus Sale Assets as it has experienced challenging conditions: declining contract growth rates and reduced margins.
- A market based method such as the capitalisation of earnings method relies on the existence of a number of comparable companies or assets against which to assess valuation inputs. There is no other listed cord blood and tissue banking companies in Australia which make the use of a market based method more challenging.
- A cost method would be difficult to apply to Cryosite's Marketing, Collection and Processing of Cord Blood Business plus Sale Assets would likely understate its value.
- Other methods were also difficult to apply. We considered separately valuing the Marketing, Collection and Processing of Cord Blood Business using a relief from royalty approach and the Database which is the most material asset within the Sale Assets using a DCF Method, however, the hypothetical assumptions that are required to underpin these valuations resulted in these methods not being appropriate.

In respect of the Company's financial model, Grant Thornton Corporate Finance has performed the following procedures:

- High level checks of the Company's projected cash flows, including comparison to actual historical information.
- Test for reasonableness the underlying assumptions against historical financial performance and other metrics.
- Removed the cash flows associated with the retained banked samples.



- Held discussions with the Company to assess whether the financial projections and the underlying assumptions are appropriate and made changes where relevant.
- Assess the discount rate to apply to the cash flow forecast. We have used a discount rate which has been estimated using the CAPM. Refer to Appendix B for further detailed calculations.
- Sensitivity analysis with specific regard to key assumptions relevant to the cash flows and discount rates.

#### **5.4 Cross check**

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation of Cryosite's Marketing, Collection and Processing of Cord Blood and Tissue Banking Business plus Sale Assets having regard to an implied value of the Individualised Consumer Biologics segment calculated by reference to Cryosite's market capitalisation prior to its cessation of activities and the proportion it contributes to the Company's overall EBITDA. This cross check would represent an indicative value of Cryosite's entire Individualised Consumer Biologics business of which the Cord Blood and Tissue Banking Business is a part of. Given this limitation, this cross check only provides high level directional evidence of the appropriateness of our main valuation methodology.

## 6 Valuation assessment of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets

### 6.1 Valuation summary

As discussed in Section 5, we have utilised the DCF Method to assess the fair market value of Cryosite's Marketing, Collection and Processing of Cord Blood Business assuming it was continued plus Sale Assets. We have set out in the table below a summary of our assessed valuation range.

| Valuation summary<br>A\$'000s  | Section Reference | Low   | High  |
|--|-------------------|-------|-------|
| Marketing, Collection and Processing of Cord Blood Business plus Sale Assets | Section 6.2       | 2,440 | 2,712 |

Source: GTCF calculations

Based on the above, we have assessed the fair market value of the Marketing, Collection and Processing of Cord Blood Business assuming it was continued and Sale Assets to be between \$2.4 million and \$2.7 million.

### 6.2 Valuation of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets

For the purpose of our valuation assessment utilising the DCF Method, Grant Thornton Corporate Finance developed a financial model ("GT Model") on Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets), based on a set of forecast prepared by the Company as a starting point.

The financial model prepared by the Company considered long-term cash flow forecasts for Cryosite's Cord Blood and Tissue Banking Business assuming it was to be continued including its business relating to the retained banked samples after the Proposed Transaction. The model was prepared for internal purposes to assess a high level valuation of the Cord Blood and Tissue Banking Business.

Grant Thornton Corporate Finance has then performed the following procedures on the forecast prepared by the Company:

- *Test for reasonableness* – GTCF has performed high level checks of the the Company's projected cash flows and tested the underlying assumptions against historical financial performance.
- *Made key adjustments* – In developing the GT Model we excluded the cash flows relating to the part of the business associated with the retained banked samples, which is retained by Cryosite after the Proposed Transaction.
- *Discussion with the Company* – in accordance with the requirements of RG 111, we have made enquiries with Cryosite to understand the basis upon which the projections have been prepared and the appropriateness of the underlying assumptions.

The assumptions adopted by Grant Thornton Corporate Finance in the GT Model do not represent forecasts by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in valuing Cryosite's Marketing, Collection and Processing of Cord Blood Business.

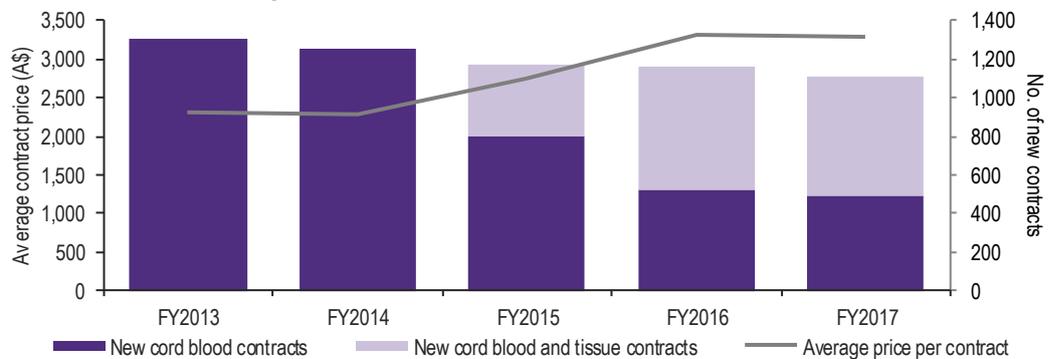
The key assumptions adopted are discussed in the following sub-sections.

### 6.2.1 Revenue

The revenue generated by Cryosite's Cord Blood and Tissue Banking Business is driven by the growth rate of new cord blood and tissue banking contracts per year and the price charged for each sample. For the purpose of forming a view on the appropriate revenue forecast for our valuation, Grant Thornton Corporate Finance has had regard to the historical average contract prices achieved by Cryosite as well as the number of new contracts signed each year.

Shown in the graphs below are Cryosite's historical average contract prices for cord blood and cord tissue banking, and the revenue contribution by cord blood banking and cord tissue banking to Cryosite's Cord Blood and Tissue Banking Business.

#### Historical numbers and prices of contracts



Source: the Company and GTCF calculations

Note (1): Cord tissue banking only commenced in FY2015.

Note (2): Average contract price is calculated based on the revenue generated from cord blood and tissue banking contracts excluding storage income divided by the total number of contracts achieved

As depicted in the charts above, the number of new customer contracts y-o-y has been declining whilst the average price per contract has been increasing. The price rise has been driven by a change in the revenue mix with more clients banking both cord blood and cord tissue.

The total number of contracts declined for the four years FY14 – FY17, at an average rate of 4% per annum.

Based on the analysis undertaken by Grant Thornton Corporate Finance, the price and the number of contracts adopted in the projections were selected in line with FY17. We have preserved the number of new contracts flat during the projections whilst we have increased the average price by 2.5% in line with inflation rate.

Given the relatively flat growth forecast for the cord blood and tissue banking industry in Australia, as discussed in Section 3, and the historical performance of Cryosite's Cord Blood and Tissue Banking Business, assumptions regarding future contract prices and contract growth rate are inherently subject to considerable uncertainty. It should be noted that the value of the Cord Blood and Tissue Banking Business could vary materially based on a variation in contract prices.

## 6.2.2 Operating Costs

Operating costs incurred by the Cord Blood and Tissue Banking Business include variable processing costs, sales and marketing costs and wages, laboratory wages, fixed costs (relating only to maintenance costs and consultancy fees) and depreciation.

The largest component of operating costs is the variable processing costs incurred on initial receipt of cord blood or tissue. These costs include expenses associated with pathology testing, collection and courier costs, consumables for processing samples, etc. These costs have historically approximated 40% to 42% of the total revenue. For the purpose of our valuation assessment, we have placed greater reliance on the more recent periods including results for FY17 and adopted 40% of the total revenue as the variable processing costs in our GT Model. This percentage at the low end also accommodates for the fact that a small portion of variable costs (those relating to electricity and nitrogen) would be incurred in relation to the retained banked samples and hence for the purpose of this valuation needs to be excluded.

Sales and marketing costs inclusive of wages for sales personnel was estimated for FY18<sup>17</sup> based on the expense incurred for FY17. This expense has been adjusted to reflect a full year's expense of a few sales staff whose employment only commenced in the second half of FY17. All sales and marketing costs are incurred in relation to obtaining new contracts from new customers and do not relate to customers of retained banked samples.

In respect of fixed costs, we have only allowed for those costs relating to maintenance costs and consultancy fees. We have not allowed for other costs such as rent, or corporate overheads, on the basis that a likely acquirer of the business would not necessarily be incurring additional material fixed costs assuming that their premises and laboratories would be capable of absorbing this business. The exclusion of fixed costs also allows for the calculation of a controlling value of Cryosite's Cord Blood and Tissue Banking Business which we consider to be relevant.

## 6.2.3 Depreciation and capital expenditure

Over recent years, Cryosite has deferred its capital expenditure on the Cord Blood and Tissue Banking Business and hence depreciation over recent years has decreased. Based on discussions with the Company, approximately 50% of the Company's capital expenditure has historically been attributed to the Cord Blood and Tissue Banking Business.

The following table summarises Cryosite's Cord Blood and Tissue Banking Business's actual depreciation and capital expenditure (approximately 50% of the Company's capital expenditure) over various historical periods.

| Historical capital expenditure and depreciation (A\$'000s) | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | Annual average |
|--|--------|--------|--------|--------|--------|----------------|
| Cord Blood and Tissue Banking Business only                | Actual | Actual | Actual | Actual | Actual |                |
| Capital expenditure  | 214    | 190    | 243    | 193    | 98     | 187            |
| Depreciation   | 291    | 222    | 228    | 284    | 212    | 247            |

Source: the Company and GTCF calculations

Going forward, and owing to the historic delay of investment, the Company has projected that approximately \$0.434 million will need to be spent on various items such as tanks, flow systems and other necessary equipment to support the ongoing business. Following that initial spend a normalised

<sup>17</sup> Being the first forecast year of the GT Model

annual capital expenditure of \$0.1 million is expected to be required increasing to \$0.15 million in the terminal year. This level of expenditure is less than would have otherwise been incurred for the Cord Blood and Tissue Banking Business but for the Proposed Transaction.

#### 6.2.4 Working capital

The following table summarises Cryosite's historical working capital for the entire company.

| Historical working capital (A\$'000s)                     | FY2012      | FY2013      | FY2014      | FY2015      | FY2016      |
|---|-------------|-------------|-------------|-------------|-------------|
| Cryosite Limited  | Actual      | Actual      | Actual      | Actual      | Actual      |
| Working capital   | (288)       | 16          | 169         | 337         | 1,326       |
| Movement  | 44          | 304         | 153         | 168         | 990         |
| Revenue   | 8,021       | 8,764       | 9,421       | 9,844       | 10,137      |
| <b>Movement in working capital as % of annual revenue</b> | <b>0.6%</b> | <b>3.5%</b> | <b>1.6%</b> | <b>1.7%</b> | <b>9.8%</b> |

Source: the Company and GTCF calculations

The above table shows consistent levels of movements in working capital as a percentage of revenue other than for FY16. The material movement in FY16 is a result of the introduction by the Company of 12 month and 24 month payment plans which have resulted in an increase in accounts receivable. Going forward, the movement is expected to normalise and as a percentage of annual revenue revert to lower than 2%.

Based on discussions with the Company and a consideration of historic working capital, Grant Thornton Corporate Finance has adopted a normalised level of working capital of approximately 1% of the total revenue going forward in our GT Model.

#### 6.2.5 Tax

Tax has been calculated at the rate of 30%, which is the Australian corporate tax rate.

#### 6.2.6 Terminal value

We have modelled cash flows over a period of five years following which we have assessed a terminal value using the Gordon Growth Model (which is a proxy for modelling the cash flows of a going concern business in perpetuity) and a long term growth rate of 2.5% in line with the long term forecast inflation rates for Australia<sup>18</sup>. The terminal value calculation also assumes normalised level of capital expenditure. Whilst the cord blood and tissue banking industry is challenging we consider our approach to the terminal value to be reasonable and in line with the methodology that a pool of potential purchasers would likely adopt.

#### 6.2.7 Discount rate

The cash flow assumptions associated with Marketing, Collection and Processing of Cord Blood Business have been prepared on a nominal, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has applied a nominal, post-tax Weighted Average Cost of Capital ("WACC") of 12% to value the business. In assessing the WACC we have taken into account the following:

- Cryosite's business is smaller in size and less diversified in terms of operations compared to some of the comparable companies.

<sup>18</sup> The long term target inflation rate set by the Reserve Bank of Australia is 2%-3%.

- The cord blood and tissue banking industry is challenged by a number of factors, such as those discussed in Section 3.3 of this Report. The industry in Australia is expected to experience flat growth and the broader biotechnology industry is forecasted to have subdued growth.
- The cord blood and tissue banking industry has a culture of competitive pricing and Cryosite's customers are price sensitive, hence if an alternate competitor can offer similar services at lower prices, new customers would be likely to consider the competitor.
- Cryopreservation of cord blood and tissue offers parents the security of holding their child's cord blood in the rare instance it is needed. The banking of cord blood and tissue could be deemed as a discretionary service, which also means the demand for the service is positively correlated to the level of disposable income.

Refer to Appendix D for further details on the calculation of the WACC.

### 6.2.8 Valuation summary

Based on the above assumptions, the net present value of the cash flows of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets has been assessed at between \$2.43 million and \$2.70 million on a 100%.

We have conducted certain sensitivity analysis to highlight the impact on the net present value of the Marketing, Collection and Processing of Cord Blood Business (Base Case) caused by movements in certain key assumptions.

The sensitivity analysis of our valuation assessment under the DCF Method to key assumptions is shown below.

| Sensitivity analysis<br>Valuation of the Marketing, Collection and Processing of<br>Cord Blood Business plus Sale Assets | Fair market value (A\$'000s) |       | Variance (%) |         |
|--|------------------------------|-------|--------------|---------|
|  | Low                          | High  | Low          | High    |
| Discount rate  | 12.5%                        | 11.5% | -            | -       |
| Base Case  | 2,440                        | 2,712 | -            | -       |
| <b>General/economic assumptions</b>  |                              |       |              |         |
| Average contract price growth  |                              |       |              |         |
| -0.5% per annum  | 1,965                        | 2,177 | (19.5%)      | (19.7%) |
| +0.5% per annum  | 2,926                        | 3,259 | 19.9%        | 20.2%   |
| Contracts growth rate  |                              |       |              |         |
| -1% per annum  | 1,657                        | 1,827 | (32.1%)      | (32.6%) |
| +1% per annum  | 3,252                        | 3,629 | 33.3%        | 33.8%   |
| Long term growth rate  |                              |       |              |         |
| -0.5% per annum  | 2,362                        | 2,613 | (3.2%)       | (3.7%)  |
| +0.5% per annum  | 2,526                        | 2,823 | 3.5%         | 4.1%    |

Source: GTCF calculations

Please note these sensitivities do not represent a range of potential values of the Cord Blood and Tissue Banking Business, but are intended to show the sensitivity of our valuation assessment to changes in certain variables.

### 6.3 Valuation cross check

Prior to reaching our valuation conclusion, we have considered the reasonableness of our valuation of Cryosite's Marketing, Collection and Processing of Cord Blood Business and Sale Assets having regard to the value of the Individualised Consumer Biologics division as can be discerned from Cryosite's enterprise value based on the market capitalisation.

In accordance with the requirements of RG 111, we have considered the listed securities' depth, liquidity, and whether or not the trading prices are likely to represent the market value of Cryosite.

In our assessment of the enterprise value of Cryosite, we have had regard to the following:

- Based on our conclusion in Section 6.2, Cryosite's market capitalisation referable to the last three months prior to its announcement provides an indicator of the equity value of Cryosite on a minority basis.
- We have adjusted this value for control given we have similarly calculated a controlling value of the Cord Blood and Tissue Banking Business (see Appendix D for further details on control premiums).
- We have subtracted the cash held by Cryosite as at 30 June 2017.
- We note that no debt was held by Cryosite as at 30 June 2017.

Our calculations are set out below:

| Controlling value of Cryosite        |                        | Low          | High         |
|--------------------------------------|------------------------|--------------|--------------|
| A\$'000s                             |                        |              |              |
| VWAP (\$)                            | A                      | 0.16         | 0.18         |
| Total number of shares               | B                      | 46,859,563   | 46,859,563   |
| Cryosite market capitalisation       | $C = A \times B$       | 7,498        | 8,435        |
| Premium for control                  | D                      | 20%          | 40%          |
| Controlling equity value of Cryosite | $E = C \times (1 + D)$ | 8,997        | 11,809       |
| Less: Cash <sup>1</sup>              | F                      | (5,089)      | (5,089)      |
| <b>Enterprise value</b>              | <b>E + F</b>           | <b>3,908</b> | <b>6,719</b> |

Source: GTCF calculations

Note (1): Cryosite has no debt as at 30 June 2017.

As set out in Section 4.2 of this report, Cryosite's Individualised Consumer Biologics division has contributed 25% in FY17 and an average of 36% to Cryosite's total EBITDA. For the purpose of our cross-check, we have assumed that Cryosite's Individualised Consumer Biologics division accounts for 30% to 35% of the total EBITDA contribution and hence of the total enterprise value.

| Implied valuation of the Individualised Consumer Biologics division |  | Low          | High         |
|---|--|--------------|--------------|
| A\$'000s  |  |              |              |
| Enterprise value of Cryosite  |  | 3,908        | 6,719        |
| Proportion of EBITDA  |  | 30%          | 35%          |
| <b>Implied value of the division</b>                                |  | <b>1,172</b> | <b>2,352</b> |

Source: GTCF calculations

We note that the implied value of the division assessed in our cross check includes the value of the retained banked samples and the value of the other services conducted within the Individualised Consumer Biologics division and accordingly the implied value is only an indicative valuation of the Individualised Consumer Biologics division.

Based on our assessment, in our opinion, our cross check valuation methodology indicates that based on the current performance of the Company, we have not undervalued the fair market value of the Marketing, Collection and Processing of Cord Blood Business plus Sale Assets based on the DCF Method. We consider the fair market value range of \$2.4 million to \$2.7 million to be reasonable.

## 7 Value of Consideration

Consideration for the Proposed Transaction comprises:

- Cash Consideration of \$500,000, which has already been paid as a non-refundable deposit.
- Deferred Consideration.
- A Buy-Back for nil monetary value.

In assessing the total value of the Consideration we have calculated the present value of the Deferred Consideration and assessed the fair market value of the Buy-Back Shares. Our assessment ignores potential tax implications as we understand from the Company that there are no adverse tax implications. Set out below is a summary of our assessment of the value of the Consideration.

| Valuation of the Consideration<br>A\$'000s          | Section Reference | Low          | High         |
|---|-------------------|--------------|--------------|
| Fair market value of:                               |                   |              |              |
| Cash Consideration                                  | Section 7.1       | 200          | 200          |
| Deferred Consideration                              | Section 7.2       | 2,264        | 2,264        |
| Buy-Back Shares                                     | Section 7.3       | 1,477        | 1,661        |
| <b>Total fair market value of the Consideration</b> |                   | <b>3,940</b> | <b>4,125</b> |

Source: GTCF calculations

### 7.1 Fair market value of Cash Consideration

The upfront Cash Consideration of \$500,000 has been adjusted for the estimated costs to be incurred in the Proposed Transaction. Based on our discussions with the Company, these costs include the expected redundancy costs, legal and accounting fees, and other costs which approximate a total of \$300,000. The following table sets out our assessment of the value of the Cash Consideration.

| Valuation of the Cash Consideration<br>A\$'000s |            |
|---|------------|
| Upfront cash                                    | 500        |
| Estimated transaction costs                     | (300)      |
| <b>GTCF assessed value</b>                      | <b>200</b> |

Source: the Company and GTCF calculations

### 7.2 Fair market value of Deferred Consideration

As set out in Section 1.2 of this report, the Deferred Consideration comprises a series of payments over five years from the date of signing the Agreement and subject to a minimum of \$500,000 per year. The payments are to be made quarterly and are calculated based on a set formula which in turn is based on the number of existing banked samples of cord blood and tissue.

There is no certainty that the Deferred Consideration will exceed the minimum payment of \$500,000 per annum. For the minimum payment to exceed \$500,000 per year there must be more than 3,692 newly banked samples per year. Over the last five years, Cryosite has historically banked an average of 1,225 samples. Whilst we understand that Cell Care has a much larger market share than Cryosite, there is no reasonable way to accurately estimate the likely banked samples into the future. For the purpose of assessing the fair market value of the Deferred Consideration we have only allowed for the minimum

fixed and guaranteed payment of \$500,000 per annum which is payable quarterly. As the guaranteed payments are not contingent and do not bear any project specific risk, we have discounted the future payments at a rate of 4% which approximates a long term average risk free rate. The result of our calculation is a present value of \$2,263,618.

### 7.3 Fair market value of Buy-Back Shares

In our assessment of the fair market value of the Buy-Back Shares, we have had regard to the trading prices of the listed securities on the ASX. Set out in the table below is a summary of our assessed valuation range based on the Quoted Security Price Method:

| Valuation of the Buy-Back Shares<br>A\$'000s | Section<br>Reference | Low          | High         |
|--|----------------------|--------------|--------------|
| GTCF assessed VWAP                           | Section 7.3.2        | 0.160        | 0.180        |
| No. of Buy-Back Shares                       |                      | 9,230        | 9,230        |
| <b>GTCF assessed value range</b>             |                      | <b>1,477</b> | <b>1,661</b> |

Source: GTCF calculations

The Cryosite Share price range assessed above is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price, and whether or not the market value is likely to represent the underlying value of Cryosite. The following sections detail the analysis undertaken in selecting the share price range.

#### 7.3.1 Liquidity analysis

To assess the liquidity of Cryosite Shares, we have analysed the trading volume from June 2016 to June 2017 as a percentage of the shares outstanding and free float as outlined in the table below:

| Month end      | Volume<br>traded<br>( <sup>'000</sup> ) | Monthly<br>VWAP<br>(\$) | Total value of<br>shares traded<br>(\$'000) | Cumulative                               |  | Cumulative                                    |   |
|----------------|---|-------------------------|---|--|--|---|---|
|                |   |                         |   | Volume traded<br>as % of total<br>shares | Volume traded<br>as % of total<br>shares | Volume traded<br>as % of free<br>float shares | Volume traded<br>as % of free<br>float shares |
| Jul 2016       | 35                                      | 0.2182                  | 8   | 0.1%                                     | 0.1%                                     | 0.2%  | 0.2%  |
| Aug 2016       | 1,533                                   | 0.2206                  | 338   | 3.3%                                     | 3.3%                                     | 10.1%   | 10.3%   |
| Sep 2016       | 204                                     | 0.2104                  | 43  | 0.4%                                     | 3.8%                                     | 1.3%  | 11.6%   |
| Oct 2016       | 320                                     | 0.1951                  | 62  | 0.7%                                     | 4.5%                                     | 2.1%  | 13.7%   |
| Nov 2016       | 288                                     | 0.1855                  | 53  | 0.6%                                     | 5.1%                                     | 1.9%  | 15.6%   |
| Dec 2016       | 138                                     | 0.1709                  | 24  | 0.3%                                     | 5.4%                                     | 0.9%  | 16.5%   |
| Jan 2017       | 15                                      | 0.1764                  | 3   | 0.0%                                     | 5.4%                                     | 0.1%  | 16.6%   |
| Feb 2017       | 185                                     | 0.1930                  | 36  | 0.4%                                     | 5.8%                                     | 1.2%  | 17.8%   |
| Mar 2017       | 117                                     | 0.1870                  | 22  | 0.2%                                     | 6.0%                                     | 0.8%  | 18.6%   |
| Apr 2017       | 60                                      | 0.1900                  | 11  | 0.1%                                     | 6.2%                                     | 0.4%  | 19.0%   |
| May 2017       | 169                                     | 0.1799                  | 30  | 0.4%                                     | 6.5%                                     | 1.1%  | 20.1%   |
| Jun 2017       | 204                                     | 0.1637                  | 33  | 0.4%                                     | 7.0%                                     | 1.3%  | 21.4%   |
| <b>Min</b>     |   |                         |   | <b>0.0%</b>                              |  | <b>0.1%</b>                                   |   |
| <b>Max</b>     |   |                         |   | <b>3.3%</b>                              |  | <b>10.1%</b>                                  |   |
| <b>Average</b> |   |                         |   | <b>0.6%</b>                              |  | <b>1.8%</b>                                   |   |
| <b>Median</b>  |   |                         |   | <b>0.4%</b>                              |  | <b>1.2%</b>                                   |   |

Source: S&P Global and GTCF calculations

With regard to the above analysis, we note that:

- The historical liquidity in Cryosite shares is low with less than 1% of the share capital traded on average per month over the last twelve months. Over the last year a total of approximately 7% of Cryosite's shares have traded. This is a reflection of Cryosite's capital structure with only 32.5%<sup>19</sup> free float.
- Adjusting for the free float, then on average per month, 1.8% of Cryosite's free float shares traded and over the year approximately 21.4% of Cryosite's free float shares traded.
- In the absence of a takeover or alternate transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment.
- Cryosite complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the financial performance and position of Cryosite.
- During the observed period, the minimum and maximum monthly Volume Weighted Average Price ("VWAP") of Cryosite's shares varied between 16.37 cents and 21.82 cents.

While the level of liquidity is limited, we have adopted the trading share price as valuation assessment of the Buy-Back Shares given that in the absence of a takeover or other share offers, the trading share price represents the value at which minority shareholders could realise their portfolio investment. Given the size of Cell Care's investment in Cryosite and the historical limited liquidity, it is likely that a parcel of this size would need to be sold over a long period of time in order to not adversely affect the trading prices. However in the case of a buyback, this will not depress the trading prices as the shares will be bought back and cancelled by the Company without affecting the volumes traded on the ASX.

### 7.3.2 Assessment of VWAP

Set out below is the VWAP of Cryosite's shares before the announcement of the Proposed Transaction.

| Volume weighted average price | Low   | High  | VWAP  |
|-------------------------------|-------|-------|-------|
| Prior to 23 Jun 2017          |       |       |       |
| 5 day                         | 0.160 | 0.160 | 0.160 |
| 10 day                        | 0.160 | 0.180 | 0.176 |
| 1 month                       | 0.160 | 0.180 | 0.176 |
| 2 month                       | 0.160 | 0.180 | 0.179 |
| 3 month                       | 0.160 | 0.190 | 0.182 |
| 4 month                       | 0.160 | 0.200 | 0.183 |
| 5 month                       | 0.160 | 0.200 | 0.186 |
| 6 month                       | 0.160 | 0.200 | 0.187 |
| 9 month                       | 0.155 | 0.200 | 0.187 |
| 12 month                      | 0.155 | 0.250 | 0.204 |

Source: S&P Global and GTCF calculations

The average trading VWAPs for recent periods shown above have ranged between 16 cents and 20.4 cents per share before the announcement of the Proposed Transaction on 23 June 2017 on a minority basis.

<sup>19</sup> Free float shares exclude those owned by Company employees, individual insiders, related parties and other strategic investors.

In concluding on an appropriate value to adopt, we have placed greater reliance on the VWAPs over the last three months, which are also not inconsistent with Cryosite's share price as at the date of this report. As a result, a price in the range of \$0.16 to \$0.18, is adopted for the purpose of our valuation assessment.

## **8 Source of information, disclaimer and consents**

### **8.1 Source of information**

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- ASX announcements
- Annual reports
- Management accounts
- Monthly board presentations
- Discussions with Management
- Other financial and legal documents
- IBISWorld
- S&P Global
- Australian Bureau of Statistics
- Australian Bone Marrow Donor Registry
- Fight Cancer Foundation
- Australian Cord Blood Foundation
- The Royal Australian and New Zealand College of Obstetricians and Gynaecologists
- BioInformant Worldwide, LLC – Stem Cell Market Research
- Other publicly available information

### **8.2 Limitations and reliance on information**

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has

audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the Directors of Cryosite in advising the Cryosite Non-Associated Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is fair and reasonable to the Cryosite Non-Associated Shareholders.

Cryosite has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

### **8.3 Consents**

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Statement to be sent to Cryosite Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

## **Appendix A – Valuation methodology**

### **Discounted cash flow**

An analysis of the net present value of projected cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the WACC. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

### **Capitalisation of future maintainable earnings**

The capitalisation of future maintainable earnings is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

The selection of the appropriate multiples to apply is a matter of judgement and involves consideration of a number of factors including:

- The stability and quality of earnings.
- The nature and size of the business.
- The financial structure of the company and gearing level.
- Future prospects of the business.
- Cyclical nature of the industry.
- The asset backing of the underlying business of the company and the quality of the assets.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

### **Net asset backing/orderly realisation of assets**

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

### **Market value of listed securities**

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded

company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

### **Comparable transactions**

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions and/or listed trading companies to establish a value for the current transaction.

The comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

## Appendix B – Discount rate

### Introduction

The cash flow assumptions underlying the GT Model are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of Cryosite's Cord Blood and Tissue Banking Business.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgement.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- $R_e$  = the required rate of return on equity capital;
- $E$  = the market value of equity capital;
- $D$  = the market value of debt capital;
- $R_d$  = the required rate of return on debt capital; and
- $t$  = the statutory corporate tax rate.

### Required rate of return on equity capital

We have used the CAPM, which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns

are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- $R_f$  = risk free rate
- $\beta_e$  = expected equity beta of the investment
- $(R_m - R_f)$  = market risk premium

### **Risk free rate**

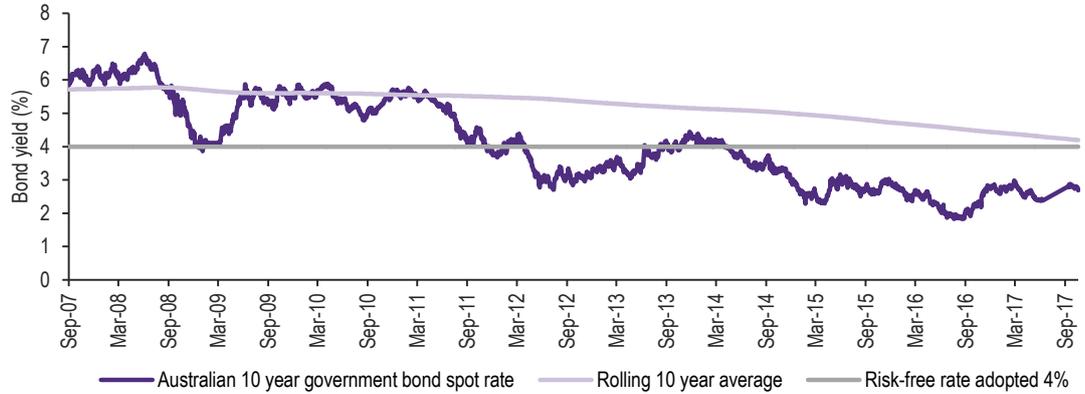
In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have observed the yield on the 10-year Australian Government bond over several intervals from a period of 5 trading days to 10 trading years as at 27 July 2017. The following table summarises our observation.

| Australia Government Debt - 10 Year<br>as at 31 October 2017 | Range |         | Daily average |
|--|-------|---------|---------------|
| Previous 5 trading days                                      | 2.68% | - 2.79% | 2.75%         |
| Previous 10 trading days                                     | 2.68% | - 2.81% | 2.76%         |
| Previous 20 trading days                                     | 2.68% | - 2.84% | 2.79%         |
| Previous 30 trading days                                     | 2.36% | - 2.88% | 2.68%         |
| Previous 60 trading days                                     | 2.36% | - 2.88% | 2.63%         |
| Previous 1 year trading                                      | 2.18% | - 2.99% | 2.66%         |
| Previous 2 years trading                                     | 1.82% | - 3.03% | 2.52%         |
| Previous 3 years trading                                     | 1.82% | - 3.37% | 2.62%         |
| Previous 5 years trading                                     | 1.82% | - 4.44% | 3.03%         |
| Previous 10 years trading                                    | 1.82% | - 6.79% | 4.18%         |

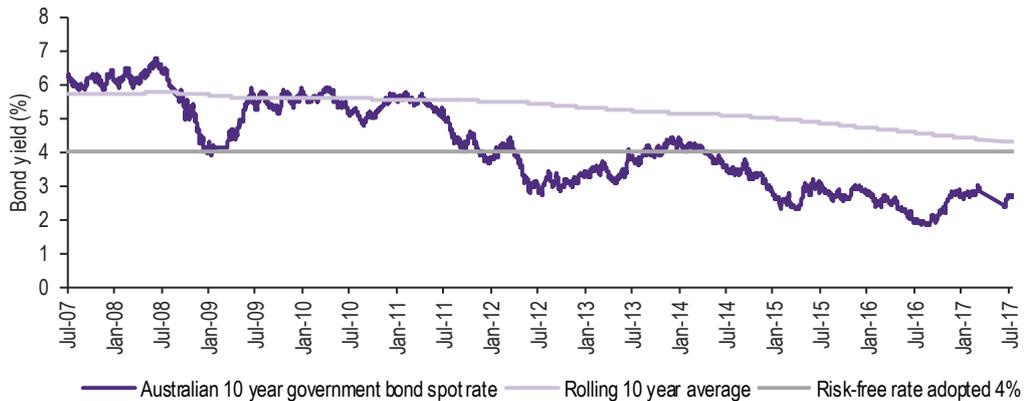
Source: S&P Global and GTCF calculations

In addition, we note the following movement in the Australian 10 year government bond yield since July 2017, i.e. for a period of 10 year.

**Movement of Australian 10 year government bond yield**



**Movement of Australian 10 year government bond yield**



Source: S&P Global and GTCF calculations

Given the volatility in the global financial markets, we have placed more emphasis to the average risk free rate observed over a longer period of time. Based on the above, we have adopted the risk free rate of 4.0%.

**Market risk premium**

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest the premium is between 5.5% and 6.0% for Australia.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%.

## Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity. For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable companies as set out below:

| Company  | Market Cap<br>A\$'millions | MSCI Index                  |                               |                    |                  | Local Index                 |                               |                    |                  | No. of free float<br>shares as % of<br>total shares | Average volume<br>traded as % of<br>total shares |
|--|----------------------------|-----------------------------|-------------------------------|--------------------|------------------|-----------------------------|-------------------------------|--------------------|------------------|---|--|
|  |                            | Equity<br>Beta <sup>1</sup> | Gearing<br>Ratio <sup>1</sup> | Ung geared<br>Beta | Regeared<br>Beta | Equity<br>Beta <sup>1</sup> | Gearing<br>Ratio <sup>1</sup> | Ung geared<br>Beta | Regeared<br>Beta |   |  |
| Cryosite Limited   | 6                          | 0.47                        | 0.0%                          | 0.47               | 0.47             | 0.94                        | 0.0%                          | 0.94               | 0.94             | 32.53%  | 0.63%  |
| <b>Tier 1 - Cord Blood Banking Industry - International</b>      |                            |                             |                               |                    |                  |                             |                               |                    |                  |   |  |
| China Cord Blood Corporation                                     | 1,911                      | 1.06                        | 0.0%                          | 1.06               | 1.06             | 0.94                        | 0.0%                          | 0.94               | 0.94             | 72.47%  | 4.06%  |
| Cordlife Group Limited   | 190                        | 0.08                        | 2.2%                          | 0.08               | 0.08             | -0.40                       | 7.0%                          | NM                 | NM               | 52.07%  | 0.83%  |
| Polski Bank Komórek Macierzystych S.A.                           | 103                        | 0.26                        | 0.6%                          | 0.26               | 0.26             | -0.15                       | 0.3%                          | NM                 | NM               | 57.91%  | 1.55%  |
| Cryo-Cell International, Inc.                                    | 70                         | (0.41)                      | 6.7%                          | NM                 | NM               | -0.44                       | 1.6%                          | NM                 | NM               | 47.87%  | 0.94%  |
| BIONET Corp.   | 60                         | 0.41                        | 0.0%                          | 0.41               | 0.41             | 0.47                        | 0.0%                          | 0.47               | 0.47             | 30.15%  | 6.29%  |
| VITA 34 AG   | 70                         | (0.26)                      | 1.7%                          | NM                 | NM               | 0.06                        | 3.3%                          | 0.06               | 0.06             | 5.74%   | 2.70%  |
| Human Stem Cells Institute PJSC                                  | 19                         | 0.31                        | 5.7%                          | NM                 | NM               | 0.21                        | 1.5%                          | NM                 | NM               | 15.78%  | 0.35%  |
| Widecells Group Plc  | 15                         | (1.74)                      | 4.3%                          | NM                 | NM               | -1.36                       | 5.5%                          | NM                 | NM               | 54.50%  | 2.30%  |
| Esperite N.V.  | 13                         | 1.40                        | 24.6%                         | 1.18               | 1.18             | 1.38                        | 22.9%                         | 1.17               | 1.17             | 79.16%  | 28.91%   |
| Cord Blood America, Inc.   | 5                          | 0.34                        | 18.3%                         | 0.31               | 0.31             | 0.33                        | 19.2%                         | 0.30               | 0.30             | 61.32%  | 1.33%  |
| <b>Tier 2 - Stem Cell Therapy/Treatment Industry - Australia</b> |                            |                             |                               |                    |                  |                             |                               |                    |                  |   |  |
| Cynata Therapeutics Limited                                      | 58                         | 3.72                        | 0.0%                          | 3.72               | 3.72             | 3.50                        | 0.0%                          | 3.50               | 3.50             | 72.34%  | 6.46%  |
| Mesoblast Limited  | 624                        | 1.96                        | 0.0%                          | 1.96               | 1.96             | 1.61                        | 0.0%                          | 1.61               | 1.61             | 64.20%  | 4.38%  |
| Zhongyuan Union Cell & Gene Engineering Corp., Ltd               | 2,159                      | (0.00)                      | 0.0%                          | NM                 | NM               | 1.03                        | 0.0%                          | 1.03               | 1.03             | 69.56%  | 20.74%   |
| MEDIPOST Co., Ltd.   | 883                        | 1.88                        | 0.0%                          | 1.88               | 1.88             | 1.92                        | 0.0%                          | 1.92               | 1.92             | 92.69%  | 12.30%   |
| Green Cross Cell corporation                                     | 612                        | (0.15)                      | 0.0%                          | NM                 | NM               | 0.18                        | 0.0%                          | 0.18               | 0.18             | 69.83%  | 8.20%  |
| <b>Average (Tier 1)</b>  |                            |                             | <b>6%</b>                     | <b>0.55</b>        | <b>0.55</b>      |                             | <b>6%</b>                     | <b>0.59</b>        | <b>0.59</b>      |   |  |
| <b>Median (Tier 1)</b>   |                            |                             | <b>3%</b>                     | <b>0.36</b>        | <b>0.36</b>      |                             | <b>2%</b>                     | <b>0.47</b>        | <b>0.47</b>      |   |  |
| <b>Average (Tier 2)</b>  |                            |                             | <b>0%</b>                     | <b>2.52</b>        | <b>2.52</b>      |                             | <b>0%</b>                     | <b>1.65</b>        | <b>1.65</b>      |   |  |
| <b>Median (Tier 2)</b>   |                            |                             | <b>0%</b>                     | <b>1.96</b>        | <b>1.96</b>      |                             | <b>0%</b>                     | <b>1.61</b>        | <b>1.61</b>      |   |  |

Source: S&P Capital IQ and GTCF calculations

Note (1): Equity betas are calculated using data provided by S&P Capital IQ. The betas are based on a five-year period with monthly observations and have been degeared based on the average gearing ratio over five years.

Note (2): Where the correlation (R squared) between the index and the comparable companies is less than 0.05, the correlating beta has been omitted from consideration and referred to as "NM".

Note (3): Average volume of shares traded as a percentage of total number of shares over the last 12 months.

Grant Thornton Corporate Finance has observed the betas of the comparable companies by reference to both the local index of each company (based on country of domicile) and the MSCI index. We note that the MSCI index is more appropriate for the larger international companies given their global exposure.

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess

their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred to as degearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a \left[ 1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- $\beta_e$  = Equity beta
- $\beta_a$  = Asset beta
- $t$  = corporate tax rate

The betas are de-gearred using the median gearing level over the period in which the betas were observed and then re-gearred based on a gearing ratio of 0% debt to 100% equity (see Capital Structure Section below for further discussions).

In assessing a suitable beta we have had regard to the following:

- Most of the comparable companies of Cryosite have shown data that is not meaningful.
- There are no directly comparable companies listed in Australia.
- China Cord Blood Corporation provides a good indicator of beta given its strong correlation to both its local index and the MSCI Index. China Cord Blood Corporation though is significantly larger than Cryosite.
- Cryosite's historical beta with the local index is 0.94, although its correlation is low.
- Cryosite's cord blood banking service would be dependent upon potential customers' average household disposable income. In addition, cord blood and tissue banking would, at present, constitute discretionary spending. Companies offering discretionary products and services tend to have betas of more than 1.
- Cryosite's prosperity is linked to the prosperity of biotech companies that are developing therapies that utilise stem cells (i.e. Tier 2 comparable companies). To the extent that these companies prosper will have a flow on effect to companies like s Cryosite. Generally, biotech companies have betas greater than 1.

Based on the analysis above, we have selected a beta between 1.0 and 1.1 for Cryosite's Cord Blood and Tissue Banking Business.

### **Specific risk premium**

Specific risk premium represents the additional return an investor expects to receive to compensate for country, size and project related risks not reflected in the beta of the observed comparable companies.

When assessing the specific risk premium for the Cord Blood and Tissue Banking Business we have considered a number of factors including:

- The country risk premium for Australia estimated by Professor Aswath Damodaran of Stern School of Business at New York University (last updated January 2017) is approximately 0.14%.
- The characteristics and comparatively smaller size of the business compared to the selected comparable companies.
- Uncertainty associated with cash flow forecasts.

Based on the above, we have adopted a specific risk premium of 2% to 3%. We note that the selection of the specific risk premium involves a certain level of professional judgement and as a result, the total specific risk premium is not fully quantifiable with analytical data.

### **Cost of debt**

Based on the capital structure of 0% debt and 100% equity adopted for Cryosite's Cord Blood and Tissue Banking Business, Grant Thornton Corporate Finance has not adopted any cost of debt for the calculation of the WACC for our valuation assessment. Refer to Capital Structure Section below for further discussions.

### **Capital structure**

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.

- Level of capital expenditure.
- The risk profile of the assets.

In determining the appropriate capital structure for the purpose of this report, we have also had particular consideration to the following:

- The average gearing ratio of comparable companies over the last five year period as set out in the beta section of this report.
- The current and historic, and target gearing of Cryosite.

Based on the above observations, for the purpose of the discount rate assessment Grant Thornton Corporate Finance has adopted a capital structure of 0% debt and 100% equity for Cryosite's Cord Blood and Tissue Banking Business.

#### **WACC calculation**

The discount rate is determined as set out below:

| WACC calculation         | Low          | High         |
|--------------------------|--------------|--------------|
| <b>Cost of equity</b>    |              |              |
| Risk free rate           | 4.0%         | 4.0%         |
| Beta                     | 1.00         | 1.10         |
| Market risk premium      | 6.0%         | 6.0%         |
| Specific risk premium    | 1.0%         | 2.0%         |
| <b>Cost of equity</b>    | <b>11.0%</b> | <b>12.6%</b> |
| <b>Capital structure</b> |              |              |
| Proportion of debt       | 0%           | 0%           |
| Proportion of equity     | 100%         | 100%         |
| <b>WACC (post tax)</b>   | <b>11.0%</b> | <b>12.6%</b> |

Source: S&P Global and GTCF calculations

### Appendix C – Trading comparable company descriptions

| Company                                     | Description   |
|---|---|
| <b>Tier 1 – Cord Blood Banking Industry</b> |   |
| China Cord Blood Corporation                | China Cord Blood Corporation, together with its subsidiaries, primarily provides umbilical cord blood storage and ancillary services in the People's Republic of China. The company provides cord blood testing, processing, and storage services under the direction of subscribers; and tests, processes, and stores donated cord blood, as well as offers matching services. As of March 31, 2016, it had three operating cord blood banks in the Beijing municipality, the Guangdong province, and the Zhejiang province. The company has a strategic collaboration with Cord Blood Registry to share data on cord blood collection, processing, and storage.   |
| Cordlife Group Limited                      | Cordlife Group Limited, an investment holding company, provides cord blood banking services in Singapore, Hong Kong, India, Malaysia, and internationally. It operates through two segments, Banking and Diagnostics. The company's cord blood banking services include the processing and storage of stem cells. It also offers cord lining banking and newborn screening services for metabolic disorders. The company was formerly known as Cordlife Pte Ltd and changed its name to Cordlife Group Limited in 2011.   |
| Polski Bank Komórek Macierzystych S.A.      | Polski Bank Komórek Macierzystych S.A. operates an umbilical cord blood bank in Europe. The company was founded in 2002 and is based in Warsaw, Poland.   |
| Cryo-Cell International, Inc.               | Cryo-Cell International, Inc. engages in cellular processing and cryogenic cellular storage with focus on the collection and preservation of umbilical cord blood stem cells for family use. It provides cord tissue service that stores a section of the umbilical cord tissue, a source of mesenchymal stem cells that are used in regenerative medicine to treat a range of conditions. It stores approximately 300,000 cord blood and cord tissue specimens worldwide. Cryo-Cell International, Inc. was founded in 1989 and is headquartered in Oldsmar, Florida.  |
| BIONET Corp.                                | BIONET Corp. provides cord blood private banking services in Taiwan. It offers stem cell storage services, and prenatal and preventive genetic testing services. The company's services include cord blood banking, umbilical cord mesenchymal stem cell, dental pulp stem cell, stem cell revitalizer for cosmetology, genetic diagnosis for spinal muscular atrophy, serum-based screening for down syndrome, and ultimate pre-implantation genetic diagnosis.  |
| VITA 34 AG                                  | VITA 34 AG operates as an umbilical cord blood bank in Germany and internationally. It collects, processes, and stores stem cells from umbilical cord blood and umbilical cord tissue, as well as develops cell therapy procedures. The company also develops biological processes for cell and tissue culture and programs which enable to store umbilical cord blood privately and release it for public donation; as well as Sibling Initiative that allows the free of charge storage of stem cells from the umbilical cord of a child whose brother or sister is seriously ill.  |
| Human Stem Cells Institute PJSC             | Human Stem Cells Institute PJSC operates as a biotech company primarily in the Russian Federation. The company researches and develops, commercializes, and markets products and services in the field of regenerative medicine; bio-insurance; medical genetics, including reproductive genetics; gene therapy; and biopharmaceutics. It owns and operates Gemabank, a family cord blood stem cell bank in Russia and the CIS; and Reprobank, a reproductive cell and tissue bank for personal storage and donation. In addition, it provides a range of genetic diagnostic and consulting services through a network of medical centers and testing labs for identification, prediction, and prophylactic treatment of genetic disorders. |
| Widecells Group Plc                         | Widecells Group Plc provides stem cell processing and storage services. It operates through three divisions: WideCells, CellPlan, and WideAcademy. The WideCells division offers stem cell collection, cryopreservation, and storage services through collaboration with third party blood banks, as well as focuses on providing umbilical cord blood and tissue, adipose tissue and dental pulp, stem cell retrieval, and processing services. The CellPlan division focuses on the development and provision of insurance products for the stem cell and cord blood banking, and services sectors. The WideAcademy division focuses on offering training programs for healthcare professionals on  |

| Company  | Description  |
|--|--|
|  | the collection, processing, storage, and use of stem cells in medical procedures; and the wider stem cell and cord blood banking and services sector. The company provides products and services in Portugal and Spain to customers, including patients, cord blood banks, hospitals, and other medical institutions, and it is based in Manchester, the United Kingdom.   |
| Esperite N.V.  | Esperite N.V., together with its subsidiaries, operates as a family stem cell bank in Spain, Italy, and internationally. It operates through four segments: Stem Cell, The Cell Factory, Genoma, and Other. The company collects, processes, and stores human adult stem cells from the umbilical cord blood and the umbilical cord tissue. It also provides proteomics and genomics predictive medicine; implements its own proprietary new technology for clinical grade production of autologous mesenchymal and stromal stem cells; and offers cytogenetic analysis through next generation sequencing platforms. The company was formerly known as Cryo-Save Group N.V. and changed its name to Esperite N.V. in July 2014. Esperite N.V. was founded in 2000 and is based in Zutphen, the Netherlands.   |
| Cord Blood America, Inc.                             | Cord Blood America, Inc. provides private cord blood and cord tissue stem cell storage services to families in the United States, Puerto Rico, Argentina, Uruguay, and Paraguay. The company offers services, including collection of materials, physician and customer support, transportation, and comprehensive testing. It also procures birth tissue for organizations utilizing the tissue in the transplantation and/or research of therapeutic based products. Cord Blood America, Inc. is headquartered in Las Vegas, Nevada.   |
| <b>Tier 2 – Stem Cell Therapy/Treatment Industry</b> |  |
| Cynata Therapeutics Limited                          | Cynata Therapeutics Limited, together with its subsidiary, Cynata Incorporated, engages in the development and commercialization of a proprietary mesenchymal stem cell technology under the Cymerus brand name for human therapeutic use in Australia. The company was formerly known as Eco Quest Limited and changed its name to Cynata Therapeutics Limited in October 2013. Cynata Therapeutics Limited is based in Armadale, Australia.  |
| Mesoblast Limited                                    | Mesoblast Limited develops cell-based medicines. The company has leveraged its proprietary technology platform based on specialized cells, known as mesenchymal lineage adult stem cells, to establish a portfolio of late-stage product candidates. Its allogeneic, 'off-the-shelf' cell product candidates target advanced stages of diseases with high, unmet medical needs, including cardiovascular diseases, immune-mediated and inflammatory conditions, 57rthopaedic disorders, and oncologic/hematologic conditions. The company has operations in Australia, the United States, Singapore, the United Kingdom, and Switzerland. Mesoblast Limited was founded in 2004 and is headquartered in Melbourne, Australia.  |
| Orthocell Limited                                    | Orthocell Limited, a regenerative medicine company, develops and commercializes cell therapies and related technologies for the treatment of soft tissue injuries in Australia. The company's products include Ortho-autologous tenocyte implantation (Ortho-ATI), an autologous cell therapy for tendon and ligament repair and regeneration; Ortho-autologous chondrocyte implantation (Ortho-ACI) a regenerative cell therapy for cartilage repair; and CelGro, a collagen medical device for soft tissue repair and used as an augment to rotator cuff repair, guided bone regeneration, and repair of articular cartilage. It has a research collaboration agreement with DePuy Synthes Products, Inc. for Ortho-ATI stem cell approach for the regeneration of degenerate tendons and ligaments. Orthocell Limited was founded in 2006 and is based in Murdoch, Australia. |
| Zhongyuan Union Cell & Gene Engineering Corp., Ltd   | Zhongyuan Union Cell & Gene Engineering Corp., Ltd., together with its subsidiaries, primarily engages in the detection and storage of stem cell sources in the People's Republic of China. The company is also involved in the gene detection business; production and sale of monoclonal antibody reagents; provision of gene testing and clinical diagnosis reagents; and provision of tumor biotherapies and anti-aging products. It operates a Tianjin cord blood bank. The company was formerly known as Zhongyuan Union Stem Cell Bio-engineering Corporation and changed its name to Zhongyuan Union Cell & Gene Engineering Corp., Ltd. in November 2014.   |

| Company                      | Description  |
|------------------------------|--|
| MEDIPOST Co., Ltd.           | <p>MEDIPOST Co., Ltd., a stem cell biotechnology company, focuses on developing products to meet unmet medical needs related to the regenerative or functional recovery of knee articular cartilages, nervous and pulmonary systems, and hematopoietic transplantation engraftments in South Korea and internationally. It offers cord blood banking services to treat various incurable diseases. The company also markets and develops stem cell drugs for treatment and clinical trials. Further, the company offers skincare cosmetic products; and health supplements under the MOVITA brand name. MEDIPOST Co., Ltd. was founded in 2000 and is headquartered in Seongnam, South Korea.</p>  |
| Green Cross Cell corporation | <p>Green Cross Cell Corporation manufactures and sells customized anti-cancer drugs in South Korea. It offers Immuncell-LC, a cancer immunotherapy for patients whose tumor has been removed after curative resection for Hepatocellular Carcinoma. The company is also involved in cord blood cryopreservation activities, which include collection and storage of cells that contain Hematopoietic stem cells from newborn to treat various diseases of person himself or family members. In addition, it is developing other anti-cancer drugs, which are in clinical trials for liver cancer, brain tumor, pancreatic cancer, neuroblastoma, ovarian cancer, and other types of cancers. The company was founded in 1992 and is based in Seoul, South Korea.</p> |

Source: S&P Global

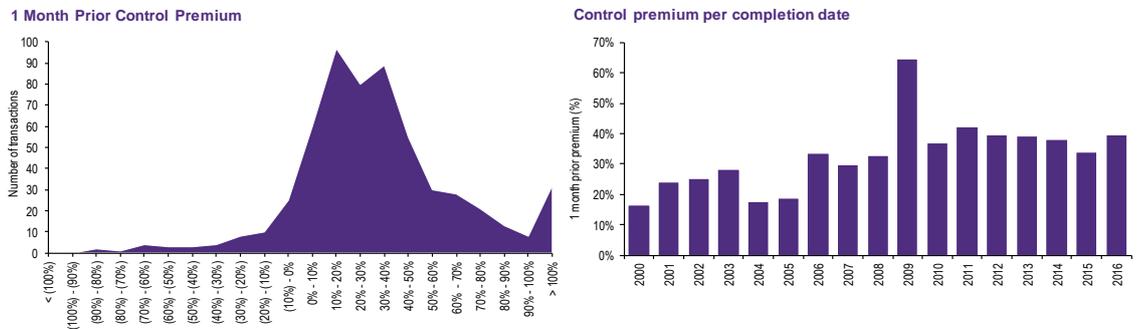
**Appendix D – Control premium**

A control premium is defined as the additional consideration an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company.

We have conducted a study of premiums paid in 574 Australian transactions completed between January 2000 and 30 June 2016. We have sourced our transaction data from S&P Global and Mergermarket.

Our assessment of the premiums involve comparing the offer price of the closing price of the target company, one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the offer.

The following graph illustrates the premiums paid on transactions between January 2000 and 30 June 2016, and the historical average control premium paid.



|         | Control premium |
|---------|-----------------|
| Average | 34.25%          |
| Median  | 29.31%          |

Source: GTCF analysis

Given the distribution of the control premiums in our study, we have assessed a range of 20% to 40% to be a reasonable representation of the market.

We note that control premiums can vary due to:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Cost of capital and ability to change capital structure;
- Perceived quality of existing management and the likelihood of management change;
- Nature and magnitude of business opportunities which are not being exploited; and
- Ability to integrate perceived synergies.

As observed from our study, there are a proportion of transactions that have control premiums below 20%. These transactions are likely impacted by factors such as market knowledge of the transaction, where the share price prior to announcement already reflects, to some extent, the anticipated transaction.

Transactions where we have observed premiums of above 40% are potentially affected by the following factors:

- High premiums associated with the acquisition of relatively small, illiquid companies. The share prices of these companies often do not reflect their fair market value and trade at a higher discount to their fair market value.
- The possibility to realise 'special value' available to some buyers will likely increase the value certain buyer will be willing to pay. This is attributed to the significant synergies and strategic benefits that are expected to be realised.
- In contested transactions, bidders are likely to pay a higher proportion of their synergies as opposed to a non-contested situation.
- The ability to transform a poorly performing company. Higher premiums are associated with firms that have performed poorly due to poor management decisions. The ability for the acquirer to influence or change the incumbent management team will likely lead to a higher willingness to pay.

Control premiums that fall outside of our assessed range of 20% to 40% are impacted by transaction specific factors and hence, not representative of general market conditions.

## Appendix E – Glossary

|   |  |
|---|--|
| ASIC  | The Australian Securities and Investment Commission  |
| ASX   | Australian Securities Exchange   |
| AusCord   | The Australian National Cord Blood Collection and Banking Network  |
| Biotech   | Biotechnology  |
| Buy-Back  | The buy-back of the Buy-Back shares  |
| Buy-Back Shares   | Approximately 9.23 million shares in Cryosite held by Cell Care representing approximately 19.7% of Cryosite's shares  |
| Cash Consideration  | Upfront cash consideration of \$500,000  |
| Cell Care   | Cell Care Australia Pty Ltd  |
| Consideration   | The purchase consideration comprised of the upfront cash consideration, the deferred consideration, and the Buy-Back   |
| Cord Blood and Tissue Banking Business                      | Cryosite's cord blood and tissue banking business that is being disposed   |
| CRM   | Customer Relationship Management   |
| Cryopreservation  | Cryogenic preservation is a process where biological constructs are preserved in controlled temperatures   |
| Cryosite or the Company                                     | Cryosite Limited   |
| DAFF  | The Department of Agriculture, Fisheries and Forestry  |
| Database  | The data bases of Cryosite's CRM information, lead information for potential future clients for customer contracts and/or product purchases                                |
| DCF   | Discounted cash flow   |
| DCF Method  | Discounted cash flow method and the estimated realisable value of any surplus assets   |
| Deferred Consideration                                      | Earn-out payments over a period of five years with a minimum fixed and guaranteed payment of \$500,000 per annum   |
| FME Method  | Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets |
| FSG   | Financial Services Guide   |
| FY14  | The financial year ended 30 June 2014  |
| FY15  | The financial year ended 30 June 2015  |
| FY16  | The financial year ended 30 June 2016  |
| FY17  | The financial year ended 30 June 2017  |
| GT Model  | A financial model developed by Grant Thornton Corporate Finance for the valuation assessment of Cryosite's Cord Blood and Tissue Banking Business                          |
| GTCF or Grant Thornton Corporate Finance                    | Grant Thornton Corporate Finance Pty Limited   |
| Marketing, Collection and Processing of Cord Blood Business | The license to be granted to Cell Care pursuant to the Proposed Transaction to collect, process, and store umbilical cord blood and tissue under the Cryosite brand.       |

|                                 |   |
|---------------------------------|---|
| NATA                            | National Association of Testing Authorities   |
| NAV Method                      | Amount available for distribution to security holders on an orderly realisation of assets   |
| OGTR                            | The Office of the Gene Technology Regulator   |
| Proposed Transaction            | Cell Care to acquire the Marketing, Collection and Processing of Cord Blood Business and Sale Assets from Cryosite                      |
| Quoted Security Price Method    | Quoted price for listed securities, when there is a liquid and active   |
| RG 111                          | ASIC Regulatory Guide 111 Contents of expert reports  |
| RG 112                          | ASIC Regulatory Guide 112 Independence of expert  |
| Sale Assets                     | Cryosite's cord blood and tissue banking assets   |
| Stemlife                        | Stemlife Pty Limited  |
| TGA                             | The Therapeutic Goods Administration  |
| The Agreement                   | The Cord Blood and Tissue Banking Asset Sale Agreement  |
| The Non-Associated Shareholders | Shareholders of Cryosite other than Cell Care   |
| The retained banked samples     | The existing banking samples held by Cryosite prior to the Proposed Transaction and retained by Cryosite after the Proposed Transaction |
| VWAP                            | Volume weighted average price   |
| WACC                            | Weighted average cost of capital  |
| Y-o-y                           | Year on year  |