



4 May 2022

### **Supplementary Independent Expert Report**

Tamawood Limited refers to the independent expert report of Vincents dated 4 April 2022 attached to the Notice of Meeting lodged with the ASX on 6 April 2022 and dispatched to Tamawood Limited shareholders on 12 April 2022 (Original Independent Expert Report).

A supplementary independent expert report in response to feedback from ASIC has been received from Vincents (the Supplementary Independent Expert Report). A copy of the Supplementary Independent Report is attached.

There is no change to any circumstances or opinion in the Supplementary Expert Report compared with the Original Independent Expert Report.

A copy of the Supplementary Independent Expert Report will be dispatched to shareholders along with the Supplementary Notice of Extraordinary Meeting lodged with the ASX on 14 April 2022.

Authorised by:  
Geoff Acton  
Company Secretary

## Supplementary Notice of Extraordinary General Meeting

This document includes additional information to be read in conjunction with the Notice of Extraordinary General Meeting lodged with the ASX on 6 April 2022 and dispatched to Tamawood shareholders on 12 April 2022.

The additions in the Supplementary Notice of Extraordinary General Meeting do not change the substance or recommendations of the Notice of Extraordinary General Meeting lodged 6 April 2022.

The changes include:

- 1 Page 4 at the **Voting Exclusion** an additional paragraph and now reads:

**"Voting Exclusion:** *Tamawood will disregard any votes cast in respect of Resolution 1 by or on behalf of:*

- 1 *Rainrose, Ankla, Sunstar, Mollika, Mr and Mrs Mizikovsky, and any other persons who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holder of ordinary securities in the entity); or*
- 2 *associates of those persons.*

*This does not apply to a vote cast in favour of a resolution by:*

- 3 *a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or*
- 4 *the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or*
- 5 *a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*
  - *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and*
  - *the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way."*

- 2 Page 5 in the Explanatory Memorandum directly under **Resolution 1 – Acquisition of AIR Shares from Lev Mizikovsky and his Associates:**  
***"The Independent Expert has determined the transactions the subject of Resolution 1 are FAIR AND REASONABLE"***

This paragraph and the capitalised words FAIR AND REASONABLE have already been displayed on page 1 of the notice and page 4 of the agenda.

- 3 Page 5 at **1 Overview** the inclusion of the following at the end of paragraph 2:  
 ". The total consideration of the Takeover Offer is 4,968,395 Tamawood shares for 24,841,974 AstiVita shares currently on issue with the transaction proceeding in accordance with the below key dates table:

*KEY DATES*

<i>Event</i>	<i>Date</i>
<i>Execution of Bid Implementation Agreement and announcement of Takeover Offer</i>	<i>16 March 2022</i>
<i>Lodgement of Bidder's Statement with ASIC Register Date</i>	<i>6 April 2022</i>
<i>Offer opens</i>	<i>12 April 2022</i>
<i>Tamawood Shareholders Meeting</i>	<i>12 May 2022</i>
<i>Offer closes</i>	<i>19 May 2022</i>

The total consideration noted is the same as previously disclosed in the Bidder's Statement (sections 4.3 and 5.4) and Vincents Independent Expert Report (section 2.8) included with the Bidder's Statement. The Key Dates Schedule is the same as previously noted in the Bidder's Statement (page vii).



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## Supplementary Independent Expert's Report

### Tamawood Limited

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04 May 2022

Prepared by: Paul Green FCA & Peter Haley FCA  
Engaged by: Tamawood Limited

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## GLOSSARY

<b>Term</b>	<b>Description</b>
Tamawood	Tamawood Limited
AstiVita	AstiVita Limited
VC MPL	Vincent's Capital Management Pty Ltd
ASX	Australian Stock Exchange
Resolution 1	Means Resolution 1 as set out in the Notice of Meeting to which this report relates
Takeover Offer	The off-market takeover offer by Tamawood to acquire all AstiVita shares (including rights attached to them) in consideration for 1 Tamawood share for every 5 AstiVita shares, on the terms and conditions set out in the Bidders Statement
Proposed Transaction	The acquisition of 16,182,789 shares in AstiVita Limited from Mr Lev Mizikovsky and his associated entities (together Mr Mizikovsky), as part of the proposed takeover of AstiVita Limited by Tamawood Limited
RG	Regulatory Guide

## 1.0 INTRODUCTION

### PURPOSE AND SCOPE

- 1.1 Vincents Capital Management Pty Ltd (“VCMPL”) has been engaged to prepare an Independent Expert Report (“our Report”) to express an opinion as to the fairness and reasonableness of the proposed transactions in Resolution 1 of the Notice of Meeting to the shareholders of Tamawood who are not associated with those transactions (“non-associated shareholders”). Those transactions being, in summary, the acquisition of 16,182,789 shares in AstiVita Limited from Mr Lev Mizikovsky and his associated entities (together Mr Mizikovsky), as part of the proposed takeover of AstiVita Limited by Tamawood Limited (“proposed transaction”).
- 1.2 On 16 March 2022, Tamawood announced it signed a binding Bid Implementation Agreement with AsitVita in connection with the proposed takeover of AstiVita by Tamawood.
- 1.3 The proposed takeover offer is as follows:
  - (a) Tamawood and AstiVita have agreed that Tamawood will seek to acquire 100% of the issued capital of AstiVita through an off-market takeover offer.
  - (b) Tamawood is to offer 1 fully paid ordinary share in Tamawood for every 5 AstiVita shares held.
- 1.4 Mr Mizikovsky and his related entities hold 67.94% of the issued capital of AstiVita and 54.35% of Tamawood’s issued shares. The takeover offer would have the effect of increasing this shareholding in Tamawood to 56.29%.
- 1.5 ASX Listing Rule 10.1 requires an entity to obtain approval from shareholders where it acquires a substantial asset from, or disposes of a substantial asset to, amongst other persons:
  - (a) A related party of the entity;
  - (b) A substantial holder of the entity; or
  - (c) An associate of a substantial holder of the entity.

- 1.6 For the purposes of ASX Listing Rule 10.1:
- (a) An asset is substantial if its value, or the value of the consideration for it is 5% or more of the equity interests in the entity; and
  - (b) A substantial holder is a person who has a relevant interest (either directly or through its associates), at least 10% of the total votes attached to the voting securities of the company.
- 1.7 The equity interests of Tamawood as set out in the latest accounts given to ASX under the ASX Listing Rules (being for the period ended 31 December 2021) were \$19,541,000. Mr Mizikovsky is both a related party and substantial holder of Tamawood, and the proposed transaction comprises the acquisition of a substantial asset by Tamawood. Tamawood is therefore required to seek shareholder approval under ASX Listing Rule 10.1 in respect of the proposed transaction.
- 1.8 We are to assess whether we consider the proposed transaction to be fair to the non-associated shareholders.
- 1.9 On the basis that the advantages of the proposed transaction outweigh the disadvantages of the proposed transaction, we are to assess whether we consider the proposed transaction to be reasonable to the non-associated shareholders.
- 1.10 We understand that our Report will be included with the Notice of Meeting to be sent to all shareholders to assist them in voting on the resolution and in deciding whether to accept or reject the proposed transaction.

## **RELIANCE ON INFORMATION**

- 1.11 We detail at Section 8.0 the materials and sources of information relied upon in preparing this report, which we believe to be reliable and accurate.
- 1.12 We have no reason to believe that any material facts (that a reasonable person would expect to be disclosed) have been withheld from us, and we have taken no steps to verify the accuracy, completeness or fairness of the data provided.
- 1.13 Our procedures and enquiries do not include verification work, nor constitute an audit in accordance with Australian Accounting Standards.



## 2.0 SUMMARY OF OPINION

2.1 We have considered the terms of the proposed transaction and have concluded it is fair and reasonable to the non-associated shareholders of Tamawood.

### *Fairness*

2.2 In Section 7 of our Report, we determined that the proposed transaction is fair to non-associated shareholders of Tamawood.

2.3 Having regard to the analysis and prices determined at Section 6.0, we summarise the takeover offer as follows:

(a) 5 AstiVita shares, with a value range of \$3.23<sup>1</sup> to \$3.88<sup>2</sup>.

(b) 1 Tamawood share, with a value range of \$3.05 to \$3.85.

2.4 Based on the range of values, Tamawood is paying a small discount to all AstiVita shareholders (compared to the market price of AstiVita) to obtain control of AstiVita.

2.5 Having regard to the range of values above, the consideration being received by Mr Mizikovsky (and his related entities) of \$10.3 million to \$13 million is fair value for his direct and indirect interests in AstiVita (valued at \$10.8 million to \$13 million), and based on our valuation of AstiVita which Tamawood is acquiring. In our opinion, the benefit being received by the related party is within the range of the value of AstiVita shares which Tamawood is acquiring.

2.6 In our opinion, the consideration being received by Mr Mizikovsky (and his related entities) is fair value for his direct and indirect interests in AstiVita.

2.7 From the perspective of Tamawood shareholders, the proposed transaction is fair.

### *Reasonableness*

2.8 We have considered the matters outlined in Section 7 of our Report in terms of both:

(a) The advantages and disadvantages of the proposed transaction, and

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<sup>1</sup> \$0.645 x 5 shares

<sup>2</sup> \$0.775 x 5 shares

(b) Alternatives available to the non-associated shareholders of Tamawood, including the risks should Resolution 1 not be approved, and the Takeover Offer be unable to proceed due to this condition not being satisfied.

2.9 In our opinion, if the Resolution 1 is approved, the position of non-associated shareholders of Tamawood is more advantageous than the position if it is not approved. Accordingly, we consider that the Takeover Offer is reasonable for the non-associated shareholders. The advantages and disadvantages identified by us are outlined in Section 7 of our report and are summarised as:

Advantages: Tamawood having control of AstiVita, including its inventory and key supplier relationships.

Tamawood having the benefit of utilising tax losses and franking credits.

Disadvantages: The current shareholders' interest will be diluted.

2.10 On the basis that we consider the acquisition of Mr Mizikovsky's shares to be fair (as they are being acquired at fair value), and having regard to the advantages and disadvantages above, in our opinion the proposed transaction is also reasonable to the non-associated shareholders.

### ***Capital Structure***

2.11 Upon completion of the Takeover Offer, Tamawood's issued shares will change from 29,776,789 currently on issue, to 34,745,184 (following the issue of 4,968,395 Tamawood shares for the 24,841,974 AstiVita shares currently on issue).

## 3.0 PROFILE OF TAMAWOOD

- 3.1 Tamawood is a residential house builder, operating in Queensland and New South Wales. It was incorporated in 1989 and has been listed on the ASX since August 2000.
- 3.2 Tamawood's 100% owned subsidiaries are Dixonbuild Pty Ltd, DixonConstruct Pty Ltd, Dixon NSW Pty Ltd, DixonRes Pty Ltd, Dixon Systems Pty Ltd and TamawoodL Pty Ltd. Tamawood also has a 70% ownership interest in SolarpowerRex Pty Ltd and SolarRex Pty Ltd.
- 3.3 Tamawood currently has 29,776,789 shares on issue. The top 2 shareholders hold 59.45% of the issued capital. The directors of Tamawood have an interest in approximately 57.32% of the issued shares.

### FINANCIAL POSITION AND FINANCIAL PERFORMANCE

- 3.4 We have extracted the consolidated statement of profit or loss and other comprehensive income from the Annual Reports and Interim Financial Statements, which we summarise as follows:

	CONSOLIDATED	CONSOLIDATED	CONSOLIDATED Interim Accounts
	Year Ended 30-Jun 2020 \$000's	Year Ended 30-Jun 2021 \$000's	Period Ended 31-Dec 2021 \$000's
<b>TAMAWOOD LIMITED</b>			
Summary of Profit & Loss Statements			
Income	91,451	97,370	52,379
Less: Cost of Sales	(72,227)	(75,529)	(43,272)
<b>GROSS PROFIT</b>	<b>19,224</b>	<b>21,841</b>	<b>9,107</b>
<b>Gross Profit Margin</b>	<b>21.0%</b>	<b>22.4%</b>	<b>17.4%</b>
Less: Expenses			
Employee Expenses	(7,076)	(7,844)	(4,053)
Tenancy Expenses	(148)	(146)	(92)
All Other Expenses	(4,888)	(3,935)	(1,297)
Total Expenses	(12,112)	(11,925)	(5,442)
Add: Other Income	750	738	398
<b>EBITDA</b>	<b>7,862</b>	<b>10,654</b>	<b>4,063</b>
Less: Depreciation & Amortisation	(1,217)	(1,223)	(588)
<b>EBIT</b>	<b>6,645</b>	<b>9,431</b>	<b>3,475</b>
Less: Interest	(241)	(209)	(94)
<b>PROFIT / (LOSS) BEFORE TAX</b>	<b>6,404</b>	<b>9,222</b>	<b>3,381</b>

Table 1

3.5 We refer to the above table and note the following:

- (a) Tamawood's income, gross profit and gross profit margin increased from 2020 to 2021. On an annualised basis, Tamawood's income is continuing to increase in 2022, to approximately \$100 million.
- (b) Tamawood's expenses have been decreasing each year (including on an annualised basis in 2022).
- (c) Tamawood has derived substantial profits during the period under review.
- (d) Tamawood has paid fully franked dividends over the past 5 years.

3.6 We have extracted the consolidated statement of financial position from the Annual Reports and Interim Financial Statements, which we summarise as follows:

	Interim Accounts		
	As At	As At	As At
<b>TAMAWOOD LIMITED</b>	30-Jun	30-Jun	31-Dec
Summary of Balance Sheets	2020	2021	2021
<i>Consolidated</i>	\$000's	\$000's	\$000's
<b>ASSETS</b>			
Cash and Cash Equivalents	8,163	3,808	4,557
Trade and Other Receivables	16,211	25,950	25,630
Inventory	813	707	998
Fixed Assets	540	668	678
Investments	815	430	430
Intangible Assets	5,209	4,933	4,291
Other Assets	105	1,908	765
<b>TOTAL ASSETS</b>	<b>31,856</b>	<b>38,404</b>	<b>37,349</b>
<b>LIABILITIES</b>			
Trade and Other Payables	(6,499)	(7,164)	(6,208)
Tax Liabilities	(3,237)	(6,269)	(6,488)
Employee Liabilities	(755)	(801)	(1,046)
Other Liabilities	(5,029)	(4,580)	(4,066)
<b>TOTAL LIABILITIES</b>	<b>(15,520)</b>	<b>(18,814)</b>	<b>(17,808)</b>
<b>NET ASSETS</b>	<b>16,336</b>	<b>19,590</b>	<b>19,541</b>

Table 2

3.7 We refer to the above table and note the following:

- (a) Tamawood's major category of assets is trade and other receivables, which also includes construction contract progress payments and inventories and completed works not yet invoiced;
- (b) Tamawood has substantial cash reserves, of \$4.6 million at 31 December 2021.
- (c) Liabilities as a proportion of assets are below 50% each year.
- (d) Tamawood's net assets have increased from 2020 to 2021.

3.8 We have extracted the consolidated statement of cash flows from the Annual Reports and Interim Financial Statements, which we summarise as follows:

	CONSOLIDATED	CONSOLIDATED	CONSOLIDATED
	Year Ended	Year Ended	Period Ended
<b>TAMAWOOD LIMITED</b>	30-Jun	30-Jun	31-Dec
Summary of Cash Flow Statements	2020	2021	2021
	\$000's	\$000's	\$000's
<b>Cash flows from operating activities</b>			
Receipts from customers (incl. GST)	93,398	96,926	52,532
Payments to suppliers and employees (incl. GST)	(87,485)	(95,540)	(49,563)
Interest received	44	21	3
Lease interest paid	(241)	(209)	(94)
Income taxes received / (paid)	(1,015)	(1,525)	906
Net cash from operating activities	<b>4,701</b>	<b>(327)</b>	<b>3,784</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	16	80	19
Payments for property, plant and equipment	(70)	(418)	(36)
Payment for investments in associates	-	(72)	-
Net cash used in investing activities	<b>(54)</b>	<b>(410)</b>	<b>(17)</b>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities	(793)	(900)	(487)
Dividend paid by parent entity	-	(2,718)	(2,531)
Net cash used in financing activities	<b>(793)</b>	<b>(3,618)</b>	<b>(3,018)</b>
Net increase (decrease) in cash and cash equivalents	3,854	(4,355)	749
Cash and cash equivalents at beginning of year	4,309	8,163	3,808
<b>Ending cash and cash equivalents</b>	<b>8,163</b>	<b>3,808</b>	<b>4,557</b>

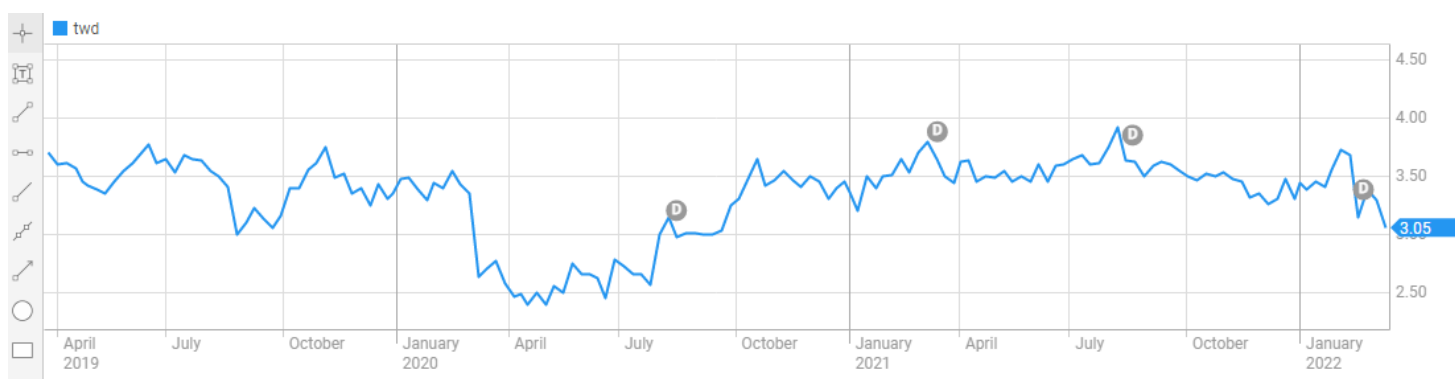
Table 3

3.9 We refer to the above table and note the following:

- (a) Positive cashflows from operating activities were generated in 2020 and the period ended 31 December 2021.
- (b) Substantial dividends were paid in 2021 and the period ended 31 December 2021.
- (c) Tamawood has substantial cash reserves, of \$4.6 million at 31 December 2021.

## SHARE PRICE ANALYSIS

3.10 We have extracted the following share price data from the ASX (as at 18 March 2022) in relation to Tamawood (ASX:TWD):



3.11 Tamawood currently (as of 16 March 2022<sup>3</sup>) trades on a price earnings (P/E) ratio of 13.4, at a last price of \$3.04. The stock went ex-dividend on 24 February. Average daily trading volume of 9,307 represents a higher volume than AstiVita<sup>4</sup>; however, it is still traded on relatively low volume, evidenced by a daily volume of just 200 on 14 March 2022. The 52-week range of Tamawood's share price of \$3.03 - \$4.00, indicates a bearish short-term and medium-term trend with the current price at \$3.04.

3.12 Long-term, Tamawood shares appear to be in a bearish trend, with a falling 200-day moving average. With respect to shorter-term indicators, the 5-day moving average is beneath both the 20 and 50-day moving averages.

3.13 Based on the price of \$3.04, the market capitalisation of Tamawood is \$90.81 million.

<sup>3</sup> Prior to the announcement of the Takeover Offer.

<sup>4</sup> Discussed further at Sections 4.0 to 6.0 of this report.

- 3.14 As of 28 March 2022, the most recent trading price is \$3.19 being a 5% increase on the pre-announcement price, and consistent with the pre-announcement price range.
- 3.15 In relation to the market price of securities, RG111.32 requires the expert to consider<sup>5</sup>:
- (a) The depth of the market for those securities;
  - (b) The volatility of the market price; and
  - (c) Whether or not the market value is likely to represent the value if the takeover bid is successful.
- 3.16 We note the following, based on our review of the shareholder registers:
- (a) AstiVita shareholders:
    - Of the 423 shareholders, 209 (49.4%) are also shareholders of Tamawood.
    - These shareholders hold 77.35% of AstiVita shares on issue.
  - (b) Tamawood shareholders
    - Of the 2,653 shareholders, 209 (7.88%) are also shareholders of AstiVita.
    - These shareholders hold 63.76% of Tamawood shares on issue
- 3.17 In our opinion, based upon our experience and professional judgement an illiquid market indicates the shares have been at a long-standing equilibrium price, and does not automatically translate to an uninformed market, or a conclusion that the quoted market price is unreliable.
- 3.18 Based upon our experience and professional judgement, in this instance we have treated the market as being efficient.
- 3.19 Having regard to the common shareholders, we expect they would have intimate knowledge of both companies. Accordingly, there is an argument that the market for shares in Tamawood and AstiVita is likely more informed, and / or more efficient than share markets in general. That is, most shareholders in Tamawood and AstiVita are more informed than shareholders in the overall market, in general.

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<sup>5</sup> For example, trading after a bid is announced may reflect some of the benefits of the combined entity, depending on whether the market has confidence that the transaction will proceed (RG111.33).

3.20 We note that since the release to market of our original report, the methodology adopted has been verified in the sense that the share prices of Tamawood and AstiVita presently very closely reflect a 1:5 ratio between themselves (as discussed further in the remainder of this report).

## **INDUSTRY SUMMARY / ANALYSIS**

3.21 Tamawood is part of the Consumer Durables & Apparel industry group.

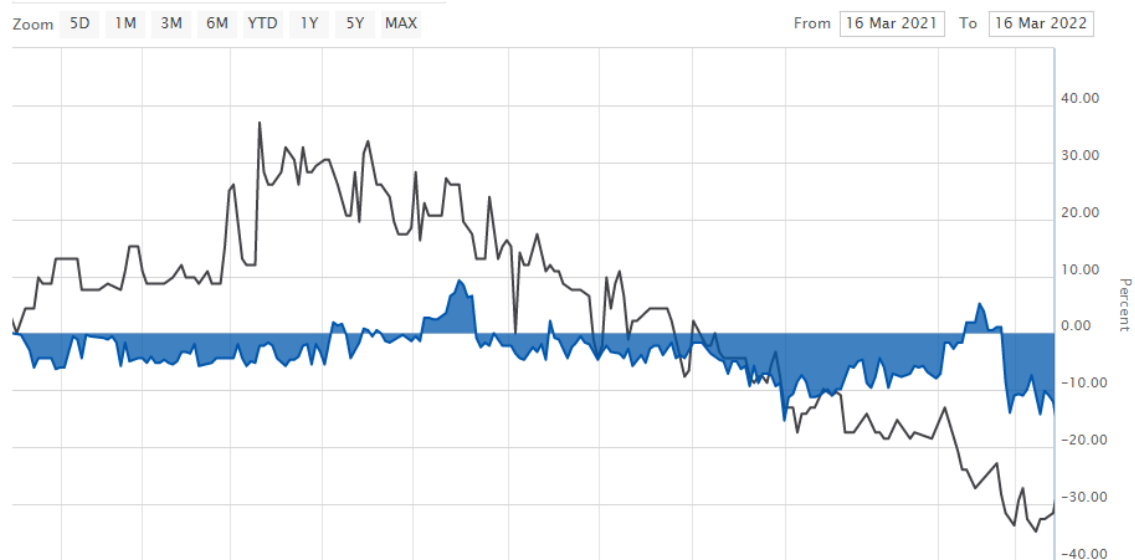
3.22 Each company listed on the ASX is allocated a Global Industry Classification Standard (GICS) sector from the following sectors:

- (a) Energy;
- (b) Materials;
- (c) Industrials;
- (d) Consumer Discretionary;
- (e) Consumer Staples;
- (f) Health Care;
- (g) Financials;
- (h) Information Technology;
- (i) Communication Services;
- (j) Utilities; and
- (k) Real Estate.

3.23 The Real Estate sector includes equity REITs in addition to real estate management and development companies, therefore this sector is unsuitable for Tamawood.



- 3.24 The Consumer Durables & Apparel industry group, which includes 16 ASX-listed companies, is comprised of the following industries:
- (a) Household Durables (10 companies);
  - (b) Leisure Products (2 companies); and
  - (c) Textiles, Apparel & Luxury Goods (4 companies).
- 3.25 Finally, one of the sub-industries within the Household Durables industry is 'Homebuilding', which includes Tamawood, Fleetwood Limited (FWD) and Simonds Group Limited (SIO).
- 3.26 The ASX-listed stocks that comprise the Consumer Durables & Apparel industry group, have a total market capitalisation of \$5.55B. Breville Group, which represents approximately 70% of the group, with a market capitalisation of \$3.95B is a producer of small electrical devices. Tamawood is the 7<sup>th</sup> largest company in the group, behind Breville Group, Audio Pixels Holdings (ASX:AKP - \$545m), Globe International (ASX:GLB - \$206m), Atomos (ASX:AMS - \$198m), Fleetwood (ASX:FWD - \$179m) and Waterco (ASX:WAT - \$118m).
- 3.27 Tamawood, which divides its operations into housing design, project management and contract construction, is one of three ASX-listed stocks that comprise the Homebuilding sub-industry group, with a total market capitalisation of \$308.1m. Fleetwood (ASX:FWD) comprises approximately 55% of the Homebuilding sub-industry group. Simonds Group Limited is the third company in the GICS sub-industry, and most comparable to Tamawood.
- 3.28 The share price performance of Tamawood and Simonds Group is illustrated below, for the year ended 16 March 2022, in which Tamawood's share price (represented by the blue line) has declined by approximately 10% in the period. Simonds, represented by the black line, has declined by approximately 30% in the same period as follows:



3.29 As discussed above, Tamawood is part of the Consumer Durables & Apparel industry group. This group, in addition to Automobiles & Components, Consumer Services, and Retailing, make up the Consumer Discretionary sector. With the exception of the Information Technology sector, which has suffered a 12.71% loss in the 12-month period to the date of this Report, the Consumer Discretionary sector has been the weakest performing sector, with a 1-year return of 0.57% (underperforming the market by 7.30%). This is illustrated as follows:

### Consumer Discretionary ^XDJ



## 4.0 PROFILE OF ASTIVITA

- 4.1 AstiVita is an importer and distributor of household products to the residential housing market (including solar PV panels, solar hot water systems, kitchen appliances and bathroom products). It has been listed on the ASX since December 2009.
- 4.2 AstiVita's major customer is Tamawood.
- 4.3 AstiVita's 100% owned subsidiaries are AstiVita Bathrooms and Kitchens Pty Ltd, Solarpower Pty Ltd and Indent Manufacturing Pty Ltd.
- 4.4 AstiVita currently has 24,841,974 shares on issue. The top 2 shareholders hold 81.36% of the issued capital. The major shareholder of AstiVita (holding 67.94% of issued capital) also holds 54.35% of Tamawood's issued shares.

### FINANCIAL POSITION AND FINANCIAL PERFORMANCE

- 4.5 We have been provided with the Annual Report and Interim Financial Statements of AstiVita. We note the reported financial performance and financial position relates to the consolidated group of AstiVita, which has changed since 31 December 2021.
- 4.6 We have also been provided with the Special Purpose Financial Report of AstiVita for the 6 months ended 31 December 2021. We are instructed the financial statements have been audited by the Auditors for Tamawood and AstiVita.
- 4.7 The Special Purpose Financial Report for the 6 months ended 31 December 2021 has been restated to exclude the assets and liabilities (and associated income and expenses) of Veganic SKN Limited, which was a wholly owned subsidiary of AstiVita as at 31 December 2021, but following a restructure, AstiVita now only owns 100 of 24,841,974 shares in this entity. The remaining reported assets and liabilities of AstiVita reflect those which will be subject to the takeover by Tamawood.
- 4.8 In our opinion, the Annual Report and Interim Financial Statements of AstiVita are not reflective of the current operations of AstiVita.



4.9 We have extracted the profit and loss statement from the Special Purpose Financial Report, which we summarise as follows:

	Special Purpose Accounts
<b>ASTIVITA LIMITED</b>	Period Ended
Summary of Profit & Loss Statements	31-Dec 2021
	\$000's
Income	1,999
Less: Cost of Sales	(1,470)
<b>GROSS PROFIT</b>	<b>529</b>
<b>Gross Profit Margin</b>	<b>26.5%</b>
Less: Expenses	
Administrative Expenses	(19)
Financial Expenses	(3)
Employee Expenses	(113)
Tenancy Expenses	-
All Other Expenses	(249)
Total Expenses	(384)
Add: Other Income	380
<b>EBITDA</b>	<b>526</b>
Less: Depreciation & Amortisation	(57)
<b>EBIT</b>	<b>468</b>
Less: Interest	-
<b>PROFIT / (LOSS) BEFORE TAX</b>	<b>468</b>

Table 4

4.10 We refer to the above table and note the following:

- (a) The current year's results in the special purpose accounts reflect annualised sales of \$4 million, at an increased gross profit margin of 26.5%.
- (b) AstiVita derived a profit before tax of \$468,000 in the 6 months to 31 December 2021.
- (c) Whilst we haven't been provided with a profit and loss statement for 2021 exclusive of the Veganic business, the 2021 Annual Report discloses:
  - (i) Sales of \$3,470,000 for bathroom products and solarpower products<sup>6</sup>; and

<sup>6</sup> 2021 Annual Report - Note 3 of the Notes to Financial Statements



(ii) The parent entity made a profit of \$784,000 for the 2021 financial year<sup>7</sup>. The annualised profit for 2022 is therefore an improvement, compared to 2021.

- 4.11 We are instructed<sup>8</sup> that the corporate costs of AstiVita in the year ended 30 June 2021 totalled \$331,902. This comprised company secretarial costs, director fees, taxation fees, audit fees, insurance expenses, computershare expenses, ASX fees, ASIC fees, rent, legal fees, consulting fees, marketing fees and telephone / fax / internet. For the 2022 financial year, these costs are forecast to be \$323,387 (for the same categories as 2021, and also including a small provision for research and development costs).
- 4.12 Following the Takeover, it is expected (by the Board of Tamawood) that these corporate costs will be entirely saved. Having regard to the consolidated operations, we would expect these costs savings to occur (on the basis that they are currently being duplicated across Tamawood and AstiVita).
- 4.13 We have not been provided with financial forecasts; however, we have been provided with a listing of the inventory of AstiVita which is expected to be sold in the next 9 months. Products totalling \$2.9 million are on hand to be sold, with an expected gross profit margin of 27%, deriving a gross profit of \$786,000. This margin is consistent with that derived from the current operations of AstiVita in the 6 months ended 31 December 2021.
- 4.14 We have been provided with inventory listings indicating AstiVita currently sells goods of approximately \$9,000 per house to Dixon<sup>9</sup>. At a gross profit margin of 27% this derives a gross profit of approximately \$2,500. Over the past 5 years, Asti has sold goods for on average 425 houses (comprising approximately 80% lowset and 20% highset houses). On this basis, an annual gross profit margin exceeding \$1 million is expected. This is consistent with that derived from the current operations of AstiVita in the 6 months ended 31 December 2021.

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<sup>7</sup> 2021 Annual Report - Note 3 of the Notes to Financial Statements

<sup>8</sup> Letter prepared by the Auditors, to the Board of Directors dated 8 March 2022.

<sup>9</sup> A business which is part of Tamawood.



4.15 We have extracted the statement of financial position from the Special Purpose Financial Report, which we summarise as follows:

	Special Purpose Accounts
<b>ASTIVITA LIMITED</b>	As At
Summary of Balance Sheets	31-Dec 2021
	\$000's
<b>ASSETS</b>	
Cash and Cash Equivalents	343
Trade and Other Receivables	854
Inventory	3,199
Fixed Assets	34
Intangible Assets	530
Other Assets	412
<b>TOTAL ASSETS</b>	<b>5,372</b>
<b>LIABILITIES</b>	
Trade and Other Payables	(578)
Tax Liabilities	(3)
Employee Liabilities	(102)
<b>TOTAL LIABILITIES</b>	<b>(683)</b>
<b>NET ASSETS</b>	<b>4,689</b>

Table 5

4.16 We refer to the above table and note the following:

- (a) The net assets at 31 December 2021 reported in the Special Purpose Financial Report represent the position of AstiVita which will be transferred to Tamawood as a result of the takeover<sup>10</sup>.
- (b) AstiVita's major category of assets is inventory.
- (c) Liabilities as a proportion of assets are currently 13%.

<sup>10</sup> On the basis that the financial position has not materially changed.

- 4.17 For completeness we have extracted the profit and loss statement and statement of financial position from the Annual Report and Interim Financial Statements of AstiVita. These results reflect the consolidated operations of the AstiVita group, which has changed since 31 December 2021. We summarise these results as follows:

<b>ASTIVITA LIMITED</b> Summary of Profit & Loss Statements	Year Ended 30-Jun 2020 \$000's	Year Ended 30-Jun 2021 \$000's	Period Ended 31-Dec 2021 \$000's
Income	4,325	3,700	2,381
Less: Cost of Sales	(4,187)	(3,031)	(2,112)
<b>GROSS PROFIT</b>	<b>138</b>	<b>669</b>	<b>269</b>
<b>Gross Profit Margin</b>	3.2%	18.1%	11.3%
Less: Expenses			
Administrative Expenses	(272)	(172)	(75)
Financial Expenses	(75)	-	-
Employee Expenses	(340)	(196)	(295)
Tenancy Expenses	(5)	-	-
All Other Expenses	(2,435)	(863)	(761)
Total Expenses	(3,127)	(1,231)	(1,131)
Add: Other Income	133	219	388
<b>EBITDA</b>	<b>(2,856)</b>	<b>(343)</b>	<b>(474)</b>
Less: Depreciation & Amortisation	(152)	(189)	(57)
<b>EBIT</b>	<b>(3,008)</b>	<b>(532)</b>	<b>(531)</b>
Less: Interest	(8)	(10)	(3)
<b>PROFIT / (LOSS) BEFORE TAX</b>	<b>(3,016)</b>	<b>(542)</b>	<b>(534)</b>

Table 6

<b>ASTIVITA LIMITED</b>	As At	As At	As At
Summary of Balance Sheets	30-Jun	30-Jun	31-Dec
	2020	2021	2021
	\$000's	\$000's	\$000's
<b>ASSETS</b>			
Cash and Cash Equivalents	74	192	388
Trade and Other Receivables	559	573	732
Inventory	3,613	4,114	5,140
Fixed Assets	51	580	799
Intangible Assets	388	910	1,454
Other Assets	1,134	1,863	988
<b>TOTAL ASSETS</b>	<b>5,819</b>	<b>8,232</b>	<b>9,501</b>
<b>LIABILITIES</b>			
Trade and Other Payables	(425)	(329)	(560)
Tax Liabilities	-	-	(3)
Employee Liabilities	(35)	(58)	(37)
Provisions	-	-	(220)
Loans	(2,994)	(1,511)	(3,266)
Other Liabilities	(592)	(385)	-
<b>TOTAL LIABILITIES</b>	<b>(4,046)</b>	<b>(2,283)</b>	<b>(4,086)</b>
<b>NET ASSETS</b>	<b>1,773</b>	<b>5,949</b>	<b>5,415</b>

Table 7

4.18 We refer to the Notes to the Financial Statements<sup>11</sup> and summarise the financial position of the Parent entity (i.e. AstiVita only) as follows:

<b>ASTIVITA LIMITED</b>	As At	As At	As At
Parent Entity Only	30-Jun	30-Jun	31-Dec
	2020	2021	2021
	\$000's	\$000's	\$000's
<b>ASSETS</b>			
Current Assets	5,380	3,928	4,781
Non-Current Assets	440	603	756
<b>TOTAL ASSETS</b>	<b>5,820</b>	<b>4,531</b>	<b>5,537</b>
<b>LIABILITIES</b>			
Current Liabilities	(969)	(287)	(666)
Non-Current Liabilities	(3,077)	(72)	(232)
<b>TOTAL LIABILITIES</b>	<b>(4,046)</b>	<b>(359)</b>	<b>(898)</b>
<b>NET ASSETS</b>	<b>1,774</b>	<b>4,172</b>	<b>4,639</b>

Table 8

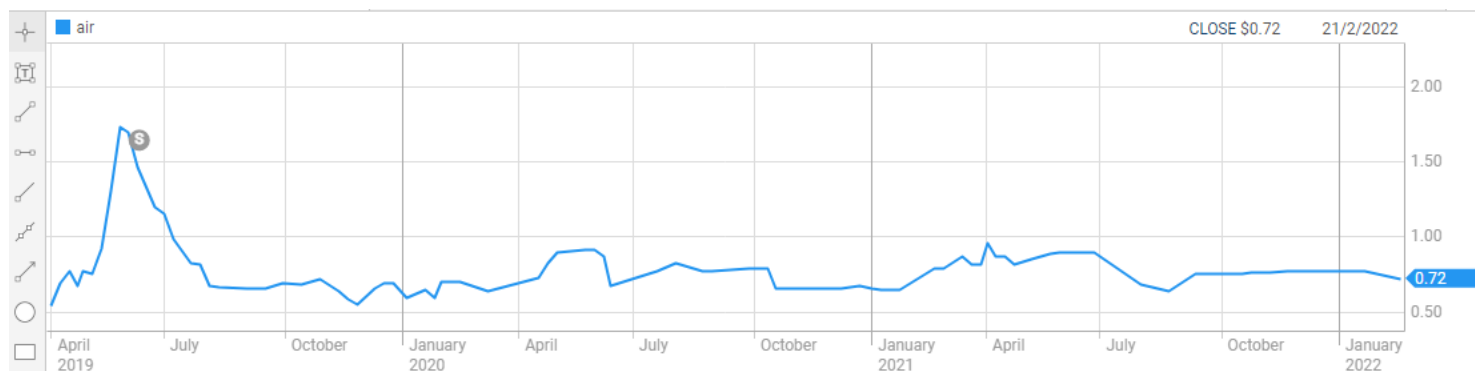
<sup>11</sup> Contained in Note 2 of the 2021 Annual Report and Note 3 of the Interim Financial Statements of AstiVita.





## SHARE PRICE ANALYSIS

- 4.19 We have extracted the following share price data from the ASX (as at 18 March 2022) in relation to AstiVita (ASX:AIR):



- 4.20 AstiVita's share price has remained relatively consistent from August 2019 to the date of this report, in which time the average price was \$0.75, and the range was \$0.55 - \$1.00. The 52-week range of AstiVita's share price is \$0.64 - \$1.00. We note there has been minimal trading volume on the stock, with an average daily trading volume of 1,071 per day.
- 4.21 As of 16 March 2022, the most recent trading price is \$0.72. This is the share price at the time of the announcement of the Takeover offer. Based on the price of \$0.72, the market capitalisation of AstiVita is \$17.9 million.
- 4.22 As of 28 March 2022, the most recent trading price is \$0.59 (following less than 600 shares being traded on 18 March 2022). The bid/offer range is currently \$0.60 – \$0.765, reflecting the pre-announcement price range.
- 4.23 In relation to the market price of securities, RG111.32 requires the expert to consider<sup>12</sup>:
- The depth of the market for those securities;
  - The volatility of the market price; and
  - Whether or not the market value is likely to represent the value if the takeover bid is successful.

<sup>12</sup> For example, trading after a bid is announced may reflect some of the benefits of the combined entity, depending on whether the market has confidence that the transaction will proceed (RG111.33).



4.24 We note the following, based on our review of the shareholder registers:

(a) AstiVita shareholders:

- Of the 434 shareholders, 146 (33.6%) are also shareholders of Tamawood.
- These shareholders hold 75.4% of AstiVita shares on issue.

(b) Tamawood shareholders

- Of the 2,743 shareholders, 146 (5.3%) are also shareholders of AstiVita.
- These shareholders hold 57.0% of Tamawood shares on issue

4.25 In our opinion, based upon our experience and professional judgement an illiquid market indicates the shares have been at a long-standing equilibrium price, and does not automatically translate to an uninformed market, or a conclusion that the quoted market price is unreliable.

4.26 Based upon our experience and professional judgement, in this instance we have treated the market as being efficient.

4.27 Having regard to the common shareholders, we expect they would have intimate knowledge of both companies. Accordingly, there is an argument that the market for shares in Tamawood and AstiVita is likely more informed, and / or more efficient than share markets in general. That is, most shareholders in Tamawood and AstiVita are more informed than shareholders in the overall market, in general.

4.28 We note that since the release to market of our original report, the methodology adopted has been verified in the sense that the share prices of Tamawood and AstiVita presently very closely reflect a 1:5 ratio between themselves (as discussed further in the remainder of this report).

## **INDUSTRY SUMMARY / ANALYSIS**

4.29 AstiVita is part of the Capital Goods industry group.

4.30 Making up over half the stocks in the Industrials sector, Capital Goods is one of the more diverse industry groups on the ASX, dealing with the manufacture or distribution of goods. AstiVita is one of 89 companies listed in the industry group, which has a total market capitalisation of approximately \$46.7B as at the date of this Report. The largest listed company in the industry group is Reece Limited (ASX:REH), which supplies plumbing and bathroom products, with a market capitalisation of \$12.55B



4.31 The Capital Goods group is part of the wider Industrials sector, which also includes Commercial & Professional Services and Transportation. The Industrials sector has generally performed in line with the XJO (7.87% 1-year return) in the 12 months to the date of this Report, with a 7.55% 1-year return. These results are illustrated in the chart below:

### Industrials <sup>^XNJ</sup>



### **IBISWorld Reports – Industry Data**

4.32 Although AstiVita operate in the consumer durables industry, the main driver for their sales is the residential construction industry (being the business of Tamawood). Accordingly, we have had regard to IBIS World reports House Construction in Australia, dated June 2021, Multi-Unit Apartment and Townhouse Construction in Australia, dated October 2021 and Construction in Australia, dated June 2020.

4.33 We highlight the following key data from our review of the IBIS World reports:

- (a) The HomeBuilder subsidy has positively influenced the industry's performance, while low home loan interest rates have further supported the demand for housing in recent years. However, industry profitability is expected to deteriorate in the face of weaker demand and fierce internal competition.



- (b) Despite the gradual recovery of demand for new housing construction from 2023-24 onwards, industry revenue is forecast to decline at an annualised 1.4% over the five years through 2025-26, falling to \$62.6 billion. Industry revenue has increased at an annualised rate of 1.6% in the five years to 2021.
- (c) In June 2020, the Federal Government introduced the HomeBuilder scheme, which has reversed the decline in new house commencements and supported the industry's revenue performance. Grants of \$25,000 were available to applicants building a new home valued up to \$750,000 and those undertaking substantial home renovations. The scheme was extended to the end of March 2021 and was instrumental in encouraging sales of house and land packages in outer urban areas.
- (d) The IBISWorld Industry Report for House Construction in Australia indicates that restrictions imposed to contain COVID-19 have likely contributed to structural changes in the dwelling preferences of Australians. This includes demand for accommodation with more rooms for home offices or studies, along with more recreation space. Travel restrictions to contain the pandemic also reduced the net migration of adults and students to Australia, limiting the demand for higher density dwellings.
- (e) Profitability in the industry is expected to remain stable in the short term, with surging demand conditions offset by fierce competition across all segments of the building construction market. Competitive conditions are anticipated to intensify across the residential building market over the next five years, which is expected to drive profitability to a cyclical low in 2022-23. Average profit margin is forecast to narrow over the five years through 2025-26, to approximately 6.9% of revenue; however, the larger-scale homebuilders and diversified construction businesses are projected to display above-average profitability over the next five years by combining construction with land development in lifestyle community projects.



- (f) The industry is subject to a range of short-term and long-term demand factors, which reflect the investment capacity of households. Government policy, such as financial assistance for new homebuyers, sales of serviced Crown land, and tax treatment related to negative gearing and the fringe benefit tax, can directly affect demand
- (g) The growth in multi-unit and townhouse construction is expected to slow due to excess supply and reduced foreign investment, however will rebound in the years from 2022-23 to grow by an annualised 5.7% in the five years through to 2026-27 as the economy recovers from the COVID-19 pandemic and population pressures gradually absorb excess housing stock.
- (h) The current industry net profit percentage is 7.7%, however this is expected to fall to 6.9% over the five years to FY2025-26, with larger scale home builders expected to display above average profitability due to the combination of construction and land development in lifestyle community projects.
- (i) Australia's strong population growth and low residential home loan rates have underpinned demand for housing over the past five years, however the commencement of new housing slumped during the first half of 2020 due to COVID-19 and the resulting economic pressures and cease in immigration. Additionally, some builders have encountered disruptions in supply chains for building materials, equipment, and skilled labour. The industry is expected to deteriorate at an annualised 1.4% over the period to 2025-26.
- (j) The residential construction industry is boosted by federal, state and territory Government assistance provided to first homebuyers. This assistance is expected to be trimmed over the next five years, and accordingly the Business faces a risk in the resulting dampening in housing investments. We note however, that some of this risk may be offset by a modest increase in house prices.
- (k) Multi-unit apartment and townhouse construction has decreased due to excess supply and reduced foreign investment; however demand is forecast to rebound from 2022-23 onwards. Industry revenue is forecast to steadily improve over the next five years as the economy recovers from the COVID-19 pandemic and population pressures and increased migration gradually absorb excess housing stock.

## 5.0 PRO FORMA BALANCE SHEET – POST TAKEOVER

- 5.1 Based on the information at paragraph 4.5 above (i.e. that the Special Purpose Financial Report is more representative of the operations which will be subject to the takeover of Tamawood) and the Interim Financial Statements of Tamawood, we have prepared a Pro-Forma Balance Sheet of Tamawood following the takeover (as at 31 December 2021)<sup>13</sup>.
- 5.2 The following table sets out the pro-forma balance sheet of Tamawood, following the takeover of AstiVita<sup>14</sup>:

<b>TAMAWOOD LIMITED</b>	Tamawood	AstiVita	Combined
Pro-Forma Balance Sheet			Post-Takeover
<i>Consolidated</i>	\$000's	\$000's	\$000's
<b>ASSETS</b>			
Cash and Cash Equivalents	4,557	343	4,900
Trade and Other Receivables	25,630	854	26,484
Inventory	998	3,199	4,197
Fixed Assets	678	34	712
Investments	430	-	430
Intangible Assets	4,291	530	4,821
Other Assets	765	412	1,177
<b>TOTAL ASSETS</b>	<b>37,349</b>	<b>5,372</b>	<b>42,721</b>
<b>LIABILITIES</b>			
Trade and Other Payables	(6,208)	(578)	(6,786)
Tax Liabilities	(6,488)	(3)	(6,491)
Employee Liabilities	(1,046)	(102)	(1,148)
Other Liabilities	(4,066)	-	(4,066)
<b>TOTAL LIABILITIES</b>	<b>(17,808)</b>	<b>(683)</b>	<b>(18,491)</b>
<b>NET ASSETS</b>	<b>19,541</b>	<b>4,689</b>	<b>24,230</b>

Table 9

<sup>13</sup> Being the latest available audited accounts and assuming no other material change since that date.

<sup>14</sup> Being the consolidated audited balance sheets of each entity as at 31 December 2021, and assuming no material changes in the financial position of each entity since that date.

## 6.0 VALUATION OF ASTIVITA

### VALUATION METHODS

- 6.1 There are three (3) general approaches to determine business and/or entity value:
- (a) Income approach, including the Capitalisation of Future Maintainable Earnings and Discounted Cash Flow methodologies.
  - (b) Asset approach, including the Net Underlying Assets methodology.
  - (c) Market approach, including quoted market price, comparable sales and industry “Rule of Thumb” methodologies.
- 6.2 A business or entity may be valued by one (1) or a combination (“the Dual Method”) of the above approaches.
- Capitalisation of Future Maintainable Earnings Method (“FME”)***
- 6.3 This conventionally accepted method capitalises the earnings of a business by an adequate earning rate, based on open market expectations, after giving consideration to all relevant conditions peculiar to the business or industry at the time of preparing the valuation.
- 6.4 This methodology is generally considered to be appropriate for businesses with an established operating history and a sufficiently stable trend in earnings that is capable of indicating future earning potential or reliable forecasts. Accordingly, this methodology may not be suitable for start-up business ventures, businesses with a volatile earnings pattern or a history of losses, or businesses that have erratic or unusual capital expenditure requirements.
- 6.5 When adopting this method, the normal practice is to capitalise the expected future maintainable earnings of the business at an appropriate multiple after making any adjustments which are deemed necessary for non-recurring items, non-core business expenditure, financing and non-arm’s length payments.
- 6.6 The appropriate multiple (or inversely, capitalisation rate) is a reflection of the risks and opportunities that relate to the Future Maintainable Earnings determined.



- 6.7 It is not uncommon for the value calculated under this method to be different from the net underlying assets required to operate the business. If the value exceeds the net underlying business assets, the difference is generally referred to as Goodwill. If the value does not exceed the value determined under the net underlying business asset basis, it is common practice for the business to be valued alternatively, on the net underlying assets basis.
- 6.8 If forecast future trading results are not available, the future maintainable earnings of a business are usually determined by making appropriate adjustments to the business' immediate past earnings as a proxy for the future earnings.
- 6.9 The FME approach is applicable to profitable businesses with relatively steady growth history and forecasts, regular capital expenditure requirements and an infinite life.
- 6.10 If the use of an earnings-based method (either the FME or DCF method) is appropriate, the result represents a value of the entire business operations, including all underlying business assets, both tangible and intangible.

***Discounted Cash Flow Method (“DCF”) / Net Present Value (“NPV”)***

- 6.11 This method values the entity or business (including all underlying business assets, both tangible and intangible) on the basis of the net present value of the future net cash flows from the operations of that entity or business. These future net cash flows are then discounted using a discount rate<sup>15</sup> which reflects the risks associated with the cash flow stream. The net present value method may be considered appropriate where the future cash flows associated with an entity or business are readily identifiable or where the future cash flows have a finite life.
- 6.12 The net present value method is considered to have a strong theoretical basis and is commonly used in valuation. This method may be considered particularly relevant for the valuation of start-up projects where earnings during the first few years can be negative or highly volatile. This methodology is able to incorporate the effect on value of a turnaround in a business, significant initial increases in revenues and significant changes expected in capital expenditure patterns. The DCF methodology is particularly applicable to businesses in start-up phase, experiencing substantial growth, with limited life or which experience irregular cash flows.

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<sup>15</sup> The discount rate represents the total expected rate of return (stated as a percentage) that a buyer would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest.





6.13 However, considerable judgement is required in estimating future cash flows and it is generally necessary to place significant reliance on forecasted cash and profit projections prepared by the management of a business or entity. The discount rate applied also, by its nature, requires a substantial element of judgement, along with the terminal or continuing value which is usually a high proportion of value.

***Net tangible asset value (“NTA”)***

6.14 In using the NTA methodology the business’ tangible assets and liabilities are adjusted to their appraised realisable values, and the net result is an indication of the total value of the business or entity. Methods under which the values of the assets and liabilities can be appraised include:

- (a) Orderly realisation.
- (b) Liquidation basis.
- (c) On a going concern.

6.15 The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to equity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

6.16 The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

6.17 The net assets on a going concern basis is usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity’s valuation.

6.18 Often the FME and DCF methodologies are used in valuing assets forming part of the overall net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.



6.19 These asset-based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity's assets are liquid or for asset holding companies. The net underlying assets method may be considered appropriate where the underlying assets consistently fail to generate a commercial rate of return.

#### ***Quoted market price basis***

6.20 Another alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high-volume trading, creating a "deep" market in that security.

6.21 The quoted market price reflects a minority interest in AstiVita. A minority interest is an interest that is not significant enough for the holder to individually have an influence in the operations and value of the company. An acquirer may pay a premium due to advantages as a result of owning 100% of a company.

#### ***Industry "Rules of Thumb"***

6.22 In the market, buyers and sellers of certain businesses often determine a value using an industry methodology or rule of thumb. Often industry value does not necessarily equate to the intrinsic value of the business as many rules of thumb are based on gross revenue rather than net profit/cashflow.

6.23 We are not aware of any "rules of thumb" applicable in this instance.



### **Dual Method**

- 6.24 There are entities which carry on more than one business and/or hold more than one type of asset (e.g. business, investments, etc.). In these circumstances, and particularly where one business or asset may be disposed of without jeopardising the remaining businesses or assets, it may be appropriate to consider each of the businesses/assets separately and value each of them in the most appropriate manner. The total value of the entity is then the sum of the values of each of its separate parts. This is often called the Dual Method.

### **VALUATION METHODOLOGY ADOPTED**

- 6.25 A history of positive earnings, on which future earnings is based, is required for the FME methodology to be used in the valuation of a company.
- 6.26 AstiVita does not have a recent history of positive earnings (due to the other operations which were historically undertaken in AstiVita, and have since been divested). We also do not have a detailed breakdown of historical earnings which split out the income and expenses for each division, to allow us to undertake such analysis. We have not been provided with Special Purpose financial statements for all historical periods to dissect income and expenses, as a basis for adopting FME.
- 6.27 In our opinion, based upon our experience and professional judgement:
- (a) While the special purpose financial statements report a profit for the six-month trading period ended 31 December 2021, a six-month period is too limited a timeframe to base future maintainable earnings on;
  - (b) The precise impact of the demerger on future results is unknown;
  - (c) It is unclear to what extent (either positively or negatively) the historical results of the past two years have been impacted by the pandemic;
  - (d) We were unable to ascertain that the historical information reliably represented future maintainable earnings; and
  - (e) We did not consider we had sufficient information to reliably determine future maintainable earnings.



- 6.28 In our opinion, the future maintainable earnings could not be reliably determined, and accordingly, we do not believe that the FME methodology is appropriate in the valuation of AstiVita.
- 6.29 DCF valuations require reliable forecast cash flows to be prepared, generally for five or more years. We have not been provided with financial projections or forecasts for AstiVita, beyond the projected sale of inventory currently on hand. In the absence of such information, we are unable to use the DCF methodology in the valuation of AstiVita.
- 6.30 The balance sheet of AstiVita does not incorporate any value for intangible assets (such as management, intellectual property and goodwill) or other benefits such as the available tax losses and franking credits<sup>16</sup>. In our opinion, the net assets of AstiVita would represent a minimum value. Accordingly, in this instance, we consider that it is not appropriate to use the Net Tangible Asset value methodology.
- 6.31 We refer to our analysis of the quoted market prices of Tamawood and AstiVita at paragraphs 3.10 to 3.20 and 4.19 to 4.28 and our conclusion that these prices are reliable. In our opinion there is nothing to suggest that the trades which have occurred were not an arm's length transaction based on the market participants perception of risk and future returns.
- 6.32 Having regard to our review, the common shareholders, our opinion that the market is efficient and that accordingly we do not consider that the level of trading makes it inappropriate to adopt this method<sup>17</sup>, the unsuitability of the other valuation methodologies; we consider that the Quoted Market Price Basis is a superior method, which we have adopted.
- 6.33 In considering the consideration being paid by Tamawood (i.e. scrip for scrip), we have also adopted the Quoted Market Price Basis, on the same basis as our analysis of AstiVita, and conclusions above.

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<sup>16</sup> Discussed further and quantified at Section 7 below.

<sup>17</sup> We acknowledge RG111 refers to a liquid market, which we acknowledge, however we consider this method appropriate in this instance, based on our analysis.





- 6.37 Immediately prior to the announcement AstiVita shares were trading at \$0.72. We note this is consistent with the 1-month and 3-month VWAP, and slightly below the 2-month and 6-month VWAP.
- 6.38 Accordingly, we consider that a range of \$0.645 to \$0.775 represents the value of one AstiVita share, on a minority interest basis.
- 6.39 Based on the current issued shares of 24,841,974 and a price per share of \$0.645 to \$0.775 we value AstiVita at \$16.023 million to \$19.252 million, on a minority interest basis.
- 6.40 We note that the above valuation is based on AstiVita continuing as a going concern.

### **CROSS CHECK VALUATION CALCULATION**

- 6.41 In undertaking our analysis, we also considered the capitalisation of future maintainable earnings method and net tangible assets method. As discussed above, we did not consider it appropriate to adopt capitalisation of future maintainable earnings method.
- 6.42 In relation to the net tangible assets method, as a cross check, we considered:
- (a) The current reported net-assets (in the special purpose financial statements) as set out at Table 5, of \$4.689 million;
  - (b) Adjustments to the reported net assets for the value of the available tax losses (of approximately \$5 million) and franking credits (of \$1.5 million)<sup>19</sup>, and
  - (c) The extent of implied intangible assets (such as management, intellectual property and goodwill).
- 6.43 In our opinion, based upon our experience and professional judgement, we consider the range of values we have adopted above, of \$16.023 million to \$19.252 million, to be reasonable.

### **CONSIDERATION – TAMAWOOD SHARES**

- 6.44 The following chart provides a summary of the share price movement from June 2020 to date<sup>20</sup>:

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<sup>19</sup> Refer paragraphs 7.25 to 7.27.

<sup>20</sup> The blue line represents the share price, and the green line represents the VWAP – Volume Weighted Average Price.



6.45 We note that Tamawood announced the Takeover Offer on 16 March 2022.

6.46 We summarise the range of share prices of Tamawood, and the volume weighted average price (“VWAP”) for up to the 12 months prior to the announcement as follows:

<b>Tamawood VWAP Analysis</b>			
	<i>Low</i>	<i>High</i>	<i>VWAP</i>
Up to 16 March 2022			
5 day	\$ 3.140	\$ 3.290	\$ 3.22
10 day	\$ 3.140	\$ 3.390	\$ 3.24
1 month	\$ 3.050	\$ 3.850	\$ 3.42
2 month	\$ 3.050	\$ 3.850	\$ 3.49
3 month	\$ 3.050	\$ 3.850	\$ 3.46
6 month	\$ 3.030	\$ 3.850	\$ 3.43
12 month	\$ 3.030	\$ 4.000	\$ 3.53

**Table 11**

6.47 Immediately prior to the announcement Tamawood shares were trading at \$3.22. The 1-month to 6-month VWAP ranged from \$3.42 to \$3.49.

6.48 During the 3-month period prior to the announcement of the Takeover Bid, Tamawood shares were trading between \$3.05 and \$3.85. Accordingly, we consider this range represents the value of one Tamawood share, on a minority interest basis.

## 7.0 EVALUATION OF THE PROPOSED TRANSACTION

### BASIS OF EVALUATION

#### *Regulatory Guidelines*

- 7.1 In determining whether the proposed transaction is fair and reasonable, we have referred to Regulatory Guides 111 (Content of Expert Reports)<sup>21</sup> and 112 (Independence of Experts) issued by ASIC.
- 7.2 Regulatory Guide 111 requires that we should analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members<sup>22</sup>.
- 7.3 A proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length<sup>23</sup>.
- 7.4 In relation to the proposed transaction, where the financial benefit given by the entity is securities in the entity and the consideration is securities in another entity held by a related party, the value of the entity's securities should be compared to the value of the securities it is purchasing.
- 7.5 We refer to our review of the market prices at paragraphs 3.10 to 3.20 and 4.19 to 4.28 and our conclusion that these prices are reliable for undertaking our valuation.
- 7.6 A proposed related party transaction is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons for members to vote for the proposal<sup>24</sup>.
- 7.7 When deciding whether a proposed transaction is 'reasonable', factors that an expert might consider include<sup>25</sup>:

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<sup>21</sup> RG111.55 to RG111.63

<sup>22</sup> RG111.55

<sup>23</sup> RG111.57

<sup>24</sup> RG111.60

<sup>25</sup> RG111.62





- (a) The financial situation and solvency of the entity;
- (b) Opportunity costs;
- (c) Alternative options available to the entity and the likelihood of those options occurring;
- (d) The entity's bargaining position;
- (e) Whether there is selective treatment of any security holder, particularly the related party;
- (f) Any special value of the transaction to the purchaser;
- (g) The liquidity of the market in the entity's securities.

7.8 If the bidder is offering non-cash consideration in a control transaction, the expert should examine the value of that consideration and compare it with the valuation of the target's securities.

***Adopted Basis of Evaluation***

7.9 We have satisfied the requirements of Regulatory Guide 111 by completing the following:

- (a) A comparison of the value of the financial benefit to be provided by the entity to the related party to value of the consideration being provided to the entity (to determine if it is equal to or less than, or not);
- (b) A comparison of the value of AstiVita shares and the value of the consideration (being 1 Tamawood share for every 5 AstiVita shares).
- (c) An enquiry into whether there are sufficient reasons for the non-associated shareholders to accept the offer in the absence of any higher bid before the close of the offer.



## IS THE PROPOSED TRANSACTION FAIR TO TAMAWOOD SHAREHOLDERS?

- 7.10 Having regard to the analysis and prices determined at Section 6.0 above, we summarise the takeover offer as follows:
- (a) 5 AstiVita shares, with a value range of \$3.23<sup>26</sup> to \$3.88<sup>27</sup>.
  - (b) 1 Tamawood share, with a value range of \$3.05 to \$3.85.
- 7.11 Having regard to the range of values above, the consideration being received by Mr Mizikovsky (and his related entities) of \$10.3 million to \$13 million is fair value for his direct and indirect interests in AstiVita (valued at \$10.8 million to \$13 million), and based on our valuation of AstiVita which Tamawood is acquiring. In our opinion, the benefit being received by the related party is within the range of the value of AstiVita shares which Tamawood is acquiring.
- 7.12 In our opinion, the consideration being received by Mr Mizikovsky (and his related entities) is fair value for his direct and indirect interests in AstiVita.
- 7.13 From the perspective of Tamawood shareholders, the proposed transaction is fair.

## OTHER CONSIDERATIONS

### *Alternative Proposal*

- 7.14 We are unaware of any alternative proposal that AstiVita has received that might result in the value of shares held by non-associated shareholders being higher than that ascribed by us above.

### *Implications of the Takeover Offer not proceeding*

- 7.15 Tamawood is the major customer of AstiVita. While Tamawood and AstiVita intend to continue their existing trading relationship, there is a risk to both parties if the Takeover Offer does not proceed. That is, AstiVita may supply their goods to competitors of Tamawood, or alternatively, Tamawood may find a new supplier.

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<sup>26</sup> \$0.645 x 5 shares

<sup>27</sup> \$0.775 x 5 shares



- 7.16 AstiVita has developed significant key relationships with suppliers which Tamawood would not easily be able to achieve in the short term. Tamawood is reliant on the AstiVita business.
- 7.17 If AstiVita shareholders do not approve Resolution 1, there are no prospects of receiving franked dividends from AstiVita in the foreseeable future, assuming that 100% of AstiVita is acquired by Tamawood under the takeover.

### ***Premium for Control***

- 7.18 A premium for control is normally paid where a party obtains a controlling interest in a company. The Takeover Offer, if successful, will result in Tamawood having control of the operations of AstiVita.
- 7.19 ASIC Regulatory Guide 111 requires that the expert give an opinion as to whether the proposed issue of ordinary shares (i.e. the issue of 1 Tamawood share for each 5 AstiVita shares) will result in AstiVita shareholders receiving a premium for control. Based on the prices set out at paragraph 7.10 above, we conclude that Tamawood will not be paying a premium for control.
- 7.20 There does not appear there will be a material change in the majority shareholders across the consolidated group.

### ***CGT Implications***

- 7.21 A scrip-for-scrip CGT rollover relief may be available for AstiVita shareholders, in relation to this takeover transaction and the issue of Tamawood shares. That is, AstiVita shareholders may be able to defer any capital gains tax liability until they dispose of the issued Tamawood shares.

## **IS THE PROPOSED TRANSACTION REASONABLE TO TAMAWOOD SHAREHOLDERS?**

- 7.22 We have considered the effect on shareholders if Resolution 1 is approved and have accordingly taken into account the following advantages and disadvantages of the proposed transaction proceeding. We have concluded that in all cases, the advantages and disadvantages of not approving Resolution 1 are the inverse of approving Resolution 1. We have therefore only set out below the significant factors in the context of approving Resolution 1.
- 7.23 We have investigated other significant factors which Tamawood shareholders might give consideration prior to approving Resolution 1. The matters we have considered are set out below.



### *Advantages of accepting the Proposal*

- 7.24 Tamawood would control AstiVita, including the supply of products and the relationships with key suppliers.
- 7.25 AstiVita currently has a franking account balance of \$1,497,548. Following the takeover, this balance would be transferred to Tamawood, and it would operate a single franking account for the consolidated group.
- 7.26 We've been provided with a copy of advice provided by Pilot Partners that AstiVita has unutilised tax losses carried forward of \$16.8 million (as at 30 June 2021). On the basis that Mr Mizikovsky and his related entities holding of more than 50% would meet the Australian Taxation Office's Continuity of Ownership Test, the tax losses of \$16.8 million would be eligible to be transferred to Tamawood (following the takeover), and Tamawood would be taken to have made the loss in the year of transfer. Tamawood's ability to utilise these losses going forward will depend on it continuing to meet the Australian Taxation Office's tests of Continuity of Ownership or Business Continuity Test in the relevant financial year.
- 7.27 Based on a tax rate of 30%, the tax losses have a maximum value of \$5.04 million. This assumes that Tamawood will be able to utilise all available tax losses. We cannot conclusively conclude whether the value of the tax losses is fully factored into the current share price of AstiVita, but consider it unlikely they are fully factored in, given AstiVita's history of trading losses.

### **CONCLUSION**

- 7.28 After considering the terms of the proposed transaction and assessing its advantages and disadvantages, we have concluded that the proposed transaction is fair and reasonable to the non-associated Shareholders of Tamawood.
- 7.29 On the basis that we consider the acquisition of Mr Mizikovsky's shares to be fair (as they are being acquired at fair value), and having regard to the advantages and disadvantages above, in our opinion the proposed transaction is also reasonable to the non-associated shareholders.

## 8.0 OTHER MATTERS

### SOURCES OF INFORMATION

- 8.1 In preparing this report, we have had access to the following principal sources of information:
- (a) Annual report of AstiVita for the years ended 30 June 2020 and 2021.
  - (b) Interim financial statements of AstiVita for the half year ended 31 December 2021.
  - (c) Special purpose financial report of AstiVita for the half year ended 31 December 2021.
  - (d) Annual report of Tamawood for the years ended 30 June 2020 and 2021.
  - (e) Interim financial statements of Tamawood for the half year ended 31 December 2021.
  - (f) Trading history of Tamawood and AstiVita, extracted from [www.asx.com.au](http://www.asx.com.au).
  - (g) Market announcements made by AstiVita.
  - (h) Letter from Econ Audit and Assurance Services Pty Ltd, dated 08 March 2022, regarding AstiVita Corporate Cost Summary.
  - (i) AstiVita inventory forecasts.
  - (j) Emails from Pilot Partners regarding taxation implications.
  - (k) IBISWorld reports (E3011 House Construction in Australia, dated June 2021, E3019 Multi-Unit Apartment and Townhouse Construction in Australia, dated October 2021 and Construction in Australia, dated June 2020).
- 8.2 In compiling this report and in reaching our opinions and conclusions, we have assumed that the information contained in the documents provided to and obtained by our office, is accurate and reliable unless otherwise stated.



## **ROUNDING**

- 8.3 Some calculations have been presented in this Report and Annexures have been rounded to the nearest dollar, whole or decimal number, as appropriate.
- 8.4 In our opinion, any resulting differences are minor and do not materially affect the overall conclusions in this report.

## **QUALIFICATIONS, DECLARATIONS AND CONSENTS**

- 8.5 Vincents Capital Management Pty Ltd which is a wholly owned entity of Vincents Chartered Accountants, is a Licensed Investment Adviser and holder of an Australian Financial Services Licence under the Act and its authorised representatives are qualified to provide our Report.
- 8.6 Prior to accepting this engagement, Vincents Capital Management Pty Ltd considered its independence with respect to Tamawood and AstiVita with reference to ASIC Regulatory Guide 112. In Vincents Capital Management Pty Ltd's opinion, it is independent of Tamawood and AstiVita.
- 8.7 Our Report has been prepared specifically for the shareholders of Tamawood. It is not intended that our Report be used for any other purpose other than to accompany the Bidder's Statement to be sent to the Tamawood shareholders. In particular, it is not intended that our Report should be used for any purpose other than as an expression of the opinion as to whether or not the Proposal is fair and reasonable to the non-associated shareholders of Tamawood. Vincents Capital Management Pty Ltd disclaims any assumption of responsibility for any reliance on our Report to any person other than those for whom it was intended, or for any purpose other than that for which it was prepared. Vincents Capital Management Pty Ltd takes no responsibility for the contents of the Bidder's Statement other than this report.
- 8.8 The statements and opinions given in the Report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of our Report, Vincents Capital Management Pty Ltd has relied on and considered information believed, after due inquiry, to be reliable and accurate. Vincents Capital Management Pty Ltd has no reason to believe that any information supplied to it was false or that any material information has been withheld.



- 8.9 Vincents Capital Management Pty Ltd has evaluated the information provided to it by Tamawood and other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not provide a reasonable basis for our Report. Vincents Capital Management Pty Ltd has not, nor does it imply that it has, audited or in any way verified any of the information provided to it.
- 8.10 Vincents Capital Management Pty Ltd has been indemnified by Tamawood in respect of any claim arising from Vincents Capital Management Pty Ltd's reliance on information provided by Tamawood or any of its representatives which is false, misleading or incomplete.
- 8.11 A draft of this report was provided to Tamawood and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.
- 8.12 In accordance with the Act, Vincents Capital Management Pty Ltd provides the following information and disclosures:
- (a) Vincents Capital Management Pty Ltd will be paid its usual professional fees (estimated to be approximately \$25,000 plus GST) based on time involvement at normal professional rates, for the preparation of our Report.
  - (b) Apart from the aforementioned fee, neither Vincents Capital Management Pty Ltd, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of our Report.
  - (c) Vincents Capital Management Pty Ltd, nor any of its directors or associates, have any interest in Tamawood or AstiVita.
  - (d) Neither Vincents Capital Management Pty Ltd nor Vincents Chartered Accountants has had any relationship with Tamawood or AstiVita, or their associates in the last two years, other than in connection with the preparation of this report.
- 8.13 This Report has been prepared in accordance with professional standards APES 215 "Forensic Accounting Services" and APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board ("APESB").



Should you have any queries in relation to the above, please do not hesitate to contact our office on (07) 3228 4000.

**Vincent's Capital Management Pty Ltd**

**Paul Green FCA**  
Director

**Peter Haley FCA**  
Director





# **ANNEXURE 1**

## **Financial Services Guide**

The background features a photograph of several small green seedlings with two leaves each, growing out of stacks of gold coins. The scene is set against a soft, out-of-focus green background. The entire image is overlaid with a large, semi-transparent orange-to-red gradient that covers the entire page.

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# Financial Services Guide

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July 2021

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Vincents Capital Management Pty Ltd AFS licence number: 236 608

 **.VINCENTS**

# Introduction

## Vincent's Capital Management Pty Ltd

Vincent's Capital Management Pty Ltd (ABN 40 010 855 991) (VCM) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER).

VCM holds Australian Financial Services License No. 236608.

## Financial Services Guide

The *Corporations Act 2001 (Cth)* (Corporations Act) authorises VCM to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Bidders Statement to be sent to Tamawood shareholders in connection with the Takeover Offer.

This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about VCM generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

## Financial Services we are licensed to provide

Our Australian Financial Services License allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

## General financial product advice

The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services License to assist you in this assessment.

## **Fees, commissions and other benefits we may receive**

VCM charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages VCM to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, VCM is entitled to receive a fee estimated at \$27,500 plus GST.

Neither VCM nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to as above.

All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

## **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

If you have any questions about this FSG or would like to discuss how Vincents can help you, contact us on 1300 VINCENTS.

## **Vincents Capital Management Pty Ltd**

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