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## PROPOSED ACQUISITION OF THE ASCENDIS ANIMAL HEALTH DIVISION

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### 1. INTRODUCTION

Shareholders of Acorn Agri and Food Limited ("**AAF**" and "**the Company**") are referred to the announcement published on 16 July 2021 regarding negotiations entered into by the Company, which if successfully concluded, may have an effect on the price of the Company's shares.

Shareholders are accordingly advised that AAF has **successfully concluded a sale and purchase agreement ("SPA")** with Ascendis Health SA Holdings (Pty) Ltd, a wholly-owned subsidiary of Ascendis Health Ltd ("**the Seller**"), for the **acquisition of the entire issued share capital** of the companies comprising the Ascendis Animal Health Division ("**Animal Health**" or "**the Business**"), being:

- Ascendis Vet Proprietary Limited ("**Ascendis Vet**");
- Ascendis Animal Health Proprietary Limited ("**Ascendis Animal**"); and
- Kyron Prescriptions Proprietary Limited and Kyron Laboratories Proprietary Limited (collectively "**Kyron**"),

AAF is confident that the acquisition of Animal Health is consistent with **our purpose of creating value for our stakeholders by expanding our involvement** in the Southern African agricultural and food value chain.

### 2. BACKGROUND TO THE TRANSACTION

The Ascendis Animal Health Division is a consolidated provider of animal health and veterinary products and is the largest local player in the animal health market. Animal Health leverages its expertise in the disciplines of veterinary sciences and consists of three divisions:

- Ascendis Animal/ Agrimed operates in the commercial agricultural animal segment, offering a wide range of products in antibiotics, feed additives, production enhancers and other leading categories. It has 69 registered products covering a wide range of indications for use in cattle, sheep, goats, poultry, pigs, and wildlife.
- Ascendis Vet operates in the companion animal segment with a range of companion animal medicine and healthcare products aimed at helping pets live long and healthy lives.
- Kyron is a specialised company that is a leading manufacturer and marketer of branded pet care products. It offers over 50 OTC products and a comprehensive range of veterinary instruments, supplied to pet shops, veterinary hospitals, and veterinary pharmacies.

Animal Health has a cross border market presence, with well-established distribution channels across Southern Africa.

Given the importance of animal health to the Southern African livestock farming sector and significant growth within the pet-care sector, the Ascendis Animal Health business posed an attractive proposition for AAF.

Accordingly, Acorn Private Equity ("**Acorn**" or "**APEQ**") displayed interest in the acquisition of the Business and, following an intensive due-diligence process, submitted a binding offer on behalf of **AAF**.

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After extensive engagement and negotiation with the Seller, Acorn has negotiated a transaction whereby AAF ultimately acquires 88% of the share capital in Animal Health for a **preliminary cash consideration of R770 186 959**.

The purchase consideration will be funded primarily by cash within AAF and through debt finance procured for purposes of the transaction.

AAF will be facilitating the co-investment of management in the Business, up to a combined interest of 12%. Management has shown significant commitment to the business and the transaction, and is contributing their own capital to help fund their equity stake.

**The recent B-BBEE transaction announced by AAF, which remains subject to shareholder approval, will provide further means to empower the underlying businesses to broaden their customer base.**

### **3. RATIONALE FOR THE ACQUISITION**

Animal Health is a major player in its market and is one of the leading animal health companies operating in the SADC region. It is a fitting addition to AAF's current subsidiaries, given that it operates within the agricultural value chain and its product offerings are an extension of those offered by AAF. Accordingly, it aligns well with AAF's vision of creating value for stakeholders through integration within the value chain.

Animal Health has well-established distribution channels and is a prominent supplier to all major distributors and retailers in the industry with an entrenched cold-chain distribution presence. The animal health industry is well regulated, which affords protection to the competitive advantage held by the Business.

The Animal Health business is led by a stellar management team which have been involved since the establishment of the Business and boast collective industry experience in excess of 49 years.

From a financial perspective, the Business makes for an attractive investment proposition given the following factors:

- **Highly cash generative** and profitable with a history of substantial dividends being paid.
- **High quality of earnings** with a large base of loyal and repeat customers.
- **Attractive profit margins** owing to the IP protection and Kyron's manufacturing capabilities.
- **Asset-light** business with no external debt (pre-acquisition).

The terms under which the transaction is concluded are consistent with AAF's group strategy and three-year plan until 2024.

Subsequent to the implementation of the transaction, AAF envisages capitalising on Kyron's untapped manufacturing ability and its potential to secure long term growth and synergies within Animal Health that will result in greater margin expansion. AAF will also aim to further integrate the existing divisions of the Business to unlock value between the different divisions further.

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#### 4. FINANCIAL IMPACT

##### Key Financial Features

The Animal Health business has **performed exceptionally** over the past financial year and holds significant growth prospects.

|               | 6 Months    | 6 Months    | % Change | 12 Months    |
|---------------|-------------|-------------|----------|--------------|
| Period end    | 31/12/2020  | 31/12/2019  |          | 30/06/2020   |
| <b>EBITDA</b> | R75 755 000 | R62 650 000 | 21%      | R124 681 000 |

AAF is confident that the investment will be an earnings enhancing proposition to the Group and that going forward, management will unlock organic growth and savings through the integration of the divisions.

Our conservative forecasts indicate that revenue and EBITDA should continue to grow at a compound annual **growth rate in excess of 6%**.

The balance sheet of Animal Health is contingent on the level of acquisition financing which is secured as well as the final outcome of the purchase price allocation process. On the basis of the information available to management and fair assumptions over the above- indications are that the Animal Health business should **return an ROE of circa 15%**.

The estimated **pro forma** impact on AAF Shareholders per share is summarised below. The **pro forma** consolidated statement of financial position of AAF has been prepared on the assumption that the transactions had been implemented on 28 February 2021, using the consolidated financial position of AAF as of 28 February 2021, and the **pro forma** statement of profit or loss and other comprehensive income of AAF has been prepared on the assumption that the transactions had been implemented on 1 March 2020, using the consolidated statement of profit or loss and other comprehensive income for the year ended 28 February 2021. The **pro forma** financial information has been presented for illustrative purposes only and, because of their nature, may not give a fair reflection of AAF's financial position, changes in equity and results of their operations after the proposed transactions.

|   | Before the Proposed BEE Transaction and Animal Health acquisition <sup>1</sup> | After the Proposed BEE transaction <sup>2</sup> | % change | After Animal Health Acquisition and the Proposed BEE transaction <sup>3</sup> | % change |
|---|--|---|----------|---|----------|
| Earnings per AAF Share from Continuing Operations (cents) | 75.60  | 143.79  | 90%      | 186.15  | 146%     |
| Net asset value per AAF Share (Rand)                      | R22.46   | R22.44  | -0.07%   | R22.44  | -0.07%   |

<sup>1</sup> Extracted, without adjustment, from the audited results of AAF for the year ended 28 February 2021.

<sup>2</sup> Extracted, without adjustment, from the Circular issued to Shareholders on 5 July 2021 .

<sup>3</sup> **Pro forma** financial effect subject to change dependent on future earnings of the business, level of acquisition financing obtained and outcome of the purchase price allocation.

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## **5. SALIENT TERMS OF THE SALE AND PURCHASE AGREEMENT**

### **5.1 Purchase Consideration**

The preliminary purchase consideration for the transaction is a cash value of R770 186 959. This consideration will be adjusted after the closing date for net working capital, net debt and capital expenditure levels.

### **5.2 Conditions Precedent**

The implementation of the SPA is subject to, amongst others, the following key conditions precedent being fulfilled or waived:

- Approval by Ascendis Health shareholders and lenders;
- Approval by the relevant Competition Authorities in terms of the Competition Act;
- Conclusion of Escrow Arrangements; and
- No Material Adverse Change has taken place.

### **5.3 Closing Date**

The transaction will be implemented on the closing date, being the last business day of the month in which the last condition precedent has been fulfilled or waived. It is expected to take place in the 4<sup>th</sup> quarter of the 2021 calendar year. Payment of the preliminary purchase consideration will be on this date.

### **5.4 Other Salient Terms**

The SPA contains certain representations and warranties and material adverse change clauses, which are standard for a transaction of this nature. All key Animal Health management and employees will be retained by AAF.

**By order of the board of directors.**

**A Steyn  
Company Secretary  
19 July 2021**

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