

The Directors
Adcorp Holdings Limited
Adcorp Place
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13 November 2020

Dear Sirs

REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO THE DIRECTORS OF ADCORP HOLDINGS LIMITED REGARDING THE SUBSCRIPTION BY THE NEW BEE PARTNERS FOR 35.42% OF SA HOLDCO'S TOTAL SHARES IN ISSUE POST SUBSCRIPTION WHICH CONSTITUTES A RELATED PARTY TRANSACTION

Introduction

In terms of the announcement published by Adcorp Holdings Limited ("Adcorp" or the "Company") on the Stock Exchange News Service ("SENS"), operated by the JSE Limited ("JSE") on Thursday, 12 November 2020, holders of ordinary shares with a par value of 2,5 cents each in the issued share capital of Adcorp ("Adcorp Shares" or "Shares") and holders of no par value class B ordinary shares in the issued share capital of Adcorp ("B Shares") ("Adcorp Shareholders" or "Shareholders") were advised that Adcorp intends to conclude a new Broad-Based Black Economic Empowerment ("B-BBEE") transaction.

In 2013 Adcorp entered into a B-BBEE transaction with Adcorp Employee Benefit Trust 2 ("AEBT 2"), Thornbird Trade and Invest 33 Proprietary Limited ("Simeka SPV"), a wholly-owned subsidiary of Simeka Group Proprietary Limited ("Simeka") and WIPHOLD Financial Services Number Two Proprietary Limited ("WIP SPV"), a wholly-owned subsidiary of Women Investments Portfolio Holdings Limited ("WIPHOLD") ("2013 BEE Partners") in terms of which B Shares, representing approximately 13.27% of Adcorp's total issued shares and voting rights were allotted and issued to the 2013 BEE Partners ("2013 B-BBEE Transaction").

Subsequent to the implementation of the 2013 B-BBEE Transaction, Adcorp's share price had significantly decreased in value resulting in the 2013 BEE Transaction being materially underwater. In the context of the current market environment and operating conditions, it is extremely unlikely that value will be created in the 2013 B-BBEE Transaction by its maturity date of August 2023.

As a result, Adcorp intends to conclude a new B-BBEE transaction which encompasses, *inter alia*:

- The partial unwinding of the 2013 B-BBEE Transaction whereby Adcorp repurchases 10 093 709 B Shares, constituting approximately 60% of the B Shares, and equating to approximately 7.96% of Adcorp's total issued shares, from Simeka SPV and WIP SPV ("Repurchase"). Post the Repurchase, AEBT 2 will be the sole holder of B Shares; and
- The issue of an aggregate of 3 542 no par value ordinary shares in the issued share capital of a new company to be formed to house Adcorp's South African assets ("SA HoldCo") ("SA HoldCo Ordinary Shares") ("Subscription Shares") to Adcorp Employee Benefit Trust 3 ("AEBT 3"), Simeka SPV and WIP SPV (the "New BEE Partners") for a total consideration of R3 542 ("Subscription Price") ("Subscription"), which will constitute 35.42% of the total issued share capital of SA HoldCo immediately after the implementation of the new B-BBEE transaction.

The Repurchase and Subscription are collectively referred to herein as the "Proposed B-BBEE Transaction".

Adcorp's South African assets are currently owned by Adcorp Workforce Management Solutions Proprietary Limited ("AWMS") and Adcorp Management Services Proprietary Limited ("AMS"), both wholly-owned subsidiaries of Adcorp. Pursuant to and prior to the implementation of the Proposed B-BBEE Transaction, Adcorp will:

- Dispose of its shareholding held in AWMS and AMS to SA HoldCo, in exchange for the entire issued SA HoldCo ordinary share capital; and
- SA HoldCo will issue cumulative, redeemable, non-participating, no par value preference shares in the share capital of SA HoldCo, with a redemption value of R1 600 000 000 and a coupon rate equal to the prime interest rate plus 3%, compounded annually in arrears (“A Preference Shares”) to Adcorp. The issue price of the A Preference Shares is equal to the fair market value of SA HoldCo collectively referred to as the “Internal Restructuring”.

The Internal Restructuring is intended to simplify Adcorp’s group structure in order to ultimately facilitate the implementation of the Proposed B-BBEE Transaction.

Full details of the Proposed B-BBEE Transaction are set out in the circular to Shareholders to be dated on or about 13 November 2020 (the “Circular”).

Fairness Opinion Required in terms of the JSE Listings Requirements

Cecil Maswanganyi is a non-executive director of Adcorp and consequently a related party to Adcorp (as defined in section 10.1(b)(ii) of the JSE Listings Requirements (“Listings Requirements”).

Simeka is an associate of Cecil Maswanganyi and a related party to Adcorp (as defined in section 10.1(b)(vii) of the Listings Requirements read together with the definition of associate).

The Subscription constitutes a related party transaction and in terms of Section 10.4 of the JSE Listing Requirements, Adcorp is required to, prior to completing the Subscription, provide the JSE with written confirmation from an independent professional expert acceptable to the JSE that the terms of the Subscription are fair as far as Adcorp Shareholders are concerned (the “Fairness Opinion”).

BDO Corporate Finance Proprietary Limited (“BDO Corporate Finance”) has been appointed by the board of directors of Adcorp (the “Board” or the “Directors”) to provide the Fairness Opinion.

Responsibility

Compliance with the Listings Requirements is the responsibility of the Board. Our responsibility is to report to the Board on whether the terms and conditions of the Subscription are fair to Shareholders.

Explanation as to how the term “fair” applies in the context of the Subscription

Schedule 5.7 of the Listings Requirements states that the “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received, as a result of a corporate action, are equal to or greater than the value ceded by a company.

The Subscription would be considered fair to Adcorp Shareholders if the Subscription Price is greater than or equal to the fair value of the Subscription Shares, or unfair if the Subscription Price is less than the fair value of the Subscription Shares.

Details and sources of information

In arriving at our findings, we have relied upon the following principal sources of information:

- The terms and conditions of the Proposed B-BBEE Transaction, as set out in the Circular;
- Transaction documents provided by Adcorp’s transaction advisers setting out, *inter alia*, transaction steps and the rationale of the Proposed B-BBEE Transaction;
- Annual Integrated Report of Adcorp for the financial years ended 28 February 2018, 28 February 2019 and 29 February 2020;
- Unaudited management accounts of Adcorp, on a consolidated basis and by underlying operating segment, for the financial years ended 28 February 2019 and 29 February 2020;
- Unaudited management accounts of Adcorp, on a consolidated basis and by underlying operating segment, for the year-to-date period ended 31 August 2020;
- Forecast financial information of Adcorp, on a consolidated basis and by underlying operating segment, for the financial years ending 28 February 2021 to 2025;
- Discussions with executive Directors, management and/or advisors of Adcorp regarding the rationale for the Proposed B-BBEE Transaction;
- Discussions with executive Directors, management and/or advisors of Adcorp regarding historical and forecast financial information of Adcorp, on a consolidated basis and by underlying operating segment;

- Discussions with executive Directors, management and/or advisors of Adcorp on prevailing market, economic, legal and other conditions which may affect underlying values;
- Analyst reports, trading history and traded price information per Thomson Reuters in respect of Adcorp and comparable publicly traded companies; and
- Publicly available information relating to Adcorp, comparable publicly traded companies and the markets in which Adcorp and its peers operate we deemed to be relevant, including company announcements and media articles.

The information above was secured from:

- Executive Directors and management of Adcorp and their advisors; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing Adcorp.

Procedures

In arriving at our findings, we have undertaken the following procedures and taken into account the following factors:

- Reviewed the terms and conditions of the Proposed B-BBEE Transaction as contained in the Circular;
- Reviewed the historical financial information, as detailed above;
- Reviewed and obtained an understanding from management of Adcorp as to the forecast financial information, on a consolidated basis and by underlying operating segment and the basis of the assumptions therein including the prospects of the business and its underlying segments. This review included an assessment of the recent historical performance to date as well as the reasonableness of the outlook assumed based on discussions with management of Adcorp and assessed the achievability thereof by considering historical information as well as macro-economic and industry-specific data;
- Compiled forecast free cash flows for each of Adcorp's South African segments by using the historical and forecast financial information as detailed above. Applied BDO Corporate Finance's assumptions of cost of capital to the forecast cash flows to produce a discounted cash flow ("DCF") valuation for each South African segment;
- For assets held for sale, considered the expected disposal proceeds less costs to sell;
- Aggregated the valuations for each of Adcorp's South African segments to determine a "sum of the parts" ("SOTP") valuation of SA HoldCo;
- Deducted the fair value of the A Preference Shares from the fair value of SA HoldCo prior to the issue of the A Preference Shares to determine the fair value of the Subscription Share being the fair value of SA HoldCo ordinary share capital after the issue of the A Preference Shares;
- Performed a sensitivity analysis on key assumptions included in the valuation;
- Assessed the long-term potential of Adcorp and its underlying segments;
- Evaluated the relative risks associated with Adcorp and the staffing and contracting industry;
- Held discussions with Directors, management and/or advisors of Adcorp regarding the rationale for the Proposed B-BBEE Transaction;
- Held discussions with Directors, management and/or advisors of Adcorp regarding the past and current business operations, regulatory requirements, financial condition and future prospects of Adcorp and such other matters as we have deemed relevant to our inquiry;
- Reviewed certain publicly available information relating to Adcorp and the staffing and contracting industry that we deemed to be relevant, including Company announcements, media articles and available analyst coverage; and
- Performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the staffing and contracting industry generally.

Assumptions

We arrived at our findings based on the following assumptions:

- That all agreements that are to be entered into in terms of the Proposed B-BBEE Transaction will be legally enforceable as against the relevant parties thereto;
- That the Proposed B-BBEE Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of the Company; and
- That reliance can be placed on the financial information of Adcorp.

Appropriateness and reasonableness of underlying information and assumptions

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our findings by:

- Placing reliance on audit reports in the financial statements of Adcorp;
- Conducting analytical reviews on the historical financial results and forecast financial information, such as key ratio and trend analyses; and
- Determining the extent to which information in respect of Adcorp was confirmed by documentary evidence as well as our understanding of Adcorp and the economic environment in which the Company operates.

Limiting conditions

This Fairness Opinion is provided in connection with and for the purposes of the Subscription. This Fairness Opinion does not purport to cater for each individual Shareholder's perspective, but rather that of the general body of Shareholders.

Individual Shareholders' decisions regarding the Subscription may be influenced by such Shareholders' particular circumstances and accordingly individual Shareholders should consult an independent advisor if in any doubt as to the merits or otherwise of the Subscription.

We have relied upon and assumed the accuracy of the information provided to us in deriving our conclusions. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of this Fairness Opinion, whether in writing or obtained in discussion with Adcorp management, by reference to publicly available or independently obtained information. While our work has involved an analysis of, *inter alia*, the annual financial statements, and other information provided to us, our engagement does not constitute an audit conducted in accordance with generally accepted auditing standards.

Where relevant, forward-looking information relates to future events and is based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results will correspond to those projected. We have, however, compared the forecast financial information to past trends as well as discussing the assumptions inherent therein with Adcorp management.

We have also assumed that the Subscription will have the legal consequences described in discussions with and materials furnished to us by representatives and advisors of the Company and we express no opinion on such consequences.

Our opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such developments.

We have been neither a party to the negotiations entered into in relation to the Subscription nor have we been involved in the deliberations leading up to the decision on the part of the Board to enter into the Subscription.

We do not, by this letter or otherwise, advise or form any judgement on the strategic, commercial or financial merits or risks of the Subscription. All such evaluations, advice, judgements or comments remain the sole responsibility of the Board and their advisors. We have however, drawn upon such evaluations, judgements and comments as we deem necessary and appropriate in arriving at our opinion.

It is also not within our terms of reference to compare the merits of the Subscription to any alternative arrangements that were or may have been available to Adcorp. Such comparison and consideration remain the responsibility of the Board and their advisors.

Independence, competence and fees

We confirm that neither BDO Corporate Finance nor any person related to us (as contemplated in the Listings Requirements), have any existing or continuing relationship with Adcorp or with any party involved in the Subscription as contemplated in paragraph 5.12 of Schedule 5 to the Listings Requirements and have not had such relationship within the immediately preceding two years. We also confirm that we have the necessary qualifications and competence to provide the Fairness Opinion on the Subscription.

Furthermore, we confirm that our professional fees are not contingent upon the success of the Subscription. Our fees are not payable in Adcorp Shares.

Valuation approach

In considering the terms and conditions of the Subscription, we performed an independent valuation of the ordinary share capital in SA HoldCo on a SOTP basis by using the DCF methodology.

SA HoldCo prior to the issue of the A Preference Shares

BDO Corporate Finance compiled forecast free cash flows for each of SA HoldCo's segments by using the historical and forecast financial information as detailed above. We applied our assumptions of cost of capital to the forecast cash flows to produce a DCF valuation for each of SA HoldCo's segments.

Key external value drivers include key macro-economic parameters such as; GDP growth, interest rates, headline inflation rates and prevailing market and industry conditions in the staffing and contracting industry were considered in assessing the forecast cash flows and risk profile of SA HoldCo's segments. Key macro-economic assumptions include, *inter alia*:

Assumption	2021	2022	2023	2024	2025
GDP Growth	0.9%	1.8%	2.3%	2.7%	3%
Prime Overdraft Rate	9.00%	9.75%	9.75%	9.75%	9.75%
Consumer Inflation (Av: %)	4.7%	5.3%	5.4%	5.3%	5.3%

* Source: Investec Bank Ltd Q2.20 Macro-economic outlook 2020-2025

Key internal value drivers and assumptions to the DCF valuations of each underlying South African segment included the discount rate, revenue growth, EBIT margins and the terminal growth rate. Key value drivers and assumptions include, *inter alia*:

South African segment	WACC	Terminal Growth Rate
Industrial	22.5%	3.0%
Support Services	23.4%	3.0%
Professional Services	22.5%	3.0%
Training	24.3%	3.0%

As noted in the Company's trading statement and operational update announcement for the period ended 31 August 2020, as anticipated, Adcorp's financial results for the six months ended 31 August 2020 have been impacted by the economic slowdown and continued trading limitations related to COVID-19. Adcorp responded appropriately under these circumstances by curtailing costs, significantly increasing cash collections and extending credit terms. These factors were taken into account in determining the forecasts for SA HoldCo's segments from 2019 to 2025.

We selected a basket of comparable companies with similar operations to Adcorp. Historical and forward multiples were calculated for these comparable companies. Outliers were excluded and a range of market multiples was determined. This range was adjusted for differences between Adcorp and the basket of peers to account for the risk profile of Adcorp relative to the basket of peers.

In addition, we performed a sensitivity analysis on key assumptions included in the DCF valuation specifically related to cost of capital and terminal growth rates.

The sensitivity analysis did not indicate a sufficient effect on the valuation of SA HoldCo's segments to alter our opinion in respect of the fairness of the Subscription.

The Internal Restructuring is intended to simplify Adcorp's group structure and will result in SA HoldCo owning Adcorp's South African assets. The valuation of Adcorp's underlying South African segments, as detailed above, effectively represents the valuation of SA HoldCo.

A Preference Share

The present value of the A Preference Shares has been determined by applying an appropriate market-related borrowing rate to discount forecast cash flows.

Key value drivers of the valuation include:

- The prevailing and forecast prime interest rate. Forecasts as per Investec Bank Limited ("Investec") as at 31 August 2020 was used to determine the forecast prime interest rate;
- Prior to the advent of C-19, a credit spread for Senior Mezzanine Debt equated to 3 month JIBAR plus 650 to 750 basis points and a credit spread for Junior Mezzanine Debt was 3 month JIBAR plus 850 to 950 basis points based on observed market data. We note that comparable lending products offered in the market that were priced at prime less 100 basis points prior to the advent of C-19 are now priced at prime plus 25 basis points. The coupon rate equal to the prime interest rate plus 3% falls within this range for Junior Mezzanine Debt.

The key value driver of the A Preference Shares is the market-related borrowing rate.

Additionally, sensitivity analyses were performed by applying the range above in respect of the credit spread for an unsecured loan for SA HoldCo.

Conclusion

BDO Corporate Finance has considered the terms and conditions of the Subscription and, based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Subscription are fair to Adcorp Shareholders.

Our views are based on market, economic, industry, monetary and other conditions (where applicable) prevailing on and our analysis of the information made available to us up to Tuesday, 10 November 2020 (the "Last Practicable Date"). We assume no responsibility to update, revise or reaffirm our opinion, factors or assumptions in light of any subsequent development after the Last Practicable Date that may affect our opinion or factors, or assumptions contained herein.

We have assumed that all conditions precedent, including any material regulatory and other approvals or consents required in connection with the Subscription have been fulfilled or obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Consent

We hereby consent to the inclusion of this Fairness Opinion, in whole or in part, and references thereto in the Circular, in the form and context in which it appears.

Yours faithfully



N Lazanakis CA(SA)
Director

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