
# GOOD SPIRITS HOSPITALITY LIMITED
# INDEPENDENT APPRAISAL REPORT

**In respect of the sale of the business and assets of Good Spirits Hospitality Limited, Good Spirits Hospitality No.1 Limited and Good Spirits Hospitality No.3 Limited to Brew on Quay Limited.**

**9 October 2023**

CAMPBELL MACPHERSON LTD
CORPORATE ADVISORS

**STATEMENT OF INDEPENDENCE**

Campbell MacPherson Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and,
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

## TABLE OF CONTENTS

## GLOSSARY

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| $ | New Zealand Dollars |
| Board | The Board of Directors of GSH |
| Binding Ruling | A binding ruling obtained from Inland Revenue and satisfactory in all respects to the Board, confirming that the Vendors and the directors of the Vendors will not be liable for any tax payable in respect of the Proposed Dividend and the liquidation or deregistration of the Vendors |
| BOQ, the Purchaser | Brew on Quay Limited |
| Campbell MacPherson | Campbell MacPherson Limited |
| DCF | Discounted cash flow |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before net interest, tax, depreciation and amortisation |
| EV | Enterprise value |
| FY | Financial Year |
| GSA | General Security Agreement |
| GSH, the Company | Good Spirits Hospitality Limited |
| GSH Business Assets | The GSH business assets which form part of the Proposed Transaction |
| GSH No.1 | Good Spirits Hospitality No.1 Limited |
| GSH No.3 | Good Spirits Hospitality No.3 Limited |
| Independent Directors | The Independent Directors of GSH |
| Listing Rules | NZX Listing Rules |
| Non-associated Directors | The GSH Directors who were not associated with BOQ or the Proposed Transaction |
| Non-associated Shareholders | GSH shareholders who are not associated with BOQ the Proposed Transaction |
| Notice of Meeting | GSH's notice of meeting for a combined special and annual meeting of shareholders on 26 October 2023. |
| NPV | Net present value |
| NZIER | New Zealand Institute of Economic Research |
| NZX | NZX Limited |
| PDL | Pacific Dawn Limited |
| Proposed Dividend | The proposed dividend of an amount equal to $600,000 less any costs associated with obtaining a Binding Ruling and any applicable tax deductions, payable to the GSH shareholders if the Proposed Transaction proceeds and the applicable shareholder resolutions are approved. |
| Proposed Transaction | The proposed sale of the Vendors' business and certain assets to BOQ |
| Report | This Independent Appraisal Report |

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| ROU | Right of Use |
| Shares | GSH's ordinary shares |
| Salvus | Salvus Strategic Investments Limited |
| Vendors or GSH Group | GSH, GSH No.1 and GSH No.3 |
| Veritas | Veritas Investments Limited |
| VWAP | Volume weighted average price |

# 1 INTRODUCTION

## 1.1 Background

Good Spirits Hospitality Limited (**GSH**, the **Company**) is a New Zealand hospitality business which currently owns and operates a portfolio of 9 beverage-led hospitality venues in the North Island of New Zealand (8 in Auckland and 1 in Hamilton).

GSH and its wholly owned subsidiaries, Good Spirits Hospitality No.1 Limited (**GSH No.1**) and Good Spirits Hospitality No.3 Limited (**GSH No.3**) (collectively the **Vendors**, or the **GSH Group**) have a significant and unsustainable level of debt. As at 30 June 2023, the GSH Group's debt to its primary lender Pacific Dawn Limited[1] (**PDL**) was $33.09 million[2]. GSH has struggled to service this debt and has required the ongoing support of PDL in order to continue trading. PDL is also GSH's largest shareholder, with a 24.99% shareholding in the Company.

In an announcement dated 30 September 2022, GSH confirmed that it had renegotiated and extended the terms of its banking facilities with PDL. One of the conditions required by PDL as part of this extension was that GSH had to achieve certain agreed milestones for a range of possible transactions which would ultimately address the Company's unsustainable financial position and result in the PDL debt facilities being repaid in 2023. PDL also required that GSH appoint an external advisor to manage this process. Tonnant Partners was subsequently appointed as GSH's transaction advisor.

Following the completion of the strategic review conducted by Tonnant Partners, the Board of GSH decided to pursue a sale of the business assets of GSH and its subsidiaries, as announced on 21 December 2022.

On 2 August 2023, GSH announced that it had entered into a conditional agreement to sell all operating business assets to Brew on Quay Limited (**BOQ**, the **Purchaser**) for a headline price $20.70 million (the **Proposed Transaction**). Even though the proceeds from the Proposed Transaction will be insufficient to repay the PDL debt in full, PDL is supportive of the Proposed Transaction.

Despite the loss which will be incurred by PDL on its GSH debt as a result of the Proposed Transaction, the GSH Directors have negotiated an agreement with PDL, whereby PDL as secured lender will support a dividend payment to all GSH shareholders of no more than $600,000 (less the deduction of any costs associated with obtaining a Binding Ruling and any applicable taxes) if the Proposed Transaction (and the associated delisting) is approved by the GSH shareholders and proceeds.

If the Proposed Transaction proceeds, GSH will become a listed "shell company" with no operating or cash generating assets. GSH therefore intends to apply for a delisting from the NZX Main Board prior to liquidating or deregistering the Company and its subsidiaries.

GSH's ordinary shares (**Shares**) are listed on the NZX Main Board, an equity securities market operated by NZX Limited (**NZX**). GSH had a market capitalisation of approximately $1.27 million as at 14 September 2023. As at 30 June 2023, GSH reported an unaudited total equity position of negative $19.16 million, reflecting the significant debt to PDL and a write down in the carrying value of the GSH assets / goodwill.

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[1] PDL is a wholly owned subsidiary of Nomura Asia Pacific Holdings Co. Limited.

[2] GSH No. 1 (a wholly owned subsidiary of GSH) is the borrower under the loan agreement with PDL, and GSH is a guarantor of the PDL debt. As set out in Section 4.5, GSH No.3 (a wholly owned subsidiary of GSH) also has a small, secured loan from its beverage suppliers ($88k was owing as at 30 June 2023).

## 1.2 The Proposed Transaction and Associated Dividend Payment

Following the completion of a competitive sale process for the GSH business and assets, which was managed by Tonnant Partners, the Vendors have entered into a conditional agreement to sell substantially all of the business and assets associated with the GSH Group's nine operating venues to BOQ or its subsidiaries. A subcommittee of the GSH Directors who were not associated with BOQ or the Proposed Transaction, being John Seton and Carl Carrington (the **Non-associated Directors**) was established to assess and consider BOQ's involvement in the sale process.

Key terms of the Proposed Transaction include:

- Cash consideration / base purchase price: $20,701,400 (plus GST if any), subject to standard completion adjustments, as set out in Section 2.6.
- The Proposed Transaction is subject to a number of conditions, as set out in Section 2.6, including obtaining GSH shareholder approval by way of an ordinary resolution.

As previously stated, PDL is supportive of the Proposed Transaction and, in its capacity as shareholder, will vote in favour of the shareholder resolutions for the Proposed Transaction.

In accordance with the terms of the facility agreement between GSH, GSH No.1 and PDL, any proceeds received by GSH or GSH No.1 in relation to the Proposed Transaction (net of reasonable costs and taxes), must be applied to the repayment of the PDL debt. The net proceeds from the Proposed Transaction will be insufficient to fully repay the GSH Group's liabilities, including the PDL loan of $33.09 million as at 30 June 2023, and the residual net liabilities to be retained by GSH if the Proposed Transaction proceeds (as set out in Section 2.8). Therefore, the Proposed Transaction (on face value) will not result in any surplus proceeds being available for distribution to the GSH shareholders. However, PDL as secured lender has agreed to permit a total distribution to all GSH shareholders (inclusive of PDL) of no more than $600,000 or 1.04 cents per Share (less any costs incurred by GSH to obtain a Binding Ruling and any applicable tax deductions) by way of an unimputed dividend payment (**Proposed Dividend**) if the Proposed Transaction proceeds in accordance with the terms approved by PDL and shareholder approval is obtained.

The Board is seeking a Binding Ruling to provide certainty to the GSH shareholders and the Board as to GSH's tax position at the time the Proposed Dividend is paid. The Binding Ruling provides assurances to the shareholders and the Board that Inland Revenue will not attempt to unwind payment of the Proposed Dividend after it has been paid.

The final quantum of the Proposed Dividend to be paid to the GSH shareholders (subject to the conditions below being satisfied) will be a function of the actual costs incurred by GSH to obtain a Binding Ruling and any applicable tax deductions. As summarised in Section 2.7, the estimated gross amount available for distribution to the GSH shareholders after costs but before tax deductions is $569,678, or 0.99 cents per Share.

As discussed further in Section 2.7, payment of the Proposed Dividend is conditional on:

- GSH obtaining a Binding Ruling that the GSH Board is satisfied with and GSH satisfying the solvency test in the Companies Act immediately after the payment of the Proposed Dividend.
- The completion of the Proposed Transaction and the applicable shareholder resolutions being approved, as set out in Section 1.5.

As set out above, following the completion of the Proposed Transaction, GSH will not own any cash generating business assets. It is therefore intended that following the payment of the Proposed Dividend and the settlement of GSH's creditors / obligations, GSH will pursue a delisting from the NZX Main Board. Following the satisfaction of all post-completion matters associated with the Proposed Transaction, any residual proceeds from the Proposed Transaction will be applied by GSH No.1 to the remaining PDL debt position and the Company (and its subsidiaries) will be liquidated or deregistered. This is discussed further in Section 2.8 of this Report.

### 1.3 Brew on Quay

The BOQ Group currently owns and operates three well known hospitality venues in Auckland and Waiheke Island, being Brew On Quay, Charlie Farleys and Siso. BOQ is supported by a team of highly experienced individuals in the New Zealand hospitality sector, who have a successful history of growing and operating some of New Zealand's best performing hospitality establishments (including many of the venues currently owned and operated by GSH).

BOQ is or will be owned by interests associated with Richard Sigley, Geoff Tuttle (the current CEO of GSH), Jaime Dutton and Matt Adams (the current Chairman and Director of GSH). Richard Sigley and Geoff Tuttle have been Directors of BOQ since 2017, and on 17 August 2023, Matt Adams was appointed a Director of BOQ.

### 1.4 Fairness of the Proposed Transaction

Our full evaluation of the fairness of the Proposed Transaction, as required under the NZX Listing Rules (the **Listing Rules**), is set out in Section 2 of this Report.

In our opinion, after having considered all the relevant factors, the Proposed Transaction is fair to the GSH shareholders who are not associated with BOQ or the Proposed Transaction (the **Non-associated Shareholders**).

### 1.5 Combined Special and Annual Meeting of Shareholders

The Company is holding a combined special and annual meeting of shareholders on 26 October 2023 where GSH's shareholders will vote on a number of resolutions as contained in the notice of combined special and annual meeting (**Notice of Meeting**) and summarised below.

- **Resolution 1**: Sale of the business and assets of the GSH, GSH No.1 and GSH No.3 to BOQ and / or BOQ Nominees.
- **Resolution 2**: Payment of the Proposed Dividend to GSH shareholders.
- **Resolution 3**: Delisting of GSH from the NZX Main Board.
- **Resolution 4**: Appointment of an Auditor and setting the Auditor's Remuneration.
- **Resolution 5**: Amendments to GSH's Constitution (relating to delisting from the NZX Main Board and liquidation or deregistration of the Company).

All resolutions (other than Resolution 5) are ordinary resolutions, which can be passed by a simple majority of the votes entitled to vote and cast. Resolution 5 is a special resolution, which can be passed by a majority of 75% of the votes entitled to vote and cast.

If Resolution 1 is not approved, then GSH will not be able to proceed with the Proposed Transaction.

We note that only Resolution 1 relates directly to the Proposed Transaction, however, Resolution 2 will determine if the Proposed Dividend to the GSH shareholders proceeds following the completion of the Proposed Transaction. It is important to note that implementation of Resolution 2 and the payment of the Proposed Dividend is conditional on Resolutions 1, 3 and 5 being approved and the Proposed Transaction proceeding. Implementation of Resolution 3 is conditional upon Resolution 1 being passed and the proposed Transaction proceeding.

As set out in the Notice of Meeting, while Resolution 2 does not strictly require the approval of the GSH shareholders, as the payment of the Proposed Dividend is a decision for the Board, the Board believes that it would be best practice to obtain the consent of the GSH shareholders in relation to the payment of the Proposed Dividend.

The Board has already applied for a delisting subject to clause 22 of the Constitution being amended as described in the Notice of Meeting (Resolution 5) and NZ RegCo has approved GSH delisting, subject to GSH satisfying usual NZX conditions, including the passing of Resolution 3.
The proposed amendments to GSH's constitution, as contemplated by Resolution 5 and set out in the NOM, are required in order to permit GSH to apply for a delisting following the completion of the Proposed Transaction, and also allow the proposed liquidation or deregistration of GSH to be completed if the Proposed Transaction proceeds without holding a subsequent meeting of shareholders to seek shareholder approval.

### *Voting Restrictions*

Under the Listing Rules, Carl Sowter and Geoffrey Tuttle, being the trustees of the G.E.T. Investment Trust, or any Associated Person(s), are not permitted to vote on Resolution 1 (as discussed further in Section 1.6). The G.E.T Investment Trust holds 4.13% of the Shares in GSH. Matt Adams (chairman and director of GSH) or his Associated Person(s) are not permitted to vote on Resolution 1. Matt Adams does not hold any Shares in GSH.

Under the Listing Rules, GSH shareholders who together with their "Associated Persons" hold more than 10% of GSH's Shares are not permitted to vote on Resolution 3. These are:

- PDL (holding, through its nominee shareholder, New Zealand Central Securities Depository Limited, 24.99% of the GSH Shares).
- Christie Whiting Vermunt Limited (holding 13.98% of the GSH Shares);
- Collins Asset Management (holding 10.68% of the GSH Shares); and
- Robert Christie and Rosemary Christie (collectively holding 10.25% of the GSH Shares).

## 1.6 Regulatory Requirements

In relation to the Proposed Transaction, GSH is required to comply with the provisions of Section 129 of the Companies Act 1993 (relating to major transactions), Listing Rule 5.1.1 (also relating to major transactions) and Listing Rule 5.2.1 (relating to material transactions with related parties). These requirements are described below.

### *Section 129 of the Companies Act 1993*

Section 129 of the Companies Act 1993 provides that a company must not enter into a Major Transaction unless the transaction is approved by, or is contingent on approval by, a special resolution of shareholders. A Major Transaction includes the disposition of, or an agreement to dispose of, whether contingent or not, assets of the company where the value of which is more than half the value of the company's assets before the disposition.

The Proposed Transaction contemplated by Resolution 1 is not a major transaction of GSH for the purposes section 129 of the Companies Act. However, the Proposed Transaction is a major transaction of GSH No.1 and GSH No.3. The Board of GSH has approved the Proposed Transaction by GSH No.1 and GSH No.3 (as GSH is the sole shareholder of those companies).

As such, the Proposed Transaction does not require the approval of the GSH shareholders under section 129 of the Companies Act 1993.

### *NZX Listing Rules*

*Listing Rule 5.1.1*

Listing Rule 5.1.1 states that an Issuer must not enter into any transaction, or a related series of transactions to acquire, sell, lease, exchange or otherwise dispose of assets where the transaction, or related series of transactions, would significantly change, either directly or indirectly, the nature of the company's business, or has a gross value in excess of 50% of the company's average market capitalisation, unless the transaction is approved by way of an ordinary resolution (or by way of a special resolution if approval is required under section 129 of the Companies Act).

On the basis that the Proposed Transaction contemplates the sale of all of GSH's operating assets for a purchase price which is in excess of the 50% of GSH's average market capitalisation, Listing Rule 5.1.1 (a) and Listing Rule 5.1.1 (b) requires that the Proposed Transaction must be approved by way of an ordinary resolution of the GSH shareholders.

*Listing Rule 5.2.1*

Listing Rule 5.2.1 stipulates that an Issuer must not enter into a Material Transaction if a Related Party is, or is likely to become a direct party to the Material Transaction unless the Material Transaction is approved by way of an ordinary resolution (or conditional on such approval) from shareholders (where the Related Party or any Associated Person of the Related party will not be permitted to vote on such a resolution).

The Proposed Transaction is a Material Transaction on the basis that it has an aggregate value in excess of 10% of the average market capitalisation of GSH.

Geoff Tuttle (CEO of GSH) and Matt Adams (Chairman and Director of GSH) are, or will become, shareholders in BOQ as part of the Proposed Transaction. Both Geoff and Matt are also Directors of BOQ. BOQ is therefore a Related Party for the purposes of Listing Rule 5.2.1 due to the involvement of Geoff Tuttle and Matt Adams with both GSH and BOQ.

Geoff Tuttle and Carl Sowter as trustees of the G.E.T Investment Trust, hold 4.13% of the Shares in GSH. The G.E.T Investment Trust is also a Related Party (being an Associated Person of a Senior Manager of GSH).

The Proposed Transaction represents a Material Transaction with a Related Party under Listing Rule 5.2.1.

### *Requirement for an Appraisal Report*

Listing Rule 7.8.8 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 5.2.1.

Listing Rule 7.10.2 requires an Appraisal Report to state the appraiser's opinion (with supporting reasons) on whether or not the terms and conditions of the Proposed Transaction are fair to the Non-associated Shareholders.

## 1.7 Issue of the Report

The Non-associated Directors have engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare this Appraisal Report (**Report**) on the fairness of the Proposed Transaction.

Campbell MacPherson was approved by NZ RegCo on 17 August 2023 to prepare this Report.

Campbell MacPherson issues this Report to the Non-associated Directors to assist the Non-associated Shareholders in forming their own opinion on whether to vote for or against Resolution 1.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of voting for or against Resolution 1 in relation to each individual shareholder. This Report is therefore necessarily general in nature.

This Report is not to be used for any other purpose without our prior written consent.

# 2 FAIRNESS OF THE PROPOSED TRANSACTION

## 2.1 Basis of Evaluation

Listing Rule 7.10.2 requires an Appraisal Report to state the appraiser's opinion (with supporting reasons) on whether or not the terms and conditions of the Proposed Transaction are fair to the Non-associated Shareholders.

There is no legal definition of the term fair in New Zealand in either the Listing Rules or in any statute dealing with securities or commercial law. We have evaluated the fairness of the Proposed Transaction with reference to:

- The Rationale for the Proposed Transaction, including any potential alternatives considered by GSH.
- The terms of the Proposed Transaction.
- Our assessed value of the assets being sold by the Vendors, and the value of the consideration received by the Vendors as part of the Proposed Transaction.
- The intentions for GSH following the completion of the Proposed Transaction, including the allocation of the proceeds from the Proposed Transaction.
- Any impact on the ownership and control of GSH.
- The main benefits and disadvantages of the Proposed Transaction for GSH and the Non-associated Shareholders;
- Implications of the Proposed Transaction not being approved by the GSH shareholders.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the process underlying our opinion.

## 2.2 Summary of our Evaluation of Fairness

**In our opinion, the Proposed Transaction is fair to the Non-associated Shareholders of the Company.**

The basis for our opinion is set out in detail in Sections 2.3 to 2.12.

A summary of the key factors influencing our opinion is as follows:

- The purchase price for the Vendors' business and assets which form part of the Proposed Transaction is within our assessed valuation range, albeit at the lower end of our assessed range.
  - Assessed valuation range: $20.19 million to $25.73 million (with a midpoint of $22.96 million).
  - Base purchase price: $20.70 million.
- The rationale for the Proposed Transaction is sound, driven by:
  - The Company's need to address its unsustainable debt position.
  - The Board of GSH determined that an outright sale of the GSH business assets was the preferred option to meet PDL's requirements, and most likely to result in the best outcome for the GSH shareholders.

- Alternative options considered by the GSH Board carried an increased level of risk and complexity relative to an arms-length sale process and the resulting Proposed Transaction. The alternatives considered were less likely to result in a successful outcome which preserved some of the value of the GSH shareholders' investment in the Company while also meeting the requirements of PDL as secured lender.
- The Proposed Transaction (and associated purchase price) is a result of a competitive professional sale process facilitated and managed by external advisers Tonnant Partners.
- The terms and conditions of the Proposed Transaction are fair to the Non-associated Shareholders.
- On face value, the implied equity value of GSH resulting from the Proposed Transaction is negative, with the proceeds from the Proposed Transaction being insufficient to fully repay the GSH Group's liabilities, including the PDL loan of $33.09 million as at 30 June 2023. However, subject to the applicable conditions being satisfied, the Proposed Dividend, as agreed with PDL, will result in a distribution being made to all of the GSH shareholders. As summarised in Section 2.7, the estimated gross amount available for distribution to the GSH shareholders after costs but before tax deductions is circa $570K, or 0.99 cents per Share. It is intended that the Proposed Dividend will provide the GSH shareholders with a small cash return on their investment, which they may otherwise have been unlikely to receive. The Proposed Dividend will reduce the proceeds available to be applied to the partial repayment of the PDL loan. The Proposed Dividend is conditional on not only the approval of Resolution 1 and the Proposed Transaction proceeding, but also:
  - The approval of Resolution 2 (pertaining to the Proposed Dividend), Resolution 3 (pertaining to the proposed delisting from the NZX Main Board) and Resolution 5 (pertaining to certain amendments to the GSH Constitution).
  - GSH obtaining a Binding Ruling that the GSH Board is satisfied with and GSH satisfying the solvency test in the Companies Act immediately after the payment of the Proposed Dividend. While there is no guarantee that these conditions will be met, in the absence of any unforeseen circumstances, the Non-associated Directors expect these two conditions to be met and the Proposed Dividend to be paid.
- There is no guarantee that the Proposed Dividend will be paid, given the conditions summarised above. However, voting for the Proposed Transaction and the associated Proposed Dividend will allow the strong possibility that the Non-associated Shareholders will receive the Proposed Dividend, a payment which they will otherwise be unlikely to receive. We reiterate that the GSH Board and PDL are supportive of the payment of the Proposed Dividend, and if the applicable resolutions are passed and the Proposed Transaction proceeds, the Non-associated Directors expect that the required conditions will be satisfied and the Proposed Dividend will be paid.
- If the conditions associated with the Proposed Dividend are not met (including the passing of the appliable resolutions), the Proposed Dividend will not be paid.
- Given the loss PDL will incur if the Proposed Transaction proceeds, the Non-associated Directors believe it is unlikely that PDL would support any increase in the Proposed Dividend amount if Resolution 1 is not approved by the Non-associated Shareholders in the first instance (i.e. it is unlikely the Proposed Dividend amount will be increased in order to gain the support of the Non-associated Shareholders for the Proposed Transaction).
- While consideration of the assessed value of the underlying GSH business assets relative to the agreed purchase price under the Proposed Transaction is an important factor, the Company's financial position is such that even a significant increase in the business purchase price (e.g. the upper end of our assessed valuation range) would still result in insufficient net proceeds to repay the PDL debt in full, and the effective equity value of GSH being negative. It is unlikely that any increase in the purchase price would have impacted the value to be attributed to the GSH shareholders, by way of the Proposed Divided, as a result of the Proposed Transaction. Any

incremental value received would have likely been applied to the PDL debt position, not distributed to the GSH shareholders.

- Any value attributed to the Non-associated Shareholder's investment in GSH under the alternative options considered by the GSH Board was highly uncertain. Furthermore, any such value was highly unlikely to be in the form of a cash distribution (e.g. was likely to be in the form of a significantly diluted equity position).
- If Resolution 1 is not approved, and the Proposed Transaction does not proceed due to shareholder approval not being obtained, PDL may take legal action to recover its debt. This could include the appointment of a receiver, and PDL / the receiver seeking to proceed with a sale of the GSH Group's business and assets to BOQ or another party (but under a receivership scenario). Under a receivership scenario, GSH shareholder support would not be required to complete a sale of the GSH assets. Furthermore, it is highly unlikely that the GSH shareholders would receive any value for their investment under this scenario (noting PDL / the receivers would not be under any obligation to provide a payment to the GSH shareholders if the PDL debt and other GSH Group liabilities were unable to be fully repaid). However, the outcome of any transaction under a receivership scenario carries additional risk for PDL, as well as cost.
- The GSH Directors have advised that in the event that the Proposed Transaction does not proceed, and PDL does not take any enforcement action, the debt to PDL is repayable in full on 31 December 2023. Given the Board currently considers that there is no likely prospect of the repayment date being extended or the PDL debt being refinanced with another lender, it is likely that GSH would have to immediately cease trading (i.e. GSH cannot trade if insolvent).
- The Non-associated Shareholders may not receive any value for their equity investment in GSH in the event that the Proposed Transaction is not approved and does not proceed.
- Notwithstanding that it is the intention of the Board to pursue a delisting from the NZX Main Board and subsequently liquidate or deregister the Company in the event the Proposed Transaction proceeds, we highlight that the Proposed Transaction will not have any impact on the ownership or control of GSH.
- GSH will not have any operating or cash generating business assets following the completion of the Proposed Transaction, and the Board has no plans to commence any other cash generating operations. As such, it is unlikely that there will be any opportunity for the Non-associated Shareholders to recover any additional value from their GSH investment if the Proposed Transaction proceeds.

### 2.3 Assessed Value of Good Spirits Hospitality

In determining whether the Proposed Transaction is fair to the Non-associated Shareholders, Campbell MacPherson has considered the purchase price payable to the GSH Group compared to our assessed value of the GSH business and assets which form part of the Proposed Transaction.

The final cash consideration payable to the GSH Group has not yet been finalised (on the basis that the purchase price will be subject to completion and post completion adjustments as set out below in Section 2.6). For the purpose of our valuation analysis we have compared the headline purchase price of $20.70 million to our assessed value of the GSH business assets which form part of the Proposed Transaction (which represents a valuation reference point prior to any completion adjustments).

| GSH - Valuation Results | | |
|---|---|---|
| | Value Range | |
| $000's | Low | High |
| Assessed value of the GSH business assets | 20,188 | 25,725 |
| Mid-point | 22,956 | |
| Purchase Price | 20,701 | |

As set out in more detail in Section 5, Campbell MacPherson has assessed the value of the GSH business and assets which form part of the Proposed Transaction to range from $20.19 to $25.73 million, with a mid-point of $22.96 million.

**The agreed purchase price for the GSH business and assets, as per the terms of the Proposed Transaction, falls within our assessed valuation range, albeit at the lower end of our assessed range.**

## 2.4 Rationale for the Proposed Transaction

The GSH Group now has an excessive amount of debt relative to its current business operations, with secured borrowings of $33.18[3] million as at 30 June 2023, including PDL debt of $33.09 million and sundry secured borrowings of $88k. This compares to the underlying value of the GSH business assets of $20.70 million (as implied by the purchase price / terms of the Proposed Transaction). While the underlying GSH business is now reporting strong trading results, servicing the current level of debt is putting a significant strain on GSH's cash flow, and the current position is not sustainable. GSH's financial information is discussed further in Section 4.5.

The proposed acquisition of Nourish Group by GSH in 2022, which would have resulted in the GSH business gaining significant scale, as well as a restructuring of the GSH balance sheet with additional equity, was supported by PDL as it provided a resolution to GSH's unsustainable financial position. However, following the inability of GSH to complete this acquisition, PDL required that a revised plan was implemented by GSH to resolve the precarious financial position of the Company. The PDL banking facilities were due to expire on 31 December 2022, and securing an extension of these facilities was essential for GSH to be able to continue trading and implement any debt reduction plan or sale process. In an announcement dated 30 September 2022, GSH confirmed that it had renegotiated and extended the terms of its banking facilities with PDL, this included extending the loan expiry date until 31 December 2023.

One of the conditions of the renegotiated banking terms with PDL was that GSH must pursue a transaction (or a range of transactions) which would ultimately see the PDL debt facilities significantly reduced or repaid in the short-term. Possible transactions included raising equity capital, a merger between GSH and another operator or a sale of the GSH assets. PDL initially set a date of 30 April 2023 for GSH to select a preferred equity investor, partner or purchaser (this date was subsequently extended to 8 August 2023).

**The above condition was required by PDL as part of its agreement to extend the expiry date of its loan facilities from 31 December 2022 to 31 December 2023.**

If the PDL loan had not been extended beyond 31 December 2022, the loan would have been due and payable. The financial position of GSH was such that:

[3] Only includes borrowings which are repayable in cash, as set out in Section 4.5.

- GSH did not have the funding available to repay the PDL loan.
- GSH was not in a position to secure additional capital to either repay or refinance the PDL loan (noting that the value of the GSH business was significantly less than the PDL debt).

As such, if the PDL facilities had not been extended by mutual agreement, this would have led to an event of default under the PDL loan agreement, which may have resulted PDL taking action to recover its loan. This could have included GSH being placed into receivership by PDL. Furthermore, if there was no likely prospect of the repayment date being extended or the debt being refinanced with another lender, it is likely that GSH would have had to immediately cease trading.

Following the extension of the PDL loan facilities and the completion of a strategic review of GSH conducted by Tonnant Partners, the Board of GSH decided to pursue a sale of the assets of GSH and its subsidiaries in order to meet its obligations under the terms of its agreement with PDL. The Board of GSH determined that a sale of the GSH business assets was the preferred option and most likely to result in the best outcome for the GSH shareholders. Key factors considered by the GSH Board included:

- GSH and its advisers were aware of a number of market participants actively seeking acquisition / market consolidation opportunities. Given GSH owns a portfolio of profitable and well-known operating venues, GSH's assets were believed to represent an attractive acquisition opportunity to potential acquirers.
- A competitive sale process would crystalise the market value of the GSH business for key stakeholders (e.g. the GSH shareholders and PDL) and present an opportunity to provide a liquidity event for the GSH shareholders (e.g. by way of a payment to the GSH shareholders to approve any such transaction if supported by PDL).
- Notwithstanding the evident shortfall / gap between the value of the GSH business assets and the PDL debt position, a sale process was considered most likely to result in an outcome that met the requirements of PDL as secured lender and enable the GSH Board to safeguard the interests of the GSH shareholders.

Tonnant Partners subsequently facilitated and managed a competitive sale process for the GSH business assets, which resulted in multiple non-binding indicative bids being received, and four parties being offered the opportunity to undertake due diligence before submitting a final binding offer. Two binding offers were received, including the offer from BOQ, which was selected as the preferred offer. We highlight that, one of GSH's key beverage suppliers had indicated that it was not prepared to transfer the GSH pourage agreement for one of GSH's primary venues to the other bidder – meaning a transaction involving all 9 operating venues could not proceed with the other bidder.

**Ultimately, the decision to sell the underlying GSH business assets, and hence the rationale for Proposed Transaction, was driven by the requirement agreed between PDL and the Company that the Company pursue a transaction which would result in the PDL debt position being repaid or significantly reduced.**

Alternatives to the Proposed Transaction which were considered by the GSH Board are discussed below in Section 2.5, but we highlight that the value differential between the underlying value of the GSH business assets (i.e. $20.70 million - as implied by the purchase price / terms of the Proposed Transaction), and the PDL debt of circa $33 million highlights the extent to which the current position of GSH was unsustainable and provides some context around PDL's requirement that a short-term plan was adopted to facilitate a transaction. It is important to highlight that PDL will incur a loss on its GSH secured debt position if the Proposed Transaction proceeds (which is a result of a professional and competitive sale process for the business assets of GSH).

**Despite the loss it will incur, PDL is supportive of the Proposed Transaction.**

In addition to addressing the debt owed to PDL, the Proposed Transaction will also stabilise the future of the GSH Group's venues and ongoing employment of most GSH staff, which will continue to operate under new ownership.

## 2.5 Alternatives to the Proposed Transaction

As set out in Section 2.4 above, PDL required the Company to pursue a transaction (or a range of transactions) in order to address the GSH Group's unsustainable financial position and reduce or repay its significant debt position. As part of this process, GSH engaged Tonnant Partners to conduct a strategic review which considered a range of options available to GSH to address its current financial position, including:

- A sale of the Company or its business assets (the preferred and adopted option).
- An equity capital raising.
- A merger with an existing operator.
- A debt refinance.

We have set out below some of the key factors considered by GSH.

### *Equity Capital Raising*

- Given the extent of GSH's debt position relative to the value of the underlying GSH assets, any equity capital raising which met the requirements of PDL would have been:
  - Extremely challenging, and unlikely to be successful under a business as usual scenario.
  - Highly dilutive to the Non-associated Shareholders, who would have been left with a minority collective shareholding, with no real ability to influence or control the future direction of the GSH business.
  - Contingent on a negotiated reduction in the PDL debt position. We also highlight that any residual value / shareholding position held by the existing GSH shareholders would have required joint negotiations with the prospective investor as well as PDL (adding additional complexities to such negotiations).
  - Difficult to implement given the timeline for the milestones as agreed between PDL and GSH (if able to be completed at all).
- An equity capital raising as a standalone initiative (e.g. on a business as usual basis) was unlikely to result in PDL's debt position being sufficiently repaid such that it was prepared to remain a key stakeholder in the GSH business over the medium / long-term.
- An equity capital raising which met the requirements of PDL was more likely to be successful if undertaken alongside a significant merger / acquisition initiative (e.g. the recent attempt by GSH to acquire the Nourish Group). This would have added further complexities / risk, as discussed below.
- GSH believed it was more likely to be able to secure an outright buyer for the GSH business than find an equity investor.
- An equity capital raising process would not have provided a liquidity event for the existing GSH shareholders.

### *Merger with an Existing Operator*

A significant merger or acquisition which gave GSH increased scale, and an improved equity position was viewed as one of the key requirements in order to secure the long-term funding support of PDL. Key comments pertaining to a potential merger / acquisition strategy include:

- A robust strategy would have taken time to develop and implement, with significant risk that prospective targets would not be willing to merge / sell.
- In order to give GSH the necessary scale to obtain the support of PDL, GSH would have needed to either:
  - Consolidate a number of smaller targets. This would have taken a significant amount of time to successfully execute.
  - Pursue a larger target, where identifying a suitable target is more complex.
- As evident by the failed Nourish Group acquisition, a merger strategy would have resulted in GSH incurring significant costs (both in terms of cash costs and management / Director resource), with a risk that the strategy may have been unsuccessful (noting the risk of a failed merger strategy was viewed as being higher than the risk of a failed business sale process). The GSH Directors also believed there was a high degree of uncertainty around whether the GSH shareholders were supportive of another merger process.
- Consistent with the above strategies, this process would have required a negotiated reduction in the PDL debt position, with the complexity of introducing additional investor parties with their own expectations and requirements.

***Debt Refinance***

GSH's weak financial position was such that any refinance of the PDL facilities was considered by the Board of GSH to be unrealistic.

Any such refinance would have needed to be based on a sustainable level of debt gearing relative to GSH's earnings. In our opinion, this would have likely required PDL to convert a significant component of its debt investment in GSH into equity (requiring shareholder approval under the Takeovers Code), alongside a negotiated reduction in the PDL debt position, such that any residual debt position to be refinanced was sustainable. This would have been highly dilutive to the Non-associated Shareholders and resulted in PDL holding most of the resulting equity in GSH. Under this scenario, PDL would have only realised a portion of its loan to GSH via a cash repayment (i.e. the refinanced component), with the balance remaining tied up in the restructured equity of GSH. The cash repayment to PDL under this scenario would have likely been much less than any cash repayment resulting from the Proposed Transaction.

## 2.6 Terms of the Proposed Transaction

We have set out below the key terms and conditions of the Proposed Transaction.

Key terms of the Proposed Transaction include:

- **Consideration**: The purchase price is payable in cash.
- **Base Purchase Price**: $20,701,400 (plus GST if any), subject to completion and post completion adjustments, including (but not limited to) the following additions / deductions:
  - <u>Additions:</u> Inventory, prepayment assets, cash / gaming floats and accrued revenue.
  - <u>Deductions:</u> Employee entitlements transferred, prepayment liabilities, vouchers, revenue in advance, accrued expenses and the cost of agreed capital expenditure not completed on settlement.

  Ultimately the final purchase price received will differ to the reported base purchase price of $20.70 million (which assumes a nil net working capital position on settlement). We have summarised below an estimate of the completion adjustments as prepared by GSH. While the final position will not be known until the final settlement accounts are prepared, GSH does not expect any final adjustment to be material.

| GSH - Estimated Completion Adjustments / Adjusted Purchase Price | |
|---|---|
| **$000's** | |
| Base Purchase Price | 20,701 |
| Estimated Completion Adjustments | |
| Additions | 722 |
| Deductions | (753) |
| Net Adjustment | (31) |
| **Estimated Adjusted Purchase Price** | **20,670** |

- **Settlement Date**: GSH is targeting a 1 November 2023 settlement date.
- **Payment Terms**: On settlement, GSH will receive a cash payment reflecting the base purchase price plus / minus GSH's estimated completion adjustments, less the escrow amount set out below. Any final price adjustments will be made based on a set of completion statements which reflect the actual balance of the completion adjustments. The completion statements will be prepared within 25 working days of the completion date, and any payment adjustment will be made within 5 days of the parties agreeing the final payment adjustment. Any required payments from GSH to the Purchaser may be satisfied via the escrow account (as set out below).
- **Escrow**: $250,000 of the purchase price will be held in escrow, and released to the Vendors following the settlement of any post completion adjustments (net of any applicable price adjustments in favour of the Purchaser).
- **Asset, liabilities and agreements included in the Proposed Transaction**: Substantially all of the business and assets associated with GSH's nine operating venues. This includes:
    - Property plant and equipment.
    - All applicable contracts, agreements, leases and licences.
    - Intellectual property and goodwill.
    - Selected elements of net working capital (including inventory, prepayments, cash / gaming floats).
    - Employee entitlement liabilities for employees transferred.

  **Following the completion of the Proposed Transaction, the GSH Group will have no operating business assets.**
- **Asset, liabilities and agreements excluded from the Proposed Transaction**: The GSH Group will retain a number of assets, liabilities and obligations as part of the Proposed Transaction, including:
    - Cash and equivalents (excluding venue / gaming floats).
    - Trade and other receivables / trade and other payables.
    - Bonds.
    - Any tax assets or liabilities.
    - Employee entitlements for employees not transferred as part of the Proposed Transaction.
    - All loan obligations (e g. PDL).
    - Property lease obligations associated with the closed Doolan Brothers Newmarket venue (which does not form part of the Proposed Transaction). However, we highlight that GSH is currently seeking to negotiate the assignment of this lease and any associated obligations to a third party (the outcome of which is not yet known).

  - Any residual business contract obligations (e.g. business management software).

  If the Proposed Transaction proceeds, it is GSH's expectation that residual GSH Group creditors (except for PDL) and costs are satisfied following the completion of the Proposed Transaction.

- The Proposed Transaction is conditional upon:
  - GSH shareholder approval (by way of an ordinary resolution).
  - Obtaining approval from GSH's current landlords in relation to the assignment / novation of the premises leases .
  - Obtaining the approval of Lion NZ Limited and DB Breweries Limited in relation to the assignment of their pourage agreements from GSH to the Purchaser (satisfied).
  - The Purchaser entering into satisfactory agreements with selected GSH employees (satisfied).
  - The Purchaser obtaining a temporary liquor licence to sell alcohol onsite at each of the operating venues (satisfied).
  - PDL consenting to the terms of the Proposed Transaction.
- GSH and its subsidiaries have not provided any warranties in relation to the Proposed Transaction.
- GSH's subsidiaries must continue to hold any active liquor licences pertaining to the GSH business which are not transferred as part of the Proposed Transaction until such time as the Purchaser is able to obtain the relevant licenses in its own name. If this takes more than 6 months, the Purchaser must contribute to the cost of maintaining the GSH shell business.

The terms of the Proposed Transaction were negotiated on an arms-length and commercial basis, and are a result of a professional and competitive sale process managed by Tonnant Partners. As set out above, Matt Adams (a Related Party for the purposes of the Proposed Transaction) did not participate in any decision by the GSH Board to enter into the Proposed Transaction.

We highlight the following factors which provide further context in relation to the sale process managed by Tonnant Partners, and the resulting terms and conditions pertaining to the Proposed Transaction (including the purchase price):

- GSH's financial position and the requirements of PDL are public knowledge (e.g. GSH's stressed balance sheet, PDL's requirement that GSH pursue a transaction to repay its loan and meet the milestone deadlines agreed between GSH and PDL).
- Only limited Vendor warranties were being offered to prospective purchasers (and ultimately no warranties were provided in the final sale and purchase agreement).
- The rights of GSH's beverage suppliers (including the right not to approve certain buyers).

As set out above, as part of the Proposed Transaction, GSH (and its subsidiaries) will retain a number of assets and liabilities post transaction (which must be settled). Furthermore, GSH will continue to incur costs as it seeks to delist from the NZX and subsequently liquidate or deregister the Company. We have summarised below in Section 2.8 how the proceeds from the Proposed Transaction will be allocated / distributed post transaction.

## 2.7 GSH Shareholder Value Resulting from the Proposed Transaction

The net proceeds from the Proposed Transaction will be significantly less than the GSH Group's liabilities. As such, on face value the effective equity value of GSH under the Proposed Transaction is negative (i.e. there would not have been any surplus proceeds available for distribution to the GSH shareholders following the partial repayment of the PDL debt).

As a secured lender to the GSH Group, PDL is entitled to retain all of the net proceeds from the Proposed Transaction (following the repayment of any preferential or secured creditors). However, GSH, GSH No.1 and PDL have entered into an agreement whereby PDL will release the guarantee and security granted by GSH upon completion of the Proposed Transaction in accordance with the terms approved by PDL, including PDL being satisfied with the proposed flow of funds upon completion[4]. As part of this agreement PDL has agreed to permit a total distribution to all GSH shareholders (inclusive of PDL) of no more than $600k or 1.04 cents per Share (less the deduction of any costs associated with obtaining a Binding Ruling and any applicable taxes) by way of an unimputed dividend payment. The payment of the Proposed Dividend is subject to the conditions set out in Sections 1.2 and 1.5, including the completion of the Proposed Transaction.

The agreed $600k distribution is before the deduction of any costs associated with obtaining a Binding Ruling (the amount of these costs will reduce the net amount payable to the GSH shareholders). The $600k distribution is also before the deduction of any applicable taxes, including withholding tax. GSH is awaiting final tax advice on any tax to be deducted from the gross dividend amount (if tax is to be deducted, this would further reduce the net amount payable to the GSH shareholders).

This agreement comes at the expense of PDL, who will not fully recover its debt position. However, we note that as a 24.99% shareholder in GSH, PDL will receive 24.99% of the Proposed Dividend to the GSH shareholders.

The final quantum of the Proposed Dividend to be paid to the GSH shareholders (subject to the conditions below being satisfied) will be a function of the actual costs incurred by GSH to obtain a Binding Ruling and any applicable tax deductions. As summarised below, the estimated gross amount available for distribution to the GSH shareholders after costs but before tax deductions is circa $570k, or 0.99 cents per Share.

| GSH - Proposed Dividend Estimate | |
|---|---|
| **$** | |
| Total amount agreed with PDL | 600,000 |
| Total amount agreed with PDL per Share | 0.0104 |
| Less estimated costs associated with obtaining a Binding Ruling | (30,322) |
| Gross amount available for distribution | 569,678 |
| Gross amount available for distribution per Share | 0.0099 |

The Proposed Dividend is conditional on:

- The approval of Resolution 1 and the Proposed Transaction proceeding.
- The approval of Resolution 2 (pertaining to the Proposed Dividend), Resolution 3 (pertaining to the proposed delisting from the NZX Main Board) and Resolution 5 (pertaining to certain amendments to the GSH Constitution). The Proposed Dividend is conditional on Resolution 3 and 5 being approved on the basis that if a delisting cannot be pursued, then the Company would be required to retain additional funds to meet the ongoing costs of being NZX listed.
- GSH receiving a Binding Ruling from Inland Revenue that the GSH Board is satisfied with.
  - The Non-associated Directors expect that GSH will be successful in obtain a Binding Ruling which the GSH Board is satisfied with. The Binding Ruling is expected to be

[4] Noting that of the $20.70 million headline purchase price, $1.38 million is payable directly to GSH and GSH No.3, with the balance payable to GSH No.1.

obtained on or before 21 December 2023. However, there is no guarantee that this condition will be met.

- GSH satisfying the solvency test in the Companies Act immediately after payment of the Proposed Dividend.
  - In the absence of any unforeseen circumstances, the Non-associated Directors expect this condition to be met. However, there is no guarantee that this condition will be met.

If the conditions associated with the Proposed Dividend are not met (including the passing of the appliable resolutions), the Proposed Dividend will not be paid. However, the GSH Board and PDL are supportive of the payment of the Proposed Dividend, and if the applicable resolutions are passed and the Proposed Transaction proceeds, the Non-associated Directors expect that the required conditions will be satisfied and the Proposed Dividend will be paid.

Given the Company's debt position as at 30 June 2023, even a significant increase in the purchase price (e.g. the upper end of our assessed valuation range) would still result in PDL suffering a loss, and the effective equity value of GSH being negative. It is unlikely that any increase in the purchase price would have impacted the value to be attributed to the GSH shareholders as a result of the Proposed Transaction and associated Proposed Dividend (i.e. any incremental value received would have likely been applied to the PDL debt position, not distributed to the GSH shareholders).

In order to be eligible for the Proposed Dividend, shareholders must be shareholders of record as at 5pm Wednesday, 8 November 2023. It is intended that the Proposed Dividend will be paid on or before 21 December 2023.

Ultimately any dividend distribution to the GSH shareholders represents an incentive for the GSH shareholders to vote in favour of the Proposed Transaction. In our opinion, in the absence of any incentive / payment to the GSH shareholders, obtaining shareholder approval for the Proposed Transaction would be difficult.

Given the loss PDL will incur if the Proposed Transaction proceeds, the Non-Associated Directors believe it is unlikely that PDL would support an increase in the Proposed Dividend amount if Resolution 1 is not approved by the Non-associated Shareholders (i.e. it is unlikely the Proposed Dividend amount will be increased in order to try and gain the support of the Non-Associated Shareholders for the Proposed Transaction).

If the Proposed Transaction proceeds (and Resolutions 2, 3 and 5 are passed), it is highly likely that the Proposed Dividend is the maximum value the GSH shareholders will receive for their investment in GSH. In our opinion it is unlikely that there will be a liquid market for the GSH shares between now and the proposed delisting and liquidation or deregistration. Any Share transactions that do occur prior to the ex-dividend date are highly unlikely to exceed the value of the Proposed Dividend, and given the intentions for GSH if the Proposed Transaction proceeds, the value of the GSH Shares post the ex-dividend date will likely be nil.

The estimated gross value of Proposed Dividend payable to shareholders of 0.99 cents per Share (after costs but before tax deductions) compares to the current listed Share price of 2.2 cents per Share as at 14 September 2023 (implying a market capitalisation of $1.27 million). However, there has been very little trading of the GSH Shares since 2 August 2023 (the date on which the Proposed Transaction was announced via the NZX). In our opinion, the last traded Share price is not reflective of what the GSH Shares are worth or could currently be sold for (i.e. there is no liquid market).

We have summarised below in Section 2.8 how the proceeds from the Proposed Transaction are intended to be allocated / distributed.

## 2.8 Intentions for GSH if the Proposed Transaction Proceeds and the Allocation of the Proceeds from the Proposed Transaction

If Resolution 1 is approved, and the Proposed Transaction Proceeds, GSH will not hold any operating or cash generating business assets.

In the absence of any compelling alternative proposition (which is viewed as unlikely) and the approval of Resolution 3 and 5, the GSH Board intends to seek a delisting from the NZX Main Board.

If the Proposed Transaction proceeds, the GSH Board has no immediate plans to commence any other cash generating operations, and intends to liquidate or deregister GSH and its subsidiaries following the completion of the Proposed Transaction and subsequent delisting from the NZX Main Board.

If the Proposed Transaction proceeds and GSH becomes a shell company with no intentions to commence any other cash generating operations, there is very little merit in GSH remaining listed on the NZX Main Board, particularly given GSH would have no ability to generate any earnings to cover the costs of maintaining an NZX Main Board listing (e.g. NZX fees, Directors fees, accounting costs, insurance cost, etc). There are a number of historical examples where a listed "shell company" has been ascribed a value as part of a reverse listing process, which has provided value to the underlying shareholders of the listed shell. However, given GSH's significant debt position, and the loss which will be incurred by PDL as part of the Proposed Transaction, GSH has no ability to fund the costs of maintaining its NZX Main Board if it did decide to pursue a potential reverse listing transaction (which would also require the support of PDL). Furthermore, we highlight that any such transaction could take significant time to identify and execute (if at all).

GSH has provided the following indicative timeline assuming all of the Resolutions set out in Section 1.5 are approved and the Proposed Transaction Proceeds:

| GSH – Indicative Timeline | |
|---|---|
| Completion of the Proposed Transaction[1] | 1 November 2023 |
| GSH Delisting | 13 November 2023 |
| Payment of the Proposed Dividend[2] | On or before 21 December 2023 |
| Completion of liquidation / deregistration | During 2025 |

Notes

1. Excluding any post settlement adjustments.
2. In order to be eligible for the Proposed Dividend, shareholders must be shareholders of record as at 5pm on Wednesday, 8 November 2023

The following factors will ultimately determine GSH's timeline following the Completion of the Proposed Transaction:

- The time required to work through any post completion purchase price adjustments.
- The process of completing a delisting.
- The GSH Group's requirement to continue to hold the liquor licences associated with the GSH venues until such time as the Purchaser is issued its own new licences following the completion of the Proposed Transaction (the timing of this remains uncertain).
- The time to effect a liquidation or deregistration of GSH's subsidiaries and then GSH.

As part of the proposed delisting and liquidation or deregistration process, GSH will:

- Seek to fully realise the value of all residual assets retained by GSH as part of the Proposed Transaction.
- Satisfy outstanding creditors and settle any other GSH obligations (other than the PDL debt), including its lease obligations for the closed Doolan Brothers Newmarket premises (unless GSH is successful in assigning this lease to a third party). Apart from PDL, creditors of the business are trade and other payables as stated in GSH's latest financial statements for the year ended

30 June 2023. They represent liabilities for goods and services provided to GSH by suppliers in the ordinary course of business, for example beverages, food, cleaning services and door security etc. Other creditors include employee entitlements and GST payable. Apart from PDL, GSH No. 3 has borrowings from Lion NZ Limited, where the remaining balance at 30 June 2023 was approximately $88k. GSH also has a facility with BNZ for the provision of three credit cards with a maximum liability under the facility of up to $15k.

- Pay the Proposed Dividend to the GSH shareholders (subject to the applicable Resolutions being passed and all other conditions being satisfied).
- Cover any costs incurred following the completion of the Proposed Transaction but prior to the final liquidation / deregistration of GSH and its subsidiaries (including transaction costs, Directors costs, delisting costs, insurance costs, accounting and liquidation/deregistration costs).
- Apply any residual funds to the partial repayment of the PDL debt and finalise the treatment of any residual debt position with PDL.

A summary of the proposed allocation and distribution of the proceeds following the completion of the Proposed Transaction based on estimates prepared by GSH is set out below. For the purposes of this indicative analysis we have assumed a final adjusted purchase price of $20.67 million, as set out in Section 2.6. It is important to note that, other than the funds to be applied to the Proposed Dividend and associated costs, which is fixed (subject to all applicable conditions being satisfied), the actual allocation of the transaction proceeds will likely differ to the summary reported below, as actual costs incurred / creditors to repay may differ to GSH's estimates. We again reiterate that this will not impact the funds to be applied to the Proposed Dividend and associated costs, with any variance impacting the residual position available to partially repay the PDL debt.

| GSH – Allocation of Proceeds from the Proposed Transaction | | |
|---|---|---|
| **$000's** | | |
| Estimated Adjusted Purchase Price | | 20,670 |
| Cash Allocation / Distribution | | |
| Proposed Dividend and associated costs | | (600) |
| Net creditor payments and costs | | (3,227) |
| Cash and other assets realised | 629 | |
| Creditors / sundry liabilities and obligations[1] | (2,709) | |
| Transaction costs | (527) | |
| Future costs | (619) | |
| Total Net Payments (Before PDL Loan Repayment) | | (3,827) |
| **Surplus Available for PDL Loan Repayment** | | **16,843** |
| PDL Loan Balance as at 30 June 2023[2] | | 33,094 |

Notes

1. As set out above, GSH is pursuing an opportunity to assign the Doolan Brothers Newmarket lease to a third party. If successful, any settlement / lease related cost could be less than the amount assumed by GSH.
2. This does not allow for any change in the PDL loan balance between 30 June 2023 and the final payment to PDL (e.g. any additional accrued / capitalised interest).

The above indicative analysis highlights the extent to which PDL will incur a loss on its loan to the GSH Group. Despite this, PDL has agreed to a dividend distribution to the GSH shareholders.

## 2.9 Impact on Ownership & Control of Good Spirits Hospitality

The Proposed Transaction will not have any impact on the ownership or control of GSH. The Proposed Transaction (structured as a sale of the assets of GSH and its subsidiaries), does not involve the sale, disposal, issuance or transfer of any GSH Shares.

## *2.10* Implications if Resolution 1 is not Approved

In the event that Resolution 1 is not approved, then the Proposed Transaction will not proceed, nor would the Proposed Dividend be paid to the GSH shareholders.

**The Non-associated Shareholders may not receive any value for their equity investment in GSH in the event that the Proposed Transaction is not approved and does not proceed.**

- **The Share value of GSH under this scenario could be nil.**
- **It is unlikely that there will be a liquid market for the GSH Shares.**

### *PDL Loan Recovery*

If Resolution 1 is not approved, resulting in the Proposed Transaction not proceeding, then GSH No.1 would be in default under the terms of its loan agreement with PDL, entitling PDL to take enforcement action to recover its debt (which may occur). This could include PDL calling upon a loan guarantee given by GSH and the appointment of receivers.

Under a receivership scenario, PDL may seek to proceed with the proposed sale of the GSH business assets to BOQ or another party. PDL and the receiver would not require the support of the GSH shareholders to proceed with any such transaction once the Company has been placed into receivership. However, we also highlight that a receivership event may trigger a range of clauses under GSH's business agreements which could jeopardise the ability to execute any such transaction. The outcome of any business sale process under a receivership scenario is inherently riskier than a sale process on a going concern basis, and often results in a loss of value. Furthermore, any recovery action taken by PDL could be costly.

If any sale of the GSH business or assets was completed under a receivership scenario, it is highly unlikely that the GSH shareholders would receive any capital return on their investment (either through a distribution from the Company or from selling their GSH Shares). PDL would have no obligation to allow any dividend / distribution to the GSH shareholders if the Proposed Transaction does not proceed and any subsequent sale of the GSH business or assets is completed under a receivership scenario and the proceeds are insufficient to fully repay the PDL debt.

If a sale of the GSH business and assets was unable to be completed under a scenario where PDL took formal action to recover its debt (such as receivership), then PDL would need to consider alternative options available to it, including whether it is prepared to continue to support GSH.

### *Ability of GSH to Continue Trading*

GSH has noted that, in the absence of any enforcement action from PDL in the event the Proposed Transaction does not proceed, the debt to PDL is repayable on 31 December 2023 if the loan terms are not extended. Given the Board currently considers that there is no likely prospect of the repayment date being extended or the PDL debt being refinanced with another lender, it is likely that GSH would have to immediately cease trading to comply with the Companies Act 1993.

### *Share Liquidity / NZX Delisting*

There is a high degree of uncertainty around whether the GSH shareholders would be able to sell their GSH Shares, and at what value, in the event that the Proposed Transaction does not proceed given PDL may seek to realise the value of the GSH business and assets in order to partially recover its GSH debt (noting the value of such asset is less than the PDL debt) and risks around the Company's ability to continue trading if the Proposed Transaction does not proceed.

In the event that the Proposed Transaction does not proceed, GSH does not intend to proceed with a delisting from the NZX Main Board.

If the Proposed Transaction does not proceed, it is highly unlikely that there will be a liquid market for the GSH Shares.

***Sunk Costs***

If the Proposed Transaction does not proceed, GSH will have incurred significant sunk costs in relation to the Proposed Transaction, including transaction, legal and accounting advisers. The aggregate amount of the sunk costs incurred by GSH during FY23 is approximately $1.16 million.

### *2.11* Main Advantage and Disadvantage of the Proposed Transaction to the Non-Associated Shareholders

***Main Advantage***

As a result of negotiations between the Non-associated Directors and PDL, the GSH shareholders will receive a cash dividend if the Resolutions are approved, the Proposed Transaction proceeds, GSH receives a Binding Ruling that the GSH Board is satisfied with and GSH can satisfy the solvency test in the Companies Act immediately after payment of the Proposed Dividend. The estimated gross amount available for distribution to the GSH shareholders, after costs but before tax deductions is circa $570k, or 0.99 cents per Share. If Resolutions 1, 2, 3 and 5 are not approved, it is unlikely that the GSH shareholders will receive any value from their investment in GSH.

***Main Disadvantage***

The Proposed Transaction will crystallise the value of the GSH business and assets, as well as any value to be attributed to the GSH shareholders (by way of the Proposed Dividend), which will result in the Non-associated Shareholders suffering a loss on their GSH investment. GSH will not hold any cash generating business assets following the completion of the Proposed Transaction, and given GSH's intentions if the Proposed Transaction proceeds (i.e. GSH will be delisted and liquidated or deregistered), there will not be any opportunity for the GSH shareholders to recover any additional value from their GSH investment.

### *2.12* Other Relevant Issues to Consider

***Non-Associated Directors Recommend the Proposed Transaction***

We note that the Non-associated Directors of GSH are recommending that Non-associated Shareholders vote in favour of Resolutions 1 - 5. Further information in relation to the Non-associated Director's reasons for their recommendation is provided in the explanatory notes to the Notice of Meeting.

***Likelihood of the Resolutions Being Approved.***

The Resolutions (other than Resolution 5) are ordinary resolutions, which are passed by a simple majority of votes cast. Resolution 5 is a special resolution, which can be passed by a majority of 75% of the votes cast.

G.E.T Investment Trust holds 4.13% of the Shares in GSH and is a Related Party for the purposes of the Proposed Transaction and is not permitted to vote on Resolution 1. The Non-associated Shareholders, which collectively hold 95.87% of the GSH Shares will determine the outcome of Resolution 1 (assuming they all vote).

As set out in Section 1.5, the GSH shareholders who together with their "Associated Persons" hold more than 10% of GSH's Shares are not permitted to vote on Resolution 3. Collectively these shareholders hold 59.90% of the Shares in GSH. The GSH shareholders permitted to vote on Resolution 3, which collectively hold 40.10% of the GSH Shares, will determine the outcome of Resolution 3 (assuming they all vote).

PDL, which holds 24.99% of the GSH Shares, is supportive of the Proposed Transaction, and GSH understands that it intends to vote all of the Shares held by it in favour of the Resolutions it is entitled to vote on. GSH also understands that G.E.T Investment Trust intends to vote all of the Shares held by it in favour of Resolutions 2 to 5. No other GSH shareholders have disclosed their voting intentions to the Non-associated Directors in relation to the Resolutions.

In addition to PDL, the GSH shareholders who control more than 22.94% of the GSH Shares (and are able to vote) would need to vote in favour of Resolution 1 / the Proposed Transaction in order for the Proposed Transaction to proceed.

The GSH shareholders who control more than 20.05% of the GSH Shares (and are able to vote) would need to vote in favour of Resolution 3 in order for the resolution to be passed.

### *2.13* Voting For or Against the Resolutions

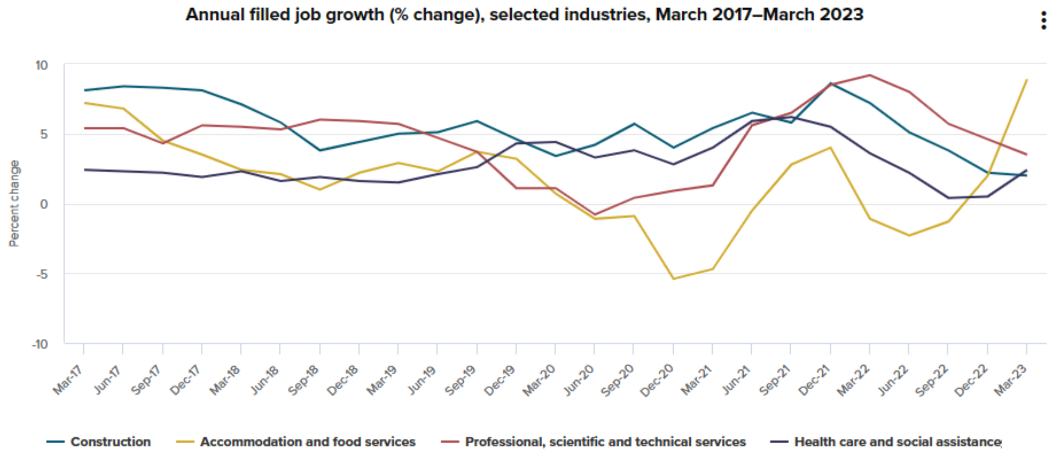
Voting for or against the Resolutions is a matter for individual shareholders to consider. Such a decision by each shareholder would be based on their own views as to current and future market conditions, value considerations, risk profile and other factors. The Non-associated Shareholders will need to consider these factors and their consequences and consult their own professional adviser as appropriate.

## 3 OVERVIEW OF THE NEW ZEALAND HOSPITALITY INDUSTRY

### 3.1 Overview of the New Zealand Hospitality Industry

The 2022 Hospitality Report confirmed that New Zealand wide annual sales for the year ended September 2022 reached a high of $13.38 billion and was a result of returning to pre Covid levels. In 2021, an MBIE report on the Auckland region stated that the sector consisted of over 31,000 businesses and employed over 64,000 people as well as contributing circa 1.7% of GDP. Due to its population base and international airline hub Auckland is the centre of the hospitality sector and accounts for just under 40% of total hospitality sales in New Zealand.

Statistics NZ claim that the re-opening of New Zealand's international border allowing overseas visitors and Kiwis to return has fuelled unprecedented employment growth in the accommodation and food services by circa 9% (12,196 jobs) for the year ended March 2023. The sector is critically dependent on the availability of migrant workers and international backpackers coming here. Some research claims that 30-40% of hospitality sector workforce comprises migrants.




*Source: Statistics New Zealand*

### 3.2 Current Challenges

We note below the current challenges faced by the hospitality sector**:**

- New Zealand achieving historically low unemployment rates so immigration will help plug skill gaps (e.g. chefs) and help solve part of the skills shortage.
- Government policy settings have seriously restricted the return of migrant workers to New Zealand and tightened qualification criteria for those trying to obtain work visas.
- Domestic labour force market-based pay rates have increased significantly above the legislated adult minimum wage of $22.70 per hour.
- The regulatory and economic environment has significantly increased cost pressures on hospitality businesses (i.e. property rates, insurance premiums, annual alcohol licensing fees etc).
- A so-called Cost of Living crisis is evident with annual inflation running at circa 6% per annum, fuel cost increases as a knock-on effect of the Ukraine-Russia war and first mortgage home loan interest rates almost doubling in the past 24 months to over 7% per annum.
- In mid-2023, the New Zealand Government increased excise duties on all forms of alcohol made, sold or imported 6.65% (after a record 6.92% increase in 2022 which was the single largest increase in 30 years).
- Calls for tighter controls on smoking and vaping as per the SmokeFree 2025 policy to reduce those regularly smoking to less than 5% of the total population.

### 3.3 Recent Sector Consolidation

Several major developments in relation to sector consolidation over the past eighteen months include:

- **Nourish Group Acquisition:** Foley Holdings New Zealand, previously a 24.9% shareholder of Nourish Group, purchased the balance to take full control in July 2022. At the time of the acquisition, Nourish Group employed over 400 people and operated an exclusive chain of circa 10 restaurants in Auckland, Taupo, Wellington and Queenstown. Foley Holdings New Zealand also owns the Wharekauhau Country Estate and holds a controlling stake in Foley Wines (the NZX listed entity) which is expanding their hospitality offering at Te Kairanga in the Wairarapa and Mt Difficulty Wines at Bannockburn in Central Otago.

  In April 2023, the Nourish Group was renamed as Foley Hospitality with the appointment of Gavin Doyle to head up kitchen culinary direction to replace Gareth Stewart.

- **Joylab and Kapura Merger:** In April 2023, DB Breweries announced the merger between Joylab (formerly known as Barworks) and Kapura to form Star Hospitality Group. DB holds an 80% stake with Jamie Williams and Andrew Williams holding the balance. Previously, Kapura operated more than 35 venues across the Wellington, Waikato and Bay of Plenty regions and Joylab operated 20 bars and restaurants in Auckland. Media reports state that the group employs over 1,600 people throughout its combined operations.

  DB Breweries is a wholly owned subsidiary of Heineken.

- **Craft Breweries:** A growing trend in the past decade has been the sharp rise in the number of craft breweries opening with a view to sell their beer direct to consumers but also provide a hospitality food offering alongside their range of craft beers. A recent 2022 New Zealand Institute of Economic Research (**NZIER**) report stated that there were circa 200 craft breweries operating in New Zealand with two thirds located in the North Island and largely concentrated in Auckland.

### 3.4 Summary

In summary, the 2020 to 2022 Covid restrictions, particularly in Auckland had a major and devastating impact on the revenues and viability of hospitality venues including restaurants, bar and cafes. Even when the venues were closed to customers other legal obligations had to be met to pay landlords, insurance companies, salary and wages, bank interest etc.

The immediate future of the industry, however, is looking far more promising with a lift in both domestic and international tourism, although a reduction in discretionary income (as a result of inflation and high interest rates) may mean revenues remain muted compared to historical pre-Covid levels.

We also note that food and alcohol cost increases are putting downwards pressure on gross margins earned by hospitality operators.

# 4 PROFILE OF GOOD SPIRITS HOSPITALITY

## 4.1 Background & History

GSH was initially established in 2004 as Salvus Strategic Investments Limited (**Salvus**), an investment company seeking to provide investors with exposure to a portfolio of listed and non-listed companies. In 2012, Salvus was renamed Veritas Investments Limited (**Veritas**). Over the 2013 – 2014 period, Veritas completed four acquisitions, including:

- In 2013 Veritas acquired a 50% stake in Kiwi Pacific Foods for $3.4 million - a meat patty manufacturer (a joint venture with Antares Restaurant Group).
- In 2013 Veritas acquired the Mad Butcher for $40 million – the franchisor of the national Mad Butcher business.
- In 2014 Veritas acquired the Better Bar Company – the owner and operator of a number of gastro bars in Auckland and Hamilton (11 venues in total).
  - The $29.3 million price was payable in cash ($22.6 million), which was debt funded, and via the issue of Veritas shares ($6.7 million).
  - Better Bar Company was owned by interests associated with Richard Sigley, Geoff Tuttle and Phil Clark (with Richard and Geoff being shareholders in the Purchaser under the Proposed Transaction).
  - Veritas subsequently sold a number of the venues which were considered non-core.
- In 2014 Veritas acquired Nosh for $1.3 million - a gourmet supermarket chain.

Over the 2016 – 2018 period the Kiwi Pacific Foods, Mad Butcher and Nosh businesses / assets were sold, leaving Veritas with its hospitality / Better Bar Company business.

In 2018 the GSH Group refinanced its ANZ debt facilities with PDL, who is also now the Company's largest shareholder (as discussed below in Section 4.3).

In 2019 Veritas was renamed Good Spirits Hospitality Limited, and adopted a strategy of growth via strategic acquisitions to develop a diversified portfolio of hospitality businesses that would provide the required scale to generate long-term sustainable earnings. While GSH has acquired a number of venues, ultimately this strategy has not been fully executed, with a number of failed acquisitions and the global Covid-19 pandemic significantly impacting the Company. Of particular note, GSH was unsuccessful in its recent acquisition attempt of Nourish Group (the owner of 10 hospitality venues throughout New Zealand). While the proposed acquisition of Nourish Group made strong commercial sense for GSH, the uncertainties associated with Covid-19 (including lockdown /travel restrictions) were such that GSH was unable to secure the required equity funding to complete this transaction.

GSH currently owns 9 operating hospitality venues / pubs (8 in Auckland and 1 in Hamilton), as summarised in Section 4.2 below.

The impact of Covid-19 on the New Zealand hospitality sector and GSH has been extensive and prolonged, and as a result of the Group's significant debt to PDL, and the inability of GSH to fully execute its growth strategy, the Company's current financial position is no longer sustainable, which has led to the Proposed Transaction, as discussed in Section 2.

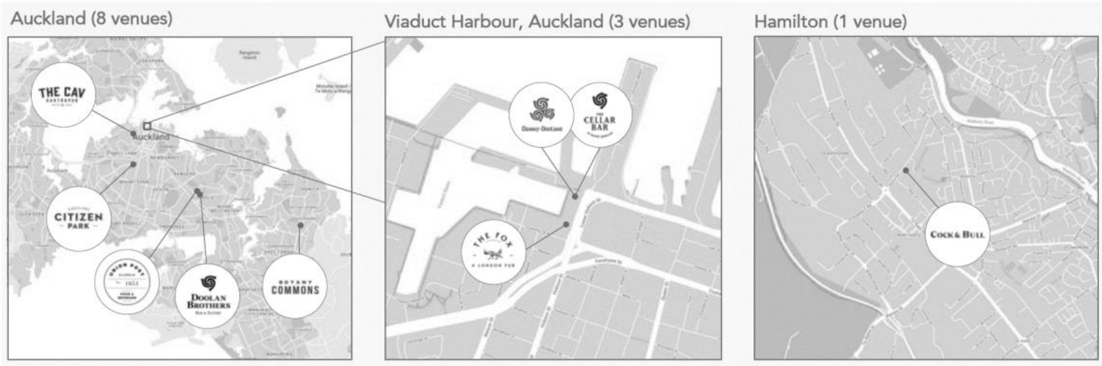
A timeline of the key events in GSH's history is summarised below.

| | | |
|---|---|---|
| **2004** | ➲ | Salvus Strategic Investments Limited was founded and listed on the NZX. |
| **2012** | ➲ | Salvus changed its name to Veritas. |
| **2013** | ➲ | Veritas acquired the Mad Butcher from Michael Morton for $40 million and a 50% stake in Kiwi Pacific Foods for $3.4 million (pre-earn-out). |
| **2014** | ➲ | Veritas acquired Nosh Food Market for $1.3 million and the Better Bar Company hospitality business for $29.3 million. |
| **2015** | ➲ | Hamilton bars, Danny Doolans Hamilton, The Good Home Tron and The Honky Tonk were sold for $1m to interests associated with the Lawrenson Group. |
| **2016** | ➲ | The JV with Antares Restaurant Group ended, with Kiwi Pacific Food's assets sold and the company wound down. |
| **2017** | ➲ | Veritas sold Nosh to Gosh Holding (renamed Nosh Group) for $4 million. |
| **2018** | ➲ | The Mad Butcher business was sold to Yogg Limited for $8m. |
| | ➲ | The GSH Group's debt facilities were refinanced by PDL (this included 10,759,072 unlisted GSH warrants being issued to PDL). |
| **2019** | ➲ | Veritas acquired Citizen Park in Kingsland for $2.7m plus stock and Union Post for $1.5m plus stock. Botany Commons was opened in September. |
| | ➲ | Veritas was renamed Good Spirits Hospitality Limited. |
| | ➲ | PDL became a 19.9% shareholder in GSH (via exercising its warrants). |
| **2020** | ➲ | The commencement of Covid-19 restrictions in New Zealand. |
| | ➲ | GSH and GSH No.1 secured the ongoing support of lender PDL, with its debt facilities being extended. PDL increased its GSH shareholding to 24.99%. |
| **2021** | ➲ | Covid-19 restrictions remained. |
| | ➲ | GSH pursued multiple acquisition opportunities which ultimately did not proceed (including Nourish Group for $21.3 million). |
| | ➲ | The Fox bar was opened following an extensive refurbishment. |
| **2022** | ➲ | GSH No. 3 completed the acquisition of The Velvet Bar and opened the Cellar Bar. The O'Hagans bar was closed following expiry of the premise lease. |
| | ➲ | PDL extended its banking facilities until 31 December 2023 on the condition that GSH pursue a transaction which would address the Company's unsustainable financial position. GSH appoints a transaction adviser and commences a sale process for the GSH business assets. |
| **2023** | ➲ | GSH announced that it had entered into conditional agreement to sell the business and assets of all nine operating venues to BOQ for $20.7 million. |

## 4.2 Business Operations

GSH is a leading New Zealand-based hospitality group which owns and operates a portfolio of nine high-quality and well-known gastro pubs and venues, largely based in Auckland. The GSH business is underpinned by a "drinks-led" model, with beverage sales accounting for nearly 70% of GSH's revenue.

### *Venue Locations*




### *Venue Summary*

- **Danny Doolans**: An iconic New Zealand bar based in Auckland's Viaduct Harbour which has been in situ for 20 years.
- **The Cellar Bar**: A premium function and late-night venue located below Danny Doolans in the Viaduct Harbour. The Cellar Bar was recently opened by GSH in 2022.
- **The Fox**: A premium English gastro pub and sports bar based in Auckland's Viaduct Harbour. The Fox re-opened in 2021 after a significant $2.0 million refurbishment. The venue includes 9 gaming machines.
- **The Cav**: A gastro pub located in Ponsonby, Auckland. The venue has 8 gaming machines.
- **Union Post Ellerslie**: A gastro pub located in Ellerslie, Auckland.
- **Citizens Park**: A gastro pub located in Kingsland, Auckland.
- **Doolan Brothers Ellerslie**: An Irish themed pub located in Ellerslie, Auckland. The venue has 18 gaming machines.
- **Botany Commons**: A gastro pub with a strong food focus located in the Botany Town Centre, Auckland. The venue includes 18 gaming machines. A significant $2.4 million refurbishment was completed in 2019.
- **Cock and Bull**: An English pub with a strong food focus located in Hamilton. The venue has 9 gaming machines.

O'Hagans Irish Bar was a longstanding and successful venue owned and operated by GSH. However, the venue was closed in December 2022 following the expiration of the premises lease.

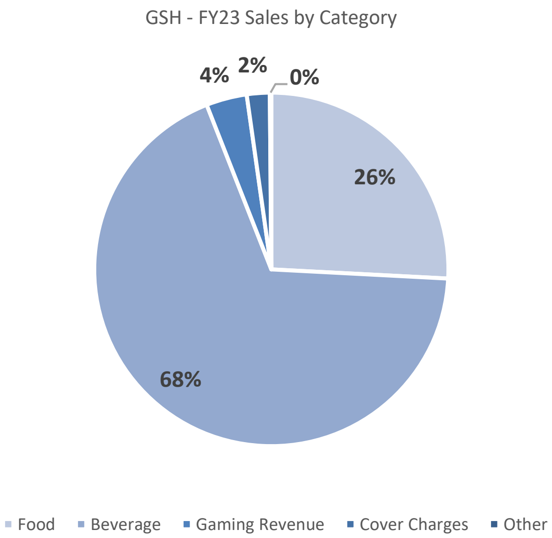
In addition to GSH's 9 operating venues, GSH's Doolan Brothers Newmarket premises closed on 17th August 2021. As discussed below, GSH still holds the lease for this non-operating venue and is responsible for meeting all obligations under this lease.

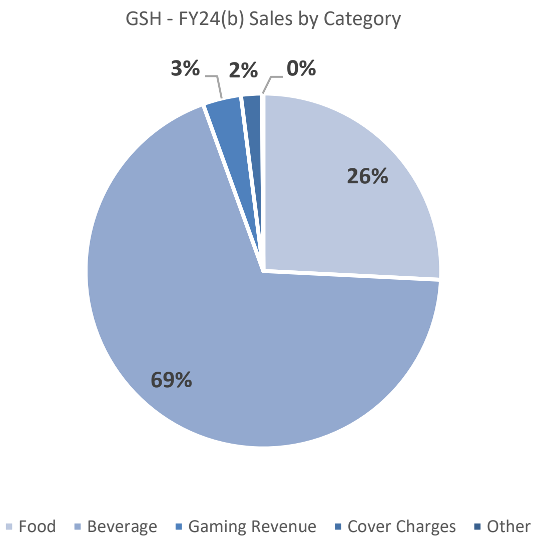
### *Gaming*

GSH's venues collectively have 62 gaming machines which are operated in association with a charitable trust which owns the machines and holds the applicable gaming licences to operate these machines. The nature of GSH's business (where only a small portion of revenue is derived from gaming) is such that the GSH venues are well positioned to retain their gaming machines. Under a "sinking lid" policy relating to gaming machines, the total number of gaming machines will be reduced over time across major New Zealand cities.

### *Revenue By Product*

As stated above, GSH's revenue model is primarily beverage led, followed by food sales. We have summarised below a breakdown of GSH's FY23 and FY24 (budget) sales by product category. Typically gross margin on liquor sales exceeds that on food sales.




### *Venue Premises*

GSH's operating venues are subject to long-term premises leases (i.e. GSH does not own any of the underlying properties). The average term of the GSH premises leases is 10.5 years (and ranges from 4.6 years to 17.4 years).

GSH continues to hold the lease for the closed Doolan Brothers Newmarket premises (which does not form part of the Proposed Transaction). This lease runs until 31 July 2025 and has a current annual lease cost of $364k per annum. GSH will retain all obligations associated with this premise following the completion of the Proposed Transaction. GSH is currently seeking to sell or assign this lease to a third-party. If this process is unsuccessful, GSH will enter into a final settlement agreement with the Landlord to terminate the lease.

### *Beverage Suppliers*

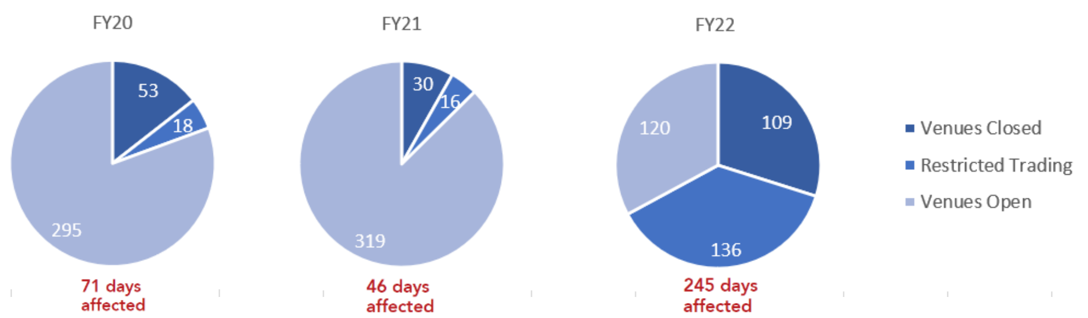
GSH has developed partnerships with its major liquor suppliers (including beverage suppliers). GSH has long-term supply agreements in place with both Lion NZ and DB Breweries in relation to the supply of alcoholic beverages across its 9 operating venues.

### *The Impact of the Covid 19 Pandemic*

The Covid-19 pandemic and the associated restrictions has had a catastrophic impact on the New Zealand hospitality sector, including:

- Mandated business closures.
- International travel restrictions.
- Social distancing requirements / trading restrictions (reducing venue capacity).
- A negative impact of customer sentiment.
- Labour shortages and associated labour cost increases.

A summary of how mandated closures and restricted trading conditions impacted GSH over the FY20 – FY22 period is set out below.

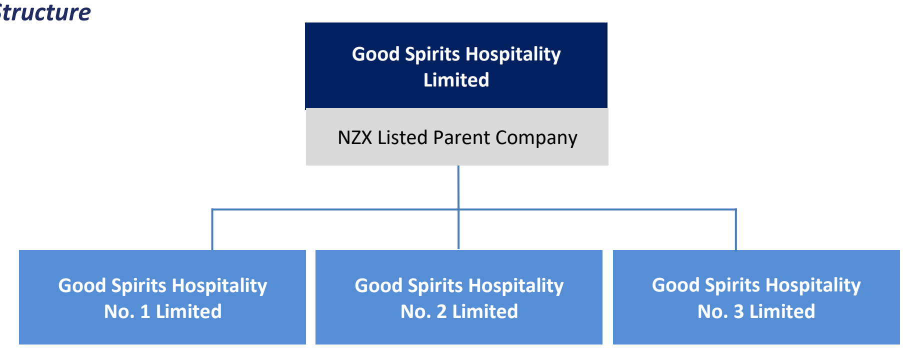



As discussed further in Section 4.5, the financial performance of GSH was impacted by these restrictions. This had ramifications for GSH's debt position, both in terms of support to fund operating losses and the capitalisation of PDL interest costs.

Despite financial pressures, GSH undertook some targeted refurbishment of selected venues over this period, including at The Fox, Danny Doolans, The Cav and Union Post (supported by debt funding).

## 4.3 Ownership & Capital Structure

### *Corporate Structure*




GSH's wholly owned subsidiaries include GSH No. 1, which owns the operating assets associated with all GSH venues, other than The Cellar Bar, which was set up under its own legal entity GSH No. 3. GSH No. 2 is a non-trading subsidiary with no assets or liabilities.

### *GSH Ownership / Equity*

GSH has an equity capital structure comprising a single class of 57,734,458 ordinary Shares held by a total of 542 shareholders. The top ten shareholders of GSH are shown in the table below:

| GSH - Top Ten Shareholders (4 September 2023) | | |
|---|---|---|
| **Shareholder** | **No. of Shares** | **%** |
| New Zealand Central Securities Depository Limited[1] | 14,812,793 | *25.66* |
| Christie Whiting Vermunt Limited | 8,070,226 | *13.98* |
| Collins Asset Management Limited | 6,166,684 | *10.68* |
| New Zealand Depository Nominee | 5,570,171 | *9.65* |
| Robert Christie | 4,545,455 | *7.87* |
| Geoffrey Tuttle & Carl Sowter | 2,385,714 | *4.13* |
| Rosemary Christie | 1,373,636 | *2.38* |
| Ambrosia Trustees Limited | 737,349 | *1.28* |
| JBWERE (NZ) Nominees Limited[2] | 550,000 | *0.95* |
| Michael Cooper | 440,000 | *0.76* |
| **Subtotal** | **44,652,028** | ***77.34*** |
| Other (532 shareholders) | 13,082,430 | *22.66* |
| **Total** | **57,734,458** | ***100*** |

1. The registered holder is New Zealand Central Securities Depository Limited. Citibank Nominees (New Zealand) Limited is nominee for Pacific Dawn Limited. PDL, via Citibank Nominees (New Zealand) Limited, holds 14,427,840 GSH Shares, representing 24.99% of the GSH Shares on issue. New Zealand Central Securities Depository Limited is also the registered owner of GSH shares on behalf of other parties not related to PDL.
2. JBWERE (NZ) Nominees Limited is the registered shareholder of multiple GSH Share parcels (as a trustee for various beneficiaries). The reported holding pertains to a single parcel of Shares.

As part of the refinance of the GSH Group's debt facilities in 2018, the Company issued 10,759,072 unlisted warrants to PDL which were all exercised in October 2019, providing PDL with a 19.90% shareholding in GSH. GSH has no additional options or warrants outstanding. An additional 3,668,768 Shares were issued to PDL in September 2020 as consideration for terms agreed as part of the extension of the PDL debt facilities, increasing the PDL's shareholding from 19.90% to 24.99%.

Christie Whiting Vermunt Limited, is the second largest shareholder of GSH with 13.98% of the Shares on issue. Christie Whiting Vermunt Limited is owned by interests associated with Andrew Christie (former GSH Director), Jacob Vermunt and Charles Whiting (a former GSH Director). Collins Asset Management Limited, an Auckland based private equity firm, holds 10.68% of GSH Shares and is the third largest GSH shareholder.

### *PDL Debt Facilities*

In 2018, PDL refinanced the GSH Group's debt facilities (previously with ANZ). The Company announced that PDL had agreed to provide total facilities of $27.5 million, with $22.5 million to be applied to refinancing the existing ANZ facilities, and $5.0 million would be available to fund capital expenditure and acquisitions to support growth. In 2019, GSH announced a $7.0 million extension to its existing capital expenditure / acquisition facility to support the Company's acquisition strategy (with total facilities with PDL increasing to $34.5 million).

Following the start of the Covid-19 pandemic in early 2020, PDL has continued to support the GSH business. This has included:

- Multiple extensions to the term of the GSH loan facilities (with the latest extension until 31 December 2023 – subject to various conditions – as discussed in Section 1 and Section 2).

- Amended principal and interest payment terms given the trading and cash flow restrictions faced by GSH. This has included the capitalisation of quarterly interest payments.
    - By way of example, in order to assist GSH fund the transaction costs being incurred as part of the Proposed Transaction, PDL agreed to allow all interest due and payable for the March 2023 quarter (circa $0.86 million) and the interest in excess of $250,000 due and payable in respect of the June 2023 quarter to be capitalised.
- Relaxed lending covenants (noting no covenant breaches occurred during FY23).
- Additional funding (within the PDL facility limits) to support venue acquisitions, venue refurbishment and working capital support.

As at 30 June 2023, the amount owed to PDL was $33.09 million, up from $27.84 million as at 30 June 2020 (before any exit fee or accounting adjustments). The effective interest rate on the PDL facilities during FY23 was 12.0% p.a.

GSH No. 1 is the borrower under the facility agreement with PDL, and GSH has guaranteed the liabilities of GSH No. 1. The PDL loan facilities are secured by a GSA over all of the assets of GSH and GSH No.1.

### 4.4 Board of Directors / Management

The GSH Board comprises three Directors, as summarised below:

**GSH – Board of Directors**

| Director | Position | Date of Appointment |
|---|---|---|
| Matt Adams | Chairman | December 2019[1] |
| Carl Patrick Carrington | Independent Director | July 2018 |
| John Andrew Gowans Seton | Independent Director | September 2021 |

1. Appointed as Chairman in June 2022.

**GSH – Management Team**

| Executive | Position |
|---|---|
| Geoffrey Eamon Tuttle | Chief Executive Officer |
| Anthony Laus | Chief Financial Officer & Company Secretary |
| Natalie Ayson | Head of Innovation, Brand & Communications |
| Sarah Hallie | Head of People, Capability & Wellbeing |
| Colin Maguire | Head of Front of House Operations |
| Hayden Smith | Head of Kitchen Operations |

## 4.5 Summary Historical Financial Information

### *Historical Financial Performance*

A summary of GSH's audited historical financial performance for the FY18 to FY22 period, along with unaudited historical FY23 performance is summarised below. GSH's financial year end is 30 June. We note that the FY23 consolidated financial statements have been prepared on a liquidation basis due to the GSH not being considered a going concern (from the date of completion of the Proposed Transaction). Refer to note "2.1 Basis of Preparation" in GSH's FY23 consolidated financial statements for further information.

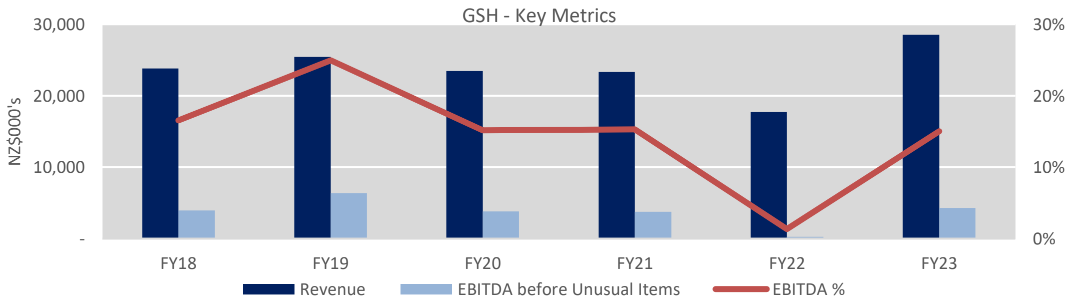
We highlight that from FY20, the financial summary set out below reports key financial metrics in accordance with IFRS-16, as illustrated by the depreciation of Right of Use (**ROU**) assets and interest on leases expenses reported from FY20 onwards.

The summary below excludes all profits associated with discontinued operations (i.e. the impacts of the Mad Butcher business which was sold in FY18). We note that profits associated with the O'Hagans, and Doolan Brothers Newmarket venues are included in the information below.

| **Good Spirits Hospitality - Summary Financial Performance** | | | | | | |
|---|---|---|---|---|---|---|
| **$000's** | **Actual FY18** | **Actual FY19** | **Actual FY20** | **Actual FY21** | **Actual FY22** | **Actual FY23** |
| Revenue | 23,806 | 25,429 | 23,438 | 23,316 | 17,693 | 28,520 |
| Government Grants | - | - | 1,366 | 943 | 1,854 | - |
| Services Provided | - | - | 198 | 160 | 5 | 55 |
| | 23,806 | 25,429 | 25,002 | 24,419 | 19,552 | 28,574 |
| Change in Inventories of Finished Goods | (5,806) | (6,038) | (5,370) | (5,153) | (4,067) | (6,182) |
| Employee Benefit Expense (Wages & Salaries) | (6,382) | (6,793) | (7,978) | (8,153) | (8,396) | (9,643) |
| Employee Benefit Expense (Kiwi Saver Contributions) | - | (94) | (112) | (131) | (144) | (144) |
| Other Expenses | (7,685) | (7,228) | (5,198) | (5,270) | (4,749) | (6,205) |
| Depreciation of ROU | - | - | (1,425) | (1,359) | (1,376) | (1,451) |
| Interest on Leases | - | - | (1,299) | (1,232) | (1,335) | (1,300) |
| Depreciation | (485) | (539) | (841) | (824) | (961) | (916) |
| Net Interest | (1,520) | (3,105) | (3,433) | (2,688) | (3,431) | (3,253) |
| | (21,878) | (23,797) | (25,657) | (24,811) | (24,459) | (29,096) |
| Unusual Items | (2,202) | (702) | (5,541) | (5,433) | (2,083) | (12,268) |
| **Operating Profit / (Loss) Before Income Tax** | **(274)** | **930** | **(6,197)** | **(5,824)** | **(6,989)** | **(12,790)** |
| Other Reported Metrics | | | | | | |
| EBITDA before Unusual Items[1] | 3,933 | 6,343 | 3,791 | 3,735 | 261 | 4,285 |

Notes

1. On a pre-IFRS-16 basis.




*Source: GSH annual accounts and Interim Financial Statements*

**Key factors pertaining to GSH's financial performance in recent years include:**

- Between FY18 and FY23, the Company has progressed a number of business acquisitions and divestments which has seen the number of operating venues increase from 7 in FY18 to 10 in FY23. This activity is noted below:
  - **FY18** – The Mad Butcher business was divested (we highlight that the above financials exclude profit from discontinued operations).
  - **FY19** – Citizen Park and Union Post were acquired in April 2019 and February 2019, respectively.
  - **FY20** – The Botany Commons refurbishment was completed.
  - **FY22** – The Fox was opened in December 2021.
  - **FY22** - Doolan Brothers Newmarket ceased trading in August 2021 (as discussed in Section 4.2) when Auckland went into a 100 day plus lockdown.
  - **FY23** – The O'Hagans lease expired in December 2022. The Cellar Bar at Danny Doolans opened in November 2022.

| Good Spirits Hospitality - Ownership History of Venues | Actual FY18 | Actual FY19 | Actual FY20 | Actual FY21 | Actual FY22 | Actual FY23 | Budget FY24 |
|---|---|---|---|---|---|---|---|
| Danny Doolans | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The Cav | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| DB Ellerslie | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The Fox | | | | | ✓ | ✓ | ✓ |
| Citizen Park | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Union Post | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cock and Bull Hamilton | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Botany Commons | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| The Cellar Bar @ Danny Doolans | | | | | | ✓ | ✓ |
| O'Hagans[2] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Doolan Brothers Newmarket[3] | ✓ | ✓ | ✓ | ✓ | | | |
| **Number of Venues** | **7** | **9** | **9** | **9** | **9** | **10** | **9** |

Notes
1. This table excludes divestments (i.e. the Mad Butcher in FY18).
2. The lease expired in December 2022.
3. Doolan Brothers Newmarket ceased trading in August 2021.

- Covid-19 induced lockdowns and the associated trading restrictions significantly impacted the Company's financial performance. During FY20, FY21 and FY22 the Company's operations were impacted for 71 days, 46 days and 245 days respectively (consisting of either closed venues or restricted trading) in addition to a general downturn in consumer behaviour (i.e. limited events in Auckland City). The Company received Covid-19 government support (i.e. Wage Subsidy payments and IRD resurgence support payments) ranging from $943k to $1.85 million over the FY20 to FY22 period.
- The Company's cost base has also been affected by elevated inflation levels in recent years. Furthermore, during the Covid-19 induced lockdowns, costs were for the most part unable to be scaled back with the commensurate decrease in revenues.
- Over the period FY18 to FY23, the reported "unusual items" varied between $702k (FY19) to $12.27 million (FY23) and major items included:
  - *Sale Transaction Costs:* $1.16 million during FY23 associated with the Proposed Transaction.

- *Due Diligence Costs:* $1.50 million in FY22 associated with the unsuccessful Nourish Group acquisition.

- *Impairments:* Pertaining to fixed assets impairments (notably $613k in FY18 and $256k in FY19), ROU impairments (notably $485k in FY21 and $489k in FY22) and significant goodwill impairments of $4.86 million in FY20, $5.15 million in FY21 and $10.38 million in FY23.

- The Company reported its largest operating loss of $12.79 million in FY23, however, this was impacted by a $10.38 million goodwill impairment.

- As shown by the reported EBITDA before unusual items[5] of $4.29 million in FY23, trading conditions have improved considerably following significantly reduced Covid-19 restrictions and also the opening of additional GSH operating venues. The underlying business assets that form part of the transaction traded profitably during FY23 and are emerging from Covid-19 with strong momentum. Notwithstanding this, we note that FY23 trading was still affected by Covid-19 and the Auckland flooding during January 2023.

- Recent trends include:

  - The hospitality industry is returning to a new trading environment subsequent to the removal of COVID restrictions.

  - Recent inflationary pressures on GSH's cost base have been mitigated through higher pricing.

  - O'Hagans ceased trading in December 2022, and we highlight that this was a highly profitable venue for the Company. Prior to this, we note that two new venues, The Fox and The Cellar Bar at Danny Doolans open during December 2021 and November 2022, respectively.

- As discussed below, GSH's recent acquisitions, capital expenditure and operating losses have been funded by a rising secured debt position. Coupled with rising interest rates (GSH's effective interest rate on borrowings increasing from 5.75% in FY18 to 12.0% in FY23) this has led to a material increase in the net interest expense from $1.52 million in FY18 to $3.25 million in FY23, contributing to the Company's current financial position being unsustainable.

- We highlight that during FY23, interest costs of $3.25 million represented circa 76% of EBITDA before Unusual Items ($4.29 million) which has implications for capital expenditure funding and debt amortisation. In addition, despite the transaction costs ($1.16 million) being classified as an Unusual Item, if these are accounted for, based on a modified EBITDA before Unusual Items ($3.13 million), the Company would have been unable to service interest costs (as reflected by the recent capitalisation of interest payments).

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5 We note that the EBITDA before Unusual Items, as reported by the Company, will not reconcile to Campbell MacPherson's normalised EBITDA position (as per Section 4.7) which accounts for factors specific to future sustainable earnings.

### *Historical Financial Position*

A summary of GSH's audited historical financial position for the FY18 to FY22 period, along with the unaudited FY23 financial position is summarised below.

As highlighted above, the Company's financial position as at 30 June 2023 has been prepared on a liquidation basis, hence all relevant assets and liabilities (associated with the sale process) have been grouped as "assets held for sale" or "liabilities in disposal groups held for sale". As set out in Section 2, GSH will retain certain assets and liabilities following the completion of the Proposed Transaction.

**Good Spirits Hospitality - Summary Financial Position**

| $000's | Actual FY18 | Actual FY19 | Actual FY20 | Actual FY21 | Actual FY22 | Actual FY23 |
|---|---|---|---|---|---|---|
| Current Assets | | | | | | |
| Cash and Equivalents[1] | 1,249 | 1,568 | 3,063 | 2,845 | 1,249 | 416 |
| Trade and Other Receivables | 209 | 74 | 119 | 254 | 221 | 317 |
| Inventory | 328 | 366 | 385 | 455 | 509 | - |
| Assets Held for Sale[2] | - | - | - | - | - | 30,472 |
| Other[3] | 9 | 307 | 321 | 268 | 311 | 101 |
| | 1,795 | 2,315 | 3,887 | 3,823 | 2,292 | 31,307 |
| Non-Current Assets | | | | | | |
| Property Plant and Equipment | 2,759 | 3,632 | 5,167 | 5,072 | 6,784 | - |
| Deferred Tax Asset | 1,269 | 668 | 1,033 | 1,019 | 1,403 | 357 |
| Intangible Assets | 29,980 | 33,749 | 28,893 | 23,743 | 23,121 | - |
| Right of Use Assets | - | - | 13,485 | 12,444 | 11,440 | - |
| | 34,008 | 38,049 | 48,578 | 42,279 | 42,749 | 357 |
| Current Liabilities | | | | | | |
| Trade and Other Payables | 3,078 | 2,635 | 2,675 | 2,193 | 2,531 | 2,578 |
| Borrowings | 847 | 792 | 715 | - | 31,559 | 33,135 |
| Employee Entitlements | - | 14 | 429 | 388 | 437 | - |
| GST Payable | - | 210 | 440 | 264 | 315 | 272 |
| Liabilities in Disposal Groups Held for Sale | - | - | - | - | - | 14,742 |
| Lease Liabilities | - | - | 702 | 931 | 821 | - |
| Other[4] | 185 | - | - | 110 | 103 | - |
| | 4,111 | 3,651 | 4,960 | 3,886 | 35,768 | 50,727 |
| Non-Current Liabilities | | | | | | |
| Borrowings | 19,195 | 22,991 | 26,528 | 26,861 | - | - |
| Lease Liabilities | - | - | 13,332 | 13,080 | 12,888 | - |
| Other[5] | - | 1039 | 809 | 1,000 | 1,712 | 100 |
| | 19,195 | 24,031 | 40,669 | 40,941 | 14,600 | 100 |
| **Net Assets** | **12,497** | **12,683** | **6,837** | **1,274** | **(5,327)** | **(19,163)** |

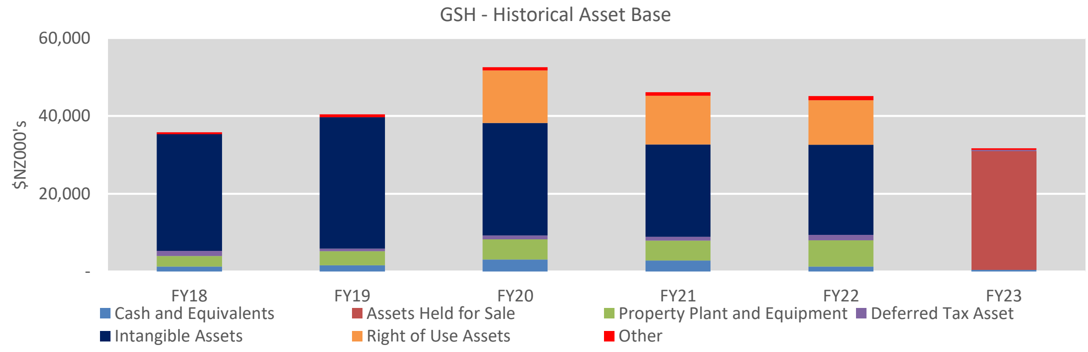
Notes

1. Cash and equivalents and restricted cash (this includes bank term deposits, gaming floats and landlord bonds).
2. During FY23, GSH reclassified the fixed assets (including all intangible assets) associated with the 9 operating venues as "assets held for sale".
3. Prepayments and tax assets.
4. Liabilities of discontinued operations, financial guarantee liability and provision for make-good obligations.
5. Provision for make-good obligations, trade and other payables, GST payable, employee entitlements and financial guarantee liability.

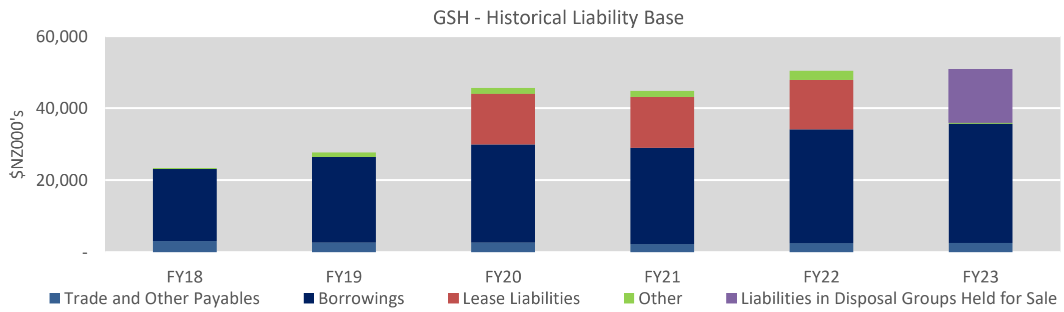
*Source: GSH annual accounts and Interim Financial Statements.*

**Key comments pertaining to GSH's financial position in recent years include:**

- GSH current assets have historically been underpinned by cash holdings, trade receivables and inventory, and have ranged from $1.80 million in FY18 to $416k FY23. However, during FY23, the Company reclassified all assets associated with the Proposed Transaction (including non-current assets) as current assets (i.e. "assets held for sale"), which equated to $30.47 million.
- The Company's non-current asset base consists of property, plant and equipment, deferred tax assets, intangible assets and right of use assets. Notably, intangible assets were impacted by a goodwill impairment during FY20 and FY21. Property, plant and equipment increased from $2.76 million in FY18 to $6.78 million in FY22 following a series of venue acquisitions (noting the reclassification in FY23 mentioned above). Right of use assets were introduced in FY20 (following the adoption of IFRS-16).




- Over the FY18 to FY23 period, GSH's current liabilities have increased from $4.11 million to $50.73 million which can primarily be attributed to the reclassification of $31.56 million of PDL debt from a non-current liability to a current liability during FY22, reflecting the maturity terms of the debt in addition to the FY23 reclassification associated with the Proposed Transaction. The remaining current liabilities are represented by trade and other payables, employee entitlements, GST payable and lease liabilities.
- GSH's borrowings (including the current portion) have significantly increased from $20.04 million in FY18 to $33.14 million in FY23 reflecting GSH's recent acquisitions (which were predominately funded via debt), significant venue capex / renovations and funding recent operating losses. As at 30 June 2023, the Company's reported borrowings was $33.14 million, however the true amount repayable in cash was $33.18 million, as set out below:
  - **PDL / PDL Debt:** We highlight that as per the annual accounts, the Company reports a closing balance for the PDL debt of $32.93 million as at 30 June 2023. However, we note that two positive adjustments equating to $169k (loan modification and capitalised financing cost against borrowings) are considered to be non-cash adjustments and therefore the true amount owing to PDL was $33.09 million.
  - **Other Borrowings:** As per the annual accounts, the Company reported a closing balance of $210k – this relates to a loan with a third-party to GSH No. 3. However, GSH has advised that only $88k is repayable in cash.
- Lease liabilities were introduced in FY19 (IFRS-16) with the total position as at FY23 equating to $13.58 million.




- The above trends have resulted in a deteriorating net asset position for GSH, decreasing from $12.50 million in FY18 to negative $19.16 million as at FY23.
- As highlighted under Historical Financial Performance, GSH's current level of debt serviceability (both from an interest and principal servicing perspective) is unsustainable given the significant debt position. As discussed below, GSH No.1 made no principal repayments during FY22 and FY23 and has been periodically capitalising interest on the PDL debt since December 2021 with an outstanding balance of $3.84 million (as at 30 June 2023). Notwithstanding the above, the underlying business operations of GSH are performing well post Covid-19 – however the Company's capital structure is unsustainable.

### *Historical Cash Flow*

A summary of GSH's audited historical cash flow statement for the FY18 to FY22 period, along with the unaudited FY23 cash flow statement are summarised below.

| Good Spirits Hospitality – Summary Cash Flows | | | | | | |
|---|---|---|---|---|---|---|
| $000's | Actual FY18 | Actual FY19 | Actual FY20 | Actual FY21 | Actual FY22 | Actual FY23 |
| Cash from Operating Activities (before Unusual Items) | 3,744 | 2,875 | 5,390 | 2,781 | 2,248 | 3,637 |
| Cash from Operating Activities (after Unusual Items)[1] | (1,421) | 2,308 | 4,764 | 2,509 | 621 | 2,476 |
| Cash from Investing Activities | 7,800 | (4,911) | (2,528) | (731) | (2,795) | (1,092) |
| Cash from Financing Activities | (5,817) | 2,731 | (742) | (2,133) | 565 | (1,877) |
| **Net Increase /(Decrease) in Cash (after Unusual Items)** | **562** | **128** | **1,495** | **(355)** | **(1,609)** | **(492)** |

Notes
1. We note that during FY18, Unusual Items includes cashflow from discontinued operations (i.e. the Mad Butcher Business of negative $2.56 million)

*Source: GSH annual accounts and Interim Financial Statements.*

**Key comments pertaining to GSH's cash flow in recent years include:**

- Contrary to the significantly negative profitability metrics reported in the P&L, annual cash flow from GSH's Operating Activities (before Unusual Items) was positive over the FY18 to FY23 period – this is mainly due to significant non-cash items reported in the P&L such as impairments (Fixed Asset, PPE, ROU and Goodwill) and IFRS-16 adjustments.
- During FY23, the underlying business assets that form part of the transaction traded profitably but were hampered by significant annual interest obligations (circa $1.88 million).
- We note that cash flow from operating activities (before and after Unusual Items) over the period have been impacted by the following:
  - The impact of IFRS-16 whereby the cash flow reported above does not include the cash costs associated with leases, which has been reclassified from FY20 onwards under financing cash flow as "interest and principal paid on lease liabilities". By way of example, during FY21 and FY22 (i.e. when the Company was heavily impacted by Covid-19), interest and principal paid on lease liabilities equated to $1.98 million and $1.94 million, respectively – if accounted for, operating cash flow is heavily diminished.
  - The impact of capitalising interest expenses from December 2021 onwards. We note that there have been four interest capitalisations as follows; Q2 FY22, Q3 FY22, Q3 FY23 and Q4 FY23.
- Notable unusual cash items impacting GSH's operating cash flow, as set out above, include:
  - *FY18 Unusual Items:* Equated to $5.17 million and includes $929k attributable to significant items, $1.68 million as a result of GSH's debt being refinanced and $2.56 million that relates to discontinued operations (i.e. the Mad Butcher divestment).
  - *Due-Diligence Costs:* $1.50 million in FY22 associated with the attempted acquisition of Nourish Group.
  - *Sale Transaction cost*: $1.16 million in FY23 associated with the business sale process.
- Investing cash flow has fluctuated in line with GSH's business acquisitions and divestments, ranging from $7.80 million in FY18 to negative $781k in YTD FY23, and includes:
  - *FY18 – Mad Butcher Divestment:* $8.00 million.

  - *Purchase of Business Assets*: Relates to the purchase of Union Post and Citizen Park in FY19 for a combined value of $4.25 million and the purchase of the Cellar Bar in FY23 of $247k.
  - *Purchase of PPE:* Varied from $198k in FY18 to $2.76 million in FY22. The periods in which there was a relatively higher level of spend (i.e. $2.53 million in FY20 and $2.76 million in FY22) was mainly due to refurbishments of venues.
- Cash flow from financing activities includes refinancing costs (FY19 to FY21), the introduction of IFRS-16 reporting during FY20 (i.e. interest and principal is now paid on lease liabilities and classified as a financing activity) and drawndowns / repayments of borrowing facilities. We highlight that there have been no principal repayments made on PDL debt between FY21 to FY23.
  - As illustrated above in the operating cash flow commentary, there has been no ability to repay principal and this further reinforces the unsustainable nature of GSH's debt position.
- The net cash losses over the FY21 – FY23 period has been funded by existing cash reserves.

## 4.6 Projected Financial Information / FY24 Budget

Notwithstanding the potential outcome of the Proposed Transaction, GSH has prepared a Board approved FY24 budget on a "business as usual basis" (i.e. assuming the Proposed Transaction does not proceed). Key metrics from the FY24 budget are set out below.

GSH has also presented an adjusted FY23 position which is directly comparable to the FY24 budget (e.g. excluding the impact of discontinued trading activities such as the O'Hagans venue). The adjusted FY23 information presented below will not reconcile to the revenue or EBITDA figures presented in the annual accounts due to a range of factors including:

- The information has been adjusted to exclude the impact of ceased trading operations.
- The FY23 information is based on management accounts, which are not prepared in accordance with IFRS-16. This is consistent with the FY24 budget.

### *Principal Assumptions*

The principal assumptions that underpin GSH's FY24 budget include:

- Trading volumes assume no Covid-19 interruptions / restrictions and allow for the current events calendar (such as the Women's FIFA World Cup, and the Rugby World Cup).
- All 9 operating venues are assumed to remain open throughout the financial year. In previous years, venues have been shut for extended periods to complete repairs / renovations or were purchased / opened midway through the financial year).
- GSH is able to maintain a full staffing roster, with no staff related trading restrictions.
- A return to business as usual / replacement capital expenditure (i.e. no large capital expenditure items are required during FY24).
- A reduction in overheads as a result of recent cost reduction initiatives.
- Operating costs reflect the assumed trading volumes and revenue position and allow for appropriate ongoing inflation pressures.
- Operating profit margins are maintained in line with FY23.

### *Outputs / Key Metrics*

| GSH – Adjusted FY23 and FY24 Financial Information | | |
|---|---|---|
| $000's | Actual FY23[1] | Budget FY24 |
| Revenue | 26,333 | 28,244 |
| Gross Profit | 13,284 | 14,144 |
| EBITDA | 2,259 | 4,168 |

*Source: GSH's FY24 budget*

**Key comments pertaining to GSH's projected financial information include:**

- The budgeted uplift in GSH's revenue from $26.33 million in FY23 to $28.24 million in FY24 is mainly underpinned by:
  - An 7.1% increase in food sales and an 8.0% increase in beverage sales as a result of improved trading volumes and pricing initiatives.
- GSH's budgeted gross profit of $14.14 million in FY24 is based on a stable gross margin. GSH reported a gross profit margin of 50.4% in FY23 compared to the budgeted gross margin of 50.1% in FY24.
- Overhead costs include site operating expenses, site entertainment & security, finance expenses (does not include the interest expense), property expenses and other overheads. Total overhead costs are projected to fall from $11.02 million in FY23 to $9.98 million in FY24 (a 9.5% decrease). Notable trends in the projected FY24 overhead costs include:
  - A 37.9% reduction in repairs & maintenance following FY23 costs associated with the floor repairs in the Cellar Bar and Danny Doolans.
  - A 21.7% rise in music entertainment in bar.
  - An 88.3% reduction in consultant fees, where FY23 was impacted by advisory costs pertaining to the Proposed Transaction.
  - A 52.0% fall in legal fees, where FY23 was again impacted by costs pertaining to the Proposed Transaction and also to the expired O'Hagan's lease.
  - An 11.5% rise in rent, noting some venues were not fully operational during FY23, in addition to general rent increases.
- EBITDA is projected to increase from $2.26 million in FY23 to $4.17 million in FY24 due to the factors highlighted above.
- We highlight that interest costs are forecasted to be $3.92 million which represents circa 94% of budgeted FY24 EBITDA, further reinforcing the Company's limited ability to service their current debt position (noting that transaction costs are impacting the budgeted FY24 EBITDA). As discussed in Section 4.5, during FY23, interest costs of $3.25 million represented circa 76% of EBITDA before Unusual Items ($4.29 million).
- GSH advises that the FY24 budget represents a targeted steady-state position for the 9 operating venues. Further growth would only be supported by additional venue acquisitions.
- We note that GSH's YTD FY24 management accounts (as at July 2023), demonstrate that FY24 trading is currently below budget – this can be primarily attributed to the underperformance of Danny Doolans and Botany Commons. Management noted that this underperformance is not expected to be recovered throughout the remainder of FY24.

## 4.7 Normalised Financial Information

In order to determine GSH's future sustainable earnings for valuation purposes (as discussed in Section 5), we have normalised the Company's historical FY23 and budgeted FY24 EBITDA to allow for one-off / non-operating items (as advised by GSH). Our normalisation adjustments are set out below. These normalisations seek to illustrate the profitability of the trading business assets which form part of the Proposed Transaction (i.e. the 9 operating venues) under the structure of a standalone privately owned company with best practice governance and financial reporting.

The reported EBITDA position is based on the EBITDA metrics reported in Section 4.6 above (and therefore will not reconcile to GSH annual accounts). Furthermore, consistent with the metrics reported in Section 4.6, the EBITDA data below has not been prepared in accordance with IFRS-16 (as such, the true rent / lease costs are recorded above the EBITDA line).

| Good Spirits Hospitality - Earnings Normalisations | | |
|---|---|---|
| $000's | Actual FY23 | Budget FY24 |
| Reported EBITDA | 2,259 | 4,168 |
| Normalisation Adjustments: | | |
| Less Fox Rent | (218) | - |
| Less Bonus Estimate | - | (206) |
| Plus Annualised Cellar Bar Earnings | 120 | - |
| Plus Listing Related Costs | 237 | 81 |
| Plus Head Office Costs | 34 | - |
| Plus Recruitment Costs | 80 | - |
| Plus Transaction and Advisory Costs | 1,297 | 400 |
| Plus Doolan Brother Newmarket Costs | 452 | 438 |
| | 2,002 | 713 |
| **Normalised EBITDA** | **4,261** | **4,882** |

The data above demonstrates a normalised FY23 (historic) and FY24 (budget) EBITDA ranging from $4.26 million to $4.88 million.

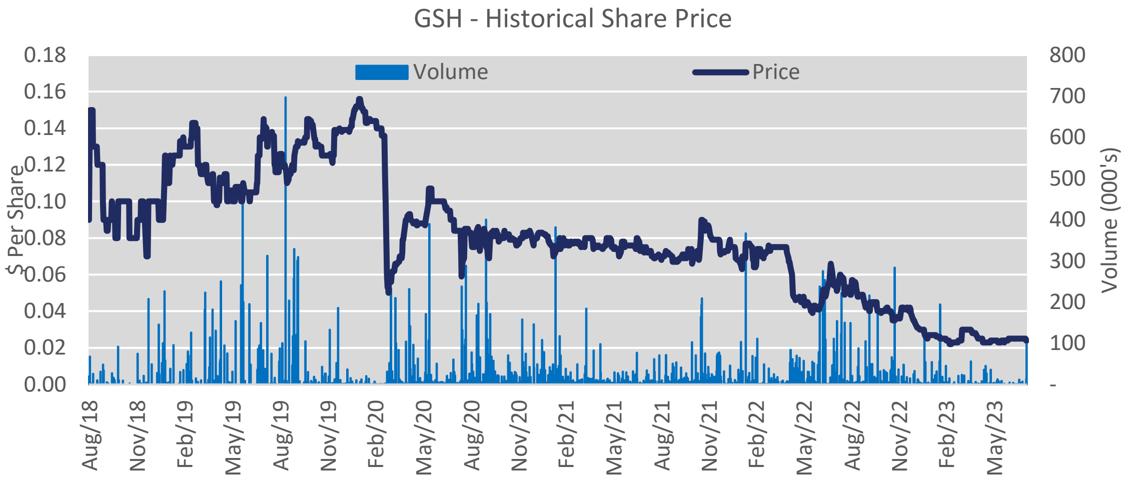
**Key comments pertaining to GSH's normalised EBITDA include:**

- **The Fox Rent:** During FY23, the Company was granted a rent holiday, hence the above normalisation is required to allow for a full year of rent costs.
- **Bonus Estimate:** The FY24 budget does not allow for appropriate bonus incentives for GSH employees and therefore a $206k normalisation is required (based on discussions with GSH).
- **Annualised Cellar Bar Earnings:** To account for a full year of trading for the Cellar Bar.
- **NZX Listing Related Costs:** Includes expected cost savings of operating the business assets under a private company ownership model.
- **Head Office Costs:** Related to the relocation of the Head Office to The Cav premises.
- **Recruitment Costs:** During FY23, the Company required additional recruitment services due to the tight labour market.
- **Transaction and Advisory Costs:** Relates to costs associated with the Proposed Transaction (i.e. legal costs, advisory and consultancy costs) in addition to legal fees associated with the O'Hagan's lease expiring.

### 4.8 Share Price and Traded Volume

As set out above, GSH's Shares are currently traded on the NZX Main Board, an equity securities market operated by the NZX. GSH had a market capitalisation of approximately $1.27 million as at 14 September 2023. However, there has been very little trading of the GSH Shares since 2 August 2023 (the date on which the Proposed Transaction was announced via the NZX).

A summary of GSH's daily closing Share price and volumes of Shares traded from over the past 5 years is set out in the chart below. The most recent trade took place on 13 September 2023 at a price of $0.022 per Share.




*Source: Capital IQ*

**Key trends pertaining to GSH's share price and traded volumes include:**

- Between August 2018 and 18 March 2020 (i.e. pre-Covid-19), the Company's share price fluctuated from a minimum of $0.07 to a maximum of $0.16 with an average price of $0.12. The average daily volume of shares traded equated to 45,777 Shares.
- Between 19 March 2020 and 1 August 2023 (i.e. during and post Covid-19), the Company's share price fluctuated from a minimum of $0.02 to a maximum of $0.12 with an average price of $0.06. The average daily volume of shares traded equated to 26,168 shares, highlighting the limited liquidity in the GSH shares (noting 57,734,458 Shares are currently on issue).

Analysis of GSH volume weighted average price (**VWAP**), traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 1 August 2023 (the last trading day before the announcement of the Proposed Transaction) is set out below.

**GSH - VWAP and Trading Liquidity (as at 1 August 2023)**

| Period | Low ($) | High ($) | VWAP ($) | Volume Traded (M) | Liquidity* |
|---|---|---|---|---|---|
| 30 Days | 0.024 | 0.025 | 0.025 | 0.05 | 0.1% |
| 90 Days | 0.022 | 0.025 | 0.024 | 0.29 | 0.5% |
| 180 Days | 0.022 | 0.030 | 0.025 | 0.91 | 1.6% |
| 365 Days | 0.022 | 0.060 | 0.040 | 4.05 | 7.0% |

* Volume traded / total number of shares on issue

*Source: Capital IQ*

## 5 VALUATION OF GOOD SPIRITS HOSPITALITY'S BUSINESS ASSETS

### 5.1 Valuation Basis and Methodology

Campbell MacPherson has valued the GSH business and assets which form part of the Proposed Transaction (**GSH Business Assets**). Given the Proposed Transaction does not contemplate a sale of the GSH shares, we have not valued the GSH company / legal entity (including its NZX listing) or the associated equity in GSH.

Campbell MacPherson considers that the most appropriate valuation approach is to assess the value of the GSH Business Assets on the basis of fair market value. Fair market value is defined as:

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

A range of valuation methodologies can be applied to determine fair market value, including:

- Discounted Cash Flow (**DCF**).
- Capitalisation of Earnings / Dividends.
- Net Asset Value / Liquidation Value.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the availability of information, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

A brief summary of potential valuation methodologies is outlined in Appendix I.

### 5.2 Valuation Approach

Campbell MacPherson's preferred valuation methodology for assessing the fair market value of 100% of the GSH Business Assets is the DCF method, which takes into consideration the Company's future growth projections and the associated capital expenditure and working capital requirements. However, GSH does not prepare detailed long-range financial forecasts. We have therefore used the Capitalisation of Earnings methodology for the purposes of this Report, which is a widely adopted valuation approach for New Zealand companies.

Campbell MacPherson has assessed the value of the GSH Business Assets on a basis that is consistent with the reported headline purchase price for the Proposed Transaction (i.e. exclusive of any net working capital), enabling the two value metrics to be compared. We have reported this as an "Adjusted Enterprise Value", noting that a true Enterprise Value typically includes a normal level of net working capital.

We also highlight that our assessed sustainable EBITDA range has not been calculated in accordance with IFRS-16, and therefore lease / rent costs are recorded above the EBITDA line (as opposed to below the EBITDA Line). As a result, our assessed Adjusted Enterprise Value does not include the implied value of the right of use assets associated with GSH's lease agreements. This is also consistent with the reported headline purchase price for the Proposed Transaction, enabling the two value metrics to be compared.

Campbell MacPherson has assessed the fair market value of the GSH Business Assets on and Adjusted Enterprise Value basis as at 31 August 2023.

## 5.3 Capitalisation of Earnings Valuation – Key Assumptions

### *Future Sustainable Earnings (FSE)*

Earnings before interest, tax, depreciation and amortisation (**EBITDA**) is commonly used as the basis for determining future sustainable earnings. EBITDA reflects a company's operating profit before the effects of financing (and accounting based depreciation lease charges) and can therefore be used to assess a company's un-geared Enterprise value (or Adjusted Enterprise Value in the case of the GSH Business Assets). A summary of GSH's historical FY23 and budgeted FY24 normalised EBITDA is summarised below (further detail on the normalisation adjustments is set out in Section 4.7).

| GSH - Normalised EBITDA | | |
|---|---|---|
| **$000's** | **Actual FY23** | **Budget FY24** |
| Reported EBITDA | 2,259 | 4,168 |
| Proforma / Normalisation Adjustments | 1,988 | 713 |
| **Normalised EBITDA** | **4,261** | **4,882** |

**Based on our analysis, we have assessed a sustainable EBITDA to be in the range of $4.25 million to $4.90 million for the purposes of determining the value of the GSH Business Assets. We highlight that given the projected uplift in the Company's FY24 earnings (relative to historical performance) and also the inherent risks associated with GSH achieving the projected uplift in a market environment which remains uncertain, any assessment of sustainable earnings is subjective.**

**Key factors we have considered in assessing GSH's future sustainable EBITDA range include:**

- The Company's historical financial performance in addition to the FY24 budget. However, given the impact of Covid-19 on the GSH business, we do not consider that GSH's earnings prior to FY23 are relevant in assessing sustainable earnings for valuation purposes.
- The FY23 and FY24 normalisations, as set out above (see Section 4.7 for further details). These normalisations seek to illustrate the profitability of the GSH Business Assets which form part of the Proposed Transaction (i.e. the 9 operating venues) under the structure of a standalone privately owned company with best practice governance and financial reporting.
- Our discussions with GSH's management in relation to the trading outlook for the GSH Business Assets and the general hospitality sector. More specifically, the FY24 budget representing a return to pre-Covid-19 consumer behaviour / normalised trading conditions.
- We note that GSH's YTD FY24 management accounts (as at July 2023), demonstrate that FY24 trading is currently below budget, highlighting downside risk against the FY24 budget and the upper end of our sustainable earnings assessment.
- In addition to the above comment, downside risks impacting FY24 earnings relative to budget (and supporting a sustainable earnings range where the low end of the range is less than the FY24 budget) could include new Covid-19 related risks (e.g. the recently reported Pirola Covid-19 variant), a general downturn in consumer sentiment in the current economic environment, further labour market challenges and inflationary pressures that can't be passed on through GSH pricing.
- Given the unproven nature of the FY24 budget (in a post Covid-19 environment) and the downside risks identified above, we have adopted a range for our sustainable earnings assessment based on the normalised FY23 EBITDA and the normalised budgeted FY24 EBITDA.

### *EBITDA Multiple*

As set out in Appendix I, multiples derived from comparable transactions are often the most relevant when determining the fair market value of 100% of a company or its underlying business assets. However, we note that the implied multiple for any given comparable transaction can vary depending on a number of factors including:

- The specific risk profile of the acquisition target.
- Investment conditions / sentiment at the time of the transaction.
- The competitiveness of the sale process.
- Economic conditions.
- Growth opportunities associated with the target business.
- Differences in industry structure.
- Strategic or synergistic benefits to the acquirer.
- The basis on which the earnings multiple was calculated (e.g. based on historical earnings or forecast earnings).

Australasian Transaction Multiples

We have reviewed a number of transactions in the New Zealand and Australian hospitality sector based on data sourced from the Capital IQ transaction data base, publicly available information and discussions with industry participants. These transactions, and the implied valuation multiples, are summarised below. We note that:

- This summary includes a number of transactions completed by GSH (formerly Veritas), including the original acquisition of a group of bars by GSH (formerly Veritas) which included a number of the venues which currently form part of the GSH portfolio.
- Some of the reported transactions were not completed but have been included on the basis that the reported metrics remain relevant.

While some of these transactions are not directly comparable to GSH, they however provide a useful benchmark for valuation purposes. We also note that the hospitality industry was significantly affected by Covid-19, and we believe there has been a shift in the risk profile of the industry.

| Transaction Multiples - Summary | | | | | | |
|---|---|---|---|---|---|---|
| Target | Purchaser | Date | Country | Enterprise Value ($m)[6] | EV / EBITDA (Historical) | EV / EBITDA (Forecast) |
| Completed | | | | | | |
| The Better Bar Group of Companies | GSH[1] | Nov-2014 | NZ | 37 | n/a | 5.1 |
| Business and Assets of Citizen Park[7] | GSH[1] | Feb-2019 | NZ | 3 | 3.5 | n/a |
| Business and Assets of Union Post[7] | GSH[1] | Apr-2019 | NZ | 2 | 3.2 | n/a |
| Certain Assets of Savor Group[2] | Moa Group | Apr-2019 | NZ | 18 | n/a | 3.6 |
| 3 venues of Hipgroup | Savor Group | Apr-2021 | NZ | 11 | n/a | 3.7 |
| Nourish Group[3] | Foley Holdings | Jul-2022 | NZ | n/a | 4.5 | n/a |
| Two Queenstown Pubs[4,7] | n/a | n/a | NZ | n/a | 6.0 | n/a |
| | | | | | | |
| Not Completed[5] | | | | | | |
| Australian Venue Co | PAG | Aug-2023 | Australia | 1526 | n/a | 7.2 |
| Nourish Group[7] | GSH | Nov-2021 | NZ | 27 | 4.3 | n/a |
| | | | | | | |
| **Average** | | | | **232** | **4.3** | **4.9** |
| **Median** | | | | **18** | **4.3** | **4.4** |

Notes

1. Formerly Veritas Holdings Limited.
2. We highlight that the Savor Group 2019 acquisition included payments contingent on certain qualitative milestones in addition to an earnout component. The above multiple is based on the reported information as at March 2019.
3. Based on discussions Campbell MacPherson held with a party close to the transaction, whereby the multiple reported above of 4.5x is an average of the range (i.e. 4x to 5x) provided to Campbell MacPherson.
4. Based on discussions Campbell MacPherson held with a confidential party.
5. For completeness, we have included metrics on transactions that have either not yet been finalised (i.e. AVC 2023) or did not proceed (i.e. Nourish 2021).
6. Based on our review of the available information, Campbell MacPherson understands that some of the above transactions have been conducted on similar terms to that of the Proposed Transaction, whereby the reported headline purchase price (often reported as Enterprise Value) is exclusive of any net working capital. As such, these multiples are not true Enterprise Value multiples, but instead "Adjusted Enterprise Value" multiples, as described in Section 5.2 (i.e. Enterprise Value exclusive of any net working capital). The multiples reported above are therefore not directly comparable.
7. Transaction is assumed to be structured such that the headline purchase price is exclusive of any net working capital (i.e. the reported Enterprise Value and the associated multiple as actual "Adjusted Enterprise Value".

A brief description of the transactions listed above is set out below.

- **The Better Bar Group of Companies (2014)** – Veritas (now GSH) acquired the Better Bar group of companies based on an Enterprise Value of $37.2 million. The Better Bar Group was the owner and operator of a number of gastro bars in Auckland and Hamilton (11 venues in total). This transaction represented Veritas' entry into the hospitality sector and included a number of the venues which still form part of the GSH business and assets being sold as part of the Proposed Transaction, including Danny Doolans, The Cav, DB Ellerslie, Cock and Bull Hamilton and Botany Commons.
- **Business and Assets of Citizen Park (2019) –** Better Bar Company / GSH acquired Citizen Park based in Kingsland, Auckland for $2.73 million in 2019. We highlight that this transaction involved a single venue (which forms part of the Proposed Transaction).
- **Business and Assets of Union Post (2019) –** Better Bar Company / GSH acquired Union Post based in Ellerslie Village, Auckland for $1.52 million. We highlight that this transaction involved a single venue (which forms part of the Proposed Transaction).
- **Certain Assets of Savor Group (2019) –** New Zealand based Moa Group purchased selected Savor Group assets for a base purchase price of $13.0 million in 2019. The Savor Group assets included restaurants and bars located in Auckland, including Azabu (restaurant), Ebisu (restaurant), Fukuko (bar), Ostro (brasserie and bar), Azabu@AFM (eatery), Seafarers Club and Seven (bar), The Wreck (bar) and Super Pizza (pizzeria), and Las Vegas (bar).
- **3 Venues of Hipgroup (2021) –** New Zealand based Savor Group purchased 3 Auckland restaurants from the Hipgroup for $11 million. These venues included Ortolana, The Store and

Amano. We highlight that the reported operating earnings ($3.0 million) is assumed to represent EBITDA.

- **Nourish Group (2021 - not completed)** – In 2021 GSH entered into an agreement to purchase 10 restaurant and bar venues (as listed below) from the Nourish Group based on an implied adjusted Enterprise Value of $27.2 million (included an earnout component). The commercial terms (e.g. price) were agreed, however, GSH was unable to secure the equity funding required to complete the transaction. As such, the deal did not proceed. While the transaction did not proceed, in our opinion, the implied valuation metrics are relevant.

- **Nourish Group (2022)** – After the 2021 transaction with GSH did not proceed (as above), Foley Holdings New Zealand Limited purchased the Nourish Group for an undisclosed amount (we note this is separate to the listed entity, Foley Wines Limited). Whilst information on this transaction wasn't publicly available, discussions Campbell MacPherson has had with a party close to the transaction indicate that the implied EV/EBITDA multiple was between 4.0 and 5.0 times (consistent with the terms agreed with GSH). Nourish Group's restaurants and bars included Andiamo, The Brit, The Chamberlain, The Crab Shack, Pravda Café and Grill, Shed 5, Soul Bar & Bistro, Talulah, and two Jervois Steak House venues (Auckland and Queenstown).

- **Australian Venue Co (2023 - underway) –** In August 2023, it was reported that PAG was set to acquire a 100% shareholding in Australian Venue Co (**AVC**) for $1.53 billion (NZD). AVC own and operate more than 210 pubs, bars and restaurants throughout New Zealand and Australia. We highlight that this transaction has not yet been completed and the valuation metrics are based on reported values.

- **Multiple Queenstown Venues** – Campbell MacPherson held interviews with an industry participant who recently sold multiple high profile Queenstown venues. While details of the transaction cannot be made available for reasons of commercial sensitivity, we have been advised that the venues transacted at a multiple of circa 6.0x EBITDA (on an Adjusted Enterprise Value basis). The Vendor in question has been involved in a number of transactions and indicated that a multiple of circa 6.0 times is uncommon for a hospitality business unless considered a "premium" venue/s with strong growth opportunities exist.

As set out above, the average historical and forecast EBITDA multiples for hospitality transactions reviewed by Campbell MacPherson was 4.3x and 4.9x (median of 4.3x and 4.4x times), respectively. We highlight that if the Australian Venue Co transaction is excluded, the average forecast EV / EBITDA falls to 4.1x (median of 3.7x). As set out above, the basis of the reported multiples is such that not all multiples are directly comparable, with some being on a true Enterprise Value basis, while others being on an Adjusted Enterprise Value basis (i.e. excluding net working capital).

In summary, Campbell MacPherson has held discussions with a number of industry participants in relation to transactions involving hospitality businesses in general and the implied valuation multiples. In conclusion, Adjusted Enterprise Value / EBITDA multiples for New Zealand hospitality businesses typically range from:

- 3.0x for single venues with limited brand recognition.
- 4.0x for single venues with an established brand.
- 5.0x for multiple well-run venues with a strong brand position.
- Valuation multiples in excess of 5.0 times are uncommon for mid-sized hospitality operations, and typically only apply to businesses with significant scale, premium venues or locations with significant earnings growth opportunities, or a transaction which is likely to result in significant strategic or synergistic benefits to the purchaser.

### Australasian Trading Multiples

As part of our analysis, Campbell MacPherson has also reviewed historical trading EV/EBITDA multiples for selected ASX and NZX listed companies in the hospitality and food service sectors. As discussed in Appendix I, transaction multiples are typically preferred to trading multiples when assessing the fair market value of 100% of a company. When using trading multiples, the implicit minority discount must be taken into consideration (i.e. the multiples do not include a premium for control).

Other than Savor Group, these companies are not considered applicable to the valuation of the GSH Business Assets. Please refer to Appendix II for a description on each of the below companies.

**Trading Multiples - Summary - Pre-IFRS-16**

| Company | Market Cap ($M) | Historical EV/EBITDA |
|---|---|---|
| Hospitality | | |
| Savor Group (NZX:SVR) | 25 | 7.0 |
| Endeavour Group (ASX:EDV) | 10,711 | 9.4 |
| | 5,368 | 8.2 |
| New Zealand Food and Beverage Services | | |
| Burger Fuel Group (NZX:BFG) | 14 | 2.5 |
| Foley Wines (NZX: FWL) | 80 | 8.2 |
| Restaurant Brands New Zealand (NZX:RBD) | 558 | 6.2 |
| My Food Bag Group (NZX:MFB) | 43 | 4.4 |
| | 174 | 5.3 |
| **Average** | **1,633** | **6.3** |
| **Median** | **62** | **6.6** |

Notes

1. Sourced from Capital IQ as at 31 August 2023 and company data.
2. We note that the historical multiples reported above have been adjusted on a pre-IFRS-16 basis.

Of the trading multiples reported above, we believe that the Savor Group is the most relevant to GSH (noting a historic EV/EBITDA multiple of 7.0x). Notwithstanding the Savor Group's comparative relevance to GSH, we have placed little weighting on the reported historical multiple of 7.0x[6] due to:

- **Continued Growth:** The Savor Group is positioned for continued growth in free cash flow over the coming years. However, as discussed above, GSH's sustainable earnings is projected to be relatively stable over the medium-term indicating that the two companies have differing growth prospects. A forecast multiple for Savor Group was not available.
- **FY23 Earnings Impact:** Savor Group's historic EV/EBITDA multiple of 7.0x was supported by a FY23 EBITDA of $5.2 million (which was impacted by adverse weather events). However, Savor Group noted that a normalised EBITDA (not including adverse weather events) would likely have equated $6.0 million, implying a normalised EV/EBITDA multiple of 6.1x[7].
- **Number of Venues:** The Savour Group has critical mass and operates 20 venues versus GSH's 9 venues that form part of the Proposed Transaction.

6 We note that if the recent market capitalisation of Savor is considered (i.e. as at 18 September 2023), the reported trading multiple decreases from 7.0x to 6.5x.

7 We note that if the recent market capitalisation of Savor is considered (i.e. as at 18 September 2023), the reported trading multiple decreases from 6.1x to 5.6x.

Assessed Multiple Range

In forming a view on an appropriate EV/EBITDA multiple to apply to GSH's future sustainable earnings, Campbell MacPherson has taken into consideration a number of factors including:

- Relevant transaction multiples and the corresponding companies' / assets' underlying characteristics (i.e. number and type of venues, attractiveness as an acquisition target and the quantum of the transaction) relative to GSH.
- Relevant trading multiples – as highlighted above, we believe the Savor Group provides for the most relevant NZX / ASX listed comparison to GSH, however, certain downside factors must be considered in the context of applying this multiple to GSH.
- The characteristics of the New Zealand hospitality industry, which has faced significant challenges in recent years, and in our opinion has led to a fundamental shift in the risk profile of the industry.
- GSH's financial and operational track record.
- Organic earnings growth opportunities for the GSH business (over and above our assumed sustainable earnings range).
- The attractiveness of GSH as an acquisition target in the current market environment (which the recent sale process demonstrated to be moderate), overlayed with contractual limitations faced by GSH in executing a sale (e.g. the rights of GSH's beverage suppliers).
- The basis of GSH's assumed sustainable earnings, where the upper range is based on unproven forecast earnings (i.e. carries additional risk).
- Our assessment of the underlying risk profile of the GSH business (which we believe to be moderate).

**Having given due regard to all of these factors, Campbell MacPherson believes an adjusted enterprise value / EBITDA multiple of 4.75x to 5.25x is appropriate to determine the fair market value of GSH.**

We highlight that the EBITDA multiple range we have adopted is reflective of an assumed transaction structure which is consistent with that of the Proposed Transaction and the reported headline purchase price (i.e. exclusive of any net working capital). As such, our adopted valuation multiple can be used to assess an "Adjusted Enterprise Value" which is directly comparable to the headline purchase price of the Proposed Transaction. We reiterate that our adopted multiple range cannot be used to assess a true enterprise value (inclusive of a normal level of net working capital).

## 5.4 Assessed Value of GSH – Capitalisation of Earnings Methodology

Based on the capitalisation of earnings methodology and the assumptions set out above, Campbell MacPherson has assessed the adjusted enterprise value of the GSH Business Assets to be in the range of $20.19 million to $25.73 million with a midpoint of $22.96 million.

| GSH - Capitalisation of Earnings Valuation Results | | |
|---|---|---|
| | Value Range | |
| **$000's** | **Low** | **High** |
| Future Sustainable EBITDA | 4,250 | 4,900 |
| EBITDA Multiple | 4.75 | 5.25 |
| **Adjusted Enterprise Value** | **20,188** | **25,725** |
| ***Midpoint*** | ***22,956*** | |

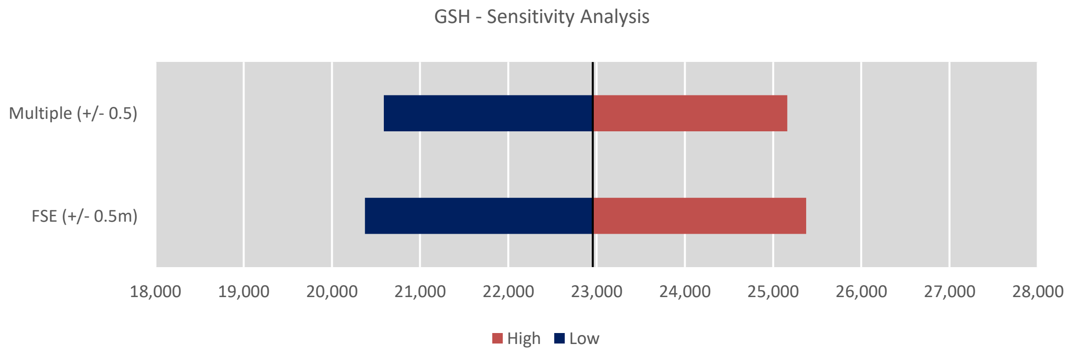
*Source: Campbell MacPherson analysis.*

As set out in Section 5.2 and 5.3, we have assessed the adjusted enterprise value of the GSH Business Assets (i.e. an enterprise value exclusive of any net working capital). This valuation metric is directly comparable to the headline purchase price under terms of the Proposed Transaction.

### *Sensitivity Analysis*

We have summarised below the impact of adjusting key valuation assumptions on the mid-point of our Adjusted Enterprise Value for the GSH Business Assets. The following adjustments have been made (keeping all else equal):

- **Multiple:** +/- 0.5x.
- **Future Sustainable Earnings:** +/- $0.5 million.




*Source: Campbell MacPherson Analysis*

## APPENDIX I. VALUATION METHODOLOGIES

### *Discounted Cash Flow Methodology*

The Discounted Cash Flow (**DCF**) methodology estimates the value of a company based on the net present value (**NPV**) of its future free cash flows, recognising the time value of money and company specific risk factors. The DCF method requires management to prepare detailed, long-range cash flow projections for the business, together with an assessment of the cost of capital or "discount rate" that should be applied to determine the NPV of those cash flows. The NPV of a company's free cash flow represents the value of the business as a whole, prior to considering how the company is financed (commonly referred to as Enterprise Value or **EV**). Net debt and the value of any non-voting and/or preferential equity instruments is then deducted to determine the ordinary equity value of the business.

The EV of a company determined by the DCF method is usually calculated in a two-stage process which combines the NPV of expected future free cash flow over an explicit forecast period and a terminal value representing the NPV of free cash flow beyond that period. Valuations derived using the DCF method are often highly sensitive to the cost of capital and the terminal value.

### *Capitalisation of Earnings Methodology*

The Capitalisation of Earnings methodology is an adaptation of the DCF methodology. It requires an assessment of the future sustainable earnings of the business and the selection of a capitalisation rate (or earnings multiple) appropriate for that particular business. This method is based on the principle that comparable companies engaged in similar business activities will have similar operating and financial risks and returns and can therefore be valued using a similar multiple of earnings.

The advantage of the Capitalisation of Earnings methodology over the DCF methodology is that earnings multiples can often be directly observed in the market. A multiple is often applied to earnings before interest, tax, depreciation and amortisation (**EBITDA**) or earnings before interest and tax (**EBIT**) in order to determine the Enterprise Value of the business. The Capitalisation of Earnings methodology is generally most appropriate for established companies with stable earnings.

Comparable multiples are generally derived using two key sources of information:

- Earnings multiples based on recent transactions of comparable companies.
- Earnings multiples based on the current share price of comparable listed companies.

Multiples derived from comparable transactions are often the most relevant when determining the fair market value of 100% of a company. However, this data is often confidential and can be difficult to obtain due to its commercial sensitivity. Earnings multiples calculated using the current share price of comparable listed companies are generally easier to obtain, but are typically less relevant as issues of size, liquidity and the implicit minority discount must be taken into consideration.

### *Capitalisation of Dividends Methodology*

The capitalisation of dividends method is similar to the Capitalisation of Earnings approach and is generally used to value minority equity shareholdings. This method involves a direct determination of the equity value of a company using an assessment of its future maintainable dividends. The future maintainable dividends are capitalised using an appropriate dividend yield to determine the equity value per share. This method is often used in situations where minority share parcels of stable dividend paying companies are being valued.

### *Asset-based Methodologies*

An asset-based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them.

A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

## APPENDIX II. TRANSACTION AND TRADING VALUATION MULTIPLES

### *Comparable Listed International Companies*

**Savor Group (NZX: SVR)** – The Savor Group is one of the largest bar and restaurant businesses in New Zealand that own and operate a portfolio of 20 restaurants and bars including (but not limited to) Amano, Azabu Ponsonby, Azabu Mission Bay, Ebisu, Non Solo Pizza, Bivacco, MoVida, Auckland Fish Market, Bang Bang Kitchen, Ortolana and Oji.

**Foley Wines (NZX: FWL)** – Grove Mill Wine Company Limited and the Foley Family Wines NZ Limited merged in 2012 to establish Foley Wines Limited and listed on NZX in November 2003. The company owns Martinborough Vineyard, Te Kairanga and Lighthouse Gin brand in Martinborough of the North Island, Grove Mill and Vavasour in Marlborough and Mt Difficulty in Central Otago.

**Endeavour Group (ASX: EDV)** – Endeavour Group Limited was founded in 2019 and is an Australian alcoholic drinks retailer, hotel operator and poker machine operator that was originally part of the Woolworths Group. It was listed as a separate entity on the ASX in June 2021. The retail segment owns brands such as Dan Murphy's, BWS, Jimmy Brings, Langton's and Shorty's Liquor. The company's portfolio stands at 1,701 stores, 354 hotels, 6 wineries and employs 28,000 people.

**Burger Fuel Group (NZX: BFG)** – Burger Fuel Group Limited has been in the New Zealand restaurant and fast food sector since 1995 and operates Burger Fuel, Shake Out and Winner Winner brands. The company was listed on the NZX in July 2007 and currently operates 68 stores locally, 7 in Saudi Arabia and 1 in Dubai, UAE.

**Restaurant Brands New Zealand (NZX: RBD)** – Restaurant Brands New Zealand Limited was listed on the NZX in June 1997 and operates the KFC, Pizza Hut, Taco Bell and Carl's Junior brands in New Zealand with their overseas portfolio including KFC and Taco Bell (Australia), KFC and Taco Bell (California) and Taco Bell and Pizza Hut (Hawaii and Guam). The company has 488 stores employing nearly 12,000 people and we note that 376 stores are owned by the group and 112 are franchised. Over 250 stores are in New Zealand employing over 4,000 people.

**My Food Bag Group (NZX: MFB)** – My Food Bag operates in the online food home delivery market and was established in December 2012. The company delivers fresh ingredients to customers together with weekly dinner recipes. The company was also the first meal kit business to introduce ready-made meal options in 2018 and was listed on the NZX and ASX in March 2021. My Food Bag was delisted on the ASX in June 2023 citing cost savings initiatives.

## APPENDIX III. INFORMATION, DISCLAIMER & INDEMNITY

### a Sources of Information

The statements and opinions expressed in this Report are based on the following main sources of information:

- The draft notice of meeting.
- Documentation pertaining to the Proposed Transaction and the associated sale process (including the strategic review completed by Tonnant Partners, sale and purchase agreement between the Vendors and the Purchaser, and the agreement with PDL pertaining to the Proposed Dividend).
- Correspondence and / or discussions with the Non-Associated Directors, the GSH CFO, and the Company's legal advisers.
- GSH's audited annual reports for FY18 - FY22 and unaudited financial statements for FY23.
- GSH management accounts.
- GSH's FY24 budget.
- GSH Board Reports applicable to the Proposed Transaction.
- Various NZX market announcements by GSH.
- Publicly available information on GSH.
- Capital IQ (share price data and company financials).

During the course of preparing this Report, we have had discussions with and/or received information from the GSH Directors and senior management who are not associated with the Purchaser.

The Non-Associated Directors of GSH have confirmed that we have been provided, for the purpose of this Report, with all information relevant to the Proposed Transaction that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Report. In our opinion, the information set out in this Report is sufficient to enable the Non-Associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision.

### b Reliance on Information

In preparing this Report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by GSH and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this Report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of GSH. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

## c Disclaimer

We have prepared this Report with care and diligence and the statements in this Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this Report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the Report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time. We have no obligation to advise any person of any change in circumstances which comes to our attention after the date of this Report or to review, revise or update our Report.

We have had no involvement in the preparation of the notice of meeting issued by GSH and have not verified or approved the contents of the notice of meeting. We do not accept any responsibility for the contents of the notice of meeting except for this Report.

## d Indemnity

GSH has agreed that, to the extent permitted by law, it will indemnify Campbell MacPherson and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this Report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. GSH has also agreed to indemnify Campbell MacPherson and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Campbell MacPherson or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Campbell MacPherson shall reimburse such costs.

## APPENDIX IV. QUALIFICATIONS, DECLARATIONS & CONSENTS

### a Qualifications

***Campbell MacPherson Limited***

Campbell MacPherson is a private New Zealand-owned investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations. Further information on Campbell MacPherson can be found on our website www.campbellmacpherson.com.

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Stephen Burns, and Brad Caldwell. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

***Alistair Ward*** *B.Com (Hons), M INST D, AFNZIM*
Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZSX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

***Stephen Burns*** *B.Sc, B.M.S., Dip.Com (Accounting), C.A, CM Inst D.*
Stephen together with Alistair Ward formed Campbell MacPherson in 2002. Stephen was formerly a senior executive with the ANZ Banking Group in New Zealand and prior to that was Director - Debt Securities for Auckland investment bank, Northington Partners.

Stephen has over 25 years blue-chip experience in corporate and investment banking in New Zealand and the United Kingdom, covering property, corporate and structured finance roles. As a Principal of Campbell MacPherson, he has considerable experience in mergers and acquisitions, corporate valuation and all aspects of debt and equity financing, including management/leveraged buyouts, general corporate and project and development funding.

Stephen is a Chartered Accountant and is affiliated to a number of other professional bodies, including being a Chartered Director by the Institute of Directors in New Zealand (Inc).

**Brad Caldwell** *B.Com, M.Bus*
Brad joined Campbell MacPherson in 2010 and has worked on numerous corporate advisory assignments including mergers and acquisitions, capital raising and other projects. His expertise includes valuation, financial modelling and market/industry research.

Brad is a graduate of the University of Otago where he completed a Bachelor of Commerce, majoring in finance, followed by a Masters in Business, majoring in finance.

## b Independence

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with GSH or the Purchaser that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Proposed Transaction nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

## c Declarations

Advance drafts of this Report were provided to the GSH Non-associated Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson. Our terms of reference for this engagement did not contain any term which materially restricted the scope of this Report.

## d Consents

We consent to the issuing of this Report in the form and context in which it is to be included in the notice of meeting to be sent to GSH's shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.