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**OPINION OF THE INDEPENDENT EXPERT**


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The Board of Directors  
 Welkom Yizani Investments (RF) Limited  
 Media24 Centre  
 21st Floor  
 40 Heerengracht Street  
 Cape Town  
 8001

7 December 2020

Dear Sirs and Mesdames

**INDEPENDENT EXPERT OPINION ON THE OFFER BY MEDIA24 HOLDINGS (PROPRIETARY) LIMITED (“MEDIA24” OR “THE OFFEROR”) TO ACQUIRE THE ISSUED, ORDINARY SHARE CAPITAL OF WELKOM YIZANI INVESTMENTS (RF) LIMITED (“WELKOM YIZANI” OR “THE COMPANY”) (“THE TRANSACTION” OR “THE OFFER”)**

**1. Introduction**

In terms of the firm intention announcement (the “Firm Intention Announcement”) published by Welkom Yizani on 27 November 2020, holders of ordinary shares each with a par value of R0.0000001 in the issued ordinary share capital of Welkom Yizani (“Welkom Yizani Shares” or “the Shares”) (“Welkom Yizani Shareholders”) were advised that Welkom Yizani and the Offeror have entered into a binding offer letter to acquire the Welkom Yizani Shares from the Welkom Yizani Shareholders (“the Offer”). The Offer is made at a cash consideration of R15.70 per Welkom Yizani Share (“the Scheme Consideration”).

The Offer will be implemented by way of a scheme of arrangement in terms of sections 114 and 115 of the Companies Act 71 of 2008 (“the Companies Act”) (“the Scheme”), to be proposed by the Welkom Yizani board of directors between Welkom Yizani and Welkom Yizani Shareholders (the “Scheme Participants”), at the Scheme Consideration and upon the terms and subject to the conditions set out in the circular to Shareholder regarding the Offer in which this letter is replicated (“the Circular”).

The Welkom Yizani Shares forming the subject matter of the Offer are collectively referred to as “the Scheme Shares”.

As at the date of this opinion, the share capital of the Company comprises of the following:

- Authorised share capital comprising 30 000 000 Welkom Yizani Shares and 120 000 000 variable rate, cumulative, redeemable preference shares (“Preference Shares”); and
- Issued share capital comprising 14 600 001 Welkom Yizani Shares and 4 382 Preference Shares.

The Company had no share options outstanding and held no treasury shares.

Full details of the Scheme are contained in the Circular. The material interests of the directors of Welkom Yizani and the impact of the Scheme on them are set out in paragraph 9 of the Circular.

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 Principals: D Austen; T Thackwray



The Offer provides Scheme Participants with an opportunity to realise their investment in Welkom Yizani at a premium of ~74% to the closing price of Welkom Yizani Shares on the date preceding the publication of the Cautionary Announcement referred to in paragraph 12 below, being R9.00 per Welkom Yizani Share, and a discount of 17.455% to the closing price of Welkom Yizani Shares on 26 November 2020, being the date preceding the publication of the firm intention announcement setting out the terms of the Scheme.

## **2. Scope**

The Scheme will constitute an “affected transaction” as defined in section 117(1)(c)(iii) of the Companies Act. It will be implemented in accordance with the Companies Act and the Companies Regulations, 2011 (“Companies Regulations”) and is regulated by the Takeover Regulation Panel.

In terms of the Scheme, the Offeror will acquire the Scheme Shares from the Scheme Participants for the Scheme Consideration. Welkom Yizani will, accordingly, become wholly owned by the Offeror and Welkom Yizani’s listing on Equity Express Securities Exchange will be terminated.

The independent board of directors of Welkom Yizani (“the Independent Board”) is required to appoint an Independent Expert to express an opinion as to whether the terms of the Scheme are fair and reasonable to the Welkom Yizani Shareholders (“the Opinion” or “our Opinion”). The Independent Expert must meet the requirements of section 114(2) of the Companies Act.

Questco Corporate Advisory Proprietary Limited (“Questco”) has been appointed by the Independent Board as the Independent Expert to advise on whether the terms of the Scheme are fair and reasonable to the Shareholders of Welkom Yizani, excluding the Offeror.

Copies of Sections 115 and 164 of the Companies Act are included in Annexure 6 and 7 of the Circular, respectively.

## **3. Responsibility**

Compliance with the Companies Act and the Companies Regulations is the responsibility of the Independent Board. Our responsibility is to report on the terms of the Offer in compliance with the related provisions of the Companies Act and Companies Regulations.

We confirm that our Opinion has been provided to the Independent Board for the sole purpose of assisting them in forming and expressing an opinion for the benefit of Welkom Yizani Shareholders in relation to the Offer.

## **4. Definition of the terms “fair” and “reasonable”**

For the purposes of our Opinion, fairness is primarily based on a quantitative assessment of the Scheme Consideration. The Scheme Consideration would therefore be considered to be fair if the Scheme Consideration was more than or equal to the fair value of the Scheme Shares, as determined in accordance with an accepted valuation approach, or unfair if the opposite would hold true.

The assessment of reasonableness is generally based on qualitative considerations surrounding the transaction. Accordingly, even though the consideration to be paid in respect of an offer may be lower or higher than the current market value as at the time of announcement of the offer consideration, or at some other more appropriate identifiable time, the offer may be considered reasonable after considering other significant qualitative factors.

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## 5. Our approach in considering the Scheme

In considering the Scheme Consideration, we have calculated the fair value per Welkom Yizani Share and compared this to the Scheme Consideration and the price at which Welkom Yizani Shares have traded at various points in time and over various periods.

## 6. Sources of information

The principal sources of information used in performing our work include:

- The terms of the Scheme, as set out in the draft Circular;
- Representations made by, and discussions held with, the management of Media24 and its advisors;
- Publicly available information relating to the industries in which Media24 operates;
- Publicly available information relating to Welkom Yizani and Media24 and its subsidiaries that we deemed to be relevant, including company announcements, media articles and analyst presentations, where applicable;
- Share price information of Welkom Yizani over the last 12 months to assess the liquidity and volatility of Welkom Yizani Shares;
- Audited Group Annual Financial Statements of Welkom Yizani and the Audited Consolidated Annual Financial Statements of Media24 for the three financial years ended 31 March 2020;
- Unaudited management accounts of Media24 for the 6 months ended 30 September 2020;
- Unaudited financial statements for Welkom Yizani for the 6 months ended 30 September 2020;
- Forecast financial information for Media24 and its subsidiaries for the 10 years ending 31 March 2030;
- The shareholders' agreement between Naspers Limited ("the Controlling Shareholder") and Welkom Yizani in respect of their co-investment in Media24;
- The subscription agreement between Welkom Yizani and the Controlling Shareholder in respect of Welkom Yizani's issued preference shares;
- Welkom Yizani's memorandum of incorporation ("MOI");
- comparative, publicly available financial and market information on appropriate peer issuers in South Africa and abroad;
- economic outlooks prepared by leading South African banks; and
- on-line and subscription databases covering financial markets, share prices, volumes traded and news.

## 7. Procedures performed

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In arriving at our Opinion we have undertaken the following procedures in evaluating the fairness of the Scheme:

- Considered the rationale for the Scheme, as represented by the Independent Board and by Media24 and its advisors;
- Reviewed the terms of the Scheme;
- Reviewed the restrictive conditions in respect of the holding and transfer of Welkom Yizani Shares as contained in the Company's MOI and considered the impact thereof on the valuation of Welkom Yizani Shares;
- Reviewed the shareholders' agreement between the Controlling Shareholder and Welkom Yizani which governs the relationship between them in respect of their co-ownership of Media24 and considered the impact thereof on the fair value of Welkom Yizani's interest in Media24;
- Held discussions with management of Media24 on the prospects of the underlying businesses within Media24;
- Reviewed and analysed the historical financial information of Welkom Yizani and Media24;
- Prepared valuations for the two distinct operating components of Media24, more detail in respect of which is set out in paragraph 9 below;
- Reviewed the prices at which other listed Black Economic Empowerment investment vehicles trade relative to their underlying net asset values;
- Prepared a valuation of Welkom Yizani Shares based on our determined value of its interest in Media24 and other prevailing market factors;
- Reviewed the financial forecasts of Media24 as prepared by its management, together with the assumptions on which they have been based;
- Reviewed Welkom Yizani's historic traded share prices and trading volumes on the Equity Express Securities Exchange to ascertain the liquidity and volatility of the Welkom Yizani Shares;
- Reviewed relevant publicly available information relating to Welkom Yizani and Media24 and the industries in which it operates, including company announcements and media articles;
- Performed an analysis of other information considered pertinent to our valuation and Opinion;
- Considered the prevailing economic and market conditions in which Media24 operates, including the impact of the COVID-19 pandemic as far as practically possible;
- Considered the fact that the Scheme Consideration is settled in cash; and
- Obtained from the management of Media24 a letter of representation in respect of, amongst other things, the information shared and/or statements made to us and upon which we have relied.

We have not interviewed any of the Welkom Yizani Shareholders to obtain their views on the Scheme.

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We determined the fairness and reasonableness of the Scheme to Welkom Yizani Shareholders based on the results of the procedures mentioned above. We believe that these considerations justify the opinion outlined below.

## **8. Limiting conditions**

This Opinion is provided to the Independent Board in connection with and for the purposes of the Offer. Our Opinion does not purport to cater for each individual Welkom Yizani Shareholder's circumstances, but rather that of the general body of Welkom Yizani Shareholders.

We have relied upon and assumed the accuracy of the information provided to and obtained by us in determining our Opinion. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of reaching our Opinion, whether in writing or obtained in discussion with Media24 management, with reference to publicly available or independently obtained information.

While our work has involved an analysis of, inter alia, various sets of annual financial statements and other information provided to us, our engagement does not constitute an audit conducted in accordance with generally accepted auditing standards

This Opinion is provided in terms of the Companies Act. It does not constitute a recommendation to any Welkom Yizani Shareholder as to how to vote at any Shareholders' meeting relating to the Scheme or on any matter relating to it. It should not, therefore, be relied upon for any other purpose. We assume no responsibility to anyone if this Opinion is used or relied upon for anything other than its intended purpose. Should an individual Welkom Yizani Shareholder have any doubts as to what action to take, such Shareholder should consult an independent advisor.

Budgets/projections/forecasts relate to future events and are based on assumptions which may not remain valid for the whole of the forecast period. Accordingly, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods.

We express no opinion as to how closely actual results will correspond to those projected/forecast by the management of Media24. We have compared the projected/forecast financial information to past trends as well as discussed the assumptions inherent therein with the management of Media24.

Global financial markets are currently faced with significant uncertainty as a result of the COVID-19 pandemic, with the full impact remaining uncertain at this stage. We have assumed economic, regulatory and market conditions remain stable over the forecast period after factoring in the impact of COVID-19, as far as practically possible. There is, however, significant uncertainty, which could persist for some time, as to the full impact of COVID-19 on Media24 and Welkom Yizani and, as a result, our work may not have identified or reliably quantified the impact of all such uncertainties.

Subsequent developments may affect our opinion and we are under no obligation to update, review or re-affirm it based on such developments. We have assumed that all conditions precedent referred to in the Circular, including any material regulatory and other approvals, if any, will be properly fulfilled/obtained.

The valuation of companies and businesses is not a precise science and conclusions arrived at, will, in many cases, be subjective and dependent on the exercise of individual judgment.

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## 9. Valuation

### *Overview*

Questco performed an independent valuation of Welkom Yizani Shares to determine whether the Scheme Consideration represents fair value to the Welkom Yizani Shareholders.

We calculated the fair value per Welkom Yizani Share using the market approach, where we applied a price:book ratio that is in line with the price:book ratios at which the shares in other listed BEE investment holding companies currently trade. In addition, in determining the “book” value per Welkom Yizani Share, we calculated the fair value of Welkom Yizani’s 15% interest in Media24 (Welkom Yizani’s single largest asset), together with the fair value of other assets on its most recent statement of financial position, less recorded liabilities at book value.

### *Approach to the valuation of Welkom Yizani’s interest in Media24*

Media24 has two distinct areas of business focus, i.e. print/digital media (“Media”) and online fashion retail (“FUSA”), the latter comprising almost 90% of Media24’s fair value. We have performed a valuation of both Media and FUSA using the Discounted Cash Flow methodology (“DCF”) and, in the case of FUSA, we have corroborated our findings using the market approach.

### *DCF Valuation*

The DCF is a valuation methodology used to estimate the value of an investment based on its expected future cash flows. Key value drivers include:

- FUSA’s expected revenue growth (between 20% and 60% in the first five years of the forecast period, tapering down to levels just above forecast inflation thereafter);
- The terminal growth rate (4%, being the consensus view on CPI in the long term, and which assumes that the business will have reached maturity and will experience no real growth);
- The weighted average cost of capital (“WACC”) for each of Media and FUSA, which we have calculated at 17.9% and 18.1%, respectively, and which assumes no interest-bearing debt;

We performed sensitivity analyses in respect of these key value drivers as follows:

- increasing and decreasing the WACC rate by 1%;
- increasing and decreasing the annual growth rate of FUSA’s revenue in the first five years of the forecast period by 5%; and
- increasing and decreasing the terminal growth rate by 50 basis points.

While the valuations are not materially sensitive to movements in the WACC and the terminal growth rate, the valuation of FUSA is particularly sensitive to changes in assumed revenue growth. Nonetheless, we are of the view that FUSA’s revenue growth assumptions are optimistic and that there is more downside risk than upside risk in this regard.

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### ***Market approach***

The market approach is a method of determining the value of an asset based on the selling price of similar assets. We have considered the multiples at which companies similar to FUSA trade, making adjustments to take into account differing country risk (in the case of non-South African comparable companies), growth prospects, margins and financial risk profiles. The multiples used for the valuation of FUSA were Enterprise Value (“EV”) to Earnings Before Interest and Tax (“EBIT”), Depreciation and Amortisation, EV to EBIT and Price to Earnings. In all of the aforementioned instances, the valuation outcome was substantially below that arrived at using the DCF valuation methodology.

### ***Other factors affecting the fair value of Welkom Yizani’s 15% interest in Media24***

Media24 shares are unlisted and illiquid. In addition, the shareholders’ agreement between the Controlling Shareholder and Welkom Yizani governing their relationship as co-owners of Media24 contains certain restrictive clauses affecting the ability of Welkom Yizani to dispose of its interest in Media24 and also confers upon the Controlling Shareholder certain rights in relation to Welkom Yizani’s shareholding in Media24 should it dispose of its own interest in Media24. These restrictive clauses, together with the fact that Media24 shares are unlisted and illiquid, negatively impact the fair market value of Welkom Yizani’s shareholding in Media24 and we have applied a 20% discount to our valuation thereof as a consequence.

## **10. Assumptions**

Our Opinion is based on the following assumptions and information:

- the Scheme will be legally enforceable;
- the Scheme will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives of and advisors to Welkom Yizani and Media24;
- reliance can be placed on the financial information of Welkom Yizani and Media24; and
- representations made by Media24 management and their advisors during the course of forming this Opinion.

## **11. Valuation results**

In undertaking the valuation exercise of Welkom Yizani above, we determined a valuation range of the Welkom Yizani Shares of R13.00 to R16.00, with a most likely value of R15.00 per Share. Accordingly, given that the Scheme Consideration falls within this fair value range, we believe the Scheme Consideration to be fair.

The valuation above is provided solely in respect of this Opinion and should not be used for any other purposes.

## **12. Reasonableness**

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On 3 November 2020, Welkom Yizani released a cautionary announcement alluding to the fact that the Company was considering a corporate action which, if successfully concluded, could have a material effect on the price at which its shares trade (“the Cautionary Announcement”). The Cautionary Announcement also referred to an announcement released on the same day regarding the appointment of three independent non-executive directors (“the New Directors”), stating that the New Directors had been appointed for the purposes of assisting the Company in considering the proposed corporate action.

Historically, Welkom Yizani Shares have been highly illiquid, with the demand for them diminished by limitations on who can own them and how many shares any single shareholder can own. However, the publication of the Cautionary Announcement precipitated an increase in trading volumes and a dramatic increase in the price of Welkom Yizani Shares, albeit off very thin trade relative to the number of Welkom Yizani Shares in issue. The closing price of Welkom Yizani Shares on 26 November 2020, being the day immediately prior to the announcement of the Scheme Consideration, was R19.02, which is substantially higher than trading prices over the last twelve months. The closing price of a Welkom Yizani Share on 2 November 2020, being the day immediately preceding the publication of the Cautionary Announcement, was R9.00. The volume-weighted average price of Welkom Yizani Shares for the 30 trading days prior to the release of the Cautionary Announcement was R8.88. The highest price at which Welkom Yizani Shares have traded in the 12 months prior to 3 November 2020 is R11.99. It is important to note that approximately 64% of the trading volumes in the period after the Cautionary Announcement were as a consequence of the buying activities of 3 individuals and that only ~128 000 shares were traded in aggregate. These trades therefore do not reflect a large volume of shares compared to the total issued share capital of Welkom Yizani.

As mentioned above, the Welkom Yizani shares are subject to a number of restrictions including the number of shares any shareholder may hold and the fact that any transaction requires Naspers consent. The Scheme represents a liquidity event that affords all holders of Welkom Yizani Shares an opportunity to realise their investment in a single transaction at a cash consideration that is substantially higher than the highest price at which they have traded in the twelve months prior to the publication of the Cautionary Announcement.

Taking the aforementioned liquidity constraints and share trading history into account, and the fact that the Board’s ability to pursue or consider an offer from any party other than the Controlling Shareholder is curtailed as a consequence of provisions in the Company’s MOI, we are of the view that the terms of the Scheme are reasonable.

### **13. Opinion**

Questco has considered the terms of the Scheme and, based on and subject to the conditions set out herein, is of the opinion that the terms of the Scheme are fair and reasonable to Welkom Yizani Shareholders.

Our Opinion is necessarily based upon the information available to us up to Friday, 4 December 2020, including in respect of the financial information as well as other conditions and circumstances existing and disclosed to us.

### **14. Independence, competence and fees**

We confirm that we have no direct or indirect interest in Welkom Yizani or the Offer nor do we have any relationship with Welkom Yizani or any person related to Welkom Yizani such as would lead a reasonable and informed third party to conclude that our integrity, impartiality or objectivity has been compromised by such relationship. We also confirm that we have the necessary competence and experience to provide this Opinion.

Furthermore, we confirm that our professional fee of R200 000 (excluding VAT) is not contingent upon the outcome of the Scheme.

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## 15. Consent

We consent to the inclusion of this letter and the reference to our Opinion in the Circular to be issued to the Shareholders of Welkom Yizani in the form and context in which it appears and in any required regulatory announcement or documentation.

Yours faithfully

Mandy Ramsden

DIRECTOR

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