

Facey Group's Offer of Seprod Limited Shares

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Transaction Overview

Facey Group Limited is inviting individuals to apply to purchase 91,914,894 ordinary shares of Seprod Limited. In March 2018, Seprod announced that it had reached an agreement with Facey to acquire its consumer business, Facey Commodity Holdings Limited (Facey Consumer), which deals in the distribution of consumer and pharmaceutical products in Jamaica. Seprod paid US\$53.8M to acquire Facey Consumer – US\$16M in cash and 217,148,396 newly issued shares of Seprod worth US\$37.8M.

The deal was closed in September in 2018, subject to the issuance of the shares. Facey intends to retain 125,234,043 shares for itself and is making the remaining 91.9M shares available to prospective investors as keeping them would bring Musson's (Parent company of Facey) overall stake in Seprod above 50%, triggering a mandatory takeover offer to the other shareholders.

Term Sheet

Instrument	Ordinary Shares
Company	Seprod Limited
Nominator	Facey Group Limited
Lead Broker	NCB Capital Markets
Amount	91,914,894 shares of which 55,000,000 shares represented reserved shares: <ul style="list-style-type: none"> • 30,000,000 shares reserved for staff, managers, executives, directors and former directors of Seprod and its subsidiaries including Facey Consumer • 15,000,000 shares reserved for existing Seprod shareholders as at Aug. 31, 2018. • Up to 10,000,000
Invitation Price	\$23.99
Minimum Subscription	1,000 shares with increments in multiples of 100
Use of Proceeds	None of the net proceeds of this Offer will be payable to Seprod as all the share are being made available by the Nominator.
Important Dates	Opening Date – 9:00am October 23, 2018 Closing Date - 4:30pm on October 30, 2018

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Company Background

Seprod Limited was incorporated in Jamaica in July 1940 and became a publicly-listed company in 1985. Seprod now operates with three business lines: Ingredients, Dairy and Distribution. The Ingredients division consists of Seprod's joint venture with Seaboard Corporation, Jamaica Grain and Cereals Limited, which commenced flour production in December 2017. The operation also produces cornmeal and grits in bulk as well as consumer-size packages. The sugar operation has racked up significant losses over the past few years which the company is seeking to reverse having admitted their inability to overcome the industry's "significant structural deficiencies."

The Dairy line has been expanded with integration of dairy operation formerly owned and operated by the Nestle Group, which includes the physical assets based in Bog Walk, St. Catherine and the "Betty" and "Supligen" brands. The acquisition of Facey Consumer forms the foundation of the Distribution arm of Seprod as the company saw little benefit in having first-class production facilities without the ability to distribute the products themselves.

Target Background

Facey Consumer is a leading distributor of consumer and pharmaceutical products in Jamaica and Trinidad. Facey distributes to over 8,000 locations island-wide, inclusive of supermarket chains and convenience stores. Brands distributed by Facey Consumer include:

Merchandise			
Oscar Mayer	Post	Goya	Mondelez
Lider	Delite	Kraft	Eve
Serge	Butterkist	Maxwell House	Twinnings
Nabisco	Brunswick	Abbot	
Pharmaceutical			
Church & Dwight	Roche	Pfizer	Limacol
Boehringer Ingelheim			

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The Merchandise division is one of the largest distributors in the region and has the largest route-to-market fleet within Jamaica. The company employs real-time monitoring and reporting through the use of tablets and other smart devices by the sales and distribution teams. The Pharmaceutical division is one of the leading distributors of pharmaceutical goods in the English-speaking Caribbean with a dominant presence in Jamaica. Facey distributes a wide range of ethical and over-the-counter pharmaceuticals across its island-wide network to hospitals, pharmacies and general merchandise and convenience stores from a state-of-the-art, air-conditioned warehouse with 40,000 sq. ft. of capacity.

The following is an extract from the Prospectus for the Seprod shares which details financial information on Facey Consumer.

Facey Commodity Company Limited

Consumer EBITDA 2015-2018 (US'000s)

	YTD June 2018	2017	2016	2015	2017/2016 % change
Revenue	67,600	129,082	113,197	103,590	14.0%
Gross Profit	12,196	23,602	20,710	16,693	14.0%
Selling, General & Administrative Expense	7,178	14,439	13,743	11,226	5.1%
EBITDA	5,018	9,163	6,966	5,467	31.5%

At the time of its acquisition, Facey Consumer carried net debt of US\$20.0M with a weighted average interest rate of approximately 7.29%.

Outlook and Valuation

The information presented in the previous table is all the financial information for Facey Consumer that has been made public with this offer. Facey Consumer reported revenues of US\$129.1M for 2017 (J\$16.6B), up 14.0% from the prior year's result and compares to revenues of J\$16.5B for Seprod Limited over the same period¹. We anticipate a significant increase in revenues for Seprod

¹ See Abridged Financials Section for financial summary of Seprod Limited

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Limited post-transaction, however, as Facey Consumer was a distributor of Seprod products, we do not believe this acquisition will result in a doubling of Seprod's revenues.

EBITDA for Facey Consumer for 2017 amounted to US\$9.2M, or J\$1.2B, a 31.5% increase year-over-year, which compares to Seprod's EBITDA of \$1.33B for the same year. Without knowing the specific amount of net profit that was generated by Facey Consumer in past years, it is difficult to project Seprod's net earnings post-transaction and without this information we are unable to properly assess whether or not this acquisition is accretive or dilutive as the number of shares outstanding has increased by 42%.

Given the information available to us, we employed an Enterprise Value to EBITDA (EV/EBITDA) multiple to determine the fair value of Seprod. The cumulative value of Seprod's trailing twelve month EBITDA and Facey's 2017 EBITBA is \$3.0B. Applying Seprod's 1-year average EV/EBITDA multiple of 9.78x yields an enterprise value of J\$29.4B. Adjusting for net debt, the equity value of Seprod is \$29.16 (shares outstanding – 733,546,855).

Recommendation

We view favourably the moves by Seprod over the past year to expand its business operations following the acquisition of Nestle Jamaica, Facey Consumer and the joint venture with Seaboard Corporation. Investors should be mindful of the Company's investment in sugar, which has generated significant losses to date. Also, as a manufacturing, and now distribution company, Seprod is susceptible to economic headwinds stemming from weak economic growth, high inflation and weak business & consumer confidence. Deterioration in these factors would have a negative impact on the company's outlook.

We recommend this offer as OVERWEIGHT as our valuation of \$29.16 is 21.2% above the offer price of \$23.99. Assuming the dividend yield of 3.2% for 2017 is matched in 2018, the potential total return is 24.4%.

Source: <http://www.Jamstockex.com>, *JMMB Investment & Research, Bloomberg, Company Financials, Offer Prospectus*

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Abridged Financials

J\$	Year Ended December 31					6M17	6M18	Change %
	2013	2014	2015	2016	2017			
Turnover	13,921,759	14,007,117	13,777,863	15,781,917	16,511,206	8,365,210	10,435,383	24.7%
Cost of Sales	11,378,773	11,216,211	11,114,536	12,291,448	12,687,358	6,313,235	6,996,094	10.8%
Gross Profit	2,542,986	2,790,906	2,663,327	3,490,469	3,823,848	2,051,975	3,439,289	67.6%
Operating Expenses	1,821,868	1,815,628	2,309,243	2,760,879	2,977,371	1,589,228	2,513,720	58.2%
Operating Profit	1,419,318	1,460,478	900,823	1,588,716	1,330,969	847,295	1,154,711	36.3%
Profit Before Taxation	1,118,394	1,170,645	604,058	1,185,924	938,960	635,847	859,984	35.3%
Profit for the year	905,753	1,011,810	865,953	1,092,043	735,043	530,995	662,516	24.8%
Total Assets	13,791,649	14,035,906	15,296,202	17,216,750	20,008,056	18,078,359	20,610,691	14.0%
Total Liabilities	4,594,882	4,244,593	5,562,042	8,241,008	10,998,244	8,638,486	10,993,699	27.3%
Shareholder's Equity	9,366,647	10,077,628	10,309,528	9,767,944	9,889,214	10,301,050	10,560,512	2.5%
EPS (\$)	1.23	1.38	1.18	1.49	1.00	0.72	0.90	
Book Value per Share (\$)	12.77	13.74	14.05	13.32	13.48	14.04	14.40	
Key Ratios								
Gross profit margin	18.3%	19.9%	19.3%	22.1%	23.2%	24.5%	33.0%	
Operating profit margin	10.2%	10.4%	6.5%	10.1%	8.1%	10.1%	11.1%	
Pre-tax Margin	8.0%	8.4%	4.4%	7.5%	5.7%	7.6%	8.2%	
Net Margin	6.5%	7.2%	6.3%	6.9%	4.5%	6.3%	6.3%	
Return on Average Equity								
Return on Average Assets								
Cash Ratio (x)	0.36	0.58	0.64	0.12	0.09	0.11	0.14	
Current Ratio (x)	2.09	2.62	1.83	1.11	1.30	1.13	1.67	
Debt/Equity (x)	0.24	0.23	0.29	0.35	0.38	0.32	0.60	
Net debt/EBITDA (x)	1.02	0.91	1.89	1.74	2.17			

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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