Automotive Holdings Group Limited
21 Old Aberdeen Place
West Perth WA 6005
www.ahgir.com.au
ABN 35 111 470 038

16 May 2019

BY ELECTRONIC LODGEMENT

Market Announcements Office
ASX Limited
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Sir or Madam

Target's Statement – Off-market takeover bid by A.P. Eagers Limited

We refer to the off-market takeover bid by A.P. Eagers Limited (ACN 009 680 013) (AP Eagers) to acquire all of the ordinary shares in Automotive Holdings Group Limited (ACN 111 470 038) (AHG) that it does not already own (Offer).

In accordance with item 14 of section 633(1) of the Corporations Act 2001 (Cth), we attach a copy of the target's statement dated 16 May 2019 prepared by AHG in respect of the Offer, as well as a copy of the independent expert's report prepared by KPMG Corporate Finance that accompanies it (together, the Target's Statement).

The Target's Statement has today been sent to AP Eagers and lodged with the Australian Securities and Investments Commission.

The Target's Statement will also be sent to AHG shareholders tomorrow, in accordance with the modification granted to AHG by ASIC (that was previously announced on 8 May 2019).

Yours faithfully

David Rowland
Company Secretary
Automotive Holdings Group Limited

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Company Secretary
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Group Executive Corporate Communications
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Target's Statement

Automotive Holdings Group Limited

ABN 35 111 470 038

This Target's Statement has been issued in response to the offer by A.P. Eagers Limited ABN 87 009 680 013 to acquire all of your ordinary shares in Automotive Holdings Group Limited ABN 35 111 470 038.

The Directors of Automotive Holdings Group Limited unanimously recommend that you

ACCEPT

the Offer in the absence of a Superior Proposal, and that you should accept once AP Eagers has waived the No Material Adverse Change Condition.

This is an important document and requires your immediate attention. If you are in any doubt about how to deal with this document, you should consult your financial, legal, taxation or other professional adviser immediately.

Financial adviser

UBS

Legal adviser

ashurst

Snapshot of reasons why you should **ACCEPT** the Offer in the absence of a Superior Proposal, once the No Material Adverse Change Condition has been waived

Important Information

KEY DATES	
Announcement of Offer Bidder's Statement lodged with ASIC and ASX	5 April 2019
Commencement of Offer Period (date of the Offer)	23 April 2019
Date of this Target's Statement	16 May 2019
Date for AP Eagers to provide Notice of Status of Bid Conditions[1]	6 September 2019
Close of the Offer Period (unless extended or withdrawn)[2]	7.00 pm (Sydney time) on 16 September 2019

1. If the Offer Period is extended, this date will be taken to be postponed for the same period.

2. This date is indicative only and may be changed as permitted by the Corporations Act.

Nature of this document

This Target's Statement is dated 16 May 2019. This document is issued by Automotive Holdings Group Limited ABN 35 111 470 038 (**AHG**) under Part 6.5 of the Corporations Act in response to the offer by A.P. Eagers Limited ABN 87 009 680 013 (**AP Eagers**), to acquire all of your ordinary shares in AHG made pursuant to its Bidder's Statement dated 5 April 2019, as supplemented by the First Supplementary Bidder's Statement dated 26 April 2019, the Second Supplementary Bidder's Statement dated 1 May 2019 and the Third Supplementary Bidder's Statement dated 8 May 2019.

ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and provided to ASX on 16 May 2019. Neither ASIC, nor ASX, nor any of their respective officers, take any responsibility for the contents of this Target's Statement.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are defined in section 10, which also sets out certain rules of interpretation which apply to this Target's Statement.

No account of personal circumstances

This Target's Statement and the Independent Expert's Report that accompanies it, do not take into account the individual investment objectives, financial or tax situation or particular needs of any person. It does not contain financial advice (personal or otherwise). You should seek independent legal, financial and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward-looking statements

This Target's Statement contains forward-looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. These forward-looking statements are based on, among other things, AHG's assumptions, expectations, estimates, objectives, plans and intentions as at the date of this Target's Statement.

Forward-looking statements are subject to inherent risks and uncertainties. Although AHG believes that the expectations reflected in any forward-looking statement included in this Target's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. Actual events, results or outcomes may differ materially from the events, results or outcomes expressed or implied in any forward-looking statement.

Except as required by applicable law or the ASX Listing Rules, AHG does not undertake to update or revise these forward-looking statements, nor any other statements whether written or oral, that may be made from time to time by or on behalf of AHG, whether as a result of new information, future events or otherwise.

None of AHG (nor any of its officers and employees), or any other person named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood or fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

The forward-looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Disclaimer as to information

The information regarding AP Eagers and the AP Eagers Group contained in this Target's Statement (or on which certain information in this Target's Statement is otherwise based) has been prepared by AHG from publicly available information (including information contained in the Bidder's Statement). None of the information in this Target's Statement concerning AP Eagers or the AP Eagers Group has been commented on, or verified, by AP Eagers (save for obtaining the information from the Bidder's Statement prepared by AP Eagers). Accordingly, subject to the Corporations Act, AHG does not make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report.

Risk factors

AHG Shareholders should note that there are both risks associated with accepting the Offer and rejecting the Offer (and remaining as an AHG Shareholder). Section 8 of this Target's Statement sets out further information regarding some of those risks.

Maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

Foreign jurisdiction

The release, publication or distribution of this Target's Statement in jurisdictions outside Australia may be restricted by law or regulation. Accordingly, any person who comes into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations applying outside Australia.

Privacy

AHG has collected your information from the register of AHG Shareholders for the purposes of providing you with this Target's Statement. The type of information AHG has collected about you includes your name, contact details and information on your shareholding(s) in AHG. Without this information, AHG's ability to issue this Target's Statement may be impacted. The Corporations Act requires the names and addresses of AHG Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to AHG and its related bodies corporate, holders of AHG Shares and external service providers, and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by AHG, please contact us on the Shareholder Information Line.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Target's Statement.

Any discrepancies between totals in tables or financial information, or in calculations, graphs or charts are due to rounding.

Currency of information

Except as otherwise stated, all information in this Target's Statement is current as at the Last Practicable Trading Date.

Information available on AHG websites

AHG maintains a number of websites including www.ahg.com.au and www.ahgir.com.au.

To avoid any doubt, information contained in, or otherwise accessible through, these websites or any other website referred to in this Target's Statement is not a part of this Target's Statement.

Enquiries

If you have any questions in relation to the Offer or this Target's Statement, please contact the Shareholder Information Line on 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia).

AUTOMOTIVE HOLDINGS GROUP

CHAIRMAN'S LETTER

16 May 2019

Dear AHG Shareholder

AHG Directors unanimously recommend that you accept AP Eagers' Improved Offer, in the absence of a Superior Proposal, and that you should accept once AP Eagers has waived the No Material Adverse Change Condition

As announced to ASX on 8 May 2019, following discussions between AHG and AP Eagers, AP Eagers has improved its offer to acquire all the shares in AHG that it does not already own, so that the consideration offered is now 1 APE Share for every 3.6 AHG Shares that you hold (**Improved Offer**).

Furthermore, if the Improved Offer becomes unconditional, AHG Shareholders who accept the Improved Offer may also be entitled to receive any dividend declared by AP Eagers (after 8 May 2019 and before the end of the Offer Period) in respect of the APE Consideration Shares issued to them under the Improved Offer.[1]

This document is AHG's Target's Statement. It sets out AHG's response to the Improved Offer, including the recommendation of your Directors as to what action you should take in relation to it and the reasons for that recommendation, as well as other important information.

Your AHG Directors have carefully considered the Improved Offer and believe that it is in the best interests of AHG Shareholders. Accordingly, your Directors unanimously recommend that you **ACCEPT** AP Eagers' Improved Offer, in the absence of a Superior Proposal, and that you should accept once AP Eagers has waived the No Material Adverse Change Condition.

The key reasons for your Directors' Recommendation are as follows:

1. There are benefits of being a shareholder in a larger, more diverse Merged Group.
2. There is an opportunity to benefit from the potentially significant synergies that could be realised from a combination of AHG and AP Eagers.[2]
3. The Improved Offer provides AHG Shareholders with a better outcome than the Initial Offer.
4. The AHG Share price may fall below current levels if the Improved Offer does not proceed and no superior proposal emerges.
5. AP Eagers already has a relevant interest in 31.23% of the AHG Shares on issue and several large AHG Shareholders (holding approximately 22.82% of the AHG Shares on issue) have already signalled their support for a combination of AHG and AP Eagers by accepting into the Institutional Acceptance Facility.[3]
6. The Independent Expert has concluded that, whilst not fair, the Improved Offer is reasonable to AHG Shareholders who are not associated with AP Eagers.

Importantly, your Directors recommend that you should accept the Improved Offer only once AP Eagers has waived the No Material Adverse Change Condition. AP Eagers has undertaken to waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force

[1] Assuming that Accepting AHG Shareholders do not dispose of their APE Shares prior to the record date for the applicable dividend.

[2] Assuming that AP Eagers acquires 100% of AHG Shares.

[3] AP Eagers' percentage relevant interest and the percentage of AHG Shares accepted into the Institutional Acceptance Facility are, in each case (and to avoid any doubt), as at the Last Practicable Trading Date.

(provided that, among other things, this Bid Condition has not been breached before then). At the point of any such acceptance, the Improved Offer would be materially less conditional than it is now, and more likely to proceed.

Furthermore, there is no benefit to AHG Shareholders in accepting the Improved Offer before the No Material Adverse Change Condition has been waived by AP Eagers, because:

- you will not receive any consideration for your AHG Shares while the Improved Offer remains conditional; and
- you will not be able to withdraw or revoke your acceptance unless a withdrawal right arises, and therefore you would be unable to sell your AHG Shares on market or accept any alternative proposal (should one emerge).

Each Director intends to accept the Improved Offer in relation to the AHG Shares they own or control, in the absence of a Superior Proposal, once AP Eagers waives the No Material Adverse Change Condition.[4]

Your Directors encourage you to read this Target's Statement in full and to seek any independent financial, legal, taxation or other professional advice that you require before making a decision as to whether or not to accept the Improved Offer. In particular, your Directors draw your attention to the risk factors outlined in section 8 of this Target's Statement; you should consider these risks carefully, having regard to your personal circumstances, your own risk profile and appetite, and the advice of your professional advisers.

You have ample time to assess the Improved Offer and monitor developments because the Improved Offer is not scheduled to close until at least 7.00 pm (Sydney time) on 16 September 2019, and may be further extended.

If you have any questions in relation to this Target's Statement or your shareholding in AHG, please call your Shareholder Information Line on 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia), Monday to Friday between 8.30 am and 5.30 pm (Sydney time).

Your Directors will continue to keep you updated on all material developments in relation to the Improved Offer. Announcements relating to the Improved Offer (and AHG generally) are available on the ASX website (www.asx.com.au, ASX code: AHG) and the AHG website (www.ahgir.com.au).

Yours sincerely

Richard England

Richard England
Non-Executive Chairman

[4] John McConnell, AHG's Chief Executive Officer and Managing Director, has already provided an Acceptance Instruction in respect of all of the AHG Shares owned or controlled by him. See further about this in section 2.2.

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1. REASONS WHY YOU SHOULD ACCEPT THE OFFER IN THE ABSENCE OF A SUPERIOR PROPOSAL, ONCE AP EAGERS WAIVES THE NO MATERIAL ADVERSE CHANGE CONDITION

1.1 There are benefits of being a shareholder in a larger, more diverse Merged Group

AHG Shareholders are expected to benefit from being a shareholder in a larger, more diverse Merged Group, which would have greater operational scale; broader geographic and brand diversification; a stronger financial profile; and reduced downside exposure to any uncertainties associated with implementation of transformation initiatives already commenced by AHG.

Greater operational scale and geographic and brand diversification

The Merged Group would be represented in each State and Territory of Australia (other than the Australian Capital Territory) and in New Zealand, and would be the clear market leader in automotive retail in Australasia.

The Merged Group would also be expected to have market share of approximately 11.9% of the Australian new vehicles sales market.[5]

This compares to AHG's current principal markets of Western Australia, New South Wales, Queensland, Victoria and New Zealand, and its current market share of approximately 6.7% share of the Australian new vehicle sales market.

AHG and AP Eagers have complementary dealership geographical footprints. AP Eagers has a strong presence in South Australia, Tasmania and the Northern Territory, where AHG does not currently have automotive retailing operations. AHG has a strong presence in Western Australia, where AP Eagers does not operate any dealerships. Both AHG and AP Eagers operate in Victoria, New South Wales and Queensland.

The Merged Group would represent 33 car brands, including all of the top 26 leading car brands for the 12 months ended 31 December 2018.[6]

This broader market reach and brand portfolio diversity is expected to provide a measure of protection against the financial impacts of declining sales in any relevant State or Territory, and to provide potential opportunities that arise from growth in a particular market or from scale generally.

Stronger balance sheet

If AP Eagers successfully acquires 100% of the shares in AHG, AHG Shareholders will hold shares in a materially larger Merged Group, with a stronger balance sheet and financial profile. The Merged Group is expected to be better positioned than a "standalone" AHG to navigate the challenging trading conditions currently facing the automotive retailing sector and to capitalise on any turnaround and growth opportunities available (to the Merged Group) in the near term.

[5] As at 31 December 2018. Calculated based on AP Eagers' new vehicle market share of 5.2% (as stated in AP Eagers' 2018 full year results presentation) and AHG's new vehicle market share of circa 6.7% (as stated in AHG's 1H19 Results Announcement).

[6] Based on car brands represented by AHG and AP Eagers as at the Last Practicable Trading Date.

The illustrative financial profile of the Merged Group is set out in the table below.

Financial information	AHG standalone	Pro-forma Merged Group (assuming 100% acquisition of AHG by AP Eagers)
FY2018 Operating NPAT (A$m)[7]	74.8	151.3
Market capitalisation (undiluted) (A$m)[8]	789.3	2,260.5
Net debt (excluding bailment finance) (A$m)[9]	284.3	579.4
FY2018 EBIT interest coverage[10]	3.6x	5.6x

Reduced downside exposure to AHG's ongoing operational and strategic initiatives

AHG has commenced, and is in the process of implementing, a number of initiatives to simplify its business operations. These include the closure of underperforming sites, targeted cost reductions and the restructuring and strategic review of AHG's Refrigerated Logistics division.

These initiatives are designed to deliver medium to longer term earnings growth, and increased shareholder value, but there are uncertainties associated with the timeframes and deliverability associated with some of them.

The potential for profit improvement (through these initiatives), when combined with any expected turnaround in the Western Australian economy and any improvement in financial performance of easyauto123, mean that AHG is positioned for improved financial performance. However (as mentioned above), there is no certainty that such initiatives will be able to deliver the value enhancements to AHG Shareholders that they are designed to support, or that the economic and other factors contemplated above will eventuate. Through the combination of AHG and AP Eagers, AHG Shareholders' downside exposure to these factors will be reduced.

1.2 **There is an opportunity to benefit from potentially significant synergies that could be realised from a combination of AHG and AP Eagers**

If AP Eagers successfully acquires 100% of the AHG Shares that it does not already own, AHG Shareholders would benefit from the cost savings and synergy benefits which are

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[7] Excluding any synergies and after adjusting for AHG's dividends received by AP Eagers during the period.

[8] Based on the market capitalisation of AHG and AP Eagers on an undiluted basis at the Last Practicable Trading Date and after adjusting for AP Eagers' existing shareholding in AHG.

[9] As at 31 December 2018.

[10] **EBIT interest coverage** is calculated as EBIT divided by interest expense. EBIT is based on "Operating EBIT" as defined in both APE's and AHG's annual and half-yearly results. Interest expense for AP Eagers is based on "finance costs" as defined in AP Eagers' annual and half-year results, and for AHG is based on "interest (net)" as defined in AHG's annual and half-yearly results, both of which equate to the difference between "operating profit before tax" and "operating EBIT" as reported in both AHG's and AP Eagers' annual and half-yearly results.

expected to accrue to the Merged Group. These benefits would only arise on a combination of AHG and AP Eagers; they are not realisable by either party in isolation, and arise due to the scale of the Merged Group and the ability to remove certain costs currently incurred (for example, as a result of each entity's separate ASX listing and in the corporate head office and management of each entity's automotive retail operations) that would not necessarily need to be duplicated in the Merged Group.

AHG has undertaken an analysis of the synergies that could potentially be realised on a full combination of AHG and AP Eagers. This analysis estimates that, if AP Eagers acquires all of the AHG Shares that it does not already own, the pre-tax cost synergies could be approximately A$31.3 million per annum. This amount is derived from AHG's best estimate of the categories of AHG's costs that it considers are likely to be duplicated (and therefore could constitute cost savings) in a combination scenario, as set out in the table below, and having regard to publicly available information about AP Eagers. This amount is necessarily only an estimate of what could potentially result from a combination.

Category of cost savings	Estimated synergies (A$m)
Listed entity related costs *Costs associated with maintaining an ASX-listing, including listing fees, audit fees and costs associated with the Board of Directors*	1.5
Corporate costs *Corporate office overhead costs, including the cost of the executive management team, corporate office rent and other finance and administration costs*	16.2
Operational costs *Costs associated with regional and divisional management and administrative personnel*	13.6
Total estimated synergies (pre-tax)	**31.3**

1.3 The Improved Offer provides AHG Shareholders with a better outcome than the Initial Offer

When compared to the Initial Offer, the Improved Offer provides AHG Shareholders with a better outcome, because the consideration offered is greater and the conditionality has been reduced.

Offer Consideration

Under the terms of the Improved Offer, AHG Shareholders will receive 1 APE Share for every 3.6 AHG Shares that they hold, rather than the 1 APE Share for every 3.8 AHG Shares that was originally offered under the Initial Offer.

If AP Eagers acquires all of the AHG Shares it does not already own, non-APE AHG Shareholders would own approximately 25.5%[11] of the shares in the Merged Group, when

[11] Pro-forma ownership of the Merged Group assumes ordinary shares outstanding of approximately 191 million and 333 million for AP Eagers and AHG, respectively (which was the case as at the date immediately prior to the first day of the Offer Period, which commenced on 23 April 2019).

compared to approximately 24.5% of the total shares in the Merged Group under the Initial Offer.

In addition, if the Improved Offer becomes unconditional, AHG Shareholders who accept the Improved Offer will be entitled to receive any dividend (approved by the APE Board and announced to the ASX after 8 May 2019 and before the end of the Offer Period) in respect of the APE Shares issued to them under the Improved Offer (any such dividend being referred to as a **Future Dividend** in this Target's Statement).[12]

While there is no guarantee that AP Eagers will declare a Future Dividend prior to the close of the Offer Period, AP Eagers has demonstrated a consistent record of delivering dividends and has paid a dividend in respect of every financial year since listing on ASX.

Reduction in conditionality

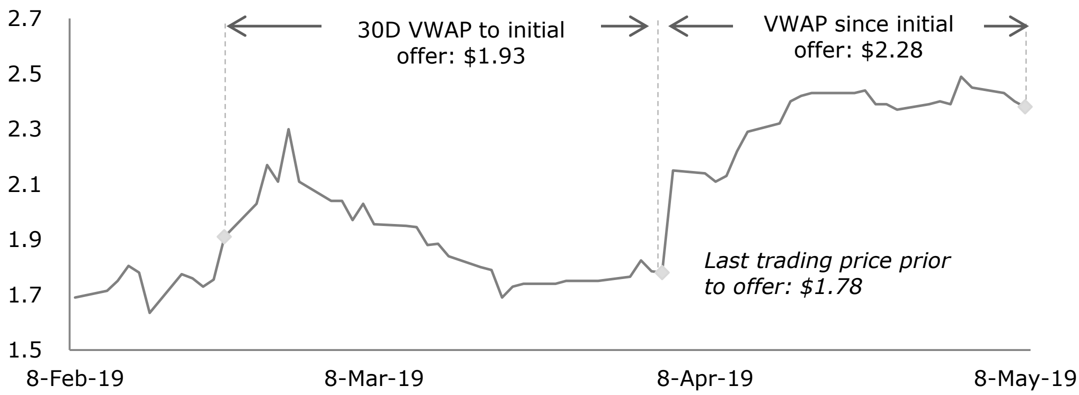
Under the terms of the Bid Implementation Deed, AP Eagers has agreed to waive the general market fall Bid Condition set out in paragraph 6 of Schedule 2 to the Bidder's Statement.

AP Eagers has also undertaken to waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force, provided that (among other things) no breach of that Bid Condition occurs before that date.

More details about the remaining Bid Conditions are provided in section 5.3.

1.4 The AHG Share price may fall below current levels if the Improved Offer does not proceed and no superior proposal emerges

As illustrated in Figure 1 below, the price of AHG Shares has risen materially following AP Eagers' announcement of the Initial Offer.



Since the announcement of the Initial Offer to the Last Practicable Trading Date, the VWAP of AHG Shares has been $2.28 per share, which represents a premium of:

- 28.1% to the closing AHG Share price of $1.78 on 4 April 2019 (being, the last trading day prior to the announcement of the Initial Offer); and
- 18% to the 30-day VWAP of $1.93 up to 4 April 2019 (which, as mentioned above, was the last trading day prior to the announcement of the Initial Offer).

[12] This is because, under the Bid Implementation Deed, AP Eagers is required to ensure that the record date for any Future Dividend occurs after the date on which each Accepting AHG Shareholder (or, in the case of an Accepting AHG Shareholder that is a Foreign Shareholder, the Nominee) has been registered as the holder of the APE Consideration Shares to which such shareholder is (or would otherwise have been) entitled to receive under the Offer. This also assumes that Accepting AHG Shareholders do not dispose of their APE Shares prior to the record date for the applicable Future Dividend.

Accordingly, if the Improved Offer does not proceed and no superior proposal emerges, your Directors believe it is likely that the AHG Share price will fall below the price at which it has traded since the announcement of the Initial Offer.

Furthermore, your Directors consider that the extent of AP Eagers' existing relevant interest in AHG Shares materially reduces the likelihood of a superior proposal emerging.

1.5 A number of AHG Shareholders have expressed their support for a combination of AHG and AP Eagers

Some large institutional AHG Shareholders have already expressed their support for the Offer and their intention to accept it, by accepting their AHG Shares into the Institutional Acceptance Facility.

As at the Last Practicable Trading Date, AP Eagers has disclosed Acceptance Instructions into the Institutional Acceptance Facility of approximately 22.82% of the AHG Shares on issue. Although such Acceptance Instructions can be withdrawn at any time prior to AP Eagers issuing a Confirmation Notice, it indicates that a significant number of AHG Shareholders support a combination of AHG and AP Eagers.

Combining these Acceptance Instructions with AP Eagers' relevant interest in AHG Shares as at the Last Practicable Trading Date (of 31.23%), demonstrates a theoretical position of approximately 54.05%. Although only provided by way of illustration, that figure is indicative of the support that the Offer has already attracted.

With this in mind, AHG Shareholders should consider the potential for control to pass (if and when the Improved Offer becomes unconditional, and assuming there are no withdrawals from the Institutional Acceptance Facility) and the consequences of minority ownership associated with that. See section 8.2(c) for more discussion of these.

1.6 The Independent Expert has concluded that, whilst not fair, the Improved Offer is reasonable to AHG Shareholders who are not associated with AP Eagers

AHG has engaged the Independent Expert, KPMG, to prepare the Independent Expert's Report in relation to the Improved Offer, opining on whether the Improved Offer is fair and reasonable to AHG Shareholders who are not associated with AP Eagers.

For the reasons explained in the Independent Expert's Report, the Independent Expert has concluded that the Offer is **NOT FAIR BUT REASONABLE** to AHG Shareholders who are not associated with AP Eagers.

More specifically, so far as value is concerned, the Independent Expert has concluded as follows:

- The assessed value of AHG Shares is between \$2.64 and \$3.01 per AHG Share.
- The assessed value of the Offer Consideration is between \$2.39 and \$2.47 per AHG Share.

However, notwithstanding that the assessed value of the Offer Consideration is below the assessed value of AHG Shares, the Independent Expert has concluded that the Improved Offer was reasonable in the circumstances for the reasons set out in the Independent Expert's Report.

On page 5 of the Independent Expert's Report, the Independent Expert notes as follows:

> *"Having considered these factors and others, including the consequences of not accepting the Improved Offer […] we are of the opinion that, whilst there are various factors that may not be attractive to non-associated shareholders, including:*

- *the level of uncertainty as to the outcome of various future events, which may adversely impact upon the final value of the new AP Eagers shares received*

- *the level of the implied premium being offered on pre-bid trading prices,*

the benefits of holding a share in the Merged Group, with its greater scale and the opportunity to achieve substantial cost benefits and synergies where 100% control is achieved, are sufficient to conclude that non-associated shareholders are likely to be better off accepting the Improved Offer notwithstanding that it is not fair. Accordingly, in our opinion the Improved Offer is, ***on balance, reasonable****."*

The Independent Expert's Report accompanies this Target's Statement. Your Directors encourage you to consider that report carefully as part of your assessment of the Offer.

2. DIRECTORS' RECOMMENDATIONS AND DIRECTORS' INTERESTS

2.1 Directors of AHG

As at the date of this Target's Statement, the Directors of AHG are:

- Richard England (Non-Executive Chairman);
- John McConnell (Chief Executive Officer and Managing Director);
- Giovanni (John) Groppoli (Non-Executive Director);
- Howard John Critchley (Non-Executive Director);
- Gregory (Greg) James Duncan (Non-Executive Director);
- Jane Matisse McKellar (Non-Executive Director);
- Andrea Hall (Non-Executive Director); and
- David Scott Blackhall (Non-Executive Director).

2.2 Directors' recommendation and intentions

Each of your Directors recommends that you **ACCEPT** the Offer in the absence of a Superior Proposal, and that you should accept once AP Eagers has waived the No Material Adverse Change Condition.

The reasons for the Directors' Recommendation are set out in section 1 of this Target's Statement.

Your Directors also intend to accept the Offer in respect of all AHG Shares they own or control, in the absence of a Superior Proposal, once AP Eagers has waived the No Material Adverse Change Condition. John McConnell, AHG's Chief Executive Officer and Managing Director, has provided an Acceptance Instruction in respect of all of the AHG Shares owned or controlled by him (as contemplated by the Bid Implementation Deed, which requires that those Directors who are eligible to participate in the Institutional Acceptance Facility do so within one business day after the date of that document).[13]

Under the Bid Implementation Deed, AP Eagers has undertaken to waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force, provided that on or before that date:

(a) there has been no breach of the No Material Adverse Change Condition that has not otherwise been waived by AP Eagers; and

(b) none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in section 9.4(g) of this Target's Statement) has occurred.

[13] See clause 3 of the Bid Implementation Deed, a copy of which was included in the joint ASX announcement dated 7 May 2019 (and released to ASX on 8 May 2019). Mr McConnell is the only Director who is eligible to participate in the Institutional Acceptance Facility.

2.3 Interests and dealings of Directors in AHG Securities

(a) Directors' interests in AHG Securities

As at the Last Practicable Trading Date, the Directors had the following relevant interests in AHG Securities:

Director	Number of AHG Shares	Number of AHG Performance Rights
Richard England	Nil	Nil
John McConnell	229,683[14]	840,415
Giovanni (John) Groppoli	85,898[15]	Nil
Howard John Critchley	15,650[16]	Nil
Gregory (Greg) James Duncan	150,000[17]	Nil
Jane Matisse McKellar	4,351[18]	Nil
Andrea Hall	10,000[19]	Nil
David Scott Blackhall	20,000[20]	Nil

(b) Directors' dealings in AHG Securities

Ms Jane McKellar acquired a relevant interest in 2,915 AHG Shares on 26 February 2019.[21]

Other than as described above, no Director has acquired or disposed of a relevant interest in any AHG Securities in the four month period ending on the date immediately before the date of this Target's Statement.

2.4 Interests and dealings of Directors in securities of AP Eagers Group Members

(a) Interests

Other than as described below, as at the Last Practicable Trading Date, no Director had a relevant interest in any securities of AP Eagers or any other member of the AP Eagers Group.

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[14] Held in the name of Bond Street Custodians Limited.

[15] Held in the name of Glen Forest Pty Ltd (the Jubaea Super Fund A/C).

[16] Held in the name of Suehow Pty Ltd (Howard Critchley Super A/C).

[17] Held in the name of Cleopatra Nominees Pty Ltd, Member of Trustee to Classic Executive Superannuation Fund.

[18] Held in the name of SuperWrap Personal Super Plan, controlled by Ms McKellar.

[19] Held in the name of Mr Campbell Sydney Hall (The CS & A Hall Family A/c).

[20] Held in the name of Viska Pty Ltd a/t/f Blackhall Family Super Fund.

[21] These AHG Shares were acquired by and are held in the name of SuperWrap Personal Super Plan, controlled by Ms McKellar.

Director	Number and type of APE securities
Greg Duncan	242,775 APE Shares[22]
David Blackhall	17,500 APE Shares[23]

(b) **Dealings**

No Director has acquired or disposed of a relevant interest in any securities of AP Eagers or any other member of the AP Eagers Group in the four month period ending on the date immediately before the date of this Target's Statement.

2.5 Benefits and agreements

(a) **Benefits to or agreements with Directors**

No Director is entitled to receive any benefit from AHG (or any other member of the AHG Group) in connection with or conditional on the Offer, other than in their capacity as a holder of AHG Shares or AHG Performance Rights, or as described in section 9.7.

Furthermore, no agreement has been made between any Director and any other person (whether a member of the AHG Group or otherwise) in connection with, or conditional upon, the outcome of the Offer, other than in that Director's capacity as a holder of AHG Shares or AHG Performance Rights, or as described in section 9.7.

See section 9.3 for more information about the AHG Performance Rights and section 9.7 for details about the effect of a change of control on the existing arrangements with one of the Directors.

(b) **Interests in contracts with AP Eagers**

No Director has any interest in any contract entered into by AP Eagers or any member of the AP Eagers Group, other than (in the case of Mr Greg Duncan and Mr David Blackhall) in their capacity as a holder of APE Shares.

AP Eagers has indicated that up to three Directors may be asked to join the board of directors of the Merged Group (if AP Eagers acquires 100% of the AHG Shares it does not already own). However, as at the Last Practicable Trading Date, AP Eagers has not confirmed the identities of those Directors and no offer (to join the board of directors of the Merged Group) has been made to any of the Directors.

(c) **Other arrangements affected by the Offer**

See section 9.7 for more information about the effect of a change of control on AHG's existing senior executive and Director arrangements.

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[22] Held in the name of Cleopatra Nominees Pty Ltd, Member of Trustee to Classic Executive Superannuation Fund.

[23] Held in the name of Viska Pty Ltd a/t/f Blackhall Family Super Fund.

3. FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for AHG Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
Who is making the Offer?	The Offer is being made by AP Eagers. Information in relation to AP Eagers is set out in section 7 of this Target's Statement and in the Bidder's Statement.	Section 7 Bidder's Statement
What is AP Eagers offering for my AHG Shares?	The Offer Consideration is 1 APE Share for every 3.6 AHG Shares, unless you are a Foreign Shareholder, in which case the APE Consideration Shares to which you and the other Foreign Shareholders would otherwise have been entitled to receive will be issued to, and sold by, the Nominee and your pro rata share of the net proceeds of such sale will be remitted to you.	Section 5 Third Supplementary Bidder's Statement
Will you receive any Future Dividend?	Under the Bid Implementation Deed, AP Eagers is required to ensure that the record date for any Future Dividend occurs after the date on which each Accepting AHG Shareholder (or, in the case of an Accepting AHG Shareholder that is a Foreign Shareholder, the Nominee) has been registered as the holder of the APE Consideration Shares to which such shareholder is (or would otherwise have been) entitled to receive under the Offer. This means that, if the Offer becomes unconditional, Accepting AHG Shareholders will also be entitled to receive any Future Dividend in respect of their APE Consideration Shares (provided they do not dispose of such APE Shares prior to the record date for the applicable Future Dividend).	Section 5.1
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by AP Eagers which sets out the terms of the Offer, as required by the Corporations Act.	

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	All AHG Shareholders should have received a copy of the original Bidder's Statement in the mail. The original Bidder's Statement is supplemented by the Supplementary Bidder's Statements. The original Bidder's Statement and the Supplementary Bidder's Statements are each available on ASX's website (www.asx.com.au, ASX code: AHG) and the AHG website (www.ahgir.com.au).	
What is the Target's Statement?	This Target's Statement is the formal response by AHG to the Offer, as required by the Corporations Act. This document has been prepared by AHG and contains important information to help you decide whether to accept the Offer.	
What choices do I have as an AHG Shareholder?	As an AHG Shareholder, you have the following choices in respect of your AHG Shares: • **ACCEPT** the Offer in respect of all of your AHG Shares, which is what the Directors recommend that you do in the absence of a Superior Proposal, once the No Material Adverse Change Condition has been waived by AP Eagers; • sell all or some of your AHG Shares, for example, on ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or • reject the Offer by taking no action. There are several implications in relation to each of the above choices. A summary of these implications is set out in section 4 of this Target's Statement. You should seek legal, financial or taxation advice from your professional adviser regarding the action that you should take in relation to the Offer.	Section 4

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
What do your Directors recommend?	Your Directors unanimously recommend that you **ACCEPT** the Offer in the absence of a Superior Proposal, and that you should accept once the No Material Adverse Change Condition has been waived by AP Eagers. The reasons for your Directors' recommendation are set out in section 1 of this Target's Statement. If there is a change in this recommendation or any material developments in relation to the Offer, AHG will lodge a supplementary Target's Statement.	Sections 1 and 2.2
What do the Directors intend to do with their AHG Shares?	Your Directors intend to **ACCEPT** the Offer in respect of any AHG Shares they own or control, in the absence of a Superior Proposal, once the No Material Adverse Change Condition has been waived by AP Eagers. John McConnell, AHG's Chief Executive Officer and Managing Director, has already provided an Acceptance Instruction in respect of all of the AHG Shares owned or controlled by him. The Directors' interests in AHG Shares are set out in section 2.3 of this Target's Statement.	Sections 1, 2.2 and 2.3
When will AP Eagers waive the No Material Adverse Change Condition?	Under the Bid Implementation Deed, AP Eagers has undertaken to waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force, provided that on or before that date: • there has been no breach of the No Material Adverse Change Condition that has not otherwise been waived by AP Eagers; and • none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in section 9.4(g) of this Target's Statement) has occurred.	Sections 2.2 and 9.4(g)
When is a Merger Authorisation likely to come into force?	The ACCC has 90 days from the day that the application was validly lodged to make a decision (unless extended by agreement between AP Eagers and the ACCC). Unless	Section 8.1(b)

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	such agreement is made, the ACCC must make its decision on or prior to Saturday, 27 July 2019. While no guarantee can be given that a Merger Authorisation will be given by the ACCC, or that it will be given before 27 July 2019 (in such circumstances that the ACCC requests and AP Eagers agrees an extension), AHG has undertaken to work in a cooperative fashion with AP Eagers in processing the application for Merger Authorisation in relation to the Offer (except to the extent prohibited by law or a Regulatory Authority).	
Why should I **ACCEPT** the Offer?	You should **ACCEPT** the Offer once the No Material Adverse Change Condition has been waived for the reasons outlined in section 1.	Section 1
What is the opinion of the Independent Expert?	For the reasons explained in the Independent Expert's Report (and referred to in section 1.6), the Independent Expert has concluded that the Offer is not fair but reasonable to AHG Shareholders who are not associated with AP Eagers. The Independent Expert's Report accompanies this Target's Statement. Your Directors encourage you to consider that report carefully as part of your assessment of the Offer.	Independent Expert's Report
How do I accept the Offer?	To **ACCEPT** the Offer, you must follow the instructions in section 3 of the Bidder's Statement.	Section 3 of the Bidder's Statement
What are the risks of accepting or rejecting the Offer?	The key risks of accepting or rejecting the Offer are set out in section 8 of this Target's Statement.	Section 8
When does the Offer close?	The Offer is currently scheduled to close at 7.00 pm (Sydney time) on 16 September 2019, but the Offer Period can be extended in certain circumstances. Refer to Schedule 1 to the Bidder's Statement for details of	Section 5.2 Paragraph 3 of Schedule 1 to the Bidder's Statement

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	circumstances in which the Offer can be extended.	
Can I be forced to sell my AHG Shares?	You cannot be forced to sell your AHG Shares unless AP Eagers becomes entitled to compulsorily acquire those shares under the Corporations Act. AP Eagers will need to acquire a relevant interest in at least 90% of AHG Shares (under the Offer or otherwise) in order to exercise compulsory acquisition rights. In these circumstances (where AP Eagers is entitled to do so), AP Eagers has stated that it intends to proceed to compulsory acquisition of any remaining AHG Shares. If AP Eagers acquires a relevant interest in at least 90% of AHG Shares and proceeds to compulsory acquisition, then you will receive the same Offer Consideration as is received by AHG Shareholders under the Offer. However, you may not receive any Future Dividend (see section 8.2(d) for further details about this).	Sections 5.15 and 8.2(d) Section 8.3 of the Bidder's Statement
What happens if I do nothing?	You will remain an AHG Shareholder. If AP Eagers acquires 90% or more of the AHG Shares and the Offer becomes unconditional, AP Eagers has stated that it intends to compulsorily acquire the remaining AHG Shares. In such a scenario, you may not receive a Future Dividend, because your entitlement to that depends on when you become registered as a holder of APE Shares. See sections 5.15 and 8.2(d) of this Target's Statement and section 8.3 of the Bidder's Statement for more details. If AP Eagers acquires between 50.1% and 90.0% of the AHG Shares and the Offer becomes unconditional, you will be a minority shareholder of AHG. There may be important consequences of that for AHG Shareholders; see section 8.2(c) for discussion about some of the consequences of minority ownership.	Sections 5.15 and 8.2(d) Section 8.3 of the Bidder's Statement Section 8.2(c)

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
How many AHG Shares does AP Eagers already have an interest in?	As at the Last Practicable Trading Date, AP Eagers had a relevant interest in 103,581,764 AHG Shares, representing approximately 31.23% of the voting power in AHG. In addition, as at the Last Practicable Trading Date, AP Eagers has disclosed Acceptance Instructions into the Institutional Acceptance Facility representing approximately 22.82% of AHG Shares. Acceptance Instructions can be withdrawn at any time prior to AP Eagers issuing a Confirmation Notice, so AP Eagers does not currently have a relevant interest in the AHG Shares in respect of which Acceptance Instructions into the Institutional Acceptance Facility have been made. However, combining these Acceptance Instructions with AP Eagers' relevant interest in AHG Shares as at the Last Practicable Trading Date (of 31.23%), demonstrates a theoretical position of approximately 54.05%. See section 7.5 of the Bidder's Statement for further details of AP Eagers' interest in AHG as at the date of the Bidder's Statement.	Section 7.5 of the Bidder's Statement
Is the Offer conditional?	Yes. The Offer is subject to the Bid Conditions, which are set out in Schedule 2 to the Bidder's Statement. As contemplated by the Bid Implementation Deed, AP Eagers: • freed the Offers (and all contracts formed by acceptance of the Offers) from the Market Fall Condition; and • has agreed not to rely on a breach of the Bid Condition in paragraph 4(c) of Schedule 2 to the Bidder's Statement in respect of the appointment of Mr Richard England to the AHG Board (as announced by AHG to ASX on 26 April 2019). AP Eagers has also agreed to waive the No Material Adverse Change Condition on the	Sections 5.3 and 9.4 Schedule 2 to the Bidder's Statement Third Supplementary Bidder's Statement

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	date a Merger Authorisation comes into effect, provided that on or before such date: • no breach of the No Material Adverse Change Condition has occurred which has not otherwise been waived by AP Eagers prior to that date; and • none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in section 9.4(g) of this Target's Statement) has occurred. A summary of the Bid Conditions that have not been waived as at the Last Practicable Trading Date is below. • all Regulatory Approvals (including, specifically, ACCC approval) being obtained; • no action by any Regulatory Authority which may adversely affect the Offer being undertaken; • no Prescribed Occurrences occurring in relation to AHG; • no material acquisitions, disposals, new commitments or other events occurring; • no Material Adverse Change occurring; and • certain Third Party Consents being obtained (from counterparties to contracts with the AHG Group).	
Is there a minimum acceptance condition?	No, the Offer is not subject to any minimum acceptance condition.	Section 5.3 Schedule 2 to the Bidder's Statement
What happens if the Bid Conditions are not fulfilled or waived?	If all of the Bid Conditions (which are set out in Schedule 2 to the Bidder's Statement) are not fulfilled or waived by AP Eagers, the Offer will lapse, meaning your acceptance of the Offer will be void and you will not receive the	Section 5.4 Schedule 2 to the Bidder's Statement

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	Offer Consideration from AP Eagers. You would then be free to deal with your AHG Shares as you see fit (even if you had previously accepted the Offer).	
What are the consequences of accepting the Offer now, while it remains conditional?	If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your AHG Shares or otherwise deal with your AHG Shares while the Offer remains open. While the Offer remains conditional, you will not receive any Offer Consideration. You should take into account the possibility that the Bid Conditions: • may not be fulfilled for a significant period of time (for example, due to the ACCC approval Bid Condition), during which time you would not be able to deal in your AHG Shares if you have accepted the Offer; and • may not be fulfilled (or waived) at all. See section 8.1(b) for further details about the risks of accepting the Offer while it remains subject to Bid Conditions.	Sections 5.9 and 8.1(b)
If I accept the Offer, can I withdraw my acceptance?	You cannot withdraw or revoke your acceptance unless a withdrawal right arises under the Corporations Act. A withdrawal right will arise if, after you have accepted the Offer, AP Eagers varies the Offer in a way that postpones for more than one month the time that AP Eagers has to meet its obligations under the Offer (for example, if AP Eagers extends the Offer Period for more than one month while the Offer remains subject to any of the Bid Conditions).	Section 5.10
What are the consequences of the Offer becoming unconditional?	If you accept the Offer after the Offer becomes unconditional, or the Offer becomes unconditional after you have accepted, you will be entitled to receive the Offer Consideration in respect of your AHG Shares	Section 5.12

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	(subject to the terms of the Offer in the Bidder's Statement). If the Offer becomes unconditional, AP Eagers will (among other things) be entitled to attend meetings of AHG and vote on behalf of those AHG Shareholders who have accepted the Offer.	
What does AP Eagers' existing interest in AHG mean for the Offer?	As at the Last Practicable Trading Date, AP Eagers had a relevant interest in 103,581,764 AHG Shares, representing approximately 31.23% of the voting power in AHG. AP Eagers' existing interest does not prevent other parties from making an offer for your AHG Shares at a higher price or otherwise on superior terms than the Offer, however the size of that interest reduces the likelihood of that occurring.	Section 8.1(g)
When will I receive the Offer Consideration if I accept the Offer?	If you accept the Offer, you will not receive the Offer Consideration unless all Bid Conditions are fulfilled or waived. Subject to the Corporations Act, if you accept the Offer, AP Eagers is required to give you the Offer Consideration for your AHG Shares on or before the earlier of: • the day that is one month after the date the Offer is validly accepted by you or, if the Offer is still subject to a Bid Condition when you accept it, one month after the date on which the Offer becomes unconditional; and • the day that is 21 days after the end of the Offer Period. AP Eagers has stated in its Bidder's Statement that AHG Shareholders who are Foreign Shareholders will not be entitled to receive APE Shares. Instead, the APE Shares that Foreign Shareholders would have been entitled to receive will be issued to, and sold by, a nominee appointed by AP Eagers and the net proceeds will be paid to each relevant	Schedule 1 to the Bidder's Statement

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
	Foreign Shareholder pro rata according to their respective holdings of AHG Shares.	
Can I sell my AHG Shares on market?	You can sell your AHG Shares on market unless you have accepted the Offer in respect of your AHG Shares (and have not validly withdrawn your acceptance). If you sell your AHG Shares on market you will not benefit from any future increase in the Offer Consideration that may be provided by AP Eagers.	Section 4.2
Can I accept the Offer for part of my shareholding	No. You cannot accept the Offer for part of your holding of AHG Shares. You can only accept the Offer for all of your AHG Shares.	Paragraph 4 of Schedule 1 to the Bidder's Statement
What are the tax implications of accepting the Offer?	A general outline of the Australian taxation consequences generally applicable to an AHG Shareholder who disposes of AHG Shares under the Offer is set out in section 12 of the Bidder's Statement.	Section 12 of the Bidder's Statement
What if I am a Foreign Shareholder?	Foreign Shareholders, being AHG Shareholders with a registered address outside of Australia, its external territories or New Zealand to whom AP Eagers has not determined to extend the offer, will not be entitled to receive APE Shares. Instead, the APE Shares that accepting Foreign Shareholders would have been entitled to receive will be issued to, and sold by, a nominee appointed by AP Eagers and the net proceeds will be paid to each relevant Foreign Shareholder pro rata according to their respective holdings of AHG Shares.	Section 13.2 of the Bidder's Statement
What are AP Eagers' intentions with respect to AHG's business?	AP Eagers' intentions in relation to the continuation of AHG's businesses, any major changes to be made to the businesses of AHG (including any redeployment of the fixed assets of AHG), changes to the AHG Board and the future employment of present employees of AHG are set out in section 8 of the Bidder's Statement.	Section 8 of the Bidder's Statement

Question	Answer	Where to find further information (section numbers refer to this Target's Statement unless otherwise specified)
What happens if a Competing Proposal emerges?	If a Competing Proposal emerges, your Directors will carefully consider the proposal to determine whether it is a Superior Proposal and will inform you of any material developments that may affect your Directors' recommendation in respect of the Offer.	
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further questions about the Offer, please contact the Shareholder Information Line on 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia).	Important Information

4. YOUR CHOICES AS AN AHG SHAREHOLDER

As an AHG Shareholder, you have three options available to you. Those options are set out below.

You should note that:

- your Directors unanimously recommend that you **ACCEPT** the Offer in the absence of a Superior Proposal, once AP Eagers waives the No Material Adverse Change Condition;
- each of your Directors intends to **ACCEPT** the Offer in respect of the AHG Shares they own or control once AP Eagers waives the No Material Adverse Change Condition. John McConnell, AHG's Chief Executive Officer and Managing Director, has already provided an Acceptance Instruction in respect of all of the AHG Shares owned or controlled by him; and
- your Directors encourage you to read the whole of this Target's Statement, the Independent Expert's Report that accompanies this Target's Statement and AP Eagers' Bidder's Statement, and consider your personal risk profile, investment strategy, tax position and financial circumstances, before making any decision in relation to your AHG Shares.

4.1 Option 1 - ACCEPT the Offer

To accept the Offer, follow the instructions set out in section 3 of the Bidder's Statement.

If you wish to accept the Offer, there are two time-based options available. Either:

(a) follow the Directors' recommendation and only accept the Offer, in the absence of a Superior Proposal, once AP Eagers has waived the No Material Adverse Change Condition (which AP Eagers has undertaken to do on the date a Merger Authorisation comes into force, subject to the conditions described in section 9.4(c)); or

(b) accept the Offer now, which is not what the Directors are recommending, and be aware of the consequences of doing so that are outlined below.

There is no benefit to AHG Shareholders in accepting the Offer before the No Material Adverse Change Condition has been waived, because until that point the Offer will remain subject to material conditionality – see more about these matters in section 8.1(b).

Furthermore, Accepting AHG Shareholders:

(c) will not receive the Offer Consideration while the Offer is subject to any Bid Conditions; and

(d) will not be able to withdraw their acceptance and sell their AHG Shares on ASX or accept any alternative proposal (should one emerge), except in certain limited circumstances (see section 5.10 of this Target's Statement for details about those circumstances and section 8.1(b) about the risks of accepting the Offer while it remains subject to Bid Conditions).

In addition to the above considerations, Accepting AHG Shareholders may also be liable to pay CGT or income tax on the disposal of their AHG Shares (see section 12 of the Bidder's Statement).

4.2 **Option 2 - Sell your AHG Shares on ASX**

AHG Shareholders can sell their AHG Shares on ASX, provided they have not already accepted the Offer.

On the Last Practicable Trading Date, the closing share price for AHG Shares on ASX was $2.38. The latest price for AHG Shares may be obtained from ASX's website at www.asx.com.au.

If you sell your AHG Shares on ASX, you:

(a) will not be able to accept the Offer and receive the Offer Consideration (and any entitlement to a Future Dividend in respect of your APE Consideration Shares);

(b) will not receive the potential benefits of:

(i) any greater value which may be available for your AHG Shares on ASX (although no forecast is made of future prices);

(ii) any improvement by AP Eagers of the Offer Consideration (see FAQ *"Can AP Eagers improve the Offer Consideration"* for further information in this regard); or

(iii) any potential superior proposal for your AHG Shares which arises,

although AHG provides no assurance or comment about whether any those events will occur or the price or value or other benefits AHG Shareholders may be entitled to receive in the future;

(c) may be liable for CGT on the sale; and

(d) may incur a brokerage charge.

AHG Shareholders who wish to sell their AHG Shares on ASX should contact their broker for information about how to effect that sale. They should also seek professional tax advice as to the tax implications for them from such a sale.

4.3 **Option 3 – Do nothing**

If you do not wish to accept the Offer and want to retain your AHG Shares, you should simply do nothing. By doing nothing, you will remain an AHG Shareholder. However, AHG Shareholders should note as follows:

(a) If AP Eagers acquires **between 50.1% and 90.0%** of the AHG Shares and the Offer becomes unconditional, you will be a minority shareholder of AHG and there may be important consequences of that (see section 8.2(c) for discussion about some of the consequences of minority ownership).

(b) If AP Eagers **acquires 90% or more** of the AHG Shares and the Offer becomes unconditional, AP Eagers will compulsorily acquire your AHG Shares and the other remaining AHG Shares. In this scenario, you and the other AHG Shareholders will receive the same Offer Consideration, but you may not be registered as the holder of your APE Consideration Shares in time to be entitled to receive any Future Dividend.

5. IMPORTANT INFORMATION ABOUT THE OFFER

5.1 Offer Consideration and any Future Dividend

The Offer Consideration is 1 APE Share for every 3.6 AHG Shares, unless you are a Foreign Shareholder, in which case the APE Shares to which you would have been entitled to receive will be issued to, and sold by, a nominee appointed by AP Eagers and your pro rata share of the net proceeds of such sale will be remitted to you.

Furthermore, under the Bid Implementation Deed, AP Eagers is required to ensure that the record date for any Future Dividend occurs after the date that each Accepting AHG Shareholder (or in the case of an Accepting AHG Shareholder who is a Foreign Shareholder the Nominee) has been registered as the holder of the APE Consideration Shares to which such shareholder is (or would otherwise have been) entitled.

This means that, if the Offer becomes unconditional, Accepting AHG Shareholders will also be entitled to receive any Future Dividend in respect of their APE Consideration Shares (provided they do not dispose of those APE Shares prior to the record date for the applicable Future Dividend).

5.2 Offer Period

The Offer will be open for acceptance until 7.00 pm (Sydney time) on 16 September 2019, unless extended or withdrawn.

The circumstances in which AP Eagers may extend or withdraw the Offer are set out in section 5.7 and section 5.8 respectively of this Target's Statement.

5.3 Bid Conditions

The Offer is subject to the fulfilment of a number of bid conditions (referred to in this Target's Statement as **Bid Conditions**). The Bid Conditions are set out in Schedule 2 to the Bidder's Statement. However, under the Bid Implementation Deed, and as disclosed in the Third Supplementary Bidder's Statement, AP Eagers has:

- waived the Market Fall Condition altogether;
- undertaken that it will waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into effect, provided that on or before such date:
  - no breach of the No Material Adverse Change Condition has occurred which has not otherwise been waived by AP Eagers prior to that date; and
  - none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in section 9.4(g) of this Target's Statement) has occurred; and
- agreed that it will not rely on the Bid Condition in paragraph 4(c) of Schedule 2 to the Bidder's Statement in respect of the appointment of Richard England to the AHG Board (as announced to ASX by AHG on 26 April 2019).

Other than the Market Fall Condition, which has been waived by AP Eagers, the Bid Conditions are:

(a) **(All Regulatory Approvals)** Before the end of the Offer Period, the Regulatory Approvals are:

(i) granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent;

(ii) remain in full force and effect in all respects; and

(iii) do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them.

(b) **(No regulatory action)** Between the Announcement Date and the end of the Offer Period (each inclusive):

(i) there is not in effect any preliminary or final decision, order or direction issued by any Regulatory Authority;

(ii) no action, proceeding or investigation is announced, commenced or threatened by any Regulatory Authority; and

(iii) no application is made to any Regulatory Authority (other than by AP Eagers or any Associate of AP Eagers),

in consequence of or in connection with the Offer (other than any action or decision by, or application to, ASIC or the Australian Takeovers Panel in exercise of the powers or discretions conferred by the Corporations Act) which is likely to or purports or threatens to restrain, prohibit, impede or otherwise adversely affect the making of the Offer, the acquisition of the AHG Shares by AP Eagers, the rights of AP Eagers in respect of AHG and the AHG Shares or the continued operation of the businesses of AHG or its Subsidiaries or which seeks to require the divestiture by AP Eagers of any AHG Share, or the divestiture of any assets by any member of the AP Eagers Group or by any member of the AHG Group.

(c) **(No Prescribed Occurrences)** Between the period from the date on which this Bidder's Statement is given to AHG and the end of the Offer Period (each inclusive), none of the following events (each a **Prescribed Occurrence**) occur:

(i) AHG converts all or any of its shares into a larger or smaller number of shares;

(ii) AHG or a Subsidiary of AHG resolves to reduce its share capital in any way;

(iii) AHG or a Subsidiary of AHG enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;

(iv) AHG or a Subsidiary of AHG issues shares (other than AHG Shares issued as a result of the exercise of AHG Performance Rights which are on issue at the Register Date), or grants an option over its shares, or agrees to make such an issue of shares or grant such an option;

(v) AHG or a Subsidiary of AHG issues, or agrees to issue, convertible notes;

(vi) AHG or a Subsidiary of AHG disposes, or agrees to dispose of, the whole or a substantial part of, its business or property;

(vii) AHG or a Subsidiary of AHG grants, or agrees to grant, a security interest in the whole, or a substantial part of, its business or property;

(viii) AHG or a Subsidiary of AHG resolves to be wound up;

(ix) a liquidator or provisional liquidator of AHG or a Subsidiary of AHG is appointed;

(x) a court makes an order for the winding up of AHG or a Subsidiary of AHG;

(xi) an administrator of AHG, or a Subsidiary of AHG, is appointed under section 436A, 436B or 436C of the Corporations Act;

(xii) AHG or a Subsidiary of AHG executes a deed of company arrangement; or

(xiii) a receiver, or receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of AHG or a Subsidiary of AHG.

(d) **(No material acquisitions, disposals, new commitments or other events)** Except to the extent fully and fairly disclosed in any announcement made by AHG to ASX prior to the Announcement Date, none of the following events occur during the period from the Announcement Date to the end of the Offer Period (each inclusive):

(i) AHG makes or declares, or announces an intention to make or declare, any distribution (whether by dividend, capital reduction or otherwise and whether in cash or in specie);

(ii) a member of the AHG Group adopts a new constitution or modifies or repeals its constitution or a provision of it;

(iii) any person is appointed to the AHG Board, other than those nominated by AP Eagers;

(iv) a member of the AHG Group:

(A) materially increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or officers; or

(B) accelerates the rights of any of its directors or officers to compensation or benefits of any kind (other than under any executive or employee share plans) or enters into a commitment to pay any of its directors or officers a termination or retention payment;

(v) a member of the AHG Group changes any accounting policy applied by them to report their financial position except as required by any law or Regulatory Authority;

(vi) any member of the AHG Group does anything that results in a taxable gain for the AHG Group by either causing a Subsidiary to cease being a member of the AHG Group or causing the AHG Group to cease being a consolidated group;

(vii) a member of the AHG Group:

(A) acquires or leases, or agrees or offers to acquire or lease, any one or more entities, businesses or assets (or any interest in one or more entities, businesses or assets) for an amount or consideration in excess of $12.5 million for any individual item or in excess of $25 million in aggregate;

(B) disposes of, or agrees or offers to dispose of, any one or more entities, businesses or assets (or any interest in one or more entities, businesses or assets) for an amount or consideration in excess of $12.5 million for any individual item or in excess of $25 million in aggregate;

(C) enters into, extends or renews any commitment (including any non-contractual commitment or undertaking) which has a value or involves a liability, expenditure or revenue, as the case may be, in excess of $12.5 million when aggregated with related transactions;

(D) terminates or amends in a material manner any commitment (including any non-contractual commitment or undertaking) which has a value or involves a liability, expenditure or revenue, as the case may be, in excess of $12.5 million when aggregated with related transactions;

(E) waives any material third party default where the financial impact on the AHG Group will be in excess of $3 million; or

(F) accepts as a settlement or compromise of a material matter (relating to an amount in excess of $3 million) less than the full compensation due to AHG or a Subsidiary of AHG;

(viii) AHG or any other member of the AHG Group undertakes or agrees to undertake capital expenditure in excess of $12.5 million in aggregate;

(ix) a member of the AHG Group enters into any guarantee or indemnity on behalf of any member of the AHG Group or provides security for the obligations of any member within the AHG Group in relation to amounts in excess of $12.5 million; and

(x) a member of the AHG Group announces an intention to do any of the matters referred to in the sub-paragraphs above, or brings forward the time for performance of or releases any rights it has against third parties in respect of any obligations or commitments relating to such matters in existence at the Announcement Date.

(e) **(No Material Adverse Change Condition)** Between the Announcement Date and the end of the Offer Period (each inclusive), there has not occurred, been announced or become known to AP Eagers or AHG (whether or not it becomes public) any Material Adverse Change, being any matter, event or circumstance that has resulted in, or could reasonably be expected to result in, either individually or when aggregated with any other event, occurrence or matter:

(i) the profit before tax of the AHG Group being reduced (relative to the profit before tax for the 12 months ended 31 December 2018) by $6.2 million or more;

(ii) the value of the net assets of AHG or the AHG Group being reduced by $25 million or more against what they would have been but for the matters, events or circumstances,

but does not include any change occurring directly or indirectly as a result of any matter, event or circumstance publicly announced by AHG to the ASX prior to the Announcement Date or otherwise disclosed in public filings by AHG prior to the Announcement Date where the relevant disclosure is not, and is not likely to be, incomplete, incorrect, untrue or misleading (including by omission).

(f) **(Third party consents)** If a member of the AHG Group is a party to, is bound by, or is subject to, an agreement, arrangement or understanding which, as a result of the acquisition of the AHG Shares by AP Eagers under the Offer or a change of control of AHG as a result of the Offer, entitles another person (**Third Party**) to exercise any rights (including termination rights or pre-emptive rights), and the exercise of those rights would have a material adverse effect on the assets, liabilities, financial position or performance or the prospects of the AHG Group (taken as a whole), then before the end of the Offer Period, the Third Party:

(i) does not exercise, propose to exercise, or state an intention or claim a right to exercise, those rights; and

(ii) gives its consent or waiver to the relevant event (**Third Party Consent**),

(**Third Party Consents Condition**).

5.4 Status of Bid Conditions

As at the Last Practicable Trading Date, the Offer is still subject to six Bid Conditions, which may not be fulfilled or waived. The fulfilment of four of those Bid Conditions is (at least partly, if not wholly) outside of AHG's control. All of the Bid Conditions apply until the end of the Offer Period, unless fulfilled or waived before then.

Other than as set out below, AHG is not aware of any fact, matter or circumstance that would result in any Bid Condition becoming incapable of being fulfilled.

(a) **Appointment of Non-Executive Chairman:** As announced on 26 April 2019, the AHG Board appointed Mr Richard England as a Non-Executive Director and Chairman of the AHG Board. Mr England's appointment followed a comprehensive search process, which AHG announced following the resignation of the previous Non-Executive Chairman in 2018. The AHG Board considers that Mr England's appointment better positions the AHG Board to respond effectively to the Offer, and Mr England has already played a key role in agreeing the improved Offer Consideration (announced on 8 May 2019) and in generally pursuing the AHG Board's priority of maximising value for all AHG Shareholders.

As noted above, AP Eagers has agreed that it will not rely on the Bid Condition in paragraph 4(c) of Schedule 2 to the Bidder's Statement in respect of the appointment of Richard England to the AHG Board.

(b) **Recent Retention Arrangements:** AHG has recently put in place specific retention arrangements with certain senior executives (each referred to in this Target's Statement as a **Key Executive**). The terms of those retention arrangements (referred to in this Target's Statement as the **Recent Retention Arrangements**) are summarised in section 9.7. The AHG Board's reasons for putting the Recent Retention Arrangements in place are also summarised in that section. However, in short, the AHG Board considers that the Recent Retention Arrangements are in the best interests of AHG and all its shareholders (and ultimately the Merged Group) because:

(i) the increased risk of the Key Executives resigning from AHG as a result of the Offer and the potentially prolonged period of uncertainty and disruption that still faces AHG and its business; and

(ii) the important role that each Key Executive has played (and will continue to play) in ensuring:

(A) AHG's business continues to operate unaffected by the Offer;

(B) AHG remains able to pursue and suitably prioritise its existing strategic imperatives, including those arising from the ongoing strategic review of the Refrigerated Logistics division, the improvement course for *easyauto123*, AHG's continuing rationalisation and business simplification program, and other initiatives across the AHG business with respect to cost reduction and productivity improvement; and

(C) AHG is positioned to respond effectively to the Offer and maximise value for all AHG Shareholders throughout (and potentially into a period of integration).

One of the Key Executives is John McConnell. Certain of the other Key Executives are also "officers" of AHG. The aggregate amount of the retention payments payable to John McConnell and those other officers of AHG is approximately $1.8 million.

Additionally, AHG has allocated a pool for additional payments to be made to senior employees, some of whom are "officers" of AHG. See section 9.7 for a summary of the terms of such payments.

Accordingly, AHG's entry into the Recent Retention Arrangements and any agreement to make payments from the pool referred to above (to officers of AHG), breached or may in the future breach the Bid Condition in paragraph 4(d)(ii), which provides that, during the period beginning on the Announcement Date and ending at the end of the Offer Period, no member of the AHG Group enters into a commitment to pay any of its directors or officers a retention payment.

Notwithstanding the existence of the Bid Condition referred to above, the AHG Board considers that, for the reasons set out above and in section 9.7, entry into the Recent Retention Arrangements and any agreement to make additional payments from the pool referred to above are nevertheless prudent and in the best interests of all AHG Shareholders.

(c) **Disposal and other restrictions:** Certain of the Bid Conditions require AHG to refrain from taking certain actions during the period beginning on the Announcement Date and ending at the end of the Offer Period. Such actions include:

(i) disposing of any entities, businesses or assets for an amount in excess of $12.5 million for any individual item or in excess of $25 million in aggregate;

(ii) leasing assets for an amount in excess of $12.5 million for any individual item or in excess of $25 million in aggregate; and

(iii) undertaking capital expenditure in excess of $12.5 million.

As announced on 22 February 2019, AHG has commenced a strategic review of its Refrigerated Logistics division in order to consider future options for that business, which options included potential changes in ownership, partnerships or mergers. In addition, and as also previously announced, AHG is continuing to implement a rationalisation and business simplification program, which already has resulted in and may continue to result in the disposal of both core and non-core assets or the closure of non-core businesses.

The status of the strategic review of the Refrigerated Logistics division, and some potential actions that may result from AHG's ongoing rationalisation and business simplification program, have already been discussed in broad terms with AP Eagers. In light of the parties' entry into the Bid Implementation Deed and the Directors' Recommendation, AHG intends to reasonably consult with AP Eagers about any proposed action to be taken in respect of the Refrigerated Logistics division, the out workings from the ongoing strategic review generally or anything else contemplated by the continuing rationalisation and business simplification program (to the extent that it would otherwise breach a Bid Condition).

Given both the long Offer Period (meaning AHG may be subject to the Bid Conditions for a prolonged period of time) and the low quantitative thresholds for the applicable Bid Conditions, it is possible that by:

(iv) pursuing opportunities considered to be in the best interests of AHG Shareholders, such as by implementing a future option recommended following the completion of its strategic review of the Refrigerated Logistics division or continuing to implement its rationalisation and business simplification program; or

(v) operating AHG's business in its ordinary and usual course, such as by entering into new leases or renewing existing leases for its Automotive Retailing or Refrigerated Logistics divisions, or undertaking budgeted capital expenditure,

one or more of these Bid Conditions could potentially be breached in the future.

At all times, and before undertaking any relevant proposed action, your Directors will consider whether the action is in the best interests of AHG (and all AHG Shareholders), having regard to their fiduciary duties and any potential consequences for the Offer. As mentioned previously, in light of the parties' entry into the Bid Implementation Deed and the Directors' Recommendation, AHG intends to reasonably consult with AP Eagers about any proposed action (that would otherwise breach a Bid Condition).

(d) **Debt facilities:** As mentioned in section 6.7, AHG is currently in discussions with its banks to, among other things, extend the maturity date for the component of its debt facilities that would otherwise mature in April 2020. Any extension (or other amendment to these debt facilities) agreed with the banks may breach the Bid Condition in paragraph 4(g) of Schedule 2 to the Bidder's Statement.

Agreeing any extension in maturity date (or other amendment) with its banks in this manner is in the best interests of AHG and all its shareholders, and is a course of action that all stakeholders would expect AHG to pursue notwithstanding the technical application of the applicable Bid Condition.

5.5 Effect of non-fulfilment of Bid Conditions

If at the end of the Offer Period (or in the case of the Bid Conditions referred to in paragraph 6.3(c) at the end of the three business days after the end of the Offer Period), in respect of any Bid Condition:

(a) AP Eagers has not declared the Offer (and it has not become) free from that Bid Condition; or

(b) that Bid Condition has not been fulfilled,

all contracts resulting from acceptance of the Offers, and all acceptances that have not resulted in binding contracts, are void.

5.6 Notice of Status of Bid Conditions

Paragraph 9.8 of Schedule 1 to the Bidder's Statement states that the date for AP Eagers to give a notice on the status of the Bid Conditions as required by section 630(1) of the Corporations Act (**Notice of Status of Bid Conditions**) to ASX and AHG is 6 September 2019.

AP Eagers is required to set out in its Notice of Status of Bid Conditions:

(a) whether the Offer is free of any or all of the Bid Conditions;

(b) whether, so far as AP Eagers knows, the Bid Conditions have been fulfilled; and

(c) AP Eagers' voting power in AHG at that time.

If the Offer Period is extended by a period before the Notice of Status of Bid Conditions is to be given, the date for giving the Notice of Status of Bid Conditions will be taken to be postponed for the same period. In the event of such an extension, AP Eagers is required, as soon as practicable after the extension, to notify ASX and AHG of the new date for giving the Notice of Status of Bid Conditions.

If a Bid Condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Bid Conditions is required to be given, AP Eagers must, as soon as practicable, give ASX and AHG a notice that states that the particular Bid Condition has been fulfilled.

5.7 Extension of Offer Period

AP Eagers may extend the Offer Period at any time before giving the Notice of Status of Bid Conditions while the Offer is subject to the Bid Conditions. However, if either:

(a) the Offer is unconditional (that is, the Bid Conditions are fulfilled or waived); or

(b) the Offer is conditional and one of the following happens after AP Eagers gives the Notice of Status of Bid Conditions:

  (i) another person lodges with ASIC a bidder's statement for a takeover bid for AHG Shares;

  (ii) another person announces a takeover bid for AHG Shares;

  (iii) another person makes offers under a takeover bid for AHG Shares;

  (iv) the consideration for offers under another takeover bid for AHG Shares is improved,

  then AP Eagers may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

(c) AP Eagers improves the consideration offered under the Offer; or

(d) AP Eagers' voting power in AHG increases to more than 50%.

If either of these events occur, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurred.

5.8 Withdrawal of Offer

AP Eagers may now only withdraw the Offer in limited circumstances (with the written consent of ASIC and subject to the conditions (if any) specified in such consent).

5.9 Effect of acceptance

The effect of acceptance of the Offer is set out in paragraph 6 of Schedule 1 to the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your AHG Shares and the representations and warranties which you will be giving AP Eagers by accepting the Offer.

In particular, accepting the Offer will prevent you from selling your AHG Shares during the Offer Period and AP Eagers would also be able to exercise the rights attaching to your AHG Shares.

5.10 Withdrawal of your acceptance

If you accept the Offer, you will only be able to withdraw your acceptance in limited circumstances.

You may only withdraw your acceptance of the Offer if AP Eagers varies the Offer in a way that postpones, for more than one month, the time when AP Eagers needs to meet its obligations under the Offer. This will occur if AP Eagers extends the Offer Period by more than one month and the Offer is still subject to any Bid Conditions.

5.11 Institutional Acceptance Facility

AP Eagers has established the Institutional Acceptance Facility, which allows eligible institutional AHG Shareholders to register their support for the Offer and their intention to accept the Offer by providing an Acceptance Instruction, which they may withdraw at any time prior to AP Eagers issuing a Confirmation Notice.

If AP Eagers issues a Confirmation Notice, then any Acceptance Instructions lodged with the Institutional Acceptance Facility which have not been withdrawn will be immediately converted into formal and final acceptances of the Offer. Eligible institutional AHG Shareholders should therefore ensure that they fully understand the operation and effect of the Institutional Acceptance Facility before giving any Acceptance Instruction.

5.12 When you will receive the Offer Consideration

Subject to the Corporations Act, and you providing AP Eagers with any documents required to be given with your acceptance to enable AP Eagers to become the holder of your AHG Shares, if you accept the Offer and the acceptance becomes unconditional, AP Eagers will provide to you the Offer Consideration to which you are entitled on or before the earlier of:

(a) the day that is one month after the date you accept the Offer or, if the Offer is still subject to a Bid Condition when you accept it, one month after the date on which the Offer becomes unconditional; and

(b) the day that is 21 days after the end of the Offer Period.

AP Eagers has stated in its Bidder's Statement that AHG Shareholders who are Foreign Shareholders will not be entitled to receive APE Shares. Instead, the APE Shares that Foreign Shareholders would have been entitled to receive will be issued to, and sold by, a nominee appointed by AP Eagers and the net proceeds will be paid to each relevant Foreign Shareholder pro rata according to their respective holdings of AHG Shares.

5.13 Effect of an improvement in the Offer Consideration

In accordance with section 650B of the Corporations Act, AP Eagers may vary the Offer by improving the Offer Consideration. If AP Eagers improves the Offer Consideration during the last seven days of the Offer Period, the Offer Period will be automatically extended by a further 14 days.

If you have already accepted the Offer you will be entitled to the improved Offer Consideration.

If you have sold your AHG Shares on ASX you will not be eligible for the benefit of any improvement in the Offer Consideration.

5.14 Lapse of the Offer

The Offer will lapse if the Bid Conditions are not fulfilled or waived by the end of the Offer Period (or in the case of the "No Prescribed Occurrences" Bid Condition in paragraph 3 of

Schedule 2 to the Bidder's Statement at the end of the three business days after the end of the Offer Period), in which case all acceptances of the Offer will be void. In those circumstances, you will not receive the Offer Consideration and will be free to deal with your AHG Shares as you see fit.

5.15 Compulsory acquisition

AP Eagers has stated in sections 8.3 and 8.4 of the Bidder's Statement that if it becomes entitled to do so under the relevant provisions of the Corporations Act, AP Eagers intends to compulsorily acquire any outstanding AHG Shares.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are summarised below.

(a) **Follow on compulsory acquisition**

Under Part 6A.1 of the Corporations Act, AP Eagers will be entitled to compulsorily acquire any outstanding AHG Shares for which it has not received acceptances on the same terms as the Offer if, during or at the end of, the Offer Period, AP Eagers (together with its associates):

(i) has relevant interests in at least 90% (by number) of the AHG Shares; and

(ii) has acquired at least 75% (by number) of the AHG Shares that AP Eagers offered to acquire under the Offer, whether the acquisitions happened under the Offer or otherwise.

If these thresholds are met, AP Eagers will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. The consideration payable by AP Eagers will be the Offer Consideration last offered under the Offer. Depending on the timing for completion of compulsory acquisition (and the timing of any applicable Future Dividend), you may not be entitled to receive a Future Dividend that Accepting AHG Shareholders would be entitled to receive in respect of their APE Consideration Shares.

AHG Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant AHG Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent "fair value" for the AHG Shares.

(b) **General compulsory acquisition**

If AP Eagers does not become entitled to compulsorily acquire outstanding AHG Shares at the end of the Offer Period as described above, AP Eagers might be entitled to compulsorily acquire AHG Shares at a later time under the general compulsory acquisition power if AP Eagers becomes a "90% holder".

Under Part 6A.2 of the Corporations Act, AP Eagers will be entitled to compulsorily acquire any outstanding AHG Shares if AP Eagers (either alone or with a related body corporate) holds full beneficial interests in at least 90% of AHG Shares (by number) (that is, if AP Eagers becomes a "90% holder").

If this threshold is met, AP Eagers will then have six months within which to give compulsory acquisition notices to AHG Shareholders. The compulsory acquisition notices sent to AHG Shareholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out whether the terms of the compulsory acquisition give a "fair value" for the AHG Shares and the independent expert's reasons for forming that opinion.

If AHG Shareholders with at least 10% of AHG Shares covered by the compulsory acquisition notice object to the acquisition before the end of the objection period (which must be at least one month), AP Eagers may apply to the Court for approval of the acquisition of the AHG Shares covered by the notice.

6. INFORMATION RELATING TO AHG

6.1 Overview

AHG is Australasia's largest automotive retailing and refrigerated logistics group.

The AHG Group's operations comprise its Automotive Retail division, its Refrigerated Logistics division and its Other Logistics division, which includes its AMCAP, Genuine Truck Bodies (**GTB**) and Vehicle Storage and Engineering Solutions (**VSE Solutions**), KTM and Husqvarna businesses. Details about each the AHG Group's business divisions are below.

6.2 Automotive Retailing Division

AHG is Australasia's largest motoring group by dealership count, franchises held, and vehicles sold. It operates franchised passenger vehicle and truck and bus dealerships in Queensland, New South Wales, Victoria and Western Australia, and passenger vehicle dealerships in Auckland, New Zealand.

As at the date of this Target's Statement, AHG held 181 automotive retail franchises at 115 dealership locations in Australia and New Zealand, representing 26 passenger vehicle brands and 10 commercial vehicle and truck brands.

Figure 2: Automotive Retail franchised geographic footprint

AHG also operates in the used car and wholesale sectors through its easyauto123 fixed price used car warehouse model and the Carlins Automotive Auctioneers business.

AHG's franchised dealerships sell both new and used cars, whereas the easyauto123 business only sells pre-owned vehicles. easyauto123 operates via five "big box" format premises in Perth, Melbourne, Sydney and Brisbane.

The AHG Group also operates its wholly-owned *360 Financial Services* business. This business operates independently from the dealer network to provide customers with access to financial brokerage services through an online marketing platform.

6.3 **Refrigerated Logistics Division**

AHG's Refrigerated Logistics division, comprising Rand Transport (**Rand**), Harris, Scott's Refrigerated Freightways (**SRF**) and JAT Refrigerated Road Services (**JAT**), is Australia's largest provider of integrated temperature-controlled transport and cold storage services, providing such services across mainland Australia.

The division operates a permanently-monitored fleet of vehicles and rail containers that cover more than 3,700,000 km every week. The fleet includes approximately:

- 550 prime movers and rigid delivery vehicles;
- 1,250 road trailers; and
- 480 rail containers.

6.4 **Other Logistics**

AHG's Other Logistics division includes the following business units:

- AMCAP, which operates 3PL and 4PL warehouses and distributes automotive parts and accessories.
- KTM and Husqvarna, which imports and distributes the KTM and Husqvarna range of motorcycles across Australia and New Zealand through a joint venture with KTM Austria.
- VSE Solutions, which provides vehicle storage and truck chassis engineering services to the trucking industry.
- GTB, which specialises in truck body building services.

6.5 **Operations update**

Automotive Retailing

The automotive retailing sector's operating environment has become increasingly challenged in recent years, attributable in part to:

- regulatory changes significantly impacting financing and insurance income;
- weak consumer sentiment amid declining housing prices;
- restrictive consumer lending impacting credit availability;
- discounts on new vehicle margins caused by oversupply; and
- margin declines across the sector.[24]

However, despite broad-based declines in brand returns, AHG has outperformed the industry average for franchised dealers.

[24] See further discussion about some of these challenges, and the risks associated with them, in section 8 (including the discussion of risks associated with regulatory changes in section 8.2(e)).

While the trading conditions facing the automotive retailing sector generally continue to be challenging, AHG believes it is well-positioned to benefit from any turnaround in those trading conditions because of:

- its investment in cost-out initiatives, including the implementation of shared services;
- the resetting of manufacturer bonus targets; and
- an expected increase in financing and insurance market penetration through new product innovation following a period of transition under the new regulatory regime.

Given the scale of its Automotive Retailing operations in Western Australia, AHG is also well-positioned to benefit from any recovery in the Western Australia automotive retail market (which is currently down 22% from FY2013).

Since opening its pilot outlet in January 2016, easyauto123 has grown its revenue to more than $120 million per annum. The business is expected to incur losses of between approximately $9.6 to $10.1 million in FY2019 but trading results are expected to improve in FY2020.

Refrigerated Logistics

Over the past two years, AHG has invested significantly in a transformation program to integrate, optimise and realise efficiencies in its Refrigerated Logistics division. This program included the integration of separate businesses and the implementation of a new organisational operating model and core IT platform, which included a new core transport management system.

Following extensive upgrades to the Refrigerated Logistics division's financial reporting systems (carried out as part of the transformation program), AHG (with the assistance of external advisers) is undertaking a review of the carrying value of the division's receivables across prior years and FY2019. While this review is ongoing and the extent of its financial impact on the AHG Group is not yet certain, it may result in some write down of the division's receivables generated across one or more periods. The current expectation is that any potential impact would not be material to AHG's balance sheet or future cash flows beyond FY2019, but it could ultimately have a bearing on AHG's earnings outlook for FY2019 (see further about this in section 6.6).

The Refrigerated Logistics division also experienced some disruption, over the past two years, as a result of a proposal to acquire the business; which resulted in entry into a contract to sell the Refrigerated Logistics division for an enterprise value of $400 million, but which sale ultimately did not proceed following the purchaser's failure to complete.

Following removal of the disruption associated with the acquisition proposal, and implementation of the transformation program outlined above, the Refrigerated Logistics division is now realising some cost reduction and productivity improvement benefits, which has resulted in a recent improvement in the division's financial performance.

In February 2019, AHG announced a strategic review of the Refrigerated Logistics division to assess how value can be best maximised for AHG Shareholders following the improved performance of the division that arose as a result of the recent transformation program. AHG notes that expressions of interest in respect of the Refrigerated Logistics division have been received from a number of parties, both offshore and domestic.

Other Logistics

AHG continues to explore a range of initiatives designed to maximise shareholder value in relation to its Other Logistics division.

6.6 Financial update

Based on trading performance for the 10 months to the end of April 2019 and current market conditions, AHG expects to deliver FY2019 Operating NPAT in the region of approximately $50 million. This compares to AHG's previous guidance of FY2019 Operating NPAT of between $52 million - $56 million provided in February 2019.

The revised outlook reflects the challenging conditions in franchised automotive retail volumes and margins, as well as weaker than expected April performance in AHG's Refrigerated Logistics division on the back of subdued Easter trading.

May and June are typically higher profitability months in the automotive retail sector and will have a significant bearing on AHG's FY2019 financial performance. The actual result for FY2019 may be impacted by a range of factors, including the evolving market conditions (particularly in automotive retail), consumer behaviour around the upcoming Australian Federal Election and any negative impact resulting from the review (of the carrying value of receivables for the Refrigerated Logistics division) discussed in section 6.5.

Section 8.2(a) outlines the risks associated with guidance generally, and section 10.1 of the Bidder's Statement discusses the risks associated with changes to conditions in the industries in which AHG operates that may impact (or continue to impact) its financial performance.

6.7 Debt arrangements

AHG currently categorises its funding and capital management structure into two components: finance company loans, and commercial bills and leasing finance facilities.

Finance company loans (referred to in this Target's Statement as Floorplan Facilities) allow Dealers to finance their inventory purchases through specific finance facilities provided either by manufacturers or third-party finance companies. $1.241 billion of Floorplan Facilities were available to AHG as at 31 December 2018, of which $980 million were used.

Commercial bills and finance leasing facilities support all other aspects of AHG Group's capital management, working capital and growth strategy. At as 31 December 2018, there were $523.2 million of these facilities available to the AHG Group, of which $385.2 million were used.

AHG's commercial bills and finance leasing facilities include financial covenants. AHG currently is and expects to remain in compliance with all of its financial covenants under these debt facilities.

AHG is presently in discussions with its banks to, among other things, extend the maturity date for the component of its debt facilities that would otherwise mature in April 2020 to minimise refinancing costs, avoid that component being classified as a "current liability" and accommodate AHG's potentially reduced funding requirements under the potential outcomes of the various initiatives currently underway (including the strategic review of the Refrigerated Logistics division).

Please refer to section 8.2(b), which outlines some of the risks associated with refinancing and AHG's debt facilities generally.

6.8 AHG Board and senior management

(a) AHG Board

As at the date of this Target's Statement, the AHG Board comprised:

(i) Mr Richard England (Non-Executive Chairman)

(ii) Mr John McConnell (Chief Executive Officer and Managing Director)

(iii) Mr Giovanni (John) Groppoli (Non-Executive Director)

(iv) Mr Howard John Critchley (Non-Executive Director)

(v) Mr Gregory (Greg) James Duncan (Non-Executive Director)

(vi) Ms Jane Matisse McKellar (Non-Executive Director)

(vii) Ms Andrea Hall (Non-Executive Director)

(viii) Mr David Scott Blackhall (Non-Executive Director)

(b) **Senior management team**

As at the date of this Target's Statement, AHG's senior executives included:

(i) Mr John McConnell (Managing Director)

(ii) Adam Irving (Chief Financial Officer)

(iii) David Rowland (Company Secretary & General Counsel)

6.9 Transaction fees and expenses

As at the Last Practicable Trading Date, the aggregate amount of:

(a) the fees and expenses that have been incurred by AHG in connection with the Offer; and

(b) the fees and expenses that are estimated to be incurred in connection with printing and dispatch of this Target's Statement and establishment of the Shareholder Information Line,

is approximately $1,417,350 (exclusive of GST).

The fees and expenses referred to in paragraph (a) above includes fees payable to AHG's financial adviser (UBS), its legal adviser in connection with the Offer (Ashurst) and the Independent Expert, as well as fees payable to AHG's legal adviser in respect of competition law matters.

AHG will continue to incur fees and expenses in connection with the Offer, including of the kind referred to above, in accordance with the corresponding engagement terms of its advisers and the Independent Expert. Among other things, those engagement terms contemplate time-based charges (legal advisers), a fixed monthly retainer plus a contingent fee the quantum of which varies based on different outcomes (financial adviser) and a time-based fee for services (Independent Expert).

7. INFORMATION RELATING TO AP EAGERS

7.1 Disclaimer

The following information in this section about AP Eagers has been prepared by AHG using the information contained in the Bidder's Statement, and has not been independently verified by AHG. AHG does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on AP Eagers in this Target's Statement should not be considered comprehensive. Further information about AP Eagers is set out in the Bidder's Statement (particularly, section 4 of the Bidder's Statement), and may also be obtained from AP Eagers' website at www.apeagers.com.au. Announcements made by AP Eagers to ASX may also be obtained from ASX's website at www.asx.com.au (ASX code: APE). Information contained in or otherwise accessible from those websites does not form part of this Target's Statement. AP Eagers is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by AP Eagers may be obtained from, or inspected at, an ASIC office.

7.2 Overview of AP Eagers

AP Eagers is a public company listed on ASX. AP Eagers' core business is owning and operating motor vehicle dealerships which provide full-service facilities covering new motor vehicles sales, used motor vehicles sales, servicing, spare parts and the facilitation of allied consumer finance.

7.3 AP Eagers' interest in AHG

As at the Last Practicable Trading Date, AP Eagers had a relevant interest in approximately 103,581,764 AHG Shares, representing approximately 31.23% of the voting power in AHG.

As at the Last Practicable Trading Date, AP Eagers has disclosed Acceptance Instructions into the Institutional Acceptance Facility of approximately 22.82% of the AHG Shares on issue.

Combining AP Eagers' relevant interest in AHG Shares (of 31.23%), and Acceptance Instructions into the Institutional Acceptance Facility (of 22.82% of the AHG Shares), demonstrates a theoretical position of approximately 54.05% as at the Last Practicable Trading Date.

7.4 AP Eagers Directors

According to the Bidder's Statement, as at 5 April 2019, the directors of AP Eagers were:

- Timothy Boyd Irving Crommelin;
- Martin Andrew Ward;
- Nicholas George Politis;
- Daniel Thomas Ryan;
- David Arthur Cowper;
- Marcus John Birrell; and
- Sophie Alexandra Moore.

8. RISK FACTORS

In considering this Target's Statement and the Offer, AHG Shareholders should be aware that there are both risks associated with accepting the Offer, and with rejecting the Offer and remaining as an AHG Shareholder.

Section 8.1 contains a summary of some of the risks associated with accepting the Offer, while section 8.2 contains a summary of some of the risks associated with rejecting the Offer and remaining as an AHG Shareholder. This section 8 is not intended to be exhaustive and necessarily does not take into account the personal circumstances of AHG Shareholders.

AHG Shareholders should consider seeking professional advice (about the risks associated with accepting the Offer and those associated with a continuing investment in AHG), which takes into account their individual investment objectives, risk appetite and financial circumstances.

8.1 Risks associated with accepting the Offer

(a) Future financial and operational performance of AP Eagers and the Merged Group

If you accept the Offer and the Offer becomes unconditional, unless you are a Foreign Shareholder, you will receive APE Shares as consideration for your AHG Shares. The value of your APE Shares will depend on the future financial and operational performance of AP Eagers and, if AP Eagers acquires all of the AHG Shares that it does not already own, the Merged Group. There are a number of risks, both general and specific, which could materially adversely affect the future operating and financial performance of AP Eagers and, if AP Eagers acquires all of the AHG Shares that it does already own, the Merged Group.

Certain general and specific risk factors that apply to an investment in AP Eagers and the Merged Group (should AP Eagers acquire all of the remaining AHG Shares that it does not already own) are set out in sections 10.1 and 10.3 of the Bidder's Statement. The specific risk factors set out in section 8.2 and this section 8.1 will also apply to AP Eagers and the Merged Group. Accordingly, AHG Shareholders should carefully consider the risk factors set out in sections 10.1 and 10.3 of the Bidder's Statement, and section 8.1 and section 8.2 of this Target's Statement, before deciding whether to accept the Offer.

(b) You may not receive the Offer Consideration for a prolonged period of time

As at the Last Practicable Trading Date, the Offer is still subject to six Bid Conditions. Two of the outstanding Bid Conditions are:

(i) all Regulatory Approvals (including, specifically, ACCC approval) being obtained; and

(ii) certain Third Party consents (or waivers) being obtained from counterparties to contracts with the AHG Group.

As explained below, it is both:

(iii) uncertain whether and when these Bid Conditions will be fulfilled or waived; and

(iv) likely that any fulfilment of these Bid Conditions would take a long period of time to occur.

Accordingly, if you accept the Offer:

(v) you will not be able to withdraw or revoke your acceptance unless a withdrawal right arises under the Corporations Act (refer to section 5.10 of this Target's Statement for a summary of such rights). This means you will not be able to sell your AHG Shares on market (possibly for greater value than the implied value of the Offer Consideration), or accept any alternative superior proposal (should one emerge), during the Offer Period; and

(vi) you will not receive any consideration for your AHG Shares while the Offer remains subject to any of the Bid Conditions.

Accordingly, for the reasons above, it is the unanimous recommendation of your Directors that you only accept the Offer once AP Eagers has waived the No Material Adverse Change Condition. AP Eagers have undertaken to waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force, provided that on or before that date:

(vii) there has been no breach of the No Material Adverse Change Condition that has not otherwise been waived by AP Eagers; and

(viii) none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in section 9.4(g) of this Target's Statement) has occurred.

The particular uncertainty associated with any ACCC approval and the Third Party Consents Condition, both in terms of whether such ACCC approval will be obtained and Third Party Consents Condition will be fulfilled, and the timing for those events, is further dealt with below.

ACCC approval

AP Eagers confirmed in the Second Supplementary Bidder's Statement that it had received confirmation from the ACCC that, on 29 April 2019, the ACCC determined it had received a valid application for a merger authorisation from AP Eagers.

It is not certain whether ACCC approval will be obtained. If such approval is obtained, there is a risk that it may be subject to structural undertakings (such as divestment requirements) and it is not certain whether AP Eagers will agree to provide such undertakings.

It can also take up to 90 days from and including 29 April 2019 (or longer, if extended by agreement between AP Eagers and the ACCC) for the ACCC to make a determination. This means that there may be a substantial delay in any ACCC approval being obtained and, consequently, the Regulatory Approvals condition being fulfilled and the Offer becoming unconditional.

Except to the extent prohibited by law or a Regulatory Authority, in the Bid Implementation Deed AHG has undertaken to work in a cooperative fashion with AP Eagers in progressing the application for Merger Authorisation.

Third Party Consents Condition

As summarised in section 9.6, a large number of AHG's material contracts (including its Dealer Agreements) contain "change of control" provisions which will be triggered if AP Eagers acquires a relevant interest in more than 50% of the AHG Shares. Additionally, there is a risk that some of the market share limits notified to AHG by manufacturers will or may be infringed if AP Eagers acquires control of AHG.

While the "change of control" provisions vary in their precise terms, they typically provide the relevant counterparty with a termination right if either there is a change of control, or if a change of control occurs without the relevant counterparty's consent.

Where the exercise of any rights by a Third Party arising as a result of a change of control of AHG, or the acquisition of AHG Shares by AP Eagers, would have a material adverse effect on the AHG Group, in order to be fulfilled, the Third Party Consents Condition requires any such Third Party to:

(ix) not exercise those rights (or state an intention to exercise those rights); *and*

(x) give their consent to the change of control or acquisition (as the case may be) or waive those rights.

The Third Parties include certain of the:

(xi) manufacturers in respect of which an AHG Group member has entered into a Dealer Agreement;

(xii) financiers in respect of which an AHG Group member has entered into a Floorplan Facility;

(xiii) customers of AHG's Refrigerated Logistics division; and

(xiv) landlords of the premises leased by an AHG Group member.

Accordingly, whether or not the Third Party Consents Condition will be fulfilled potentially depends on the co-operation and agreement of a large number of Third Parties and is outside the control of AHG. It is therefore both uncertain whether or not the Third Party Consents Condition will be fulfilled and possible that any fulfilment will take a long period of time to occur.

Under the Bid Implementation Deed, the parties have undertaken to use reasonable endeavours to agree a strategy for obtaining any "change of control" consents from counterparties to contracts with the AHG Group, and to seek those consents in accordance with the agreed strategy.

(c) **Compliance with any structural undertaking required by the ACCC**

As mentioned above, there is a risk that the ACCC may, as a condition to granting a merger authorisation for the Offer (if that merger authorisation is granted), require the divestment of certain assets of AP Eagers or, if AP Eagers acquires all of the AHG Shares it does not already own, the Merged Group, or impose restrictive undertakings on AP Eagers or the Merged Group (as the case may be). If AP Eagers agrees to any such conditions, complying with those conditions could impact the future earnings of AP Eagers or the Merged Group (as the case may be) and, accordingly, the implied value of the Offer Consideration.

(d) **Termination as a result of a change of control**

As mentioned above, a large number of AHG's material contracts contain "change of control" provisions that will be triggered if AP Eagers acquires control of AHG. There is also the possibility that some of the market share limits notified to AHG by manufacturers will or may be infringed in this scenario. Accordingly, even if the Third Party Consents Condition is fulfilled (or waived) and the Offer does proceed, there is a risk that:

(i) one or more of the counterparties to AHG's material contracts might subsequently seek to exercise any available termination rights or decide not to renew the relevant contracts; and

(ii) a manufacturer whose market share limits are or may be infringed may require AP Eagers or the Merged Group (where AP Eagers acquires all of the AHG Shares it does not already own) to dispose of the relevant infringing dealers/franchises,

which may have a material adverse effect on the future performance or prospects of AP Eagers or the Merged Group (as the case may be) following completion of the Offer.

(e) **The value of the Offer Consideration is uncertain**

The Offer Consideration under the Offer is a specified number of APE Shares, rather than a number of APE Shares referable to a specific market value. As a result, the value of the Offer Consideration will fluctuate depending on the market price of APE Shares.

If you accept the Offer, and the Offer becomes unconditional, you will receive the Offer Consideration within one month after the later of:

(i) the date you accept the Offer; and

(ii) the date that the Offer becomes unconditional.

As such, there is a risk that the price of APE Shares will fall between the date you accept the Offer and the date you receive the Offer Consideration. This risk can be mitigated, but not ameliorated, by not accepting the Offer until it has become unconditional.

In addition, there is an ongoing risk, which exists with any investment in or holding of shares listed on a public exchange, that the price of APE Shares (and therefore the value of the Offer Consideration received by Accepting AHG Shareholders) may fall in the future. In particular, there is a risk that some Accepting AHG Shareholders may not intend to continue to hold their APE Shares and may wish to sell them on ASX, which would put downward pressure on the price of APE Shares. No guarantee can be made as to the price or value of APE Shares.

(f) **Taxation consequences**

The taxation consequences of accepting the Offer (and disposing of your AHG Shares pursuant to it) depend on a number of factors and will vary depending on your particular circumstances. These consequences may also vary depending on the percentage holding in AHG Shares that AP Eagers ultimately acquires under the Offer.

A general outline of certain Australian tax considerations is provided by AP Eagers in section 12 of the Bidder's Statement. This outline is of a general nature only and you should seek your own specific professional tax advice as to the taxation implications applicable to your personal circumstances.

(g) **Possibility of a superior proposal emerging**

You may consider that a third party may emerge with a superior proposal. If you accept the Offer, other than in limited circumstances provided in the Corporations Act (as summarised in section 5.10 of this Target's Statement), you will not be able to accept your AHG Shares into any superior proposal and you will not be able to obtain any potential benefit associated with that superior proposal (if any).

Your Directors are not currently aware of any superior proposal, and note that AP Eagers' current relevant interest in 31.23% of AHG (as at the Last Practicable Trading Date) materially reduces the likelihood of a superior proposal emerging.

(h) **Risks that the potential synergies or other benefits that are anticipated may not be achieved**

There is a risk that the cost savings, benefits and other efficiencies, including potential synergies, arising from the combination and integration of the AHG and AP Eagers businesses may be lower than anticipated, whether in the scenario where AP Eagers acquires less than 100% of AHG or in the scenario where it does.

Any failure to achieve the anticipated cost savings, benefits and other efficiencies (including potential synergies) in these scenarios could impact the financial performance and position of AP Eagers or (in circumstances where it does acquire 100% of AHG) the Merged Group.

Further details about the risks associated with the integration of the respective businesses of AHG and AP Eagers are set out in section 10.2 of the Bidder's Statement.

(i) **Other risks associated with accepting the Offer**

Certain other risks associated with accepting the Offer are summarised in section 10.2 of the Bidder's Statement. They include the risks associated with AP Eagers acquiring more than 50.1%, but less than 90%, of the AHG Shares on issue.

AHG Shareholders should also carefully consider these risks before deciding whether to accept the Offer.

8.2 Risks associated with rejecting the Offer and remaining as an AHG Shareholder

In considering this Target's Statement and the Offer, AHG Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of AHG and the price or value of AHG Shares.

As both AP Eagers and AHG operate in the automotive retailing sector, the specific risk factors summarised in section 10.1 of the Bidder's Statement that apply to an investment in AP Eagers (and the Merged Group, should AP Eagers acquire all of the remaining AHG Shares that it does not already own) will similarly apply to an investment in AHG.

The risk factors summarised below may also affect the future operating and financial performance of AHG and are therefore also relevant when deciding whether or not to accept the Offer. These risk factors are either:

- not summarised in section 10.1 of the Bidder's Statement, because they are specific to AHG's current circumstances or the Offer, or relate to AHG's Refrigerated Logistics division; or
- where they are summarised in section 10.1 of the Bidder's Statement, there are further disclosures AHG considers it prudent to make in respect of the relevant risk factor.

If you do not accept the Offer and continue to hold AHG Shares, your investment in AHG will be subject to the risks summarised in section 10.1 of the Bidder's Statement and below, as well as other risks.

(a) **Future financial performance**

As mentioned in section 6.6, AHG has provided revised guidance in respect of the full financial year ending 30 June 2019. That guidance is premised on a number of assumptions, which are outlined in section 6.6. Furthermore, the outcome of the ongoing review (of the carrying value of receivables for the Refrigerated Logistics division, as discussed in section 6.5) is not yet certain and may ultimately have an impact on AHG's ability to meet that revised guidance.

In all cases, guidance is not a guarantee of future performance and involves known and unknown risks, many of which are beyond the control of AHG and some of which relate to economic factors or general trading conditions. AHG's actual results may differ from its existing guidance and the assumptions on which that guidance is based. Not meeting guidance may adversely affect the price and value of AHG Shares. Depending on the reasons for not meeting guidance, and the financial impact of those reasons, a failure to meet guidance could potentially trigger a Bid Condition or cause AHG to breach a financial covenant under its debt facilities (or both).

(b) **Debt facilities and refinancing**

AHG's debt facilities include financial covenants. Failure to comply with these covenants may require AHG to seek amendments or waivers, or may lead to AHG's banks exercising rights available to them in those circumstances, and there is no assurance AHG's banks would consent to any such amendments or waivers, or other arrangements. AHG currently is, and expects to remain, in compliance with all of its financial covenants under those debt facilities.

In the ordinary course, AHG seeks to refinance its debt facilities in advance of their maturity dates such that they are not classified as "current liabilities" on AHG's balance sheet. AHG's ability to refinance its debt facilities will depend on a range of factors, including its operating and financial performance and credit market conditions at the time. Inability to refinance its debt facilities in a timely manner may result in the debt being classified as a "current liability" and, ultimately, may require AHG to seek alternative sources of funding.

As noted in section 6.7, AHG is currently in discussions with its banks about certain amendments to its existing debt facilities that would, among other things, extend the maturity date for the component maturing in April 2020 in order to minimise refinancing costs, avoid that component being classified as a "current liability" and accommodate potentially reduced funding requirements under the potential outcomes of the various initiatives currently underway (including the strategic review of the Refrigerated Logistics division). AHG can give no assurance about the outcomes of these discussions.

(c) **Minority ownership consequences**

As the Offer is not subject to a minimum acceptance condition, even if all of the Bid Conditions are fulfilled or waived, AP Eagers may hold fewer AHG Shares than is required to satisfy the compulsory acquisition threshold (summarised in section 5.15 of this Target's Statement).

Depending upon the number of AHG Shares that are acquired under the Offer, this may have a number of implications for remaining AHG Shareholders who do not accept the Offer, including:

(i) AP Eagers may be in a position, either alone or in conjunction with one or more of the other AHG Shareholders, to significantly influence the composition of AHG's Board and management and the strategic direction of the businesses of AHG and its subsidiaries (or potentially to control those factors in conjunction with one or more other AHG Shareholders), which risks include (but not are limited to) that:

(A) AP Eagers may cause AHG to undertake equity raisings in the future, which could dilute minority shareholders in AHG where the minority shareholders do not fully participate;

(B) if AP Eagers acquires 75% or more AHG Shares, it will be able to pass a special resolution of AHG, regardless of how minority shareholders vote. This would enable AP Eagers to, among other things, change the AHG constitution;

(C) if AP Eagers acquires more than 50% of the AHG Shares, then it has the power to reconstitute the AHG Board, and (if it does so) the current Directors will not be in a position to guarantee that the present strategic direction of AHG will be maintained; and

(D) if AHG is delisted from ASX, any remaining AHG Shareholders will not be afforded the protections under the ASX Listing Rules, because those Listing Rules would no longer apply to AHG following delisting;

(ii) the liquidity of AHG Shares may be lower than at present (including because other investors may not want to be minority shareholders in AHG if it is controlled by AP Eagers);

(iii) there is no certainty that AP Eagers (or another party) will make another offer for AHG Shares in the future. This means that you could remain a minority shareholder in a company, the shares in which could be illiquid;

(iv) depending on the size of AP Eagers' interest in AHG, it may well be unlikely that another party will seek to acquire all of the AHG Shares in future;

(v) in the event that a change of control results from the Offer, this might have materially adverse consequences for AHG's material contracts, including as summarised in section 9.6 of this Target's Statement, which may adversely affect AHG's operational and financial performance; and

(vi) if the number of AHG Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then ASX might suspend the trading in AHG's Shares and/or de-list AHG. As noted above, if this occurs, any remaining AHG Shareholders will not be able to sell their AHG Shares on-market.

(d) **If you reject the Offer and AP Eagers subsequently compulsorily acquires your AHG Shares, you may not receive the Future Dividend (if one is declared and paid)**

AP Eagers has a history of paying both interim and full year dividends. Whilst AP Eagers has not yet declared any Future Dividend with respect to its half-year ending 30 June 2019, and is under no obligation to do so, given AP Eagers' track record, it is likely that AP Eagers will declare and pay a Future Dividend for that period.

As mentioned elsewhere in this Target's Statement, in the Bid Implementation Deed, AP Eagers has agreed to ensure that the record date for any Future Dividend occurs after the date that each Accepting AHG Shareholder (or in the case of an Accepting AHG Shareholder who is a Foreign Shareholder, the Nominee) has been registered as the holder of the APE Consideration Shares to which such shareholder is (or would otherwise have been) entitled.

This means that, if the Offer becomes unconditional, Accepting AHG Shareholders will also be entitled to receive any Future Dividend in respect of their APE

Consideration Shares, provided that they do not sell their APE Shares prior to the record date for the applicable Future Dividend.

In circumstances where it is entitled to compulsorily acquire the remaining AHG Shares and proceeds to do so, AP Eagers is not similarly required to ensure that the record date for any Future Dividend occurs after each such remaining AHG Shareholder (or in the case of a Foreign Shareholder, the Nominee) has been registered as the holder of the APE Consideration Shares to which such shareholder is (or would otherwise have been) entitled. Accordingly, there is a risk that, if you do not accept the Offer and your AHG Shares are subsequently compulsorily acquired, you will not be entitled to receive a Future Dividend that Accepting AHG Shareholders would be entitled to receive in respect of their APE Consideration Shares.

(e) **Regulatory change**

Section 10.1 of the Bidder's Statement refers to the risk of changes to the legislative or regulatory regime to which the Merged Group will be subject and notes that the Merged Group may be impacted by legislation changes made in response to some of the recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Banking Royal Commission**).

Set out below are details about some potential regulatory changes which may have a material impact on AHG's business, operating and financial performance. Other than the potential regulatory change referred to in paragraph (i) below, each has arisen as a result of recommendations from the Banking Royal Commission:

(i) **Extended warranties**

Having reviewed both flex commissions and add-on insurance products, ASIC has commenced a review in respect of extended warranties. This is a broad issue for the Automotive Retailing sector and could result in ASIC seeking changes and refinements in the product design, as well as the capping of commissions for all extended warranty products sold across the dealer market. AHG cannot predict the nature or extent of changes that may result from ASIC's review. There is a risk that any changes arising from this review could be material for the industry as a whole (and AHG as a participant) and have an adverse effect on AHG's operational and financial performance; including if, for example, ASIC effectively places a cap on margins, similar to what occurred with add-on insurance products.

(ii) **Point of Sale exemption**

The Banking Royal Commission has recommended that what is commonly known as the "Point of Sale exemption" under the *National Consumer Credit Protection Regulations 2010* (Cth) be abolished.

Both the government and the opposition have announced that they plan to implement this recommendation following the Australian federal election in May 2019. There is, therefore, a high likelihood that the Point of Sale exemption will be abolished in 2019.

AHG's dealerships are currently exempt from the requirement to hold an Australian credit licence as a result of the "Point of Sale exemption". However, if the Point of Sale exemption is abolished in its entirety, AHG believes it is well placed to manage such change, either in cooperation with its finance company providers or by utilising its existing Australian credit licence. In addition, AHG notes that its current training program is, and its current processes and procedures are, well aligned with the requirements of the Australian credit licence regime under the applicable legislation. AHG also notes that its finance companies are seeking legal advice regarding how they may operate within a revised licensing environment should the Point of Sale exemption be abolished.

Notwithstanding the above potential mitigants, there are still risks to AHG's business associated with the changes and uncertainty referred to above, and these may have an adverse impact on AHG's operational and financial performance.

(iii) **Capping of commission for add-on insurance products**

The Banking Royal Commission has recommended that a cap be placed on commissions earned for add-on insurance products.

The review by ASIC into add-on insurance products in 2017 has resulted in significant reductions in both the premiums and commissions paid for these products, and existing arrangements now broadly align with the Banking Royal Commission's recommendations. AHG also already operates within a capped commission environment, such that add-on insurance sales are not now a significant contributor to its finance and insurance results.

There is no current indication that, as a result of the recommendation of the Banking Royal Commission, commissions will be reduced further. However, AHG cannot predict whether any legislative or regulatory amendments will be made as a result of the recommendation and there is a risk that any such amendments could have an adverse effect on AHG, despite insurance companies already imposing caps on the commissions paid.

(iv) **Deferred sales model for add-on insurance sales**

The Banking Royal Commission has recommended that add-on insurance be sold on a deferred sales model.

The concept of a deferred sales model for add-on insurances is already under consideration by ASIC, and separately the Australian Automotive Dealer Association is urging the Department of Treasury to adopt a model which defers the sale for two clear days (between initial introduction of the product and its eventual sale) and allows a waiver for informed consumers.

Accordingly, there is a risk that any such legislative or regulatory changes effected following the recommendation could have an impact on the AHG Group's add-on insurance income which could have an adverse effect on the operational and financial performance of the AHG Group.

(f) **Customer contracts for Refrigerated Logistics business**

AHG has "call-off" arrangements in place with most of the customers of its Refrigerated Logistics business pursuant to which the relevant customers are able to "call off" (via the issue of a purchase order) the services they would like to be provided by AHG. These arrangements typically do not impose any minimum spend or purchase obligations on the relevant customer, which means that, at any time, such customers could stop using AHG's Refrigerated Logistics business. If one or more customers were to stop using AHG's Refrigerated Logistics business or "call off" fewer services than they currently do, this could have a detrimental effect on AHG's financial performance.

(g) **Compliance and Regulatory Risk**

Section 10.1 of the Bidder's Statement refers to some of the State and Federal laws and regulations that would govern the Merged Group's business. In addition to the laws and regulations mentioned in that section, AHG's business is also subject to laws and regulations relating to:

(i) the transportation of refrigerated products (for example, food handling laws and national heavy vehicle laws); and

(ii) financial services licensing.

(h) **Contractual relationships with manufacturers**

Section 10.1 of the Bidder's Statement refers to the risk of the termination or non-renewal of the franchise agreements entered into with the relevant manufacturer for each of the Merged Group's dealerships (such agreements are referred to in this Target's Statement as **"Dealer Agreements"**).

AHG notes that the risk associated with the non-renewal of Dealer Agreements has increased in recent times because of manufacturers needing to reduce or alter the scale and scope of their distribution models in light of altered market shares and/or overall reduced market demand for new vehicles. Manufacturers are also experimenting with direct-to-consumer models aided by new, freely available digital technologies, which may further increase the risk of non-renewal of Dealer Agreements in the future. These developments suggest that the traditional distribution chain is likely to alter significantly in the next five to 10 years.

AHG has generally secured long term leases on the majority of the current dealership sites, usually with a lease term in excess of the term of the associated Dealer Agreement. Accordingly, there is a risk that if a Dealer Agreement is not renewed, AHG may have an obligation to continue to lease the site. In these circumstances, the dealership site may be sub-leased or used for a different automotive franchise.

However, if AHG is not able to implement alternative arrangements for these sites in the circumstances of non-renewal of a Dealer Agreement, this may have a detrimental effect on AHG's financial performance; which would also be exacerbated if the offshore manufacturers and local importers accelerate the trends in distribution referred to above.

8.3 Share price fall risk (absent the Offer)

In addition to the risk factors noted in sections 8.1 and 8.2 above, AHG Shareholders should also bear in mind that, while there are many factors that influence the market price of AHG Shares, the Directors anticipate that (assuming no alternative proposal emerges) the market price of AHG Shares is likely to fall if the Offer does not proceed, or if AP Eagers acquires more than 50% (but less than 90%) of AHG Shares.

9. ADDITIONAL INFORMATION

9.1 Issued capital

As at the Last Practicable Trading Date, AHG's issued capital comprised:

(a) 331,623,014 AHG Shares; and

(b) 1,592,002 AHG Performance Rights (unquoted).

9.2 Substantial holders

As at the Last Practicable Trading Date, based on the substantial shareholder notices provided to AHG, the substantial shareholders of AHG Shares are:

Name of holder	Number of AHG Shares	Percentage Shareholding
WFM Motors Pty Ltd and its Associates*	103,581,764	31.23%
AP Eagers Limited and its Associates	103,581,764	31.23%
Perpetual Limited and its related bodies corporate	30,563,741	9.22%

*WFM Motors Pty Ltd and its Associates (comprising NGP Investments (No 2) Pty Ltd, NGP Investments (No 1) Pty Ltd, Sitil Management Pty Ltd and Mr Nicholas George Politis) each have a relevant interest in the 103,581,764 AHG Shares in which AP Eagers has a relevant interest by virtue of those entities holding, in aggregate, greater than 20% of the APE Shares on issue, including a relevant interest in the 5,319 AHG Shares held by NGP Investments (No 2) Pty Ltd which have been accepted into the Offer. Mr Politis is also a non-executive director of AP Eagers.

9.3 Effect of the Offer on AHG Performance Rights

(a) Ability of holders of AHG Performance Rights to participate in the Offer

The Offer does not extend to AHG Performance Rights. The Offer does, however, extend to AHG Shares that are issued or otherwise come into existence (during the period from the Register Date to the end of the Offer Period) due to the conversion of securities convertible into AHG Shares or the exercise of rights to be issued AHG Shares (including AHG Performance Rights) that, in either case, are on issue at the Register Date.

(b) Summary of terms of the AHG's Performance Rights

Under the AHG Performance Rights Plan Rules, on the occurrence of a "Control Event" (which definition includes where a takeover bid is made for AHG and the AHG Board resolves to recommend the bid to AHG Shareholders or where any transaction or event is proposed that, in the opinion of the AHG Board, may result in a person becoming entitled to exercise control over AHG), the AHG Board may, within 14 days after the "Control Event", determine in its absolute discretion whether any or all of each participant's:

- unvested AHG Performance Rights will be tested at the time of the "Control Event" and vest and become exercisable at the time of the "Change of Control" (which includes where a person becomes entitled to more than 50% of the AHG Shares and which vesting may be subject to further conditions or subject to the occurrence of that "Change of Control");

- unvested AHG Performance Rights remain subject to the applicable performance conditions and/or performance period(s);
- unvested AHG Performance Rights become subject to substitute or varied performance conditions and/or performance period(s);
- vested but unexercised AHG Performance Rights must be exercised within the period determined by the AHG Board;
- vested but unexercised AHG Performance Rights may only be settled in cash or with securities other than AHG Shares; or
- AHG Shares issued pursuant to the exercise of AHG Performance Rights which are subject to disposal restrictions under the AHG Performance Rights Plan Rules will no longer be subject to such disposal restrictions.

AHG currently has on issue 1,592,002 unvested AHG Performance Rights. Further, no AHG Shares are subject to disposal restrictions under the AHG Performance Rights Plan Rules.

Following the AHG Board's decision to make the Directors' Recommendation (and therefore the occurrence of a "Control Event") and consistent with the provisions of the Bid Implementation Deed, the AHG Board is required to exercise its discretion with respect to whether some or all of the unvested AHG Performance Rights on issue will no longer be subject to the applicable performance conditions and/or performance period(s), and immediately vest and become capable of being exercised, subject to and conditional on:

(i) AP Eagers obtaining a relevant interest in at least 50.1% of AHG Shares; and

(ii) the Offer becoming or being declared unconditional.

The AHG Board has not yet determined how to exercise the discretion referred to above, and has until 21 May 2019 to do so.

Further information regarding the AHG Performance Rights Plan Rules can be obtained from AHG's notice of 2016 annual general meeting dated 17 October 2016.

9.4 Bid Implementation Deed

A summary of certain key terms of the Bid Implementation Deed entered into by AHG and AP Eagers on 7 May 2019 is set out below. A copy of the Bid Implementation Deed is attached in full to AHG's ASX announcement 'AHG Board recommends APE Offer' dated 8 May 2019, which is available on ASX's website at www.asx.com.au and on AHG's website at www.ahgir.com.au.

(a) Improved consideration

AP Eagers agreed to improve the Offer Consideration to 1 APE Share for every 3.6 AHG Shares held.

(b) Access to Future Dividend

AP Eagers has agreed to ensure that the record date for any Future Dividend occurs after the date that each Accepting AHG Shareholder (or, in the case of an Accepting AHG Shareholder that is a Foreign Shareholder, the Nominee) has been registered as the holder of APE Consideration Shares.

(c) **Reduced conditionality**

AP Eagers has agreed:

(i) to waive the Bid Condition in paragraph 6 of Schedule 2 to the Bidder's Statement (being the general market fall Bid Condition);

(ii) not to rely on a breach of the Bid Condition in paragraph 4(c) of Schedule 2 to the Bidder's Statement in respect of the appointment of Mr Richard England to the AHG Board; and

(iii) that it will waive the No Material Adverse Change Condition on the date a Merger Authorisation comes into force, provided that, on or before that date:

(A) there has been no breach of the No Material Adverse Change Condition which has not otherwise been waived by AP Eagers prior to that date; and

(B) none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in paragraph (g) below) have occurred.

(d) **Promoting the offer**

On and from the date that AP Eagers waives the No Material Adverse Change Condition, and provided none of the events set out in clause 7.1 of the Bid Implementation Deed (and summarised in paragraph (g) below) have occurred, AHG must, in the absence of a Superior Proposal, procure that each Director participates in efforts reasonably required by AP Eagers to promote the merits of the Offer, including meeting with key AHG Shareholders, analysts, management, joint venture partners and press if requested to do so by AP Eagers.

(e) **Merger authorisation**

Except to the extent prohibited by law or a Regulatory Authority, AHG must consult with and provide all necessary and appropriate assistance to AP Eagers and the ACCC for the purposes of enabling the Merger Authorisation to be obtained.

(f) **Change of control**

AHG must, as soon as practicable and in any event within 10 business days after the date of the Bid Implementation Deed, seek to identify change of control provisions in categories of contracts to which a member of the AHG Group is a party which may be triggered as a result of the Offer.

AHG and AP Eagers must use all reasonable endeavours to obtain any consents required in accordance with the terms of those change of control provisions and to then expeditiously seek those consents in accordance with the agreed strategy.

(g) **Reimbursement fee**

AHG must pay to AP Eagers the Reimbursement Fee if:

(i) subject to paragraph (iv) below, at any time during the Offer Period, any Director:

(A) makes any public statement to the effect that he or she does not support (or no longer supports) the Offer; or

(B) fails to recommend that AHG Shareholders accept the Offer or, having done so, publicly withdraws or varies his or her favourable recommendation of the Offer (or any part of it);

(ii) at any time during the Offer Period any Director publicly recommends, promotes or otherwise endorses a Competing Proposal; or

(iii) AHG breaches a term of the Bid Implementation Deed and that breach results in a valid termination of the Bid Implementation Deed by AP Eagers.

Notwithstanding any of the foregoing:

(iv) No Reimbursement Fee will be payable under paragraph (i) if the Independent Expert concludes, at any time after the dispatch by AHG of this Target's Statement to AHG Shareholders but before the date of any breach of the No Material Adverse Change Condition, that the Offer is neither fair nor reasonable to AHG Shareholders and the reason for that change in conclusion is a matter, event or circumstance affecting AP Eagers or APE Shares.

(v) No Reimbursement Fee will be payable if AP Eagers acquires a relevant interest in at least 90% and the Offer becomes or is declared unconditional.

(h) **AHG Board changes**

Promptly after AP Eagers has a relevant interest in at least 50.1% of the AHG Shares, and AP Eagers declares the Offers to be free from the Bid Conditions, AHG must:

(i) cause the appointment of any person nominated by AP Eagers to the AHG Board (subject to receipt of a valid consent to act from each subject person, and to the relevant persons otherwise being eligible for appointment as a Director) and any relevant retirements from AHG Board notified by AP Eagers; and

(ii) use its best endeavours to obtain from those Directors who resign, written notice that they have no claim outstanding for loss of office, remuneration or otherwise against AHG.

(i) **Termination**

The Bid Implementation Deed may be terminated by written notice:

(i) by either party, if:

(A) the other party is in material breach of any provision of the Bid Implementation Deed and, following notice by the terminating party, the breach has not been rectified without five business days of such notice;

(B) AP Eagers withdraws the Offer for any reason (including non-satisfaction of a Bid Condition); or

(C) a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Offer.

(ii) by AP Eagers, if:

(A) a Superior Proposal is made or publicly announced for AHG by a third party;

(B) a Director does not recommend the Offer (or withdraws or adversely modifies their recommendation); or

(C) a person other than AP Eagers or WFM Motors Pty Ltd (and its associates) has a relevant interest in more than 15% of the AHG Shares on issue.

9.5 Material litigation

To the best knowledge of the Directors and senior management of AHG, AHG is not involved in any litigation or dispute which is material in the context of the AHG Group when taken as a whole.

9.6 Effect on AHG's material contracts

Set out below is some general information about the effect of a change of control of AHG under AHG's material contracts (which may occur as a result of the Offer), as well as the potential effect on its Dealer Agreements in light of applicable market share limits of its manufacturers. If there is a change of control of AHG and one or more of the counterparties to AHG's material contracts decide:

- in the case of a Dealer Agreement, not to renew a Dealer Agreement;
- in the case of a customer contract for AHG's Refrigerated Logistics business, to stop using AHG's Refrigerated Logistics business or "call off" fewer services than they currently use; and/or
- in the case of all of AHG's material contracts (including the above Dealer Agreements and customer contracts for its Refrigerated Logistics business), to exercise any available right to terminate the relevant contract (whether or not such right arises as a change of control),

it could have a material adverse effect on AHG and/or result in the non-fulfilment of the Third Party Consents Condition and/or No Material Adverse Change Bid Condition.

(a) Dealer Agreements

AHG's automotive retail business comprises approximately 181 automotive retail franchises at 115 dealership locations across Australia and New Zealand. Each dealership is operated by a wholly or majority-owned Subsidiary of AHG (each a **Dealer**).

Each Dealer has entered into a franchise agreement with the applicable manufacturer (referred to in this Target's Statement as a "Dealer Agreement"). Pursuant to the Dealer Agreements, the relevant Dealer is, among other things, granted the right to operate the relevant dealership and sell the relevant manufacturer's vehicles.

Potentially more than half of the Dealer Agreements contain change of control provisions which will be triggered if AP Eagers obtains control of AHG as a result of the Offer. Generally speaking, these provisions either provide the relevant manufacturer with a termination right if there is a change of control, or a change of control occurs without the relevant manufacturer's prior consent. For some of the termination rights that only arise where the relevant manufacturer has not consented to the change of control, the relevant manufacturer cannot unreasonably withhold its consent.

Additionally, a small number of Dealer Agreements contain termination rights in favour of the relevant manufacturer which will or could be triggered as a result of AP Eagers increasing its relevant interest in AHG Shares, whether as a result of the Offer or otherwise. In broad terms, for some of these provisions, in order for a termination right to arise, the relevant manufacturer must determine that the AP Eagers' substantial holding will be prejudicial to its reputation or incompatible with its interests.

In addition, Dealer Agreements also usually only have a fixed term, often with no automatic right of renewal. They also often contain a right for the relevant manufacturer to terminate on short notice at its convenience. Accordingly, there is a risk that, even where a manufacturer does not have a termination right as a result of a change of control of AHG, such manufacturer may either seek to exercise any other available termination rights, or choose not to renew the relevant Dealer Agreement.

(b) **Market share limits**

Several manufacturers have at various times notified AHG that they will impose, or have policies setting out, market share limits in respect of its dealers/franchisees and their respective related bodies corporate. While the market share limits vary from manufacturer to manufacturer, they typically seek to impose limits on:

(i) the volume of vehicle sales any single dealer group can account for in a particular area (for example, a particular metropolitan area and/or nationally); and/or

(ii) the number of dealerships that any single dealer group can have in a particular area.

Market share limits can take the form of policies of the relevant manufacturer when considering proposed grants or sales of franchise, or contractual undertakings (by being incorporated into one or more of the Dealer Agreements or a separate agreement with a particular manufacturer).

Based on AHG's experience (in managing these market share limits) to date, there is a risk that the market share limits of some manufacturers will or may be infringed if AP Eagers acquires control of AHG.

(c) **Floorplan facilities**

Each Dealer has either entered into or has the benefit of floorplan facilities to finance the vehicles for its dealership (**Floorplan Facilities**). A number of the Floorplan Facilities contain change of control provisions which will be triggered if AP Eagers obtains control of AHG. These provisions generally provide the relevant financier with a right to terminate the Floorplan Facility as a result of a change of control.

(d) **Customer contracts for AHG's Refrigerated Logistics business**

Most of the customer contracts for AHG's Refrigerated Logistics business contain change of control provisions which will be triggered if AP Eagers obtains control of AHG. These provisions generally provide the relevant customer with a right to terminate the relevant contract in the event of a change of control of AHG. In addition, as noted in section 8.2(f), AHG has "call off" arrangements in place with all of its customers, with typically no minimum order or spend obligations.

(e) **Property leases**

Each Dealer and easyauto123 outlet leases its premises. The AHG Group also leases all of the premises used for its Refrigerated Logistics business. Over half of the AHG Group's leases contain provisions requiring the relevant landlord's consent in the event of a change of control of the relevant lessee and which would seem to be triggered by AP Eagers acquiring control of AHG.

9.7 Effect of the takeover on AHG's senior executive and Director arrangements

To the best of each Director's knowledge, other than as described below, none of the contractual arrangements between AHG and its senior executives, or between AHG and its Directors, are materially affected by any change in control of AHG arising under the Offer.

At the time that they entered into their respective employment contracts (which, in each case, was well before the Offer was announced), AHG agreed with three senior executives (each a **Relevant Executive**) that, if:

- the "Control or De Facto Control" of the AHG Board changes; or
- an entity completes an on-market or off-market takeover bid for the acquisition of AHG Shares, or a merger proposal for AHG,

then, in addition to their normal contractual and statutory entitlements, each of the Relevant Executives would be contractually entitled to receive a payment equal to half of that Relevant Executive's annual fixed remuneration (such payment is referred to as a **Retention Payment** and such arrangements are referred to as the **Previous Retention Arrangements**). AP Eagers will acquire "Control or De Facto Control" of the AHG Board where (relevantly) AP Eagers holds, or has a relevant interest in, more than 50% of AHG Shares.

If a Relevant Executive provides notice of termination of employment to AHG within six months of the event which triggered the requirement to pay the Retention Payment (which, to avoid any doubt, will only occur where the Relevant Executive voluntarily seeks to terminate their employment), the Relevant Executive will be required to pay back to AHG the amount of that Retention Payment (such period is referred to as the **Retention Period**).

In addition, AHG has recently put in place additional retention arrangements with certain other senior executives (each a **Key Executive** and such arrangements are referred to as the **Recent Retention Arrangements**), who include John McConnell (AHG's Chief Executive Officer and Managing Director) and other officers of AHG. Other than as to the duration of the Retention Period and the amount of the retention payment, the terms of the Recent Retention Arrangements are the same as the terms of the Previous Retention Arrangements.

The Retention Periods for the Recent Retention Arrangements range from between six and nine months, so that, for each Key Executive, the aggregate of their Retention Period and their notice period for termination is 12 months.

The AHG Board determined to put in place the Recent Retention Arrangements following announcement of the Offer and having regard to, among other things:

- the lengthy Offer Period and conditionality of the Offer, which mean that a potentially prolonged period of uncertainty and disruption still faces AHG and its business; and
- the recent refresh to AHG's management team, which means that some of the Key Executives only joined AHG recently.

In determining to apply the Recent Retention Arrangements, the AHG Board considered the best interests of AHG and the need to retain the services of the Key Executives, particularly given the necessary role that each has played (and will continue to play) in ensuring that:

- AHG's business continues to operate with minimal distraction and disruption as a result of the Offer.

- AHG's relationships with the OEMs, its customers and other stakeholders remain secure.
- AHG's strategy (including initiatives already underway that are designed to deliver enhanced shareholder value) continues to be pursued and suitably prioritised, notwithstanding the potentially prolonged uncertainty and disruption arising from the Offer, and the other demands put on the Key Executives as a result.
- AHG (and the AHG Board) is well positioned to respond effectively to the Offer, and to maximise value for all AHG Shareholders throughout.

The AHG Board also obtained and considered the views of an independent remuneration consultant with respect to the Recent Retention Arrangements.

The maximum aggregate amount of the payments that may be payable to all Key Executives under the Recent Retention Arrangements and the Relevant Executives under the Previous Retention Arrangements is approximately $2.9 million. The amount of Mr McConnell's retention payment is $600,000.

In recognition of the increased workload that AHG's senior employees have assumed, and will continue to be required to assume, as a result of the Offer, AHG has also allocated a further $450,000 (in aggregate) for one-off payments to such senior employees. Each such payment would be paid as a lump sum at an appropriate point after the end of the initial Offer Period (currently scheduled to close 16 September 2019), and would also be on terms that require the relevant senior employee to pay back the amount(s) received if the employee provides a notice of termination before a certain date.

See further at section 5.4 for details about the impact of the Recent Retention Arrangements on the Bid Conditions.

9.8 Consents and ASIC relief

UBS, Ashurst, AP Eagers and the Independent Expert have given and have not, before lodgement of this Target's Statement with ASIC, withdrawn their consent:

(a) to be named in this Target's Statement in the form and context in which they are named;

(b) in the case of the Independent Expert only, to the inclusion of:

  (i) the Independent Expert's Report accompanying this Target's Statement; and

  (ii) references to the Independent Expert's Report in this Target's Statement,

  in each case in the form and context in which the Independent Expert's Report or the applicable statement (as the case may be) appears in this Target's Statement; and

(c) in the case of AP Eagers only, to the inclusion of each statement that is attributed to, or based on a statement made by, AP Eagers, in the form and context in which it appears in this Target's Statement.

Each person named in this section 9.8 as having given its consent to being named in this Target's Statement:

- has not authorised or caused the issue of this Target's Statement;
- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those

statements which have been included in this Target's Statement with the consent of that person; and

- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that party.

As announced to ASX on 8 May 2019, AHG sought and obtained a modification from ASIC pursuant to section 655A(1)(b) of the Corporations Act, which extended the deadline by which AHG was required to send this Target's Statement to AP Eagers and to holders of AHG Securities.

ASIC has published various Class Orders and Legislative Instruments that modify, or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. AHG has relied on that ASIC Class Order and/or Legislative Instrument relief.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Target's Statement. Any AHG Shareholder who would like to receive a copy of any of those documents may obtain a copy free of charge during the Offer Period by contacting the Shareholder Information Line on 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia).

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person;
- that are a correct and fair copy of, or extract from, what purports to be a public official document; or
- that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication,

provided the statement was not made, or published, in connection with the Offer or AP Eagers or AP Eagers Group or any business, property or person the subject of this Target's Statement.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains share price trading data sourced from IRESS without its consent.

9.9 Continuous disclosure

AHG is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with ASX may be obtained from ASX's website at www.asx.com.au and AHG's website at www.ahgir.com.au.

Copies of the documents lodged with ASIC in relation to AHG may be obtained from, or inspected at, an ASIC office.

AHG Shareholders may obtain a copy of:

- AHG's half year report for the half year ended 31 December 2018;
- AHG's annual report for the financial year ended 30 June 2018;
- AHG's constitution; and
- any document lodged by AHG with ASX between the release of AHG's half year report and the date of this Target's Statement,

free of charge upon request by contacting the Shareholder Information Line on 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia) or from ASX's website at www.asx.com.au. AHG's annual report, constitution and this Target's Statement are also available on AHG's website at www.ahgir.com.au.

9.10 No other material information

This Target's Statement is required to include all the information that AHG Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for AHG Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information to known to any Director.

The Directors are of the opinion that the information that AHG Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in AHG's releases to ASX, and in the documents lodged by AHG with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the AHG Shares;
- the matters that AHG Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to AHG Shareholders' professional advisers; and
- the time available to AHG to prepare this Target's Statement.

10. GLOSSARY AND INTERPRETATION

10.1 Definitions

ACCC means the Australian Competition and Consumer Commission.

Acceptance Instruction has the meaning given to that term in section 3.4 of the Bidder's Statement.

Accepting AHG Shareholder means an AHG Shareholder that validly accepts the Offer in accordance with section 3 of the Bidder's Statement.

AHG means Automotive Holdings Group Limited ACN 111 470 038.

AHG Board or **Board** means the board of directors of AHG.

AHG Group means AHG and each of its related bodies corporate, and a reference to an "AHG Group Member" or a "member of the AHG Group" is to AHG or any of its related bodies corporate.

AHG Performance Rights means those unlisted performance rights granted by AHG and governed by the terms of the AHG Performance Rights Plan Rules, which were on issue at the Register Date.

AHG Performance Rights Plan Rules means the AHG Performance Rights Plan Rules 2017, as approved by AHG Shareholders at AHG's 2016 annual general meeting held on 18 November 2016.

AHG Securities means both AHG Shares and AHG Performance Rights.

AHG Shareholder means a registered holder of an AHG Share (other than AP Eagers).

AHG Share means a fully paid ordinary share in the capital of AHG.

Announcement Date means 5 April 2019, being the date of announcement of the Initial Offer by AP Eagers.

AP Eagers or **APE** means A.P. Eagers Limited ACN 009 680 013.

AP Eagers Group means AP Eagers and each of its related bodies corporate, and a reference to an "AP Eagers Group Member" or a "member of the AP Eagers Group" is to AP Eagers or any of its related bodies corporate.

APE Board means the board of directors of AP Eagers.

APE Consideration Shares means those APE Shares to which AHG Shareholders (or, in the case of Foreign Shareholders, the Nominee) are entitled to be issued as a result of accepting the Offer.

APE Share means a fully paid ordinary share in the capital of AP Eagers.

APE Shareholder means a registered holder of an APE Share.

ASIC means the Australian Securities and Investments Commission.

Associate (or **associate**) has the meaning given to that term by section 12 of the Corporations Act, and any other grammatical form of that word has a corresponding meaning.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.

ASX Listing Rules means the official listing rules of ASX.

Bid Implementation Deed means the bid implementation deed entered into by AHG and AP Eagers dated 7 May 2019, a copy of which was attached to the joint announcement by the parties on 8 May 2019.

Bid Condition means a condition of the Offer set out in Schedule 2 to the Bidder's Statement and **Bid Conditions** means one or more of them, as the context requires.

Bidder's Statement means the bidder's statement dated 5 April 2019 issued by AP Eagers in respect of the Offer and for the purposes of Part 6.5, Division 2 of the Corporations Act, where the context requires, as supplemented by the First Supplementary Bidder's Statement, the Second Supplementary Bidder's Statement and the Third Supplementary Bidder's Statement.

CCA means *Competition and Consumer Act 2010* (Cth).

CGT means capital gains tax.

Competing Proposal means a transaction or proposed transaction notified to the AHG Board which, if completed, would mean a person other than AP Eagers or WFM Motors Pty Ltd (and its associates) would:

(a) acquire a relevant interest in 20% or more of AHG's securities;

(b) acquire Control of AHG;

(c) acquire all or a substantial part of AHG's business, assets or undertaking;

(d) otherwise acquire or merge with AHG; or

(e) require AP Eagers to terminate this document or abandon, or otherwise fail to proceed with making the Offer, or fail to obtain Control of AHG.

Confirmation Notice means any written notice provided by AP Eagers to the operator of the Institutional Acceptance Facility stating that AP Eagers has declared the Offer free from all Bid Conditions or will declare the Offer free from all Bid Conditions no later than the time that all Acceptance Instructions are processed.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of AHG.

Directors' Recommendation means the unanimous recommendation of the Directors described in this Target's Statement.

EBIT means earnings before interest and tax.

First Supplementary Bidder's Statement means the first supplementary bidder's statement dated 26 April 2019 issued by AP Eagers in respect of the Offer for the purposes of supplementing certain disclosures in the original Bidder's Statement.

Foreign Shareholder means an AHG Shareholder whose address on the register of members of AHG is in a jurisdiction other than Australia, its external territories or New

Zealand, unless AP Eagers otherwise determines that it is lawful and not unduly onerous or impracticable to make the Offer to, and issue APE Shares on acceptance of the Offer by, that AHG Shareholder.

Future Dividend means any dividend approved for payment by the APE Board and announced to ASX by AP Eagers during the period beginning on 8 May 2019 and ending on the date that the Offer Period ends.

FY2018 means the financial year ended 30 June 2018.

FY2019 means the financial year ending 30 June 2019.

FY2020 means the financial year ending 30 June 2020.

Improved Offer or **Offer** means the offer by AP Eagers to acquire AHG Shares on the terms and conditions set out in Schedule 1 and Schedule 2 to the Bidder's Statement, as varied by AP Eagers on 8 May 2019 pursuant to section 650D of the Corporations Act to increase the consideration to 1 APE Share for every 3.6 AHG Shares.

Independent Expert or **KPMG** means KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd.

Independent Expert's Report means the report produced by the Independent Expert accompanying this Target's Statement.

Initial Offer means the offer by AP Eagers to acquire AHG Shares on the terms and conditions set out in Schedule 1 and Schedule 2 to the Bidder's Statement, and for consideration comprising 1 APE Share for every 3.8 AHG Shares.

Institutional Acceptance Facility means the "Acceptance Facility" described in section 3.4 of the Bidder's Statement.

Last Practicable Trading Date means 8 May 2019, unless it refers to: (1) amounts or percentages in relation to AP Eagers' relevant interest in AHG Shares or voting power in AHG, or in relation to Acceptance Instructions into the Institutional Acceptance Facility, in which case it means 10 May 2019; or (2) is used in section 6.9, in which case it means 13 May 2019.

Market Fall Condition means the Bid Condition in paragraph 6 of Schedule 2 to the Bidder's Statement.

Material Adverse Change means an event, matter or circumstance of the type described in section 5.3(e).

Merger Authorisation means an authorisation granted by the ACCC under Part VII of the CCA for AP Eagers to engage in conduct to which section 50 of the CCA would or might apply.

Merged Group means the group comprising both of the AP Eagers Group and the AHG Group that would be formed if AP Eagers ultimately acquired 100% of AHG and, where the context requires, also refers to AP Eagers but only in the scenario where AP Eagers ultimately acquires 100% of AHG Shares.

No Material Adverse Change Condition means the Bid Condition in paragraph 5 of Schedule 2 to the Bidder's Statement.

Nominee means the nominee appointed by AP Eagers to sell the APE Shares to which Accepting AHG Shareholders that are Foreign Shareholders are entitled.

Notice of Status of Bid Conditions means AP Eagers' notice disclosing the status of the Bid Conditions which is required to be given by section 630(3) of the Corporations Act.

NPAT means net profit after tax.

OEM or **manufacturer** means original equipment manufacturer.

Offer Consideration means the consideration offered under the Offer, being 1 APE Share for every 3.6 AHG Shares.

Offer Period means the period commencing on 23 April 2019 and ending at 7.00 pm (Sydney time) on 16 September 2019, unless the Offer is withdrawn or that period is extended in accordance with the Corporations Act.

Operating NPAT means:

(a) in the case of AHG, statutory NPAT adjusted for unusual items including impairment of current and non-current assets, costs relating to restructure of operations and discontinued operations, net costs relating to integration, acquisition and divestment activities, the costs associated with responding to the Offer, and any potential impact from the current review of the receivables balances (in respect of the Refrigerated Logistics division); and

(b) in the case of AP Eagers, statutory NPAT adjusted for underlying adjustments including business acquisition costs, benefits from tax refunds associated with previous years GST payments, property fair value adjustments, profits on sale of non-core property, businesses and investments and business restructuring costs, consistent with the disclosure in AP Eagers' 2017 Annual Report and 2018 Annual Report, on a post-tax basis based on a statutory tax rate of 30%.

Prescribed Occurrences means each of the events set out in paragraph 3 of Schedule 2 to the Bidder's Statement.

Previous Retention Arrangements has the meaning given in section 9.7.

Recent Retention Arrangements has the meaning given in section 9.7.

Reimbursement Fee means $1.5 million.

Register Date means 7.00 pm (Sydney time) on Monday, 8 April 2019.

Regulatory Approvals means the authorisations, consents, exemptions, modifications and approvals as may be required from any Regulatory Authority under the applicable law:

(a) to permit the Offer to be lawfully made to, and accepted by, AHG Shareholders in all applicable jurisdictions;

(b) as a result of the Offer or the acquisition of AHG Shares or for the continued operation of the business of any member within the AHG Group or the AP Eagers Group, including, without limitation, either:

 (i) a written confirmation that the ACCC does not propose to intervene or to seek to prevent under section 50 of the CCA the acquisition by AP Eagers of AHG Shares under the Offer; or

 (ii) a merger authorisation in respect of the acquisition of AHG Shares by AP Eagers under the Offer under Part VII of the CCA (the authorisation either being unconditional or on the basis of conditions that impose only non-material requirements incidental to the approval or consent) having come into force; or

(iii) the Federal Court of Australia declaring or making orders to the effect that the acquisition of AHG Shares by AP Eagers will not contravene section 50 of the CCA.

Regulatory Authority means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity whether foreign, federal, state, territorial or local and for these purposes includes the ACCC, ASX and ASIC.

Second Supplementary Bidder's Statement means the second supplementary bidder's statement dated 1 May 2019 issued by AP Eagers in respect of the Offer for the purposes of supplementing certain disclosures in the original Bidder's Statement and the First Supplementary Bidder's Statement.

Shareholder Information Line means the shareholder information line established for the purposes of responding to questions from AHG Shareholders about the Offer, which may be reached by calling 1300 912 776 (within Australia) or +61 1300 912 776 (from outside Australia).

Subsidiary has the meaning given to that term by section 9 of the Corporations Act.

Superior Proposal means a publicly announced Competing Proposal that, taking into account all aspects of the Competing Proposal:

(a) is reasonably capable of being completed; and

(b) would, if completed substantially in accordance with its terms, reasonably be expected to be more favourable to AHG Shareholders than the Offer.

Supplementary Bidder's Statements means the First Supplementary Bidder's Statement, the Second Supplementary Bidder's Statement and the Third Supplementary Bidder's Statement.

Target's Statement means this document (including the Independent Expert's Report accompanying this document), being the statement of AHG under Part 6.5 Division 3 of the Corporations Act.

Third Party has the meaning given in section 5.3(f).

Third Party Consent has the meaning given in section 5.3(f)

Third Party Consents Condition has the meaning given in section 5.3(f).

Third Supplementary Bidder's Statement means the third supplementary bidder's statement dated 8 May 2019 issued by AP Eagers in respect of the Offer for the purposes of supplementing certain disclosures in the original Bidder's Statement, the First Supplementary Bidder's Statement and the Second Supplementary Bidder's Statement.

VWAP means the volume-weighted average price.

10.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

(a) headings are inserted for convenience and do not affect the interpretation of this Target's Statement;

(b) words and phrases in this Target's Statement, such as **related body corporate, relevant interest** and **voting power**, have the same meaning given to them (if any) in the Corporations Act;

(c) the singular includes the plural and vice versa;

(d) a gender includes all genders;

(e) a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;

(f) if a word is defined, another part of speech has a corresponding meaning;

(g) a reference to a section or annexure is a reference to a section or annexure of this Target's Statement;

(h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(i) unless expressly stated otherwise, a reference to time is a reference to Perth time; and

(j) unless expressly stated otherwise, a reference to **dollars**, **$**, **A$** or **AUD** is a reference to the lawful currency of Australia.

11. AUTHORISATION

This Target's Statement is dated 16 May 2019 and has been approved by a resolution passed by the Directors of AHG.

Signed for and on behalf of AHG:

Richard England

Non-Executive Chairman

INDEPENDENT EXPERT REPORT AND FINANCIAL SERVICES GUIDE

To be read in conjunction with AHG's Target's Statement

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The Directors
Automotive Holdings Group Limited
21 Old Aberdeen Place
West Perth WA 6005

14 May 2019

Dear Directors

INDEPENDENT EXPERT REPORT AND FINANCIAL SERVICES GUIDE

PART ONE – INDEPENDENT EXPERT REPORT

1 Introduction

On 5 April 2019, A.P. Eagers Limited (**AP Eagers**) announced a conditional, all scrip offer to acquire all of the ordinary shares in Automotive Holdings Group Limited (**AHG**) that it did not then already own, by way of an off-market takeover bid (**the Original Offer**). The consideration to be provided under the Original Offer to shareholders not associated with AP Eagers (**non-associated shareholders**)[1] comprised 1 new ordinary share in AP Eagers for every 3.8 AHG shares held.

AP Eagers lodged a bidder's statement with the Australian Securities and Investments Commission (**ASIC**) and ASX Limited (**ASX**) on 5 April 2019 in relation to the Original Offer (**the Bidder's Statement**), and gave notice that it had completed dispatch of the Bidder's Statement to non-associated shareholders on 24 April 2019. The Original Offer opened on 23 April 2019 and is scheduled to close at 7pm (Eastern States Time) on 16 September 2019, unless extended or withdrawn (**the Offer Period**).

On 8 May 2019, AHG and AP Eagers jointly announced that they had entered into an implementation deed (**the Implementation Deed**) pursuant to which AP Eagers agreed to improve the consideration offered under the Original Offer and reduce the conditionality of the Original Offer[2] (**the Improved Offer**). The consideration to be paid under the Improved Offer comprises 1 new ordinary share in AP Eagers for every 3.6 AHG shares held (**the Exchange Ratio**) (**the Improved Offer Consideration**). In addition, accepting non-associated shareholders will be entitled to participate in any dividends approved by the AP Eagers' Board and announced to the ASX after 7 May 2019 and before the end of the

[1] Other than AHG shareholders determined to be "foreign shareholders" for the purpose of the Improved Offer. AP Eagers shares that would otherwise have been issued to accepting foreign shareholders will be sold by a nominee and the net proceeds after costs will be remitted to the relevant shareholder. Further details are set out in Section 5 of this report.

[2] Conditions to the Original Offer and variations thereto are discussed in Section 5 of this report.

Offer Period in respect of the AP Eagers shares received by them as a consequence of their acceptance[3]. The Offer Period remains unchanged under the Improved Offer.

AHG is an Australian public company listed on the securities exchange of ASX. AHG's principal activities comprise automotive retailing (**Automotive Retail**), temperature controlled transport and cold storage services (**Refrigerated Logistics**) and other logistics services (**Other Logistics**). As at 4 April 2019 (being the last trading day prior to the announcement of the Original Offer), AHG had a closing market capitalisation of approximately $0.59 billion[4,5].

AP Eagers is an Australian public company listed on the securities exchange of ASX. AP Eagers' principal activities comprise Automotive Retail. As at 4 April 2019, AP Eagers had a closing market capitalisation of approximately $1.39 billion[6].

2 Requirements for our report

Under Section 640 of the Corporations Act (**the Act**), an Independent Expert Report (**IER**) is required to be included in a Target's Statement where the bidder is connected with the target. A bidder is regarded as being connected with the target under the following circumstances:

- the bidder's voting power in the target is 30% or more
- the bidder and target have a common director.

There is no statutory requirement for AHG to commission an IER in the present circumstances, as AP Eagers' voting power in AHG, when it made the Original Offer, was 28.84%, and there are no common directors between AHG and AP Eagers. However, in order to assist non-associated shareholders in assessing the Improved Offer, the Directors of AHG have requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) to prepare an IER setting out whether or not, in our opinion, the Improved Offer is fair and reasonable to non-associated shareholders taken as a whole.

Accordingly, this report has been prepared for inclusion in AHG's target's statement in response to the Improved Offer (**the Target's Statement**) as if it was required for the purposes of Section 640 of the Act.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (**RG 111**) which outlines the principles and matters which ASIC expects a person preparing an IER to consider when providing an opinion on whether a transaction is "fair and reasonable".

The sole purpose of this report is an expression of the opinion of KPMG Corporate Finance as to whether the Improved Offer is fair and reasonable to non-associated shareholders. This report should not be used for any other purposes or by any other party. Our opinion should not be interpreted as representing a recommendation to non-associated shareholders to either accept or reject the Improved Offer, which remains a matter solely for individual shareholders to determine.

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3 Subject to the Improved Offer being declared free from conditions and the accepting non-associated shareholders not disposing of their AP Eagers shares prior to the record date of the applicable dividend.

4 Calculated as AHG's closing share price on 4 April 2019 of $1.78 multiplied by AHG shares on issue on that date.

5 All currency amounts are expressed in Australian dollars ($ or AUD) unless stated otherwise.

6 Calculated as AP Eagers' closing share price on 4 April 2019 of $7.28 multiplied by AP Eagers shares on issue on that date.

This report should be considered in conjunction with and not independently of the information set out in the Target's Statement in its entirety.

3 Opinion

In our opinion, we consider the Improved Offer **is not fair but reasonable** to AHG non-associated shareholders, in the absence of a superior offer.

In arriving at this opinion, we have assessed whether we consider the Improved Offer is:

- *fair*, by comparing our assessed value of an AHG share on a controlling interest basis to our assessed value of the Improved Offer Consideration (based on the value of a share on a minority interest basis in the expanded AP Eagers (**the Merged Group**) and adjusting for the Exchange Ratio). This approach is in accordance with the guidance set out in RG 111
- *reasonable*, by assessing the implications of the Improved Offer for AHG non-associated shareholders, the alternatives to the Improved Offer which are available AHG non-associated shareholders and the consequences of not accepting the Improved Offer.

We would highlight however that as set out in the Bidder's Statement[7], once a non-associated shareholder accepts the Improved Offer (even while it remains subject to the bid conditions) the shareholder will not be able to sell or otherwise deal with the rights attaching to their AHG shares during the currency of the Improved Offer, which is not scheduled to close until 16 September 2019, subject to their limited statutory rights to withdraw their acceptance in certain circumstances.

There appears little commercial imperative at the present time for those non-associated shareholders minded to accept the Improved Offer to do so until the outcome of AP Eagers' application made to the Australian Competition and Consumer Commission (**ACCC**) for *"merger authorisation"* is known, including any structural undertakings required by the ACCC, and the bid condition relating to no material change is waived by AP Eagers. This should also provide sufficient time for the outcome of various other future events to be become clearer, including competition deliberations by Original Equipment Manufacturers (**OEMs**) and the release of financial results for both AHG and AP Eagers for the period to 30 June 2019**.**

The principal matters we have taken into consideration in forming our opinion are summarised below.

Assessment of fairness

We have assessed the value of the equity of AHG to lie in the range of $879 million to $1,003 million, which equates to an assessed value per AHG share (on a fully diluted basis[8]) of between approximately $2.64 and $3.01. Our range of assessed values represents the value of a 100% interest in AHG and includes a premium for control. As the valuation includes a control premium, it exceeds the price at which we expect AHG shares would trade on the ASX in the absence of the Improved Offer.

We have assessed the value of AHG by aggregating the estimated market value of each of AHG's operating businesses, adding assets considered to be surplus to the operating businesses of AHG and deducting net borrowings (excluding floorplan debt) and non-trading liabilities. The value of AHG's

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[7] Which should be read together with AP Eagers' First Supplementary Bidder's Statement dated 26 April 2019, Second Supplementary Bidder's Statement dated 1 May 2019 and Third Supplementary Bidder's Statement dated 8 May 2019.

[8] Assumes that the AHG Board determines that all of the performance rights (1,592,002) vest in the event of a change of control. The AHG Board has not made a decision as to whether, and to what extent, the performance rights will vest as a result of the Improved Offer.

operating businesses has been determined based on a 'sum of the parts' methodology which aggregates the value for each of AHG's segments.

In contrast, we have assessed the value of the Improved Offer Consideration based on recent trading in AP Eagers shares on the ASX[9] and then adjusting for the Exchange Ratio. This is required because AP Eagers is obtaining control of AHG, and non-associated shareholders are receiving consideration in the form of a minority interest share in the Merged Group. Neither the theoretical value of the Merged Group as a stand-alone entity nor considerations of control premia are relevant to minority interest shareholders in the Merged Group except in the event of an offer for the Merged Group itself.

We have assessed the implied value of the Improved Offer Consideration to be in the range $2.39 to $2.47.

As the Improved Offer Consideration of $2.39 to $2.47 per AHG share is below our assessed value range for an AHG share of $2.64 to $3.01, we consider the Improved Offer to be **not fair**.

Our analysis of the fairness of the Improved Offer is detailed further in Section 3.1 below.

Assessment of Reasonableness

Whilst we have determined the Improved Offer to be not fair based on our estimate of the underlying value of AHG, in accordance with RG 111 it is still possible for the Improved Offer to be reasonable.

In forming our opinion as to the reasonableness of the Improved Offer, we have considered a range of factors AHG non-associated shareholders may wish to take into account. These include, amongst others:

- where 100% control is achieved, non-associated shareholders will benefit from a larger, more geographically diverse business with lower gearing and significant opportunities for cost savings and synergies to be realised (which we consider are greater than would be available to other third party purchasers)
- there appears little prospect of a superior offer from AP Eagers or another third party emerging
- it is likely in the absence of the Improved Offer that the share price of AHG will decline
- the structure of the Improved Offer, including the extended timeframe and conditions, means that there is no certainty as to either whether the Improved Offer will complete or the final value of the Improved Offer Consideration. As there is no minimum acceptance condition it is also possible that non-associated shareholders could have sold their interest and not realise those cost savings and synergy benefits which only arise where 100% control is achieved
- the implied control premium[10] is lower than usually observed in successful takeover transactions
- AHG non-associated shareholders are making a greater relative contribution to the Merged Group than implied by the Exchange Ratio. Although the impact on earnings per share (**EPS**) is expected to be accretive on the basis that AHG's estimate of cost savings[11] is achieved
- accepting non-associated shareholders will participate in any future AP Eagers dividend

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[9] Over the period subsequent to the announcement of the Original Offer and up to and including trading on 8 May 2019.

[10] Based on share trading up to and including 4 April 2019, being the last trading day prior to the announcement of the Original Offer.

[11] If only AP Eagers' estimate of cost synergies is achieved then EPS will be decretive noting that this estimate was determined without discussion with AHG.

- it is also likely that the Improved Offer, even if not fully successful, will result in AP Eagers achieving a greater shareholding in AHG and thereby it having a greater influence over the future strategic direction of AHG, as well as potentially adversely affecting the liquidity of share trading in AHG shares

We also note that the Directors of AHG have already advised the market that they intend to unanimously recommend non-associated shareholders accept the Improved Offer[12] and AHG has undertaken to co-operate with AP Eagers in relation to the provision of information necessary to satisfy the bid conditions.

Having considered these factors and others, including the consequences of not accepting the Improved Offer, set out in Section 3.2 below, we are of the opinion that, whilst there are various factors that may not be attractive to non-associated shareholders, including:

- the level of uncertainty as to the outcome of various future events, which may adversely impact upon the final value of the new AP Eagers shares received
- the level of implied premium being offered on pre-bid trading prices,

the benefits of holding a share in the Merged Group, with its greater scale and the opportunity to achieve substantial cost benefits and synergies where 100% control is achieved, are sufficient to conclude that non-associated shareholders are likely to be better off accepting the Improved Offer notwithstanding that it is not fair. Accordingly, in our opinion the Improved Offer is, **on balance, reasonable**.

The decision to accept the Improved Offer or not, is a matter for individual shareholders based on their views as to value, expectations about future market conditions and their particular circumstances including investment strategy and portfolio, risk profile and tax position. Shareholders should consult their own professional advisor, if in doubt, regarding the action they should take in relation to the Improved Offer.

3.1 The Improved Offer is not fair

We have assessed the value of the equity in AHG in the range of $879 million to $1,003 million, which equates to a value of $2.64 to $3.01 per AHG share. The value of AHG, as stated previously, has been determined by aggregating the estimated market value of each of AHG's operating businesses, adding assets considered to be surplus to the operating businesses of AHG and deducting net borrowings (excluding floorplan debt) and non-trading liabilities. Our valuation is set out in full in Section 11 of this report and summarised below.

[12] Subject to no superior offer being received and that they should only accept once AP Eagers waives the bid condition relating to no material adverse change

Table 1: Valuation of AHG

$ millions unless otherwise stated	Section reference	Valuation range Low	High
Value of AHG's operating businesses: [1]			
Automotive Retail	11.4	886.0	943.0
Refrigerated Logistics	11.5	195.0	245.0
Other Logistics	11.5	49.5	54.0
Value of AHG operating businesses (minority basis)		**1,130.5**	**1,242.0**
Other assets/(liabilities)(net)	11.6	(46.3)	(45.9)
AHG enterprise value (minority basis)		**1,084.2**	**1,196.1**
Net borrowings (excluding floorplan debt)	11.7	(284.7)	(284.7)
Value of AHG equity (minority basis)		**799.4**	**911.3**
Value of AHG equity (control basis) [2]	**11.3**	**879.4**	**1,002.5**
Number of shares outstanding - diluted (million)	8.9	333.2	333.2
Value per AHG share - diluted ($)		**2.64**	**3.01**

Source: KPMG Corporate Finance analysis. Table may not sum due to rounding
Notes:
1. *All corporate costs have been allocated to segments in AHG's statutory accounts.*
2. *Includes 10% control premium as discussed in Section 11.3 of this report.*

Our range of assessed values represents the value of a 100% interest in AHG and includes a premium for control. The valuation exceeds the price at which we consider AHG shares would be expected to trade on the ASX in the absence of the Improved Offer. In assessing an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of AHG. Accordingly, our valuation of AHG has been determined without regard to the specific bidder, and any special benefits have been considered separately. In the case of AHG, we have been unable to identify any automotive retailers in Australia (other than AP Eagers) with sufficient scale that are likely to be able to complete an acquisition of AHG. However, we consider the potential for either an overseas automotive retailer or a financial buyer to exist, each of which could be expected to achieve relatively limited cost savings or benefits. Accordingly, we have applied only a small control premium of 10% to the value of AHG's equity (refer to Section 11.3 of this report).

The value attributed to AHG's operating businesses of $1,131 million to $1,242 million is based on a 'sum of the parts' methodology which aggregates the value for each of AHG's segments.

3.1.1 Automotive Retail

KPMG Corporate Finance has determined the value of Automotive Retail's operating business to be in the range of $886 million to $943 million. The selected value range takes into consideration the value of Automotive Retail's operating business (excluding easyauto123) based on capitalising an assessed maintainable EBITDA after floorplan interest. Easyauto123, which is a relatively new business and not yet profitable, has been valued separately based on a DCF methodology.

Table 2: Value of Automotive Retail's operating business

$ millions unless otherwise stated	Valuation range Low	High
Automotive Retail (excluding easyauto123)		
Maintainable earnings (EBITDA after floorplan interest)	110.0	110.0
Capitalisation multiple	8.0	8.5
Value of Automotive Retail operating business (ex easyauto123)	**880.0**	**935.0**
Value of easyauto123	6.0	8.0
Value of Automotive Retail operating business	**886.0**	**943.0**

Source: KPMG Corporate Finance Analysis

The key factors considered in our valuation of Automotive Retail's operating business are set out below.

- ***cyclical factors:*** car sales in Australian east coast markets where AHG operates have declined since March 2018. However, we note that AHG's most comparable peers (i.e. AP Eagers, Autosports) have a similar geographic exposure. Significantly, AHG has a greater exposure to the Western Australian market than the most comparable companies. New vehicle sales in Western Australia were down 24.1% in FY18[13] relative to the peak in FY12.[14] The impact of lower volumes on AHG's new car business is amplified as when volumes decline, margins also decline as cars are sold at a discount to clear excess inventory and achieve factory targets
- ***structural factors:*** recent regulatory changes imposed by ASIC have had a significant impact on finance and insurance commissions for automotive dealers. These changes have resulted in a significant decline in earnings for Automotive Retail ($53.4 million as at 31 December 2018), reflecting its strong historical position in finance and insurance through its dealer network and 360 Finance. AHG management expects a further decline in finance and insurance commissions, with the FY19 result expected to reflect the full impact of recent regulatory changes
- ***restructuring initiatives and further cost saving initiatives:*** AHG management has taken steps to close loss making operations and reduce costs, partially mitigating the impact of the market decline. In addition, AHG is targeting $23 million of additional cost savings across AHG for FY20, roughly half of which are expected to be within Automotive Retail.

In selecting a capitalisation multiple for AHG, we have primarily had regard to AP Eagers' trading multiples. We consider that AHG and AP Eagers are fundamentally similar. Whilst AHG has a slightly greater overall market share:

- both companies have a similar exposure to the Australian east coast markets
- they have a similar exposure to automotive brands and trucks
- both are exposed to regulatory changes to finance and insurance commissions and both will have an opportunity to increase market penetration through selling new product offerings
- both companies have publicly announced various business transformation and business restructuring initiatives, the final outcome of which is not known
- both will likely benefit from any re-setting of manufacturer bonus targets.

However:

- AP Eagers has recently demonstrated greater stability in its earnings. On 14 May 2019, AHG management announced a downgrade to FY19 guidance which in part reflects the challenging conditions in franchised automotive retail volumes and margins. Notwithstanding this, we consider the potential for increased growth in earnings is slightly stronger for Automotive Retail than for AP Eagers, reflecting Automotive Retail's exposure to the Western Australian market, which seemingly has more scope for improvement in market conditions than on the east coast which, based on recent data, may have passed its peak

[13] References to an Australian financial year (i.e. the 12 months to 30 June) have been abbreviated to FY. References to calendar years have been abbreviated to CY. References to the first six months of a full year reporting period have been abbreviated to 1H, the second six-month period to 2H.

[14] Source: VFacts.

- the recovery in the Western Australian vehicle retail market and the success of business improvement initiatives are, however, not without risk.

3.1.2 Logistics businesses

KPMG Corporate Finance has determined the value of the Refrigerated Logistics and Other Logistics operating businesses to be in the range of $245 million to $299 million. The valuation is based on capitalising an assessed maintainable EBITDA as summarised in the table below.

Table 3: Value of Refrigerated Logistics and Other Logistics operating businesses

$ millions unless otherwise stated	Valuation range Low	High
Refrigerated Logistics		
Maintainable earnings	30.0	35.0
Capitalisation multiple	6.5	7.0
Value of operating business	**195.0**	**245.0**
Other Logistics		
Maintainable earnings	9.0	9.0
Capitalisation multiple	5.5	6.0
Value of operating business	**49.5**	**54.0**
Value of AHG's logistics businesses	**244.5**	**299.0**

Source: KPMG Corporate Finance Analysis

The key factors considered in our assessment of the value of Refrigerated Logistics are set out below.

- ***cyclical factors:*** refrigerated transport volumes have been weak across Australia in FY17 and FY18, particularly east-west volumes due to weaker market conditions in Western Australia. On 14 May 2019, AHG management announced a downgrade to FY19 guidance which in part reflects weaker than expected April trading conditions for Refrigerated Logistics. We note, however, that AHG's most comparable peers (i.e. CTI, Lindsay, K&S) have a similar geographic exposure and consequently, the decline in transport volumes (and any potential upside) should be reflected in their current trading multiples
- ***market position:*** although Refrigerated Logistics has a leading market position, it is still a price taker and similar to its peers, it has experienced a contraction in margins
- ***transformation program and further cost savings initiatives****:* AHG completed a transformation program in Q4 FY18. Despite achieving savings in excess of targets, the segment has struggled to grow. Refrigerated Logistics is expected to benefit from additional cost savings initiatives (as part of the $23 million cost savings), however, the extent to which this will translate into earnings growth is uncertain
- ***review of receivables:*** on 14 May 2019, AHG management announced that it was undertaking a review of the carrying value of the division's receivables generated across prior years and FY19, which may result in some write downs to Refrigerated Logistics' receivables across one or more periods
- ***focused management post HNA bid:*** FY18 performance was adversely affected by the disruption and uncertainty caused by the subsequently terminated offer from HNA.

The key factors considered in our assessment of the value of Other Logistics are set out below:

- ***cyclical factors:*** AMCAP has had relatively stable earnings in the past, however, has recently experienced soft automotive parts sales as a result of the cyclical downturn in Western Australia. Earnings for KTM and HQVA have been adversely impacted by a decline in the national motorbike market

- ***foreign exchange rates:*** foreign exchange movements had a significant positive impact on earnings for KTM and HQVA in FY16 and FY17 and an adverse impact in FY18 and CY18, resulting in lower earnings despite an increase in market share.

3.1.3 Comparison to recent sharemarket trading

Our valuation range of $2.64 to $3.01 per share reflects a premium over the closing price of AHG shares immediately prior to the announcement of the Original Offer of between 48% and 69%. This premium in part reflects a valuation of 100% of AHG inclusive of a control premium rather than a valuation of a portfolio interest in the company as traded on ASX, however, in our opinion, it is also reflects:

- investors may be discounting the AHG share price as a result of its ownership of Refrigerated Logistics and Other Logistics, which they may perceive as not being a natural fit with the core Automotive Retail business. Furthermore, Refrigerated Logistics has been a drag on AHG's earnings and cash flow (particularly amid the disruption caused by the failed sale process and the transformation program)[15]
- the full impact of regulatory changes to finance and insurance commissions has not yet been realised, with management expecting that the full impact will not be reflected until FY19
- investors, particularly those focused on yield, are likely applying a discount to AHG's share price to reflect that the AHG Board suspended the dividend program for 1H19
- market disappointment in relation to AHG's recent negative earnings momentum (downward revision to guidance and year-on-year declines) and substantial asset impairments in 1H19
- Automotive Retail's exposure to the currently weak automotive retailing market in Western Australia. Our valuation takes into account the cyclical downturn in Western Australia and adopts a 'through the cycle' approach to valuation, and
- uncertainty which may exist as to AHG's ability to vigorously pursue the various restructuring and business transformation initiatives it has in train and/or announced given that the reason for the suspension of the dividend program was to reinvest in the company's balance sheet. In this regard, in the absence of a sale of Refrigerated Logistics (or any other assets), AHG is expected to continue to pay down debt and may have limited cash available to pursue growth opportunities in Automotive Retail or pay a dividend.

3.1.4 Value of the Improved Offer Consideration

The Improved Offer Consideration to be received by accepting non-associated shareholders comprises new ordinary shares in the Merged Group. Accordingly, RG 111 requires the value of the scrip consideration to be assessed on a minority interest basis. We have assessed the value of an AP Eagers share (on a minority basis) in the range of $8.60 to $8.90.

It is common practice in these circumstances to utilise the post announcement market price as a basis for estimating the value of an offer with a scrip component, as this is the price at which non-associated shareholders can monetise the Improved Offer Consideration. Neither the theoretical value of the Merged Group as a stand-alone entity nor considerations of control premia are relevant to portfolio shareholders in the Merged Group except in the event of an offer for the Merged Group itself. We note that in any

[15] We note that the AHG share price increased by 10% in the two weeks following the announcement of the sale of Refrigerated Logistics on 23 November 2017 and declined by 9% on 9 July 2018 following the announcement that the sale had been terminated.

event we have not had access to the internal records or management of AP Eagers and the information contained in the Bidder's Statement and subsequent Supplementary Bidder's Statements is insufficient to enable a fundamental valuation of the company to be performed on a reasonable basis.

Our primary approach has been to consider traded share prices for AP Eagers[16] on the ASX subsequent to the announcement of the Original Offer. In forming our view we have also considered the performance of AP Eagers shares relative to the market and to its listed peers, the liquidity of AP Eagers shares and recent brokers forecasts as to the expected trading price of an AP Eagers share on the ASX published in the periods immediately pre and post the announcement of the Original Offer.

Key factors influencing our valuation approach included:

- the trading price of AP Eagers' shares reflects the value of portfolio interests as required by RG111
- AP Eagers is a publicly listed company and is required to comply with ASX Listing Rules in relation to continuous disclosure, including in particular the release of price sensitive information
- AP Eagers is followed by various broking houses and the Australian automotive retail sector more generally by industry analysts, both of which publish periodic research reports, which arguably assists the ability of shareholders to make informed decisions regarding the prospects of the company and industry and prices at which AP Eagers shares should trade
- there has been sufficient time and information available, including the information contained in the Bidder's Statement, released to the market on 5 April 2019[17], for the market to assess the Original Offer and its implications for AP Eagers should AP Eagers' acquisition of AHG be successful. Therefore, trading in AP Eagers shares subsequent to 5 April 2019 should reflect the estimated impacts associated with the acquisition, albeit the market may also take into account the implementation and integration risks associated with the Improved Offer
- whilst trading in AP Eagers shares is not deep in the context of the number of shares on issue and its market capitalisation, its shares were traded on the ASX on each of the available trading days over the 12 months prior to the announcement date and also in the subsequent period and average daily trading volumes have been sufficient for portfolio shareholders desirous of realising their investments to do so.

Based on our assessed value range of an AP Eagers share and the Exchange Ratio of 1 new AP Eagers share for every 3.6 AHG ordinary shares held, the assessed value of the Improved Offer Consideration is in the range of $2.39 to $2.47 per AHG Share as summarised below.

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[16] Over the period subsequent to the announcement of the Original Offer and up to and including trading on 8 May 2019.

[17] Along with AP Eagers' First Supplementary Bidder's Statement dated 26 April 2019 and Second Supplementary Bidder's Statement dated 1 May 2019.

Table 4: Assessed value of the Improved Offer Consideration

	Valuation range	
	Low	**High**
Value per Merged Group share ($)	8.60	8.90
Exchange Ratio (1:3.6)	0.278	0.278
Assessed value of the Improved Offer Consideration ($)	**2.39**	**2.47**

Source: KPMG Corporate Finance analysis

3.1.5 Comparison of value

A comparison of our assessed value per AHG share on a control basis to the value attributed to the Improved Offer Consideration is illustrated below.

Figure 1: Fairness assessment

Source: KPMG Corporate Finance analysis

According to RG 111, the Improved Offer should be considered fair if the consideration offered to AHG shareholders is equal to or higher than our assessed value of an AHG share. **As the value attributed to the Improved Offer Consideration falls below our assessed value range for an AHG share, we consider the Improved Offer is not fair.**

However, we note that the implied value of the Improved Offer Consideration under the Improved Offer will vary with movements in the AP Eagers' traded price over the Offer Period, which will reflect company specific, industry and general market factors. Accordingly, the final value of the Improved Offer Consideration will not be known until the Improved Offer closes, which is currently scheduled for 16 September 2019, and could ultimately exceed, or be less than, $8.60 to $8.90 per Merged Group share. The table below illustrates the sensitivity of the implied value of the Improved Offer Consideration to changes in the AP Eagers share price.

Table 5: Sensitivity of the implied value of the Improved Offer Consideration

AP Eagers share price ($)	8.30	8.50	8.70	**8.90**	9.10	9.30	9.50
Implied value of Improved Offer Consideration ($)	2.31	2.36	2.42	2.47	2.53	2.58	2.64

Source: KPMG Corporate Finance analysis

Accordingly, non-associated shareholders will also need to consider the impact of company specific events and announcements, along with general market and industry conditions over the period leading up to the close of the Improved Offer in deciding whether or not to accept the Improved Offer.

Based on our assessed value range of $2.64 to $3.01 per AHG share and the exchange ratio of 1:3.6, the value of AP Eagers shares would need to increase to $9.50 in order for the Improved Offer Consideration to be considered fair.

In the event that short term volatility in overall equity market conditions drives the implied value of the Improved Offer Consideration towards our assessed value range per AHG share, we would expect the Improved Offer to remain not fair if it is reasonable to believe that trading in AHG shares (in the absence of a takeover offer) would have been similarly affected by the changes in overall equity market conditions. Further, short term volatility in trading prices would also need to be assessed against the fundamental longer term prospects of the Merged Group, as non-associated shareholders who receive and retain new Merged Group shares will be able to participate in the benefits associated with the cost savings and synergies from a combination of AHG and AP Eagers (as further discussed in the reasonableness section of this report). However, the timing and extent of these benefits will largely depend on the final level of control achieved by AP Eagers and, assuming that AP Eagers is successful in acquiring a 100% interest in AHG, the ability of the management of AP Eagers to successfully integrate AHG in a timely and effective manner.

3.2 Improved Offer is reasonable

Notwithstanding that we have concluded that the Improved Offer is not fair, we also considered whether there are any other factors that suggest that non-associated shareholders should, on balance, accept the Improved Offer.

3.2.1 Successful completion of the Improved Offer will result in non-associated shareholders holding shares in a larger business, which should result in increased liquidity and the potential for a market re-rating

In the event AP Eagers is successful in acquiring a 100% interest in AHG, non-associated shareholders will retain a 25.5% interest in the assets of AHG and will acquire a similar interest in the current assets of AP Eagers, along with the same proportionate entitlement to share in the benefit of any cost savings and synergies that may realised.

The Merged Group will be represented in each State and Territory of Australia (other the Australian Capital Territory (**ACT**)), and will be by far Australia's largest automotive retailer. Based on the closing share price for an AP Eagers share on 8 May 2019 of $8.88 and the 256.9 million shares expected to be on issue in the Merged Group following completion of the Improved Offer[18], the implied market capitalisation of the Merged Group is in the order of $2.3 billion, which compares to the market capitalisation of AHG on 4 April 2019 of $0.59 billion, underpinned by a larger asset base and increased earnings compared to AHG alone.

Completion of the Improved Offer should also result in a more open share register compared to AHG as a stand-alone entity, reflecting:

- the combination of the shareholder bases of AHG and AP Eagers[19]
- AP Eagers expects that it will have one substantial shareholder holding approximately 27.1% [20] of the Merged Group's expanded capital base following completion of the Improved Offer, which compares to AP Eagers' pre-Original Offer 28.84% shareholding in AHG on a much smaller shareholder base.

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[18] Refer Section 5.1 of AP Eagers' Third Supplementary Bidder's Statement.

[19] Excluding the impact of shareholders that may have a pre-existing interest in both companies and the future sale of AP Eagers shares that would otherwise have been held by shareholders determined to be Foreign Shareholders as defined in the Bidder's Statement.

[20] Section 5.2 of AP Eagers' Third Supplementary Bidder's Statement.

Notwithstanding its current market capitalisation, AP Eagers is not included in the S&P/ASX 200 index, seemingly because it is not currently deeply traded. The significantly larger market capitalisation of the Merged Group, coupled with a larger shareholder base and increased volume of free float can reasonably be expected to result in an increased daily trading volume compared to AP Eagers as a stand-alone entity, which may, in time, result in its inclusion in this index and, in turn, greater interest from investment funds and institutional investors.

As set out in its Target's Statement, AHG has in recent times commenced a number of business enhancement initiatives designed to deliver potential earnings growth and value to AHG shareholders. In the event AP Eagers is successful in acquiring 100% of AHG, non-associated shareholders will hold a significantly diluted and indirect interest in the outcome of these initiatives. Conversely, non-associated shareholders will acquire a similar pro rata interest in the business and assets of AP Eagers, which also has a number of strategic initiatives planned and in progress, and any cost savings and synergies able to be realised by the Merged Group.

3.2.2 The Merged Entity has an opportunity to achieve significant cost synergies over and above those likely to be available to other potential acquirers

We have been unable to identify any automotive retailers in Australia (other than AP Eagers) with sufficient scale that are likely to be able to complete an acquisition of AHG. Further, whilst we consider the potential for either an overseas automotive retailer or a financial buyer to exists, these parties are unlikely to have existing operational infrastructure in Australia. As such, whilst it is reasonable to expect that these parties would be able to extract a level of corporate related cost savings, we do not consider it likely they would be able to extract the same level of cost savings and operational synergies that AP Eagers is capable of achieving.

AHG has estimated acquirers with no significant operational infrastructure in Australia may be able to extract approximately $4.7 million per annum in cost savings and synergies. In contrast, AHG has estimated that cost savings and synergies in the order of $31.3 million per annum would be available to AP Eagers as summarised in the following table.

Table 6: Estimated synergies

Synergies - $ million	Notional acquirer	AP Eagers
Listed entity related	1.5	1.5
Corporate	3.2	16.2
Operational	-	13.6
Total synergies	**4.7**	**31.3**

Source: AHG Management estimates

In this respect it is important to recognise that both AHG and AP Eagers' are of the view, and we concur, that a significant proportion of any cost and operational synergies will only arise where AP Eagers acquires 100% of the shares in AHG.

3.2.3 There appears little prospect of a superior offer emerging

Subsequent to the announcement of the Original Offer, the Directors of AHG entered into negotiations with AP Eagers seeking an improvement to the terms initially proposed by AP Eagers, which culminated in the parties agreeing to enter into the Implementation Deed, pursuant to which an improved Exchange Ratio was agreed, along with various other concessions.

Having already been through a negotiation process with AP Eagers and the Directors having advised to the market of their intention to recommend the Improved Offer[21], it is very unlikely that in the absence of a counter-bid AP Eagers would be willing to further improve the Improved Offer Consideration, particularly given that the Improved Offer is not subject to a minimum acceptance condition.

In considering the prospects for a counter bid to emerge, we note that given the size of AHG and the fragmented nature of the Australian automotive retailing market, there is no other logical domestic industry purchaser for the whole of AHG other than AP Eagers. Furthermore, whilst there does not appear to be any significant impediment to a financial or overseas buyer acquiring AHG, it is important to note that AP Eagers already holds a relevant interest in 31.23% of AHG's issued capital and therefore any offer by a purchaser for a 100% interest in AHG would require AP Eagers' acceptance in the case of a scheme of arrangement or approval in respect of a takeover offer.

We also note that a financial buyer or overseas buyer is unlikely to be able to access the same levels of potential cost savings and synergies (refer Section 3.2.2 above) that AP Eagers may be able to achieve.

Accordingly, in our view the prospect of a competitive process for AHG emerging is very unlikely.

3.2.4 Recent trading in AHG and AP Eagers shares suggests that in the absence of the Improved Offer, AHG's shares would fall significantly, however, this may not be the case at the scheduled close of the Improved Offer

On the day of the announcement of the Original Offer, AHG's shares rose by approximately 21% and have been closely tracking the direction of trading in AP Eagers shares since that date, albeit at a slight implied premium to the original exchange ratio prior to the Improved Offer being announced, and rose a further 11%[22] to 8 May 2019. Over the same period the ASX All Ordinaries index rose approximately 1%. In that period the only material announcement by AHG not related to either the Original Offer or the Improved Offer was on 26 April 2019 in relation to the appointment of a new Director to chair the AHG Board. Accordingly, it would appear that AHG shares have been trading "cum" the Original Offer and the Improved Offer.

Accordingly, in the absence of the Improved Offer, there is a strong likelihood that AHG shares would fall significantly. However, it is possible that the share price of AHG may not fall back to the levels immediately prior to the announcement of the Original Offer given the market will have the benefit of additional information contained in the Target's Statement, including this report.

We would also highlight that given the long lead time until the Improved Offer is scheduled to close, current company initiatives and programs in train at both companies and changing market dynamics, it is quite possible that the share prices of both companies will differ from today's prices. This is discussed further at Section 3.2.5 below.

3.2.5 The structure of the Improved Offer does not provide certainty as to the value of the consideration received

As the Improved Offer Consideration does not include a cash alternative, in the event the Improved Offer is successful non-associated shareholders will receive new AP Eagers shares in the Merged Group.

[21] Such recommendation is subject to no superior offer being received and any acceptance of the Improved Offer occurring once AP Eagers has waived the bid condition relating to no material adverse change.

[22] based on a closing price for an AHG share on 4 April 2019 of $1.78, on 5 April 2019 of $2.15 and on 8 May 2019 of $2.38.

Whilst the assumptions adopted by us in determining our range of assessed values for an AHG share and the Improved Offer Consideration are considered reasonable at the date of this report, the value ultimately received by non-associated shareholders for their AHG shares will be dependent upon the future trading price for an AP Eagers share.

In this regard we note:

- the Improved Offer is not currently scheduled to close until 16 September 2019
- both companies have publicly announced and are executing various cost-out[23], business transformation programs and / or restructuring initiatives[24], each of which can be expected to continue during the currency of the Improved Offer
- the Improved Offer is not subject to any minimum acceptance condition and so it is possible that AP Eagers will acquire less than 100% of AHG and that as such the full benefit of potential synergies from combining the two company's would not be available
- the Automotive Retailing sector in Australia is undergoing both cyclical and structural change, which is discussed later in Section 7.

Having regard to the differing business models and strategies of the two companies, the extent of the impact of these changes is likely to differ between them. Accordingly, given the extended timetable of the Improved Offer, the profiles, performance and, in particular, the prospects of each company may in turn differ at the scheduled close of the Improved Offer from those at the date of this report.

Furthermore:

- completion of the Improved Offer is subject to the ACCC not imposing structure and / or other restrictions upon the future business of the Merged Group, including a requirement for divestment of any assets of AHG and/or AP Eagers
- the current attitude of the OEMs in the context of brand and dealership concentration is not yet known.

Should either of these parties require the Merged Group to divest assets, this would impact upon the final value of the Merged Group shares received by non-associated shareholders in consideration for their AHG shares, particularly if the timetable set for asset realisations requires that they be sold into a vehicle retailing market currently experiencing significant headwinds.

In addition, in the event AP Eagers secures a 100% interest in AHG, the Merged Group will be able to realise cost savings and synergies by bringing the two companies together. AHG has estimated the size of these potential cost savings and synergies to be in the order of $31.3 million per annum (refer Section 3.2.2). In contrast, AP Eagers has estimated these benefits to be in the order of $13.5 million per annum. Whilst the companies have differing views, it is clear that should the Merged Group be able to realise these benefits within a reasonable timeframe, they are likely to have a significant impact upon the value of the Merged Group and in our view represent a key driver of the Improved Offer.

[23] AHG Target's Statement indicates at Section 1.4 that the company is targeting cost reduction of $23 million in FY20.

[24] AHG – Half Year Results Presentation H1 2019, 22 February 2019; AP Eagers – Investor Presentation, 2 April 2019.

3.2.6 Whilst based on pre-bid traded prices AHG shareholders are receiving a control premium, the implied premium is lower than usually observed

Based on the closing price for an AP Eagers share on 4 April 2019 of $7.28, the consideration offered under the Improved Offer of 1 new AP Eagers share for every 3.6 AHG shares represents between a premium of 14.1% to a discount of 8.1% to AHG's historical Volume Weighted Average Price (**VWAP**) measured at various points in the twelve months leading up to the announcement of the Original Offer as detailed in the table below.

Table 7: Control premium to AHG's historical VWAP on ASX

Period up to and including 4 April 2019	AHG VWAP $	AHG VWAP × 3.6 $	AP Eagers Closing price $	Offer premium %
1 day	1.79	6.45	7.28	12.9%
1 week	1.78	6.41	7.28	13.5%
1 month	1.86	6.68	7.28	9.0%
3 months	1.80	6.48	7.28	12.4%
6 months	1.77	6.38	7.28	14.1%
12 months	2.20	7.92	7.28	(8.1%)

Source: Capital IQ and KPMG Corporate Finance analysis
Note: May not calculate exactly due to rounding

In order to assess a reasonable range for implied acquisition premia in Australia, we have analysed transaction data over the 10 year period 2009 to 2018[25]. A data set of 96 takeovers was sourced from Business Valuation Resources[26], constituting successful bids, where data on implied market values utilising 1 day, 1 week and 1 month premia were available. Including all 96 transactions, our analysis indicated 1-week acquisition premia had an average and median of approximately 44% and 33% respectively.

Excluding those transactions considered by us to be outliers[27], the average and median premia are approximately 33% and 32% respectively. We also note that approximately 40% of those takeovers reviewed, excluding outliers, had premia greater than 40%.

Having considered these factors and the nature of the distribution of our observed data, we consider, on balance, that it is reasonable to suggest that in Australia, successful transactions are typically likely to complete within an acquisition premia range of 25% to 40%. In considering the evidence provided by actual transactions, it is important to recognise, however, that the observed premium for control is an outcome of the valuation process, not a determinant of value and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including amongst other things:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- synergistic or special value that may be unique to a specific acquirer
- whether the acquisition is competitive.

[25] Excluding transactions in the mining and oil and gas sector.

[26] Factset Mergerstat/BVR Control Premium Study.

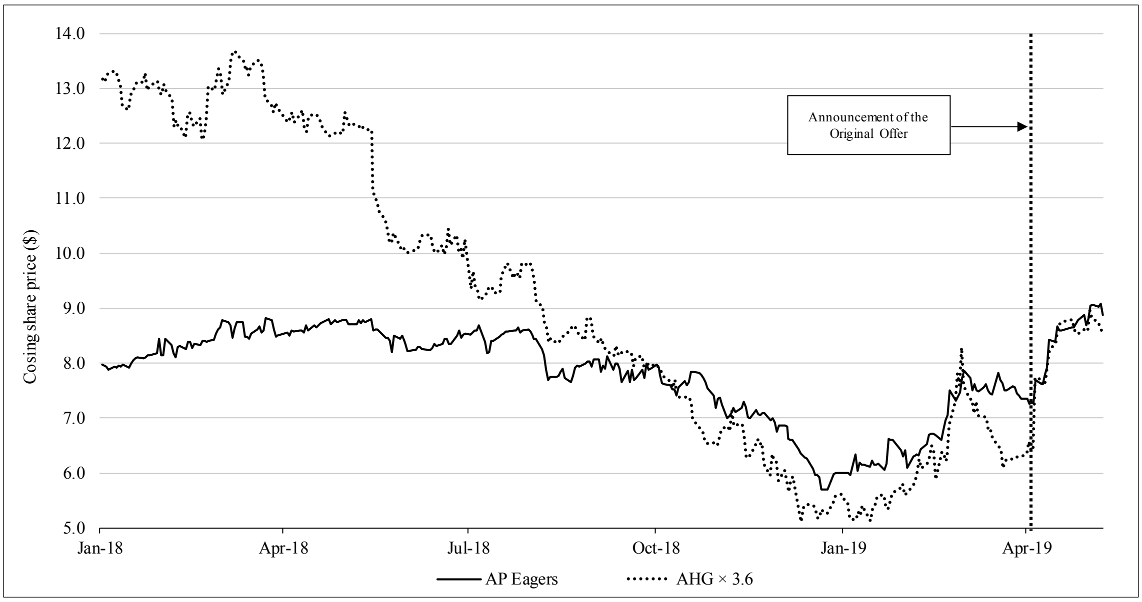
[27] Based on an 80% confidence interval of approximately 1.3 standard deviations around the mean.

Whilst the implied premium being paid by AP Eagers based on pre-bid trading prices is consistent with the control premium of 10% adopted by us in assessing the value of an AHG on a 100% control basis, we note that as required by RG111 our assessed premium for control reflects that we are required to only consider those cost savings and synergies available to a pool of potential purchasers.

Given the level of estimated cost savings and synergies unique to AP Eagers (refer Section 3.2.2), we would have expected the level of implied premium being paid by AP Eagers based on pre-bid trading prices would lie closer to the range of premia typically observed.

In considering the implied premium under the Improved Offer we have also considered the relative performance of AHG and AP Eagers based on their respective daily closing prices and the Exchange Ratio over the period since 1 January 2018, which is summarised in the following figure.

Figure 2: AP Eagers share price vs 3.6 AHG share price

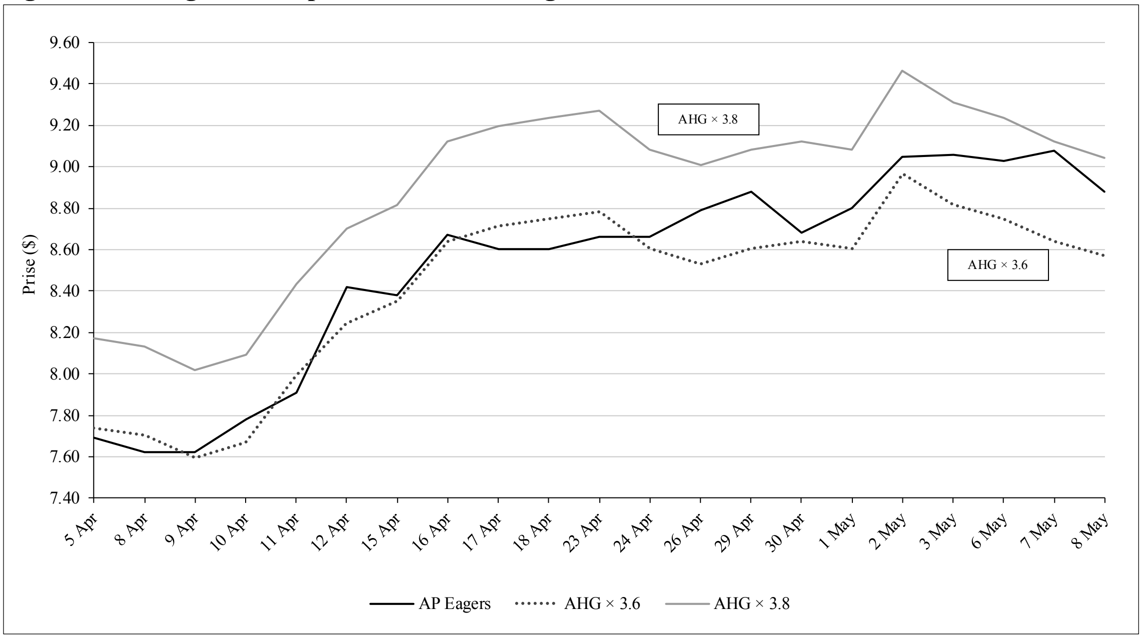


Source: Capital IQ, KPMG Corporate Finance analysis

We note that the figure above indicates that:

- in the period prior to the announcement of the Original Offer, AP Eagers consistently traded at a discount, often significant, to AHG based on the Exchange Ratio up to October 2018. Subsequent to this date, AP Eagers, apart from a single brief period, consistently traded at a premium to AHG, with the largest premium emerging in mid-March 2019, before narrowing in the period immediately prior to the announcement of the Original Offer
- subsequent to the announcement of the Original Offer there has been a strong correlation in the movement of the closing prices of AHG and AP Eagers. Based on the exchange ratio under the Original Offer of 1 new AP Eagers share for every 3.8 AHG shares, AHG, as shown in the figure below, consistently traded through the implied Original Offer consideration suggesting that whist the market considered there was a reasonable prospect of the Original Offer succeeding, an improvement in the terms of the Original Offer was required. Once rebased on the improved Exchange Ratio, AHG and AP Eagers shares have largely traded at or close to the Exchange Ratio over the period, with the closing price for an AP Eagers share on 8 May 2019 of $8.88, representing a small premium of approximately 4% to the closing price for an AHG share of $2.38 on the same date based on the Exchange Date, suggesting that the improved Exchange Ratio is consistent with market expectations.

Figure 3: AP Eagers share price vs offer exchange ratios



Source: Capital IQ, KPMG Corporate Finance analysis

When considered against our range of assessed values for an AP Eagers share of $8.60 to $8.90, AHG shareholders are, based on the Exchange Ratio, receiving a premium of between 8.6% and 39.5% to AHG's historical VWAP measured at various points in the twelve months leading up to the announcement of the Original Offer as detailed in the table below.

Table 8: Premium of assessed values to AHG's historical VWAP on ASX

Period up to and including 4 April 2019	AHG VWAP $	AHG VWAP × 3.6 $	Merged Group Offer consideration $	Offer Premium %
1 day	1.79	6.45	8.60 - 8.90	33.3 - 38.0
1 week	1.78	6.41	8.60 - 8.90	34.1 - 38.7
1 month	1.86	6.68	8.60 - 8.90	28.8 - 33.4
3 months	1.80	6.48	8.60 - 8.90	32.8 - 37.5
6 months	1.77	6.38	8.60 - 8.90	34.8 - 39.5
12 months	2.20	7.92	8.60 - 8.90	8.6 - 12.4

Source: Capital IQ, KPMG Corporate Finance analysis

We note that the results summarised in the table above need to be considered with caution in the context of the Improved Offer as:

- our assessment of the Improved Offer consideration reflects movements in AP Eagers' share price subsequent to the announcement of the Original Offer, whereas AHG's VWAPs are measured on and before the last trading date prior to the announcement of the Original Offer.
- it is likely that AP Eagers' share price reflects in addition to general changing market conditions, the investment community's on-going assessment of the Original Offer and the Improved Offer, whereas AHG's historical share price, in theory, is an unaffected price, that is, the comparison does not represent a "like for like" comparison.

On this basis of measurement, the implied 1 week premium being paid falls within the range of a typical acquisition premium for an Australian listed company.

3.2.7 Following completion of the Improved Offer non-associated shareholders will hold in the order of 25.5% of the issued capital of the Merged Group, however, non-associated shareholders are making, on a number of measures, a greater relative contribution to the pro forma performance and assets of the Merged Group

In the event AP Eagers acquires 100% of the issued capital of AHG, non-associated shareholders will hold approximately 25.5% of the issued capital of the Merged Group[28] however, based on a number of pro forma financial metrics set out in the following table, non-associated shareholders are making a greater contribution to the business of the Merged Group.

Table 9: Relative contribution of AHG to the Merged Group

	AHG Pro forma	Non-associated shareholder interest in AHG pro forma[1]	Merged Group Pro Forma	Non-associated shareholder contribution
Financial performance:				
Revenue ($m)	6,526.7	4,644.4	10,625.6	44%
Adjusted EBITDA ($m)[2]	191.0	135.9	353.1	39%
Adjusted NPAT attributable to Owners ($m)[2]	56.9	40.5	142.6	28%
Financial position:				
Net assets ($m)[3]	525.3	373.8	1,108.1	34%
Net tangible assets ($m)[3]	202.1	143.8	374.5	38%

Source: AP Eagers Bidder's Statement, KPMG Corporate Finance analysis

Notes:

1 *Pro rata interest of non-associated shareholders in AHG, calculated as (100% - 28.84%) x AHG pro forma financial metrics, as AP Eagers held a 28.84% interest in AHG prior to the Original Offer*
2 *EBITDA and NPAT attributable to Owners reflect pro forma adjustments made by AP Eagers to AHG's reported results for one off and unusual items as disclosed in Section 9 of the Bidder's Statement*
3 *Net assets and net tangible assets are before non-controlling interests*

As noted previously, AHG has estimated that the combination of AHG and AP Eagers is likely to give rise to annual pre-tax cost corporate and operational synergies in the order of $31.3 million per annum, which is significantly greater than similar types of savings expected to be available to other purchasers of $4.7 million per annum.

On this basis, a share in AHG is likely to be worth more to AP Eagers than other market participants. Based on a notional tax rate of 30%, AHG's estimated cost savings and synergies potentially available to AP Eagers equates to an earnings per Merged Group share of approximately $0.09[29] over and above the $0.56 basic EPS [30] implied by the pro-forma financial performance of the Merged Group, increasing the Merged Group's pro forma basic EPS to approximately $0.64[31]. We note that AP Eagers has estimated the value of pre-tax synergies of combining the two entities to be in the order of $13.5 million per annum,

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[28] Excluding the effect of dilution on the exercise of any AP Eagers Performance Rights, AP Eagers Options and AHG Performance Rights but including the interest of AHG shareholders that may be determined to be "foreign shareholders" for the purpose of the Improved Offer (refer to Section 5 of this report for further details) and non-associated shareholders that may hold shares in both AHG and AP Eagers.

[29] Calculated as ($31.3 million x 0.7)/256.9 million, being AP Eagers' pro forma number of shares in the Merged Group assuming 100% control of AHG as set out in Section 9 of the Bidder's Statement.

[30] Calculated as $142.6 million / 256.9 million, being AP Eagers' pro forma NPAT attributable to Owners divided by the pro forma number of shares in the Merged Group assuming 100% control.

[31] May not add due to rounding.

but acknowledges that this figure has been determined without the benefit of discussions with AHG management.

Based on AHG's stand-alone pro forma basic EPS of $0.17[32] and the Exchange Ratio, this implies that the Improved Offer terms will be EPS accretive in the event the cost savings and synergies estimated by AHG are able to be realised, but dilutive to non-associate shareholders if the benefit of the potential cost savings is limited to those estimated by AP Eagers, as set out in the table below.

Table 10: Relative earnings per share

	Pro forma basic EPS $	Dilution in EPS %
AHG CY18[1]	0.17	
Exchange ratio	x 3.6	
Adjusted AHG CY18	**0.62**[4]	
Merged Group comparison		
Pro Forma Merged Group – incl. AHG synergies[2]	0.64	3.7
Pro Forma Merged Group - incl. AP Eagers synergies[3]	0.59	(4.2)
Pro Forma Merged Group - CY18 before synergies	0.56	(10.1)

Source: AP Eagers Bidder's Statement, KPMG Corporate Finance analysis
Notes:
1 *AHG basic EPS reflect pro forma adjustments made by AP Eagers as disclosed in Section 9 of the Bidder's Statement*
2 *Adjusted to include AHG synergies estimate of $31.3m net of notional tax at 30%*
3 *Adjusted to include AP Eagers synergies estimate of $13.5m net of notional tax at 30%*
4 *May not calculate exactly due to rounding*

3.2.8 Accepting non-associated shareholders will participate in any future AP Eagers dividend

Under the Improved Offer, accepting non-associated shareholders will, subject to the Improved Offer becoming unconditional, participate in any future dividends approved by the AP Eagers' Board and announced on the ASX prior to the end of the Offer Period on AP Eagers shares received by them as a consequence of their acceptance. [33]

Whilst past performance is no guarantee of future performance, AP Eagers is currently dividend paying, whilst, in contrast, AHG announced on 22 February 2019 the AHG Board's decision not to declare an interim dividend for 1H19. The AHG Board's decision was made to allow AHG to strengthen its balance sheet position to allow flexibility in the prevailing business conditions. AHG has not indicated when it anticipates its dividend program to be reinstated.

3.2.9 AP Eagers has received acceptances in respect of 2.40% of AHG's issued capital and acceptance instructions in respect of a further 22.82%

On 13 May 2019, AP Eagers announced that it had received acceptances in respect of 2.40% of AHG's issued capital and acceptance instructions for a further 22.82% of AHG shares on issue have been

32 Calculated as $56.9 million /331.6 million, being AP Eagers' pro forma AHG NPAT attributable to Owners after adjustments for one off and unusual items divided by the number of shares in the Merged Group assuming 100% control.

33 This assumes that accepting non-associated shareholders do not dispose of their AP Eagers shares prior to the record date of the applicable dividend.

deposited with the institutional acceptance facility established under the Original Offer[34], equating to a theoretical position in AHG shares of 54.05% (when aggregated with its relevant interest in AHG prior to the Original Offer of 28.84%). We note that the identity of the parties that have issued acceptance instructions has not been disclosed, accordingly it is possible that these instructions have been received from parties that have pre-existing cross-holdings between the two companies. In this respect, the final value proposition for this group of shareholders differs to those that hold solely AHG shares, with shareholders holding cross-shareholdings enjoying an improved financial proposition from bringing the two companies together.

We also note that unlike acceptances received from non-associated shareholders outside of the institutional acceptance facility, Eligible AHG Shareholders that accept into the facility retain all rights in relation to, and full control over, their AHG shares and are able to withdraw their acceptance instructions at any time prior to the AP Eagers advising that the Improved Offer is declared unconditional. Accordingly, it is important that non-associated shareholders minded to accept the Improved Offer appreciate that whilst instructions received by the institutional acceptance facility may signal the current intent of the relevant Eligible AHG Shareholders at the date of this report, there is no certainty that these instructions won't change during the period to the later of the Improved Offer being declared unconditional or the end of the Offer Period.

3.2.10 The Directors have unanimously, in the absence of a superior offer, recommended the Improved Offer and AHG is co-operating with AP Eagers in relation to the provision of information

Each of the AHG Directors has advised that they will, in the absence of a superior proposal and once AP Eagers waives the condition to the Improved Offer relating to no material adverse change occurring, recommend non-associated accept the Improved Offer. Further, each director intends to accept the Improved Offer in respect of AHG shares they hold or control once AP Eagers waives the no material adverse change condition. In our experience, securing the recommendation of the target company's Board has a significant influence upon the deliberations of retail shareholders.

We also note that subject to various confidentiality considerations and the parties agreeing access protocols, AHG will provide AP Eagers and its legal advisors access to a virtual data room, which will contain AHG information to assist in the satisfaction or waiver of the various bid conditions. Furthermore, AHG has also agreed to work in a co-operative manner with AP Eagers securing the ACCC's approval in relation to the Improved Offer.

In our view, each of these factors significantly increase the prospects of the Improved Offer being declared unconditional and AP Eagers successfully acquiring control of AHG.

3.2.11 Consequences of not accepting the Improved Offer

As the Improved Offer is not conditional upon a minimum acceptance level, there are many potential outcomes in terms of AP Eagers' final interest in AHG, ranging anywhere from its relevant interest of 28.84% prior to the Original Offer through to 100% control. We have summarised the major implications below.

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[34] AP Eagers has established an institutional acceptance facility open to persons identified by AP Eagers as sophisticated or professional investors (within the meaning of the Act) that hold or beneficially own at least $500,000 worth of AHG Shares based on the consideration payable under the Improved Offer (**Eligible AHG Shareholders**) in order to facilitate receipt of acceptances of the Improved Offer. AHG Shareholders who are not Eligible AHG Shareholders are not be able to participate in the institutional acceptance facility.

In the event AP Eagers acquires less than 50.1 % of AHG's issued capital, inter alia:

- non-associated shareholders will remain as minority shareholders in AHG, will be exposed to the future operational risks and benefits of AHG as a standalone entity, including the outcome of current business and financing initiatives currently planned or in train and will not acquire any interest in the assets and business of AP Eagers
- the potential cost savings and synergies expected to emerge on AP Eagers acquiring 100% will not be realised
- it is likely that AHG's share price will fall from current levels. Depending upon the extent of AP Eagers final interest and consequently the level of free float, it is also possible that liquidity in AHG shares will also fall from historical levels
- AP Eagers may be in a position, either alone or in conjunction with one or more of the other AHG shareholders, to significantly influence the composition of AHG's Board and management and the strategic direction of the businesses of AHG and its subsidiaries (or potentially to control those factors in conjunction with one or more other AHG Shareholders)
- AP Eagers will remain entitled to increase its interest in AHG under the "creep" provisions of the Act, which permit acquisitions of no more than 3% of a public company's issued capital every 6 months. To the extent AP Eagers continues to grow its interest in AHG via this mechanism, this will further reduce the free float of AHG and can expected to impact further on future liquidity in AHG shares, which in turn may affect AHG's share price.

If AP Eagers acquires between 50.1% and 90.0% of AHG's issued capital:

- non-associated shareholders will be minority shareholders in a company controlled by AP Eagers but will not acquire any interest in the assets and business of AP Eagers
- the potential cost savings and synergies expected to emerge on acquiring 100% will not be realised, however, a change of control of AHG will still have occurred and therefore the potential for "change of control" provisions within any contracts to be invoked remains
- it is likely that AHG's share price will fall from current levels and it is reasonable to expect that the liquidity in AHG share will be adversely impacted
- AP Eagers will request AHG complete an operational and head office review, with the aim of pursuing cost reductions and efficiency improvements,
- AP Eagers has indicted that, if able, it will seek to add to, or replace, a proportion of the members of the existing AHG Board with candidates nominated by AP Eagers and depending upon the level of its final shareholding and after taking legal and financial advice, review whether to maintain the listing of AHG on the ASX.

  In these circumstances, there is a risk that, depending upon the level of acceptances of the Improved Offer, non-associated shareholders that decide not to accept the Improved Offer might ultimately end up holding a minority interest in an unlisted public company.
- AP Eagers will still be able to rely on the creep provisions of the Act to increase its interest further.

If AP Eagers acquires 90% or more of the AHG Shares and the Offer becomes unconditional

- AP Eagers intends to compulsorily acquire the AHG shares of non-associated shareholders. In this scenario, whilst non-associated shareholders will receive the same Improved Offer Consideration, depending upon the date of registration of the new AP Eagers shares to be issued, non-associated shareholders may not be entitled to receive any future dividend declared prior to registration.

Non-associated shareholders are also referred to Section 8 of the Target's Statement, where various risks of not accepting the Improved Offer are also discussed.

3.2.12 Other considerations

The current business initiatives being pursued by AHG (and AP Eagers) are not without risk

AHG has faced significant headwinds in recent times, which culminated in the company recording a significant impairment to the carrying value against its assets in FY18. Whilst management is confident that the value enhancement initiatives it has put in place and is continuing to execute, will return the Company to a sound footing, as with any initiatives the success of these is not without a degree of risk both in terms of timing and the ultimate level of success.

We note that AP Eagers has also announced various business initiatives aimed at increasing shareholder value, these initiatives are similarly subject to execution and market risk.

The interests of accepting foreign shareholders will be sold even though they wished to retain AP Eagers shares

Restrictions in certain foreign countries may make it impractical or unlawful to offer or receive securities in those countries, therefore some accepting non-associated shareholders will be deemed to be ineligible foreign shareholders for the purpose of the Improved Offer.

AP Eagers shares to which ineligible foreign shareholders would otherwise have been entitled because of acceptance or compulsory acquisition will be sold, with the net proceeds distributed to the relevant ineligible foreign shareholder, notwithstanding that those ineligible foreign shareholders may have desired to retain an interest in the Merged Group.

In the event AP Eagers fails to achieve an 80% interest in AHG, accepting non-associated shareholders may crystallise a Capital Gains Tax liability

Non-associated shareholders who accept the Improved Offer will receive 1 new AP Eagers share for every 3.6 AHG shares currently held. In the event that AP Eagers fails to achieve an 80% ownership interest in AHG, this may, depending upon individual non-associated shareholder's taxation position, give rise to Capital Gains Tax consequences for accepting non-associated shareholders at a time that may or may not be advantageous to individual non-associated shareholders. Non-associated shareholders are strongly encouraged to read the outline of the taxation implications of the Offer prepared by AP Eagers, which is included in the Bidder's Statement at Section 12 and, if in any doubt, should seek their own independent taxation advice regarding the taxation consequences of the Offer.

The Improved Offer is subject to various conditions which are yet to be satisfied and may already have been technically breached

The Improved Offer remains subject to a number of conditions, as set out in Schedule 2 of the Bidder's Statement, which are yet to be satisfied, with the exception of the bid condition set out in paragraph 6 of Schedule 2 (general market fall), which AP Eagers has waived.

AP Eagers also undertakes to waive the no material adverse change bid condition on the date a merger authorisation for the Improved Offer form the ACCC comes into force, provided that neither a breach of that material adverse change bid condition, nor an event set out in clause 7.1 of the Implementation deed, occurs before that date.

Further, AP Eagers has agreed not to rely on the technical breach of the bid conditions that has occurred as a consequence of the recent appointment of Mr Richard England to the AHG Board as disclosed by AHG to ASX on 26 April 2019.

Prior to the end of the Offer period, the breach or non-fulfilment of any of the conditions does not prevent a contract arising to acquire AP Eagers shares upon acceptance of the Improved Offer. The practical effect of this is that accepting non-associated shareholders will, except in limited circumstances which may allow for an acceptance to be withdrawn, surrender the right to deal with their AHG shares during the currency of the Improved Offer, which is scheduled to close on 16 September 2019, even though the Improved Offer may ultimately be withdrawn.

4 Other matters

In forming our opinion, we have considered the interests of AHG non-associated shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual AHG non-associated shareholders. It is not practical or possible to assess the implications of the Improved Offer on individual non-associated AHG shareholders as their financial circumstances are not known.

The decision of AHG non-associated shareholders as to whether or not to accept the Improved Offer is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual non-associated AHG shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to accept or reject the Improved Offer may be influenced by his or her particular circumstances, we recommend that individual AHG non-associated shareholders seek their own independent professional advice.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information as set out in Section 6 of our report.

Our report has been prepared solely for the purpose of assisting non-associated AHG shareholders in assessing the Improved Offer. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose. Our opinion should not be construed to represent a recommendation as to whether or not AHG non-associated shareholders should accept or reject the Improved Offer.

Neither the whole nor any part of our report or its attachments or any reference thereto may be included in or attached to any document, other than the Target's Statement to be sent to AHG non-associated shareholders in relation to the Improved Offer, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of our report in the form and context in which it appears in the Target's Statement.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Jason Hughes	Ian Jedlin
Authorised Representative	Authorised Representative

Contents

5 Summary of Proposal

5.1 Improved Offer Consideration

Under the Improved Offer, non-associated shareholders who accept the Improved Offer will, if the bid conditions (described below) are satisfied or waived, receive 1 new ordinary share in AP Eagers for every 3.6 AHG shares that they hold.

In addition, accepting non-associated shareholders will participate in any dividends approved by AP Eagers' Board and announced to the ASX after 7 May 2019 and before the end of the Offer Period on AP Eagers shares received by them as a consequence of their acceptance, subject to the Improved Offer becoming unconditional and these shareholders not disposing of their AP Eagers shares prior to the record date of the applicable dividend.

Any fractional entitlement of accepting non-associated shareholder to a part of a new AP Eagers share will be rounded up to the next whole number if it is 0.5 of more, and rounded down to the previous whole number if it is less than 0.5. All new AP Eagers shares issued pursuant to the Improved Offer will rank equally in all respects with existing AP Eagers shares.

The terms of the Improved Offer are set out in Schedule 1 of the Bidder's Statement and the Third Supplementary Bidder's Statement (which have been sent to AHG shareholders), and key terms of the Improved Offer are summarised in the Target's Statement to which this report is attached. We recommend that shareholders read the Bidder's Statement and each of the Supplementary Bidder's Statements issued by AP Eagers and the Target's Statement issued by AHG in their entirety in conjunction with this report.

5.2 Conditions

The Improved Offer and any contracts resulting from acceptance of the Improved Offer remain subject to the conditions as set out in Schedule 2 to the Bidder's Statement with the exception of the bid condition set out in paragraph 6 of Schedule 2 in relation to general market fall, which AP Eagers has waived. The remaining conditions yet to be satisfied include amongst others:

- all regulatory authorisations, consents, exemptions, modifications and approvals as may be required from any relevant regulatory authority to permit to give the Improved Offer to be made (including, specifically, approval by the ACCC having been obtained
- no regulatory action in consequence of or in connection with the Improved Offer occurring which is likely to, or purports or threatens to, amongst other things, adversely affect the making of the Improved Offer, the acquisition of AHG shares by AP Eagers, the rights of AP Eagers in respect of AHG and the AHG shares acquired or the continued operation of the businesses of AHG, or which seeks to require the divestiture by AP Eagers of any AHG share acquired, or the divestiture of any assets of AP Eagers or AHG
- no "Prescribed Occurrence" (as defined in Schedule 2 of the Bidder's Statement) occurring in relation to AHG
- no material acquisitions, disposals, new commitments or other specified events occurring in relation to AHG
- no "Material Adverse Change" (as defined in Section 14.1 of the Bidder's Statement) occurring in relation to AHG

- no party exercising any rights (including termination rights or pre-emptive rights) under existing AHG agreements, contracts or agreements that might be triggered by the acquisition of AHG shares by AP Eagers under the Improved Offer or a change of control of AHG as a result of the Improved Offer, that would result in a material adverse effect on the assets, liabilities, financial position or performance or the prospects of the AHG group (taken as a whole), and any parties with such rights giving their consent or waiver to the relevant event.

The conditions set out above are conditions subsequent, which means that accepting non-associated shareholders will be unable to withdraw from the Improved Offer or otherwise deal with the AHG shares they previously held, expect in the limited circumstances set out in Schedule 1 to the Bidder's Statement.

AP Eagers has undertaken to waive the no material adverse change bid condition on the date a "merger authorisation" from the ACCC for the Improved Offer comes into force provided that neither a breach of the material adverse change condition, nor a breach of the Implementation Agreement, occurs before that date.

In addition, AP has agreed not to rely on the technical breach that has already occurred as a result of the appointment of Mr Richard England to the AHG Board as disclosed by AHG to the ASX on 26 April 2019.

The Improved Offer is not subject to a minimum acceptance condition.

5.3 Foreign shareholders

Unless AP Eagers determines that it is lawful and not unduly onerous or impracticable, shareholders whose address on the register of members of AHG is in a jurisdiction other than Australia, its external territories or New Zealand, will not be entitled to receive AP Eagers shares. In these circumstances, the AP Eagers shares that would otherwise have been issued to accepting Foreign Shareholders will be sold by a nominee appointed by AP Eagers and the net proceeds after costs will be remitted to the relevant shareholder.

6 Scope of Report

6.1 Basis of assessment

RG 111 issued by ASIC indicates the principles and matters which it expects a person preparing an IER to consider, in determining whether an offer is "fair and reasonable".

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' irrespective of whether the consideration is scrip or cash and without considering the percentage holding of the 'bidder' or its associates in the target prior to the bid. That is, RG 111 requires the value of AHG to be assessed as if AP Eagers was acquiring 100% of AHG, not just the 71.16% that at the date of announcement of the Original Offer it did not already have a relevant interest in.

Accordingly, the principal matter we are required to consider is whether the Improved Offer Consideration, comprising one new ordinary share in the enlarged AP Eagers assuming the Improved Offer is successful (**the Merged Group**) on a minority basis, is equal to or exceeds the market value of 3.6 existing AHG shares on a 100% control basis.

RG 111 provides that any special value of the 'target' to a particular 'bidder' (e.g. synergies that are not available to other bidders) should not be taken into account under this comparison, rather they are matters that an expert might consider in assessing whether an offer is reasonable. As such, in assessing the full underlying value of AHG, we have considered those synergies and benefits that would be available to a pool of potential purchasers of AHG. Accordingly, our valuation of AHG has been determined regardless of the bidder and any special benefits have been considered separately.

Reasonableness

An offer is deemed by RG 111 to be "reasonable" if it is fair. However an offer can also be reasonable even if despite not being fair there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer. In considering whether the Improved Offer is reasonable, we have therefore also considered, inter alia, the following factors:

- recent trading prices and liquidity for AHG and AP Eagers shares on ASX
- the risk profile of the Merged Group relative to AHG, including the potential for synergies and dis-synergies
- the impact on EPS and net asset backing and the level of dividends for accepting AHG shareholders
- potential for change in trading multiples or share market re-rating, including potential for index inclusion
- tax consequences for AHG shareholders
- the nature of the conditions subsequent to the Improved Offer
- likely trading in AHG shares in the absence of the Improved Offer
- any other advantages and disadvantages that would have an impact on AHG shareholders.

6.2 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us, without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of AHG or AP Eagers for the purposes of this report.

Furthermore, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with AHG's management in relation to the nature of AHG's business operations, specific risks and opportunities, historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

AHG has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (**forward-looking financial information**) prepared by or on behalf of the management of AHG. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, AHG remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information, where relied upon, has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertaken and KPMG Corporate Finance has not undertaken any such due diligence. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

As we have not had access to either the management or the non-public records of AP Eagers, the information in this report relating to AP Eagers has necessarily been based on information available in the public domain (including in AP Eagers' ASX announcements and in the Bidder's Statement).

6.3 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the opinion in this report. AHG has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to AHG. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating divisions comprising AHG. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by AHG.

7 Industry overview

7.1 Automotive Industry

AHG's and AP Eagers' operations are both principally focussed on the automotive retailing industry. Accordingly, for context, we provide an overview of the franchised Australian automotive retailing industry, including new cars and new heavy commercial vehicles.

7.1.1 General

The Australian automotive retailing industry is a significant contributor to the Australian economy. The industry as a whole comprises motor vehicle manufacturers, wholesalers, retailers, parts suppliers, and mechanics that design, research, develop, manufacture, sell and maintain motor vehicles and parts. IBISWorld estimates that this broad industry is made up of over 50,000 businesses and forecasts total revenues for the industry to be $165.0 billion in FY18. It is estimated that as at 31 January 2018 there were 19.2 million registered vehicles in Australia.[35] This compares to the current population in Australia of 25.1 million[36].

Whilst the automotive industry is made up of a range of segments, AHG and AP Eagers' participation in the industry is primarily the retail sale of new cars, used (also called pre-owned or certified pre-owned) cars and commercial vehicles, along with servicing and spare parts sales and distribution.

In addition to AHG and AP Eagers, some notable dealer groups that have relatively significant market share (in a fractured automotive retail industry) in the sale of new and used vehicles and parts include the third largest Australian ASX listed group Autosports, WFM Motors / NGP Group owned by Mr Nick Politis (who along with associated entities, also holds a 36.35% relevant interest in AP Eagers), Patterson Cheney Group in Victoria, Suttons Motors in New South Wales and several other dealer groups with revenues at or above $1 billion. Other companies involved in the aftermarket non-OEM franchised servicing sector include Kmart Tyre & Auto Service, Midas, Continental Tyres and Ultra Tune.

We discuss in turn the following segments of the Australian automotive industry:

- Motor vehicle dealers in Australia
- Motor vehicle engine and parts repair and maintenance in Australia.

7.1.2 Motor vehicle dealers in Australia

The Australian motor vehicle dealers segment includes dealerships primarily engaged in selling new or used motor vehicles. These businesses also offer finance brokerage to facilitate purchases by customers, along with after-sale services and parts sales for motor vehicles.

The Australian Automotive Dealers Association's (**AADA**) website indicates there are approximately 1,500 dealership owner groups spread across the country in varying sizes and structures operating approximately 3,500 franchised new vehicle dealership sites and generating over $54 billion in revenue.

Franchised Retail Motor Industry Structure

Dealerships operate as franchisee retailers with a formal franchise agreement with the OEM they represent. This agreement provides the relevant dealership with the exclusive right to trade under the OEM brand in a defined Prime Market Area (**PMA**) usually represented by a range of post codes. Typically the length of the franchise agreements range from one to five years, and there are limits and restrictions on what a dealer can do with the brand corporate identity. Wholesale purchase and retail pricing is typically structured by the franchisor OEM with the franchisee dealer left to negotiate the final sale price with the end customer at the point of sale.

The typical transaction flow of a vehicle sale from manufacturer to end customer is described below:

- OEM receives orders for vehicles by the dealer network via its regional National Sales Centre (**NSC**) or regional distributor. These orders can be for specific vehicles for direct customer orders or general

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[35] Australian Bureau of Statistics, Motor Vehicle Census, Australia, 31 Jan 2018.

[36] Australian Bureau of Statistics, Australian Demographic Statistics, Sep 2018.

orders of models based on historical sales trends. The OEM then produces the vehicle(s) to be distributed to the dealer network via the NSC/regional distributor

- The dealer acquires the vehicle(s) through an industry specific finance arrangement (called floorplan or bailment finance) from the finance company (which is typically the OEM captive finance company or alternatively a bank) to pay the OEM for the vehicle. The finance company retains the title ownership of the vehicle until the point of sale to the end customer
- The dealer pays interest on the financed amount until the vehicle(s) are sold to an end customer
- Upon sale to the end customer, the title of the vehicle passes to the dealer to facilitate the sales transaction. The customer pays the dealer (potentially through a finance arrangement, a bank loan or lease). The dealer then repays the financed amount for the vehicle to the finance company, which is normally due within three to five days from delivery to the end user customer
- The customer then can return to the dealership for service repairs, parts purchases, accessories purchase and fitment and warranty repairs.

7.1.3 Key participants

The Australian retail motor dealership market segment is highly fragmented. AHG and AP Eagers are by far the largest market participants in the Australian new vehicles sales market and are estimated to have a market share of just 6.7% and 5.2%, respectively[37]. Other significant dealers include WFM Motors / NGP Group, Patterson Cheney and Suttons Motors.

The number of businesses in the industry has decreased over the past five years due to larger industry players focussing on acquisitions to ensure they retain or increase their market share, and achieve a scale that allows them to be price and cost competitive. Dealer group business numbers are forecast to continue to fall over the next five years as a result of further consolidation by the larger players.

The AADA suggests that the automotive retail sector in Australia is regarded as one the most competitive in the world as the competition between dealers is fierce and consumers are not lacking in choice. It suggests that there are over 65 brands offering more than 400 models for customers. The majority of dealer groups are multi-franchised dealership locations, meaning the dealer group represents more than one brand either on the same physical location or spread across several geographical areas.

Dealers primarily compete on the basis of product range, price, branding and location. Service, after-sale assistance and financing can also provide a point of difference between dealers. Intense price competition across different brands at all levels of the supply chain has decreased industry profit margins over the past five years. Recent regulatory changes to finance and insurance (**F&I**) brokerage income, discussed later, have also impacted dealers' profitability. The Australian automotive industry is anticipated to continue to be structured around a business model with high volume and revenue and relatively low gross margins.

7.1.4 Key drivers

Motor vehicle pricing. Demand for motor vehicles increases when motor vehicles are less expensive to purchase. Pricing depends on numerous factors including costs of manufacture, exchange rates, trade agreements, tariffs on imported vehicles and dealer costs. We note the cost of new vehicles in Australia

[37] AP Eagers Bidder's Statement, April 2019.

has declined or remained flat over the last sixteen years making new vehicles the most affordable they have been in relative terms in the last several decades.

Real household discretionary income. The major markets for motor vehicle dealers are private customers, business customers and to a lesser extent, government and rental customers. Market proportions as reported by Federal Chamber of Automotive Industries (**FCAI**) for CY18 in respect of new vehicles sales (passenger, SUV and light commercial) are as follows: private customers 46.4%, business customers 43.2%, government 3.5% and rental market 6.9%. When household discretionary income increases, private customers, as the largest market group, have more funds to spend on typically non-essential items such as new motor vehicles. Household discretionary income depends on factors such as employment levels and interest rates.

Employment and consumer confidence. When consumers have or expect a regular income, they are more inclined to purchase goods and services. Employment rates are driven in part by the economic outlook.

Business confidence index. Despite many business (and government customers) bypassing dealers and sourcing motor vehicles directly from wholesalers and manufacturers, business customers represent a key market. The business confidence index represents businesses' perceived financial position and economic outlook with positive business confidence typically increasing expenditure on items such as motor vehicles.

World price of crude oil. Retail fuel prices are driven by the world price of crude oil and exchange rates as the world price of crude oil is denominated in United States (**US**) Dollars (**USD**). Increased fuel prices lead to both reduced car sales and also a shift in consumer preference to small, more fuel efficient cars which are cheaper and generate less per-unit revenue for the industry.

Ownership and running costs. Demand in the motor vehicle dealer segment is affected by ownership and running costs of motor vehicles.

Housing market. The strength of the housing market has correlated with vehicle sales over time and both markets tend to follow the general performance of the economy. The Commonwealth Bank of Australia notes that luxury car sales have broadly tracked the movements in Australian home prices since CommSec's Luxury Car index began in January 1996.[38] In a strong housing market, home owners may draw down on the increased equity in their homes and purchase a motor vehicle. Consumers are expected to be more cautious in discretionary purchases due to the growing concern of a slowing housing market and tightening of money lending.

Reflecting that many of the preceding factors are closely related to the overall strength of the Australian economy, and in the case of AHG given its significant exposure to the Western Australian economy, we have set out later an overview of the economic trends and outlook for each of these markets.

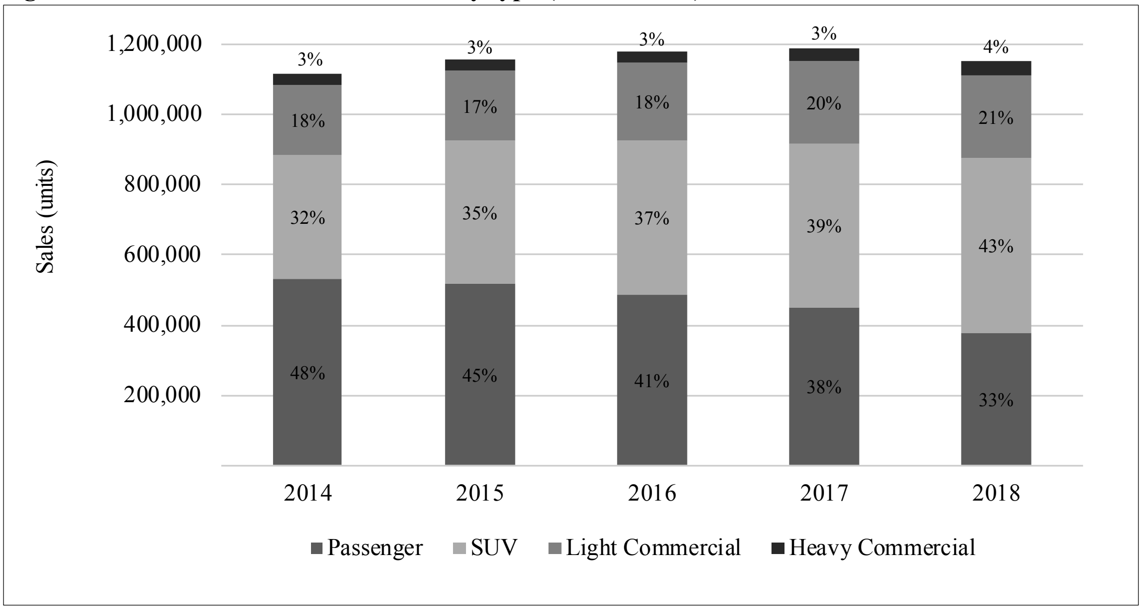
7.1.5 Vehicle types

Total new vehicle sales for the passenger, sports utility vehicle (**SUV**), light commercial and heavy commercial segments averaged approximately 1.16 million per annum over the five years to 31 December 2018 as reported by the Federal Chamber of Automotive Industries (**FCAI**). Total Industry Volume (**TIV**) in units increased annually in each year from 2014 to 2017 at a compound annual growth rate (**CAGR**) of 2.2% over the period, however TIV declined 3.0% in 2018 breaking the three year period

[38] Commonwealth Bank of Australia, Economic Insights, 7 August 2018.

of record setting volumes achieved. The SUV market has continued to outpace all other segments, surging from 352,462 units in 2014 to 495,300 units in 2018, representing a CAGR of 8.9%. The significant increase in the SUV segment was at the detriment of the passenger car segment which experienced significant declines in the same period.

Figure 4: New vehicle sales in Australia by type (CY14-CY18)



Source: VFACTS (March 2019)

In recent years, the strongest sub-segment within both the passenger cars and SUV range has been the smaller sized vehicle. Early in the past five year period, the shift to smaller, cheaper and more fuel-efficient vehicles was due in part to high fuel prices. However this trend has continued despite fuel price declines due to OEMs focussing their model lines on smaller SUV and passenger vehicles to compete on price and emission standards requirements. The shift to smaller vehicles is also attributed to consumer sentiment and increased awareness of environmental impacts of larger vehicles. In selling higher volumes of cheaper small cars at the expense of more expensive large cars, the average revenue and gross margin per vehicle sold declined for dealerships in general. Helping to partially offset the trend towards smaller lower margin vehicles has been the demand for larger sized SUV and light/heavy commercial vehicles that are typically more expensive than passenger vehicles.

Truck sales of 41,625 in 2018 surpassed for the first time the record pre-global financial crisis year of 2007 when 38,131 trucks were sold.[39] The recent strong growth in truck sales can in part be attributed to an ageing truck fleet and the Euro VI emission standards. The Australian Bureau of Statistics (**ABS**) estimates the average age of vehicles above 4.5 tonnes (**t**) gross vehicle weight (**GVM**) to be 14.8 years.[40] According to the Truck Industry Council Australia, almost 42% of the nation's truck fleet above 4.5t GVM were manufactured before 2003 when basic, or no, exhaust emission regulation existed. This figure includes 119,448 trucks manufactured pre-1996 (no emission standards) (25.8%) and 73,441 trucks manufactured between 1996 to pre-2003 (elementary emission control systems employed) (15.9%). Euro VI emissions standards will force the modernisation of the truck fleet and ultimately increase sales in the

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[39] Truck Industry Council, Modernising the Australian Truck Fleet, Budget Submission 2019/20.

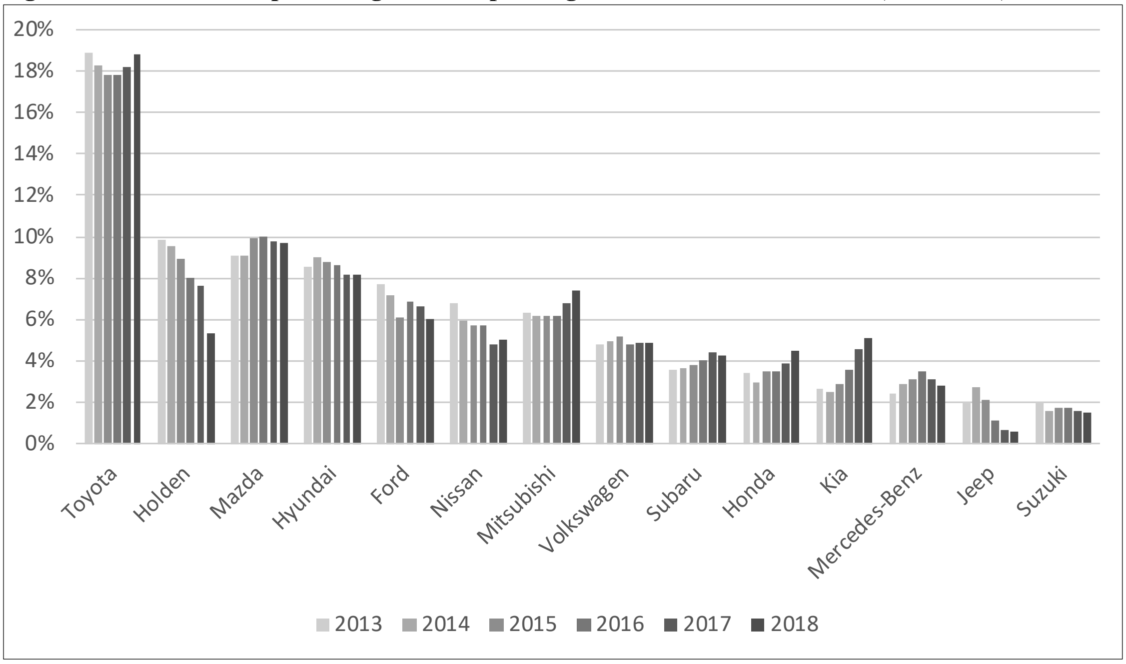
[40] Truck Industry Council, Modernising the Australian Truck Fleet, Budget Submission 2019/20.

heavy vehicle segment. In addition to environmental standards, safety standards are also a major factor in the need for operators to review the current age of their fleet.

Vehicle make

Market share by brand data indicates that Toyota sales dominate the Australian passenger and SUV market and that traditional brands like Holden and Ford have been declining over the past five or more years. Holden's share has almost halved from 9.9% in 2013 to 5.3% in 2018 whilst Ford's share declined from 7.7% to 6.0% over the same period.[41] Nissan has also performed poorly over the period. Strong growth has been achieved by Mitsubishi, Honda and Kia which increased their respective market shares in 2018 by 0.6%, 0.6% and 0.5%. A summary of the market share of key vehicles makes since 2013 is illustrated in the below figure.

Figure 5: Vehicle make percentage of total passenger and SUV market share (2013-2018)



Source: VFACTS

Vehicle forecasts

The FCAI forecasts new vehicle TIV to increase to approximately 1.2 million vehicles by 2023, representing a CAGR of 1.0% over the five year period from 2018. It expects that SUV sales will continue to be a key area of growth in the future, helping to offset a significant fall in the market for new passenger vehicles over the same period.

[41] FCAI, VFACTS data.

Table 11: Actual and forecast new vehicle sales in Australia

Category	2012	2017	5Y CAGR	2018	2023	5Y CAGR
Passenger	575,427	450,012	(4.8%)	378,413	274,572	(6.2%)
SUV	307,253	465,646	8.7%	495,300	616,010	4.5%
Commercial	229,352	273,458	3.6%	279,398	320,418	2.8%
Total Market	**1,112,032**	**1,189,116**	**1.3%**	**1,153,111**	**1,211,000**	**1.0%**

Source: VFACTS and Federal Chamber of Automotive Industries

7.1.6 Other structural trends

There are many other structural factors currently shaping the Australian car retailing industry, including:

Used car market. Used cars have been a stable part of dealerships for many years. The sales cycle of a used car at a dealership is more in the dealer's control as purchasing, reconditioning and sales are all managed onsite by dealer staff. An average dealership can make more gross-margin on the sale of a used vehicle than they may on the sale of a new vehicle (excluding manufacturer bonuses). While some manufacturers are introducing accredited programs for branded used vehicles, dealers are generally left to operate this business independent of the OEM and volume is dictated by the size of their business.

Private sellers are the main competition for used vehicle dealers as used vehicle sales can bypass dealerships. Online websites such as gumtree.com.au and carsales.com.au have made private sales easier over the last decade, which has facilitated stronger demand for private sales. The profitability of the used car department of a dealer is also impacted by the relative value of new cars. For example, where new vehicle prices remain low but the vehicles continue to be better specified, the demand for, and value of used vehicles decreases.

Finance and insurance. F&I brokerage income can be generated through new and used vehicle sales and are a key profit centre for dealers. Recent regulatory changes have impacted the dealer's profitability in respect of insurance and finance as noted below.

On 12 September 2016, ASIC presented its findings on the sale of add-on insurance through car dealers. The review found that add-on insurance sold through this distribution channel represented poor value for consumers and that in FY15 one insurer paid commissions as high as 79% to car dealers who sold add-on insurance. As a result of the findings, one of the key commitments required from insurers was a reduction in the amount of commission paid to anyone who sells an add-on insurance product through car dealers (and passing these savings onto consumers through lower premiums).[42] Changes in insurance commission levels offered by AHG's main retail insurance provider (Allianz) came into effect on 1 July 2017. The concept of a deferred sales model for add-on insurance products is also under consideration by ASIC.[43] The AADA is urging the Department of the Treasury to adopt a model which defers the sale for around three to four days (between the initial introduction of the product and its eventual sale) and allows a waiver for informed consumers.[44] We are unaware of when any potential deferred sales model for the sale of add-on insurance products may be released to the market.

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[42] ASIC, REP 492 A market that is failing consumers: The sale of add-on insurance through car dealers, 12 September 2016.

[43] ASIC, Consultation paper 294: The sale of add-on insurance and warranties through caryard intermediaries, August 2017.

[44] AADA, AADA surprised by Royal Commission abolition of point of sale exemption, 4 February 2019.

On 7 September 2017, ASIC formally announced a ban on flex commissions in the car finance market, with the legislative instrument to ban these commissions registered on the Federal Register of Legislative Instruments.[45] The changes came into effect 1 November 2018.

Prior to the ban under flex commissions the dealer could set the interest rate for a particular loan within a range agreed with the financier and would earn a greater upfront commission from the lender the higher the interest rate[46].

In addition to the changes above to the commission model for the sale of financing at the point of sale, the approval and terms of the finance is now required to be set by applying a responsible lending risk assessment framework. It has been reported that ASIC is also investigating an aspect of consumer lending laws highlighted in the Hayne Royal Commission, which allows dealers to offer 'point-of-sale' loans without holding an Australian Credit Licence[47] Under current legislation, car dealerships and general retailers, such as JB Hi Fi, Harvey Norman etc. that offer finance on the goods that they sell, operate within the confines of the point-of-sale exemption under the National Consumer Credit Protection Act.

Finance penetration improvement required post-ASIC (1 November 2018). These recent changes to the commission structures and lending criteria have resulted in significant reductions in profitability for most dealerships in Australia since 1 November 2018. The following three major changes highlight the major impacts to dealers from the ASIC changes:

- Reduced Commissions (Volume Bonus Incentive (**VBI**)) on Net Amount Financed (**NAF**)
- Tightening of Credit Policies including lower loan to value ratios and increased levels of information required from customers impacting approval rates negatively (impact estimated to be in the order of 20%) and taking longer to gain approvals from finance providers
- High churn rate of finance business managers in dealerships impacting staffing costs and performance.

Many larger dealers have been on short-term (6 to 12 month) commission subsidy deals from the OEMs to underwrite their profitability. As any subsidy deals cease, the reduced commission structures are expected to decline further on the same amount of NAF pre-ASIC changes.

Dealers have identified that they can mitigate the impact on their F&I commissions reductions primarily through increased overall penetration rates of vehicles financed. Finance penetration rate is measured as the number of retail vehicles sold by the dealer during a period as the denominator and the number of finance contracts written in the same period as the numerator. Currently, the benchmark penetration rates are in the order of 31%-35% for new vehicles and 29%-33% for used vehicles.[48] For dealers to return to pre-ASIC F&I performance it is estimated within the industry they will require 70% plus penetration rates on commissions. This should be considered in the context of in excess of 90% of customers in Australia borrowing some kind of money to buy cars.

There are two relatively similar automotive retail markets to Australia for comparison, the United States and United Kingdom. Both of these markets are mature, have Western legal and regulation frameworks and operate on commission rates similar to the post-ASIC intervention. Both the United States and United

[45] ASIC, 17-301MR ASIC bans flex commissions in car finance market, 7 September 2018.

[46] ASIC, 18-329MR, ASIC ban to improve car finance practices begins, 31 October 2018.

[47] Australian Financial Review, ASIC to put brakes on car finance, 16 January 2019.

[48] Deloitte, Volume benchmarks, 2019.

Kingdom markets achieve greater than 80% finance penetration. For Australia to achieve 80%+ penetration for finance several factors need to align:

i. the consumer mindset and preference of financing through their bank or through home loan top ups will need to shift overtime as dealers will have the same level of information as the banks and will be able to offer similar interest rates when comprehensive credit reporting becomes more prevalent post 1 July 2019 when all finance institutions must share customer information.

ii. similar to the United States and United Kingdom markets, the finance products offered in Australia need to be more aligned to consumer preferences. In particular, the promotion of and consumer education in relation to Guaranteed Future Value (**GFV**) leases, whereby the risk of future value of the vehicle is fixed by the finance lender subject to kilometres limits and wear and tear provisions, which are only able to be offered by approved dealers, needs to be a focus.

These two factors combined with changed procedures at the dealership point of sale are expected to result in improved penetration rates for the dealer and increased benefit to the consumer with cheaper finance and an easier purchase experience. These factors will however take time to align.

Emission standards. There is a possibility that the Federal Government will tighten emission standards for motor vehicles in the future. This, along with any increase in fuel costs, could further increase the popularity of electric and hybrid vehicles.

Oversupply of new cars. An oversupply of new vehicles has occurred in recent years as a result of some manufacturers pushing for greater market share. An oversupply of new cars directly and negatively impacts automotive retailers, driving down the margins achieved by dealerships. The trend is expected to be normalised by dealerships working with the industry's representative body, the AADA, the FCAI and the Federal Government. In this regard, there is a strong push by the industry for the Federal Government to introduce a specific franchising code to address the imbalance of power between some manufacturers and dealerships.

Vehicle ownership. The availability of alternative transportation methods, such as ride share services, allows consumers to use a car without buying and maintaining their own vehicle. Should, in the future, people shift more towards mobility-as-a-service and therefore away from car ownership, the total number of vehicles may decrease due to a more efficient use of resources.

Vehicle running costs. It is anticipated that electric and hybrid vehicles will be areas of industry growth over the longer term as these vehicle types become increasingly popular. As electric and hybrid vehicles have fewer parts, an increase in these vehicles may reduce the servicing requirements by owners.

Autonomous vehicles. The impact of driverless vehicles is largely unknown but could have quite a disruptive effect on the industry, potentially impacting amongst other things, motor vehicle pricing, the number of vehicle sales and servicing requirements.

Dealer footprint. Over half of the respondents to KPMG's 2018 Global Automotive Executive Survey were highly confident that the number of physical retail outlets as we know them today will be reduced by 30 to 50 percent by 2025. One potential reason for this change could be the industry adapting to changes in consumer purchasing habits and focusing more on digital customer engagement. This industry change will have an impact on the market participants until the disruption works its way through the industry. While there will be less physical outlets the number of vehicles sold will likely not be impacted. This represents a significant opportunity for the industry participants that can navigate the changes and emerge after the changes operating efficient and cost effective businesses.

Larger dealers. Merger and acquisition activity is expected to continue and larger dealer groups may emerge in response to increasing costs and requirements to seek efficiencies. Tight profit margins and higher costs may force smaller operators out of the industry who are not able to compete effectively with larger operations able to enjoy economies of scale.

7.1.7 Performance by jurisdiction

As there is a correlation between economic performance and new car sales, we consider below the recent economic trends observed in Australia as a whole and also in Western Australia (given a significant portion of AHG's operations are located in Western Australia), along with observations in relation to car sales for these jurisdictions, as well as for New Zealand.

Australian economy

The Australian economy slowed markedly in the second half of 2018, with the economy growing by only 0.2% over the fourth quarter compared to 2.3% over the year[49]. The primary causes of the slowdown were declines in dwelling investment, investment by public corporations and defence spending, as well as a fall in net exports. The weakness over the second half of 2018 led BIS Oxford Economics in March 2019 to revise down its gross domestic product (**GDP**) growth expectations for FY19 to 2.3% from its previous 2.7%, however it expects the Reserve Bank of Australia (**RBA**) will maintain the cash rate at 1.5% this year and the next. It expects GDP growth in FY20 to be 2.5%[50].

Whilst the labour market remains buoyant with approximately 270,000 new jobs added to the economy over the 12 months to January 2019[51], wages growth remains relatively subdued, with the Wage Price Index rising 2.3% year-on-year in the December quarter of 2018. Unemployment remains at around 5%.

Household final consumption expenditure grew 0.4% in the December quarter of 2018, primarily restrained by weak household income growth and to a small extent by wealth effects due to falling house prices[52]. The sectors experiencing the largest decline in consumption expenditure include Cigarettes and Tobacco, Electricity and Gas, and Purchase of Motor Vehicles.

Consumer sentiment, as measured by the Westpac-Melbourne Institute Index of Consumer Sentiment, fell 4.8% during March 2019, with Westpac noting this result was heavily influenced by the release of the December quarter national accounts[53].

Western Australian economy

Following a sustained period of contraction, the Western Australian economy, as measured by Gross State Product (**GSP**) grew by 1.9% in FY18, is expected to grow by 3.0% in FY19 and by 3.0% to 3.5% per annum thereafter over the medium term as investment activity maintains production levels and hence exports[54].

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[49] KPMG Economics & Tax Centre, Quarterly Economic Outlook, Global and Australian Forecasts, March 2019.

[50] BIS Oxford Economics, Economic Outlook Australia, 12 March 2019.

[51] KPMG Economics & Tax Centre, Quarterly Economic Outlook, Global and Australian Forecasts, March 2019.

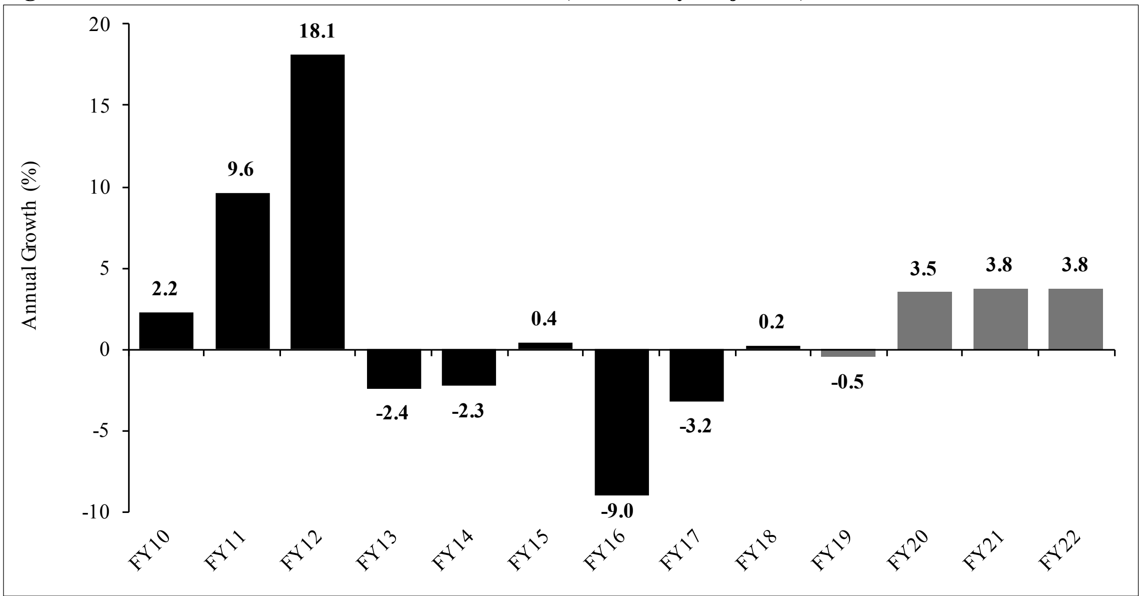
[52] BIS Oxford Economics, Economic Outlook Australia, 12 March 2019.

[53] KPMG Economics & Tax Centre, Quarterly Economic Outlook, Global and Australian Forecasts, March 2019.

[54] Western Australia Treasury, 2018-19 Government Mid-year Financial Projections Statement, 20 December 2018.

The Western Australian State Final Demand (**SFD**)[55] which provides a measure of domestic economic growth excluding consideration of export sales, grew marginally in FY18 largely as a result of the timing of investment on a number of LNG projects which helped sustain business investment at FY17 levels. SFD is expected to contract in FY19 as a result of a fall in business investment due to the completion of those projects but is expected to rebound strongly growing between 3.5% and 3.8% per annum over the three years to FY22 in part on the back of expected growth in household consumption expenditure over the forecast period due to household wealth lifting, labour market conditions improving and as income growth picks up. An increase in the rate of population growth is further expected to support consumption[56].

Figure 6: Western Australia State Final Demand (Seasonally Adjusted), Annual Growth



Source: ABS and Western Australian Government 2018-2019 Mid-year Financial Projections Statement
Note: FY19 to FY22 are estimates as forecast by the Western Australian Government

Employment numbers reached a record level in October 2018 and are expected to grow 1.75% in FY19 and 2.0% in FY20. Unemployment has been forecast at 6.0% in FY19, but is projected to ease to 5.25% by FY22. Annual wages growth in Western Australia, as measured by the Wage Price Index, rose slightly from 1.4% in FY17 to 1.5% in FY18, however the rate of growth is expected to gradually pick up over the next few years as economic activity continues to strengthen and spare capacity in the labour market is absorbed.

Retail trade was particularly weak in the September 2018 quarter, representing a downside risk to the near-term outlook for household consumption. Household consumption grew 1.6% in FY18, well below the long term average of 3.9%, as consumers remain cautious in their spending. Household consumption

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[55] State final demand measures the total value of goods and services that are sold in a state to buyers who wish to either consume them or retain them in the form of capital assets, excluding sales made to buyers who use them as inputs to a production activity, export sales and sales that lead to accumulation of inventories. Household final consumption expenditure is the largest component of state final demand.

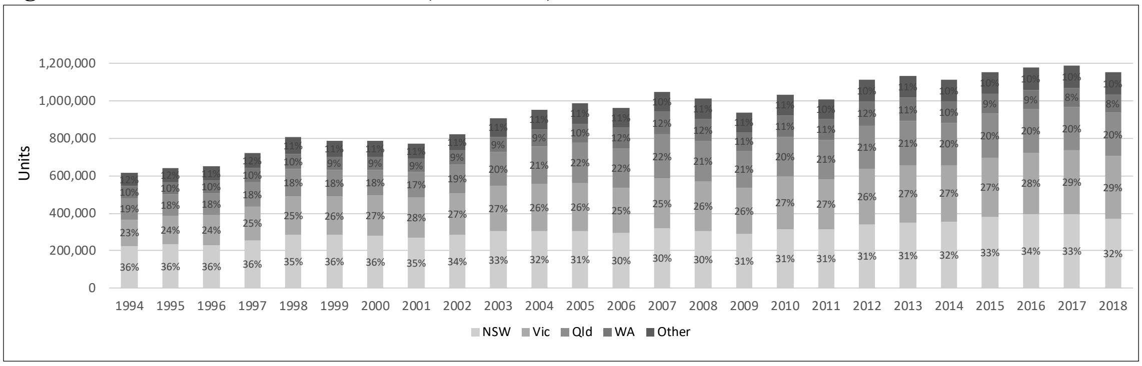
[56] Western Australia Treasury, 2018-19 Government Mid-year Financial Projections Statement, 20 December 2018.

is expected to remain subdued at 1.5% in FY19, before gradually increasing as household wealth lifts and population growth increases[57].

Australian car sales

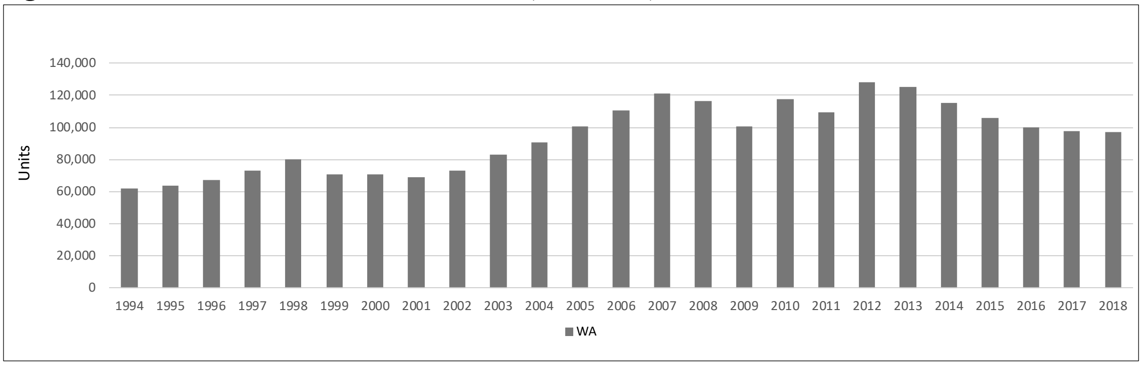
In the period from 1994 to 2018, Australian new vehicle sales have demonstrated a general upward trend. Over the same period, Western Australian new vehicle sales have exhibited a more pronounced cyclical trend. Since 2012, Western Australian new vehicle sales have experienced a sustained decline, falling to around 2005 levels however latest numbers appear to suggest that the Western Australian market may have stabilised. In contrast national new vehicle sales continued to grow over the period to 2017 and have only recently begun to fall.

Figure 7: Australia new vehicle sales (1994-2018)



Source: Australian Bureau of Statistics, VFACTS

Figure 8: Western Australia new vehicle sales (1994-2018)

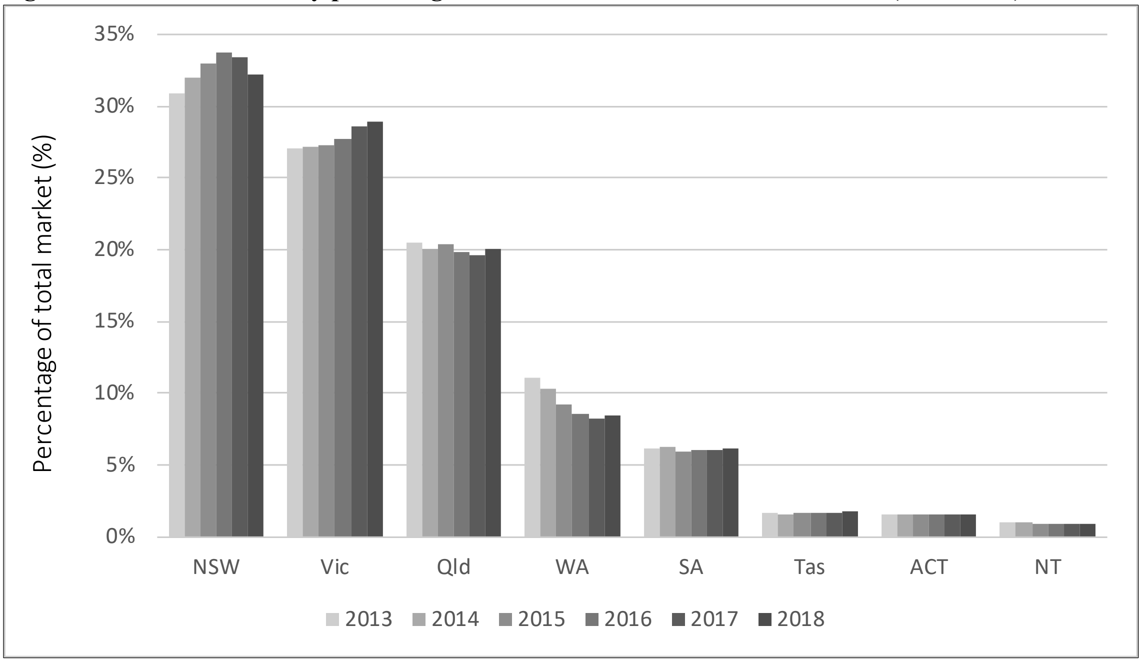


Source: Australian Bureau of Statistics, VFACTS

As illustrated in the following chart the Western Australian market's representation of national volume has dropped from approximately 12% in 2012 to only 8% of total new vehicles sales nationally in CY18.

[57] Western Australia Government Mid-Year Financial Projections Statement, December 2018.

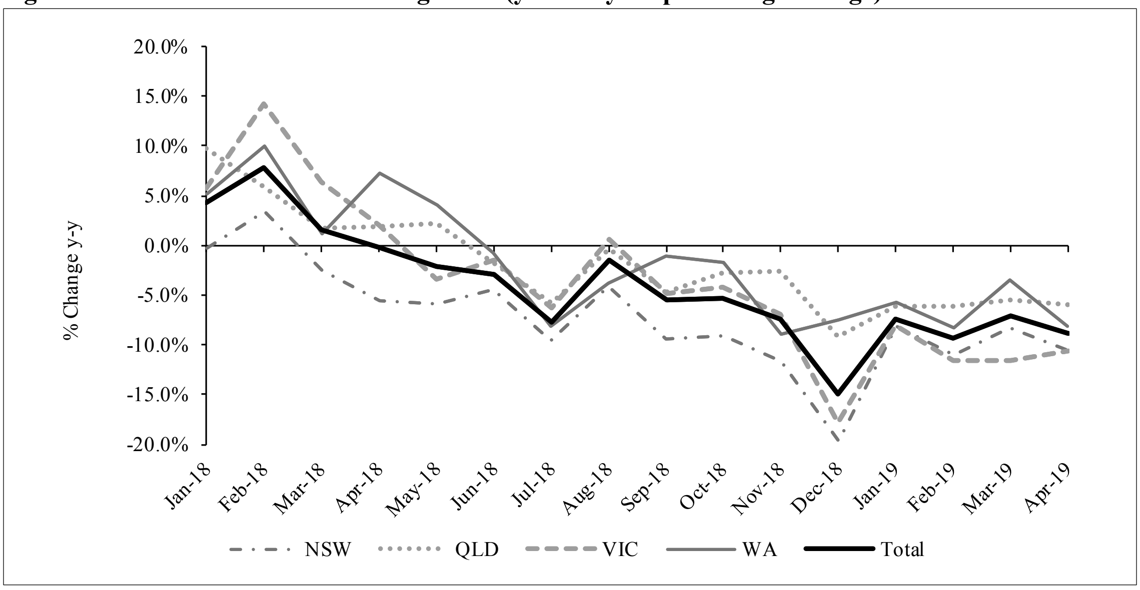
Figure 9: State and territory percentage of total new vehicle sales in Australia (2013-2018)



Source: VFACTS

Data from the FCAI shows Australian new car sales fell in 2018 and have continued to fall into 2019 compared to prior year periods, with reported total new vehicle sales in March 2019 down 7.1% year-on-year. The decline in vehicle sales on the east coast (in particular in NSW and Victoria) from the latter part of 2018 relates to a softening consumer demand as a result of negative consumer sentiment toward housing prices and tighter consumer lending impacting credit availability. The change in the Western Australian market has been more subdued over this same period.

Figure 10: New vehicle sales volume growth (year on year percentage change)

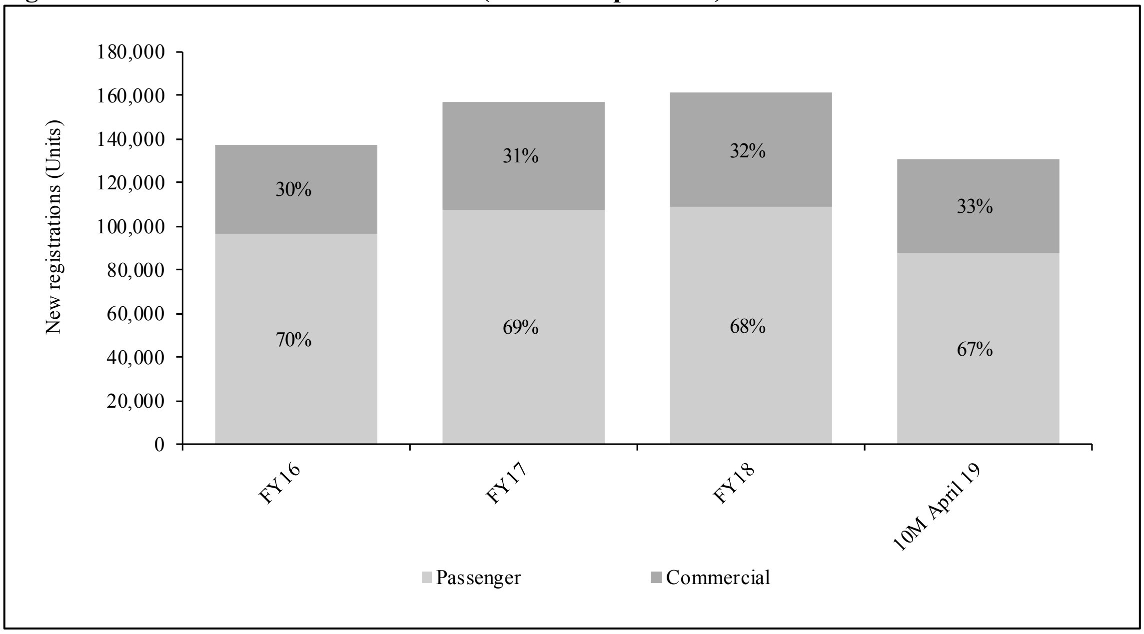


Source: VFACTS

New Zealand car sales

AHG also owns a number of dealerships in New Zealand. New vehicle sales in New Zealand, based on vehicle registration data compiled by the Motor Industry Association of New Zealand, Inc., are illustrated in the below figure below. New car sales in New Zealand over the period have steadily increased.

Figure 11: New Zealand new vehicle sales (FY16-30 April 2019)



Source: Motor Industry Association of New Zealand Inc.

7.1.8 Repair and maintenance

AHG and AP Eagers are both involved in the repair and maintenance of vehicles in Australia. After sales services include such things as routine vehicle maintenance, repair servicing, and analytical testing. Dealer incentives, such as capped price servicing, along with the requirement for specific dealer knowledge to service a vehicle have helped boost this segment for vehicle retailers. Capped price servicing however has also intensified competition between car dealerships and auto mechanics for new cars and limited industry revenue growth. IBISWorld estimates the Australian motor vehicle engine and parts repair and maintenance sector to generate $12.2 billion of revenue in FY19 and to grow at an annualised 1.8% over the five years through to FY24 to $13.4 billion.

Key drivers

Total number of motor vehicles. The demand for car parts and servicing is driven directly by the number of cars registered in Australia. The number of vehicles on Australian roads is forecast to rise over the next five years, lifting industry demand however, motor vehicle dealerships providing capped-price servicing are anticipated to constrain industry growth.

Average age of vehicle fleet. Older vehicles are more likely to require repairs and maintenance. The average age of the vehicle fleet in FY19 is expected to decline due to the record setting sales volumes during 2014-2017.

Consumer sentiment and household disposable income. IBISWorld suggests that passenger vehicles, motor cycles and campervans make up approximately 80 percent of vehicles on Australian roads and as such private customers are the largest source of demand. During poor economic conditions, consumers are generally more likely to pay for repairs than purchase a new car. An increase in consumer sentiment and household disposable income will also increase the demand for industry services, however should both of these factors grow quite strongly together this can cause consumers to purchase new vehicles causing a reduction in demand.

Other trends

Sophisticated diagnostic equipment. As vehicle technology becomes increasingly complex, sophisticated diagnostic equipment will continue to become more commonplace. New franchise retail players and car dealership service centres will increase their market shares over the next five years, as they are generally better financially equipped to afford the expensive equipment required to complete new vehicle service repairs.

7.2 Logistics Industry

In FY18, approximately 13% of AHG's revenue was derived by its Refrigerated Logistics and Other Logistics divisions which operate in the integrated logistics industry in Australia, primarily in the road freight transport segment and to a lesser extent, the rail freight transport and general warehousing and cold storage segments. In order to provide a context for assessing the prospects of AHG we have included an overview of these industries in Australia.

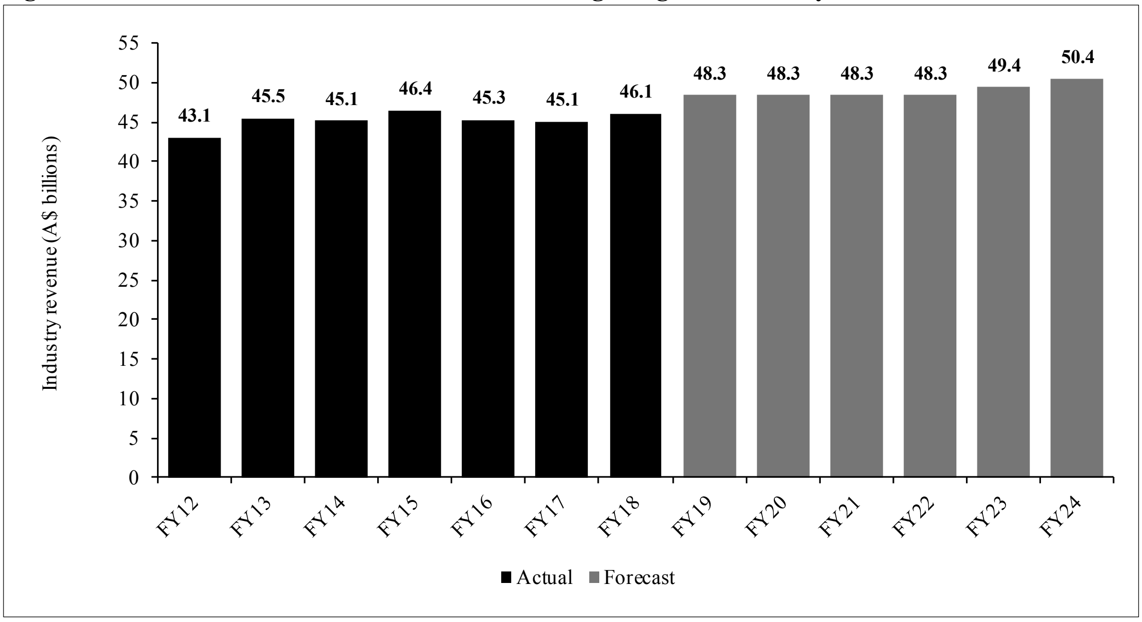
7.2.1 Road freight transport industry

The road freight transport industry provides transportation services across Australia by means of road based motor vehicles. The industry's major markets span the entire economy, with demand for road freight transport services being a leading indicator for changes in economic growth. The industry therefore has a strong reliance on the level of economic activity and growth.

The ten years through FY19 have seen inconsistent revenue growth for the road freight logistics industry in Australia with several instances of negative annual growth, resulting in an annualised growth rate over the period of 1.0%. The industry experienced two consecutive years of negative growth in FY16 and FY17 due to industry operators removing fuel surcharges as a result of declining fuel prices at the time. According to IBISWorld, industry margins have fallen over the past five years as operators faced skill shortages forcing operators to increase wages.

IBISWorld anticipate road freight transport industry revenues to grow at an annualised growth rate of 1.5% over the five years to FY24 as a result of increased demand in total merchandise imports and exports and increasing demand from agriculture and manufacturing markets. However, IBISWorld anticipate that both federal and state governments will introduce additional licencing and regulatory requirements to improve working conditions, which is expected to reduce profitability.

Figure 12: Actual and forecast revenue for road freight logistics industry in Australia



Source: IBISWorld Industry Report I4610 Road Freight Transport in Australia (March 2019)

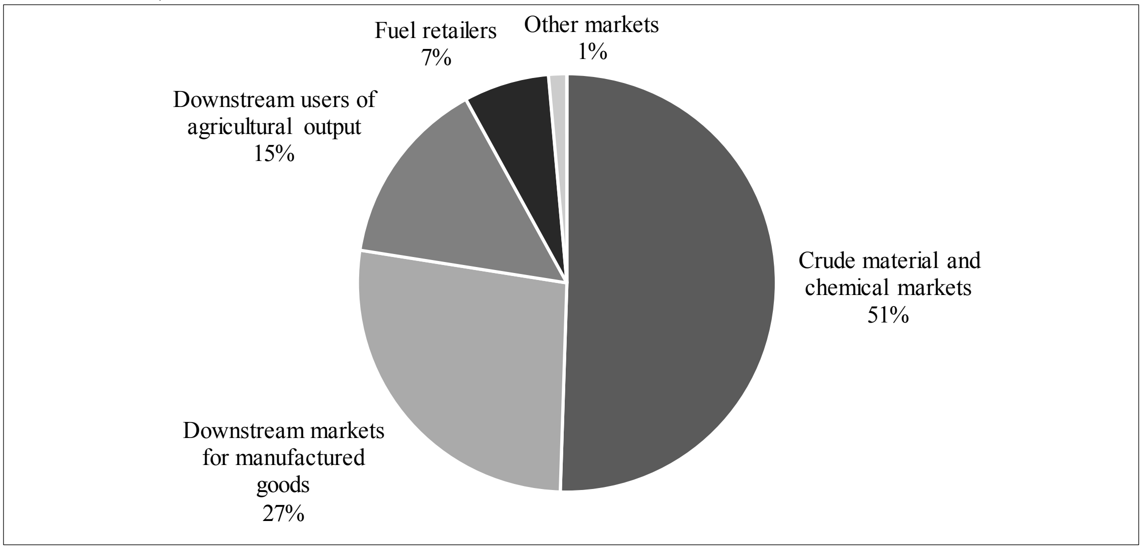
Market share

The Australian road freight transport industry is characterised by a low level of market concentration and is highly fragmented, with owner-operators making up more than half of all enterprises and the industry's four largest players accounting for significantly less than 40% of industry revenue according to IBISWorld. Notwithstanding this, market power in the industry is highly concentrated as major players, such as Toll Holdings Limited, benefit from market power throughout the supply chain and infrastructure ownership. Further, these larger players, as preferred providers for major customers (e.g. Woolworths) have a disproportionate influence by obtaining control of contracts and subcontracting work to smaller owner-operators, which have little power to influence prices.

Market segmentation

The industry's major markets are diversified across all sectors of the Australian economy as summarised in the figure below. AHG's Refrigerated Logistics and Other Logistics divisions have greatest exposure to the downstream markets.

Figure 13: Summary of key markets of the road freight industry in Australia (% of total revenue, forecast FY19)



Source: IBISWorld Industry Report I4610 Road Freight Transport in Australia (March 2019)
Note: May not add due to rounding

Key market drivers

Total merchandise trade. As exporters / importers are a major user of road freight services, demand for road freight transportation is largely driven by the total level of exports and imports in the merchandise trade. IBISWorld expects the total merchandise trade to grow in FY19.

Fuel prices. Fuel prices, being one of the major costs in the industry, are a key market driver. Increases in fuel prices are either passed through to end customers resulting in potentially lower sales volumes or absorbed resulting in lower margins, both ultimately having an adverse impact on profits.

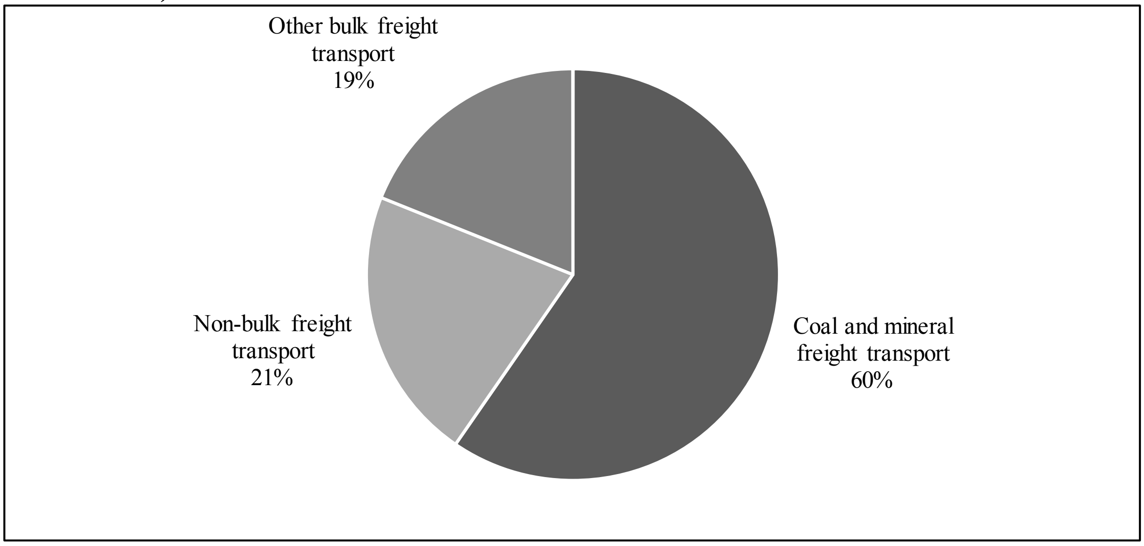
Exchange rates. The world price of crude oil, the leading factor of fuel prices in Australia, is denominated in USD, therefore the performance of the AUD against the USD exchange rate impacts AUD-denominated fuel prices of the industry. IBISWorld expects the world price of crude oil to rise and the AUD to depreciate against the USD in FY19, resulting in higher fuel prices in Australia for the period.

Domestic freight task. The domestic freight task measures the activity undertaken by road, rail and coastal shipping operators in Australia and is driven by demand from retailers, manufacturers and importers. IBISWorld anticipates Australia's domestic freight task to rise in FY19, positively impacting demand for road freight services.

7.2.2 Rail freight transport industry

The rail freight transport industry provides rail transportation services across Australian states. The industry comprises coal and mineral freight transport, non-bulk freight transport and other bulk freight transport. AHG's logistic rail operations are categorised as non-bulk rail freight transport, this market currently forms 21% of the $7.5 billion industry by revenue according to IBISWorld.

Figure 14: Summary of key markets of the rail freight industry in Australia (% of total revenue, forecast FY19)



Source: IBISWorld Industry Report I4710 Rail Freight Transport in Australia (February 2019)

Due in part to the ability to provide door-to-door service the road freight transport industry provides the primary mode of transport for non-bulk freight in Australia and with its current cost advantages effectively sets the rate for non-bulk freight. Longer routes, such as Melbourne to Perth however can be an exception to this trend. According to IBISWorld the total non-bulk rail freight industry has performed poorly over the five years to 2019 due to price reductions in road freight transport services, resulting in profit margin decreases for the non-bulk rail freight market.

In FY18 the Australian Federal Government made a $10 billion commitment in the form of the National Rail Program to fund regional and urban rail networks in Australia over 10 years. IBISWorld anticipates that this project will improve the efficiency and reliability of rail freight in the future and subsequently increase the competitiveness of non-bulk rail freight services compared to road freight services.

Industry revenue is forecast to grow at an annualised 1.1% over the five years through FY24, to reach $7.9 billion according to IBISWorld.

General warehousing and cold storage industry

The general warehousing and cold storage industry provides warehousing and cold storage services to a range of downstream markets in Australia. IBISWorld notes that the trend toward manufacturers, retailers and wholesalers outsourcing warehousing to third-party operators has boosted demand for these industry services over the past five years. IBISWorld also suggests that this out-sourcing trend coupled with anticipated rising inventory volumes will likely boost demand for warehouse and cold storage facilities over the next five years.

8 Profile of AHG

8.1 Background

AHG is a diversified automotive retailing and logistics group headquartered in Perth, Western Australia. It is Australia's largest motor dealership group[58] and owns and operates 181 new and used motor vehicle franchises at 115 locations in all Australian mainland states except South Australia and in New Zealand. In addition, it is the largest provider of integrated temperature controlled transport and cold storage services in Australia and has national route coverage and an integrated network of cold store facilities. It also owns a portfolio of other logistics businesses.

AHG originated from a Holden dealership in Perth in 1952 and was listed on the Perth Stock Exchange in 1955. It diversified into logistics via the acquisition of the AMCAP business in 1979 and refrigerated logistics through the acquisition of Rand Transport (**Rand**) in 1986. In 1994, AHG was granted the exclusive Australian distribution rights for prestigious Austrian motorcycle manufacturer KTM Sportsmotorcycles. It was privatised in 1980 through a management buyout led by two of the company's directors, Vernon Wheatley and Robert Branchi and listed on the ASX in 2005 (AHG:ASX). At the time of listing, AHG was the largest vehicle dealer group in Western Australia with 19 dealerships on 22 locations in the Perth metropolitan area. AHG's logistics business comprised Rand, AMCAP and KTM Sportmotorcycles.

ASX listing (November 2005) to August 2016

Following its listing, AHG's strategy was focused on expansion of both its automotive retailing and logistics businesses. It expanded the geographical reach and scale of its automotive retailing business through acquisitions and greenfield opportunities. It entered the New South Wales and New Zealand markets through acquisition in 2006, Queensland in 2007 and Victoria in 2010. By June 2016, AHG held 188 franchises in 108 dealership locations and had a presence in all mainland Australian states other than South Australia and in New Zealand. It was also a market leader in motor vehicle financing and insurance. The business also benefited from its strength in Western Australia, where new vehicle sales reached a peak of 128,005 in FY12 on the back of the mining boom.[59]

AHG subsequently entered complementary automotive businesses. It acquired a 50.1% interest in 360 Finance Pty Ltd (**360 Finance**) in January 2013[60] and launched its first fixed-price used car warehouse under the brand 'easyauto123' in Edgewater, Perth in 2015.

Refrigerated Logistics was expanded through acquisitions of Harris Refrigerated Transport (**Harris**) in 2011, the refrigerated transport business from Toll Holdings in 2012, and Scott's Refrigerated Freightways (**Scott's**) and JAT Refrigerated Road Services (**JAT**) in 2014. In 2013, AHG's Other Logistics division acquired the rights to import and distribute Husqvarna Motorcycles in Australia and New Zealand.

In July 2012, AHG's major shareholder group, the Wheatley family, sold a 16.33% interest in AHG to AP Eagers.

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[58] By number of dealership franchises.

[59] Source: VFacts.

[60] AHG acquired a further 10% of 360 Finance in July 2014.

August 2016 to current

AHG generated record profit in FY16 as a result of its growth strategy and strongly performing finance and insurance business, and its share price reached a high of $5.00 in August 2016. However, new vehicle sales in Western Australia had declined by 21.7%[61] from the peak in FY12 and it was apparent that ASIC's regulatory changes to finance and insurance commissions could have a significant impact on the business.[62] In addition, earnings for Refrigerated Logistics had declined, impacted by competitive pressure on margins. Recognising the need to address these issues, AHG, under the new leadership of Mr John McConnell,[63] undertook the following:

- ***restructuring of Automotive Retail*** and the implementation of cost reduction initiatives (as discussed in Section 8.2.2 of this report).
- ***strategic acquisitions and developments***, including acquisitions in Melbourne, Newcastle and New Zealand, the opening of greenfield car dealerships in Melbourne and Brisbane and the redevelopment of a multi franchise truck dealership in Melbourne. AHG also exited a number of underperforming franchises and sites. Overall, the number of dealership locations increased from 108 at 30 June 2016 to 115 at 30 April 2019, while the number of franchised dealerships decreased from 188 to 181.[64]
- ***acquiring or developing a number of complementary automotive businesses***, including accelerating the rollout of easyauto123 by opening warehouses in Sydney, Perth and Melbourne in 2017 and Brisbane in 2018, and acquiring a majority interest in Carlins Auction Group (**Carlins Auctions**) in July 2017.
- ***transformation of Refrigerated Logistics***, which commenced in August 2016, and was aimed at integrating the various standalone operating units under one executive team, upgrading technology platforms, leveraging operational efficiencies, driving productivity and reducing costs. The program was expected to deliver more than $20 million of cost savings (full run rate) (refer to Section 8.2.3 of this report).

In November 2017, AHG entered into a binding agreement to sell Refrigerated Logistics to a subsidiary of HNA Group (International) Company Limited (**HNA**) for an enterprise value of $400 million, however, the agreement was terminated by HNA in July 2018.

From a peak in FY12, new vehicle sales in Western Australia had declined by 24.1%[65] in FY18 and vehicle sales in east coast markets also started to decline from March 2018, with the decline accelerating from November 2018. Earnings were also adversely impacted by regulatory changes that impacted AHG's traditional strength in finance and insurance sales, its exposure to lower growth brands and locations and inability to achieve earnings growth within Refrigerated Logistics despite savings achieved under the transformation program substantially exceeding targets.

AHG has taken a number of steps to strengthen its balance sheet, including paying down debt, working capital and inventory management, selling properties, suspending the 1H19 dividend and disposing of a

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[61] New vehicle sales volumes in Western Australia declined from a peak of 128,005 in FY12 to 100,234 in FY16. Source: VFacts.

[62] "AHG Statement on ASIC Insurance and Finance Reviews", AHG ASX/Media Statement, 16 September 2016.

[63] Appointed as Chief Executive Office on 28 August 2016 and as Managing Director on 1 January 2017.

[64] Includes Franchised Automotive and Truck division. Number of franchises is not audited.

[65] New vehicle sales volumes in Western Australia were 97,174 in FY18. Source: Vfacts.

26% interest in Motorcycles Distributors Australia Pty Ltd (**MDA**) to KTM in July 2017. No material acquisitions have been completed since 31 May 2018.

AHG recorded impairments of franchise rights and goodwill of $216.4 million (after tax) in 1H19, announced a strategic review of Refrigerated Logistics and set a target of a further $23 million in cost reductions in FY20.

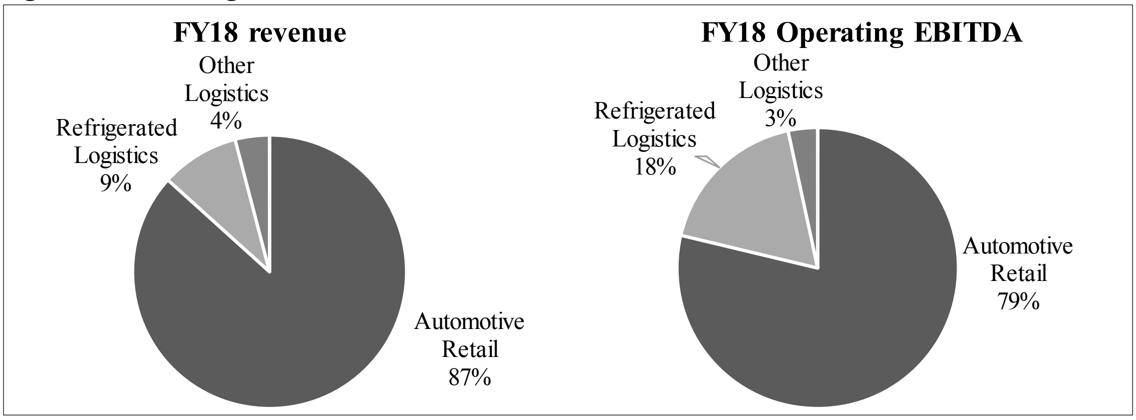
From the high of $5.00 in August 2016, AHG's share price declined by 64.4% to close at $1.78 on 4 April 2019 (the last trading day prior to the announcement of the Original Offer). AHG had a closing market capitalisation on 4 April 2019 of $0.59 billion.

8.2 Business operations

8.2.1 Overview

AHG currently operates three business segments: Automotive Retail, Refrigerated Logistics and Other Logistics. As at 31 December 2018, all freehold properties within the Property segment had been sold. Automotive Retail accounted for the majority of AHG's FY18 revenue and Operating EBITDA.[66]

Figure 15 – AHG segment contribution

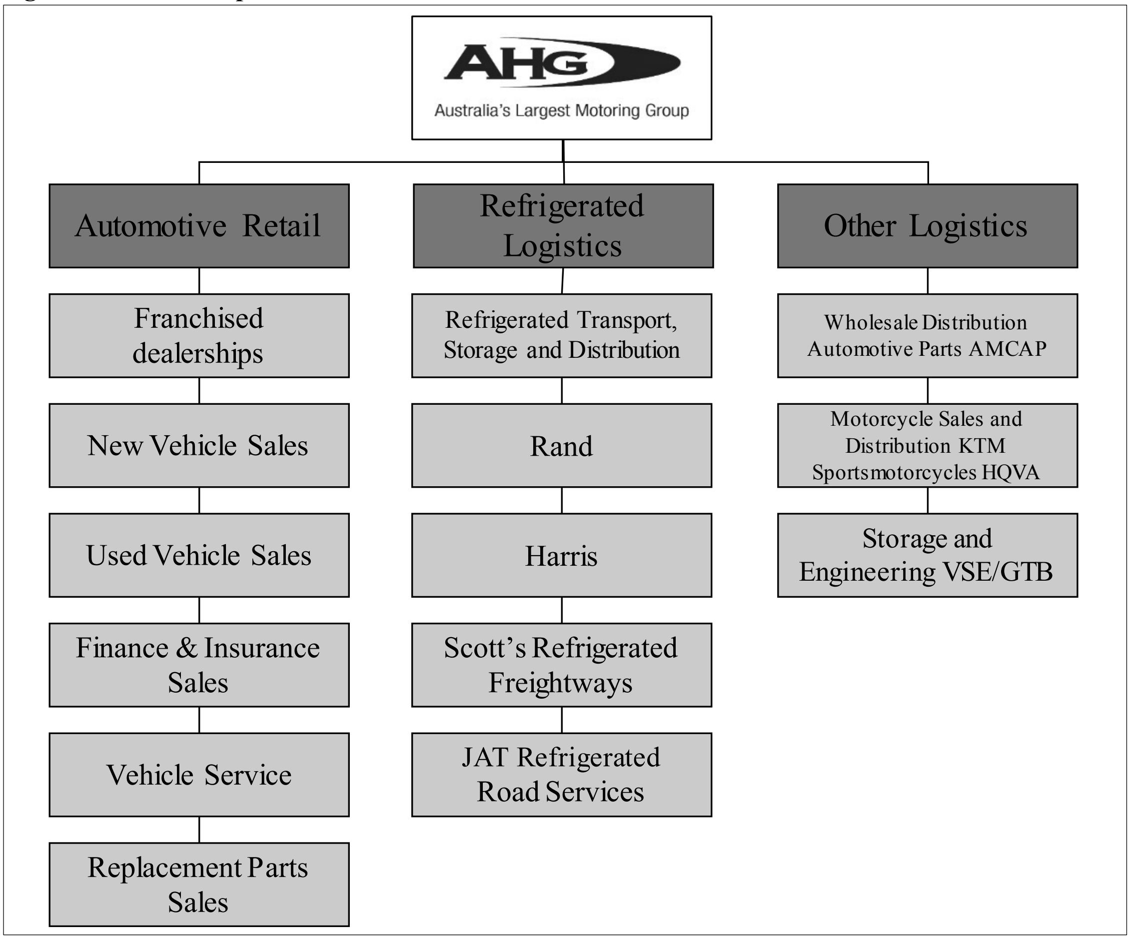


Source: AHG FY18 Annual Report. Excludes Property segment.

[66] Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items. Excludes Property segment, which generated $0.4 million of revenue and ($2.9) million of Operating EBITDA in FY18.

The activities undertaken by each of these segments are illustrated in the following chart.

Figure 16 - AHG corporate structure



Source: AHG FY18 Annual Report

AHG employs more than 8,400 staff across its divisions.

8.2.2 Automotive Retail

Overview

Automotive Retail is principally engaged in the ownership and operation of authorised motor vehicle dealerships. As an authorised dealer, AHG has franchise agreements with vehicle manufacturers to operate as an exclusive retailer of that manufacturer's vehicles, parts and accessories with a defined geographical area and to also undertake authorised car servicing and repairs. In addition, AHG facilitates consumer finance and insurance and used vehicle retailing. Dealership franchise agreements typically run for a term of two to five years, but are generally renewed. A number of AHG's dealership franchise agreements require the prior written consent of the manufacturer in the event of a change of control of AHG and others provide the manufacturer with a right to terminate the agreement as a result of change of control. A number of manufacturers have market share ceilings which restrict the number of dealerships or market share within a certain geographical market.

AHG represents 27 manufacturers,[67] including all of the top 14 selling passenger brands in Australia, as well as nine truck commercial vehicle brands[68].

AHG operates 181 franchises at 104 new and used passenger vehicle and 11 truck and bus dealership locations in Western Australia (34), New South Wales (33), Victoria (25), Queensland (14) and 9 passenger vehicle dealerships in Auckland, New Zealand. AHG's dealerships are mainly located in metropolitan regions of capital cities. In addition, within New South Wales, AHG has a strong presence in the Newcastle and Hunter regions.

The majority of AHG's dealerships are located in purpose built, leased premises located in major automotive retailing precincts ('retail hubs'), creating a destination for buyers and generating efficiencies in shared service and fixed operations. All dealerships are situated on properties that are leased from third parties. Lease agreements are typically long term with initial terms usually between five years and 15 years. In most cases, the leases also have multiple renewal options. A number of the agreements require the prior written consent of the landlord in the event of a change of control of AHG.

Restructuring

As part of the restructuring of Automotive Retail, AHG has created a national franchise automotive division and a national truck division in order to leverage scale and optimise market position. Previously, the franchise business was state-based and combined with trucks. In addition, the following initiatives are ongoing:

- shared services and productivity initiatives
- reducing inventory levels
- a cost-out focus targeting marketing spend, headcount reduction and all discretionary spend items
- initiatives targeting finance and insurance penetration, increasing the offer of value-add aftercare products and improving service retention.

New and used vehicle sales

In FY18, AHG recorded 86,400 new vehicle sales[69] comprising 78,685 in Australia and 7,715 in New Zealand. AHG estimates that its share of national new vehicle unit sales in FY18 was approximately 6.6% in Australia and 4.8% in New Zealand[70].

In Australia, AHG is represented in New South Wales, Victoria, Queensland and Western Australia, which together accounted for 90% of industry-wide new vehicle sales in FY18 (refer to Section 7 of this report). New South Wales (including Newcastle) accounted for 35% of AHG's new vehicle sales, Western Australia accounted for 25% and Victoria accounted for 17%. New truck sales accounted for approximately 4% of total new vehicle sales. Relative to the industry-wide distribution, AHG has a greater share of sales in Western Australia and a lower share in Victoria and Queensland.

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[67] Passenger brands include Audi, Bentley, Chrysler, Fiat, Ford, Holden, Honda, Hyundai, Fiat, Infiniti, Isuzu Ute, Jaguar, Jeep, Kia, Land Rover, LDV, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Porsche, Skoda, Subaru, Suzuki, Toyota, Volkswagen, Volvo. Source: 1H19 Results presentation.

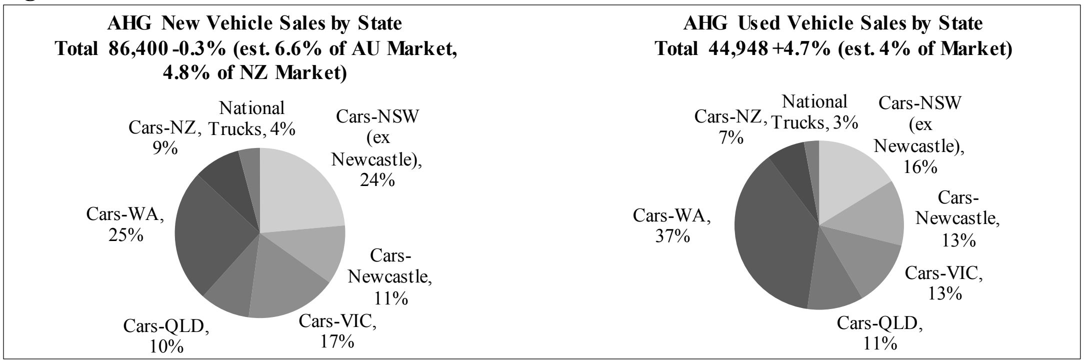
[68] Truck and commercial vehicle brands include Mercedes-Benz, Freightliner, Fuso, Hino, Mercedes-Benz Vans & Utes, Fiat Professional, Volkswagen Commercial, Yutong and Iveco. Source: 1H19 Results presentation.

[69] Source: AHG management accounts.

[70] Based on data from VFacts and Motor Industry Association Incorporated. Refer to Table 12 of this report for data.

In FY18, AHG recorded 50,330 used vehicle sales (including easyauto123). Western Australia accounted for 37% of used vehicle sales volumes, with the next largest being within New South Wales (including Newcastle) with 29% of sales volumes[71].

Figure 17 - AHG Vehicle Sales for FY18[1]



Source: AHG management.
Note 1: Used vehicle sales excludes sales by easyauto123.

AHG's vehicle sales for FY16 to FY18 and for the 9 months to March 2019 are presented as follows.

Table 12: AHG new and used vehicle sales

Period	FY16	FY17	FY18	YTD Mar19
Industry:				
New vehicles sold - Australia[1]	1,175,121	1,179,545	1,195,086	816,127
New vehicles sold - New Zealand[2]	137,727	157,025	161,045	120,515
Growth:				
New vehicles sold - Australia	3.8%	0.4%	1.3%	(7.4%)
New vehicles sold - New Zealand	5.3%	14.0%	2.6%	(0.6%)
AHG:				
New vehicles sold:				
Australia	73,063	79,075	78,685	55,740
New Zealand	7,208	7,626	7,715	6,463
Total new vehicles sold[3]	80,271	86,701	86,400	62,203
Used vehicles sold[3, 4]	41,571	45,296	50,330	38,842
Share of new vehicle market:				
Australia	6.2%	6.7%	6.6%	6.8%
New Zealand	5.2%	4.9%	4.8%	5.4%
Growth:				
New vehicles sold	5.8%	8.0%	(0.3%)	(1.4%)
Used vehicles sold	14.0%	9.0%	11.1%	4.0%

Source: VFacts, Motor Industry Association Incorporated, and AHG management
Notes:
1. *Includes passenger and commercial vehicles. Source: VFacts.*
2. *Includes passenger and commercial vehicles. Source: Motor Industry Association Incorporated.*
3. *New and used vehicle sales include Franchised Automotive and Truck division. Source: AHG management.*
4. *Includes sales by easyauto123. Source: AHG management.*

71 Excludes easyauto123.

FY18

AHG's new vehicle sales declined by 0.3% in FY18, compared to industry growth of 1.3% in Australia and 2.6% in New Zealand. AHG's weaker performance reflects:

- its exposure to the Western Australian market, including impacts of underperforming sites
- a decline in AHG's market share in Queensland as Holden brand sales declined (refer to Section 7 of this report).

These declines were partially offset by:

- strong growth in AHG's national truck sales, reflecting market share growth (resulting from the acquisition of a truck dealership in Melbourne in FY17) and strong industry-wide growth in truck sales (refer to Section 7 of this report)
- strong growth in new car sales in Victoria and Newcastle, reflecting the impact of acquisitions and organic growth.

The company recorded 50,330 used vehicle sales[72] in FY18, an increase of 11.1% over sales recorded in FY17, driven by strong growth in easyauto123 and in truck and car sales in all states other than Western Australia, where used car sales continued to decline.

9 months to 31 March 2019

In the 9 months to 31 March 2019, AHG recorded new vehicle sales of 62,203, a 1.4% decline relative to the corresponding prior period, reflecting:

- declines in east coast markets (New South Wales (excluding Newcastle), Victoria and Queensland) which accelerated from November 2018 (refer to Section 7 of this report)
- continued declines in car sales in Western Australia.

These declines were partially offset by:

- continued growth in truck sales
- strong growth in car sales in New Zealand and Newcastle reflecting the impact of acquisitions.

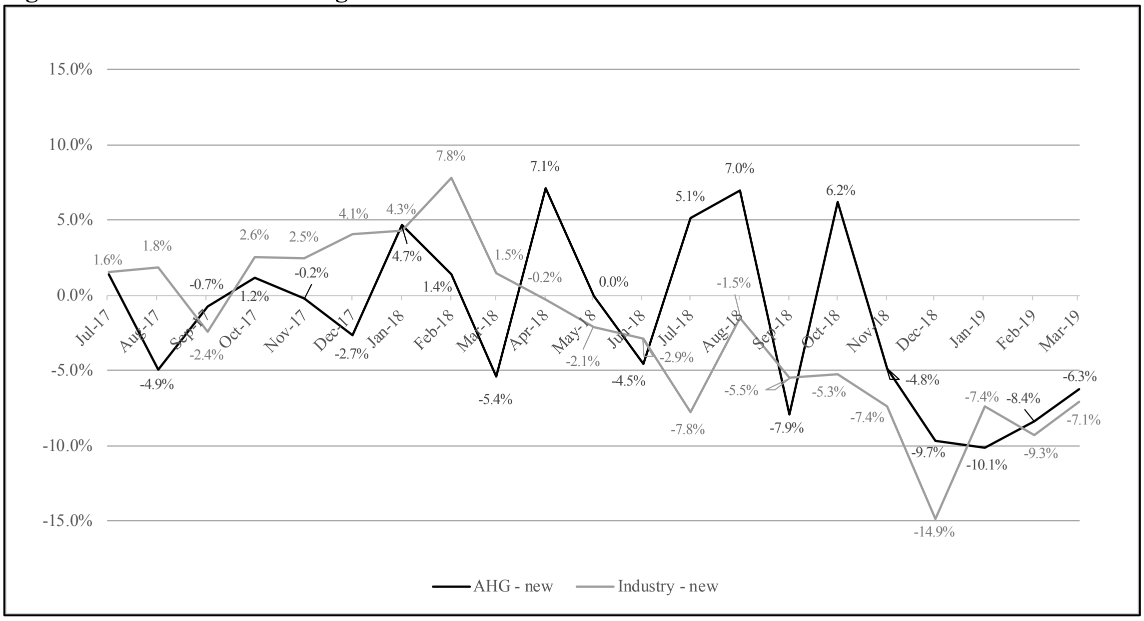
AHG management estimates that its share of total national new vehicle unit sales in the 9 months to 31 March 2019 increased slightly to 6.8% in Australia and 5.4% in New Zealand.

In the 9 months to 31 March 2019, the company recorded used vehicle sales of 38,842, an increase of 4.0% relative to the corresponding prior period, reflecting strong growth in used car sales in Victoria and New Zealand, moderate growth in other states and a slight decline in Western Australia.

[72] Source: AHG management accounts. Includes sales of used cars by easyauto123.

The following chart illustrates the decline in Australian industry-wide new car sales in each month compared to the prior comparative month from April 2018 and AHG's relative outperformance during this period.

Figure 18 - New vehicle sales growth in Australia



Source: AHG management, VFacts.
Note: new vehicle sales growth is relative to prior comparative month.

Finance and insurance sales

Subsequent to regulatory changes which came into effect on 1 July 2017, AHG's insurance offering is limited to comprehensive motor vehicle insurance, various add-on insurance products, including GAP and Business & Consumer Credit Insurance and extended warranty insurance.

AHG also offers, on behalf of / as an agent for 3rd party financiers, a range of car and truck financing options (e.g. consumer loans,[73] finance leases,[74] novated leasing,[75] hire purchase[76] and chattel mortgages[77]). Since new regulations were given effect on 1 November 2018, customers pay the financier a base interest rate that is set by the financier based on a risk based pricing (**RBP**) methodology. Under this methodology, each finance company has their own unique RBP based on risk-based data scoring, which in turn is based on customer attributes and loan structure characteristics and AHG receives a fixed commission (refer to Section 7 of this report). Whilst the finance company sets the maximum customer base rate, the business managers are permitted a 200bps 'flex down' on the customer interest rate provided by the finance company. On this basis, as the business manager reduces the customer interest rate, within the 200bps range, lower levels of commission would be paid by the finance company.

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[73] Finance is provided for the vehicle and the vehicle is owned by the driver from the beginning of the loan.

[74] Financier leases a vehicle to the driver who makes monthly repayments.

[75] Employer leases vehicle on behalf of employee, who makes repayments through 'salary sacrifice'.

[76] Vehicle is hired to the driver who makes repayments over a set period and owns the vehicle after final repayment.

[77] Borrowings are secured by the vehicle for the duration of the loan.

Overall, AHG's penetration of finance and insurance decreased from 36.4% in FY16 to 33.5% in FY17, increasing slightly to 34.3% in FY18.

AHG management is proposing to act as agent for captive OEM financiers in respect of the sale of new products, such as Guaranteed Future Value finance products, to consumers. AHG management expects this will result in increased penetration of finance and insurance sales over time.

Vehicle service and replacement parts sales

AHG operates a variety of other complementary services under dealership franchise agreements, which include authorised car and truck servicing and repairs, including capped price servicing in accordance with the manufacturer programs.

Other businesses

In addition to its dealerships, AHG operates in the used car and wholesale sectors through its easyauto123 fixed price used car warehouse model and Carlins Auctions business. Easyauto123 currently operates five warehouses located in Sydney, Perth (two locations), Brisbane and Melbourne and offers customers a range of used vehicles with fixed prices and a 48-hour money-back guarantee, as well as full automobile and tyre servicing. In addition to its warehouse model, AHG management believes there is an opportunity to establish an online presence.

The Carlins Auctions business provides wholesale vehicle re-marketing services in Sydney, Melbourne, Perth and Brisbane. AHG acquired a controlling interest in July 2017, and prior to this the business bought and sold approximately 7,500 vehicles annually[78] through its network of wholesale buyers and contracted relationships with dealers and manufacturers, and sells approximately 5,000 consignment vehicles annually. It has strong wholesale distribution channels for used vehicle stock that complement AHG's retail expertise and range of sales channels. The combined operations present the opportunity to work with fleet management organisations, leasing companies, corporate fleet operators, government departments, banks, finance companies and others to offer a national fleet remarketing platform.

AHG also owns 360 Finance, which operates independently from the dealer network to provide customers with access to financial services through online marketing.

Financial performance

The financial performance of Automotive Retail for FY16, FY17, FY18 and 1H19 is summarised in the following table.

[78] ASX announcement dated 24 May 2017.

Table 13: Financial performance of Automotive Retail

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Segment revenue[1]	**4,721.8**	**5,232.4**	**5,611.5**	**2,784.1**
Operating EBITDA[2]	**177.9**	**171.0**	**166.1**	**67.9**
Depreciation and amortisation expense	(18.8)	(19.9)	(20.6)	(16.6)
Operating EBIT[3]	**159.1**	**151.1**	**145.5**	**51.3**
Floorplan interest	(25.5)	(28.5)	(32.0)	(19.0)
Operating profit after floorplan interest and before tax	**133.7**	**122.6**	**113.5**	**32.3**
Statistics:				
Sales revenue growth (%)[4]	*10.6%*	*10.8%*	*7.2%*	*1.8%*
Operating EBITDA growth (%)[4]	*10.4%*	*(3.9%)*	*(2.9%)*	*(21.2%)*
Operating EBIT growth (%)[4]	*11.0%*	*(5.1%)*	*(3.7%)*	*(32.3%)*
Operating EBITDA margin (%)	*3.8%*	*3.3%*	*3.0%*	*2.4%*
Operating EBIT margin (%)	*3.4%*	*2.9%*	*2.6%*	*1.8%*
Operating profit after floorplan interest and before tax margin (%)	*2.8%*	*2.3%*	*2.0%*	*1.2%*

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19 and KPMG Corporate Finance analysis

Notes:

1. *Segment Revenue excludes interest received which forms part of Total Revenue per AHG Annual Reports*
2. *Operating EBITDA is earnings before interest, tax, depreciation and amortisation, and unusual items.*
3. *Operating EBIT is earnings before interest and tax, and unusual items.*
4. *Sales revenue growth, EBITDA growth and EBIT growth for 1H19 represent changes compared to 1H18.*

Revenue

Revenue increased by 18.8% from FY16 to FY18 as a result of modest growth in revenue from new car sales reflecting acquisitions and greenfield developments (with the number of dealership locations increasing by 4.6%) and flat organic growth, as growth in the Australian east coast and New Zealand operations was offset by continued declines in Western Australia, continued growth in revenue from used car sales and parts/distribution and service (which are less cyclical), strong growth in revenue from trucks and the contribution of easyauto123 ($130.6 million in FY18) and Carlins Auctions (acquired in July 2017).

These factors were partially offset by a reduction in revenue from finance and insurance commissions in the franchise business ($11 million in FY17 and a further $29 million in FY18) and 360 Finance ($4.7 million in FY17) as a result of regulatory intervention in finance and insurance sales.

Revenue growth slowed to 1.8% in 1H19 over 1H18 and reflects modest growth in revenue from new and used car sales (as growth in market share was largely offset by the decline in new car sales in east coast markets and declines in Western Australia and restricted lending impacted new and used vehicle volumes), continued growth in parts/distribution and service revenue, strong growth in truck sales and growth in revenue from easyauto123.

Operating EBITDA and EBIT

Despite strong growth in revenue from FY16 to FY18, Operating EBITDA declined by 6.7% as a result of the abovementioned reductions in revenue in finance and insurance (all of which flows directly through to profits) margin compression in the franchise business driven by manufacturers (refer to Section 7 of this report), continued growth in fixed occupancy costs in accordance with lease agreements and a $6.1 million EBITDA loss from easyauto123 in FY18. These factors were partially offset by one-off insurance income of $12 million in FY18 related to the sale of a trail commission book to a third party, ongoing cost reduction and portfolio rationalisation initiatives which focused on cost control and closure of underperforming operations.

Operating EBITDA declined by 21.2% in 1H19 relative to 1H18, reflecting lower gross margin as a result of discounting on new car margins (given the slowing car market in New South Wales and Victoria) and underperformance of key brands in AHG portfolio and fixed increases in operating lease costs. In addition, the results include a $5.1 million of EBITDA loss from easyauto123 ($1.5 million in 1H18).

8.2.3 Refrigerated Logistics

Refrigerated Logistics includes the Rand, Harris, Scott's and JAT brands. It provides temperature controlled transport and cold storage services across mainland Australia with national route coverage and an integrated network of cold storage facilities. The core activity in the supply chain is transport of frozen and chilled foodstuffs from manufacturers and growers to the distribution centres of the major retail supermarket chains.

The division operates from more than 20 sites across Australia including cold storage facilities in Sydney, Melbourne, Brisbane, Perth and Adelaide. The combined businesses operate a permanently-monitored fleet of vehicles and rail containers that cover more than 3.7 million kilometres per week. The fleet includes approximately:

- 550 prime movers and rigid delivery vehicles
- 1,250 refrigerated road trailers
- 480 rail containers
- 175,000 pallets storage[79].

AHG's Refrigerated Logistics business model and strategy is to leverage its position as the leading provider of horizontally integrated national refrigerated logistics solutions in Australia and its retail truck division through sales and service.

The combination of national temperature-controlled long-haul transport, cold storage and refrigerated distribution differentiates Refrigerated Logistics from other providers by enabling it to offer an integrated suite of nationwide refrigerated road and rail transport including cross-docking in temperature controlled facilities, together with chilled and frozen warehousing and distribution services supported by sophisticated information technology systems.

AHG has entered into various contracts with customers in the refrigerated logistics sector, however these contracts are not material value drivers as they typically reflect a schedule of rates and services, with no customer obligations on volumes or exclusivity. Given the nature of these contracts, customers are free to cease using the services of the Refrigerated Logistics division at any time without penalty and do not need a change of control clause to do so.

Key areas of focus in Refrigerated Logistics' business strategy are:

- providing fully integrated refrigerated logistics needs across the entire cold chain market

[79] Source: AHG management.

- offering compelling tailored packages supported by a comprehensive executive and customer information system including tracking and performance delivery reporting
- building long-term relationships with its customers by being proactive to their requirements.

Transformation program

In Q4 FY18, Refrigerated Logistics completed a transformation program. The program covered the integration of legacy businesses, implementation of a new organisational operating model, the generation of cost reductions and productivity improvements and the implementation of new core transport and warehouse management systems.

Specifically, the program delivered a single management structure across the operations of Rand, Harris, Scott's and JAT. The new core system features modern technology and has enabled uniformity across Refrigerated Logistics in receiving customer orders, planning transport activities, allocating fleet, generating delivery documentation and providing visibility over delivery status.

The program achieved headcount reductions above target, improved use of fleet assets with a corresponding reduction in the use of sub-contractors and the consolidation of facilities.

The business is currently reviewing client contracts as it moves away from being substantially transaction focused to a more bespoke, fully integrated, solution-based service provider, and reviewing returns in any marginal contracts. The AHG Board expects to see an improvement in operating margins, asset utilisation and net operating profit as the benefits of the systems investment are realised.

Financial performance

The financial performance of Refrigerated Logistics for FY16, FY17, FY18 and 1H19 is summarised in the following table.

Table 14: Financial performance of Refrigerated Logistics

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Segment revenue	**580.4**	**595.0**	**598.2**	**297.7**
Operating EBITDA	**37.2**	**35.1**	**37.7**	**23.2**
Depreciation and amortisation expense	(21.5)	(24.3)	(29.2)	(15.1)
Operating EBIT	**15.7**	**10.8**	**8.5**	**8.0**
Statistics:				
Sales revenue growth (%)	*(4.7%)*	*2.5%*	*0.5%*	*2.2%*
Operating EBITDA growth (%)	*(17.9%)*	*(5.7%)*	*7.6%*	*2.5%*
Operating EBIT growth (%)	*(41.2%)*	*(31.4%)*	*(20.8%)*	*(3.2%)*
Operating EBITDA margin (%)	*6.4%*	*5.9%*	*6.3%*	*7.8%*
Operating EBIT margin (%)	*2.7%*	*1.8%*	*1.4%*	*2.7%*

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19 and KPMG Corporate Finance analysis

Revenue for Refrigerated Logistics has been relatively stable from FY16 to FY18, with FY16 representing a 4.7% decline from the prior year and FY17 and FY18 revenues growing modestly. This is primarily due to:

- weak transport volumes across the country, particularly in east-west volumes due to weak market conditions in Western Australia, and increased volumes of imported goods direct to port of consumption

- AHG operating the segment without fully integrating the legacy businesses. The transformation program carried out in FY17 and FY18 focused on reorganising existing individual operations into a true national refrigerated logistics business with a single network of assets and unlocking the associated scale benefits and operating efficiencies
- FY18 performance negatively impacted by the disruption and uncertainty caused by the offer from HNA to buy the business.

In 1HFY19, revenue increased 2.2% relative to 1HFY18, reflecting the segment's enhanced ability to leverage its market leading position following the completed transformation program.

EBITDA and EBIT margin for Refrigerated Logistics have decreased from FY16 to FY18 as savings from the transformation program were more than offset by the impact of:

- changes to the supermarket retail model with entry of new competitors placing pressure on margins
- higher fixed cost base from investment in cold stores and equipment, resulting in substantially higher depreciation.

In February 2019, AHG announced a strategic review of the Refrigerated Logistics division to assess how value can be best maximised for AHG shareholders. AHG management have noted that expressions of interest in this division have been received from a number of parties, both offshore and domestic.

On 14 May 2019, AHG announced that as a result of the extensive upgrades to Refrigerated Logistics' financial reporting systems, AHG (with the assistance of external advisers) is undertaking a review of the carrying value of receivables generated across prior years and FY19. AHG management has advised that while this review is ongoing and the extent of its financial impact on the AHG is not yet certain, it may result in some write-downs to Refrigerated Logistics' receivables across one or more periods. The current expectation is that any potential impact would not be material to AHG's balance sheet or future cash flows beyond FY19, but it could ultimately have a bearing on AHG's earnings outlook for FY19 (refer to Section 8.8.1 of this report).

8.2.4 Other Logistics

AHG's Other Logistics business units provide further diversification and offer opportunities to develop business relationships across its client bases. Specifically, they include:

- ***AMCAP:*** operates warehousing and distribution of automotive parts and accessories to AHG and other members of the automotive retail industry. These capabilities build on existing relationships with automotive retail manufacturers and provide third and fourth party distribution logistics capabilities
- ***KTM & HQVA (74% interests):*** import and distribute the KTM and Husqvarna range of motorcycles across Australia and New Zealand. This division uses storage and distribution facilities of other AHG Group members as well as supporting parts and accessories. In FY18, AHG sold over 11,000 motorcycles.[80] Inventory is purchased in Euros and as such, the business is exposed to movements in the A$/€ exchange rate
- ***VSE Solutions:*** provides vehicle storage and truck chassis engineering and modifications to the trucking industry

[80] AHG 2018 annual report.

- ***Genuine Truck Bodies:*** specialises in truck body building services to the truck industry.

Financial performance

The financial performance of Other Logistics for FY16, FY17, FY18 and 1H19 is summarised in the following table.

Table 15: Financial performance of Other Logistics

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Segment revenue	**320.1**	**276.1**	**262.4**	**134.7**
Adjusted EBITDA[1]	**9.7**	**13.9**	**6.8**	**2.9**
Share of net profit after tax from associates	0.3	0.3	0.3	0.2
Operating EBITDA	**10.0**	**14.2**	**7.1**	**3.1**
Depreciation and amortisation expense	(3.1)	(2.7)	(2.7)	(1.4)
Operating EBIT	**6.9**	**11.5**	**4.4**	**1.7**
Statistics:				
Sales revenue growth (%)	*(12.3%)*	*(13.7%)*	*(5.0%)*	*(1.7%)*
Operating EBITDA growth (%)	*(5.2%)*	*42.6%*	*(49.9%)*	*(18.2%)*
Operating EBIT growth (%)	*7.7%*	*67.7%*	*(62.0%)*	*(27.5%)*
Operating EBITDA margin (%)	*3.1%*	*5.1%*	*2.7%*	*2.3%*
Operating EBIT margin (%)	*2.1%*	*4.2%*	*1.7%*	*1.3%*

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19 and KPMG Corporate Finance analysis
Note: Adjusted EBITDA is Operating EBITDA before share of net profit after tax from associates.

Revenue and earnings for Other Logistics have decreased from FY16 to FY18, primarily due to:

- decline in national motorbike market and adverse foreign exchange movements in FY18 and 1H19 (relative to FY16) negatively impacting KTM and Husqvarna's margin as it has been unable to pass cost increases through to customers given the competitive nature of the market. This decline has occurred despite the business growing its Australian market share for the combined brands over the period. A strengthening of the Australian dollar against the Euro contributed to an increase in earnings in FY17
- soft automotive parts sales for AMCAP in Western Australia as a result of the cyclical downturn
- restructure of VSE and GTB in line with changes to client requirements
- divestment of Covs Parts in February 2016.

In 1HFY19, earnings declined relative to 1HFY18, due to lower gross margin contribution as a result of adverse foreign exchange movement experienced by KTM and Husqvarna, and lower revenue contribution from Genuine Truck Bodies and VSE Solutions.

To improve the operations of Other Logistics, AHG has implemented the following strategic initiatives:

- AMCAP has invested in a new partnership venture to create a national specialist coatings division
- AHG has restructured the operations of VSE Solutions and Genuine Truck Bodies to focus on clearly identified client requirements to match its specialist workforce and modern facilities.

8.2.5 Property

Historically, AHG has held direct interests in properties located across Australia for future greenfield opportunities. During 1H19, AHG sold its remaining freehold property interests, being two blocks of land located in Hillcrest and Oxley, Queensland, for $23.1 million. As at the date of the Offer, AHG does not hold any freehold property interests.

8.3 Financial performance

The financial performance of AHG for FY16, FY17, FY18 and 1H19 is summarised below.

Table 16: Financial performance of AHG

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Revenue:[1]				
Automotive Retail	4,721.8	5,232.4	5,611.5	2,784.1
Refrigerated Logistics	580.4	595.0	598.2	297.7
Other Logistics	320.1	276.1	262.4	134.7
Property	0.3	0.3	0.4	0.2
Revenue[1]	**5,622.7**	**6,103.9**	**6,472.6**	**3,216.7**
Operating EBITDA[2]	**225.5**	**216.0**	**208.0**	**93.4**
Depreciation and amortisation expense	(43.4)	(46.9)	(52.5)	(33.1)
Operating EBIT:				
Automotive Retail	159.1	151.1	145.5	51.3
Refrigerated Logistics	15.7	10.8	8.5	8.0
Other Logistics	6.9	11.5	4.4	1.7
Property[3]	0.4	(4.3)	(2.9)	(0.7)
Operating EBIT[4]	**182.1**	**169.0**	**155.5**	**60.4**
Net interest expense	(36.6)	(39.3)	(43.1)	(25.7)
Operating profit before income tax	**145.5**	**129.8**	**112.4**	**34.7**
Income tax expense	(41.5)	(36.9)	(32.5)	(8.8)
Non-controlling interest	(6.8)	(5.6)	(5.2)	(1.7)
Operating profit after tax	**97.2**	**87.3**	**74.8**	**24.2**
Unusual items after tax (refer to Table 17)	(7.1)	(31.8)	(42.2)	(249.8)
Net profit after tax attributable to AHG shareholders	**90.1**	**55.5**	**32.6**	**(225.6)**
Statistics:				
Sales revenue growth (%)[5]	*7.2%*	*8.6%*	*6.0%*	*1.7%*
Operating EBITDA growth (%)[5]	*4.5%*	*(4.2%)*	*(3.7%)*	*(16.1%)*
Operating EBITDA margin (%)	*4.0%*	*3.5%*	*3.2%*	*2.9%*
Operating EBIT margin (%)	*3.2%*	*2.8%*	*2.4%*	*1.9%*
Operating EBIT interest cover (times)[6]	*5.0*	*4.3*	*3.6*	*2.3*
Weighted average ordinary shares on issue (million)	*306.5*	*327.5*	*331.6*	*331.6*
Basic earnings per share ($)	*0.29*	*0.17*	*0.10*	*(0.68)*
Operating earnings per share ($)[7]	*0.32*	*0.27*	*0.23*	*0.07*
Dividends per share ($)	*0.23*	*0.19*	*0.16*	-
Dividend payout ratio (%)[8]	*70.9%*	*71.3%*	*72.3%*	-
Dividend franking (%)	*100.0%*	*100.0%*	*100.0%*	*na*

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19, KPMG Corporate Finance analysis

Notes:
1. *Revenue excludes interest received which is a component of Total Revenue per AHG's Annual Reports*
2. *Operating EBITDA is earnings before interest, tax, depreciation and amortisation, and unusual items. Includes contribution from Property of $0.4 million in FY16, ($4.3) million in FY17, ($2.9) million in FY18 and ($0.7) million in 1H19.*
3. *Operating losses from Property in FY17 and FY18 relate to AHG's non-operational interest in a leased property in New South Wales and holding costs of two Queensland based properties. All Queensland properties were sold as at 31 December 2018.*
4. *Operating EBIT is earnings before interest, tax and unusual items.*
5. *Sales revenue growth and Operating EBITDA growth for 1H19 represents change compared to 1H18.*
6. *Operating EBIT interest cover is calculated as Operating EBIT divided by net interest expense.*
7. *Operating earnings per share is calculated by dividing operating net profit after tax attributable to AHG shareholders by the weighted average number of ordinary shares outstanding during the period.*
8. *Dividend payout ratio is calculated as dividends per share divided by operating earnings per share.*

We make the following observations in relation to the recent financial performance of AHG:

- strong revenue growth for AHG from FY16 to FY18 was primarily driven by growth in Automotive Retail, with Refrigerated Logistics and Other Logistics stable or declining (refer to Sections 8.2.2, 8.2.3 and 8.2.4 of this report for a discussion of segment results). In 1H19, revenue increased slightly reflecting modest growth in Automotive Retail and Refrigerated Logistics
- the decline in AHG's Operating EBITDA in all periods presented reflects declines in Automotive Retail and Other Logistics, with Refrigerated Logistics remaining stable. Depreciation and amortisation has increased, mainly reflecting acquisitions for Automotive Retail and investment in new facilities, equipment and technology for Refrigerated Logistics
- AHG's Operating EBIT declined from FY16 to FY18 reflecting a decline in Operating EBIT across all segments. In 1H19, AHG's Operating EBIT declined by 29.2%, mainly reflecting declines in Automotive Retail and Other Logistics, with Refrigerated Logistics' Operating EBIT remaining steady
- net interest expense has increased due to higher floorplan debt, partially offset by lower interest on borrowings post an equity raising in early FY17 and management's focus on inventory and cash management
- non-controlling interests have decreased over the period due to reduction in organic profitability by these entities
- as a result of the decline in Operating EBIT and increase in interest expense, operating profit after tax and operating EPS (basic) declined from FY16 to FY18 and in 1H19
- after the impact of unusual items, AHG recorded a net loss after tax of $225.6 million for 1H19. The unusual items after tax have been presented in the following table

Table 17: AHG unusual items after tax

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Impairment of non-current assets - plant and equipment, goodwill and franchise rights	(4.6)	(13.6)	(25.0)	(223.4)
Impairment of other current and non-current assets - receivables and IT	-	-	-	(10.2)
Costs relating to restructure of operations and discontinued operations	-	(9.3)	(7.8)	(18.9)
Net costs relating to Refrigerated Logistics transformation	-	(5.8)	(7.0)	-
Costs relating to integration, acquisitions and divestment activities, including sale of properties	(4.1)	(3.0)	(2.3)	2.6
Net profit on divestment and other	1.4	-	-	-
Total unusual items after tax	**(7.1)**	**(31.8)**	**(42.2)**	**(249.8)**

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19 and KPMG Corporate Finance analysis
Note: May not add exactly due to rounding

- impairment charges in FY17 mainly relate to write downs of underperforming motor vehicle dealerships. In FY18, impairments mainly relate to impairment of leasehold improvements and onerous lease provisions in Automotive Retail (in relation to sites associated with the exit of franchises) and the write down of assets in Refrigerated Logistics, including IT assets, operating facilities that AHG intended to exit in the near term and those identified in the due diligence process with HNA. Impairment charges in 1H19 of $223.4 million (after tax) include a goodwill, franchise rights and plant and equipment impairment of $144.6 million (after tax) within Automotive Retail and $78.8 million (after tax) within Refrigerated Logistics. The impairment within Automotive Retail reflects the soft market conditions across the industry as well as some underperforming brands and locations
- other impairments of $10.2 million in 1H19 relates to the write down of information technology and software assets and other current assets mainly within Refrigerated Logistics (as technology systems were adapted to incorporate all businesses within Refrigerated Logistics under the transformation program) and Other Logistics
- since FY17, Automotive Retail has incurred restructure costs associated with closing down loss-making dealerships and exiting facilities and leases as part of its portfolio rationalisation initiative. The restructuring cost of $18.9 million (after tax) in 1H19 includes trading losses on operations divested, closed or committed for closure and/or restructuring, impairments of property, plant and equipment and onerous lease provisions associated with these operations, and provision for expected current asset write-downs and/or closure costs
- Refrigerated Logistics also incurred costs related to its transformation program in FY17 and FY18
- over the period, AHG has incurred acquisition and integration costs associated with dealership expansions, fees and costs in the HNA sale process and generated profit from the sale of properties.

8.3.1 Dividend policy, payout ratio and franking credits

Since listing on ASX in 2005, AHG has operated a dividend policy whereby it has targeted the payment of fully franked dividends of between 65% to 75% of operating NPAT (attributable to shareholders). As a result of the decline in operating NPAT, dividends were reduced in FY17 and FY18, although AHG paid out a higher share of operating NPAT each year with the payout ratio increasing from 70.9% in FY16 to 72.3% in FY18 (towards the high end of the dividend policy range).

In 1H19, AHG announced that it had temporarily suspended its dividend policy, and decided not to declare an interim dividend for 1H19, citing capital management considerations.

As at 30 June 2018, AHG had $118.9 million franking credits available (based on a tax rate of 30%).

8.4 Financial position

The financial position of AHG as at 30 June 2016, 30 June 2017, 30 June 2018 and 31 December 2018 is summarised in the following table.

Table 18: Financial position of AHG

As at A$ million unless otherwise stated	30 June 2016 Audited	30 June 2017 Audited	30 June 2018 Audited	31 Dec 2018 Reviewed
Debtors, prepayments, deposits	368.2	407.1	442.9	383.5
Inventories	828.1	899.8	1,110.7	1,129.0
Creditors and current tax liabilities	(265.0)	(318.7)	(387.5)	(361.8)
Net working capital	**931.3**	**988.2**	**1,166.1**	**1,150.7**
Property, plant and equipment	359.0	401.1	376.5	397.1
Intangible assets	462.3	513.2	539.2	323.2
Equity accounted investments[1]	1.0	1.1	1.1	1.1
Deferred tax assets	60.2	60.9	68.7	77.1
Assets classified as held for sale	-	-	18.7	2.6
Available-for-sale financial assets	4.0	7.2	7.2	7.2
Deferred tax liabilities	(15.8)	(21.1)	(11.8)	(10.2)
Onerous lease provisions	-	-	(10.6)	(24.6)
Other current and non-current provisions	(97.0)	(100.7)	(105.6)	(134.2)
Total funds employed	**1,705.0**	**1,849.8**	**2,049.6**	**1,789.9**
Cash and cash equivalents	108.6	95.0	73.0	64.6
Total borrowings	(1,094.1)	(1,142.5)	(1,346.1)	(1,329.2)
Inventory finance (floorplan)	*(711.5)*	*(788.7)*	*(989.1)*	*(979.9)*
Net borrowings	**(985.5)**	**(1,047.5)**	**(1,273.1)**	**(1,264.6)**
Net borrowings (excl. floorplan)	*(274.0)*	*(258.8)*	*(284.0)*	*(284.7)*
Net assets	**719.5**	**802.3**	**776.5**	**525.3**
Non-controlling interest	(24.9)	(14.9)	(20.0)	(16.6)
Net assets attributable to AHG shareholders	**694.6**	**787.4**	**756.5**	**508.6**
Statistics:				
Shares on issue at period end (million)	*306.5*	*331.6*	*331.6*	*331.6*
Net working capital as a percentage of revenue[2]	*14.8%*	*15.7%*	*16.6%*	*17.8%*
Net assets per share ($)[3]	*2.35*	*2.42*	*2.34*	*1.58*
Net tangible assets per share ($)[4]	*0.84*	*0.87*	*0.72*	*0.61*
Gearing[5]	*57.8%*	*56.6%*	*62.1%*	*70.7%*
Gearing (excl. floorplan)[6]	*27.6%*	*24.4%*	*26.8%*	*35.2%*

Source: AHG Annual Reports for FY16, FY17 and FY18, Half Year Report for 1H19 and KPMG Corporate Finance analysis

Notes:
1. *AHG's 50% interest in Vehicle Parts (WA) Pty Ltd.*
2. *Calculated as the average opening (12 months prior) and closing working capital balance divided by revenue for the 12 month period, excluding floorplan funding increases linked to inventory increases*
3. *Net assets per share is calculated as net assets divided by the number of AHG shares at period end.*
4. *Net tangible assets per share is calculated as net assets less intangible assets dividend by the number of AHG shares at period end.*
5. *Gearing represents net borrowings divided by the sum of net borrowings and net assets.*
6. *Gearing (excl. floorplan) represents net borrowings excluding floorplan finance divided by the sum of net borrowings excluding floorplan finance and net assets.*

AHG's net assets per share and gearing ratios were adversely impacted at 30 June 2018 and 31 December 2018 as a result of:

- impairment of intangible assets (mainly in 1H19)
- asset write downs and an increase in provisions related to recognition of onerous leases
- a reduction in operating profits.

An overview of the principal assets and liabilities carried on the balance sheet as at 31 December 2018 is set out below.

8.4.1 Inventory and other working capital

Inventories are the largest individual component of AHG's assets, representing 63% of total funds employed as at 31 December 2018. Inventory as at 31 December 2018 comprised vehicles inventory and other inventories at net realisable value of $985.4 million and $143.6 million respectively. These include new, demonstrator and used motor vehicles on bailment, parts and other consumables across Automotive Retail and Other Logistics.

Motor vehicles secured under bailment plans are provided to AHG under bailment agreements between the floorplan loan providers and entities within AHG. AHG obtains title to the vehicles immediately prior to sale. The floorplan providers treat the vehicles from a practical point of view as forming part of AHG's trading stock. Both the inventory value and the corresponding floorplan obligation have been included in the financial statements although ownership of such inventory rests with the floorplan financiers.

Inventories have increased in each period presented due to acquisitions, moderate organic growth and the expansion of easyauto123. The increase is also a result of OEMs placing pressure on dealerships to take stock while at the same time demand has declined. AHG applies inventory management policies to mitigate potential obsolescence concerns. Increases in inventory have been partially offset by a reduction in other working capital requirements (receivables and prepayments net of payables and tax payable) in each period presented, reflecting the decline in earnings and the company's ongoing focus on working capital management, including a dedicated centralised credit control department which monitors outstanding debtors on a continual basis.

Overall, working capital as a percentage of revenue has increased from 14.8% at 30 June 2016 to 17.8% at 31 December 2018 as a result of surplus vehicle inventory (excluding the increase in floorplan finance that funds vehicle inventory increases).

8.4.2 Property, plant and equipment

Property, plant and equipment decreased in FY18, primarily due to impairment against IT assets in Refrigerated Logistics and impairment of leasehold improvements in Automotive Retail and Refrigerated Logistics relating to closure and/or exiting of specific locations. This was partially offset by AHG's ongoing investment in Refrigerated Logistics equipment and acquisitions and property developments executed for Automotive Retail.

8.4.3 Intangible assets

AHG's intangible assets primarily resulted from acquisitions in Automotive Retail and Refrigerated Logistics. In 1H19, intangible assets declined substantially as a result of a $216.4 million impairment charge (pre-tax) against goodwill and franchise rights due to soft operating conditions.

8.4.4 Assets classified as held for sale

Assets classified as held for sale as at 30 June 2018 represents two blocks of land the company was in the process of selling. The assets were subsequently disposed for a consideration of $23.1 million, resulting in a pre-tax gain of $4.5 million for FY19. Assets held for sale as at 31 December 2018 relate to divestment of an operation within the Automotive Retail segment.

8.4.5 Available-for-sale financial assets

Available-for-sale financial assets represents AHG's unlisted investment in DealerMotive Limited, a consortium of 60 dealer groups holding 30% share in Cox Automotive Australia and unlisted units held in the AHG Property Syndicate No. 1 Unit Trust.

8.4.6 Provisions

Other current and non-current provisions primarily include employee benefits, warranties on vehicles and make good provision related to restoring various leased business premises to their condition at the time of entering the lease, subject to fair wear and tear.

Also included are onerous lease provisions, which resulted from AHG's restructure and closure of underperforming operations with committed lease term beyond the anticipated closure date of the site. As at 31 December 2018, AHG had $24.6 million onerous lease provisions of which $16.6 million relates to sites that AHG has exited or plans to exit and $8.0 million relates to operating sites.

8.4.7 Borrowings

AHG has a range of financing arrangements in place. Borrowings have increased from 30 June 2016 to 31 December 2018, with the majority of the increase resulting from floorplan finance to fund inventory purchases, particularly for newly acquired dealerships and greenfield developments. The increase is also a result of OEMs placing pressure on dealerships to take stock while at the same time demand has declined.

As at 31 December 2018, AHG had drawn down $1,329.2 million financing facilities, with their details and maturity profile set out in the following tables.

Table 19: AHG financing facilities as at 31 December 2018

$ million	Amount drawn	Available facility	Total facility
Finance company loans	980.0	308.1	1,288.1
Lease and hire purchase liabilities	122.3	62.8	185.1
Commercial bills and other loans	225.0	67.5	292.5
Amounts owing to manufacturer	1.9	-	1.9
Total financing facilities	**1,329.2**	**438.5**	**1,767.7**

Source: AHG management, KPMG Corporate Finance analysis

Table 20: AHG liquidity risk as at 31 December 2018

$ million	Carrying amount	1-12 months	1-2 years	2-5 years	Total gross cash flow
Finance company loans	979.9	979.9	-	-	979.9
Finance lease liabilities	41.5	9.1	10.2	25.7	45.0
Hire purchase liabilities	80.8	29.2	21.4	36.7	87.3
External loans[1]	226.9	2.7	91.4	132.8	226.9
Total financing facilities	**1,329.2**	**1,021.0**	**123.0**	**195.2**	**1,339.2**

Source: AHG management, KPMG Corporate Finance analysis
Note: External loans include commercial bills ($218.8 million), amounts owing to manufacturer ($1.9 million) and other current and non-current loans ($6.2 million).

As at 31 December 2018, the majority of AHG's borrowings are finance company loans which are secured over vehicle inventories. Finance company loans reflect inventory-backed finance company loans (floorplan), in which dealerships finance their inventory purchases through specific finance facilities provided by either manufacturers or third party finance companies. Finance company loans have been excluded in calculating the company's gearing ratio for financial covenant purposes and are considered part of working capital facilities.

Lease and hire purchase liabilities mainly sit within Refrigerated Logistics and are fully secured over property, plant and equipment. Commercial bills and other loans support AHG's general corporate use and day-to-day cash management, which have maturity dates between FY20 and FY22.

Some of these financing agreements require the prior written consent of the financiers in the event of a change of control of AHG and generally provide the financiers with a right to terminate the facility as a result of change of control of AHG.

AHG and its financiers have a number of agreed financial covenants in place in relation to AHG's commercial bills and finance leasing facilities. AHG management has advised that the company currently is and is expected to remain in compliance with all financial covenant requirements.

On 22 February 2019, AHG announced that it would not declare a dividend for 1H19 to allow the company to reinvest in the balance sheet.

AHG is presently in discussions with its banks to, among other things, extend the maturity date for the component of its debt facilities that would otherwise mature in April 2020 to minimise refinancing costs, avoid that component being classified as a "current liability" and accommodate AHG's potentially reduced funding requirements under the potential outcomes of the various initiatives currently underway (including the strategic review of Refrigerated Logistics).

8.4.8 Derivatives

AHG adopts a fixed interest borrowing structure where the company finances the majority of its purchases through fixed rate financing. The remaining interest rate risk is managed by using interest rate swaps. AHG's borrowings are principally denominated in Australian dollars.

In order to manage the foreign exchange risk arising from the inventory purchases from Europe for KTM and Husqvarna (Other Logistics), AHG has entered into forward exchange contracts.

As at 31 December 2018, AHG had net derivative financial assets of $0.88 million.

8.4.9 Capital commitments and contingent liabilities

As at 30 June 2018, AHG had operating lease commitments of $1.4 billion.

As at 31 December 2018, AHG had letter of credit of $1.5 million and bank guarantees of $34.4 million. These represent unsecured guarantees, indemnities and undertakings given by AHG in the normal course of business in respect of banking and financial trade arrangements and property leases entered into by its controlled entities. At 31 December 2018, no controlled entity was in default in respect of any arrangement guaranteed by AHG.

As at 31 December 2018, trusts within AHG had entered into sale and buyback agreements for a number of vehicles. At this date, the Directors of the trustee companies are of the opinion that the repurchase price of these vehicles, net of the relevant provision at 31 December 2018, is below their expected selling price.

8.5 Cash flows

The cash flow statements for AHG for FY16, FY17, FY18 and 1H19 are summarised in the following table.

Table 21: Cash flow statement of AHG

Period A$ million unless otherwise stated	FY16 Audited	FY17 Audited	FY18 Audited	1H19 Reviewed
Receipts from customers[1]	6,165.9	6,653.8	7,060.1	3,598.0
Payments to suppliers and employees[1]	(5,949.3)	(6,442.7)	(6,850.7)	(3,529.8)
Interest paid (net)[2]	(36.6)	(39.3)	(43.1)	(25.7)
Tax paid	(40.3)	(30.9)	(18.9)	(15.5)
Cash flow from operating activities	**139.8**	**140.9**	**147.3**	**27.0**
Capital expenditure	(113.9)	(101.7)	(80.1)	(22.2)
Proceeds from sale of property, plant and equipment	54.5	21.8	19.2	29.1
Acquisition of businesses and investments	(75.8)	(77.9)	(30.7)	(0.2)
Proceeds from sale of businesses and investments	27.0	14.0	5.0	-
Dividends and distributions received	0.3	0.5	0.4	-
Cash flow from investing activities	**(108.0)**	**(143.3)**	**(86.2)**	**6.7**
Net proceeds from / (repayments of) borrowings	81.8	(41.3)	(15.1)	(14.7)
Proceeds from issue of shares, net of transaction costs	-	111.6	-	-
Dividends paid to members	(74.9)	(81.5)	(68.0)	(27.5)
Cash flow from financing activities	**6.9**	**(11.2)**	**(83.1)**	**(42.2)**
Net cash generated/(used)	**38.7**	**(13.6)**	**(22.0)**	**(8.5)**
Cash and cash equivalents at the beginning of the year	69.9	108.6	95.0	73.0
Cash and cash equivalents at the end of the year	**108.6**	**95.0**	**73.0**	**64.6**

Source: AHG Annual Reports and Full Year Results Presentations for FY16, FY17 and FY18, Half Year Report and Half Year Results Presentations for 1H19 and KPMG Corporate Finance analysis
Notes:
1. *Inclusive of GST*
2. *Interest paid (net) is calculated as interest paid and costs of finance less interest received*

The cash flow statement classifies movements in the portion of vehicle inventories that are funded by floorplan debt as well as movements in floor plan debt as cash flows from operating activities.

From FY16 to FY18, AHG generated stable cash flows from operating activities as management focused on working capital management.

Cash of $108.6 million at 30 June 2016, the net proceeds of $111.6 million from the equity raising in FY17 and cash flows from operating activities in FY16 to FY18 were used to fund:

- disciplined capital expenditure primarily to support ongoing investment in Refrigerated Logistics, partially offset by proceeds from sales of property, plant and equipment
- measured acquisitions of businesses and investments (net of divestments), with the most notable being the acquisitions of Western Pacific Mercedes-Benz in FY16, City Mazda Melbourne and Lance Dixon Group of dealerships (including Doncaster Jaguar Land Rover) in FY17, Hunter Motor Group, Auckland Motor Group dealerships in New Zealand, a majority stake (51%) in Carlins in FY18 and an increase in AHG's investment in 360 Finance from 60.1% to 100% in FY16 and FY17, net of the divestment of Covs Parts in FY16
- repayment of corporate borrowings, as the company focused on managing its net debt position to allow flexibility in the current operating conditions
- dividends paid to shareholders.

In 1H19, a decline in earnings resulted in lower cash flow from operating activities. Capital expenditure and acquisitions were curtailed and AHG generated $23.1 million in cash from the sale of properties. Cash was applied to the pay down of corporate debt and the final FY18 dividend.

8.6 Board and Management

AHG's current Board is comprised of seven Independent Directors and one Executive Director. Following the retirement of the late Robert McEniry in April 2018, the company announced on 26 April 2019 the appointment of Richard England as Non-Executive Chairman.

The Directors and senior management of AHG are summarised in the following table:

Table 22: AHG directors and senior management

Board members	Senior management
Richard England (Non-Executive Chairman)	John McConnell (Chief Executive Officer and Managing Director)
John McConnell (Managing Director)	Adam Irving (Chief Financial Officer)
Howard Critchley (Non-Executive Director)	Eugene Kavanagh (Chief Information Officer)
Greg Duncan (Non-Executive Director)	Jo Cairns (Chief Human Resources Officer)
Giovanni (John) Groppoli (Non-Executive Director)	Tony Cramb (Chief Operating Officer – Franchised Auto)
Andrea Hall (Non-Executive Director)	Stephen Cleary (Chief Operating Officer – Logistics)
Jane McKellar (Non-Executive Director)	Jeff Leisk (General Manager – KTM/HQVA)
David Blackhall (Non-Executive Director)	Craig Bigley (Executive General Manager – easyauto123)
	Simon Ramsay (General Manager – Trucks)
	Gus Kininmont (General Manager – Finance)
	David Rowland (Company Secretary and General Counsel)

Source: AHG annual reports and website

8.7 Strategy

AHG's vision statement, as set out in its annual reports, is "*through measured growth and improvement, we will build on our position as Australia's largest diversified motoring and logistics group. We will continue to attract, develop and retain the best people in the industry; exceed the expectations of our stakeholders, and deliver superior returns for our shareholders.*"

AHG's strategic objectives, as outlined in its annual reports and results presentations, are as follows:

- ***Franchised Auto partner of choice:*** aim to become the franchised auto partner of choice by expanding relationships with enhanced customer service and innovation
- ***Leverage scale:*** utilise AHG's established national franchised automotive and national truck structure to optimise scale benefit. AHG considers scale to be important to adapt to the changing retail environment and the growth of mobility service offerings and advances in electric and autonomous vehicles
- ***Cost reduction:*** heavy focus on cost reduction, productivity and shared service opportunities. This focus has seen significant savings in a broad range of costs in FY18 underpinned by the company's procurement initiatives
- ***Grow market share:*** position itself to continue market aggregation and expand used car platforms
- ***Optimise portfolio:*** constantly review the portfolio to optimise franchise coverage, business segments and strategic position.

8.8 Outlook

8.8.1 Guidance

AHG management provided revised FY19 guidance on 14 May 2019. Guidance for FY19 Operating NPAT was reduced to approximately $50 million (previously $52 million to $56 million) based on trading performance for the 10 months to 30 April 2019 and current market conditions. This reflects the challenging conditions in franchised automotive retail volumes and margins, as well as weaker than expected April performance in Refrigerated Logistics on the back of subdued Easter trading.

AHG management has also noted that May and June are typically higher profitability months in the automotive retail sector and will have a significant bearing on AHG's FY19 financial performance. The actual result for FY19 may be impacted by a range of factors, including the evolving market conditions (particularly in automotive retailing), consumer behaviour around the upcoming Australian Federal Election and any negative impact resulting from the review of receivables in Refrigerated Logistics.

8.8.2 Additional opportunities

AHG has announced a near-term target of a further $23 million in recurring cost reductions for FY20.

AHG management has identified the following opportunities for Automotive Retail:

- Automotive Retail is well positioned to benefit from a cyclical recovery in Western Australia (down 24% from peak in 2012)
- normalisation of manufacturer targets
- cost-out initiatives
- shared services
- increased finance and insurance penetration
- increased availability of GFV and other products
- acquisition opportunities at realistic multiples
- adjacent expansion opportunities in rental, fleet, subscription etc.

AHG management identified the following opportunities for Refrigerated Logistics:

- short term opportunities, including revenue and yield management, improved transport utilisation, realising enterprise resource planning and warehouse management system benefits, cost reductions and fleet investment to improve efficiency
- longer term opportunities, including capacity expansion, acquisitions, move into more end-to-end complex solutions, Asia-Pacific supply chain
- AHG has set a target EBITDA margin of 10% for Refrigerated Logistics.

8.8.3 Broker forecasts

In order to provide an indication of the expected future financial performance of AHG for FY19 and beyond, KPMG Corporate Finance has also considered brokers' forecasts for AHG. As far as KPMG Corporate Finance is aware, AHG is followed by 10 brokers, each of which has released updated earnings forecasts for AHG following the announcement of its 1H19 half year financial results on

22 February 2019. One broker is restricted as a result of its role in advising on the transaction and consequently, its forecasts have been excluded.

As at the date of this report, we have not had access to broker forecasts that reflect the revised guidance for AHG announced on 14 May 2019. We understand that the revision to guidance relates primarily to changed expectations in relation to Refrigerated Logistics but also to a lesser extent to Automotive Retail as well. We note that broker forecasts for Refrigerated Logistics are not sufficiently close to management's forecasts to be useful, however, broker forecasts for Automotive Retail are largely consistent with management's revised expectations for the segment. Consequently, in our valuation of AHG, we have considered broker forecasts for Automotive Retail and Other Logistics only.

The audited FY18 results and broker forecasts for FY19 to FY21 are summarised in the following table and set out in detail in Appendix 8.

Table 23: Broker median forecast

	Actual	Broker Forecast (median)		
A$ million unless otherwise stated	**FY18**	**FY19**	**FY20**	**FY21**
Sales revenue:				
Automotive Retail	5,611.5	5,660.3	5,840.0	6,002.8
Refrigerated Logistics	598.2			
Other Logistics	262.4	258.5	265.0	273.7
Property	0.4	0.4	0.4	0.5
Sales revenue	**6,472.6**			
Adjusted EBITDA [1]				
Automotive Retail	166.1	139.1	151.6	163.3
Refrigerated Logistics	37.7			
Other Logistics	6.8	5.6	5.8	5.9
Property	(2.9)	(1.4)	(1.4)	(1.3)
Adjusted EBITDA[1]	**207.7**			
Share of net profit from associates	0.3	0.4	0.4	0.4
Operating EBITDA: [2]				
Automotive Retail	166.1	139.1	151.6	163.3
Refrigerated Logistics	37.7			
Other Logistics	7.1	6.0	6.2	6.3
Property	(2.9)	(1.4)	(1.4)	(1.3)
Operating EBITDA[2]	**208.0**			
Depreciation and amortisation	(52.5)			
Operating EBIT:				
Automotive Retail	145.5	113.7	118.6	134.3
Refrigerated Logistics	8.5			
Other Logistics	4.4	2.7	3.0	3.3
Property	(2.9)	(1.4)	(1.4)	(1.3)
Operating EBIT	**155.5**			

Source: Broker's reports, KPMG Corporate Finance analysis
Notes:
1. *Adjusted EBITDA is Operating EBITDA before share of net profit from associates.*
2. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items.*
3. *Sales revenue, Adjusted EBITDA, Operating EBITDA and Operating EBIT are the median of broker forecasts and consequently, the sum of segment contributions may not tie to these values.*

In relation to the above, we note the broker median forecast indicates expectations of revenue growth in all years and a margin decline in FY19 followed by margin improvement in FY20 and FY21. Most of the brokers have noted AHG's $23 million cost savings target for FY20 (announced on release of the 1H19 results), however, the extent to which they have incorporated these savings is not clear.

8.9 Share capital and ownership

As at 10 May 2019, AHG had 331,623,014 ordinary shares on issue and 9,698 registered AHG shareholders. The top 20 registered AHG shareholders accounted for approximately 75.1% of shares on issue and primarily included AP Eagers, interests associated with founders of AHG (e.g. Wheatley family), owners of dealerships who received scrip as consideration for acquisitions (e.g. LG McGrath Investments Pty Ltd) and a range of institutional nominees. As at 10 May 2019, retail investors (holdings of up to 10,000 shares) accounted for 82.6% of AHG shareholders and 7.9% of AHG shares on issue.

As at 10 May 2019, based on substantial shareholder notices provided to AHG, the substantial shareholders in AHG are:

Table 24: Substantial shareholder as at 10 May 2019

Name of substantial Shareholder	Date of notice	Number of Shares held	Percentage of issued capital[1]
WFM Motors Pty Ltd and its Associates[2]	13 May 2019	103,581,764	31.23%
AP Eagers Limited and its Associates	13 May 2019	103,581,764	31.23%
Perpetual Limited and its related bodies corporate	10 October 2018	30,563,741	9.22%

Source: Substantial shareholder notices on ASX website.
Note
1. *As at date of notice.*
2. *We note that WFM Motors Pty Ltd and its Associates (comprising NGP Investments (No 2) Pty Ltd, NGP Investments (No 1) Pty Ltd, Sitil Management Pty Ltd and Mr Nicholas George Politis) each have a relevant interest in the 103,581,764 AHG shares in which AP Eagers has a relevant interest by virtue of those entities holding, in aggregate, greater than 20% of the APE shares on issue, including a relevant interest in the 5,319 AHG Shares held by NGP Investments (No 2) Pty Ltd which have been accepted into the Offer. Mr Politis is also a non-executive director of AP Eagers.*

AHG operates the AHG Performance Rights Plan which awards eligible key executives with rights to acquire AHG shares for nil consideration (generally one share for each performance right). Performance rights vest on 30 September each year subject to certain specific performance criteria being met within defined time restrictions.

All awards under the Long-term Incentive (**LTI**) program and a portion of awards under the Short-term Incentive (**STI**) program are made in the form of performance rights. Vesting of performance rights under the LTI plan is based on AHG's performance against certain financial metrics over a three year period and vesting of performance rights granted under the STI program is based on continuous employment over a 12 month period.

In the event of a change of control[81] of AHG, the AHG Board has discretion to determine whether any unvested performance rights should vest, lapse, become subject to different vesting conditions or be

[81] Includes where a takeover bid is made for AHG and the AHG Board resolves to recommend the bid to AHG shareholders or where any transaction or event is proposed that, in the opinion of the AHG Board, may result in a person becoming entitled to exercise control over AHG.

settled in AHG shares, cash or securities other than AHG shares. The AHG Board has not yet determined whether and to what extent any unvested performance rights will vest.

The performance rights on issue and vested as at 8 May 2019 under these plans are as follows:

Table 25: Performance rights

Year granted	Issue price	Vesting date	On issue	Unvested	Vested
Long-term Incentive Plan					
2017	$3.21	1 October 2019	376,606	376,606	-
2018	$2.67	1 October 2020	455,681	455,681	-
2019	$2.37	1 October 2021	624,396	624,396	-
Total			**1,456,682**	**1,456,682**	**-**
Short-term Incentive Plan					
2018	$2.81	1 October 2019	135,320	135,320	-
Total			**135,320**	**135,320**	**-**
Total performance rights			**1,592,002**	**1,592,002**	**-**

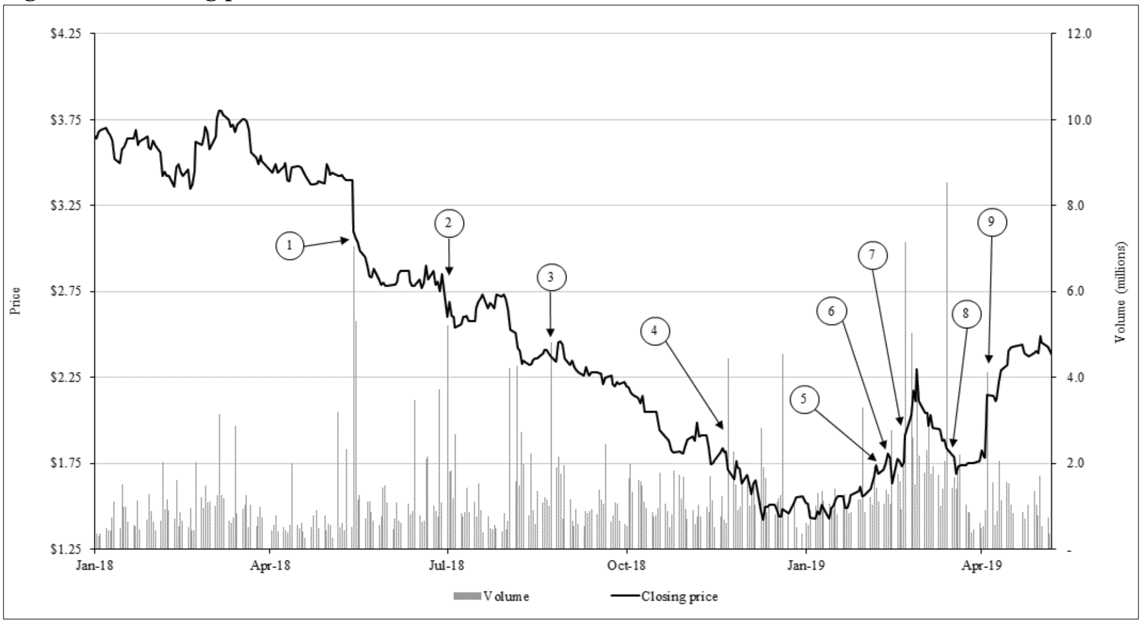
Source: AHG management.

8.10 AHG share price performance

8.10.1 Recent trading in AHG shares

The trading price and volume of AHG shares traded from 1 January 2018 to 8 May 2019 is illustrated in the following chart.

Figure 19: Trading price and volume of AHG



Source: Capital IQ; KPMG Corporate Finance analysis.

From 1 January 2018 until 15 May 2018, the AHG share price traded in the range of $3.33 to $3.87.

1. On 15 May 2018, the AHG share price declined sharply (by 9%) on heavy trading following the announcement of AHG's trading update. The trading update indicated that AHG management expected FY18 operating NPAT to be around $75 million (a 14.1% decline relative to FY17) as a result of:

- challenging automotive retail conditions, namely a slower than expected recovery in the Western Australian private buyer market and the impact of regulatory changes to financing and insurance
- the timing of the sale of Refrigerated Logistics.

In the two weeks following the trading update, the AHG share price declined by 19% to reach a low of $2.76 on 30 May 2018.

2. On 2 July 2018, the AHG share price again declined sharply (by 9%) on heavy trading following the announcement that the sale of Refrigerated Logistics had been terminated and closed at $2.60.

   After recovering slightly, the share price declined again in early August following the release of the VFacts new vehicle sales data for July 2018, which indicated a 7.8% decline nationally.

3. On 24 August 2018, on the release of the FY18 results which indicated that AHG had met earnings guidance, the share price remained fairly steady, then increased by 5% to close at $2.46 on 29 August 2018.

From then, the AHG share price declined steadily (by 42.3%) to close at $1.42 on 11 December 2018.

4. On 23 November 2018, AHG announced a trading update which indicated that FY19 operating NPAT was expected to be in the range of $56 million to $59 million (a 21.3% to 25.3% decline relative to FY18) as a result of:
   - the entire private buyer market being weaker, with the east coast, especially New South Wales and Victoria, being affected by a falling housing market and the negative flow-on effects to consumer confidence and auto sales
   - impact of regulatory changes to finance and insurance, including the changes to flex commissions that came into effect on 1 November 2018
   - the S&P/ASX All Ordinaries Index declined by 11.4%.

The share price then traded broadly around $1.50 until mid-January 2019 when it increased gradually) and then more strongly to reach a high of $2.33 on 28 February 2019. During this time:

5. On 7 February 2019, AHG management announced that it anticipated no impact in FY19 and minimal, if any, impact in FY20 as a result of the Financial Services Royal Commission
6. On 15 February 2019, the share price declined by 8.1% following the announcement of asset impairments
7. On 22 February 2018, the 1H19 financial results were announced, in which management revised downward earnings guidance for FY19 (by 5.1% to 7.1% to a range of $52 million to $56 million) and announced the suspension of the dividend program, however, indicated that:
   - management had commenced a strategic review for Refrigerated Logistics (which may include a sale)
   - management expected to generate $23 million in cost savings by FY20
   - motor vehicle sales volumes in Western Australia had stabilised
   - finance and insurance income had stabilised and was set to improve on increased penetration and the introduction of guaranteed future value products
   - strong performance in trucks and Carlins Auctions

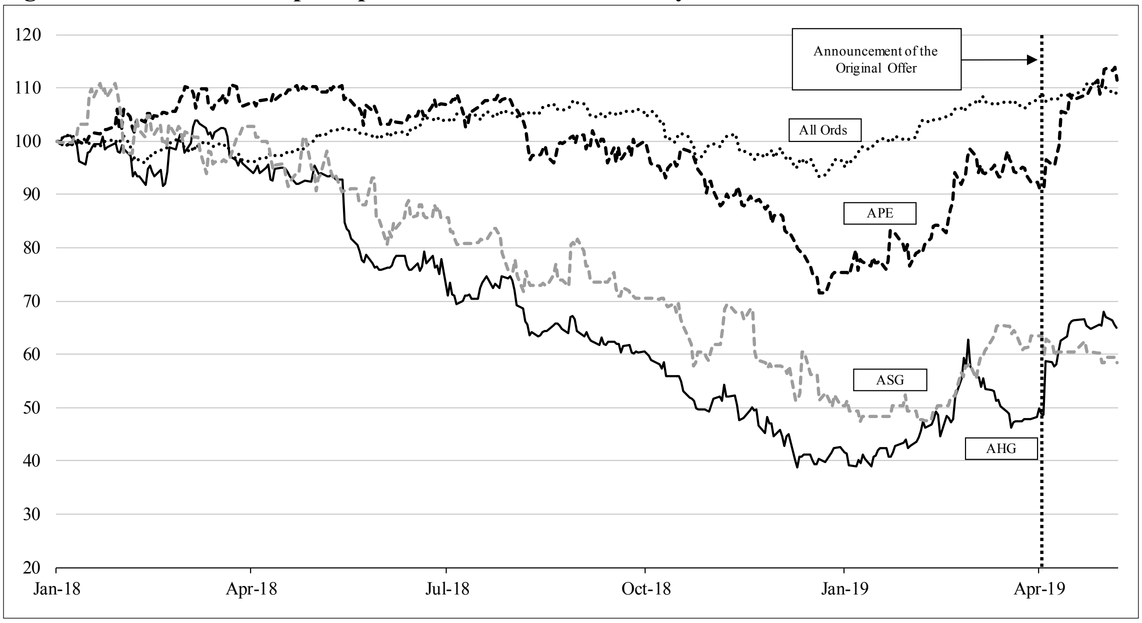
- revenue from Refrigerated Logistics had stabilised post the disruption associated with the potential sale to HNA and technology management system implementation
- AHG would commence a strategic review for Refrigerated Logistics.

8. On 18 March 2019, the AHG share price declined on heavy trading volumes as index investors rebalanced their portfolios following the announcement (on 8 March 2019) that AHG would be removed from the ASX 200 Index
9. On 5 April 2019, the Original Offer was announced. In the month to 4 April 2019, AHG shares traded in the range of $1.62 to $2.07, at a VWAP of $1.86 and closed at $1.78. On the announcement of the Original Offer, the AHG share price increased by 20.8% to close at $2.15 and has subsequently drifted upwards largely in line with relative movements in AP Eagers' share price to close at $2.38 on 8 May 2019, the date of the announcement of the Improved Offer.

8.10.2 Relative share price performance

The performance of AHG shares from 1 January 2018 to 8 May 2019, relative to the S&P/ASX All Ordinaries Index, AP Eagers and Autosports Group Limited (**Autosports**) (rebased to 100) is illustrated on the following chart. Both AP Eagers and Autosports are Australian automotive companies that are focused on cars and trucks (as opposed to motor cycles).

Figure 20: Relative share price performance since 1 January 2018



Source: Capital IQ; KPMG Corporate Finance analysis. ASG is Autosports.

The AHG share price broadly tracked the S&P/ASX All Ordinaries Index, AP Eagers and Autosports until May 2018, when AHG and Autosports underperformed the index and AP Eagers. This follows AHG's earnings update which indicated lower FY18 profits as a result of challenging automotive retail conditions (namely in Western Australia where AHG has a relatively greater market share), the impact of regulatory changes to finance and insurance (noting AHG's historically greater market position in this business relative to its peers) and the timing of the sale of Refrigerated Logistics. Underperformance may also reflect the drag on earnings from and negative sentiment towards Refrigerated Logistics. For Autosports, the decline may reflect its focus on luxury vehicles, which tend to be more cyclical.

From late October 2018 until mid-January 2019, the AHG, AP Eagers and Autosports share prices underperformed the broader ASX/S&P All Ordinaries Index as vehicle sales declined across the east coast markets, then outperformed the index until the announcement of the Original Offer on 5 April 2019. Outperformance of the AHG share price in late February 2019 corresponds to AHG's 22 February 2019 earnings release. From 5 April 2019 until 8 May 2019, the AHG share price has increased broadly in line with the AP Eagers share price.

8.10.3 Liquidity

An analysis of the volume of trading in AHG shares, including the VWAP for the period up to 4 April 2019 (the last trading day prior to the announcement of the Original Offer) is set out in the following table.

Table 26: Trading liquidity in AHG shares on the ASX pre-announcement of the Original Offer

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ millions	Cumulative volume millions	Percentage of issued capital
1 day	1.77	1.83	1.79	1.6	0.9	0.3%
1 week	1.73	1.85	1.78	5.3	3.0	0.9%
1 month	1.62	2.07	1.86	71.1	38.3	11.6%
3 months	1.39	2.33	1.80	188.9	105.0	31.7%
6 months	1.39	2.33	1.77	322.9	182.3	55.0%
12 months	1.39	3.53	2.20	750.9	341.3	102.9%

Source: Capital IQ; KPMG Corporate Finance analysis.

During the 12 month period to 4 August 2018, 102.9% of issued shares were traded (144.6% of free float). This level of trading indicates that there is an active market for AHG shares (notwithstanding its limited (71.2%) free float[82]).

AHG shares have remained liquid since announcement of the Original Offer on 5 April 2019 as illustrated below.

Table 27: Trading liquidity in AHG shares on the ASX post announcement of the Original Offer

Period from 5 April to 8 May 2019 inclusive	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ millions	Cumulative volume millions	Percentage of issued capital
34 days	1.91	2.51	2.28	56.52	24.82	7.5%

Source: Capital IQ, KPMG Corporate Finance analysis.

9 Profile of AP Eagers

9.1 Background

AP Eagers is an automotive retailing group, with a core business comprising the ownership and operation of motor vehicle dealerships. With 108 new car dealerships and 33 new truck and bus dealerships, AP Eagers has operations in each Australian State and Territory other than Western Australia and the ACT.

AP Eagers was founded in Queensland as a family automotive company, E.G. Eager & Sons Ltd (**Eagers**), in 1913. It was listed on the ASX in 1957. In 1992, the merger between Eagers and A.P. Group created A.P. Eagers Limited. The company had a closing market capitalisation on 4 April 2019 (the last

[82] Free float takes into account AP Eagers' 28.84% interest in AHG as at 4 April 2019 only.

trading day prior to the announcement of the Original Offer) of $1.39 billion and is headquartered in Brisbane.

AP Eagers' dealerships provide full service facilities, including the sale of new and used vehicles, car servicing and repairs, parts sales and facilitating associated consumer finance. A significant portion of its dealerships are situated on properties owned by the company, with the balance on leased properties.

Since its founding, AP Eagers has grown both organically and through acquisition. Recent key events in the company's corporate history include:

2010 - 2018

- AP Eagers completed its initial entry into the South Australian and Victorian markets through the successful off-market takeover of ASX listed Adtrans Group Limited in 2010, which at the time operated 7 car brands and 8 truck and bus brands across South Australia, Victoria and New South Wales. The company also continued its active portfolio management over the entire period through the completion of strategic acquisitions of privately held metropolitan and regional car and truck dealerships and the divestment of underperforming locations

- In 2011, AP Eagers entered into a joint venture with News Limited, AHG, Trivett Classic Pty Ltd and other automotive dealers to create an online car sales listing leveraging News Limited's "carsguide" branding, with AP Eagers ultimately taking a 7.5% interest

- AP Eagers acquired an initial 16.33% in AHG in 2012, which has been grown over time to its interest of 28.84% at the date of announcement of the Original Offer

- The "Carzoos" online and small store concept was established in 2012 to provide used car buyers and sellers with an alternative to the traditional dealership/offline model. The Carzoos operation is linked to the used-car operations of the dealerships in the AP Eagers network which stock the used cars offered for sale. Carzoos is also supported by the company's finance initiative, Simplr, aimed at providing a new consumer-centric finance option. In late 2016, AP Eagers launched its first Carzoos retail stores

- Precision Automotive Technology was established in 2012 as a new business to source and distribute the company's own range of car care products under the brand names, Perfexion and 365+

- In 2014, the company reached an agreement to sell its 20.65% interest in MTAI Insurance Limited to Suncorp Commercial Insurance

- In 2017, AP Eagers committed to establish a major new automotive retailing and mobility hub on 64,124m^2 of land within Brisbane Airport's new BNE Auto Mall, with construction due to commence in 2021

- The company recently announced a focus on business transformation, cost reduction programs and transitioning underperforming operations[83].

[83] AP Eagers Limited - Investor Presentation, 3 April 2019

9.2 Business operations

9.2.1 Overview

AP Eagers' core business is the ownership and operation of authorised motor vehicle dealerships. As an authorised dealer, AP Eagers has an agreement with various vehicle manufacturers to operate as the primary distributor of that manufacturer's vehicles, parts and accessories within a defined geographical area and to also undertake authorised car servicing and repairs.

AP Eagers holds a diversified portfolio of automotive brands, including both luxury and volume brands, including 21 of the top 22 selling car brands[84] and 8 of the 10 top selling truck and bus brands in Australia (for CY18)[85]. In total, AP Eagers currently represents 26 car brands and 10 truck and bus brands across 108 new car and 33 new truck and bus dealership locations, with its main operations located in Queensland, Adelaide, Darwin, Melbourne, Sydney, the Newcastle and Hunter Valley region of New South Wales and Tasmania[86].

Its operations are typically provided through strategically clustered dealerships, which allows low unit franchises to operate profitably alongside major franchises. The company's dealerships also typically distribute car care products and extended warranties and can facilitate finance and leasing in respect of motor vehicles.

In addition to its traditional dealership model, AP Eagers also continues to develop its Carzoos on-line and store sales channels.

The company holds a large and flexible property portfolio in support of its retail activities, with individual properties positioned primarily in high profile main road locations in Brisbane, Adelaide, Melbourne, Sydney and Newcastle. The balance of property required for AP Eagers' business operations are leased.

AP Eagers also holds investments in various other automotive related companies, including its significant interest in AHG.

The company recorded total consolidated operational revenue of $4.1 billion for CY18 and has approximately 4,300 employees.

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[84] As per page 26 of the Bidder's Statement AP Eagers' car brands include: Toyota, Mazda, Hyundai, Mitsubishi, Ford, Holden, Kia, Nissan, Volkswagen, Audi, Renault, BMW, Land Rover, Jaguar, MINI, Mercedes-Benz Cars, Mercedes-Benz Vans, Honda, Porsche, Chrysler, Lexus, Subaru, Fiat, Jeep, Suzuki and Volvo

[85] As per page 26 of the Bidder's Statement AP Eagers' truck and bus brands include: Isuzu, Volvo Trucks, Freightliner, Iveco, Fuso, Yutong, Hino, Mercedes-Benz Trucks, Mack and UD Trucks

[86] AP Eagers' Bidder's Statement

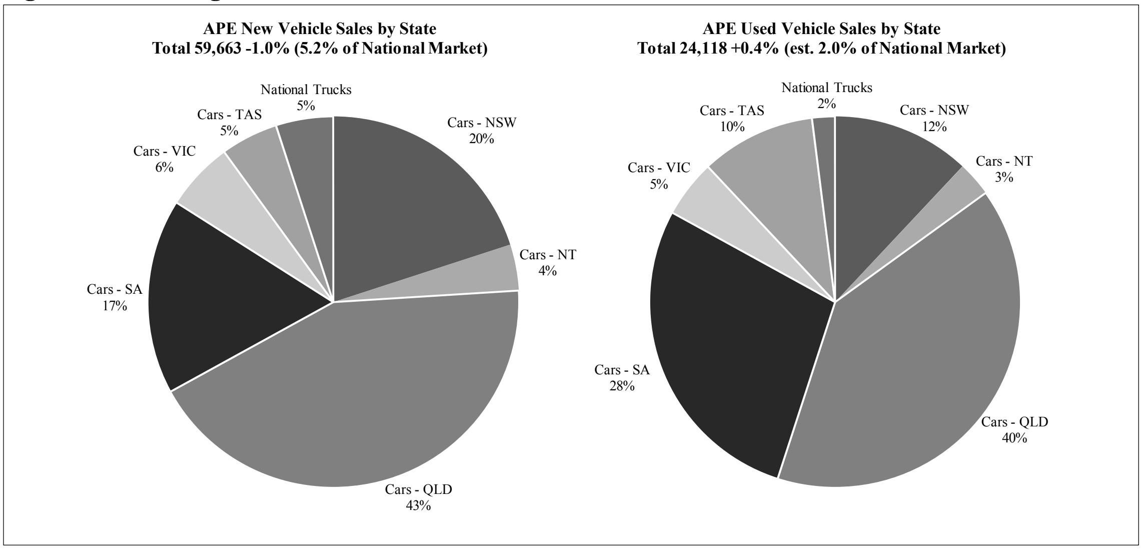
9.2.2 Vehicle retailing

Unit sales

AP Eagers recorded 59,663 new vehicle sales in CY18, a fall of approximately 1.0% from sales recorded in CY17. New vehicle sales in Queensland accounted for approximately 43% of sales volumes, with the next largest being within New South Wales with 20% of sales volumes. New truck sales accounted for approximately 5% of total new vehicle sales. AP Eagers estimates that its share of total national new vehicles unit sales in CY 18 was approximately 5.2%.

The company recorded 24,118 used vehicle sales in CY18, an increase of approximately 0.4% over sales recorded in CY17. Used vehicle sales in Queensland accounted for approximately 40% of sales volumes, with the next largest being within South Australia with 28% of sales volumes. AP Eagers estimates that its share of the total national used vehicles unit sales was approximately 2.0%.

Figure 21 – AP Eagers' Vehicle Sales for CY18



Source: AP Eagers' 2018 Full Year Results Presentation

Trading performance

AP Eagers' car retailing segment recorded total revenue of $3.67 billion in CY18 (up from $3.66 billion in CY17) and an operating contribution of $93.7 million (up from $89.3 million in CY17), representing approximately 89% and 75% respectively of the company's overall result for CY18. After the impact of non-operating items, net profit before tax of the company's car retailing segment was $95.8 million (up from $84.4 million in the prior year).

On a like-for-like basis, AP Eagers reported that revenue increased by 1.1% over CY17, reflecting a strong trading result in Victoria/Tasmania and Queensland (excluding discontinued businesses), offset somewhat by lower results in New South Wales. In addition, the parts and service businesses improved across all locations delivering a record result.

The company's truck retailing segment recorded total revenue of $428.0 million in CY18 (up from $381.7 million in CY17), and an operating contribution and net profit before tax of $10.9 million (up from $9.0 million in CY17), reflecting strong performance in the Victoria and South Australia truck divisions, partly offset by the divestment of Sydney Truck Centre in June 2017.

9.2.3 Property

As at 31 December 2018, AP Eagers held freehold land and buildings at a Directors' fair valuation of $327.3 million[87], along with capital works in progress of $4.4 million at cost. The company's property portfolio comprised 40 properties across Queensland, New South Wales, Victoria and South Australia, with a further property in Albion, Queensland acquired in January 2019. On 26 April 2019, AP Eagers announced that it had entered into an arrangement for the sale and leaseback of three properties at Newstead, Brisbane for a combined price of $55.5 million. AP Eagers advised that the balance of its portfolio of owned property was valued at $317.8 million as at 24 April 2019.

In addition to its freehold properties, as at 31 December 2018, AP Eagers occupied 175 properties on a leasehold basis, with an average lease expiry of 2 years and 8 months, which the company estimates increases to 3 years and 3 months when calculated based on the dollar value of the underlying leases.

The property segment charges the car retailing segment commercial rentals for owned properties occupied by the car segment.

The property segment recorded total revenue of $24.0 million in CY18 and an operating contribution of $10.8 million. The property segment also recorded an increase in property valuations of $13.7 million and gains from sales of property of $3.6 million, for a total segment profit before tax of $28.0 million, down from $32.0 million in the prior year. This was principally due to the sale of two properties in CY18 compared to five properties in CY17. Changes in fair value of property are recognised as profit and loss adjustments for segment reporting purposes but are recorded in other comprehensive income rather than statutory net profit after tax for purpose of the Group's audited financial statements.

9.2.4 Investments

The investments segment recorded total revenue of $13.9 million in CY18, represented by fully franked after tax dividends from AHG (down from $14.5 million in CY17), and an operating contribution of $10.2 million (down from $12.0 million in CY17). The company's investment segment also recorded an unrealised loss as a result of the reduction of $181.4 million in the valuation of the company's investment in AHG, for a total segment loss before tax of $171.1 million (which compares to a loss of $8.4 million in the prior year). Changes in fair value of investments are recognised as profit and loss adjustments for segment reporting purposes but are recorded in other comprehensive income rather than statutory net profit after tax for purpose of the Group's audited financial statements.

9.3 Strategy

In its Investor Presentation released to ASX on 2 April 2019, the company outlined the key points of its "Next 100" strategy. This strategy is focused on sustaining profitable growth and shareholder returns and is expected to be underpinned by:

- Omni-channel engagement with customers. In this regard the company anticipates being able to leverage its significant property portfolio to continue development of an omni-channel retail approach, including traditional dealerships, destination auto malls, shopping centre one-stop shops and online offerings.

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[87] The Directors' assessed fair values are supported by periodic, but at least triennial valuations, by external third party valuers

- Redefining the company's workforce to deliver a superior customer experience on a more sustainable and productive cost base. AP Eagers considers that its Carzoos initiative which operates through a mix of online and storefront customer touch points provides a proof of concept in this respect.
- Delivering optimised vehicle finance solutions. In response to the regulatory restrictions on vehicle financing models introduced on 1 November 2018, the company has developed new financing models with interest rates tailored to individual customer profiles. These new models, coupled with its distribution network and relationships with financiers, are expected to result in higher penetration rates. AP Eagers has set an internal target penetration rate of 50% by the end of 2019, up from 35% in 2018, with a long term objective of 80%.
- Supporting innovation as the company's OEM partners introduce autonomous, connected & electric vehicles and other emerging product and service innovations.
- Reinvesting with discipline, combined with rigorous review of existing and new operations.

9.4 Financial performance

AP Eagers' financial performance for CY16, CY17 and CY18 is summarised in the following table.

Table 28: Summary of AP Eagers recent financial performance

Period $ million unless otherwise stated	CY16 Audited	CY17 Audited	CY18 Audited
Revenue:			
Car Retailing	3,449.7	3,661.6	3,670.6
Truck Retailing	363.8	381.7	428.0
Property	5.2	1.0	0.4
Investments	14.4	14.5	13.9
Total revenue	**3,833.2**	**4,058.8**	**4,112.8**
Changes in inventories of finished goods and work in progress	94.8	27.6	39.5
Other gains[1]	4.5	18.1	6.1
Raw materials and consumables purchased	(3,230.5)	(3,374.2)	(3,439.6)
Employee benefits expense	(311.4)	(331.0)	(330.6)
Other expenses	(210.9)	(222.7)	(214.7)
EBITDA[2]	**179.8**	**176.7**	**173.5**
Less: Net unusual items before tax - excl. impairment reversals	(3.9)	(12.1)	(5.6)
Operating EBITDA	**175.9**	**164.6**	**167.9**
Depreciation and amortisation expense	(14.0)	(16.7)	(15.6)
Operating EBIT[3]	**161.9**	**147.9**	**152.2**
Finance costs	(24.4)	(24.6)	(26.5)
Operating Profit before tax	**137.5**	**123.3**	**125.7**
Add: Net unusual items before tax - incl. impairment reversals	3.9	12.3	8.0
Statutory profit before tax	**141.4**	**135.6**	**133.7**
Income tax expense	(35.9)	(37.5)	(32.6)
Net profit after tax	**105.5**	**98.2**	**101.1**
Non-controlling interests	(1.5)	(2.1)	(1.6)
Net profit attributable to Owners of AP Eagers Limited	**104.0**	**96.0**	**99.5**
Statistics:			
Revenue growth (%)	*18.1%*	*5.9%*	*1.3%*
Operating EBITDA growth (%)	*4.4%*	*(6.4%)*	*2.0%*
Operating EBITDA margin (%)	*4.6%*	*4.1%*	*4.1%*
Operating EBIT margin (%)	*4.2%*	*3.6%*	*3.7%*
Operating EBIT interest cover (times)[4]	*8.9*	*6.4*	*5.7*
Weighted average ordinary shares on issue (million)	*187.8*	*190.9*	*191.3*
Basic earnings per share ($)[5]	*$0.55*	*$0.50*	*$0.52*
Diluted earnings per share ($)[6]	*$0.54*	*$0.50*	*$0.52*
Dividends per share ($)	*$0.35*	*$0.36*	*$0.37*
Dividend payout ratio (%)[7]	*63.2%*	*71.6%*	*70.2%*
Dividend franking (%)	*100.%*	*100.%*	*100.%*

Source: AP Eagers' audited financial statements for CY17 and CY18, KPMG Corporate Finance analysis

Notes:

1. *Other gains excludes gains from reversal of impairment in CY17 and CY18, of 210,000 and 2,433,000 respectively, which have been included after EBITDA*
2. *EBITDA is earnings before interest, tax, depreciation and amortisation, significant items and equity accounted investments.*
3. *EBIT is earnings before interest and tax, significant items and equity accounted investments.*
4. *Interest cover is EBIT divided by net interest for CY16 and CY17 i.e. adding back interest revenue. As this detail is not available for CY18, CY18 interest cover is calculated on reported gross finance costs.*
5. *Basic earnings per share is calculated by dividing net operating profit attributable to the members of the parent entity by the weighted average number of ordinary shares outstanding during the year.*
6. *Diluted earnings per share is calculated by dividing net operating profit attributable to the members of the parents entity by the weighted average number of ordinary shares outstanding during the year plus 329,818 shares deemed to be issued for no consideration in respect of employee options*
7. *Dividend payout ratio is dividends per share divided by basic earnings per share*
8. *May not add exactly due to rounding*

We make the following observations in relation to the recent financial performance of AP Eagers:

- AP Eagers reported that on a like-for-like basis, CY18 revenue increased by 2.1% over CY17. The company benefited from its geographical diversification, with trading results in the Queensland (excluding discontinued businesses), Victorian and South Australian car divisions and the National Truck division offsetting weaker trading results in New South Wales and Tasmania. Total revenue increased by 1.3% to $4.1 billion in CY18.
- Operating EBITDA increased 2.0% to $167.9 million (CY17: $164.6 million) and operating EBITDA margins remained flat at 4.1% in 2018.
- Finance costs increased to $26.5 million (CY17: $24.6 million), reflecting the combined impact of higher interest rates and higher average bailment and term debt held, partially offset by lower hedging costs.
- The decrease in depreciation and amortisation costs of 6.1% to $15.6 million (CY17: $16.7 million) reflects the divestment of non-core properties/businesses in the second half of CY17 and first half of CY18.
- Dividends received from AHG declined to $13.9 million (CY17: $14.5 million) despite the company significantly increasing its relevant interest in AHG from 23.81% at 31 December 2017 to 28.84% at 31 December 2018.
- AP Eagers has identified the following adjustments to its statutory profit before tax to determine its reported underlying operating profit before tax.

Table 29: Adjustments to statutory profit before tax

Period $ million	CY16 Audited	CY17 Audited	CY18 Audited
Statutory profit before tax	**141.4**	**135.6**	**133.7**
Impairment adjustments			
Freehold property (reversal)[1]	(1.2)	(0.2)	(2.4)
Business acquisition costs[2]	1.8	0.1	0.7
GST (refunds)/expenses[3]	(4.5)	0.1	(0.3)
Restructure costs[4]	-	5.2	-
Gain on sale of assets[5]	-	(17.5)	(6.0)
Underlying operating profit before tax	**137.5**	**123.3**	**125.7**

Source: AP Eagers' Appendix 4E for the year ended 31 December 2017 and 31 December 2018

Notes:
1. *Represents the net value of freehold property fair value adjustments (positive and negative) to the Statement of Profit and Loss and non-cash impairment of the goodwill associated with the National Truck Division*
2. *Business acquisition costs include taxes, legal and other costs associated with business acquisitions*
3. *Benefit from tax refunds associated with previous years' GST payments*
4. *Costs related to the restructuring of underperforming and unsustainable automotive division assets and operations*
5. *Benefit from the sale of non-core property, businesses and investments*

- AP Eagers' CY18 EPS (basic) increased 3.4% over CY17 to $0.52 per share. The principal items contributing to the growth in EPS consisted of the company's improved operational result (+2.5 cents), a reduction in restructuring costs incurred (+2.7 cents) and a reduction in income tax expense (+2.4 cents), offset somewhat by the reduction on the profit on sale of properties (-6.2 cents), as noted previously the company completed the sale of two properties in CY18 compared to five properties in CY17.

9.4.1 Dividend policy, payout ratio and franking credits

AP Eagers has paid a dividend each year since listing on ASX in 1957. A fully franked dividend of $0.365 per share was paid in CY18, reflecting the 10th year of consecutive dividend growth. Based on a basic EPS figure of $0.52, this represents a payout ratio of approximately 70%.

AP Eagers operates a Dividend Reinvestment Plan (**DRP**). The number of shares to be issued to individual shareholders under the DRP are calculated at a 5% discount to the market price of an AP Eagers share.

As at 31 December 2018, the company has $181.9 million of franking credits available (based on a tax rate of 30%).

9.5 Financial position

The audited financial position of AP Eagers as at each of 31 December 2016, 31 December 2017 and 31 December 2018 is summarised in the following table.

Table 30: Audited financial position of AP Eagers

As at $ million unless otherwise stated	31 Dec 16 Audited	31 Dec 17 Audited	31 Dec 18 Audited
Inventory	625.0	652.7	690.2
Trade and other receivables, prepayments	170.9	180.1	168.9
Trade and other payables, current provisions	(138.7)	(171.7)	(154.0)
Net working capital	**657.2**	**661.1**	**705.1**
Non-current loans receivable	10.6	10.6	8.3
Property, plant and equipment	354.7	361.1	388.4
Intangible assets	298.9	309.4	313.3
Financial assets at fair value through other comprehensive income	264.8	288.0	149.8
Equity accounted investments	11.9	12.0	12.1
Deferred tax (net)	(7.4)	(2.3)	17.8
Other current and non-current liabilities	(75.0)	(71.5)	(73.0)
Total funds employed	**1,515.7**	**1,568.5**	**1,521.8**
Cash and cash equivalents	17.6	10.8	18.9
Total borrowings	(769.5)	(793.5)	(884.2)
Net borrowings	**(751.9)**	**(782.7)**	**(865.4)**
Net assets	**763.8**	**785.8**	**656.5**
Non-controlling interests	(8.2)	(10.8)	(8.0)
Net assets attributable to AP Eagers shareholders	**755.6**	**775.0**	**648.5**
Statistics:			
Shares on issue at period end (million)	*190.5*	*191.0*	*191.3*
Net working capital as a percentage of Revenue[1]	*15.7%*	*16.2%*	*16.6%*
Net assets per share (dollars)[2]	*$4.01*	*$4.11*	*$3.43*
Net tangible assets per share (dollars)[3]	*$2.44*	*$2.49*	*$1.79*
Gearing[4]	*50%*	*50%*	*57%*
Gearing (excl. Vehicle bailment)[5]	*26%*	*23%*	*31%*

Source: AP Eagers' audited financial statements for CY17 and CY18, KPMG Corporate Finance analysis

Notes:

1. *Calculated as the average of the opening and closing working capital balance divided by revenue for the period*
2. *Net assets per share is calculated as net assets divided by the number of AP Eagers shares at period end*
3. *Net tangible assets per share is calculated as net assets, less intangible assets, divided by the number of AP Eagers shares at period end*
4. *Gearing represents net borrowings divided by net assets plus net borrowings*
5. *Gearing (excl. Vehicle bailment) represents net borrowings excluding bailment finance, divided by net assets plus net borrowings excluding bailment finance*
6. *May not add exactly due to rounding*

AP Eagers' net asset per share and gearing ratios were adversely impacted in CY18 by various factors, including:

- the significant reduction in the carrying value of the company's investment in AHG, along with the reduction in the dividend received from this investment
- a significant reduction in net operating cash flows, largely funded through increased borrowings. The company indicated in the announcement of its full year statutory accounts that this fall in net cash provided by operating activities was driven by a $20.0 million increase in tax payments due to a balancing payment unwinding a favourable tax position in CY16, the timing of the receipt of upfront insurance monies and payments associated with business restructuring activities. In addition, there was an increase in its investment in working capital driven by increased investment in used cars and

trucks and parts stock levels. AP Eagers noted that excluding these items, its operating cash flow would have been consistent year on year.

An overview of the principal assets and liabilities carried on the balance sheet as at 31 December 2018 is set out below.

9.5.1 Inventory

Inventory as at 31 December 2018 comprised new and demonstrator motor vehicles on bailment ($511.8 million), used vehicles ($105.2 million) and parts and other consumables ($73.2 million).

9.5.2 Financial assets at fair value through other comprehensive income

This asset category comprises principally of AP Eagers' investment in AHG.

AP Eagers' Directors assess the fair value of the company's investment in AHG as at 31 December each year based on the number and market price of AHG shares on the last trading day of the reporting period. Notwithstanding that AP Eagers increased its interest in AHG from 66.3 million shares to 95.6 million shares over the period, the carrying value of its investment in AHG fell, reflecting the progressive decline in AHG's share price from $3.95 as at 31 December 2016 to $1.56 as at 31 December 2018.

9.5.3 Property, plant and equipment

Property, plant and equipment as at 31 December 2018 comprises principally freehold land and buildings ($327.3 million), with year on year movements driven primarily by additions, disposals and revaluation.

The basis of the Directors' valuation of land and buildings is the assessed fair value. The assessed fair value is supported by periodic, but at least triennial valuations, by external third party valuers.

9.5.4 Intangible assets

Intangible assets comprise goodwill arising on the acquisition of motor vehicle and truck dealerships ($306.8 million) and trademarks/brand names ($6.5 million). Goodwill is tested by the company for impairment purposes each year.

9.5.5 Borrowings

AP Eagers has a range of financing arrangements in place. Summary details of the company's financing facilities available and maturity profile as at 31 December 2018 are set out in the following table.

Table 31: AP Eagers contractual maturities of financial liabilities as at 31 December 2018

Contractual maturities of financial liabilities AUD million unless otherwise stated	Less than 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5+ years
Floating rate						
Vehicle bailment (current)	595.9	-	-	-	-	-
Fully drawn advances[3]	10.8	10.6	197.7	52.2	51.0	-
Capital loan - floating rate	2.0	2.3	2.3	7.2	2.2	26.8
Average interest rate	4.13%	3.61%	3.51%	3.67%	3.98%	4.71%
Fixed rate						
Capital loan - fixed rate	2.0	2.0	2.0	2.0	51.0	-
Average interest rate	3.84%					
Total	**610.6**	**14.9**	**202.0**	**61.3**	**104.1**	**26.8**

Source: AP Eagers' audited financial statements for CY18
Notes:
1. *Amounts disclosed are gross contractual undiscounted cash flows (principal and interest) required to settle the respective liabilities.*
2. *The interest rate is based on the rate applicable at the end of the financial period*
3. *Includes amounts that are hedged with interest rate swaps to fixed rates*

Bailment finance

Vehicle bailment finance reflects a liability payable to AP Eagers' bailment stock financiers. This liability is represented by and secured over debtors included in current receivables in respect of recent vehicle deliveries to customers, and by new vehicles, demonstrator vehicles and some used vehicles all included in inventories discussed above.

Bailment facilities are used to finance the acquisition of new vehicle and some used vehicle trading stock. These facilities include a combination of fixed term and open ended arrangements and are subject to review periods ranging from quarterly to annual. These facilities generally include short term termination notice periods and are disclosed as current liabilities. Bailment finance is repayable within a short period of time after the relevant vehicle is sold to a third party, generally within 48 hours.

Term facility

The term facility is secured by:

i) a general security agreement which includes registered first mortgages held by a security trustee over specific freehold land and buildings and a general charge over assets. This excludes new and used inventory and related receivables

ii) letter of set off given by and on account of the parent entity and its subsidiaries

iii) a Corporate Guarantee and Indemnity unlimited as to amount given by the parent entity and its subsidiaries.

Capital Loan

The capital loan is secured by:

i) registered first mortgages given by subsidiaries over specific freehold land and buildings

ii) letter of set off given by and on account of the parent entity and its subsidiaries

iii) a Corporate Guarantee and Indemnity unlimited as to amount given by the parent entity and its subsidiaries.

9.5.6 Derivatives

AP Eagers uses derivative financial instruments to hedge its exposure to interest rate risk on borrowings. AP Eagers' policy is to hold between 0% and 50% of its borrowings at fixed rates of interest. Based on the financial position as at 31 December 2018, approximately 21% of AP Eagers' borrowings were at a fixed rate of interest (excluding bailment finance). The company hedges part of the interest risk by swapping floating for fixed interest rates. Under interest rate swap contracts, AP Eagers agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable AP Eagers to mitigate the cash flow exposures on the issued variable rate debt held.

The net balance (mark-to-market) of derivatives as at 31 December 2018 was a liability of $35,000.

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9.6 Cash flows

The audited cash flow statement for AP Eagers for CY16 to CY18 are summarised in the following table.

Table 32: Cash flow statement of AP Eagers

Period $ million unless otherwise stated	CY16 Audited	CY17 Audited	CY18 Audited
Cash flows from operating activities:			
Receipts from customers (incl. GST)	4,154.1	4,426.9	4,495.5
Payments to suppliers (incl. GST)	(4,012.2)	(4,258.7)	(4,369.2)
Receipts from insurance claims	8.7	7.2	16.1
Interest and other costs of finance paid	(24.2)	(24.6)	(26.5)
Income taxes paid	(34.0)	(21.0)	(41.0)
Dividends received	14.6	14.5	13.9
Interest received	2.7	0.6	0.2
Net cash provided by operating activities	**109.7**	**145.0**	**89.0**
Cash flows from investing activities			
Payments for acquisition of business (net of cash acquired)	(118.3)	(11.5)	(5.1)
Payments for property, plant and equipment	(52.7)	(29.4)	(38.9)
Payments for intangible assets	(0.5)	-	-
Proceeds from sale of business	-	2.3	2.8
Proceeds from sale of property, plant and equipment	50.1	32.1	19.5
Proceeds from sale of available-for-sale financial assets	2.6	3.1	-
Payments for shares in other corporations	(29.5)	(49.1)	(43.1)
Net cash used in investing activities	**(148.3)**	**(52.5)**	**(64.9)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	6.9	1.6	4.7
Proceeds from borrowing	114.7	43.2	95.0
Payments for shares acquired by the trust	-	-	(14.0)
Repayments of borrowings	(41.1)	(77.5)	(30.4)
Transactions with non-controlling interests	-	1.4	(1.1)
Dividends paid to members of AP Eagers Limited	(61.6)	(67.8)	(69.8)
Dividends paid to minority shareholders of a subsidiary	(0.2)	(0.2)	(0.4)
Net cash used in financing activities	**18.7**	**(99.2)**	**(16.0)**
Net increase/(decrease) in cash and cash equivalents	**(19.9)**	**(6.8)**	**8.0**
Cash and cash equivalents at the beginning of the financial year	**37.5**	**17.6**	**10.8**
Cash and cash equivalents at the end of the financial year	**17.6**	**10.8**	**18.9**

Source: AP Eagers' audited financial statements for CY17 and CY18, KPMG Corporate Finance analysis
Note: May not add exactly due to rounding

We make the following observations in relation to AP Eagers' most recent cash flow statement:

- Notwithstanding an increase in cash collections from customers, overall operational cash flows fell between CY17 and CY18 for the reasons attributed by the company discussed previously at Section 9.5 above.
- Payments for the acquisition of businesses in CY16 reflects the company's expansion into new geographic territories, including Melbourne, Tasmania, Toowoomba, Hervey Bay and Townsville, including through the acquisition during the year of Birrell Motors Group and Crampton Automotive Group.

- The company sold two properties during CY18 compared to five in the period, resulting in a significant reduction in this source of funds compared to the prior year.
- Payments for shares in other corporations reflects principally the ongoing acquisition of shares in AHG.
- The company had a net increase in borrowings of $64.6 million in CY18, compared to a net repayment of borrowings of $34.3 million in CY17.

9.7 Board and Management

The current Directors of AP Eagers are set out below.

Table 33: AP Eagers' Board of Directors

Board member	
Timothy Boyd Irving Crommelin Chairman of the Board, Member of Audit, Risk & Remuneration Committee	**Martin Andrew Ward** Managing Director, Chief Executive Officer
Nicholas George Politis Non-Executive Director	**Daniel Thomas Ryan** Non-Executive Director
David Arthur Cowper Non-Executive Director, Chairman of Audit, Risk & Remuneration Committee	**Marcus John Birrell** Non-Executive Director, Member of Audit, Risk & Remuneration Committee
Sophie Alexandra Moore Executive Director, Chief Financial Officer.	

Source: AP Eagers' Bidder's Statement

Notes:

1. *Mr Politis is the executive chairman of WFM Motors Pty Ltd, AP Eagers' largest shareholder*
2. *Mr Ryan is the chief executive officer of WFM Motors Pty Ltd, AP Eagers' largest shareholder*

Further details in relation to the experience and other directorships of the Directors of AP Eagers are set out in Section 4.5 of the Bidder's Statement, along with an overview of selected senior management.

9.8 Outlook

AP Eagers has not publicly released specific earnings forecasts for CY19 or beyond, however, AP Eagers is followed by various brokers, of which we have identified 5 that published forecasts in the period between the release of the company's financial results for CY18 on 20 February 2019 and the announcement of the Original Offer on 5 April 2019. Brokers' notes prior to the announcement of the Original Offer have been used on the basis that these will be unaffected by the impact of the Original Offer or the Improved Offer. The a summary of AP Eagers' audited financial performance for CY18 and median of individual broker forecasts are summarised in the following table and set out in detail in Appendix 7.

Table 34: Broker forecast

	Audited	Broker median		
A$ million unless otherwise stated	**CY18**	**CY19**	**CY20**	**CY21**
Revenue	**4,112.8**	**4,206.0**	**4,332.0**	**4,430.0**
Adjusted Operating EBITDA[1]	**154.0**	**158.3**	**169.4**	**173.9**
Share of net profit from associates and AHG dividends	13.9	10.2	13.0	14.2
Operating EBITDA[2]	**167.9**	**169.5**	**180.4**	**188.5**
Depreciation and amortisation	(15.6)	(16.0)	(16.3)	(16.9)
Operating EBIT	**152.2**	**153.3**	**163.6**	**172.0**
Operating NPAT[3]	**94.0**	**88.5**	**96.8**	**101.5**
Operating EPS (A$)	*0.49*	*0.46*	*0.50*	*0.53*
Dividend per share (A$)	*0.37*	*0.37*	*0.37*	*0.39*
Payout ratio (%)[4]	*70.2%*	*78.7%*	*73.6%*	*73.4%*
Sales revenue growth (%)	*1.3%*	*2.3%*	*3.0%*	*2.3%*
Adjusted Operating EBITDA margin (%)	*3.7%*	*3.8%*	*3.9%*	*3.9%*
Operating EBITDA margin (%)	*4.1%*	*4.0%*	*4.2%*	*4.3%*
Operating EBIT margin (%)	*3.7%*	*3.6%*	*3.8%*	*3.9%*

Sources: Brokers' reports, KPMG Corporate Finance analysis

Notes:

1. *Adjusted Operating EBITDA is Operating EBITDA before share of net profit from associates*
2. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items*
3. *Operating NPAT is net profit after tax adjusted for one off costs*
4. *Payout ratio is Dividend per share divided by Operating EPS*
5. *Totals may not exactly sum up as each item is taken as the median value*

9.9 Share capital and ownership

As at 5 April 2019, AP Eagers had 191,309,301 ordinary shares on issue and its substantial shareholders were:

Table 35: AP Eagers substantial shareholders as at 5 April 2019

Substantial shareholder	Interest in AP Eagers shares[1]	Voting power in AP Eagers
WFM Motors Pty Ltd and its Associates[2]	69,535,038	36.35%
Patterson Cheney Investments Pty Ltd	12,591,761	6.58%
Jove Pty Ltd	10,193,381	5.33%

Source: AP Eagers' Bidder's Statement

Notes:

1. *Based on substantial holder notices received by AP Eagers for Patterson Cheney Investments Pty Ltd and Jove Pty Ltd on 2 May 2016 and 11 July 2012, respectively, and the Appendix 3Y Change of Director's Interest Notice for Mr Politis released to the ASX on 18 February 2019*
2. *WFM Motors Pty Ltd, NGP Investments (No 2) Pty Ltd and Mr Politis are the registered holders of those AP Eagers shares. Mr Politis, a non-executive Director of AP Eagers, is a director and controlling shareholder of each of WFM Motors Pty Ltd and NGP Investments (No 2) Pty Ltd*

As at 8 March 2019, there were 5,033 registered AP Eagers shareholders of which the top 20 accounted for approximately 74.4% of shares on issue and primarily included Directors (and related entities), institutional nominees and custodian companies. Retail investors (holdings of up to 5,000 shares) represented approximately 71.6% of AP Eagers shareholders.

AP Eagers operates several employee incentive plans. The share based incentives outstanding as at 5 April 2019 under these plans were as follows.

Table 36: AP Eagers share based incentives outstanding as at 5 April 2019

Expiry date	Exercise price	Number on issue
AP Eagers Options:		
27 Mar 20	$5.04	2,930,160
04 Jul 21	$5.47	1,919,399
30 Sep 22	$5.47	1,206,919
21 Jan 22	$5.65	269,648
30 Sep 22	$5.65	161,852
12 Jun 22	$9.25	84,066
30 Sep 22	$9.25	62,895
31 Mar 24	$10.34	182,857
AP Eagers Performance Rights:		190,157

Source: AP Eagers Bidder's Statement

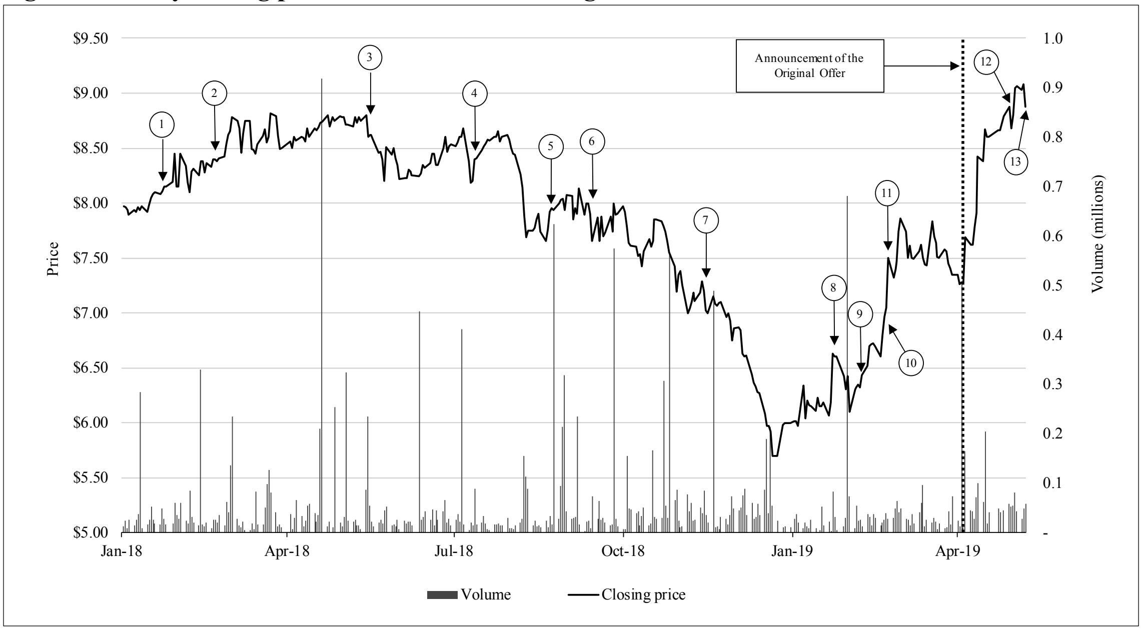
AP Eagers' notes in its Bidder's Statement that neither the Original Offer, nor the acquisition by AP Eagers of any AHG shares under it, will result in the vesting of any unvested AP Eagers incentive shares.

9.10 AP Eagers share price performance

9.10.1 Recent trading in AP Eagers shares

The following chart depicts the daily closing price of AP Eagers shares over the period 1 January 2018 to 8 May 2019, along with the daily volume of AP Eagers shares traded over the period.

Figure 22: Daily closing price and volume of AP Eagers shares traded



Source: Capital IQ; KPMG Corporate Finance analysis.

AP Eagers' daily closing share price over the 12 month period to December 2018 generally trended downward from a high of $8.82 on 23 March 2018 to a low of $5.70 on 21 December 2018, following which the share price has recovered leading up to and following the announcement of the Original Offer on 5 April 2019. AP Eagers shares closed at $7.28 on 4 April 2019 being the last trading day prior to the announcement of the Original Offer.

Subsequent to the announcement of the Original Offer AP Eagers shares have traded strongly up and closed at $8.88 on 8 May 2019, the date of the announcement of the Improved Offer.

Whilst AP Eagers share price has been impacted by both general industry and market wide factors over the period, significant company specific announcements by AP Eagers since 1 January 2018 that may also have had an impact on its share price include:

1. On 23 January 2018, AP Eagers announced its forecast financial result for CY17. AP Eagers management expected to report:

   - Net profit before tax (**NPBT**) of $135.7 million for CY17, a decrease of 4% compared to its CY16 record profit of $141.4 million. Management noted that its property and investment assets helped offset challenging industry conditions over the period

   - Underlying NPBT of $140.8 million, an increase of 2% compared to $137.5 million in CY16. Management noted that the company recorded $5.2 million in one-off costs and re-structuring of underperforming and unsustainable businesses in the CY17 Statutory NPBT result.

   Over the subsequent 4 week period up to the release of its Full Year Statutory Accounts no further announcements were made. The company's share price increased by 3.6% from $8.11 to $8.40 over this period.

2. On 21 February 2018, AP Eagers announced its Full Year Statutory Accounts which were in line with the forecast financial results announced on 23 January 2018, along with details of its record final dividend and full year results presentation. With respect to outlook and strategy AP Eagers management noted that "*although the market dynamics remain challenging, we are encouraged by the record National new vehicle market volumes with continued record affordability and aggressive manufacturer sales campaigns driving customer demand*."

The share price increased sharply over the week immediately following the announcement and fluctuated thereafter, reaching a high of $8.82 on 23 March 2018. In the weeks following 23 March 2018, the share price dropped to $8.50 on 4 April 2018 (noting that the company went ex-dividend on 28 March 2018 with the closing share price dropping from $8.61 on 27 March 2018 to $8.49 on 28 March 2018), only to gradually trend upwards thereafter until 14 May 2018.

3. On 16 May 2018, the company held its annual general meeting (**AGM**) and provided the results of the meeting and a copy of its Chairman's and CEO's Address in which, amongst other things, various headwinds facing the industry were discussed and how AP Eagers was responding to the same. AP Eagers' share price decreased in the weeks subsequent to the AGM.

4. On 12 July 2018, the company announced its forecast financial result for the half year ending 30 June 2019, noting that it expected a record NPBT for half year of $69.5 million exceeding the 2017 figure of $68.1 million. The company's share price increased over the following weeks, increasing 3.0% from $8.40 on 12 July 2018 to $8.65 on 25 July 2018.

Over the period 25 July 2018 to 21 December 2018, AP Eagers share price retracted strongly, falling from a price of $8.65 to close at $5.70 on 21 December 2018. Whilst this period coincided with a continuing decline in the performance of the automotive retailing sector more generally, other announcements made by AP Eagers included:

5. On 22 August 2018, AP Eagers announced its Half Yearly Report and Accounts and half year results presentation. Half year NPBT results were in line with the results announced on 12 July 2018.
6. On 13 September 2018, AP Eagers went ex-dividend following the dividend distribution of $0.14 per share.
7. On 14 November 2018, AP Eagers announced its forecast financial result for the year ending 31 December 2018. It noted that it expected to achieve NPBT for the year ending 31 December 2018 in the range of $126 to $130 million, compared to $135.6 million for 2017.

Over the period 21 December 2019 to 8 May 2019 AP Eagers' share price trended upward. Announcements over that period, included:

8. On 23 January 2019, AP Eagers announced an updated forecast financial result for the year ending 31 December 2018, increasing its NPBT guidance from a range of $126 to $130 million to a point estimate of $133.7 million.
9. On 7 February 2019, AP Eagers announced its response to the Banking Royal Commission noting there would be no material financial impact on the company.
10. On 20 February 2019, AP Eagers announced its Full Year Statutory Accounts and results presentation. NPBT results were in line with the results announced on 23 January 2019.
11. On 22 February 2019, AHG announced it would not distribute a dividend for the six months ended 31 December 2018. AP Eagers received $7.9 million in dividends from AHG for the 6 months ended 30 June 2017.

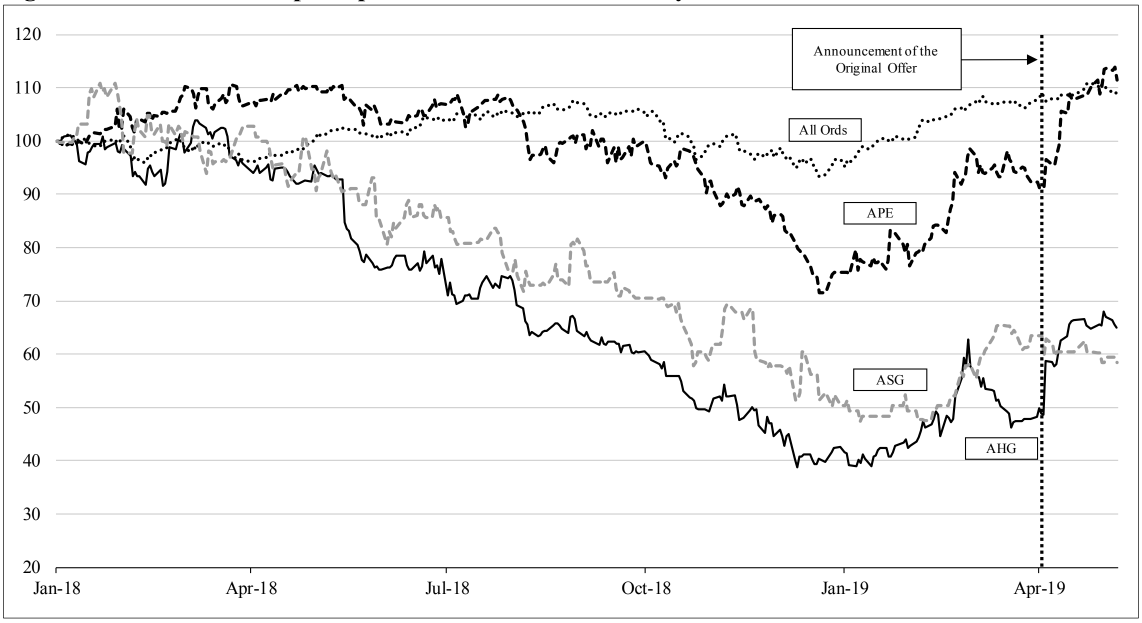
In the period since the announcement of the Original Offer on 4 April 2019, AP Eagers announced on 26 April 2019 that arrangements are in place for the sale of 3 properties, for a combined price of $55.5 million, with settlement to take place 22 May 2019. Aside from this announcement there has been no other significant announcements subsequent to 4 April 2019 other than in relation to the Original Offer and the Improved Offer and the release of the Company's annual report, the financial results of which were already advised to the market on 22 February 2019.

12. On 1 May 2019, AP Eagers announced that acceptance instructions for 22.5% of AHG shares on issue have been deposited with the institutional acceptance facility, which when aggregated with AP Eagers' 28.84% interest in AHG prior to the Original Offer equals 51.4%.
13. On 8 May 2019, AHG and AP Eagers jointly announced the Improved Offer.

9.10.2 Relative share price performance

The performance of AP Eagers shares from 1 January 2018 to 8 May 2019, relative to the S&P/ASX All Ordinaries Index and selected comparable companies (rebased to 100) is depicted in the following chart.

Figure 23: Relative share price performance since 1 January 2018



Source: Capital IQ; KPMG Corporate Finance analysis

This chart indicates that whilst there is a strong degree of correlation in the relative performance of Australian motor vehicle retailers over the period considered, AP Eagers outperformed its principal listed Australian peers but underperformed against the broader S&P/ASX All Ordinaries index prior to the announcement of the Original Offer. The general decline in sector performance over the period is not surprising given the recent economic and regulatory headwinds experienced by the motor retailing sector in Australia. Since the announcement of the Original Offer both AP Eagers and AHG have outperformed the broader market.

9.10.3 Liquidity

An analysis of the volume of trading in AP Eagers shares, including the VWAP for the 12 month period up to and including 4 April 2019 (being the last trading day prior to the announcement of the Original Offer) is set out in the following table.

Table 37: Trading liquidity in AP Eagers shares on the ASX pre-announcement of the Original Offer

Period ended 4 April 2019 inclusive	Share Price low $	Share Price high $	VWAP $	Cumulative value $ million	Cumulative volume million	Percentage of issued capital
1 day	7.25	7.28	7.27	0.1	0.0	0.0%
1 week	7.25	7.45	7.30	4.6	0.6	0.3%
1 month	7.24	7.83	7.39	8.4	1.1	0.6%
3 months	5.97	8.00	6.90	19.9	2.9	1.5%
6 months	5.66	8.00	6.97	48.7	7.0	3.7%
12 months	5.66	8.90	7.68	116.4	15.2	7.9%

Source: Capital IQ; KPMG Corporate Finance analysis.

AP Eagers shares have exhibited limited liquidity over the 12 month period to 4 April 2019, with approximately 7.9% of total shares on issue traded, at an average daily volume of 60,000 shares traded per day, with a daily value of approximately $0.46 million. We note that over this period AP Eagers shares were traded on 255 out of 255 available trading days on the ASX.

The current Directors of AP Eagers hold relevant interests in approximately 74.94 million AP Eagers shares (an approximate combined interest of 39.1%), which can be considered to be either strategic holdings or not freely tradeable, if these shares are excluded the volume of AP Eagers shares traded as a percentage of "free float" over the 12 months prior to the Original Offer increases to 12.9%. Accordingly, whilst the market for AP Eagers shares is not considered to be deep, it would appear that there is no material impediment to portfolio shareholders, which as noted previously represent approximately 71.6% of AP Eagers' shareholder base by number, in trading their shares should they so desire, assuming normal market conditions.

An analysis of the volume of trading in AP Eagers shares in the period from 5 April 2019 to 8 May 2019 inclusive is set out below.

Table 38: Trading liquidity in AP Eagers shares on the ASX post-announcement of the Original Offer

Period from 5 April to 8 May incl.	Share price low $	Share price high $	Share price VWAP $	Cumulative value $ million	Cumulative volume million	Percentage of issued capital
33 days	7.39	9.20	8.41	11.18	1.33	0.7%

Source: Capital IQ and KPMG Corporate Finance analysis

This analysis indicates that AP Eagers shares have traded sharply up in the period subsequent to the announcement of the Original Offer up to and including 8 May 2019, at an average daily volume of approximately 63,000 shares traded per day, with a daily value of approximately $0.53 million, representing a modest increase in daily trading volumes and value compared to the period prior to the announcement of the Original Offer. We note that over this period AP Eagers shares were traded on all available trading days on the ASX.

10 Profile of the Merged Group

10.1 Overview

If AP Eagers is successful in acquiring a 100% interest in AHG, AHG non-associated shareholders will initially own approximately 25.5% of the Merged Group[88], which will be headquartered in Brisbane, Queensland and renamed Eagers Automotive Group Limited. AHG non-associated shareholders will gain exposure and benefit from the improved investment characteristics of the Merged Group, including:

- significantly greater scale and geographical diversification
- potential to realise the benefits from cost synergies and improved margins
- potentially increased share trading liquidity and market re-rating
- stronger recent trading performance and balance sheet strength.

[88] AP Eagers' Third Supplementary Bidder's Statement. Excludes the effect of dilution on the exercise of any AP Eagers Performance Rights, AHG Options and AHG Performance Rights but includes the interest of AHG shareholders that may be determined to be "foreign shareholders" for the purpose of the Improved Offer

However, even if the Merged Group is ultimately created (by AP Eagers acquiring 100% of AHG), the extent to which benefits will be realised by Merged Group shareholders following completion of the Improved Offer currently remain uncertain, in that:

- there is a risk that the ACCC will require AP Eagers to provide structure undertakings in relation to the future conduct of the Merged Group's business as a condition of ACCC approval, which could include a requirement to divest various dealerships or other businesses. Any such undertakings, if accepted by AP Eagers so as to obtain ACCC approval, may adversely impact the ultimate value of the Merged Group shares received by AHG shareholders in consideration for their AHG shares.

  In considering this we note that whilst the Merged Group would represent by far the largest single vehicle retailer group in Australia, it would still only have an 11.9%[89] share of the overall Australian new vehicles sales market, along with a 3% market share in New Zealand. Notwithstanding this, we understand that the ACCC's consideration may extend to individual sub-regions and cities within States and Territories, and also potentially to brand concentration within individual areas.

  Furthermore, it is possible that the ACCC's review of the implications of the Improved Offer may still not be completed at the date the Improved Offer is scheduled to close[90]

- the current attitude and intentions of the OEMs in respect of the potential Merged Group is unknown. It is possible that individual OEMs may seek the Merged Group relinquish certain dealerships in areas where there is considered to be a significant degree of overlap and concentration
- the Improved Offer is not subject to a minimum acceptance threshold. In the event AP Eagers is not successful in acquiring 100% control of AHG, AP Eagers considers, and we concur, it is unlikely full benefit of any potential synergies will be available[91].

Summarised below are various investment characteristics of the Merged Group that would be relevant to Merged Group shareholders in the event that AP Eagers is successful in acquiring 100% of AHG.

As the Improved Offer is not conditional upon a minimum acceptance level, there is a multitude of potential outcomes in terms of AP Eagers' final interest in AHG, ranging anywhere from its 28.84% interest prior to the Original Offer through to 100% control. Whilst we are required under RG111 to complete our analysis assuming 100% control of AHG, we have included at Appendix 6 a brief discussion of various matters non-associated shareholders may wish to consider under two additional scenarios - AP Eagers acquires either a 50.1% controlling interest or a 49.9% significant influence in AHG for accounting purposes.

10.2 Scale and geographical diversification

In the event AP Eagers acquires a 100% interest in AHG, the Merged Group:

- will have direct exposure to all States and Territories of Australia, other than the ACT, with a total market share of new vehicle market of approximately 11.9%. In comparison, AHG's current principal geographic markets comprise Western Australia, New South Wales, Queensland, Victoria and New Zealand, with a 6.7% share of the Australian new vehicle market.

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[89] AP Eagers' Bidders Statement. Based on the AHG's estimate of 6.7% included in its FY2019 Half-Year Results presentation and AP Eagers' 5.2% estimate set out in its 2018 Full Year Presentation

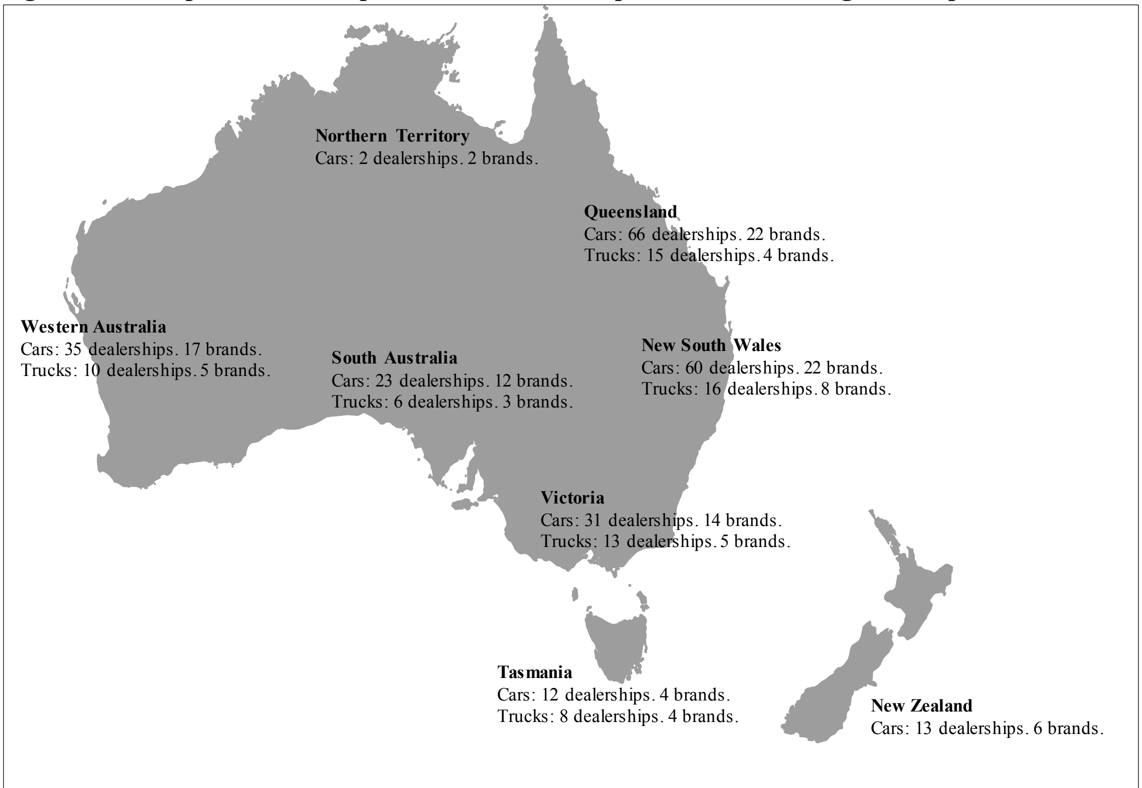
[90] Currently 16 September 2019 unless extended or withdrawn

[91] AP Eagers' Bidders Statement, Section 2

- is expected by AP Eagers to combine its 108 new car dealerships and 33 truck and bus dealerships[92] with AHG's 115 dealership locations[93], representing a combined 33 car brands and 12 truck and bus brands. AP Eagers will achieve an immediate significant footprint in Western Australia, a geographic market in which AP Eagers currently does not have a presence, and also in the important Sydney market, where AP Eagers only operates one dealership site.

The figure below depicts the Merged Group's dealership locations and brand portfolio.

Figure 24 Anticipated dealership locations and brand portfolio of the Merged Group



Source: Bidder's Statement

We note however that the final market share and number of dealerships of the Merged Group will be dependent upon the outcome of the ACCC deliberations and the continued support by the OEMs of a status quo.

AP Eagers has indicated that it intends to pursue the divestment of AHG's Refrigerated Logistics business, but subject to the outcome of an operational review will continue to operate AHG's other existing businesses[94].

[92] Section 4 of the Bidder's Statement.

[93] AHG FY2019 Half-Year Results presentation.

[94] AP Eagers Management.

10.3 Potential cost savings and synergies

10.3.1 Cost savings and synergies available to a pool of purchasers

We have been provided with a schedule prepared by AHG that sets out the Company's assessment of the cost savings and synergy benefits that are likely to be available to a pool of purchasers of a 100% interest in AHG (including AP Eagers). These synergy benefits and cost savings total in the order of approximately $4.7 million per annum (in 2019 pre-tax dollars), reflecting principally the removal of duplication and the rationalisation of corporate head office, occupancy and compliance costs.

The quantum of these cost savings and synergies has been determined based on AHG's assessment that given its size and scale of operation the only logical purchaser, other than AP Eagers, is a financial buyer or an overseas automotive group. Accordingly, AHG's estimate of potential pre-tax cost savings and synergies reflects an assumption that the pool of purchasers comprises parties with no existing operations or infrastructure within Australia.

10.3.2 Cost savings and synergies unique to AP Eagers

In addition to the abovementioned cost savings and synergies, having regard to the existing operational profile and location of AHG's and AP Eagers' asset bases and the combined size of the Merged Group, AHG considers that there may be various additional cost savings and synergies unique to AP Eagers in completing the Improved Offer in the order of $26.6 million per annum (in 2019 pre-tax dollars), including that the Merged Group may be able to achieve additional indirect synergies as a result of operational economies of scale and various revenue and/or selling synergies.

We have considered the nature of these unique benefits in our consideration of the reasonableness of the Improved Offer.

In contrast, AP Eagers has estimated that the Merged Group could potentially realise pre-tax cost synergies in the order of $13.5 million per annum, principally from removal of duplicated operational and corporate costs, but acknowledges that it has not had the benefit of discussing these with the Board and management of AHG or has had sufficient information to develop a detailed integration plan.

We also note that there is the potential for various negative synergies (dis-synergies) to emerge as result of the combination of the AHG and AP Eagers businesses, including the potential requirement for the Merged Group to divest profitable dealerships.

10.4 Potential increase in share trading liquidity and market re-rating – 100% control

AHG has approximately 331.6 million ordinary shares on issue, of which approximately 236.0 million are held by non-associated shareholders. AP Eagers has approximately 191.3 million ordinary shares on issue. Having regard to the exchange ratio of 1 new AP Eagers ordinary share for every 3.6 AHG ordinary shares on issue, AP Eagers estimates that the number of shares on issue in the Merged Group, assuming AP Eagers acquires a 100% interest in AHG, will total approximately 256.9 million[95]. The table below summarises the ownership structure immediately following completion of the Improved Offer, all other things being equal.

[95] Excludes the effect of dilution on the exercise of any AP Eagers Performance Rights, AP Eagers Options and AHG Performance Rights but includes the interest of AHG shareholders that may be determined to be "foreign shareholders" for the purpose of the Improved Offer.

Table 39: Non-associated shareholders interest in the Merged Group post the Improved Offer

	Pre-Offer shares millions	Acceptance %	Exchange ratio	Post-Improved Offer shares millions	%
AHG non-associated shareholders	235,990,656	100%	1:3.6	65,552,960	25.5%
Existing AP Eagers shareholders	191,309,301	n/a	n/a	191,309,301	74.5%
Total shares post completion				**256,862,261**	

Source: AP Eagers Bidders Statement, ASX Announcements and KPMG Corporate Finance Analysis

Mr Politis and associated entities currently hold a relevant interest in approximately 36.4% of AP Eagers' issued capital, making him AP Eagers' largest shareholder. It is expected that Mr Politis and associated entities will hold approximate 27.1% of the Merged Group's issued capital immediately following completion of the Improved Offer (assuming AP Eagers acquires 100% interest in AHG)[96].

Based on current trading prices for AP Eagers and the number of shares on issue in the Merged Group above, the Merged Group will have a market capitalisation in excess of $2.3 billion.

Notwithstanding its current market capitalisation, AP Eagers is not included in the S&P/ASX 200 index, seemingly because it is not currently deeply traded. The significantly larger market capitalisation of the Merged Group, coupled with a larger shareholder base and increased level of "free float" can reasonably be expected to result in an increased daily trading volume compared to AP Eagers as a stand-alone entity, which may, in time, result in its inclusion in this index and, in turn, greater interest from investment funds and institutional investors.

10.5 Financial impact – 100% control

Section 9 of the Bidder's Statement sets out solely for illustrative purposes AP Eagers' calculation of the pro forma financial performance and cash flows of the Merged Group, under various scenarios in terms of AP Eagers' ultimate interest in AHG, for the 12 months ended 31 December 2018, along with the pro forma financial position as at 31 December 2018 (including a description of the assumptions and adjustments made). Section 9.10 of the Bidder's Statement and Section 5 of the Third Supplementary Bidder's Statement sets out pro forma financial information assuming that AP Eagers acquires 100% of AHG.

We make the following observations in relation to AP Eagers' pro forma financial information generally:

- the pro forma financial information has been prepared on the basis of AP Eagers' audited financial report for CY18, AHG's audited financial report for FY18 and AHG's independently reviewed 1H17 and 1H18 financial reports
- no adjustments have been made for anticipated synergies and costs of realisation, from combining AHG and AP Eagers or transaction costs associated with the Improved Offer
- no adjustment has been made for differences in accounting policies nor any fair value adjustments that may be required following completion of the offer under AASB 3 "Business Combinations".

[96] Section 5.2 of AP Eagers' Third Supplementary Bidder's Statement

10.5.1 Pro forma financial performance

Set out below is a summary of the pro forma financial performance of the Merged Group prepared by AP Eagers for the 12 months ended 31 December 2018[97], along with various metrics calculated by KPMG Corporate Finance based on the pro forma financial performance.

Table 40: Merged Group pro forma financial performance for the 12 months ended 31 December 2018

Pro forma unaudited statement of profit or loss 100% acquisition scenario - $ million	12 months ended 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Revenue	4,112.8	6,526.7	(13.9)	10,625.6
Other gains	8.5	3.9	-	12.4
Share of net profits of associate	0.1	0.4	-	0.5
Changes in inventories of finished goods and works in progress	39.5	-	-	39.5
Raw materials and consumables purchased	(3,439.6)	(5,033.0)	-	(8,472.7)
Employee benefits expense	(330.6)	(806.8)	-	(1,137.4)
Other expenses	(214.7)	(822.4)	322.3	(714.8)
EBITDA¹	**175.9**	**(131.2)**	**308.4**	**353.1**
Depreciation and amortisation expense	(15.6)	(59.5)	-	(75.1)
EBIT²	**160.3**	**(190.7)**	**308.4**	**277.9**
Finance costs	(26.5)	(48.4)	-	(75.0)
Income tax (expense)/benefit	(32.6)	9.4	(31.7)	(54.9)
NPAT	**101.2**	**(229.8)**	**276.7**	**148.1**
Profit / (Loss) attributable to:				
Owners of the Merged Group	99.6	(233.7)	276.7	142.6
Non-controlling interests	1.6	3.9	-	5.5
	101.2	**(229.8)**	**276.7**	**148.1**
Statistics:				
Weighted average ordinary shares on issue (million)	*191.3*	*331.6*		*256.9*
Basic earnings per share ($)³	*0.52*	*-0.70*		*0.56*
Diluted earnings per share⁴	*0.52*	*-0.70*		*0.54*
Dividends per share ($)	*0.37*	*0.07*		*0.36*
Dividend payout ratio (%)	*70%*	*nmf*		*65%*
Dividend franking (%)	*100%*	*100%*		*100%*
EBITDA margin (%)	*4.3%*	*-2.0%*		*3.3%*
EBIT margin (%)	*3.9%*	*-2.9%*		*2.6%*
EBIT interest cover (times)⁵	*6.0*	*nmf*		*3.7*

[97] KPMG Corporate Finance has not had any involvement in the preparation of the pro forma financial information prepared by AP Eagers and has assumed that it has been prepared appropriately. The pro forma financial information is provided solely for illustrative purposes and the final financial information is expected to differ, potentially materially, from that presented following the completion of acquisition accounting.

Source: Bidder's Statement, AP Eagers Annual Report for the year ended 31 December 2018, AHG Annual Report for the year ended 30 June 2018, AHG Half-Year Reports for the year 6 months ended 31 December 2017 and 31 December 2018, KPMG Corporate Finance Analysis

Notes:

1. *EBITDA is earnings before interest, tax, depreciation and amortisation and equity accounted investments*
2. *EBIT is earnings before interest, tax and equity accounted investments*
3. *Basic earnings per share is calculated by dividing net profit attributable to the members of the parent entity by the weighted average number of ordinary shares outstanding during the year*
4. *Diluted earnings per share is calculated by dividing net operating profit attributable to the members of the parents entity by the weighted average number of ordinary shares outstanding during the year plus 329,818 AP Eagers shares deemed to be issued for no consideration in respect of employee options. AHG has no instruments that have a dilutive effect on earnings per share as at 31 December 2018.*
5. *Interest cover is EBIT divided by finance costs*
6. *"nmf" means not meaningful*
7. *May not add exactly due to rounding*

We make the following observations in relation to AP Eagers' Merged Group pro forma financial performance for the year ended 31 December 2018:

- dividend income received by AP Eagers' from AHG as a result of its pre-Original Offer shareholding in AHG has been removed
- items included in AHG's reported financial performance identified by AP Eagers as being one-off and unusual items have been removed. The impact of this adjustment has been to increase the Merged Group's EBITDA by $322.2 million and NPAT by $290.6 million and, in turn, pro forma basic EPS by $1.14
- after taking into the account the abovementioned adjustment to the standalone results of AHG, the contribution AHG to the Merged Group's:
  - EBITDA increases to $191.1 million, representing a contribution of approximately 54% to the overall Merged Group's EBITDA result
  - NPAT attributable to AHG increases to $56.9 million, representing a contribution approximately 40% to the overall Merged Group's NPAT attributable to owners result
- the Merged Group's pro forma EBIT interest cover falls from 6.0 times to 3.7 times, reflecting AHG's higher relative finance costs to adjusted EBIT ratio compared to AP Eagers as stand-alone entities
- the pro forma dividend per share calculated by us reflects actual dividends declared by the companies during CY18 and that AHG's dividend program was suspended in respect of 1H19 and therefore only includes the final dividend paid by AHG in relation to 2H18, which in turn has impacted upon the implied dividend payout ratio.

10.5.2 Pro forma financial position

Set out below is the pro forma financial position of the Merged Group as at 31 December 2018, prepared by AP Eagers along with various metrics calculated by KPMG Corporate Finance.

Table 41: Merged Group pro forma financial position as at 31 December 2018

Pro forma unaudited statement of financial position 100% acquisition scenario - $ million	As at 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Current assets				
Cash and cash equivalents	18.9	64.6	-	83.4
Trade and other receivables	156.3	349.1	-	505.4
Inventories	690.2	1,129.0	-	1,819.1
Prepayments and deposits	12.6	34.4	-	47.0
Assets held for sale	-	2.6	-	2.6
Total current assets	**877.9**	**1,579.6**	**-**	**2,457.6**
Non-current assets				
Other loans receivable	8.3	-	-	8.3
Financial assets at fair value through other comprehensive income	149.8	-	(149.2)	0.6
Financial assets at fair value through profit and loss	-	7.2	-	7.2
Investments in associates	12.1	1.1	-	13.2
Property, plant and equipment	388.4	397.1	-	785.5
Intangible assets	313.3	323.2	122.2	758.7
Deferred tax assets	17.8	77.1	(21.6)	73.3
Total non-current assets	**889.7**	**805.7**	**(48.5)**	**1,646.9**
Total assets	**1,767.7**	**2,385.3**	**(48.5)**	**4,104.4**
Current liabilities				
Trade and other payables	145.9	365.7	-	511.6
Derivative financial instruments	0.0	-	-	0.0
Borrowings - bailment and other current loans	571.6	1,019.5	-	1,591.1
Current tax liabilities / (receivable)	2.2	(3.9)	-	(1.7)
Provisions	48.5	101.4	-	149.9
Other current liabilities	5.9	-	-	5.9
Total current liabilities	**774.1**	**1,482.7**	**-**	**2,256.8**
Non-current liabilities				
Borrowings	312.6	309.7	-	622.3
Deferred tax liabilities	-	10.2	-	10.2
Provisions	5.1	57.5	-	62.5
Other	19.4	-	-	19.4
Total non-current liabilities	**337.1**	**377.3**	**-**	**714.4**
Total liabilities	**1,111.2**	**1,860.1**	**-**	**2,971.3**
Net assets	**656.5**	**525.3**	**(48.5)**	**1,133.2**
Less: Non-controlling interests	(8.0)	(16.6)	-	(24.6)
Net assets attributable to members of the Merged Group	**648.5**	**508.6**	**(48.5)**	**1,108.6**
Statistics:				
Shares on issue at period end (million)	*191.3*	*331.6*		*256.9*
Net working capital as a percentage of Revenue	*17%*	*18%*		*17%*
Net assets per share ($)[1]	*3.43*	*1.58*		*4.41*
Net tangible assets per share ($)[2]	*1.79*	*0.61*		*1.46*
Gearing[3]	*57%*	*71%*		*65%*
Gearing (excl. bailment finance)[4]	*31%*	*35%*		*34%*

Source: Bidder's Statement, Third Supplementary Bidder's Statement, AP Eagers Annual Report for the year ended 31 December 2018, AHG Annual Report for the year ended 30 June 2018, AHG Half-Year Reports for the 6 months ended 31 December 2017 and 31 December 2018, KPMG Corporate Finance Analysis

Notes:

1. *Net assets per share is calculated as net assets divided by the number of shares at period end*
2. *Net tangible assets per share is calculated as net assets, less intangible assets, divided by the number of shares at period end*
3. *Gearing represents net borrowings, divided by net assets plus net borrowings*
4. *Gearing (excl. bailment finance) represents net borrowings excluding bailment finance, divided by net assets plus net borrowings excluding bailment finance*
5. *May not add exactly due to rounding*

We make the following observations in relation to the AP Eagers' pro forma financial position as at 31 December 2018:

- no adjustment has been made differences in accounting policies nor any fair value adjustments that may be required under AASB 3 "Business Combinations"
- the existing AHG Shares held by AP Eagers prior to the Announcement Date have been revalued based on a price for AHG Shares of $1.78 (being the closing price for AHG Shares on 4 April 2019, the last trading day prior to the announcement of the Original Offer)
- AP Eagers investment in AHG has been eliminated on consolidation
- AP Eagers' cash and external debt positions are not expected to be materially impacted by the Improved Offer as the consideration to be provided to AHG non-associated shareholders is in the form of new AP Eagers ordinary shares
- The Merged Group's pro forma net tangible asset backing per share of $1.46 compares to an implied $2.19 for 3.6 AHG shares based on the exchange ratio
- The Merged Group's pro forma gearing of 65% is lower than AHG as a standalone entity at 71%.

10.5.3 Pro forma cash flows

Set out below is the pro forma cash flows of the Merged Group for the 12 months ended 31 December 2018 prepared by AP Eagers.

Table 42: Merged Group pro forma cash flow for the year ended 31 December 2018

Pro forma unaudited statement of cash flows 100% acquisition scenario - $ million	12 months ended 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	4,495.5	7,164.0	-	11,659.5
Payments to suppliers and employees (inclusive of GST)	(4,369.2)	(6,915.3)	-	(11,284.6)
Receipts from insurance claims	16.1	-	-	16.1
Interest and other costs of finance paid	(26.5)	(48.4)	-	(74.9)
Income taxes paid	(41.0)	(17.0)	-	(58.0)
Dividends received	13.9	-	(13.9)	-
Interest received	0.2	1.0	-	1.1
Net cash provided by operating activities	**89.0**	**184.2**	**(13.9)**	**259.3**
Cash flows from investing activities				

Pro forma unaudited statement of cash flows 100% acquisition scenario - $ million	12 months ended 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Payment for acquisition of businesses - net of cash acquired	(5.1)	(18.6)	-	(23.7)
Payments for property, plant and equipment	(38.9)	(66.3)	-	(105.2)
Proceeds from sale of businesses	2.8	-	-	2.8
Proceeds from sale of property, plant and equipment	19.5	40.7	-	60.2
Proceeds from sale of available-for-sale financial assets	-	0.3	-	0.3
Dividends and distributions received	-	0.4	-	0.4
Payments for shares in other corporations	(43.1)	-	-	(43.1)
Net cash used in investing activities	**(64.9)**	**(43.5)**	**-**	**(108.4)**
Cash flows from financing activities				
Proceeds from issue of shares and other equity securities	4.7	-	-	4.7
Payments for shares acquired by the trust	(14.0)	-	-	(14.0)
Proceeds from borrowings	95.0	-	-	95.0
Repayments of borrowings	(30.4)	(51.1)	-	(81.5)
Transactions with non-controlling interest	(1.1)	-	-	(1.1)
Dividends paid to members of Merged Group	(69.8)	(54.1)	13.9	(110.0)
Dividends paid to minority shareholders of a subsidiary	(0.4)	(9.8)	-	(10.2)
Net cash used in financing activities	**(16.0)**	**(114.9)**	**13.9**	**(117.1)**
Net increase in cash and cash equivalents	**8.0**	**25.7**	**-**	**33.8**
Cash and cash equivalents at the beginning of the financial year	10.8	38.9	-	49.7
Cash and cash equivalents at the end of the financial year	**18.9**	**64.6**	**-**	**83.4**

Source: Bidder's Statement, KPMG Corporate Finance Analysis
Note: May not add exactly due to rounding

10.6 Merger and integration risks

Whilst the core business of the Merged Group will not change fundamentally from that currently carried on by AHG as a stand-alone entity, there are various matters non-associated shareholders may wish to consider, including:

- the business of the Merged Group will be more concentrated on new motor vehicle sales, with the performance of AHG's Refrigerated Logistics and Other Logistics segments representing a reduced proportion of overall earnings as compared to AHG as a stand-alone entity
- of the current 108 new car dealerships operated nationally by AP Eagers, a significant portion are operated from freehold premises owned by AP Eagers, in contrast AHG's business is conducted entirely from leased premises
- the Merged Group's success and profitability could be adversely affected if AHG's business is not effectively integrated with AP Eagers. There is also always the risk that, even in the event that AP Eagers is successful in acquiring a 100% interest in AHG, synergies may not be realised, may be realised over a time-frame that is longer than anticipated and/or that implementation costs are higher than anticipated. Furthermore, as noted above, there is a risk that the Merged Group may be required

to divest a number of existing dealerships. Having regard to the current subdued national new vehicle sales market, there is a risk that the Merged Group will be required to realise these dealerships within a timeframe that results in a sub-optimal price

- various contracts entered into by AHG may contain change of control provisions. It may be that the counterparties to these contracts seek to exit or renegotiate these contracts on terms less favourable to the Merged Group than currently enjoyed by AHG, although this is not considered likely to be a material issue
- It is AP Eagers' current intention that, post-implementation, to select a senior management team for the Merged Group from the senior management groups of both companies. Loss of senior management personnel from the AHG and AP Eagers business could have an adverse effect on the Combined Group and the prospect of successful integration.

From a corporate perspective:

- immediately following completion of the Improved Offer, Mr Politis and associated entities are expected to hold approximately 27.1% of the shares of the Merged Group. Mr Politis, by virtue of substantial holding in the Merged Group and existing position as a Director of AP Eagers, will, within the limits of his fiduciary obligations, have the capacity to influence the election of directors and the potential to influence the outcome of matters submitted to a vote of shareholders
- given the Improved Offer consideration does not include a cash component, completion of the Improved Offer is not expected to give rise to a need for AP Eagers to seek additional funding.
- it is possible that the Board of the Merged Group will have a different view in relation the current dividend policies of either AHG or AP Eagers as stand-alone entities, which may result in an increase or decrease in the absolute dollar value of dividends that may have been received as AHG shareholders.

AP Eagers has identified various risks associated with the business and operations of the Merged Group, which are discussed at Section 10 of the Bidders Statement. We recommend non-associated shareholders consider these risks in deciding whether or not to accept the Improved Offer.

10.7 Directors and management

AP Eagers intends to replace all members of the Board of the AHG group (and of the board of any company on which AHG has nominee directors, if any) with AP Eagers nominee directors.

Those nominees have not yet been identified by AP Eagers however AP Eagers has advised that it intends to invite three members of the current Board of AHG to join the Board of the Merged Group.

10.8 Transaction costs

AHG and AP Eagers will both incur transaction costs in relation to the Improved Offer, primarily relating to financial advisory, legal, independent expert and administrative fees, transaction document design and printing, share registry and other expenses. These costs have not been adjusted for in the pro forma financial information.

11 Valuation of AHG

11.1 Summary

We have assessed the value of the equity of AHG to lie in the range of $879 million to $1,003 million, which equates to an assessed value per AHG share (on a fully diluted basis[98]) of between approximately $2.64 and $3.01. Our range of assessed values represents the value of a 100% interest in AHG and includes a premium for control. As the valuation includes a control premium, it exceeds the price at which we expect AHG shares would trade on the ASX in the absence of the Improved Offer.

We have assessed the value of AHG by aggregating the estimated market value of each of AHG's operating businesses, adding assets considered to be surplus to the operating businesses of AHG and deducting net borrowings (excluding floorplan debt) and non-trading liabilities.

KPMG Corporate Finance has determined the value of AHG's operating businesses to be in the range of $1,131 million to $1,242 million. The valuation is based on a 'sum of the parts' methodology which aggregates the value for each of AHG's segments. The value of each of AHG's segments (other than easyauto123) was determined using a Capitalised Earnings approach. The value of easyauto123 was determined using a discounted cash flow (**DCF**) methodology. Our rationale for the selection of these methodologies is set out in Section 11.2 of this report.

The value of each of AHG's operating business has been assessed on the basis of market value, that is, the value that should be negotiated between a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed. Our range of assessed values for an AHG share excludes the value attributable to cost savings and other benefits that AP Eagers may realise in completing the acquisition of AHG which are unique to AP Eagers, however, takes into consideration the synergies and benefits available to a pool of potential purchasers (refer to Section 11.3 of this report).

Set out below is a summary of the range of values at which AHG's shares have been assessed:

Table 43: Summary of assessed range of value

$ millions unless otherwise stated	Section reference	Valuation range Low	High
Value of AHG's operating businesses:[1]			
Automotive Retail	11.4	886.0	943.0
Refrigerated Logistics	11.5	195.0	245.0
Other Logistics	11.5	49.5	54.0
Value of AHG operating businesses (minority basis)		**1,130.5**	**1,242.0**
Other assets/(liabilities)(net)	11.6	(46.3)	(45.9)
AHG enterprise value (minority basis)		**1,084.2**	**1,196.1**
Net borrowings (excluding floorplan debt)	11.7	(284.7)	(284.7)
Value of AHG equity (minority basis)		**799.4**	**911.3**
Value of AHG equity (control basis)[2]	**11.3**	**879.4**	**1,002.5**
Number of shares outstanding - diluted (million)	8.9	333.2	333.2
Value per AHG share - diluted ($)		**2.64**	**3.01**

Source: KPMG Corporate Finance Analysis

[98] Assumes that the AHG Board determines that all of the performance rights (1,592,002) vest in the event of a change of control. The AHG Board has not made a decision as to whether the performance rights will vest as a result of the Improved Offer.

Notes:
1. *All corporate costs have been allocated to segments in AHG's statutory accounts.*
2. *Includes 10% control premium as discussed in Section 11.3 of this report.*

Our valuation range of $2.64 to $3.01 per share reflects a premium over the closing price of AHG shares immediately prior to the announcement of the Original Offer of between 48% and 69%. This premium in part reflects a valuation of 100% of AHG inclusive of a control premium, rather than a valuation of a portfolio interest in the company as traded on ASX. However, in our opinion, it is also in part likely to be a consequence of:

- investors may be discounting the AHG share price as a result of its ownership of Refrigerated Logistics and Other Logistics, which investors may perceive as not being a natural fit with the core Automotive Retail business. Furthermore, Refrigerated Logistics has been a drag on AHG's earnings and cash flow (particularly amid the disruption caused by the failed sale process and the transformation program). We note that the AHG share price increased by 10% in the two weeks following the announcement of the sale of Refrigerated Logistics on 23 November 2017 and declined by 9% on 9 July 2018 following the announcement that the sale had been terminated
- the full impact of regulatory changes to finance and insurance commissions has not yet been realised, with management expecting that the full impact will not be reflected until FY19
- investors, particularly those focused on yield, are likely applying a discount to AHG's share price to reflect that the AHG Board suspended the dividend program for 1H19
- market disappointment in relation to AHG's recent negative earnings momentum (downward revision to guidance and year-on-year declines) and substantial asset impairments in 1H19
- Automotive Retail's exposure to the currently weak automotive retailing market in Western Australia. Our valuation takes into account the cyclical downturn in Western Australia and adopts a 'through the cycle' approach to valuation
- uncertainty which may exist as to AHG's ability to vigorously pursue the various restructuring and business transformation initiatives it has in train and/or announced given that the reason for the suspension of the dividend program was to reinvest in the company's balance sheet. In this regard, in the absence of a sale of Refrigerated Logistics (or any other assets), AHG is expected to continue to pay down debt and may have limited cash available to pursue growth opportunities in Automotive Retail or pay a dividend.

11.2 Selection of valuation methodology

In the absence of any market distortion, the most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. Where direct market evidence is unavailable, estimates of value are made using methodologies that infer value from other available evidence. Commonly used valuation methodologies for estimating the value of a business include:

- the capitalisation of maintainable earnings (**Capitalised Earnings**)
- DCF
- estimated net proceeds from an orderly realisation of assets (**Net Assets**)

These methodologies are discussed in further detail in Appendix 3.

Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is often adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as Capitalised Earnings and DCF are commonly used as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradeable or asset rich Net Assets is typically adopted as there tends to be minimal goodwill, if any.

Application of the DCF methodology requires estimation of cash flows for a number of years and discounting those cash flows back to present value. AHG has provided forecasts for FY19 and FY20 which are based on a constant 'run rate' of car sales volumes, however, has not prepared long term cash flow forecasts. We note that forecasting long term cash flows in the automotive retailing industry at present is challenging as a result of the cyclical nature of vehicle sales, recent regulatory changes to finance and insurance commissions, including the development of new financial products and business models, emission standards and vehicular and digital technology disruption. As such, we do not consider there to be a reasonable basis to prepare long term cash flows for the automotive segment at present.

Given each of AHG's segments have established a track-record of through the cycle profitable earnings and there is no basis to expect that any of the business units will be unable to continue indefinitely, we have adopted Capitalised Earnings as a primary reference point. An exception is easyauto123, which is expected to break even by the end of FY19, with the first full year of positive earnings being FY20. Notwithstanding the challenges noted above in relation to the preparation of DCF analysis at present, reflecting that easyauto123 is essentially in ramp up phase (yet to establish a track record of earnings but now at a point in its development to suggest that it will provide a positive earnings contribution in the near future), we consider that it likely has value over and above net assets employed and that its value is best estimated based on a DCF analysis prepared on assumptions discussed with management.

Application of the Capitalised Earnings approach involves the capitalisation of the earnings or cash flows of a business at a multiple that reflects the risks of the business and the future growth prospects of the income it generates. Application of this methodology requires professional judgement as to:

- a level of average real earnings or cash flows expected to be maintainable indefinitely notwithstanding the impact of cyclical factors on short term results, adjusted for non-recurring items and other known factors likely to impact on future operating performance, and
- an appropriate capitalisation multiple that reflects the risk and real growth prospects associated with the level of real earnings being capitalised. The capitalisation multiple is usually determined having regard to market evidence derived from comparable transactions and sharemarket prices for comparable companies, whilst also considering the specific characteristics of the business being valued.

A Capitalised Earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. The choice between parameters is usually not critical and should give a similar result. However, we note that EBITDA is commonly used in capital intensive industries where differences in depreciation and amortisation policies adopted by market participants can make comparisons between companies difficult. Logistics businesses are capital intensive as a result of the need to maintain assets used to transport goods (i.e. fleets of vehicles, rail containers, storage pallets, etc.) and refrigerated logistics businesses are often more capital intensive than otherwise similar logistics companies. Consequently, multiples of EBITDA have been used in valuing Refrigerated Logistics and Other Logistics.

In the case of automotive retailing companies, multiples of Operating EBITDA after floorplan financing and EBIT after floorplan financing are commonly used since floorplan financing is considered to be operating, rather than financing, in nature.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. With regard to the multiples applied in a Capitalised Earnings approach, they are generally based, where sufficient evidence exists, on implied multiples paid in recent actual transactions in a comparable sector and/or on the multiples implied by trading in comparable listed companies, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

11.3 Control premium

It is generally acknowledged that, in order to acquire a 100% controlling interest in a company, the acquirer should pay a premium over and above the traded price of a minority or portfolio interest.

Our analysis indicates that successful acquisitions transactions are most commonly completed with an implied acquisition premium in the order of 25% to 40%[99] to the pre-trading equity price of the target, however, there is a wide range of premiums outside these parameters. In considering the evidence provided by actual transactions, it is important to recognise, however, that the observed premium for control is an outcome of the valuation process, not a determinant of value and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

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[99] Source: Based on unaffected share price prior to announcement of the transaction, calculated by Mergerstat for 1 January 2008 to 31 December 2018. Discussed fully in Section 8.9 of this report.

It is inappropriate to apply an average premium without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering. Accordingly, an assessment as to an appropriate control premium, if any, is essentially a matter of judgement.

Consistent with the requirements of RG111, in valuing AHG we have assumed 100% ownership, and therefore included a premium for control. In the case of AHG, we have been unable to identify any automotive retailers in Australia (other than AP Eagers) with sufficient scale that are likely to be able to complete an acquisition of AHG. However, we consider the potential for either an overseas automotive retailer or a financial buyer to exist, both of which could save public company costs (e.g. directors fees, ASX listing costs). We note that AHG management has estimated approximately $4.7 million per annum would be available to a party without any existing operational infrastructure in Australia. In addition, they may also be able to achieve working capital efficiencies and an overseas automotive retailer may also achieve limited back office synergies or be able to leverage information technology systems. There may also be strategic value for an overseas industry buyer in obtaining a foothold in the Australian market. Consequently, we consider a small control premium say, 10%, which encompasses both the identified cost savings and strategic value, could reasonably be expected to be paid by one of these parties.[100]

A number of the benefits that may be available to a potential acquirer are not easily quantifiable. Consequently, we have not adjusted AHG's maintainable earnings to reflect the total direct and indirect cost savings and benefits available to a pool of purchasers of AHG.

In addition, there are no transactions involving Australian automotive retailers of sufficient scale for which there is sufficient information to be able to calculate meaningful multiples. Consequently, we have valued each of AHG's segments on a minority basis based on multiples at which comparable listed companies are traded and a control premium has been added to the value assessed for AHG's equity.

11.4 Value of Automotive Retail operating business

11.4.1 Summary

KPMG Corporate Finance has determined the value of Automotive Retail's operating business to be in the range of $886 million to $943 million. The selected value range takes into consideration the value of Automotive Retail's operating business (excluding easyauto123) based on capitalising an assessed maintainable EBITDA after floorplan interest. Easyauto123, which is a relatively new business and not yet profitable, has been valued separately based on a DCF methodology.

Table 44: Value of Automotive Retail's operating business

$ millions unless otherwise stated	Valuation range Low	High
Automotive Retail (excluding easyauto123)		
Maintainable earnings (EBITDA after floorplan interest)	110.0	110.0
Capitalisation multiple	8.0	8.5
Value of Automotive Retail operating business (ex easyauto123)	**880.0**	**935.0**
Value of easyauto123	6.0	8.0
Value of Automotive Retail operating business	**886.0**	**943.0**

Source: KPMG Corporate Finance Analysis

[100] Excludes any special value that is only available to AP Eagers.

11.4.2 Maintainable earnings

As the term suggests "maintainable earnings" should reflect the earnings that can be achieved in the future on an ongoing basis. Various adjustments have been made to Automotive Retail's operating earnings in order to provide an indication of earnings going forward.

Table 45: Operating EBITDA and EBIT for Automotive Retail

	Actual				Broker forecasts[1]		
	FY16	FY17	FY18	CY18	FY19	FY20	FY21
Operating EBITDA	177.9	171.0	166.1	147.8	139.1	151.6	163.3
Less: floorplan interest	(25.5)	(28.5)	(32.0)	(36.5)	(32.0)	(33.0)	(33.0)
Operating EBITDA after floorplan interest	**152.5**	**142.5**	**134.1**	**111.3**	**107.1**	**118.6**	**130.3**
Less: finance and insurance EBITDA lost as at 31 December 2018[2]	(53.4)	(38.0)	(7.3)	-	-	-	-
Less: income from sale of insurance trailing commissions	-	-	(10.2)	(10.2)	1.8	1.8	1.8
Reallocation of corporate overheads	0.5	(0.4)	(0.8)	(0.6)	(0.8)	(1.2)	(1.1)
Adjusted EBITDA	**99.6**	**104.2**	**115.7**	**100.5**	**108.1**	**119.2**	**131.0**
Add back: EBITDA after floorplan interest for easyauto123	(0.4)	0.5	7.0	10.6			
Adjusted EBITDA excluding easyauto123	**99.2**	**104.7**	**122.7**	**111.1**			

Source: KPMG Corporate Finance Analysis
Notes:
1. *Only one broker forecasts floorplan interest.*
2. *Refer to calculations below.*

We note that broker forecasts for Automotive Retail are largely consistent with management's revised expectations for the segment.

In assessing future maintainable earnings for Automotive Retail (excluding easyauto123), the following factors have been considered:

- ***cyclical factors:*** automotive retailing is a cyclical industry, particularly in relation to 'front end' car sales, including new and used vehicle sales, finance and insurance commissions and aftermarket care. 'Back end' sales, including service and parts and distribution, tend to be less cyclical as they depend on the total number of vehicles in operation. Truck sales have their own, shorter cycle which depends on a range of factors (refer to Section 7 of this report).

  Car sales in Australian east coast markets where AHG operates (61% of FY18 AHG's new vehicle sales[101]) have declined since March 2018 and in the 9 months to 31 March 2019, were down 8.9% relative to the corresponding period in the prior year. However, we note that AHG's most comparable peers (i.e. AP Eagers, Autosports) have a similar geographic exposure and consequently, the decline across east coast markets (and any potential upside) should be reflected in their multiples.

  Significantly, AHG has a greater exposure to the Western Australian market than the most comparable companies. New and used car sales in Western Australia represented 25% and 37% of AHG's new and used vehicle sales in FY18, respectively (refer to Section 8.2.2 of this report). As noted in Section 7 of this report, new vehicle sales in Western Australia were down 24.1% in FY18 relative to the peak in FY12. The impact of lower volumes on AHG's new car business is amplified

[101] Refer to Section 8.2.2 of this report for AHG's vehicle sales by state.

as when volumes decline, margins also decline as cars are sold at a discount to clear excess inventory and achieve factory targets.

At the same time, AHG has also taken steps to close loss making operations and reduce costs, partially mitigating the impact of the market decline, and has also undertaken acquisitions and greenfield developments during this time. Whilst the future maintainable earnings that is selected is intended to represent that level of earnings that is maintainable through the cycle, the impact of the cyclical downturn in Western Australia on AHG's franchise business is of itself difficult to ascertain. As such, the impact of the cyclical downturn and the growth prospects of AHG's business in Western Australia has been taken into account in determining an appropriate Capitalisation multiple to apply to Automotive Retail.

- ***structural factors:*** finance and insurance sales is a function of new and used vehicle sales, penetration and margin. As discussed in Section 7 of this report, recent regulatory changes imposed by ASIC have had a significant impact on finance and insurance commissions for automotive dealers. These changes have resulted in a significant decline in earnings for Automotive Retail, reflecting its strong historical position in finance and insurance through its dealer network and 360 Finance. The incremental amount of finance and insurance EBITDA lost each year, and the cumulative impact is presented as follows.

Table 46: Finance and insurance income lost

$ millions	Actual			
	FY16	FY17	FY18	CY18
Finance and insurance EBITDA lost:				
Automotive franchise business	-	10.7	28.3	6.0
360 Finance	-	4.7	2.4	1.3
Incremental impact	**-**	**15.4**	**30.7**	**7.3**
Cumulative impact	**-**	**15.4**	**46.0**	**53.4**

Source: KPMG Corporate Finance Analysis

As at 31 December 2018, the cumulative impact is $53.4 million. In order to provide an indication of earnings going forward, an adjustment has been made to earnings in each year to remove finance and insurance profits in that year that have since been lost year on year as a result of regulatory changes. This has been achieved by deducting the cumulative impact of $53.4 million, net any reductions that were already reflected in that year.

Table 47: Calculation of adjustment for income lost

$ millions	Actual			
	FY16	FY17	FY18	CY18
Total impact as at 31 December 2018	53.4	53.4	53.4	53.4
Less: cumulative impact	-	(15.4)	(46.0)	(53.4)
Finance and insurance 'at risk'[1] income included in EBITDA	**53.4**	**38.0**	**7.3**	**-**

Source: KPMG Corporate Finance Analysis

AHG management expects a further decline in finance and insurance commissions from CY18 to FY19, with the FY19 result reflecting the full impact of recent regulatory changes. Management considers the FY19 result represents a reasonable estimate of a future base line level of earnings from finance and insurance commissions, prior to any future improvement in penetration. In this regard, we note that broker forecasts for Automotive Retail in FY19 are consistent with management's forecasts for the segment for FY19 (which are based on 9 months of actual results to 31 March 2019).

AHG management notes the opportunity to sell Guaranteed Future Value finance products in the future, both as a broker for finance companies and within 360 Finance. The impact of this opportunity is expected to be reflected in the multiples of the comparable companies.

- ***one off income from sale of trailing commissions:*** as discussed in Section 8.2.3 of this report, AHG disclosed[102] $12 million of income in June 2018 with respect to the sale of insurance trailing commissions. As this income is non-recurring, an adjustment of $10.2 million has been made to remove the amount of income that was allocated by AHG to Automotive Retail (85% of the $12 million). As we expect that there is a strong likelihood that brokers would have taken into account the loss of the full $12 million one off income in developing their forecasts for Automotive Retail, we have also added back $1.8 million (15% of $12 million) to their forecasts.
- ***reallocation of corporate expenses[103]:*** in the statutory accounts, corporate expenses are allocated 85% to Automotive Retail and 15% to Other Logistics. These expenses have been reallocated based on the contribution of each segment to AHG's revenue in that year. Brokers do not forecast corporate expenses separately. Corporate expenses in FY19 to FY21 are assumed to increase with revenue.
- ***losses/(profits) from easyauto123:*** easyauto123 generated losses in FY17, FY18 and CY18. As such, it is more appropriate to value utilising a DCF methodology (refer to Section 11.4.4 of this report). Losses/(profits) from easyauto123 have been added back to Operating EBITDA. We note that brokers do not separately forecast earnings for easyauto123, however, AHG management disclosed a $5.1 million EBITDA loss from easyauto123 in 1H19 and advised that it expected easyauto123 to break even by the end of FY19. Consequently, we would expect that the impact of easyauto123 in FY19 forecasts to be less than in CY18.
- ***acquisitions:*** a number of acquisitions and greenfield developments were made within Automotive Retail in FY17 and FY18, however, no material acquisitions have been made since May 2018. Consequently, FY19 represents the first full year of earnings of Automotive Retail in its current form.
- ***exit of loss making franchises and site closures:*** AHG has or is planning to exit a number of loss making franchises in FY17, FY18 and 1H19. Earnings for these businesses is reflected in 'unusual' items within the results of AHG and consequently, have already been excluded from Operating EBITDA. The present value of future cash outlays required to complete the exit of these franchises is included in surplus assets/(liabilities)(net) (refer to Section 11.6 of this report).
- ***additional cost savings:*** AHG management is targeting $23 million cost savings across AHG for FY20, roughly half of which are expected to be within Automotive Retail. Brokers have mostly noted these savings and although the extent to which most have incorporated the savings is not clear, FY20 and FY21 forecasts are well above FY19 levels. The potential for future growth in net earnings associated with these targeted savings has been reflected in the selection of the Capitalisation multiple.

Having regard to the historical and forecast EBITDA results for Automotive Retail and taking into account the various adjustments above, we have selected a future maintainable EBITDA after floorplan interest (net of corporate overheads) for Automotive Retail (excluding easyauto123) of $110 million.

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[102] AHG FY18 Full Year Results presentation, August 2018.

[103] Excluding the $12 million one off income from the sale of trailing commissions.

11.4.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples for Automotive Retail's operating business we have considered the following:

- trading multiples of comparable listed automotive retailing companies
- acquisition multiples implied by recent transactions involving automotive retailing companies
- the specific attributes of Automotive Retail

Trading multiples of comparable listed automotive retailing companies

The following table sets out the implied EBITDA and EBIT multiples for selected motor vehicle retailing companies operating in Australia and New Zealand.

Table 48: Sharemarket evidence – automotive retailing companies

	Market Capitalisation ($ million)[1]	Adjusted EBITDA Multiple[2] CY18	FY+1	FY+2	FY+3	Adjusted EBIT Multiple[3] CY18	FY+1	FY+2	FY+3
AHG[4]	***$590***	***5.8***	***5.5***	***5.2***	***4.9***	***9.3***	***9.4***	***8.4***	***7.6***
Automotive retailing									
AP Eagers[5]	$1,393	10.3	9.9	9.1	8.8	11.9	11.4	10.6	10.0
Autosports	$233	6.5	6.9	6.0	5.4	6.3	6.8	5.9	5.4
CMC	NZ$279	7.7	n/a[6]	n/a	n/a	8.5	n/a	n/a	n/a
MTO	$70	5.2	5.8	5.1	4.7	6.3	6.8	5.9	5.4
Automotive retailing (mean)		**7.4**	**7.5**	**6.7**	**6.3**	**8.2**	**8.3**	**7.5**	**6.9**
Automotive retailing (median)		**7.1**	**6.9**	**6.0**	**5.4**	**7.4**	**6.8**	**5.9**	**5.4**

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

1. *Market capitalisation is calculated using closing prices on 8 May 2019 other than for AHG and AP Eagers.*
2. *EBITDA multiple is enterprise value divided by EBITDA. Enterprise value is market capitalisation plus net corporate debt, preferred equity and minority interest less equity accounted investments (using latest reported balance sheet information or market value where possible). EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items and is after floorplan interest. FY+1 is first forecast year, FY+2 is second forecast year, FY+3 is third forecast year.*
3. *EBIT multiple is calculated by dividing enterprise value by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items and is after floorplan interest.*
4. *Multiples calculated using 4 April 2019 share price. EBITDA and EBIT based on broker summary provided in Appendix 8 with adjustments made for floorplan finance.*
5. *Multiples calculated using 4 April 2019 share price. EBITDA and EBIT based on broker summary provided in Appendix 8 with adjustments made for floorplan interest. AP Eagers multiples are calculated excluding the property and investment segments (including its investment in AHG).*
6. *n/a = not available.*

In relation to the table above, the following is relevant:

- the multiples are based on share market prices and do not typically include a control premium
- multiples have been adjusted by excluding floorplan debt from the enterprise value and deducting floorplan interest from EBITDA (since floorplan interest is treated as an operating expense for automotive retailers). As brokers do not typically separately disclose forecast floorplan interest, floorplan interest for CY18 (or FY18 if CY18 not available) has been used as a proxy for the forecast years
- CY18 multiples are reflective of the 12 months ended 31 December 2018 and forecast year multiples are reflective of financial year for each company, for example forecast year 1 for AHG is

30 June 2019. We note that all companies have a 30 June year end, except for AP Eagers which has a 31 December year end

- MotorCycle Holdings Limited (MTO) is significantly smaller than AHG and its operations are focused solely on motorcycle sales which, despite sharing similar exposure to cyclical factors (e.g. consumer sentiment and level of discretionary income) are influenced by different consumer trends and target different end markets, making MTO's multiples less comparable to AHG. MTO's multiples are relatively low, which may reflect its smaller scale, recent declines in the Australian road bike market (13.8% decline in 1H19[104]) and its significant exposure to the struggling Harley Davidson brand (for which unit sales declined by 24% in 1H19 across Australia)
- The Colonial Motor Company Limited (CMC) is substantially smaller than AHG and less diversified in terms of automotive brands (it is focused on Ford and Mazda brands only). CMC is also exclusive to New Zealand which operates under a different regulatory framework to Australia (i.e. it is not exposed to the recent vehicle finance reform in Australia) making its multiples less comparable to AHG. We note that CMC owns a portion of the land that it operates upon (approximately NZ$121 million in land and buildings as at 30 June 2018), however CMC does not disclose the income earned from this property, as such it has not been possible to make any adjustment to its multiples to reflect this difference in operating structure. Its lower multiples relative to larger Australian automotive retailers such as AP Eagers likely reflect its smaller operations, lack of diversification and focus on the smaller New Zealand market. It also has a limited free float (31.9%), which may influence trading multiples
- AP Eagers and Autosports are both Australian automotive retailers and are trading at multiples of 10.3 and 6.5 times historical EBITDA (after floorplan interest) and 9.9 and 6.9 times forecast year 1 EBITDA (after floorplan interest). In relation to these companies, we note:
  - Autosports has a greater focus on the prestige and luxury segments than AHG and is substantially smaller than AHG. Its operations are concentrated on the east coast of Australia only (primarily New South Wales and Queensland). Its first forecast year multiple is higher than its CY18 multiple, which may reflect an anticipated decline in earnings in FY19 as a result of its exposure to a declining east coast market. The luxury market is also more exposed to changes in consumer discretionary income and consumer sentiment which has been negatively impacted by the decline in the Australian housing sector
  - AP Eagers is closer in scale to AHG than the other comparable companies (it has 141 dealerships representing 26 brands). Whilst both AHG and AP Eagers enjoy a degree of geographical diversification in terms of representation in different states and territories, AHG is principally concentrated in Western Australia, whereas AP Eagers' largest market is Queensland. AP Eagers also has comparable exposure to truck retailing (9% of CY18 revenue) which includes 10 truck and bus brands. Unlike AHG, AP Eagers also owns a portion of the sites on which dealerships are located ($332 million of real estate at 31 December 2018). AP Eagers' multiples have been adjusted to exclude its property division by deducting the property portfolio from the enterprise value ($332 million) and excluding property income for CY18 from historical and forecast year EBITDA.[105] Its multiples have also been adjusted to exclude the value of the its interest in AHG

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[104] Source: Motorcycle holdings Limited, "Interim Financial Results – December 2018", 26 February 2019.

[105] This effectively assumes that the market only values property on a $ for $ basis.

by deducting the market capitalisation of its interest in AHG as at 4 April 2019 from enterprise value and excluding dividend income received from AHG from earnings.

- we note that AHG's multiples of 5.8 times historical EBITDA (after floorplan interest) and 5.5 times forecast year 1 EBITDA (after floorplan interest) reflects a blend of its automotive retailing and logistics businesses. Refrigerated Logistics and Other Logistics have been valued in Section 11.5 of this report. When assessed on a stand-alone basis, we would expect a higher EBITDA multiple for AHG's Automotive Retail segment

As a further benchmark to the multiples implied by reference to Australian and New Zealand automotive retailers, we have also considered automotive retailing companies operating in the United States and developed markets in Europe and Asia. However, these companies are less comparable to AHG and AP Eagers since they operate in markets which are have different rates of economic growth and are at different points in the economic cycle. They also have different demographic trends, consumer trends and regulatory frameworks (e.g. with respect to vehicle finance, environmental regulations and motor vehicle tariffs). These factors significantly impact these companies' growth prospects and margins and, therefore, their multiples. In this regard:

- there are a number of large listed automotive retailers in the US (market capitalisation greater than $0.9 billion). These companies are trading at multiples in the range of 9.3 to 13.5 times historical EBITDA and 10.4 to 15.5 times forecast EBITDA. US companies tend to have a higher forecast multiple than historical multiple, suggesting earnings are expected to decline in line with the negative outlook for the US automotive retail market (primarily driven by the decline in the US housing sector[106] which is having a negative impact on US discretionary income and ultimately US car sales). The US also has a higher penetration of vehicle financing (greater than 80%) which is largely a result of the requirement for banks to report credit scores to the market, whereas in Australia, credit scores will only need to be provided to the market from 1 July 2019, potentially increasing penetration in Australia over time
- there are a number of listed automotive retailers in the United Kingdom and developed countries in Europe (market capitalisation of between $100 million and $1.3 billion). They are trading at relatively low multiples (broadly in the range of 2.9 to 11.6 times historical EBITDA and 3.4 to 8.8 times forecast EBITDA) which likely reflects their smaller scale, uncertainty as to the impact of Brexit and relatively strict environmental regulations (e.g. a potential ban on diesel vehicles, subsidies around electric vehicles and regulations around CO_2 emissions), and
- there are relatively few listed automotive dealers in developed markets in Asia (e.g. Japan, Hong Kong, South Korea) and their multiples are in a wide range (3.0 to 17.4 times historical EBITDA and 4.6 to 12.9 times forecast EBITDA). These markets are not comparable as a result of their different regulatory environments (in particular, the markets are generally confined by the number of vehicle registrations).

The multiples for international companies have not been adjusted to exclude floorplan financing. Adjusting for floorplan financing would result in lower multiples than those described above.

[106] Source: Bloomberg, U.S. Housing Starts Fall Most Since June, Missing Estimates, 27 March 2019.

Summary

In summary, in the absence of a direct comparable, AP Eagers and Autosports have been identified as the most relevant comparable companies as they are both automotive retailers focused in Australia. Of these, AP Eagers is more comparable in terms of scale and operations. As at 4 April 2019, AP Eagers traded at multiples of 10.3 times CY18 EBITDA (after floorplan interest) and 9.9 times forecast year 1 EBITDA (after floorplan interest).

Multiples implied by recent transactions involving automotive retailing companies

The following table sets out a summary of transactions involving businesses in the Australian automotive retailing industry since 2016.

Table 49: Transaction evidence – automotive retailing companies

Date announced	Target	Enterprise value (millions)[1]	EBITDA multiple[2] Historical	Forecast
Automotive retailing				
22-Aug-17	SWT Group Pty Ltd	49.9	4.8	n/a
Automotive retailing (mean)			**4.8**	**n/a**
Automotive retailing (median)			**4.8**	**n/a**

Source:S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, Press releases, KPMG Corporate Finance analysis

1. *Implied enterprise value represents consideration plus net borrowings assumed and displayed in millions of dollars*
2. *EBITDA multiple is represents the implied enterprise value (excluding earn outs payable) divided by EBITDA, where EBITDA is earnings before interest, tax, depreciation and amortisation and other significant and non-recurring items.*
3. *n/a = not available.*

KPMG Corporate Finance notes the following in relation to the above transaction:

- transactions involving automotive companies operating outside of Australia and New Zealand have not been considered comparable as they are subject to different rates of economic growth, demographic trends, consumer trends and regulatory frameworks (namely with respect vehicle finance and motor vehicle tariffs), which significantly impact their growth prospects and margins
- as a result of the structural changes to the Australian automotive industry identified in Section 7 of this report[107] transactions prior to the presentation of ASIC's initial findings on the sale of add-on insurance (1 September 2016) have not been considered
- six relevant Automotive retail transactions in Australia were identified. No relevant automotive retail transactions post 1 September 2016 have been identified in New Zealand, and
- given the highly fragmented nature of the Australian Automotive industry, comprising primarily small and private operators, the implied enterprise value for all six transactions are lower than $80 million and only one transaction contained available financial information necessary to calculate EBITDA multiples. The SWT Group Pty Ltd transaction (2017) included 16 dealerships in Melbourne and occurred at a multiple of 4.8 times historical EBITDA. Given AHG comprises a larger and more diversified base of dealerships, we would expect AHG to trade at a higher multiple.

[107] ASIC's findings on the sale of add-on insurance through car dealers (September 2016) and the subsequent ban on flex commissions in the car finance market (September 2017)

Automotive Retail specific considerations

Whilst multiples implied by recent transactions and trading on share markets provide a useful benchmark in determining an appropriate EBITDA multiple for Automotive Retail, it is also necessary to consider the specific attributes of each business unit.

AHG's business is fundamentally similar to AP Eagers:

- AHG has a slightly greater market share (6.8% of the Australian new vehicle market in the 9 months to 31 March 2019) than AP Eagers (5.2% in CY18). AHG also has a presence in New Zealand and is more geographically diversified than AP Eagers, however, AP Eagers has a slightly greater relative exposure to the larger markets on the east coast of Australia[108]
- both AHG and AP Eagers have a similar exposure to automotive brands and trucks
- both are exposed to regulatory changes to finance and insurance commissions and both will have an opportunity to increase market penetration through selling Guaranteed Future Value finance products when introduced
- both companies have publicly announced various business transformation and business restructuring initiatives, the final outcome of which is not known
- both will likely benefit from any re-setting of manufacturer bonus targets

However:

- AP Eagers has recently demonstrated more stability in its earnings. On 14 May 2019, AHG management announced a downgrade to FY19 guidance which in part reflects the challenging conditions in franchised automotive retail volumes and margins. Notwithstanding this, we consider the potential for increased growth in earnings is slightly stronger for Automotive Retail than for AP Eagers, reflecting Automotive Retail's exposure to the Western Australian market, which seemingly has more scope for improvement in market conditions than on the east coast, which based on recent data may have passed its peak
- the recovery in the Western Australian vehicle retail market and the success of business improvement initiatives are, however, not without risk

Having regard to the characteristics of the Automotive Retail business and level of Automotive Retail's earnings being capitalised, we consider a multiple in the order of 8.0 to 8.5 times is appropriate, which represents a premium over its FY19 adjusted EBITDA multiple of 5.6 times based on its market capitalisation as at 4 April 2019.

11.4.4 Valuation of easyauto123

We have valued easyauto123 using a DCF methodology. The cash flows are based on management's forecasts for FY19 and FY20, and have been extrapolated to FY30 based on discussions with management. The key operating assumptions are as follows:

[108] AHG: 62% of new vehicles and 53% of used vehicles, compared with AP Eagers: 69% of new vehicles and 57% of used vehicles.

- Australian used vehicle volumes grow at an annual rate of 1% to 1.5%, which is broadly consistent with forecast Australian population growth[109]
- easyauto123's market share increases gradually from the current level of approximately 0.2% to 2.5% by FY30. The 2.5% market share is broadly consistent with that of CarMax, Inc. (CarMax), a comparable business in the US
- the income per retail unit (**IPRU**) for retail used vehicle sales slightly increases from FY19 to FY30, as management continue to roll out sites and optimise site portfolio
- gross profit for other services including wholesale, servicing, parts and others, gradually increases in conjunction with the overall business of easyauto123, as management continue to roll out sites, improve marketing and enhance easyauto123's brand presence in Australia
- EBITDA as a percentage of gross profit increases from current levels to 33% of gross profit in FY30, which is approximately two thirds of the margin of CarMax (approximately 50% across the period of FY14 to FY19). We consider the adoption of an improving outlook to be reasonable noting the lack of operating history of easyauto123, its current profit position (yet to break even as at 31 December 2018) and the business is currently in ramp up phase
- Australian corporate tax rate of 30%
- given the lack of operating history and track record for easyauto123, we have benchmarked depreciation and amortisation, capital expenditure and net working capital requirements against CarMax, being 6%, 13.6% and 78.4% of gross profit, respectively
- a terminal value has been calculated based on the Gordon Growth methodology and a terminal growth rate in the range of 1% to 1.5%, which reflects long term population growth as previously mentioned, and
- cash flows to FY30 and the terminal value have been discounted to 31 December 2018 using a post-tax, nominal weighted average cost of capital (WACC) of 15%, which is a selected WACC, based on:
  - a calculated WACC of 14.3% to 15.9%, based on the following assumptions:
    - a 3.7% per annum risk free rate, which represents a blend of the spot rate of 1.78% as at 30 April 2019 and a forecast long-term bond yield of 3.97%[110].
    - a 6% market risk premium, which is regarded as appropriate by KPMG Corporate Finance for the risk free rate selected and the current long-term investment climate in Australia
    - a levered beta between 1.1 to 1.2, which is consistent with the beta for CarMax, the most comparable company, of 1.19 when measured over a five year period. CarMax' two year beta is lower (0.9), which potentially reflects disruption from electric and autonomous vehicles. Intuitively, given the cyclicality of the automotive retailing industry, a levered beta greater than 1.0 is appropriate.
    - nil gearing, which is appropriate for a company in ramp up phase

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[109] Sourced from ABS with Australian population forecast to grow by an annual rate of 1% to 1.5% from November 2018 to 2066.

[110] Based on long term bond yields sourced from Oxford Economics.

    - an Australian corporate tax rate of 30%
    - an alpha of 4% to 5% to reflect risk associated with achieving the forecast cash flows, given the early stage of the business.
- we have also considered venture capital rates of return. These range from at least 30% to 40% for companies in seed and start-up phases, reducing to 20% to 30% as the company matures.[111] We consider that a discount rate below venture capital rates of return is appropriate for easyauto123 as its profits are expected to 'break even' by the end of FY19.

The resulting NPV for easyauto123 is in the range of $8.8 million to $10.8 million. In addition to the DCF methodology, we have considered total expenditure on easyauto123 as at 31 December 2018 of approximately $8.0 million as well as its written down value of $6.1 million. Taking into account each of these benchmarks, we have selected a range of values for easyauto123 of $6 million to $8 million.

11.4.5 Cross-check

The multiples of EBIT after floorplan interest implied by the value of Automotive Retail's operating business are set out below.

Table 50: Automotive Retail implied multiples

	Parameter ($ millions)	Implied multiple Low	High
Value of Automotive Retail operating business ($ millions)		**886.0**	**943.0**
Adjusted EBIT after floorplan interest[1]			
CY18 actual	73.8	12.0	12.8
FY19 broker forecast[2]	82.3	10.8	11.5
FY20 broker forecast[2]	94.5	9.4	10.0
FY21 broker forecast[2]	106.3	8.3	8.9

Source: KPMG Corporate Finance Analysis
Notes
1. *Adjusted EBIT after floorplan interest is calculated as Adjusted EBITDA after floorplan interest (refer to Table 45 of this report) less depreciation and amortisation (refer to Table 13).*
2. *Only one broker forecast floorplan interest.*

FY20 is the first full year in which cost out initiatives are expected to be achieved. The range of implied multiples of EBIT (after floorplan interest) for FY20 and FY21 are slightly below multiples for AP Eagers (10.6 times in CY20 and 10.0 times in CY21).

11.5 Value of AHG's logistics businesses

11.5.1 Summary

KPMG Corporate Finance has determined the value of the Refrigerated Logistics and Other Logistics operating businesses to be in the range of $245 million to $299 million. The value of Refrigerated Logistics' and Other Logistics' operating businesses are based on capitalising an assessed maintainable EBITDA as summarised in the table below.

[111] Source: Australia Venture Capital Guidelines.

Table 51: Value of Refrigerated Logistics and Other Logistics operating businesses

$ millions unless otherwise stated	Valuation range Low	High
Refrigerated Logistics		
Maintainable earnings	30.0	35.0
Capitalisation multiple	6.5	7.0
Value of operating business	**195.0**	**245.0**
Other Logistics		
Maintainable earnings	9.0	9.0
Capitalisation multiple	5.5	6.0
Value of operating business	**49.5**	**54.0**
Value of AHG's logistics businesses	**244.5**	**299.0**

Source: KPMG Corporate Finance Analysis

11.5.2 Maintainable earnings

Refrigerated Logistics

In order to provide an indication of earnings going forward, adjustments have been made to Refrigerated Logistics' operating earnings.

Table 52: Operating EBITDA and EBIT for Refrigerated Logistics

	Actual FY16	FY17	FY18	CY18
Operating EBITDA	37.2	35.1	37.7	38.3
Cost savings from Transformation Program	35.8	27.4	0.9	-
Reallocation of corporate overheads	(4.8)	(4.9)	(4.5)	(4.0)
Adjusted EBITDA	**68.1**	**57.6**	**34.1**	**34.3**
Less: depreciation and amortisation	(21.5)	(24.3)	(29.2)	(30.0)
Adjusted EBIT	**46.7**	**33.3**	**4.9**	**4.2**

Source: KPMG Corporate Finance Analysis

We have not included broker forecasts for Refrigerated Logistics as these are not sufficiently close to management's revised expectations for the segment (including the impact of weak April 2019 trading conditions announced on 14 May 2019) to be useful.

In assessing maintainable earnings for Refrigerated Logistics, the following factors have been considered:

- ***cyclical factors:*** refrigerated transport volumes have been weak across Australia in FY17 and FY18, particularly east-west volumes due to weaker market conditions in Western Australia. On 14 May 2019, AHG management announced a downgrade to FY19 guidance citing weak trading conditions in April 2019 for Refrigerated Logistics. We note, however, that AHG's most comparable peers (i.e. CTI, Lindsay, K&S) have a similar geographic exposure and consequently, the decline in transport volumes (and any potential upside) should be reflected in their multiples.
- ***transformation program:*** as discussed in Section 8.2.3 of the report, the transformation program completed in Q4 FY18 was expected to result in more than $20 million in cost savings (full run rate). The estimated annual incremental savings achieved are as follows.

Table 53: Savings under transformation program

$ millions	Actual			
	FY16	FY17	FY18	CY18
Savings under transformation program:				
Incremental savings	-	8.4	26.5	9.3
Cumulative savings	-	8.4	34.9	35.8

Source: KPMG Corporate Finance Analysis

CY18 represents a full year of savings from the transformation program, with no further incremental benefits anticipated.

In order to provide an indication of earnings going forward, an adjustment has been made to earnings to reflect the impact of the anticipated savings under the program, as if the program had been completed prior to 1 July 2015.

Table 54: Calculation of adjustment to reflect impact of transformation program

$ millions	Actual			
	FY16	FY17	FY18	CY18
Total savings under transformation program	35.8	35.8	35.8	35.8
Cumulative savings	-	(8.4)	(34.9)	(35.8)
Adjustment to reflect savings as if program completed 1 July 2015	**35.8**	**27.4**	**0.9**	**-**

Source: KPMG Corporate Finance Analysis

Despite achieving cost savings in excess of those targeted, the segment has struggled to grow, with operating EBITDA remaining flat.

- ***additional cost savings:*** AHG management is targeting an additional $23 million cost savings across AHG for FY20, roughly half of which are expected to be within Refrigerated Logistics. The potential for future growth in net earnings associated these targeted savings has been reflected in the selection of the Capitalisation multiple. In selecting a maintainable EBITDA, we have also had regard to the risks associated with achieving these savings and management's difficulty in achieving EBITDA growth, despite implementing extensive cost reduction initiatives in the past.
- ***review of carrying value of receivables:*** as described in Section 8.2.3 of this report, AHG is undertaking a review of the carrying value of the division's receivables generated across prior years and FY19, which may result in some write downs to Refrigerated Logistics' receivables across one or more periods.
- ***reallocation of corporate expenses:***[112] corporate expenses have been reallocated based on the contribution of each segment to AHG's revenue in that year.
- ***non recurring items:*** non recurring items are reflected in 'unusual' items within the results of AHG and consequently, have already been excluded from Operating EBITDA.
- ***focused management post HNA bid:*** FY18 performance was adversely affected by the disruption and uncertainty caused by the subsequently terminated offer from HNA.

Based on our discussions with management in relation to the current prospects of the Refrigerated Logistics we have adopted a maintainable EBITDA (net of corporate overheads) in the range of $30 million to $35 million.

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[112] Excluding the $12 million one off income from the sale of trailing commissions.

Other Logistics

In order to provide an indication of earnings going forward, adjustments have been made to Other Logistics' operating earnings.

Table 55: Operating EBITDA and EBIT for Other Logistics

	Actual				Broker forecasts (median)		
	FY16	**FY17**	**FY18**	**CY18**	**FY19**	**FY20**	**FY21**
Operating EBITDA (before equity investment)	9.6	13.9	6.8	6.3	6.0	6.2	6.3
Less: income from sale of insurance trailing commissions	-	-	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Less: FX adjustment[1]	(3.5)	(7.3)	0.2	0.4			
Reallocation of corporate overheads	4.3	5.3	5.4	4.6	5.5	5.6	5.8
Adjusted EBITDA	**10.5**	**11.9**	**10.5**	**9.5**	**9.7**	**10.0**	**10.3**
Less: depreciation and amortisation	(3.1)	(2.7)	(2.7)	(2.7)	(3.4)	(3.3)	(3.3)
Adjusted EBIT	**7.4**	**9.2**	**7.8**	**6.8**	**6.2**	**6.7**	**7.0**

Source: KPMG Corporate Finance Analysis
Note: Removes impact of foreign exchange movements on purchase of inventory by assuming an exchange rate of A$1=€0.623 as at 5 May 2019 and removing realised and unrealised gains/losses on derivatives.

In assessing maintainable earnings for Other Logistics, the following factors have been considered:

- ***cyclical factors:*** AMCAP has been relatively stable in the past, however, has recently experienced soft automotive parts sales as a result of the cyclical downturn in Western Australia. KTM and Husqvarna have increased their combined market share in Australia over the past few years, however, earnings have been adversely impacted by a decline in the national motorbike market. We note, however, that AHG's most comparable peers (i.e. CTI, Lindsay, K&S) have a similar geographic exposure and consequently, the decline in Western Australia (and any potential upside) should also be reflected in their multiples.
- ***one off income from sale of trailing commissions:*** as discussed in Section 8.2.3 of this report, AHG received $12 million income in June 2018 with respect to the sale of insurance trailing commissions. An adjustment of $1.8 million has been made to remove the amount of the income that was allocated to Other Logistics (15% of $12 million). As we expect that there is a strong likelihood that in developing their forecasts, brokers would not have taken into account the pro rata allocation of this income to Other Logistics by AHG, an adjustment has been made to remove the allocation from broker forecasts.
- ***foreign exchange rates:*** KTM and HQVA are exposed to movements in the A$/€ exchange rate. An adjustment has been made to remove the impact of movements in foreign exchange rates (assuming an exchange rate of A$=€0.623, which is the exchange rate as at 5 May 2019, net of realised and unrealised gains/losses on derivatives. The analysis indicates that foreign exchange movements had a significant positive impact on earnings in FY16 and FY17 and an adverse impact in FY18 and CY18.
- ***reallocation of corporate expenses[113]:*** corporate expenses have been reallocated based on the contribution of each segment to AHG's revenue in that year.
- ***non recurring items:*** non recurring items are reflected in 'unusual' items within the results of AHG and consequently, have already been excluded from Operating EBITDA.

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[113] Excluding the $12 million one off income from the sale of trailing commissions.

Have regard to the above factors, we have selected a future maintainable EBITDA (net of corporate overheads) for Other Logistics of $9.0 million.

11.5.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples for Refrigerated Logistics and Other Logistics' operating businesses we have considered the following:

- trading multiples of comparable listed logistics companies
- acquisition multiples implied by recent transactions involving logistics companies
- the specific attributes of Refrigerated Logistics and Other Logistics

Trading multiples of comparable listed logistics companies

There are no publicly listed companies operating in Australia that focus primarily on refrigerated logistics. As such, companies in the broader logistics sector have been considered. In order to avoid the distortion created by the relatively higher capital requirements of refrigerated logistics companies, we have relied on EBITDA multiples, rather than EBIT multiples.

The following table sets out the implied EBITDA and EBIT multiples for selected listed companies engaged in the logistics industry in Australia and New Zealand.

Table 56: Sharemarket evidence – logistics companies

	Market Capitalisation ($ million)[1]	EBITDA multiple[2] CY18[4]	FY+1[5]	FY+2	FY+3	EBIT multiple[3] CY18[4]	FY+1	FY+2	FY+3
Logistics									
Qube Holdings Limited	$4,492	17.8	16.6	14.8	13.3	31.4	29.8	26.3	22.7
Mainfreight Limited[6]	NZ$3,575	16.9	14.9	13.2	11.8	20.5	18.8	16.5	14.8
K&S Corporation Limited	$210	6.9	n/a[7]	n/a	n/a	59.2	n/a	n/a	n/a
Lindsay Australia Limited	$107	6.1	5.4	5.0	4.7	14.6	11.9	10.4	9.5
CTI Logistics Limited	$61	6.5	6.3	5.7	n/a	13.8	13.6	10.9	n/a
Wiseway Group Limited	$36	7.6	n/a	n/a	n/a	12.2	n/a	n/a	n/a
Chalmers Limited	$31	nmf[8]	n/a	n/a	n/a	nmf	n/a	n/a	n/a
Cellnet Group Limited	$16	9.5	n/a	n/a	n/a	11.1	n/a	n/a	n/a
Logistics (mean)		**10.2**	**10.8**	**9.7**	**9.9**	**23.2**	**18.5**	**16.0**	**15.7**
Logistics (median)		**7.6**	**10.6**	**9.4**	**11.8**	**14.6**	**16.2**	**13.7**	**14.8**

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

1. *Market capitalisation is calculated using closing prices on 8 May 2019*
2. *EBITDA multiple is enterprise value divided by EBITDA. Enterprise value is market capitalisation plus net debt, preferred equity and minority interest less equity accounted investments (using latest reported balance sheet information or market value where possible). EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.*
3. *EBIT multiple is calculated by dividing enterprise value by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.*
4. *CY18 is reflective of the 12 months ended 31 December 2018.*
5. *Forecast periods are reflective of financial year periods, for example forecast year 1 for Qube Holdings Limited is 30 June 2019. FY+1 is first forecast year, FY+2 is second forecast year, FY+3 is third forecast year.*
6. *The last reported period for Mainfreight as at the valuation date was 30 September 2018. This has been used as a proxy for the CY18 multiple.*
7. *n/a = not available*
8. *nmf = not meaningful*

In relation to the table above, the following is relevant:

- multiples are based on sharemarket prices and, therefore, do not typically include a control premium
- CY18 multiples are reflective of the 12 months ended 31 December 2018 and forecast year multiples are reflective of financial year periods for each company, for example forecast year 1 for Qube Holdings Limited (**Qube**) is 30 June 2019. We note that all companies have a 30 June year end except for Mainfreight Limited (**Mainfreight**), which has a 31 March year end. The last reported period for Mainfreight as at the valuation date was 30 September 2018. This has been used as a proxy for the CY18 multiple.
- Qube and Mainfreight are significantly larger than AHG's Refrigerated Logistics business. In general, larger logistics companies can more efficiently leverage overheads over a wider range of services. This allows larger companies to offer better pricing, without compromising margins compared to smaller competitors. Large scale operations with a substantial supply chain also allows these participants to capture the larger, more significant and long term contracts. This advantage likely explains why Qube and Mainfreight are trading at relatively high multiples of 16.9 to 17.8 times historical EBITDA and 14.9 to 16.6 times forecast year 1 EBITDA. In relation to these companies:
  - Qube provides integrated import and export logistics services for freight moving to and from ports in Australia via road and rail. The company also owns a 243 hectare parcel of land which is used as a multi-user facility for the stevedoring industry, making multiples less comparable.
  - Mainfreight provides supply chain solutions via less comparable air and ocean channels. Its operations are also more geographically diversified than AHG's Refrigerated Logistics business with exposure to New Zealand (24% of revenue twelve months to 31 March 2018, FY18), Americas (24% of FY18 revenue), Asia (7% of FY18 revenue) and Europe (21% of FY18 revenue). Operating in New Zealand, the company is also exposed to different currency risk than AHG's Refrigerated Logistics business, making multiples less comparable
- Cellnet is a specialised logistics provider for the telecommunications industry, distributing mobile phones, tablets, and notebooks/hybrid accessories, making multiples less comparable to AHG's Refrigerated Logistics business. Cellnet is very small ($16 million market capitalisation) and also has a limited free float (13%) which may influence trading multiples
- Chalmer is a logistics provider in Australia which was loss making at the EBIT level in FY18 and continues to be loss making in 1H19 due to underutilised Melbourne and Brisbane container parks. As such, EBITDA and EBIT multiples are not meaningful (representing a very small EBITDA and a negative EBIT). The poor financial performance of the container parks has been exacerbated by drought conditions experienced across Australia, which has resulted in fewer containers being required for the agricultural sector. AHG's Refrigerated Logistics business is less exposed to climatic drought conditions, making Chalmer's multiples less meaningful
- Excluding Chalmers and Cellnet, multiples of other logistics providers in Australia (including K&S Corporation Limited (**K&S**), Lindsay Australia Limited (**Lindsay**), CTI Logistics (**CTI**) and WiseWay Group Limited (**WiseWay**)) are trading at multiples of 6.1 to 7.6 times historical EBITDA and 5.4 to 6.3 times forecast year 1 EBITDA. In relation to these companies:
  - WiseWay is focused on less comparable air and ocean channels and has grown to become one of the leading outbound air freight logistics providers in Australia with a specialist focus on Australia and China trade, making its multiples less comparable to AHG's Refrigerated Logistics business. WiseWay is currently trading at 7.6 times historical EBITDA. The company is

relatively new to the ASX, listing in October 2018, and has a limited free float (36%) which may influence trading multiples

- K&S Australian is a mid-sized logistics provider in Australia with a focus on specialist logistics solutions across primarily rail and road channels, making it comparable to AHG's Refrigerated Logistics operations. The company is also exposed to fuel distribution (22% of FY18 revenue) and has operations in New Zealand (5% of FY18 revenue), making multiples less comparable. K&S is trading at 6.9 times historical EBITDA. K&S has a limited free float (20%) which may influence trading multiples
- CTI provides transport (58% of FY18 revenue) and logistics (45% of FY18 revenue) encompassing couriers, parcels, taxi trucks, fleet management and general and contract warehousing and specialised flooring logistics. Whilst the company's logistics division has exposure to temperature controlled storage (albeit limited) and the transport division is similarly focused on rail and road channels, it has a smaller national footprint that AHG's Refrigerated Logistics business with CTI operating primarily in Western Australia. As such, its trading multiples are heavily skewed to the Western Australian economy making it less comparable. CTI is currently trading at 6.5 times historical EBITDA and 6.3 times forecast year 1 EBITDA
- Lindsay provides transport and logistics services to the food processing, food services, fresh produce, rural, and horticultural sectors in Australia. Similar to AHG's Refrigerated Logistics, the company operates via road and rail channels and has a presence in temperature control storage. Whilst the company also shares a national footprint, it has a greater focus on rural markets (33% of FY18 revenue), making multiples less comparable. Lindsay is currently trading at 6.1 times historical EBITDA and 5.4 times forecast year 1 EBITDA.

As a further point of reference, logistics companies operating outside of Australia and New Zealand have been considered, however, have not been included since they operate in markets which have different rates of economic growth, import and export trade patterns (which are particularly unique in Australia given its geographical size), regulatory frameworks, currency exposure (although we note Mainfreight operates in New Zealand) and climate (e.g. drought) which significantly impact their growth prospects and margins and, therefore, multiples.

We note, however, that in comparing refrigerated logistics companies and non-refrigerated logistics companies in the United States, EBITDA multiples are generally comparable, however, EBIT multiples are higher for refrigerated logistics companies than for non-refrigerated logistics companies, reflecting their greater capital requirements.

Summary

In summary, in the absence of a direct comparable, CTI, K&S and Lindsay are considered to be most comparable as a result of their exposure to rail and road freight channels across Australia. Multiples for these companies are between 6.1 to 6.9 times historical EBITDA and 5.4 to 6.3 times forecast EBITDA.

Multiples implied by recent transactions involving logistics companies

The following table sets out a summary of transactions involving businesses in the Australian refrigerated logistics business and broader logistics industry.

Table 57: Transaction evidence – logistics companies

Date announced	Target	Enterprise value (millions)[1]	EBITDA multiple[2] Historical	Forecast
Refrigerated logictics				
30-Apr-14	Scott's	116.0	n/a[3]	4.6
01-Jul-11	Harris	32.0	4.3[4]	n/a
Logistics				
21-Jun-18	Marrakech Road Pty Ltd (40%)	109.2	13.0	n/a
19-Jun-18	McColl's Transport Pty Limited	44.2	11.0	n/a
26-Oct-17	Jayde Transport	7.5	3.2	n/a
05-Apr-17	Vermile Pty. Limited	10.4	3.2	n/a
17-Mar-17	Axima Pty Ltd	33.3	10.4	n/a
Logistics (mean)			**8.2**	**n/a**
Logistics (median)			**10.4**	**n/a**

Source:S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, Press releases, KPMG Corporate Finance analysis

1. *Implied enterprise value represents consideration plus net borrowings assumed and displayed in millions of Australian dollars, based on exchange rates as at the announcement date, where applicable.*
2. *EBITDA multiple is represents the implied enterprise value (excluding earn outs payable) divided by EBITDA, where EBITDA is earnings before interest, tax, depreciation and amortisation and other significant and non-recurring items.*
3. *n/a = not available.*
4. *AHG's transaction announcement on 12 May 2011, noted that Harris had sales revenue of $80 million. Using an average EBITDA margin for Refrigerated Logistics from FY10 to FY12 of 9.4%, we have assumed an EBITDA of approximately $7.5 million which implies a 4.3 times historical EBITDA.*

With regards to the table above:

- Transactions involving Logistics companies operating outside of Australia and New Zealand have not been included since they operate in markets which have different rates of economic growth, import and export trade patterns (which are particularly unique in Australia given its geographical size), regulatory frameworks, currency exposure (although we note Mainfreight operates in New Zealand) and climate (e.g. drought) which significantly impact their growth prospects and margins and, therefore, multiples.
- There are only two transactions involving companies operating in Australia that focus primarily on refrigerated logistics. Despite not being very recent (2011 and 2014), both transactions are relevant precedent transactions, particularly given AHG was the acquirer in both transactions. In relation to these transactions:
  - Scott's (2014) was a national cold logistics business providing refrigerated road and rail line haul, local refrigerated distribution and cold store warehousing with a focus on the East Coast of Australia. AHG anticipated significant synergies (cost savings of $4 million p.a. by the end of FY16) from the rationalisation of cold storage facilities in Perth, Adelaide and Melbourne, harmonising supply contracts and specific operating savings. The acquisition was also considered strategic as it allowed AHG to expand its customer base and product expertise as well as diversifying AHG's exposure to seasonal peaks in fresh produce. The transaction occurred at 4.6 times forward EBITDA
  - Harris (2011) was a national refrigerated freight service based in Adelaide connecting with Perth, Melbourne, Sydney and Brisbane. AHG anticipated significant synergies (cost savings of $3 million p.a. by FY13) through the rationalisation of premises and duplicated functions, as well as scale benefits and a complementary geographic footprint from transport opportunities. The

transaction was also considered strategic by AHG management as it complemented AHG's existing rail capacity and allowed AHG to transport fresh produce in addition to frozen and chilled product. The transaction occurred at 4.3[114] times forward EBITDA

- Given the lack of meaningful transactions focused on refrigerated logistics, recent transactions (since 1 January 2017) involving targets operating in the broader logistics sector have been considered. Of the eight transactions identified, five contained information necessary to calculate EBITDA multiples. The multiples for recent transactions involving Australian logistics companies ranges from 3.2 to 13.0 times historical EBITDA.
- The high end of this range includes Marrakeck Road Pty Ltd (**Marrakeck**), McColl's Transport Pty Limited (**McColl**) and Axima Pty Ltd (**Axima**).
  - Marrakech (2018) has operations in Sydney and Melbourne and is involved in warehousing, supply chain and distribution services. A core segment of Marrakech's operations is its wharf cartage operations, which provide import and export solutions for freighter containers at Australian ports and is less comparable to AHG's RL operations. The Marrakech transaction did not likely include any synergies. Marrakech transacted at a relatively high multiple of 13.0 times historical EBITDA (also noting this was a minority transaction), likely reflecting its size and its position in the Australian wharf cartage industry
  - McColl (2018) is based in Victoria and provides transportation of food, liquids and dangerous goods in Australia, with operations in every mainland state. McColl's focus is one of Australia's largest independent bulk liquid carriers of milk, food and bulk chemicals with its fleet consisting of specialised food grade and chemical tank trucks, making its operations less comparable to AHG's RL business. In addition, the transaction was a management buy in with the acquiring consortium, comprising namely Mr Thornton and Mr Mentha, both taking key positions in active management (Mr Thornton is now CEO) and in the Board of Directors (Mr Mentha is now Chairman). The nature of this transaction may explain its relatively high multiple of 11.0 times EBITDA
  - Axima (2017) provides air and sea freight and cartage services which is less comparable to AHG's RL business (which is focused on rail and road channels). The Axima transaction occurred at 10.4 times EBITDA and the acquirer was International Enterprise Singapore and Yang Kee Logistics Pte Ltd which likely anticipated synergies
- The low end of this range includes Jayde Transport and Vermille Pty. Limited (**Vermille**). In relation to these transactions:
  - Vermille (2017) provides interstate rail freight forwarding services in Australia, with offices in Melbourne, Perth and Brisbane. Qube, a large Australian logistics provider, likely anticipated synergies. The transaction's relatively low multiple of 3.2 times historical EBITDA is likely a reflection of its small size ($10 million enterprise value)
  - Jayde Transport (2017) provides road and rail interstate transport and other distribution services, primarily in Western Australia. CTI, a mid-sized Australian logistics provider, likely anticipated synergies. The transaction's relatively low multiple of 3.2 times historical EBITDA is likely a

[114] AHG's transaction announcement on 12 May 2011, noted that HRT had sales revenue of $80 million. Using an average EBITDA margin for AHG's RL business from FY10 to FY12 of 9.4%, we have assumed an EBITDA of approximately $7.5 million which implies a 4.3 times historical EBITDA.

reflection of its small size ($8 million enterprise value) and the weak Western Australia market at the time of the transaction

Summary

- AHG's acquisitions of refrigerated logistics businesses occurred in the range of 4.3 times historical EBITDA and 4.6 times forecast EBITDA. We note that whilst both transactions included anticipated synergies and were considered strategic, AHG's current RL business is substantially larger with more diversified operations. As such, a higher multiple is appropriate for AHG
- With regards to multiples for companies in the broader logistics industry:
  - a multiple higher than the two smaller transactions identified (3.2 times EBITDA) is appropriate given the size of AHG's RL business
  - a multiple lower than Marrakeck and McColl transaction (11.0 to 13.0 times historical EBITDA) which had different transaction dynamics (i.e. financial buyer investing in special situations and management buy-out)

Refrigerated Logistics specific considerations

The specific attributes of Refrigerated Logistics include:

- Refrigerated Logistics has larger size and broader service offerings than CTI and Lindsay which have smaller scale and lower transport capacity
- Refrigerated Logistics has a national footprint with more diversified geographic locations compared to CTI which operates primarily in Western Australia and Lindsay, which primarily focuses on the rural market. Despite these differences, we expect that the recent decline in transport volumes (and any potential upside) should be reflected in multiples for CTI, Lindsay and K&S
- although Refrigerated Logistics has a leading market position, it is still a price taker and has experienced a contraction in margins. It has a slightly lower EBITDA margin (7.8% for 1H19) than Lindsay (9.3%) and CTI (8.8%) but higher than K&S (5.9%)
- Refrigerated Logistics is expected to benefit from additional cost savings initiatives (as part of the $23 million cost savings), however, the extent to which this will translate into earnings growth is uncertain. In this regard, we note that despite achieving savings in excess of those targeted under the transformation program, operating EBITDA has remained flat.

On balance, having regard to the factors detailed above, and excluding a premium for control, we consider an appropriate EBITDA multiple for Refrigerated Logistics' operating business to be in the range of 6.5 times to 7.0 times.

Other Logistics specific considerations

The specific attributes of Other Logistics include:

- Other Logistics is smaller than most of the comparable logistics businesses
- it is slightly more diversified than a traditional logistics business, with offerings spread across distribution of automotive parts, motorcycles and engineering and storage services to the trucking industry
- it has lower EBITDA margin (2.3% for 1H19) than our comparable companies, which have a median EBITDA margin of approximately 7.2%

Selected multiple range

On balance, having regard to the factors detailed above, and excluding a premium for control, we consider an appropriate EBITDA multiple for Other Logistics' operating business to be in the range of 5.5 times to 6.0 times.

11.6 Surplus assets and liabilities

Surplus assets and liabilities represent those assets and external borrowings and non-trading liabilities that are not required in order for AHG to continue to realise its principal source of earnings. Surplus assets and liabilities have been assessed at ($46.3) million to ($45.9) million and include:

- book value as at 31 December 2018 of equity accounted investments ($1.1 million), assets classified as held for sale ($2.6 million) and available for sale financial assets ($7.2 million) (refer to Section 8.4 of this report)

less:

- book value of minority interests as at 31 December 2018 ($16.6 million) (refer to Section 8.4 of this report)
- present value of after tax future cash outlays in relation to provisions for non-operating onerous leases, discounted at 8.9% to 9.4% per annum and tax effected at 30% ($24.3 million to $24.6 million). The discount rate is based on the following assumptions:
  - a 3.7% per annum risk free rate, which represents a blend of the spot rate of 1.78% as at 30 April 2019 and a forecast long-term bond yield of 3.97%[115].
  - a 6% market risk premium, which is regarded as appropriate by KPMG Corporate Finance for the risk free rate selected and the current long-term investment climate in Australia
  - a levered beta between 1.1 to 1.2. In assessing an appropriate levered beta, we have considered the two year levered betas of Australian comparable companies to be more relevant than the five year betas as the operating environment for automotive retailers in Australia has changed over the last few years. Calculated as at 4 April 2019, the levered beta for AHG is 1.28 and AP Eagers is 0.79 (noting that AP Eagers is less liquid which may influence its levered beta). Autosports' levered beta is not statistically significant. The median for automotive retailers in the United States (the most comparable international market) is 1.16, observed over a five year period and 0.9 observed over a two year period. Furthermore, given the cyclicality of the automotive retailing industry, its correlation to general economic conditions and its characteristics as a discretionary outlay, a levered beta slightly greater than 1.0 is appropriate.
  - a pre-tax cost of debt between 4.7% to 5.2% per annum as at 30 April 2019
  - net debt to value (excluding floorplan debt) of 20%, based on gearing (excluding floorplan debt) for comparable Australian companies, which as at the valuation date represent a median of 21%
  - an Australian corporate tax rate of 30%

  The discount rate is consistent with discount rates that brokers apply to AHG (a range of 8.8% to 11.4% per annum).

[115] Based on long term bond yields sourced from Oxford Economics

- cash outlays in relation to loss making businesses, discounted to a present value also at 8.9% to 9.4% per annum and tax effected at 30% ($9.2 million), and
- remaining cash outlays relating to properties, discounted to a present value also at 8.9% to 9.4% per annum and tax effected at 30% ($6.7 million to $6.8 million).

11.7 Borrowings

In order to arrive at the value of equity, it is necessary to deduct the market value of existing net debt from the ungeared value of AHG. Consistent with market practice in the automotive retailing industry, floorplan financing has been considered as operating in nature. Consequently, interest on floorplan financing has been deducted from Operating EBITDA and Operating EBIT and floorplan debt has been excluded from borrowings. As at 31 December 2018, AHG had cash on hand of $64.6 million and total corporate debt of $349.3 million. The resulting net corporate debt is $284.7 million.

12 Valuation of the Improved Offer Consideration

12.1 Summary

The Improved Offer Consideration to be received by accepting non-associated shareholders comprises new ordinary shares in the Merged Group. Accordingly, RG 111 requires the value of the scrip consideration to be assessed on a minority interest basis. It is common practice in these circumstances to utilise the post announcement market price as a basis for estimating the value of an offer with a scrip component, as this is the price at which non-associated shareholders can monetise the Improved Offer Consideration. Neither the theoretical value of the Merged Group as a stand-alone entity nor considerations of control premia are relevant to portfolio shareholders in the Merged Group except in the event of an offer for the Merged Group itself. We note that in any event we have not had access to the internal records or management of AP Eagers and the information contained in the Bidder's Statement is insufficient to enable a fundamental valuation of the company to be performed on a reasonable basis.

Under the Improved Offer, accepting non-associated shareholders will receive 1 new AP Eagers ordinary share for every 3.6 AHG ordinary shares held.

We have assessed the estimated trading value of a share in the Merged Group, under current market conditions, to lie in the range of $8.60 to $8.90, which, based on the terms of the Improved Offer, implies a value of the Improved Offer Consideration in the range of $2.39 to $2.47 per AHG share, as set out in the following table.

Table 58: Assessed value of the Improved Offer Consideration

	Valuation range	
	Low	**High**
Value per Merged Group share ($)	8.60	8.90
Exchange Ratio (1:3.6)	0.278	0.278
Assessed value of the Improved Offer Consideration ($)	**2.39**	**2.47**

Source: KPMG Corporate Finance analysis

We note that the implied value of the scrip consideration can be expected to vary with movements in AP Eagers' traded price over the Offer Period, which will reflect both company specific and general market factors, accordingly, the final value of the Improved Offer Consideration will not be known until the Improved Offer closes, which is currently scheduled for 16 September 2019, and could ultimately exceed or, be less than, $8.60 to $8.90 per Merged Group share.

In assessing the Improved Offer Consideration, which is underpinned by the value of a new ordinary share in the Merged Group, we have considered a combination of approaches.

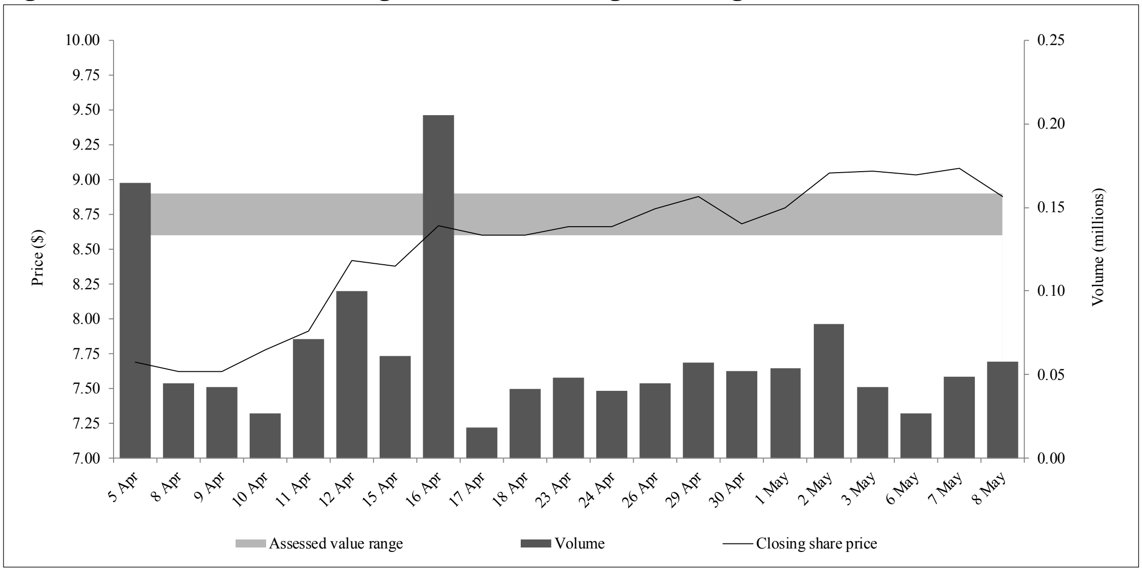
Our primary approach has been to consider the recent traded share prices for AP Eagers on the ASX. In forming our view we have also considered the performance of AP Eagers shares relative to the market and to its listed peers, the liquidity of AP Eagers shares and recent brokers forecasts as to the trading price of an AP Eagers share on ASX published in the periods immediately pre and post the announcement of the Original Offer.

Key factors influencing our valuation approach included:

- the trading price of AP Eagers shares reflects the value of portfolio interests as required by RG111
- AP Eagers is a publicly listed company and is required to comply with ASX Listing Rules in relation to continuous disclosure, including in particular the release of price sensitive information
- AP Eagers is followed by various broking houses and the Australian automotive retail sector by industry analysts more generally, both of which publish periodic research reports, which arguably assists the ability of shareholders to make informed decisions regarding the prospects of the company and industry more generally and prices at which AP Eagers shares should trade. In this regard, in the period:
  - between the release of the company's full year profit guidance on 23 January 2019 and the announcement of the Original Offer on 5 April 2019, six broking houses published updated investment notes in relation to AP Eagers
  - subsequent to the announcement of the Original Offer, ten broking houses published updated research reflecting on the bid either in respect of AHG and/or AP Eagers in the period to 8 May 2019
- there has been sufficient time and information available, including the information contained in the Bidder's Statement released to the market on 5 April 2019, for the market to assess the Original Offer and its implications for AP Eagers should the proposed acquisition of AHG by AP Eagers be successful. Therefore, trading in AP Eagers shares subsequent 5 April 2019 should reflect the estimated impacts associated with the Offer, albeit the market may also take into account the implementation and integration risks associated with the Offer, including the required regulatory approvals and the level and timing and quantum of any positive and/or negative cost savings and synergies that may be realised
- whilst trading in AP Eagers shares is not deep in the context of the number of shares on issue and its market capitalisation, its shares were traded on ASX on each of the available trading days over the 12 months prior to the announcement date and also in the subsequent period and average daily trading volumes have been sufficient for portfolio shareholders desirous of realising their investments to do so.

A summary of recent share trading activity in AP Eagers' shares since 5 April 2019 to 8 May 2019 and our selected valuation range is set out in the following chart.

Figure 25: Selected valuation range and recent trading in AP Eagers shares



Source: KPMG Corporate Finance analysis

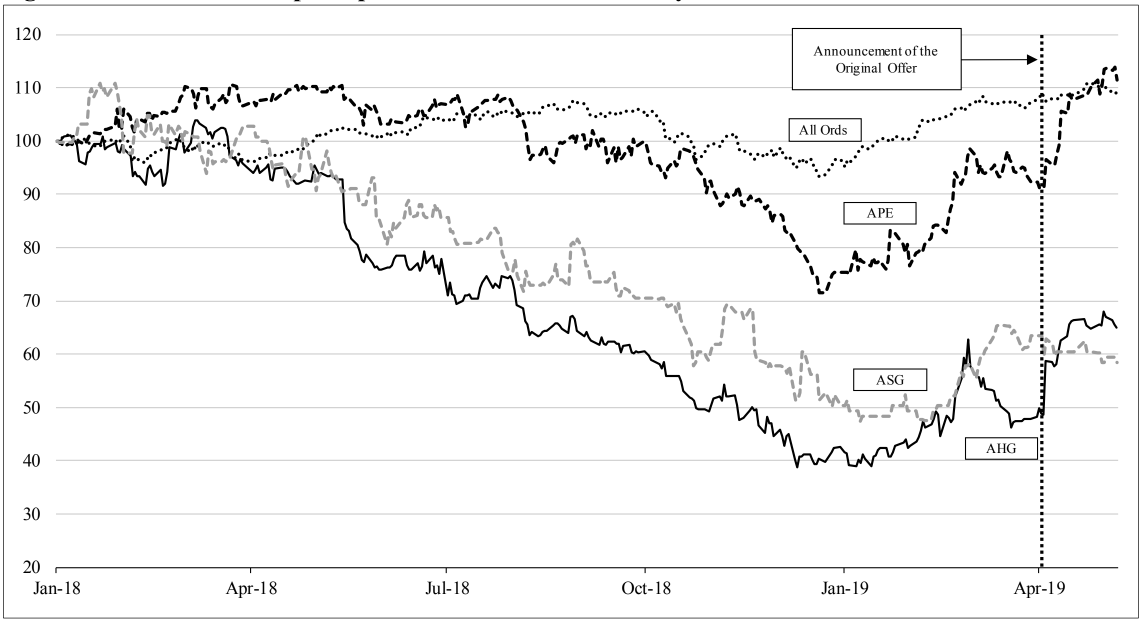
12.2 Analysis of trading in AP Eagers shares

12.2.1 AP Eagers' share price and liquidity

The trading price and volume of AP Eagers traded prior to the Original Offer was discussed previously in Section 9. Over the period January 2018 to July 2018, AP Eagers shares, whilst exhibiting volatility, generally traded upwards. In the period subsequent to this the company's shares trended sharply downwards over the period to January 2019, before recovering to close at $7.28 on 4 April 2019 (the last trading day prior to the announcement of the Original Offer), representing a retreat over the 14 month period of approximately 8.7%. This loss of value is unsurprising given the well documented head winds experienced by the automotive retail sector generally in recent times and is consistent with the general downward trend experienced by other market participants over the period.

The figure below indicates that whilst AP Eagers outperformed its listed peers in relative terms in the period from 1 January 2018 to announcement of the Original Offer, there is a general degree of correlation in the direction of the share price movements between individual participants.

Figure 26: Relative share price performance since 1 January 2018



Source: Capital IQ, KPMG Corporate Finance analysis

This may reflect that:

- none of the companies holds a dominant position in terms of the overall Australian automotive retailing industry market
- each market participant is exposed to the same national regulatory environment, including recent changes to permissible flex commission arrangements and other ongoing regulatory investigations, albeit some less than others
- whilst unlike AHG, AP Eagers has no direct exposure to the WA market, which has underperformed for an extended period, AP Eagers currently holds a significant interest in AHG, and therefore to some extent its own performance is impacted by that of AHG
- AP Eagers' results have been insulated somewhat from challenging national automotive retailing conditions by the performance of its property division in recent times.

Our review of AP Eagers' ASX releases indicate that it regularly releases information into the market. In addition to typical reporting of half year and full year financials, it has historically also periodically published investor updates and provided financial result guidance to the market. AP Eagers released:

- earnings guidance for the 12 months ended 31 December 2018 on 23 January 2019
- its full statutory accounts for the year ended 31 December 2018 on 20 February 2019, as well as details of its dividend distribution and 2018 Full Year Results presentation on the same date, which included AP Eagers' assessment of its outlook and strategy.

Accordingly, the market was arguably well informed about the trading results and short to medium term prospects of each of AP Eagers' business segments immediately leading up to the announcement of the Original Offer.

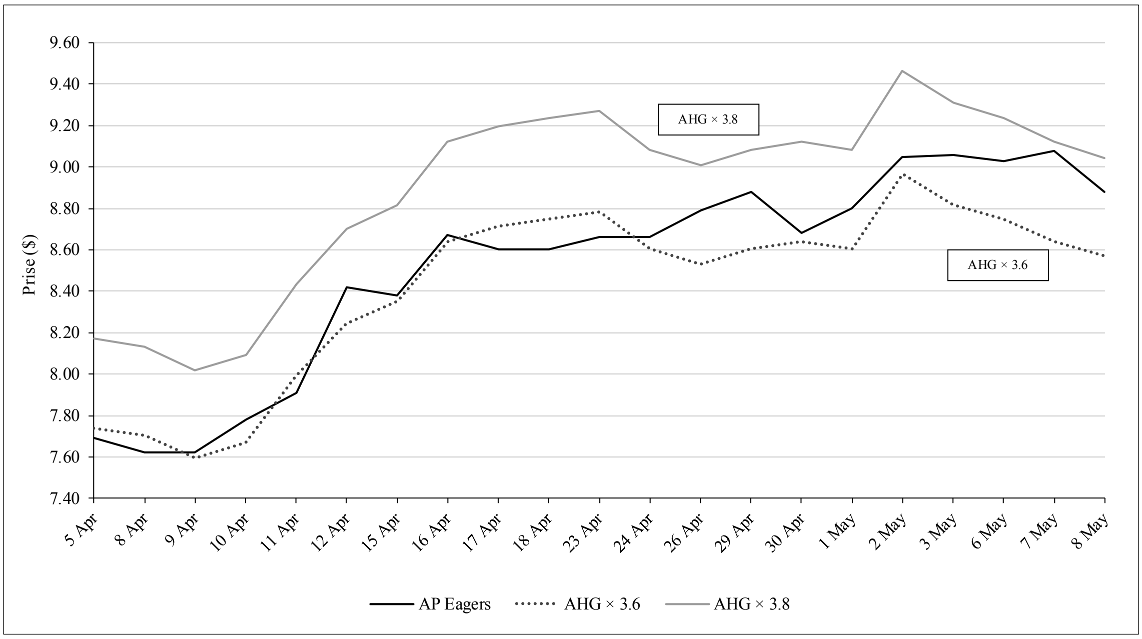
AP Eagers shares closed 5.6% up at $7.69 on 5 April 2019 compared to its closing price on 4 April 2019, indicating a prima facie favourable market reaction to the announcement of the Original Offer. AHG's shares also closed sharply up at $2.15 on 5 April 2019, compared to a close of $1.78 on 4 April 2019, representing a 20.7% increase.

In the period subsequent to 5 April 2019 to 8 May 2019 inclusive, AP Eagers shares closed in the range of $7.62 to $8.88 per share. Other than an announcement made on 26 April 2019 in relation to the details for the future sale and lease back of properties at Newstead, Brisbane, the potential for which had already been previously announced to the market, the company did not issue any new price sensitive information other than relating to the Original Offer and the Improved Offer in this period. Accordingly, it is likely that the increase in AP Eagers' share price over the period likely reflects a mixture of both general market sentiment (the ASX All Ordinaries increased by approximately 1% of over the same period), and the market's assessment of the prospects and the benefits to AP Eagers of successfully completing the acquisition of AHG, including its increase in size and scale and geographical diversification, along with the potential for the realisation of synergies and cost savings.

As illustrated in the chart below, in the period since the announcement of the Original Offer there has been a strong correlation in the movement of the closing prices of AHG and AP Eagers. Based on the exchange ratio under the Original Offer of 1 new AP Eagers share for every 3.8 AHG shares, AHG, as shown in the figure below, consistently traded through the implied Original Offer consideration suggesting that whist the market considered there was a reasonable prospect of the Original Offer succeeding, an improvement in the terms of the Original Offer was required.

Once rebased on the improved Exchange Ratio, AHG and AP Eagers shares have largely traded at or close to the Exchange Ratio over the period, with the closing price for an AP Eagers share on 8 May 2019 of $8.88, representing a small premium of approximately 4% to the closing price for an AHG share of $2.38 on the same date based on the Exchange Date, suggesting that the improved Exchange Ratio is consistent with market expectations.

Figure 27: AP Eagers share price vs offer exchange ratios



Source: Capital IQ and KPMG Corporate Finance Analysis

12.2.2 Liquidity

AP Eagers is not a deeply traded stock. In the month prior to the announcement of the Original Offer, a total of 1.1 million AP Eagers shares, with an aggregate value of approximately $8.4 million were traded on ASX. AP Eagers shares were traded on every available trading day, representing an average daily traded volume of approximately 49,000 shares. We note that trading in the month prior to the announcement of the Original Offer included a single day, 3 April 2019, where volumes totalled 506,450 shares. This significant increase in volumes traded over the daily average may reflect the market's reaction to the company's Investor Presentation published on ASX the day before.

In the period 5 April 2019 up to and including 8 May 2019, a total of 1.33 million AP Eagers shares, with an aggregate value of approximately $11.8 million were traded on ASX. AP Eagers shares were traded on every available trading day, at an average daily volume of 63,000 shares traded per day.

Whilst average daily volume of shares in the period subsequent to the announcement of the Original Offer has increased compared to immediately prior to the Original Offer, in our view this is not unexpected in the context of an acquisition that will significantly increase the scale and market share of AP Eagers.

12.2.3 Conclusion

We have no reason to expect that the recent trading in AP Eagers shares does not reflect an objective market based assessment of the value of a share in AP Eagers and therefore the Merged Group, reflecting the market's assessment as to the prospect of the acquisition of AHG by AP Eagers being successfully completed and the net benefits arising therefrom.

On the basis of the considerations above, we have assessed a range of values for a share in AP Eagers, on a minority interest basis as required by RG111, to be in the range of $8.60 to $8.90.

12.3 Cross checks

12.3.1 Broker notes

Summarised in the following table are investment notes published by seven broking houses providing target prices for AP Eagers in the period between the release of the company's full year profit guidance on 23 January 2019 and the announcement of the Original Offer and / or in the period subsequent to the Offer to 8 May 2019.

Table 59: Brokers' Price Estimates for AP Eagers

	Prior to announcement of the Transaction				Post announcement of the Transaction			
Broker	Report date	Price at report date	Price target	Recommendation	Report date	Price at report date	Price target	Recommendation
Broker 1	20/02/2019	6.80	7.00	Equal-weight	7/05/2019	9.08	7.00	Equal-weight
Broker 2	20/02/2019	6.96	7.50	Overweight	5/04/2019	7.69	8.50	Overweight
Broker 3	21/02/2019	6.96	7.00	Neutral	n/a	n/a	n/a	n/a
Broker 4	21/02/2019	6.96	6.58	Hold	n/a	n/a	n/a	n/a
Broker 5	21/02/2019	6.96	7.25	Hold	28/04/2019	8.79	9.50	Hold
Broker 6	4/03/2019	7.74	7.58	Hold	n/a	n/a	n/a	n/a
Broker 7	n/a	n/a	n/a	n/a	15/04/2019	8.79	10.26	n/a
Minimum			**6.58**				**7.00**	
Maximum			**7.58**				**10.26**	
Average			**7.15**				**8.82**	
Median			**7.13**				**9.00**	

Source: Broker reports, KPMG Corporate Finance analysis
Note: 'n/a' denotes not available

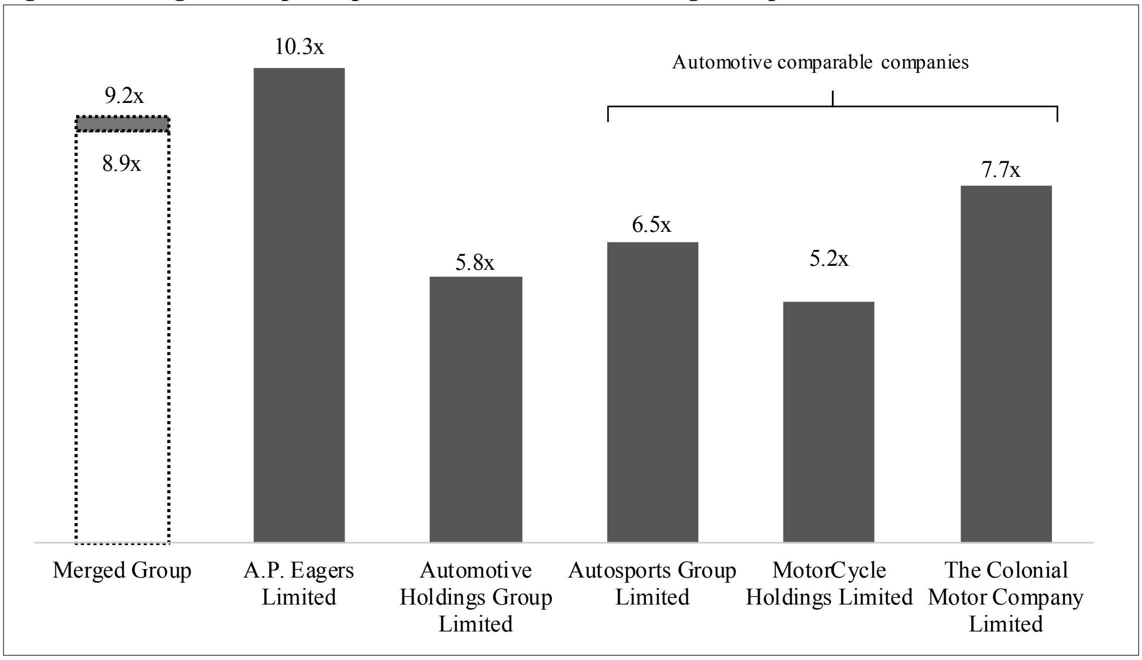
This table indicates:

- that immediately prior to the announcement of the Original Offer, broking houses generally considered that the then trading price of AP Eagers was largely supported by its near term prospects
- none of the brokers providing recommendations downgraded these as a result of the Original Offer
- two of the three brokers publishing both pre and post target prices increased their target prices
- our selected range of values for an AP Eagers share following completion of the Improved Offer sits comfortably with the range of target prices published by the broking houses subsequent to the announcement of the Original Offer, with the bottom end of our range sitting slightly below and the top end between the mean and the median of post-Offer target prices.

12.3.2 Trading multiples

Set out in the figure below is a comparison of the comparative CY18 EBITDA multiple for the Merged Group against AP Eagers, AHG and other selected companies based on our range of assessed values for an AP Eagers share and the pro forma CY18 results for the Merged Group set out in Section 9 of the Bidder's Statement.

Figure 28: Merged Group's implied relative EBITDA trading multiples for CY18



Source: Capital IQ, Company financial statements, company announcements, KPMG Corporate Finance analysis
Notes:
1. *EBITDA multiple is enterprise value divided by EBITDA*
2. *Enterprise value is market capitalisation plus net debt, preferred equity and minority interest less equity accounted investments (using latest reported balance sheet information or market value where possible) and vehicle bailment financing. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items. EBITDA is also adjusted for vehicle bailment financing interest.*
3. *Market capitalisation for the Merged Group is calculated using our assessed value for an AP Eagers share of $8.60 to $8.90*
4. *Market capitalisation for AP Eagers and AHG is calculated using the closing prices on 4 April 2019*
5. *Market capitalisation for the automotive comparable companies are calculated using closing prices on 8 May 2019*

6. *Enterprise value for the Merged Group has been calculated by adjusting the market capitalisation for net debt and minority interest as per the Bidder's Statement pro-forma, the investments in associates of AHG and AP Eagers and property*
7. *Adjusted EBITDA for the Merged Group has been calculated as the EBITDA as per the Bidder's Statement pro-forma and adjusted for share of profit from associates, bailment expense, property income and once off unusual items*
8. *AP Eagers EBITDA multiple is calculated excluding its property and investment segments*

In considering the Merged Group's relative indicative market ratings we note:

- the characteristics of each of the AP Eagers AHG and the other companies selected for comparison were discussed previously in Section 11
- the Merged Group pro forma EBITDA multiples reflect the benefit of AP Eagers' adjustment to remove the impact of one-off and unusual items in AHG's reported results for CY18. This has had the impact of significantly increasing the EBITDA result of the Merged Group and consequently reducing its implied EBITDA multiple
- the pro forma earnings of the Merged Group does not include an allowance for cost savings and synergies arising from the acquisition of 100% of AHG, whereas, as noted previously, it is likely that recent trading prices for AP Eagers are "cum" the Original Offer and the Improved Offer. AHG has assessed potential cost savings and synergies available to the Merged Group in completing the transaction may be in the order of $31.3 million per annum, whereas AP Eagers has estimated a figure of $13.5 million per annum. Had either of these numbers been included in the pro forma numbers, this would have had the impact of significantly reducing the Merged Group's implied multiples
- the implied EBITDA multiple for the Merged Group of 8.9 to 9.2 times, before the inclusion of synergies, compares to our assessed range of EBITDA multiples (on a minority basis) for the Automotive Retail segment of AHG of 8.0 to 8.5 times.

12.3.3 Conclusion

Having regard to the above, we do not consider our assessed range of values for an AP Eagers share on a minority interest basis to be unreasonable.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Jason Hughes and Ian Jedlin, both are authorised representatives of KPMG Corporate Finance and partners of KPMG, and Celeste Oakley and Ben Della-Bosca. Each has a significant number of years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Improved Offer is fair and reasonable to AHG non-associated shareholders. KPMG Corporate Finance expressly disclaims any liability to any AHG shareholders who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Target's Statement or any other document prepared in respect of the Improved Offer. Accordingly, we take no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Improved Offer.

We note that the forward-looking financial information prepared by AHG does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

Independence

KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that:

- during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of AHG for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report
- KPMG has received professional fees of approximately $2.6 million from AHG in the two years preceding the date of the Original Offer and approximately $0.4 million from AP Eagers over the same period. None of these professional services were in connection with the Original Offer or the Improved Offer and are not material to earnings of KPMG in Australia.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target's Statement to be issued to the non-associated shareholders of AHG. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information

- AP Eagers' Bidder's Statement lodged with ASIC and ASX on 5 April 2019, First Supplementary Bidder's Statement dated 26 April 2019, Second Supplementary Bidder's Statement dated 1 May 2019 and Third Supplementary Bidder's Statement dated 8 May 2019
- Implementation Deed between AP Eagers and AHG, dated 7 May 2019
- AHG's Target's Statement to be lodged with ASIC and provided to the ASX on 16 May 2019
- annual reports for AHG for FY16 to FY18, AHG's 1H19 financial report and corresponding results presentations
- annual reports of AP Eagers for CY16 to CY18 and corresponding results presentations
- press releases, public announcements, media and analyst presentations material and other public filings by AHG and AP Eagers, including information available on each company's website
- brokers' reports and recent press articles on AHG and AP Eagers
- various reports on the automotive retailing and logistics industries including from VFACTS, Motor Industry Association of New Zealand, Inc and IBISWorld
- security market data and related information regarding listed companies engaged in the automotive retailing and logistics industries, and
- financial information from S&P Capital IQ, Bloomberg, ThomsonONE and Connect4.

Non-public information

- Board papers, presentations, working papers and other confidential documents for AHG
- FY19 and FY20 forecasts for AHG prepared by AHG management

In addition, we have held discussions with, and obtained information from, the senior management of AHG and its advisors.

Appendix 3 – Overview of valuation methodologies

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference, where available, the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used where the entity subject to valuation operates a mature business in a mature industry or to provide a market cross-check to the conclusions reached under a theoretical discounted cash flow (**DCF**) approach or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the relevant valuation date (**Valuation Date**), generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operational cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (**the Discount Rate**) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the Weighted Average Cost of Capital (**WACC**), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an enterprise value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 4 – Sharemarket evidence

Trading evidence – automotive retailing companies

The following table sets out the implied EBITDA and EBIT multiples for selected motor vehicle retailing companies operating in Australia and New Zealand.

Table 60: Sharemarket evidence – automotive retailing companies

	Market Capitalisation ($ million)[1]	Adjusted EBITDA Multiple[2]				Adjusted EBIT Multiple[3]			
		CY18	FY+1	FY+2	FY+3	CY18	FY+1	FY+2	FY+3
AHG[4]	***$590***	***5.8***	***5.5***	***5.2***	***4.9***	***9.3***	***9.4***	***8.4***	***7.6***
Automotive retailing									
AP Eagers[5]	$1,393	10.3	9.9	9.1	8.8	11.9	11.4	10.6	10.0
Autosports	$233	6.5	6.9	6.0	5.4	6.3	6.8	5.9	5.4
CMC	NZ$279	7.7	n/a[6]	n/a	n/a	8.5	n/a	n/a	n/a
MTO	$70	5.2	5.8	5.1	4.7	6.3	6.8	5.9	5.4
Automotive retailing (mean)		**7.4**	**7.5**	**6.7**	**6.3**	**8.2**	**8.3**	**7.5**	**6.9**
Automotive retailing (median)		**7.1**	**6.9**	**6.0**	**5.4**	**7.4**	**6.8**	**5.9**	**5.4**

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

Notes:

1. *Market capitalisation is calculated using closing prices on 8 May 2019 other than for AHG and AP Eagers.*
2. *EBITDA multiple is enterprise value divided by EBITDA. Enterprise value is market capitalisation plus net debt, preferred equity and minority interest less equity accounted investments (using latest reported balance sheet information or market value where possible) and vehicle bailment financing. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items. EBITDA is also adjusted for vehicle bailment financing interest. FY+1 is forecast year 1, FY+2 is forecast year 2, FY+3 is forecast year 3.*
3. *EBIT multiple is calculated by dividing enterprise value by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items. EBIT is also adjusted for vehicle bailment financing interest.*
4. *Multiples calculated using 4 April 2019 share price. EBITDA and EBIT based on brokers consensus summary provided in Appendix 8 with adjustments made for vehicle bailment finance.*
5. *Multiples calculated using 4 April 2019 share price. AP Eagers multiples are calculated excluding the property and investment segments. EBITDA and EBIT based on brokers consensus summary provided in Appendix 8 with adjustments made for vehicle bailment finance. AP Eagers multiples are calculated excluding the property and investment segments.*
6. *n/a = not available.*

The multiples are based on share market prices as at 8 May 2019, other than for AHG and AP Eagers calculated as at 4 April 2019 (being the last trading day prior to the announcement of the Original Offer), and do not typically include a control premium. Multiples have been adjusted for vehicle bailment finance by excluding bailment debt from the enterprise value and excluding the vehicle bailment financing expense from EBITDA and EBIT[116] (given bailment finance is treated as an operating expense for automotive retailers). A brief description of each company is outlined below.

[116] As vehicle bailment finance expense is not forecast by brokers, the vehicle bailment finance expense for CY18 has been used as a proxy for forecast years.

Description of companies - automotive retailing

AP Eagers Limited

The profile of AP Eagers is described in Section 9 of this report.

AP Eagers' multiples have been adjusted to exclude its 28.84% interest in AHG by deducting the market capitalisation of its interest in AHG as at 4 April 2019 (the last trading day prior to the announcement of the Original Offer) from enterprise value and excluding dividend income received from AHG from its earnings. AP Eagers' multiples have also been adjusted to exclude its property division by deducting the property portfolio from the enterprise value ($332 million as at 4 April 2019) and excluding property income for CY18 from historical and forecast year EBITDA.

Autosports Group Limited

Autosports operates in the retail automotive industry in Australia. It engages in the sale of new and demonstrator vehicles (61% of FY18 revenue), Used vehicles (25% of FY18 revenue), Parts (6% of FY18 revenue), Service (6% of FY18 revenue), Aftermarket Products (1% of FY18 revenue) and Finance and Insurance revenue (2% of FY18 revenue). The company's operations comprise 33 franchised dealerships selling new and used prestige and luxury motor vehicles; 2 used motor vehicle outlets, focused primarily on the sale of used prestige and luxury motor vehicles; and 4 specialist prestige motor vehicle collision repair facilities. As at 30 June 2018, Autosports owned $12 million of land and buildings which represented the owner occupied premises at 601 Mains Road, Macgregor, Queensland from which Macgregor Mercedes-Benz trades from. The company was founded in 2016 and is based in Leichhardt, Australia.

The Colonial Motor Company Limited

CMC owns and operates franchised motor vehicle dealerships in New Zealand. The company operates 19 dealerships with a focus around Ford and Mazda franchises. It also distributes and retails: Kia; Nissan; Susuki; Kenworth and DAF heavy duty trucks; and New Holland, Case IH, and Kubota tractors and equipment. As at 30 June 2018, CMC owned $121 million of land and buildings. The company was founded in 1859 and is based in Wellington, New Zealand. CMC does not disclose interest attributable to vehicle bailment financing. Given 43% of CMC debt is attributable to vehicle bailment financing at 31 December 2018, KPMG Corporate Finance have assumed 43% of the interest charged is also attributable to vehicle bailment financing.

MotorCycle Holdings Limited

MTO operates as a motorcycle dealer in Australia. MTO operates through two segments: Motorcycle Retailing, which accounted for 89% of FY18 revenue and involves the sale of new and used motorcycles, parts, servicing, accessories, and extended warranty contracts. It also facilitates insurance and financing for motorcycle purchases through third-party sources; and Motorcycle Accessories, which accounted for 11% of FY18 revenue and involves the importation and distribution of a range of motorcycle parts and accessories to wholesale customers. MTO operates 47 franchises from 30 locations in Queensland New South Wales, and the Australian Capital Territory. MTO was founded in 1989 and is based in Slacks

Creek, Australia. MTO's share price has declined steeply as a result of a decline in motor vehicle sales in Australia.

Trading evidence – logistics companies

The following table sets out the implied EBITDA and EBIT multiples for selected logistics companies operating in Australia and New Zealand.

Table 61: Sharemarket evidence – logistics companies

	Market Capitalisation ($ million)[1]	EBITDA multiple[2]				EBIT multiple[3]			
		CY18[4]	FY+1[5]	FY+2	FY+3	CY18[4]	FY+1	FY+2	FY+3
Logistics									
Qube Holdings Limited	$4,492	17.8	16.6	14.8	13.3	31.4	29.8	26.3	22.7
Mainfreight Limited[6]	NZ$3,575	16.9	14.9	13.2	11.8	20.5	18.8	16.5	14.8
K&S Corporation Limited	$210	6.9	n/a[7]	n/a	n/a	59.2	n/a	n/a	n/a
Lindsay Australia Limited	$107	6.1	5.4	5.0	4.7	14.6	11.9	10.4	9.5
CTI Logistics Limited	$61	6.5	6.3	5.7	n/a	13.8	13.6	10.9	n/a
Wiseway Group Limited	$36	7.6	n/a	n/a	n/a	12.2	n/a	n/a	n/a
Chalmers Limited	$31	nmf[8]	n/a	n/a	n/a	nmf	n/a	n/a	n/a
Cellnet Group Limited	$16	9.5	n/a	n/a	n/a	11.1	n/a	n/a	n/a
Logistics (mean)		**10.2**	**10.8**	**9.7**	**9.9**	**23.2**	**18.5**	**16.0**	**15.7**
Logistics (median)		**7.6**	**10.6**	**9.4**	**11.8**	**14.6**	**16.2**	**13.7**	**14.8**

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

Notes:

1. *Market capitalisation is calculated using closing prices on 8 May 2019*
2. *EBITDA multiple is enterprise value divided by EBITDA. Enterprise value is market capitalisation plus net debt, preferred equity and minority interest less equity accounted investments (using latest reported balance sheet information or market value where possible). EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.*
3. *EBIT multiple is calculated by dividing enterprise value by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.*
4. *CY18 is reflective of the 12 months ended 31 December 2018.*
5. *Forecast periods are reflective of financial year periods, for example forecast year 1 for Qube Holdings Limited is 30 June 2019. FY+1 is forecast year 1, FY+2 is forecast year 2, FY+3 is forecast year 3.*
6. *The last reported period for Mainfreight as at the valuation date was 30 September 2018. This has been used as a proxy for the CY18 multiple.*
7. *n/a = not available*
8. *nmf = not meaningful*

The multiples are based on share market prices as at 8 May 2019 and do not typically include a control premium. A brief description of each company is outlined below.

Description of companies - logistics

Qube Holdings Limited

Qube Holdings Limited (Qube) provides integrated import and export logistics services for freight moving to and from ports in Australia. Qube operates through three segments: The Logistics segment accounted for 40% of FY18 revenue and involves the import and export of primarily containerized cargo. It provides various services, including physical and documentary processes, and tasks of the import/export supply chain, such as road and rail transport of containers to and from ports, operation of container parks, customs and quarantine services, warehousing, intermodal terminals, international freight forwarding, and bulk rail haulage for rural commodities. The Ports and Bulk segment accounted for 47% of revenue in FY18 and includes a range of logistics services relating to the import and export of primarily containerized cargo. It provides various services, including physical and documentary processes, and tasks of the import/export supply chain, such as road and rail transport of containers to and from ports, operation of container parks, customs and quarantine services, warehousing, intermodal terminals, international freight forwarding, and bulk rail haulage for rural commodities. The company's Infrastructure & Property segment accounted for 12% of FY18 revenue and owns a 243 hectare parcel of land in the Moorebank logistics park project; a multi-user facility for the stevedoring industry; and a property at Minto in Sydney. Qube Holdings Limited is based in Sydney, Australia.

Mainfreight limited

Mainfreight Limited (Mainfreight) provides supply chain solutions in New Zealand (24% of revenue twelve months to 31 March 2018, FY18), Australia (25% of FY18 revenue), The Americas (23% of FY18 revenue), Asia (7% of FY18 revenue) and Europe (21% of FY18 revenue). Mainfreight operates through one segment, Domestic and Air and Ocean Services, which involves warehousing, domestic distribution and international air and ocean freight forwarding services. The company was founded in 1978 and is based in Auckland, New Zealand.

K&S Corporation Limited

K&S Corporation Limited (KSC) provides transportation and logistics, contract management, warehousing and distribution, and fuel distribution services primarily in Australia (95% of FY18 revenue) and New Zealand (5% of FY18 revenue). KSC operates through three segments: Australian Transport (75% of FY18 revenue), which engages in the provision of logistical services to customers in Australia; Fuel (20% of FY18 revenue), which engages in the distribution of fuel to fishing, farming, retail and service station customers; and New Zealand (5% of FY18 revenue), which engages in the provision of logistical services to customers in New Zealand. KSC provides logistics services via road, rail, sea and air. KSC was founded in 1945 and is headquartered in Truganina, Australia. It is 59.7% owned by A.A. Scott Pty Limited.

Lindsay Australia Limited

Lindsay Australia Limited (Lindsay) provides transport, logistics, and rural supply services to the food processing, food services, fresh produce, rural and horticultural sectors in Australia. KSC operates through two segments: Transport (70% of FY18 revenue), which is involved in the cartage of general and refrigerated products, and ancillary sales; and Rural (30% of FY18 revenue), which sells and distributes a range of agricultural supply products. Lindsay Australia Limited is headquartered in Acacia Ridge, Australia.

CTI Logistics Limited

CTI Logistics Limited (CTI) provides transport and logistics services in Australia. It operates through four segments: Transport (53% of FY18 revenue), which offers courier, taxi truck, parcel distribution, fleet management, and document storage services; Logistics (41% of FY18 revenue), which offers warehousing and distribution, specialized flooring logistics, supply based management services, and document storage services. In addition, the company offers temperature controlled storage, warehousing, and distribution services for wine, food and health products; and logistical support services to the minerals and energy sector; Other (4% of FY18 revenue), which manufacturers plastics products and provides security services; and Property (2% of FY18 revenue), which rents owner occupied and investment properties. CTI Logistics Limited was founded in 1974 and is based in West Perth, Australia.

Chalmers Limited

Chalmers Limited (Chalmers) provides road transportation, logistics, warehousing, tank and container storage, and repair and sales services in Australia. It operates through two segments: Transport (65% of FY18 revenue), which provides road transportation and logistics warehousing services; and Containers (35% of revenue), which provides container handling, storage, repair, upgrade, and pre-trip services. The company offers container transportation services primarily for importers and exporters; and operates a fleet of B-doubles, side loaders, dropdeck and retractable trailers, super B-doubles, tautliners and tray vehicles. Chalmers was founded in 1882 and is headquartered in Yarraville, Australia.

Wiseway Group Limited

Wiseway operates in the logistics services industry as a third party logistics provider. Wiseway operates through one segment which provides air freight, sea freight, import services, domestic transportation, warehousing and customs clearance services, to a large customer base across general cargo and perishable cargo. General cargo includes infant milk formula, vitamins and health related products, while perishables cargo includes dairy products, meat, seafood and fresh produce. The company also has exclusive and non-exclusive arrangements with most major international airlines and acts as non-exclusive agent to a number of sea freight providers. Wiseway has grown to become one of the top three outbound air freight logistics providers in Australia with a specialist focus on Australia and China trade. The Company was established in 2005 and listed on ASX in October, 2018.

Cellnet Group Limited

Cellnet engages in the distribution, warehousing, and logistics businesses primarily in Australia (80% of FY18 revenue) and New Zealand (20% of FY18 revenue). It operates through one segment, Retail Sales, which sources and distributes brands of lifestyle technology products, including mobile phones, tablets, and notebooks/hybrid accessories through retail and business channels; and fulfilment services to the mobile telecommunications and retail industries. It also sells consumer electronics products. Cellnet Group Limited was founded in 1992 and is based in Eagle Farm, Australia. As of 21 December 2016, Cellnet operates as a subsidiary of Wentronic Holding GmbH, which currently owns 51.3% of Cellnet.

Appendix 5 – Transaction evidence

Transaction evidence – automotive retailing

The following table sets out a summary of transactions involving businesses the Australian automotive retailing industry since 2016.

Table 62: Transaction evidence – Automotive Retail

Date announced	Target	Acquirer	Acquired interest (%)	Enterprise value (millions)[1]	EBITDA multiple[2] Historical	EBITDA multiple[2] Forecast
Automotive retailing						
22-Aug-17	SWT Group Pty Ltd	Motus Corporation (Pty) Ltd	75%	49.9	4.8	n/a
Automotive retailing (mean)					**4.8**	**n/a**
Automotive retailing (median)					**4.8**	**n/a**

Source:S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, Press releases, KPMG Corporate Finance analysis

Notes:

1. *Implied enterprise value represents consideration plus net borrowings assumed and displayed in millions of Australian dollars, based on exchange rates as at the announcement date, where applicable.*
2. *EBITDA multiple is represents the implied enterprise value (excluding earn outs payable) divided by EBITDA, where EBITDA is earnings before interest, tax, depreciation and amortisation and other significant and non-recurring items.*
3. *n/a = not available.*

Description of transaction – Automotive Retail

A brief description of the selected comparable transaction with available EBITDA multiples is provided below.

Acquisition of SWT Group Pty Ltd by Motus Corporation (Pty) Ltd

On 22 August 2017, Motus Corporation entered into an agreement to acquire a 75% stake in SWT Group for $24.2 million. The acquisition adds 16 dealerships in the greater Melbourne area to Motus' Australian passenger vehicle dealership operations, in line with its stated strategy to diversify its portfolio through acquisitions in mature markets. Motus completed the acquisition effective 1 October 2017.

Transaction evidence – logistics

The following table sets out a summary of transactions involving businesses the Australian automotive retailing industry since 2016.

Table 63: Transaction evidence – Logistics

Date announced	Target	Acquirer	Enterprise value (millions)[1]	EBITDA multiple[2] Historical	Forecast
Refrigerated logictics					
30-Apr-14	Scott's	AHG	116.0	n/a[3]	4.6
01-Jul-11	Harris	AHG	32.0	4.3[4]	n/a
Logistics					
21-Jun-18	Marrakech Road Pty Ltd (40%)	Tor Investment Management (Hong Kong) Limited	109.2	13.0	n/a
19-Jun-18	McColl's Transport Pty Limited	Mr S Thornton	44.2	11.0	n/a
26-Oct-17	Jayde Transport	CTI Logistics Limited	7.5	3.2	n/a
05-Apr-17	Vermile Pty. Limited	Qube Logistics (Aust) Pty Ltd	10.4	3.2	n/a
17-Mar-17	Axima Pty Ltd	International Enterprise Singapore; Yang Kee Logistics Pte Ltd	33.3	10.4	n/a
Logistics (mean)				**8.2**	**n/a**
Logistics (median)				**10.4**	**n/a**

Source:S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, Press releases, KPMG Corporate Finance analysis
Notes:
1. *Implied enterprise value represents consideration plus net borrowings assumed and displayed in millions of Australian dollars, based on exchange rates as at the announcement date, where applicable.*
2. *EBITDA multiple is represents the implied enterprise value (excluding earn outs payable) divided by EBITDA, where EBITDA is earnings before interest, tax, depreciation and amortisation and other significant and non-recurring items.*
3. *n/a = not available.*

Description of transactions – refrigerated logistics

A brief description of the selected comparable transactions with available EBITDA multiples is provided below.

Automotive Holding Group Limited's acquisition of Scott's Refrigerated Freightways

On 30 April 2014, AHG acquired a 100% stake in Scott's for $116 million. Scott's is a national cold logistics business providing refrigerated road and rail line haul, local refrigerated distribution and cold store warehousing with a focus on the East Coast of Australia. AHG anticipated cost synergies of approximately $4 million per annum by the end of FY16 from the rationalisation of cold storage facilities in Perth, Adelaide and Melbourne, harmonising supply contracts and specific operating savings. The acquisition was also considered strategic as it allowed AHG to expand its customer base and product expertise and diversifying AHG's exposure to seasonal peaks in fresh produce.

Automotive Holding Group Limited's acquisition of Harris Refrigerated Transport

On 12 May 2011, AHG acquired a 100% stake in Harris for $32 million. Harris is a national refrigerated freight service based in Adelaide connecting with Perth, Melbourne, Sydney and Brisbane. The transaction was considered strategic by AHG management as it complemented AHG's existing rail capacity and allowed it to transport fresh produces in addition to frozen and chilled product. Cost savings of $3 million were anticipated to be achieved by FY13 through the rationalisation of premises and duplicated functions, as well as scale benefits and a complementary geographic footprint from transport opportunities. AHG's transaction announcement on 12 May 2011 noted that HRT had sales revenue of

$80 million. Using an average EBITDA margin for AHG's RL business from FY10 to FY12 of 9.4%, we have assumed an EBITDA of approximately $7.5 million which implied a 4.3 times historical EBITDA.

Description of transactions – logistics

A brief description of the selected comparable transactions with available EBITDA multiples are provided below.

Tor Investment Management (Hong Kong) Limited acquisition of 40% interest Marrakech Road Pty Ltd

On 21 June 2018, Tor Investment Management acquired a 40% stake in Marrakech Road Pty Ltd for $50 million. Marrakech, operating primarily through its subsidiary, Silk Contract Logistics, headquartered in Derrimut, Victoria, is engaged in warehousing, wharf cartage, supply chain and distribution.

Acquisition of McColl's Transport Pty Limited by Mr S Thornton

On 31 May 2018, an Australian investment club, which includes Mr Thornton (now CEO) and Mr Mentha (Chairman), acquired McColl's Group Holdings Pty Ltd from Allegro Funds Pty Ltd and KKR & Co. L.P. for $52.5 million. McColl's Transport, based in South Geelong, provides transportation of food, liquids and dangerous goods in Australia, with operations in every mainland state. The company's fleet currently includes 195 prime movers, 544 tankers and 14 depots (information not available for at time of acquisition).

Acquisition of Jayde Transport by CTI Logistics Limited

On 25 October 2017, CTI Logistics agreed to acquire Jayde Transport for $7.5 million plus an earn out payment of up to $2.85 million upon achievement of specific EBITDA targets. Jayde Transport, headquartered in Western Australia, provides road and rail interstate transport and other distribution services. CTI expects synergies with their operations in Adelaide and Melbourne and Perth. CTI completed the acquisition on 30 October 2017.

Acquisition of Axima Pty Ltd by International Enterprise Singapore and Yang Kee Logistics Pte Ltd

On 17 March 2017, International Enterprise Singapore and Yang Kee Logistics Pte Ltd acquired Axima Pty Ltd for SGD 34 million. Axima, based in Laverton, provides air and sea freight, warehousing, freight forwarding, cartage, and delivery services.

Acquisition of Vermille Pty. Limited by Qube Logistics (Aust) Pty Ltd

On 3 April 2017, Qube acquired Vermille Pty. Limited for $8 million. Vermile Pty. Limited, doing business as Austrans Container Service, provides interstate rail freight forwarding services in Australia, with offices in Melbourne, Perth and Brisbane.

Appendix 6 – AP Eagers acquires less than 100% interest in AHG

As the Improved Offer is not conditional upon a minimum acceptance level, if the Improved Offer conditions (described in Section 5.2 of this report and set out in Schedule 2 of the Bidder's Statement and varied in the Third Supplementary Bidder's Statement) are satisfied or waived (such that the Improved Offer becomes unconditional), there is a multitude of potential outcomes in terms of AP Eagers' final interest in (and level of control over) AHG following completion of Improved Offer. Set out below is a summary of various matters non-associated shareholders may wish to consider under two separate scenarios - AP Eagers acquires either a 50.1% controlling interest or a 49.9% significant influence in AHG for accounting purposes.

AP Eagers acquires a 50.1% interest in AHG

In the event that AP Eagers acquires a 50.1% interest in AHG:

- AP Eagers will continue to have the same direct exposure to its existing business and will have an increased interest in the ongoing financial performance of AHG, which will likely remain a separate listed entity on ASX[117] but is assumed to be a controlled entity of AP Eagers for the purpose of financial reporting
- the potential cost savings and synergies expected to emerge on acquiring 100% will not be realised, however, a change of control of AHG will still have occurred and therefore the potential for "change of control" provisions within any contracts to be invoked remains
- AP Eagers has indicted that, if able, it will seek to add to, or replace, a proportion of the members of the existing AHG Board with candidates nominated by AP Eagers
- AP Eagers will request AHG complete an operational and head office review, with the aim of pursuing cost reductions and efficiency improvements

Pro forma capital structure and liquidity – 50.1% control

At the date of this report, AHG and AP Eagers had approximately 331.6 million and 191.3 million ordinary shares on issue respectively. Having regard to the exchange ratio of 1 new AP Eagers ordinary share for every 3.6 AHG ordinary shares, the number of shares on issue in AP Eagers assuming AP Eagers acquires a 50.1% interest in AHG, totals approximately 210.9 million[118]. The table below summarises the ownership structure immediately following completion of the Improved Offer, all other things equal.

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[117] AP Eagers has indicated that if its final interest in AHG is between 50% and 90%, it would seek to review (having regard to legal and financial advice and a consideration of the spread of AHG shareholders and liquidity of AHG shares) whether to maintain the listing of AHG on the ASX, and may also consider (or ask the AHG board to consider) taking further actions following the Improved Offer, as permitted, to manage the resultant spread of AHG shareholders and liquidity of AHG shares.

[118] Excludes the effect of dilution on the exercise of any AP Eagers Performance Rights, AP Eagers Options and AHG Performance Rights but includes the interest of AHG shareholders that may be determined to be "foreign shareholders" for the purpose of the Improved Offer.

Table 64: Non-associated shareholders interest in AP Eagers post the Improved Offer

	Pre-Offer shares	% acceptance	Exchange ratio	Post-Improved Offer shares	
	million			million	%
AHG non-associated shareholders	235,990,656	50.1%	1:3.6	19,586,326	9.3%
Existing AP Eagers shareholders	191,309,301	n/a	n/a	191,309,301	90.7%
Total shares post completion				**210,895,627**	

Source: Bidders' Statement and KPMG Corporate Finance analysis

AP Eagers can, as a consequence of funding the Improved Offer solely through the issue of new scrip rather than cash, be expected to have a larger market capitalisation; which coupled with a larger shareholder base and increased "free float" may result in an increased daily trading volume compared to AP Eagers as a stand-alone entity prior to the Original Offer. We would however highlight our previous observations in Section 9 that AP Eagers stock was not deeply traded prior to the Original Offer, accordingly, there is no certainty that the Merged Group will be a more liquid stock when compared to AHG prior to the Original Offer.

In contrast, the acquisition of a 50.1% interest in AHG by AP Eagers will reduce the shareholder base and "free float" of AHG, which, all other things being equal, can be expected to reduce the level of liquidity in AHG's stock.

Financial impact – 50.1% control

Section 9.11 of the Bidder's Statement sets out solely for illustrative purposes AP Eagers' calculation of the pro forma financial performance of the Merged Group for the 12 months ended 31 December 2018 assuming a 50.1% interest in AHG, along with the pro forma financial position as at 31 December 2018 (including a description of the assumptions and adjustments made)[119].

We make the following observations in relation to the Merged Group pro forma financial information that AP Eagers has provided in the Bidder's Statement:

- the pro forma financial information has been prepared on the basis of AP Eagers' audited financial report for CY18, AHG's audited financial report for FY18 and AHG's independently reviewed financial reports for the half-years ended 31 December 2017 and 31 December 2018.
- the pro forma financial position as at 31 December 2018 has been prepared to illustrate the same pro forma transactions identified within the 100% acquisition scenario, with the exception that:
  - the acquisition of AHG shares not already owned by AP Eagers under the Improved Offer results in AP Eagers holding a relevant interest in 50.1% of the AHG Shares, as if the acquisition had occurred on 1 January 2018; and
  - recognition of the relevant non-controlling interest representing the portion of AHG's net assets as at 31 December 2018 not attributable to the owners of AP Eagers (determined on a percentage of net assets basis).

[119] KPMG Corporate Finance has not had any involvement in the preparation of the pro forma financial information prepared by AP Eagers and has assumed that it has been prepared appropriately. The pro forma financial information is provided solely for illustrative purposes and the final financial information is expected to differ, potentially materially, from that presented.

The pro forma financial performance, pro forma financial position and pro forma cash flows for the Merged Group as set out in the Bidders' Statements, along with various metrics and observations prepared by KPMG Corporate Finance are summarised below.

Pro forma financial performance

Set out below is the pro forma financial performance of the Merged Group for the 12 months ended 31 December 2018 assuming it is successful in acquiring an interest in AHG of 50.1%.

Table 65: Merged Group pro forma financial performance for the 12 months ended 31 December 2018

Pro forma unaudited statement of profit or loss 50.1% acquisition scenario - $ million	12 months ended 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Revenue	4,112.8	6,526.7	(13.9)	10,625.6
Other gains	8.5	3.9	-	12.4
Share of net profits of associate	0.1	0.4	-	0.5
Changes in inventories of finished goods and works in progress	39.5	-	-	39.5
Raw materials and consumables purchased	(3,439.6)	(5,033.0)	-	(8,472.7)
Employee benefits expense	(330.6)	(806.8)	-	(1,137.4)
Other expenses	(214.7)	(822.4)	322.3	(714.8)
EBITDA[1]	**175.9**	**(131.2)**	**308.4**	**353.1**
Depreciation and amortisation expense	(15.6)	(59.5)	-	(75.1)
EBIT[2]	**160.3**	**(190.7)**	**308.4**	**277.9**
Finance costs	(26.5)	(48.4)	-	(75.0)
Income tax (expense)/benefit	(32.6)	9.4	(31.7)	(54.9)
NPAT	**101.2**	**(229.8)**	**276.7**	**148.1**
Profit / (Loss) attributable to:				
Owners of Merged Group	99.6	(233.7)	248.3	114.2
Non-controlling interests	1.6	3.9	28.4	33.9
	101.2	**(229.8)**	**276.7**	**148.1**
Statistics:				
EBITDA margin (%)	*4.3%*	*-2.0%*		*3.3%*
EBIT margin (%)	*3.9%*	*-2.9%*		*2.6%*
EBIT interest cover (times)[3]	*6.0*	*nmf*		*3.7*

Source: Bidder's Statement and KPMG Corporate Finance Analysis
Notes:
1. *EBITDA is earnings before interest, tax, depreciation and amortisation and equity accounted investments*
2. *EBIT is earnings before interest and tax and equity accounted investments*
3. *Interest cover is EBIT divided by finance costs*
4. *"nmf" means not meaningful*
5. *May not add exactly due to rounding*

We make the following observations in relation to AP Eagers' Merged Group pro forma financial performance for the year ended 31 December 2018 assuming a 50.1% interest:

- dividend income received by AP Eagers from AHG as a result of its pre-Original Offer shareholding in AHG has been removed

- items included in AHG's reported financial performance identified by AP Eagers as being one-off and unusual items have been removed. The impact of this adjustment has been to increase the Merged Group's NPAT by $290.6 million.

Pro forma financial position

Set out below is the pro forma financial position of the Merged Group as at 31 December 2018 assuming that AP Eagers is successful in acquiring a 50.1% interest in AHG.

Table 66: Merged Group pro forma financial position as at 31 December 2018

Pro forma unaudited statement of financial position 50.1% acquisition scenario - $ million	As at 31 December 2018 AP Eagers	AHG	Adjustments	Merged Group pro forma
Current assets				
Cash and cash equivalents	18.9	64.6	-	83.4
Trade and other receivables	156.3	349.1	-	505.4
Inventories	690.2	1,129.0	-	1,819.1
Prepayments and deposits	12.6	34.4	-	47.0
Assets held for sale	-	2.6	-	2.6
Total current assets	**877.9**	**1,579.6**	**-**	**2,457.6**
Non-current assets				
Other loans receivable	8.3	-	-	8.3
Financial assets at fair value through other comprehensive income	149.8	-	(149.2)	0.6
Financial assets at fair value through profit and loss	-	7.2	-	7.2
Investments in associates	12.1	1.1	-	13.2
Property, plant and equipment	388.4	397.1	-	785.5
Intangible assets	313.3	323.2	(111.6)	524.9
Deferred tax assets	17.8	77.1	(21.6)	73.3
Total non-current assets	**889.7**	**805.7**	**(282.3)**	**1,413.1**
Total assets	**1,767.7**	**2,385.3**	**(282.3)**	**3,870.7**
Current liabilities				
Trade and other payables	145.9	365.7	-	511.6
Derivative financial instruments	0.0	-	-	0.0
Borrowings - bailment and other current loans	571.6	1,019.5	-	1,591.1
Current tax liabilities / (receivable)	2.2	(3.9)	-	(1.7)
Provisions	48.5	101.4	-	149.9
Other current liabilities	5.9	-	-	5.9
Total current liabilities	**774.1**	**1,482.7**	**-**	**2,256.8**
Non-current liabilities				
Borrowings	312.6	309.7	-	622.3
Deferred tax liabilities	-	10.2	-	10.2
Provisions	5.1	57.5	-	62.5
Other	19.4	-	-	19.4
Total non-current liabilities	**337.1**	**377.3**	**-**	**714.4**
Total liabilities	**1,111.2**	**1,860.1**	**-**	**2,971.3**
Net assets	**656.5**	**525.3**	**(282.3)**	**899.4**
Less: Non-controlling interests	(8.0)	(16.6)	(100.8)	(125.5)

Pro forma unaudited statement of financial position 50.1% acquisition scenario - $ million	AP Eagers	AHG	Adjustments	Merged Group pro forma
	As at 31 December 2018			
Net assets attributable to members of the Merged Group	**648.5**	**508.6**	**(383.2)**	**773.9**
Statistics:				
Shares on issue at period end (million)	*191.3*	*331.6*		*210.9*
Net working capital as a percentage of Revenue (%)	*17%*	*18%*		*17%*
Net assets per share ($)[1]	*3.43*	*1.58*		*4.26*
Net tangible assets per share ($)[2]	*1.79*	*0.61*		*1.78*
Gearing[3]	*57%*	*71%*		*70%*
Gearing (excl. bailment finance)[4]	*31%*	*35%*		*39%*

Source: Bidder's Statement, the Third Supplementary Bidder's Statement, AP Eagers Annual Report for the year ended 31 December 2018, AHG Half-Year Report for the year 6 months ended 31 December 2018 and KPMG Corporate Finance Analysis

Notes:
1. *Net assets per share is calculated as net assets attributable to members of the Merged Group divided by the number of shares at period end*
2. *Net tangible assets per share is calculated as net assets attributable to members of the Merged Group, less intangible assets, divided by the number of shares at period end*
3. *Gearing represents total loans and borrowings, less cash and cash equivalents, divided by net assets plus net borrowings*
4. *Gearing (excl. bailment finance) represents net borrowings excluding bailment finance, divided by net assets plus net borrowings excluding bailment finance*
5. *May not add exactly due to rounding*

We make the following observations in relation to the Merged Group's pro forma financial position as at 31 December 2018:

- the Merged Group's cash and external debt positions are not expected to be materially impacted by the Improved Offer as the consideration to be provided to AHG non-associated shareholders is in the form of new AP Eagers ordinary shares
- the Merged Group's pro forma net asset backing per share increases from $3.44 to $4.26, however, net tangible asset backing per share decreases from $1.79 to $1.78 principally as a result of the elimination of AP Eagers' investment in AHG on consolidation, the write back of intangibles and recognition of the relevant non-controlling interest
- the Merged Group's pro forma gearing increases from 57% to 70%, which is only marginally below that of AHG prior to the Original Offer
- the net tangible assets of the Merged Group of $1.78 compares to AHG's of $2.19 based on the exchange ratio.

Pro forma cash flows

Set out below is the pro forma cash flows of the Merged Group for the 12 months ended 31 December 2018.

Table 67: AP Eagers pro forma cash flow for the 12 months ended 31 December 2018

	12 months ended 31 December 2018			
Pro forma unaudited statement of cash flows	**AP Eagers**	**AHG**	**Adjustments**	**Merged Group pro forma**
50.1% acquisition scenario - $ million				
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	4,495.5	7,164.0	-	11,659.5
Payments to suppliers and employees (inclusive of GST)	(4,369.2)	(6,915.3)	-	(11,284.6)
Receipts from insurance claims	16.1	-	-	16.1
Interest and other costs of finance paid	(26.5)	(48.4)	-	(74.9)
Income taxes paid	(41.0)	(17.0)	-	(58.0)
Dividends received	13.9	-	(13.9)	-
Interest received	0.2	1.0	-	1.1
Net cash provided by operating activities	**89.0**	**184.2**	**(13.9)**	**259.3**
Cash flows from investing activities				
Payment for acquisition of businesses - net of cash acquired	(5.1)	(18.6)	-	(23.7)
Payments for property, plant and equipment	(38.9)	(66.3)	-	(105.2)
Proceeds from sale of businesses	2.8	-	-	2.8
Proceeds from sale of property, plant and equipment	19.5	40.7	-	60.2
Proceeds from sale of available-for-sale financial assets	-	0.3	-	0.3
Dividends and distributions received	-	0.4	-	0.4
Payments for shares in other corporations	(43.1)	-	-	(43.1)
Net cash used in investing activities	**(64.9)**	**(43.5)**	**-**	**(108.4)**
Cash flows from financing activities				
Proceeds from issue of shares and other equity securities	4.7	-	-	4.7
Payments for shares acquired by the trust	(14.0)	-	-	(14.0)
Proceeds from borrowings	95.0	-	-	95.0
Repayments of borrowings	(30.4)	(51.1)	-	(81.5)
Transactions with non-controlling interest	(1.1)	-	-	(1.1)
Dividends paid to members of Merged Group	(69.8)	(54.1)	13.9	(110.0)
Dividends paid to minority shareholders of a subsidiary	(0.4)	(9.8)	-	(10.2)
Net cash used in financing activities	**(16.0)**	**(114.9)**	**13.9**	**(117.1)**
Net increase in cash and cash equivalents	**8.0**	**25.7**	**-**	**33.8**
Cash and cash equivalents at the beginning of the financial year	10.8	38.9	-	49.7
Cash and cash equivalents at the end of the financial year	**18.9**	**64.6**	**-**	**83.4**

Source: Bidder's Statement, KPMG Corporate Finance Analysis
Note: May not add exactly due to rounding

AP Eagers acquires a 49.9% interest in AHG

In the event that AP Eagers acquires a 49.9% interest in AHG:

- AP Eagers will continue to have the same direct exposure to its existing business and will have an increased interest in the ongoing financial performance of AHG, which will likely remain a separate listed entity on ASX[120]. AP Eagers will not automatically be considered to have control of AHG for financial reporting purposes
- the potential cost savings and synergies expected to emerge on acquiring 100% will not be realised
- AP Eagers has indicted that, if able, it will seek to obtain representation on the AHG Board
- AP Eagers will use its best endeavours to encourage the Board of AHG to give effect to AP Eagers' intentions had it achieved a 100% interest in AHG.

Pro forma capital structure and liquidity – 49.9% control

Based on the exchange ratio of 1 new AP Eagers ordinary share for every 3.6 AHG ordinary shares, the number of shares on issue in AP Eagers assuming AP Eagers acquires a 49.9% interest in AHG, totals approximately 210.7 million[121]. The table below summarises the ownership structure immediately following completion of the Improved Offer, all other things being equal.

Table 68: Non-associated shareholders interest in the Merged Group post the Improved Offer

	Pre-Offer shares million	% acceptance	Exchange ratio	Post-Improved Offer shares million	%
AHG non-associated shareholders	235,990,656	49.9%	1:3.6	19,402,091	9.2%
Existing AP Eagers shareholders	191,309,301	n/a	n/a	191,309,301	90.8%
Total shares post completion				**210,711,392**	

Source: ASX Announcements and KPMG Corporate Finance Analysis

AP Eagers can, as a consequence of funding the Improved Offer solely through the issue of new scrip rather than cash, be expected to have a larger market capitalisation; this coupled with a larger shareholder base and increased "free float" may result in an increased daily trading volume compared to AP Eagers as a stand-alone entity prior to the Original Offer. We would however highlight our previous observations at Section 9 that AP Eagers stock was not deeply traded prior to the Original Offer, accordingly, there is no certainty that AP Eagers will in these circumstances be a more liquid stock than AHG prior to the Original Offer.

In contrast, the acquisition of a 49.9% interest in AHG by AP Eagers will reduce the shareholder base and "free float" of AHG, which, all other things being equal, can be expected to reduce the level of liquidity in AHG's stock.

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[120] AP Eagers has indicated that if its final interest in AHG lies in the range 50% to below 90%, it will seek legal and financial advice in light of its final ownership interest and the remaining spread of AHG shareholders in relation to maintaining the listing of AHG on ASX, as well other potential corporate actions to manage shareholder spread and liquidity.

[121] Excludes the effect of dilution on the exercise of any AP Eagers Performance Rights, AP Eagers Options and AHG Performance Rights but includes the interest of AHG shareholders that may be determined to be "foreign shareholders" for the purpose of the Improved Offer.

Pro forma financial performance

In the event that AP Eagers acquires less than 50% of the issued capital of AHG but is determined to exert significant influence rather than control[122] over AHG, it will adopt the equity method of accounting rather than consolidating the results of AHG. Accounting entries will include the elimination of the AHG dividend income received, adjustments to remove the impact of AP Eagers' share of AHG's unusual items during the period and associated impact on income tax expense.

Section 9.12 of the Bidder's Statement sets out solely for illustrative purposes AP Eagers' calculation of the pro forma financial performance of the Merged Group under this scenario.

We note that whilst the quantum of the values recorded in respect of individual line items of Merged Group revenue and expense are significantly different under a 49.9% ownership outcome compared to the outcome under the 50.1% ownership scenario due to different accounting treatment between equity and consolidation accounting, the final Merged Group profit after tax attributable to the owners of the Merged Group does not differ materially at approximately $114 million.

Pro forma financial position

We note that whilst the quantum of the values recorded in respect of individual line items of assets and liabilities are significantly different under a 49.9% ownership outcome compared to the outcome under the 50.1% ownership scenario, the Merged Group net assets attributable to owners is not materially different; being $789.2 million (under a 49.9% scenario) compared to $773.9 million (under a 50.1% scenario).

[122] As defined by AASB 10 – Consolidated Financial Statements.

Appendix 7 – Broker Analysis

AHG

AHG has not publically released numerical guidance beyond FY19. In order to provide an indication of the expected future financial performance of AHG for FY19 and beyond, KPMG Corporate Finance has had regard to the broker forecasts for AHG for FY19, FY20 and FY21.

As at the date of this report, we have not had access to broker forecasts that reflect the revised guidance for AHG announced on 14 May 2019. We understand that the revision to guidance relates primarily to changed expectations in relation to Refrigerated Logistics but also to a lesser extent to Automotive Retail as well. We note that broker forecasts for Refrigerated Logistics are not sufficiently close to management's forecasts to be useful, however, broker forecasts for Automotive Retail are largely consistent with management's revised expectations for the segment. Consequently, in our valuation of AHG, we have considered broker forecasts for Automotive Retail and Other Logistics only.

Set out in the tables on the following pages is a summary of the forecasts (both on a consolidated level as well as the individual segments) prepared by brokers that follow AHG. When reviewing this data it should be noted that:

- the forecasts represent the latest available broker forecasts for AHG as far as KPMG Corporate Finance is aware. AHG is currently followed by ten brokers, all of which have released updated earnings forecasts for AHG following the announcement of its 1H19 half year financial results on 22 February 2019, however, one of these brokers is restricted as a result of its role as an advisor to parties in the Transaction, leaving nine broker forecasts for AHG
- the forecasts are not prepared on a consistent basis, particularly in relation to the treatment of floorplan financing costs and share of net profits from associates. Some brokers show these items separately and some do not. KPMG Corporate Finance has attempted to present the forecasts on a common basis by:
  - in the one case where floorplan financing costs have been included in Operating EBITDA, adding back the broker's forecast floorplan financing costs to the presented Operating EBITDA, and
  - in the five cases where share of net profit from associates was not presented separately, deducting the median forecast share of net profit from associates from the presented Operating EBITDA to determine Adjusted EBITDA or adding back the median forecast share of net profit from associates to the presented Adjusted EBITDA to determine Operating EBITDA.
- in relation to segment forecasts, KPMG Corporate Finance has:
  - in all cases, estimated segment depreciation and amortisation for the forecast period by apportioning the brokers' forecast of AHG's depreciation and amortisation expense based on the proportion of FY18 depreciation and amortisation contributed by each segment, and
  - in the one case where elimination of intercompany sales was presented separately, estimated segment elimination of intercompany sales for the forecast period by apportioning the broker's consolidated forecast elimination of intercompany sales based on the proportion of FY18 intercompany sales contributed by each segment.

Table 69: Brokers' revenue, operating EBITDA, adjusted EBITDA and operating EBIT forecasts for Automotive Retail

		Sales Revenue ($ million)				Operating EBITDA ($ million)				Adjusted EBITDA ($ million)				Operating EBIT ($ million)			
Broker	**Report date**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**
Broker 1	15/04/2019	5,612.9	5,472.6	5,500.0	5,582.5	166.1	136.8	140.2	145.1	166.1	136.8	140.2	145.1	145.5	113.7	116.7	120.5
Broker 2	22/02/2019	5,611.5	5,712.4	5,883.8	6,060.3	165.8	139.1	151.6	159.6	165.8	139.1	151.6	159.6	145.2	106.2	118.6	126.6
Broker 3	22/02/2019	5,612.0	5,659.0	5,865.0	5,982.0	154.0	143.0	158.0	167.0	154.0	143.0	158.0	167.0	133.2	117.1	132.9	141.9
Broker 4	8/04/2019	5,611.5	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 5	15/04/2019	5,613.0	5,725.0	5,840.0	na	166.6	131.1	134.7	na	166.6	131.1	134.7	na	146.0	105.0	111.0	na
Broker 6	25/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 7	28/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 8	25/02/2019	5,611.5	5,660.3	5,817.9	6,023.6	166.1	146.4	172.2	185.0	166.1	146.4	172.2	185.0	145.5	120.6	146.0	158.2
Broker 9	7/04/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Minimum		**5,611.5**	**5,472.6**	**5,500.0**	**5,582.5**	**154.0**	**131.1**	**134.7**	**145.1**	**154.0**	**131.1**	**134.7**	**145.1**	**133.2**	**105.0**	**111.0**	**120.5**
Maximum		**5,613.0**	**5,725.0**	**5,883.8**	**6,060.3**	**166.6**	**146.4**	**172.2**	**185.0**	**166.6**	**146.4**	**172.2**	**185.0**	**146.0**	**120.6**	**146.0**	**158.2**
Average		**5,612.1**	**5,645.9**	**5,781.3**	**5,912.1**	**163.7**	**139.3**	**151.3**	**164.2**	**163.7**	**139.3**	**151.3**	**164.2**	**143.1**	**112.5**	**125.0**	**136.8**
Median		**5,611.8**	**5,660.3**	**5,840.0**	**6,002.8**	**166.1**	**139.1**	**151.6**	**163.3**	**166.1**	**139.1**	**151.6**	**163.3**	**145.5**	**113.7**	**118.6**	**134.3**
Median growth		*na*	*0.9%*	*3.2%*	*2.8%*	*na*	*(16.3%)*	*9.0%*	*7.7%*	*na*	*(16.3%)*	*9.0%*	*7.7%*	*na*	*(21.9%)*	*4.3%*	*13.2%*

Source: Broker's reports, KPMG Corporate Finance analysis.

Notes:

1. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items*
2. *Adjusted EBITDA is Operating EBITDA before share of net profit from associates*
3. *'na' denotes not available*

Table 70: Brokers' revenue, operating EBITDA, adjusted EBITDA and operating EBIT forecasts for Other Logistics

		Sales Revenue ($ million)				Operating EBITDA ($ million)				Adjusted EBITDA ($ million)				Operating EBIT ($ million)			
Broker	**Report date**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**
Broker 1	15/04/2019	262.5	258.5	265.0	272.9	7.1	5.8	6.6	7.5	6.8	5.4	6.2	7.1	4.4	2.7	3.5	4.2
Broker 2	22/02/2019	262.4	257.5	266.5	274.5	7.1	6.2	6.4	6.6	6.8	5.8	6.0	6.2	4.4	3.5	3.7	3.9
Broker 3	22/02/2019	262.0	264.0	274.0	283.0	7.0	6.0	6.0	6.0	6.7	5.6	5.6	5.6	4.2	2.5	2.6	2.6
Broker 4	8/04/2019	262.4	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 5	15/04/2019	262.0	260.0	257.0	na	6.7	6.5	6.2	na	6.4	6.1	5.8	na	4.0	3.0	3.0	na
Broker 6	25/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 7	28/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 8	25/02/2019	262.4	246.8	240.8	235.5	7.1	5.9	4.2	4.1	6.8	5.5	3.8	3.7	4.4	2.5	0.7	0.5
Broker 9	7/04/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Minimum		**262.0**	**246.8**	**240.8**	**235.5**	**6.7**	**5.8**	**4.2**	**4.1**	**6.4**	**5.4**	**3.8**	**3.7**	**4.0**	**2.5**	**0.7**	**0.5**
Maximum		**262.5**	**264.0**	**274.0**	**283.0**	**7.1**	**6.5**	**6.6**	**7.5**	**6.8**	**6.1**	**6.2**	**7.1**	**4.4**	**3.5**	**3.7**	**4.2**
Average		**262.3**	**257.4**	**260.7**	**266.5**	**7.0**	**6.1**	**5.9**	**6.1**	**6.7**	**5.7**	**5.5**	**5.7**	**4.3**	**2.8**	**2.7**	**2.8**
Median		**262.4**	**258.5**	**265.0**	**273.7**	**7.1**	**6.0**	**6.2**	**6.3**	**6.8**	**5.6**	**5.8**	**5.9**	**4.4**	**2.7**	**3.0**	**3.3**
Median growth		*na*	*(1.5%)*	*2.5%*	*3.3%*	*na*	*(15.5%)*	*2.7%*	*2.2%*	*na*	*(17.6%)*	*2.9%*	*2.4%*	*na*	*(37.6%)*	*10.4%*	*9.2%*

Source: Broker's reports, KPMG Corporate Finance analysis.

Notes:

1. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items*
2. *Adjusted EBITDA is Operating EBITDA before share of net profit from associates*
3. *'na' denotes not available*

Table 71: Brokers' revenue, operating EBITDA, adjusted EBITDA and operating EBIT forecasts for Property

		Sales Revenue ($ million)				Operating EBITDA ($ million)				Adjusted EBITDA ($ million)				Operating EBIT ($ million)			
Broker	**Report date**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**	**FY18**	**FY19**	**FY20**	**FY21**
Broker 1	15/04/2019	0.4	0.4	0.4	0.5	(2.9)	(1.0)	(1.1)	(1.1)	(2.9)	(1.0)	(1.1)	(1.1)	(2.9)	(1.0)	(1.1)	(1.1)
Broker 2	22/02/2019	0.4	0.4	0.4	0.4	(2.9)	(1.4)	(1.4)	(1.4)	(2.9)	(1.4)	(1.4)	(1.4)	(2.9)	(1.4)	(1.4)	(1.4)
Broker 3	22/02/2019	na	na	na	na	(3.0)	(1.0)	(1.0)	(1.0)	(3.0)	(1.0)	(1.0)	(1.0)	(3.0)	(1.0)	(1.0)	(1.0)
Broker 4	8/04/2019	0.4	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 5	15/04/2019	na	na	na	na	(3.0)	(2.0)	(2.0)	na	(3.0)	(2.0)	(2.0)	na	(3.0)	(2.0)	(2.0)	na
Broker 6	25/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 7	28/02/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Broker 8	25/02/2019	0.4	0.4	0.5	0.6	(2.9)	(2.1)	(2.7)	(3.1)	(2.9)	(2.1)	(2.7)	(3.1)	(2.9)	(2.1)	(2.7)	(3.1)
Broker 9	7/04/2019	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Minimum		**0.4**	**0.4**	**0.4**	**0.4**	**(3.0)**	**(2.1)**	**(2.7)**	**(3.1)**	**(3.0)**	**(2.1)**	**(2.7)**	**(3.1)**	**(3.0)**	**(2.1)**	**(2.7)**	**(3.1)**
Maximum		**0.4**	**0.4**	**0.5**	**0.6**	**(2.9)**	**(1.0)**	**(1.0)**	**(1.0)**	**(2.9)**	**(1.0)**	**(1.0)**	**(1.0)**	**(2.9)**	**(1.0)**	**(1.0)**	**(1.0)**
Average		**0.4**	**0.4**	**0.4**	**0.5**	**(2.9)**	**(1.5)**	**(1.6)**	**(1.7)**	**(2.9)**	**(1.5)**	**(1.6)**	**(1.7)**	**(2.9)**	**(1.5)**	**(1.6)**	**(1.7)**
Median		**0.4**	**0.4**	**0.4**	**0.5**	**(2.9)**	**(1.4)**	**(1.4)**	**(1.3)**	**(2.9)**	**(1.4)**	**(1.4)**	**(1.3)**	**(2.9)**	**(1.4)**	**(1.4)**	**(1.3)**
Median growth		*na*	-	-	*25.0%*	*na*	*(51.7%)*	-	*(10.7%)*	*na*	*(51.7%)*	-	*(10.7%)*	*na*	*(51.7%)*	-	*(10.7%)*

Source: Broker's reports, KPMG Corporate Finance analysis.

Notes:

1. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items*
2. *Adjusted EBITDA is Operating EBITDA before share of net profit from associates*
3. *'na' denotes not available*

AP Eagers

AP Eagers has not publicly released numerical guidance for CY19 or beyond. In order to provide an indication of the expected future financial performance of AP Eagers beyond CY18, KPMG Corporate Finance has had regard to the broker forecasts for AP Eagers for CY19, CY20 and CY21.

Set out in the tables on the following pages is a summary of the forecasts on a consolidated level prepared by brokers that follow AP Eagers. When reviewing this data it should be noted that:

- the forecasts represent the latest available broker forecasts for AP Eagers as far as KPMG Corporate Finance is aware, AP Eagers is currently followed by 6 brokers of which 5 have released updated earnings forecasts for AP Eagers following the announcement of its CY18 guidance on 23 January 2019
- the forecasts are not prepared on a consistent basis, particularly in relation to unusual items, share of net profits from associates and dividend income. Some brokers show these items separately and some do not. KPMG Corporate Finance has attempted to present the forecasts on a common basis by:
  - in the 4 cases where share of net profit from associates was not presented separately, deducting the median forecast share of net profit from associates from the presented Operating EBITDA.
  - in the 2 cases where forecast AP Eagers dividend income from the investment in AHG was not presented separately, estimated AP Eagers' share of forecast AHG calendar year dividends from contemporaneous reports for AHG prepared by those 2 brokers.

Table 72: Brokers' revenue, operating EBITDA, adjusted EBITDA and operating EBIT forecasts for AP Eagers (stand-alone)

AUD million		Revenue				Operating EBITDA				Adjusted EBITDA				Operating EBIT			
Broker	**Report date**	**CY18**	**CY19**	**CY20**	**CY21**	**CY18**	**CY19**	**CY20**	**CY21**	**CY18**	**CY19**	**CY20**	**CY21**	**CY18**	**CY19**	**CY20**	**CY21**
Broker 1	20/02/2019	4,292.0	4,468.0	4,775.0	n/a	171.0	182.0	193.0	n/a	157.1	171.8	180.0	n/a	n/a	n/a	n/a	n/a
Broker 2	20/02/2019	4,112.6	4,206.0	4,332.0	4,461.0	167.5	172.0	179.0	188.0	153.7	169.6	169.4	173.8	151.9	156.0	163.0	172.0
Broker 3	21/02/2019	4,092.9	4,142.5	4,269.0	4,399.0	168.0	169.5	180.4	189.0	154.1	157.0	165.3	173.9	152.4	153.5	164.2	172.0
Broker 4	21/02/2019	4,112.8	4,244.6	4,462.2	4,673.6	167.8	169.1	183.5	192.2	153.9	158.3	171.4	178.9	152.2	153.1	167.0	175.4
Broker 5	21/02/2019	4,112.8	4,143.3	4,229.6	4,319.3	167.7	166.8	175.3	182.4	153.7	157.2	161.4	168.2	152.1	151.1	159.4	165.5
Broker 6	4/03/2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Minimum		**4,092.9**	**4,142.5**	**4,229.6**	**4,319.3**	**167.5**	**166.8**	**175.3**	**182.4**	**153.7**	**157.0**	**161.4**	**168.2**	**151.9**	**151.1**	**159.4**	**165.5**
Maximum		**4,292.0**	**4,468.0**	**4,775.0**	**4,673.6**	**171.0**	**182.0**	**193.0**	**192.2**	**157.1**	**171.8**	**180.0**	**178.9**	**152.4**	**156.0**	**167.0**	**175.4**
Average		**4,144.6**	**4,240.9**	**4,413.6**	**4,463.2**	**168.4**	**171.9**	**182.2**	**187.9**	**154.5**	**162.8**	**169.5**	**173.7**	**152.2**	**153.4**	**163.4**	**171.2**
Median		**4,112.8**	**4,206.0**	**4,332.0**	**4,430.0**	**167.8**	**169.5**	**180.4**	**188.5**	**153.9**	**158.3**	**169.4**	**173.9**	**152.2**	**153.3**	**163.6**	**172.0**
Average growth		n/a	2.3%	3.0%	2.3%	n/a	1.0%	6.4%	4.5%	n/a	2.9%	7.0%	2.6%	n/a	0.8%	6.7%	5.1%

Source: Broker reports, KPMG Corporate Finance Analysis

Notes:

1. *Operating EBITDA is earnings before interest, tax, depreciation, amortisation and unusual items*
2. *Adjusted EBITDA is Operating EBITDA before share of net profit from associates*
3. *'na' denotes not available*

Table 73: Brokers' operating NPAT, operating EPS and DPS forecasts for AP Eagers (stand-alone)

AUD million		Operating NPAT				Operating EPS (A$)				DPS (A$)			
Broker	**Report date**	**CY18**	**CY19**	**CY20**	**CY21**	**CY18**	**CY19**	**CY20**	**CY21**	**CY18**	**CY19**	**CY20**	**CY21**
Broker 1	20/02/2019	n/a	n/a	n/a	n/a	0.48	0.50	0.53	n/a	n/a	n/a	n/a	n/a
Broker 2	20/02/2019	93.9	95.9	99.6	105.0	0.49	0.50	0.52	0.54	0.37	0.36	0.36	0.38
Broker 3	21/02/2019	94.1	89.4	98.0	104.0	0.49	0.46	0.50	0.54	0.37	0.37	0.38	0.40
Broker 4	21/02/2019	94.0	87.6	95.6	98.9	0.49	0.46	0.50	0.52	0.37	0.37	0.39	0.40
Broker 5	21/02/2019	93.9	87.2	90.3	94.3	0.49	0.45	0.47	0.49	0.37	0.37	0.35	0.37
Broker 6	4/03/2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Minimum		**93.9**	**87.2**	**90.3**	**94.3**	**0.48**	**0.45**	**0.47**	**0.49**	**0.37**	**0.36**	**0.35**	**0.37**
Maximum		**94.1**	**95.9**	**99.6**	**105.0**	**0.49**	**0.50**	**0.53**	**0.54**	**0.37**	**0.37**	**0.39**	**0.40**
Average		**94.0**	**90.0**	**95.9**	**100.6**	**0.49**	**0.47**	**0.50**	**0.52**	**0.37**	**0.37**	**0.37**	**0.39**
Median		**94.0**	**88.5**	**96.8**	**101.5**	**0.49**	**0.46**	**0.50**	**0.53**	**0.37**	**0.37**	**0.37**	**0.39**
Average growth		n/a	-5.8%	9.4%	4.8%	n/a	-4.7%	8.4%	5.0%	n/a	0.0%	1.4%	4.7%

Source: Broker reports, KPMG Corporate Finance Analysis

Notes:
1. *Operating NPAT is net profit after tax adjusted for unusual items*
2. *Operating EPS is earnings per share adjusted for unusual items*
3. *DPS is dividends per share*

Dated 14 May 2019

PART TWO – FINANCIAL SERVICES GUIDE

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Jason Hughes as an authorised representative of KPMG Corporate Finance, authorised representative number 404183 and Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 **(Authorised Representatives)**.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representatives and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representatives are authorised to provide
- how KPMG Corporate Finance and its Authorised Representatives are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representatives
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representatives has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representatives are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representatives are authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representatives responsibility to you

KPMG Corporate Finance has been engaged Automotive Holdings Group Limited (Client) to provide general financial product advice in the form of a Report to be included in Target's Statement (Document) prepared by the Client in relation to AP Eagers' offer to acquire all of the ordinary shares in Automotive Holdings Group Limited that it does not already hold by way of an off-market takeover bid (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representatives directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representatives are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representatives are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $475,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representatives) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representatives) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representatives pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representatives are partners in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representatives and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided a range of services to the Client and to AP Eagers for which professional fees are received. Over the past two years professional fees of approximately $2.6 million have been received from the Client and approximately $0.4 million from AP Eagers respectively. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representatives know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representatives cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address:	Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone:	1300 78 08 08
Facsimile:	(03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representatives using the contact details:

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