BOC

A Member of The Linde Group

INDEPENDENT ADVISOR OPINION FOR THE PROPOSED OFFER BY CARBACID INVESTMENTS PLC AND AKSAYA INVESTMENTS LLP TO ACQUIRE ALL THE ISSUED SHARES OF BOC KENYA PLC

Presented by Dyer & Blair Investment Bank Limited

DYER & BLAIR
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25th January 2021

Table of Contents

1. Introduction

1.1 Background

BOC Kenya PLC (“**BOC Kenya**” or “**the Company**”) is a leading supplier of industrial, medical and special gases in East Africa. In 1947, the Company started Operations in Nairobi and later expanded to Kisumu, Kampala, Mwanza and Dar-es-Salaam. The Company has been listed on the NSE in 1969.

On 25th November 2020, BOC Kenya was served with a Notice of Intention by Carbacid Investments PLC (“**Carbacid**”) and Aksaya Investments LLP (“**Aksaya**”) (working jointly as the “**Co-Offerors**”), to acquire up to 100% of the Ordinary Shares of BOC Kenya issued pursuant to Regulation 4 (1) of the Capital Markets (Take-over & Mergers) Regulations, 2002 through a cash offer. The offer price is KSH 63.50 which is a total cash consideration of KSH 1,239.865,821. If successful, BOC Kenya would become a subsidiary of Carbacid.

On the same day, Carbacid and Aksaya received an irrevocable undertaking from BOC Holdings, the largest shareholder of BOC Kenya owning 65.38%, to accept the offer and sell their shares to Carbacid and Aksaya.

The rationale for the offer by the Co-Offerors is that they believe the combination of BOC Kenya’s product portfolio and services with Carbacid’s existing business will provide synergies that will allow the enlarged group to become the East and Central African region’s supplier of choice for industrial, medical and special gases and related equipment and services.

1.2 Terms of Reference

Dyer & Blair Investment Bank Limited (“Dyer & Blair”) was appointed by BOC Kenya as Independent Advisor to provide a fairness opinion on the take-over price offered by Carbacid and Aksaya. The services provided are outlined below:

- Conduct an independent valuation of the BOC Kenya and prepare a valuation report of the same; and
- Review the proposed offer price from Carbacid and Aksaya and prepare an Independent Advisor’s Fairness Opinion for inclusion in the Circular to Shareholders of BOC Kenya.

This Independent Advisor’s Opinion report has been prepared for the exclusive use of the Board of BOC Kenya to assist it in making recommendations to shareholders for which it alone is responsible and for the sole purpose of providing opinion on fairness of the offer price, in the framework of completing an Independent Advisor’s Opinion (the “Opinion”) as required under the Capital Markets (Take-overs and Mergers) Regulations, 2002, (the “CMA Regulations”).

1.3 Independence

Dyer & Blair is a limited company licensed to act as an Investment Bank by the Capital Markets Authority ("CMA") and has been a member of the NSE since 1954. It provides a diversified range of financial services to an extensive client base that includes: governments, corporations, financial institutions, institutional investors, retail investors and high net-worth individuals with its principle services including: investment banking (corporate finance and advisory), brokerage service, asset management and research.

Dyer & Blair hereby confirms that we are eligible to provide the services as Independent Advisors as per the CMA Regulations. Our fees do not involve any contingent element, and neither does Dyer & Blair nor any of its employees have any material financial interest dependent on the outcome of this transaction, other than the fees payable for the valuation and independent fairness opinion services.

Dyer & Blair does not hold any shares in BOC Kenya, directly or indirectly. Dyer & Blair does not have any interest, direct or indirect, beneficial or non-beneficial, in BOC Kenya or the outcome of the transaction.

Disclosure of interests held by Dyer & Blair employees are outlined below.

Name of Person	Position	Number of Shares held in Carbacid
Leah Nyambura	Director	1,000

2. Consent

We hereby give our consent to the inclusion of this opinion and the inclusion of the references of our report in the form and context in which it appears in the circular to the shareholders of BOC Kenya.

3. Limitations of Review

The assignment was undertaken solely and expressly on the basis that Dyer & Blair shall not be liable for any direct, indirect or consequential loss for damage suffered by any party arising from the fulfilment of these transactions.

By inclusion in the Circular, this report is also solely availed to the shareholders of BOC Kenya, the CMA and NSE in connection with the Take-over Transaction, and hence may not be reproduced or used for any other purposes without our prior written consent.

The valuations contained in this report must be interpreted with the exclusive reference to the Take-over Transaction, and no part of it may be used without considering the Circular in its entirety. This report does not constitute a recommendation to any ordinary shareholder of BOC Kenya regarding the acceptance or rejection of the offer from Carbacid and Aksaya. Therefore, it should not be relied upon for any other purpose.

We assume no responsibility to anyone if this review opinion is used or relied upon for anything other than its intended purpose.

Forecasts relate to future events and are based on assumptions that may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely actual results will correspond to those forecasts.

Our report holds true as at the date of issue of the report, and based on the current economic and regulatory conditions and the assumptions made thereon as well as the information made available to us by BOC Kenya's management up to the date of this report. Accordingly, we are under no obligation to update this report because of events and transactions occurring subsequent to the date of this report.

4. Definition of Fair and Reasonable

An offer is generally fair and reasonable if the purchase consideration is equal to or greater than the value of the entity that is the subject of the transaction.

In our review of the fairness of the valuation and the transaction, we have considered the quantitative as well as the qualitative issues surrounding the particular offer. An offer may be fair and reasonable if all significant factors have been considered in arriving at the consideration to be offered.

It should be noted that this review opinion does not purport to cater for individual shareholders' positions, but rather the general body of shareholders. A shareholder's decision regarding the fairness and reasonableness of the offer may be influenced by his or her particular circumstances. Should a shareholder be in doubt, he or she should consult an independent adviser as to the merits of the offer, considering his or her personal circumstances.

5. Sources of Information Used

Our report is based on the information provided to us by the Management of BOC Kenya. Management is therefore deemed solely responsible for the integrity of data and information submitted to us. We have relied on the following information in order to ascertain the value of the shares of BOC Kenya:

1. Audited financial statements for the year ending 2016, 2017, 2018 and 2019;
2. Unaudited management accounts for the year ending 2020;
3. Financial forecasts for the year ending 2021, 2022 and 2023;
4. Land Valuation Reports by Gimco Limited dated January 18th 2021; and
5. Discussions with Management and the Board of BOC Kenya.

6. Company and Industry Overview

6.1 Company Overview

BOC Kenya PLC (the "Company") was incorporated in Kenya on 9 December 1940 under the then Companies Ordinance as the East African Oxygen and Acetylene Company Limited, starting its operations in the Coastal town of Mombasa. The Company has over time changed its name to East African Oxygen Limited (9 July 1957), BOC Kenya Limited (27 March 1995) and more recently to BOC Kenya PLC (20 November 2017). It was listed on the Nairobi Securities Exchange in 1969 and has been and remains a subsidiary of BOC Holdings UK.

The Company has two fully owned subsidiary Companies, BOC Tanzania Limited and BOC Uganda Limited.

The BOC organization was set up in the in 1886 as the Brin's Oxygen Company Ltd and renamed the British Oxygen Company (BOC) in 1906. In 2006, the worldwide BOC organization was acquired by The Linde Group headquartered in Germany but retained its identity as "BOC". The Company is therefore a member of The Linde Group through the majority shareholder who is BOC Holdings UK.

Whilst The Linde Group's core strength lay in engineering (building chemical and plants for industrial gas production), the BOC organization was focused on the manufacture of gases which resulted in synergies. In 2018, The Linde Group merged with Praxair Inc, an American worldwide industrial gases company.

BOC Kenya's portfolio includes dozens of different gases and mixtures, as well as related equipment and services. The Company's customer base cuts across a large spectrum and includes public and private hospitals, food processors, civil and mechanical engineering contractors, motor vehicle body builders, hotels and restaurants, the informal business sector and small and medium enterprises.

BOC's product range includes:

Product	Description
Bulk Gases	• Liquid Oxygen and Liquid Nitrogen • BOC boasts of the only Air Separation Unit (ASU) in Kenya. The plant produces liquid oxygen (and from the liquid, gaseous oxygen) at a consistent purity level of 99.95% whereas the majority of oxygen-generating plants in the market can only produce gaseous oxygen and, when operating optimally, at a purity level of 93% to 95%. Since Medical Oxygen was classified as an essential drug, BOC has registered the gas with the Pharmacy and Poisons Board aligned to the specifications of British Standards (BSI) and US Pharmacopeia that require the purity level of Medical Oxygen be above 95% and 99.5% for critical care.
Packaged (cylinder) gases	• These make up the Company's primary product line and includes medical gases, industrial gases, special gas mixtures and liquefied petroleum gas

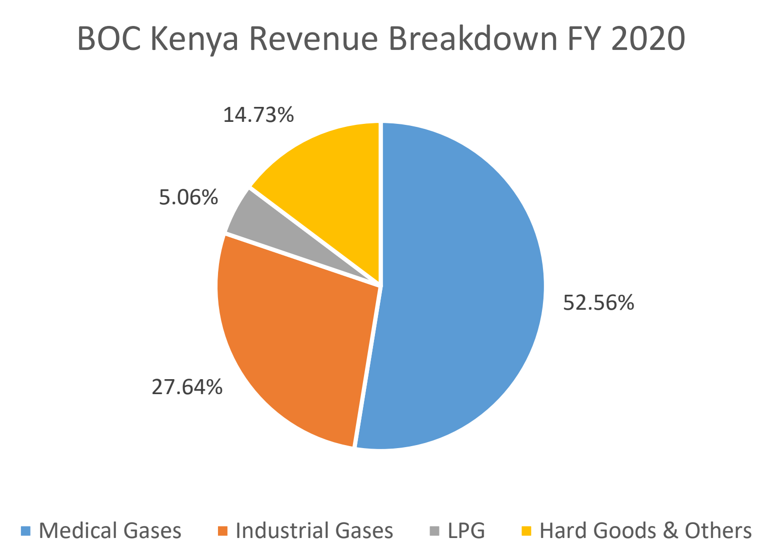
Engineering Services	• Supply of Medical Equipment • Construction of medical and other gas pipelines • LPG installations – tanks and pipelines • Industrial gas storage and pipeline installations • Related maintenance services

Most of the Company's gases are manufactured at its plant in Nairobi Industrial Area while a few are imported from Group or third-party suppliers. The Company's safety and quality standards are well recognized by its customers.

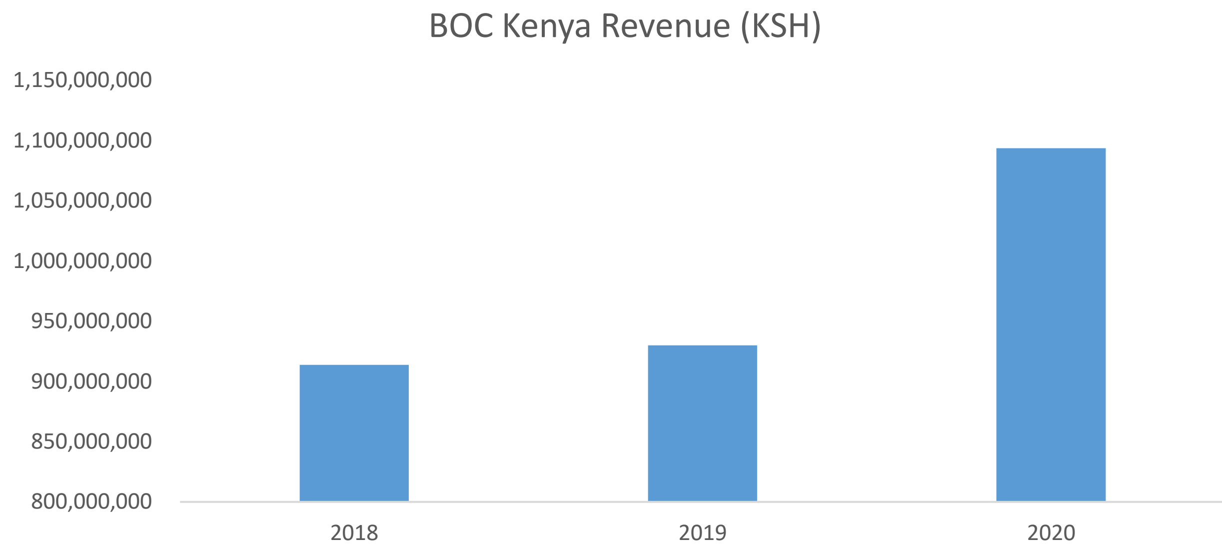
Strategy

The Company seeks to consolidate and grow the medical gases segment and to maintain and grow the industrial gases segment (especially oxygen and dissolved acetylene). The aim is to become the gas supplier of choice in the Kenyan market and be the number one provider in the healthcare space. The Company seeks to partner with real estate developers for Liquefied Petroleum Gas reticulation and to provide innovative solutions to key segments in the agriculture and floriculture sectors. The Company also seeks to partner with national referral and county governments to deliver quality medical supplies to public hospitals. The Company is also looking at new business streams including in the construction sector, oil and gas sector in both Uganda and Kenya, the agricultural sector (ripe gas and fumigant gas) and the water treatment sector.

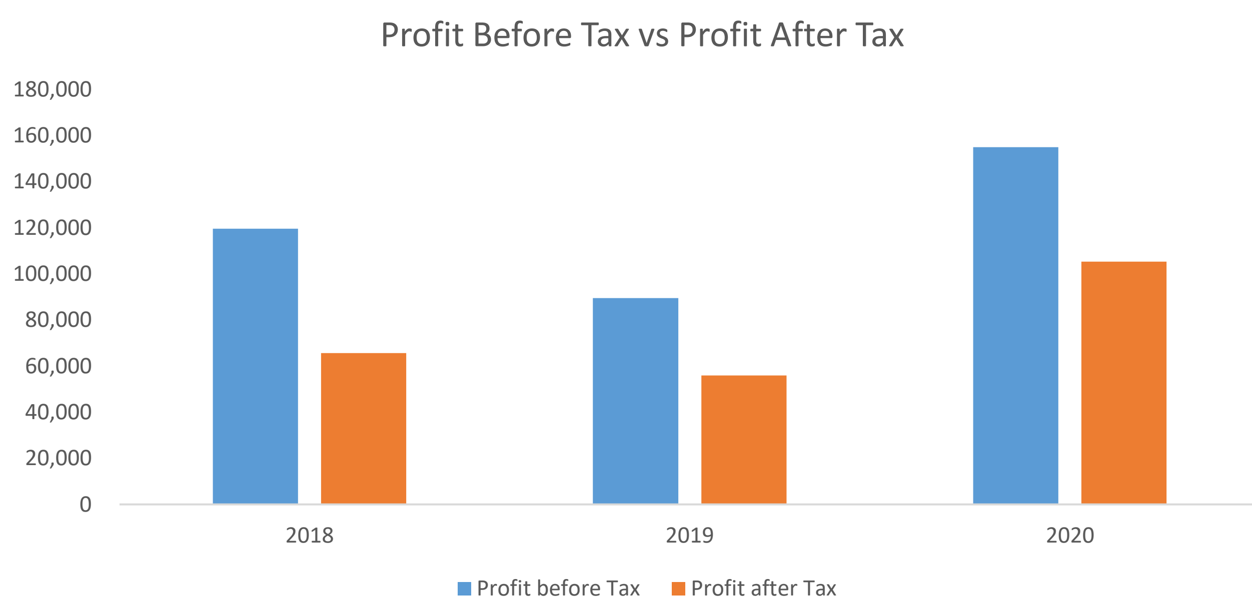
Summary financials



(Source: BOC Kenya Unaudited FY 2020)



(Source: BOC Kenya Audited Financials 2018 and 2019, BOC Kenya Unaudited FY 2020)



(Source: BOC Audited Financials 2018 and 2019, BOC Unaudited FY 2020)

Impact of COVID19

The Covid19 Pandemic has had an impact on BOC Kenya as it has led to an increased demand for oxygen and therefore an opportunity for volume growth. Due to increased demand, this has resulted in the Company supplementing local oxygen production with expensive oxygen imports. Otherwise, the BOC strategy has not been materially affected.

Covid19 has led to a general decrease in purchasing power, which has had an adverse effect on BOC Kenya customers who are engaged in fabrication. This has resulted in a reduced demand for industrial gases.

Outlook (for the next 12 months) of the industry including key trends and Prospects (for the next 12 months) in terms of financial performance as well as positioning in the industry including competitive advantage, threats and opportunities

BOC Kenya's prospects for the next 12 months are very positive with revenue projected to grow by 11.65%[1] in 2021. This increase will be driven by strong volume growth in the medical gases segment of 8%[2] particularly oxygen and supported by healthy annualized price increases. The industrial gases segment will also continue to grow at 6%[3] but with subdued price increases due to competition. Industrial and Medical Gases will contribute 78.2% to BOC Kenya's revenue with the remainder made up of LPG Sales and Services. As a result, net income is projected to grow by 12.43%. It is important to note that these figures are based on the statutory accounts of 2020 which are yet to be audited as of 13th January 2021.

Forecast 2021	KSH
Revenue	1,225,987,100
Profit before Tax	189,956,400
Profit after Tax	121,937,400

BOC Kenya's competitive advantage remains its brand name and years of experience in the sector. The Company's technical competency, skilled workforce and product quality continues to give it an edge over other competitors.

The threats to BOC Kenya include agile low-cost competitors and the low costs of imports. The illegal filling of the Company's cylinders continues to be a big problem. The delayed payments of invoices particularly from Government associated institutions poses a potential threat as well.

The advent of low cost oxygen plants and improved technology has meant that a lot of BOC Kenya's traditional clients such as hospitals have installed plants that use Pressure Swing Adsorption ("PSA"). PSAs produce gaseous oxygen at a purity level of 93% to 95% whereas Air Separation Units ("ASU") that BOC Kenya owns, produce liquid oxygen at a 99.9% purity level. Whilst using low cost oxygen plants might be seen as a threat to BOC Kenya, it has been noticed that with lack of regular maintenance, these plants do not tend to last and end up with oxygen levels as low as 70% and clients come back to BOC Kenya. Due to Covid19, the demand for oxygen has increased with BOC Kenya having to import to supplement current capacity.

It is envisioned that even if institutions continue to install PSAs, demand for liquid oxygen will continue to be there. BOC Kenya has also participated in tenders to install PSAs and envisions a future revenue stream for the installation and maintenance of PSAs on behalf of institutions.

[1] BOC Kenya Management Projections
[2] BOC Kenya Management Projections
[3] BOC Kenya Management Projections

The opportunities for the Company are numerous including the growing healthcare sector where there is demand for medical gases particularly oxygen. Oxygen has been reclassified as an essential medicine with the regulations pending. BOC Kenya is well positioned as they have met all the requirements for the reclassification and their Good Manufacturing Practices ("GPMs") are under review by the Pharmacy and Poisons Board. This will mean that the uptake of oxygen will be procured by Health professionals as opposed to standard procurement procedures.

There's also a low availability of medical oxygen which is at 16%. This is projected to increase particularly at the County level as Counties continue to become more proactive in the healthcare space.

There are also new opportunities for fumigation gases, oxygen for water treatment and gas reticulation.

7. Transaction Overview

7.1 Terms of the Takeover

The principal terms of the take-over offer by the Co-Offerors are:

7.1.1. The Offer is for a total cash consideration of KSH 1,239.865,821 at KSH 63.50 per ordinary share.

7.1.2. BOC Kenya owns 14,850,000 shares in Carbacid representing 5.83% of Carbacid.

7.1.3. Carbacid does not own any shares in BOC Kenya.

7.1.4. Aksaya does not own any shares in BOC Kenya. However, Baloobhai Chhotabhai Patel and Amerjeet Baloobhai Patel, jointly own 2,554 shares in BOC. Baloobhai Chhotabhai Patel is the majority owner of Aksaya with 99% membership interest whilst Amerjeet Baloobhai Patel owns 1% membership interest. Amerjeet Baloobhai Patel and Baloobhai Chhotabhai Patel also jointly own 40.38% of Carbacid.

7.1.5. Due to Section 108 of the Companies Act, 2015 which prohibits a subsidiary from being a member of its holding company, Carbacid cannot acquire more than 49.99% of the shares of BOC. This is because a transaction that makes a body corporate a member of a company that is its holding company will be declared void. As a consequence, Carbacid is working in concert with Aksaya in making the offer. The following allocation criteria will apply for acceptances of the Offer by Carbacid and Aksaya:

a. If by the Closing Date of the Offer, BOC Kenya no longer owns shares in Carbacid, Carbacid will proceed to acquire up to 100% of the BOC Kenya shares and Aksaya will waive its rights to acquire any BOC Kenya shares; and

b. If by the Closing Date BOC Kenya still holds shares in Carbacid, Carbacid will acquire 49% of the BOC Kenya shares and Aksayaa will acquire up to 51%. Aksaya has agreed with Carbacid that if the BOC Kenya shares held by Aksaya are acquired by Carbacid within and up to six calendar months of the Closing Date, then the price for such shares will be the Offer Price. In addition, Aksaya shall charge Carbacid a fee equivalent to 1% per month (and prorated for periods less than a month) of the value of the BOC Kenya shares actually acquired by Aksaya for agreeing to be a co-offeror. If the sale is effected after such six calendar month period, the price shall be a price as may be agreed between Carbacid and Aksaya. Such a sale by Aksaya to Carbacid will be subject to approval by the Capital Markets Authority for it to be effected as an off-market sale under Section 31 (1A) of the Capital Markets Act (Chapter 485A, Laws of Kenya) and Regulation 57 of the Capital Markets (Licensing Requirements)(General) Regulations 2002.

7.1.6. The Co-Offerors received an irrevocable undertaking from BOC Holdings which holds 65.38% of BOC Kenya (the "Committed Shares"). The Committed Shares shall include any shares in BOC Kenya of which BOC Holdings may become the registered holder or beneficial owner after the date of the irrevocable undertaking and any other shares or interests in shares attributable to or deriving from the existing shares in BOC Kenya owned by BOC Holdings.

7.1.7. Under the terms of the irrevocable undertaking BOC Holdings inter alia:

a. Irrevocably undertakes to accept or procure the acceptance of the Offer in respect of the Committed Shares. BOC Holdings agrees to fulfil this undertaking by validly accepting the Offer in respect of the Committed Shares in accordance with the Offer Document, not later than five (5) Business Days after receipts by BOC Holdings of the Offer Document (and to communicate such acceptance in the manner envisaged in the Offer Document) or, in relation to the Committed Shares that BOC Holdings becomes the registered shareholder or beneficial owner of after the date of the irrevocable undertaking or any other shares or interests in shares attributable to or deriving from the existing shares in BOC Kenya owned by BOC Holdings, as soon as practicable after BOC Holdings becomes the registered holder or beneficial owner of such Committed Shares;

b. Irrevocably undertakes that it will not sell, transfer, mortgage, charge or otherwise encumber, grant any option or other right over or otherwise deal with or dispose of any or all of the Committed Shares or any interest (whether actual or contingent) in any or all of them other than pursuant to the Offer or the undertaking;

c. Irrevocably undertakes that BOC Holdings will not effect any indirect transfer of the Committed Shares through a sale of any or all of the shares of BOC Holdings;

d. Irrevocably undertakes that notwithstanding that the terms of the Offer Document will confer rights of withdrawal on accepting shareholders, BOC Holdings shall not withdraw any acceptance of the Offer in respect of the Committed Shares or any of them and shall procure that no rights to withdraw any acceptance in respect of such Committed Shares are exercised;

e. Irrevocably undertakes that BOC Holdings will not exercise the voting rights attaching to the Committed Shares in any manner which is likely to be prejudicial to the Offer or its outcome;

f. Irrevocably undertakes to take all steps in relation to BOC that as a shareholder of the Committed Shares it is able or entitled to take in order that the Offer may be successfully implemented within the period envisaged by the Offer Document, including the convening of all meetings which may be necessary in this regard; and

g. Agrees to exercise its votes in relation to the Committed Shares in a manner which is supportive of the Offer, to assist in the implementation of the Offer.

7.1.8. The conditions of the irrevocable undertaking are:

a. That the Offer made by the Co-Offerors is made on the same or better terms to those contained in the Notice of Intention;
b. That the regulatory conditions of the Offer are fulfilled; and
c. Completion of the Offer occurs by 31st July 2021 or such later date as may be agreed in writing by the Co-Offerors and BOC Holdings

7.1.9. The completion of the Offer will be subject to the fulfilment or waiver (at the sole discretion of the Co-Offerors where legally capable of waiver) of the following conditions by no later than the Closing Date:

a. Receipt of applicable regulatory approvals including approval from the Competition Authority of Kenya;
b. To the extent that any of the approvals listed herein have conditions attached to them, such conditions being acceptable to the Co-Offerors;
c. Carbacid receiving its shareholders approval for the Acquisition;
d. No governmental, revenue collection or regulatory body having decided to take any action or proceedings or make an investigation which might:
    i. Make the acquisition of the BOC Kenya Shares pursuant to the Offer void or illegal;
    ii. Impose any restriction on the ability of BOC Kenya to carry on its business as the same was carried on prior to the date of this Offer; or
    iii. Otherwise materially affect the business profits or prospects of BOC or the Co-Offerors;
e. There being no Material Adverse Change in the trading position or prospects or financial position of BOC; and
f. No material litigation or other legal proceedings having been commenced against BOC Kenya and no order being given by a court or authority in Kenya to prevent or restrict the transfer of any shares in BOC under the Offer.

7.1.10. The Co-Offerors may at their sole and absolute discretion waive any condition which they are legally capable of waiving.

8. Our Independent Valuation of BOC Kenya PLC

8.1. Introduction

The objective of the valuation is to provide an assessment of the fair value of the BOC Kenya and provide an opinion to predicate the fairness and reasonableness of the price offered by Carbacid and Aksaya. In undertaking this assessment, we have relied on the information provided and referenced in Section 5.

8.2. Summary of Work Done

These are the steps that we undertook to conduct a fair valuation of BOC Kenya.

Task	Description
a) Analysis of the operations and historical financial performance of BOC Kenya and its subsidiaries	The analysis of historical performance was done: To enhance our understanding of the business and its future prospects (business review); and To ascertain the reasonableness of the financial projections for the period to 31st December 2023.
b) An assessment of the likely future projections of BOC Kenya	We reviewed the financial projections and management accounts for the periods ending December 2016, 2017, 2018, 2019, 2020 and December 2021 to assess and determine whether the projections are reasonable. These projections contain management's assumptions on the potential revenues and expenditures expected over the period. We reviewed these projections for each of the subsidiaries.
c) Selection of appropriate valuation methods and estimation of relevant valuation parameters.	We used the income approach, market approach and asset approach to valuation with the various methodologies and assumptions outlined below.
d) Determining fair value	We used a weighted average of all valuation methods to determine the fair Enterprise Value of BOC Kenya.

8.3. Summary of Valuation Methodologies Considered

We considered, broadly, three valuation methodologies, i.e., income approach, market approach and asset approach.

Methodology	Description	Applicable to BOC Kenya?	Rationale
Income Approach	**We evaluated the applicability of the Discounted Cash Flow Method ("DCF") and Dividend Discount Model ("DDM")**		
Discounted Cash Flow	Forecasting Free Cash Flows by forecasting the components of the Profit and Loss statement, Statement of Financial Position and Statement of Cash Flow, determining an appropriate discount rate and using the rate to discount the future cash flows to the present.	**Yes**	BOC has had a positive free cash flow for the past four years and future project positive cash flows so this methodology could be used.
Dividend Discount	Dividends are discounted to Present Value at cost of equity It is a form of discounted cashflow that aims to arrive at intrinsic value	**Yes**	BOC has consistently declared dividends and thus this method could be used.
Market Approach	**We evaluated applicability of Trading Multiples, Precedent Transaction multiples and Share Price Comparision**		
Trading Multiples	Using multiples of comparable quoted companies to determine the market value of the business.	**Yes**	We selected peers EV/EBITDA, P/E and P/B multiplies and used the mean and median multiples to determine a value.
Precedent Transactions	Using multiples of comparable previous transactions to determine the market value of the business.	**Yes**	We selected TV/EBITDA, P/E and P/B multiplies and used the mean and median multiples to determine a value.
Share Price Comparison	Using the volume weighted average ("VWAP") share price of BOC Kenya to compare against the offer price	**Yes**	As BOC Kenya is listed and trades on the NSE, we are able to calculate the 180 day VWAP of BOC Kenya as a basis for comparison.
Asset Approach	**We evaluated the applicability of Net asset Value and Asset Liquidation**		
NAV	Using the net assets of the business to determine value	**Yes**	BOC has significant assets in the form of land, plant and equipment so that method could be used whilst valuing the business as a going concern.

Asset Liquidation Analysis	Understanding the value of the business assets net liabilities when the company is no longer a going concern and assets have been liquidated	Yes	Whilst, this is a theoretical calculation, it can still be applicable to BOC as it allows for the incorporation of the market value of land holdings assuming the business is no longer a going concern

8.4. Valuation Assumptions

8.4.1. Income Approach: Discounted Cash Flow

Our primary valuation technique will be the Discounted Cash flow method. The discounted cash flow ("DCF") method is based on the premise that the value of the investment or new business can be estimated today by forecasting the future financial performance of the business and identifying the net cash that the business will generate. Cash flows for all future years are then discounted by a risk-adjusted cost of capital (discount rate or the weighted cost of capital) back to the present to obtain the present value of those future cash flows.

This method is sensitive to the accuracy of the projections and the discount factor used, which may vary from investor to investor, depending upon the investor's attitude towards risk. Kenya has been rated by Standard & Poor's which might make it easier. The discounted cash flow evaluation technique determines the quantum of a company's future cash flows or value as the sum of the following:

- Present value of cash flows arising from the business, which is estimated by projecting future operating Free Cash Flows (FCF) and discounting them by the Weighted Average Cost of Capital (WACC) for the company. The WACC would normally reflect the investors desired rate of return on the project; *plus*
- The value of non-operating assets, estimated either using the market value of those assets or calculated as a DCF value (as for operating cash flows); less
- The present value of debt (estimated once again either through the market value of the claim or as a DCF value) and other liabilities that are of higher priority than the equity claim; less

Forecasting the future can be prone to a high degree of inaccuracy. To simplify the process and forecast a more meaningful value for the investment, we will separate the value of the business into two time periods: *an explicit projection period* and a *continuing value* for the operations of the business.

The projected cash flows are based on the projected Profit and Loss account (Income Statement) adjusted for non-cash items such as bad debt provisions, depreciation, reserves taken for claims which do not necessary crystallise in a certain period such as retirement benefits provisions, etc. In addition, we also provide for sustaining capital expenditure over the projection period, retirement benefits, etc.

The choice of discount factor is critical to the value estimated and is normally determined from the WACC. The process for determination of the weighted average cost of capital is given below.

i. Explicit projection period

This involves forecasting the operating FCF for a specific period until cash flows are expected to *normalise* (i.e. cash flows have stabilised and are on a predictable path that can be extrapolated using constant growth figures and can be discounted using an annuity formula). We then apply an appropriate discount rate to arrive at the net present value (NPV) of these cash flows during the explicit forecast period.

ii. Continuing value projection

This is the present value of the business beyond the explicit forecast period, based on: (a) the final year's projection; and (b) assumptions regarding future return on investment and growth. An annuity discount formula is used to show the value today of the cash flows from the continuing business.

iii. Discount rate

The discount rate used to calculate the present value of the cash flows attempts to estimate the rate of return that potential investors will use in assessing the value of BOC Kenya. The discount rate is a combination of the cost of equity and debt, and the relative weights of the cost of equity and debt depend upon the capital structure of the company.

The discount rate/factor is also influenced by several factors. It is estimated using the capital asset pricing model (CAPM). The approach involves working out a weighted average cost of capital ("WACC"), by weighting the cost of equity and the (after tax) cost of debt for any investment, based on the future expected level of gearing. The cost of equity is derived as; the sustainable yield on risk free (RF) long-term bonds (issued by Governments or triple A-rated agencies) plus equity risk premium (ERP) multiplied by the market/sector Beta. In Kenya the bonds are not liquid and as such surrogates such as the Central Bank Rediscount Rate and Treasury bill rates might be more appropriate. While using Beta, care has been taken to determine whether the Beta used is for a market or industry sector. The cost of equity would then be determined as the sum of the risk free rate of return plus the risk premium adjusted for Beta.

	Fair Value Price (KSH)	Co-Offeror's Offer Premium (%)
Discounted Cash Flow	61.55	3.07%

8.4.2. Income Approach: Dividend Discount Model

The Dividend Discount Model (DDM) a way of valuing a company based on the theory that a stock is worth the discounted sum of all of its future dividend payments. It is a form of discounted cash flow (DCF) model with the cash flows being the future dividends of the company. There are 3 types of dividend discount models:

- Zero-growth, which assumes that all dividends paid by a stock remain the same;
- Constant-growth model, which assumes that dividends grow by a specific percent annually;

- Variable-growth model, which typically divides growth into 3 phases: a fast initial phase, then a slower transition phase that ultimately ends with a lower rate that is sustainable over a long period.

Zero-growth model assumes that the dividend always stays the same, the stock price would be equal to the annual dividends divided by the required rate of return.

The constant-growth DDM assumes that dividends grow by a specific percentage each year. The model is often used to value stocks of mature companies that have increased the dividend steadily over the years. Basically, the constant-growth rate model is extended, with each phase of growth calculated using the constant-growth method, but using 3 different growth rates of the 3 phrases. The present values of each stage are added together to derive the intrinsic value of the stock.

Variable-growth rate model (multi-stage growth models) generally assumes 3 different rates of growth: an initial high rate of growth, a transition to slower growth, and lastly, a sustainable, steady rate of growth. Sometimes, even the capitalization rate, or the required rate of return, may be varied if changes in the rate are projected.

The DDM valuation will be used in conjunction with the DCF model to value the Company's equity

	Fair Value Price (KSH)	Co-Offeror's Offer Premium (%)
Dividend Discount Method	64.64	-1.79%

8.4.3. Market Approach: Trading Multiples

The objective is to value a firm based upon how similar firms are priced by the market. To value firms on a relative basis, prices have to be standardized usually by converting prices into multiples of some common variable. For this valuation, we are using P/E, P/B and EV/EBITDA.

The comparable companies were selected from emerging markets in the Africa, Middle East and Asia. Those that have a similar GDP PPP to Kenya. Further to this, we compared the revenue and EBITDA of the selected companies to BOC Kenya business and selected the companies with a range of values that were comparable to the BOC Kenya.

Trading Multiple	Fair Value Price	Co-Offeror's Offer Premium (%)
P/E	87.40	-37.64%
P/B	130.58	-105.64%
EV/EBITDA	96.49	-51.96%
Value per Share (weighted average)	104.83	-65.08%
With 20% control premium	125.79	-98.10%

8.4.4. Market Approach: Precedent Transaction Multiples

The Precedent transaction multiple approach is based on the premise that the value of a company can be estimated by analyzing the prices paid by purchasers of similar companies under similar circumstances. This analysis assists in understanding the multiples and premiums paid in a specific industry and obtaining information on private market valuations.

The quality of a precedent transaction analysis is dependent on the selection of the most relevant transactions. When choosing relevant transactions, the following criteria must be considered:

- **Industry characteristics** – Target company's business characteristics should be comparable. For our selection we focused on transactions involving target companies in the industrial gases space that deal in similar products to BOC Kenya.
- **Transaction-specific characteristics** – It is necessary to understand the background and circumstances surrounding the transaction to extract meaningful insights. For our selection, we focused on transactions that have taken place in similar regional operating environments, on a cash basis and M&A type of transactions, where control was achieved. This would offer some similarity in terms of circumstances and background.

  It was important to note that the Industrial Gases space is dominated by about a few global firms including the Linde Group. Thus for some of the transactions, these included either Linde Group (or an affiliate) acquiring a business or divesting from a business. The divestitures by the Linde Group are particularly comparable as this takeover transaction also includes the divestiture by BOC Holdings which is owned by the Linde Group.

- **Timing** – The more recent the data, the more relevant the benchmark. For our selection, we selected a wide data range and used an average of similar deals undertaken within that range.

Transaction Multiple	Fair Value Price	Co-Offeror's Offer Premium (%)
P/E	78.47	-23.57%
P/B	196.06	-208.76%
EV/EBITDA	107.68	-69.57%
Value per share (weighted average)	127.40	-100.63%

8.4.5. Market Approach: Share Price Comparison

From Date of Notice of Intention (25th November 2020)	Average VWAP Price (KES)	Co-Offeror's Offer Premium to VWAP Price (%)
30 Day VWAP	59.59	6.57%
90 Day VWAP	57.53	10.38%

180 Day VWAP	57.74	9.97%
250 Day VWAP	58.85	7.90%

Using the share price comparison approach and focusing on the 180 day VWAP, the Offer Price was at a premium to the share price.

8.4.6. Asset Approach: Net Asset Value

The Net Asset Value ("NAV") approach focuses on the value of a company's assets or the fair market value of its total assets after deducting liabilities and values the Company as a going concern. This method allows us to include the current market value of the land holdings of BOC Kenya which have been carried in their accounts at cost. The land value has been appraised by GIMCO Limited and the land valuation report is dated January 18th 2021.

Net Asset Value	NAV Per Share (KSH)	Co-Offeror's Offer Premium (%)
As book value	74.05	-16.62%
Adjusted for current market value of land as at January 18th 2021	112.28	-76.81%

8.4.7. Asset Approach: Asset Liquidation Analysis

The Asset Liquidation Analysis establishes the value of the Company assuming its assets are liquated and the proceeds are paid to settle any claims and liabilities in the order of distribution. This method is often an estimation as it is difficult to accurately account for all the potential liquidation costs. The land holdings have been independently valued by GIMCO Limited and the land valuation report is dated January 18th 2021. For this exercise, a fire sale discount of 25% to the current market land has been used and assumes the land has to be sold quickly as part of the liquidation proceedings. For plant and equipment, a fire sale discount of 25% has been assumed and a discount of 30% for inventory. All other estimates and assumptions are based off the 2019 Audited Accounts.

With respect to BOC Kenya's land holdings, they are currently fully built up as they contain the manufacturing plant and offices. We have assumed that when the land is sold, the plant and equipment can be sold separately. Other key considerations include:

- Value of land assets including an estimate of transaction costs (legal fees, stamp duty, VAT, broker fees at 5% of land value)
- Value of physical assets (including plant and equipment)
- Existing inventory
- Existing Liabilities
- Redundancy fees
- Liquidation costs

We have assumed that the liquidation process will be managed by an appointed Administrator and that the process will not be halted by any court cases. The proceeds of liquidation will be paid out in order of priority with the shareholders last in line. We have assumed the date of liquidation as 31st December 2019.

Asset Liquidation Value	KSH	Co-Offeror's Offer Premium (%)
Liquidation proceeds distributable to ordinary shareholders (per share)	55.06	13.29%

8.5. Fair Value Summary and Conclusion

In arriving at the fair value price per share of BOC Kenya, we assigned different weights to each of the approaches using for valuation as follows:

Methodology	Fair Value per Share (KSH)	Weighting	Weighted Average (KSH)
Discounted Cashflow	61.55	30%	18.47
Dividend Discount Model	64.64	10%	6.46
Trading Comparables (mean)	125.79	15%	18.87
Transaction Multiples (mean	127.40	20%	25.48
BOC Kenya Share Price (180 VWAP)	57.74	5%	2.89
Net Asset Value (at book value)	112.28	15%	11.23
Asset Liquidation Analysis	55.06	5%	5.51
Fair Value			**91.76**
Offer Price			**63.50**
Premium/Discount to Offer Price (%)			**-44.50%**

The fair value obtained is weighted average of the six methodologies outlined in the opinion. The fair value is KSH 91.76 which is 44.50% higher than the offer price. As the fair value is below the offer price, the offer price is not considered to be fair and reasonable.

9. Disclosures

9.1 Co-Offeror's Stated Intentions regarding the continuation of the business of the Offeree

The Co-Offerors' intention is to continue to carry on the principal business of BOC Kenya.

9.2 Co-Offerors' stated intentions regarding any major changes to be introduced in the business, including any places to liquidate the Offeree, sell its assets, re-deploy its fixed assets or make any other major change in the structure of the Offeree

The Co-Offerors' intention is to maintain and continue to operate the business of BOC Kenya materially in the same way without any significant disruption to BOC Kenya's business following completion of the Offer.

The Co-Offerors have stated that they have not yet received sufficiently detailed information with which to conduct a more detailed assessment of BOC Kenya's business and based on the limited due diligence, they do not yet have sufficient information to be able to estimate the extent of the potential synergies. The Co-Offerors expect to be able to begin a more detailed assessment of BOC Kenya's business and to develop detailed steps for its integration in the period after completion of the Offer.

The Co-Offerors will look to realize future efficiencies and synergies and will undertake within a period of approximately 12 months a review of BOC Kenya's operations to streamline its business operations and increase productivity to drive BOC Kenya's growth.

9.3 Co-Offerors' stated long term commercial justification for the proposed take-over offer

The Offer is consistent with Carbacid's strategy of business expansion through acquisition in addition to organic growth. Aksaya recognizes that the proposed acquisition is in the best interest of Carbacid and will lead to value enhancement for the Carbacid Group as a whole. Aksaya has therefore agreed to support and assist Carbacid in achieving its ultimate objective of acquiring 100% of the issued shares of BOC Kenya.

The enlarged group will be in a stronger position to capitalize on significant growth opportunities by leveraging its expanded non-competing portfolio of products and wider customer base, in addition to securing optimal pricing and terms from key suppliers.

The introduction of cost and quality controls, processes and innovative and efficient management systems will unlock shareholder value from BOC Kenya's operations. In addition, closer integration where possible and practical, of Carbacid and BOC Kenya's operations will provide opportunities to extract synergies in administration, marketing, distribution, selling and information technology.

Further, the combination of highly experienced and competent management resources will better position the enlarged group to take advantage of opportunities in the East and Central African region.

9.4 Co-Offerors' stated intentions with regard to the continued employment of the employees of the Offeree and of its subsidiaries

The Co-Offerors' intend to continue the employment of the employees of BOC Kenya post completion. They confirm that existing contractual and statutory employment rights, including in relation to pensions of all BOC Kenya employees will remain in force in accordance with the applicable laws.

The Co-Offerors recognize that a detailed review of BOC Kenya's business and operations will be required. Therefore, the Co-Offerors will undertake within a period of approximately 12 months, a review of the organizational structure of BOC Kenya to confirm and potentially identify operational efficiencies, cost-savings and anticipated synergistic benefits. Until such a review has happened, the Co-Offerors will not be able to definitively assess the impact of the take-over on the employees of the enlarged group. However, the Co-Offerors do not expect to implement material changes to the BOC Kenya organizational structure or to the terms and conditions of employment or in the balance of the skills and functions of the management and employees of BOC Kenya in the short term.

9.5 Reasonableness of the take-over offer, including the reasonableness and accuracy of profit forecasts for the Offeree, if any, contained in the Offer Document

The offer price is not considered to be fair and reasonable as the fair value calculated at KSH 91.76 is 44.50% higher than the offer price of KSH 63.50

The Offer Document does not provide any profit forecasts.

9.6 Does BOC Kenya hold directly or indirectly, any voting shares or convertible securities in the Co-Offerors and if so, the number and percentage holding of such voting shares and convertible securities

BOC Kenya owns 14,850,000 shares in Carbacid representing 5.83% of the total issued shares.

BOC Kenya does not own any shares in Aksaya.

9.7 Do the Directors of BOC Kenya hold, directly or indirectly any voting shares or convertible securities in the Offeror or BOC Kenya and if so, the number and percentage holding of such voting shares and convertible securities so held

The Directors of BOC Kenya do not hold any voting shares or convertible securities in BOC Kenya nor in the Co-Offerors.

9.8 Do the Directors of the BOC Kenya intend, in respect of their own beneficial holdings, to accept or reject the take-over offer

The Directors of BOC Kenya do not hold any voting shares or convertible securities in BOC Kenya.

9.9 Any other interest held by Directors of BOC Kenya in the Co-Offeror and in BOC Kenya

The Directors of BOC Kenya do not hold any other interest in BOC Kenya nor the Co-Offerors.

9.10 Disclosure of any trading by Directors of BOC Kenya in the shares of BOC Kenya and/or the Co-Offerors 6 months prior to the opening of the Offer Period.

The Directors do not own shares in BOC Kenya nor the Co-Offerors and thus no trading has occurred.

9.11 Information on all service contracts of any Director or Proposed Director of BOC Kenya or any of its subsidiaries (unless expiring or determinable by the employing company without payment of compensation within 12 months from the date of the offer document)

The Independent Directors have service contracts with BOC Kenya and the information is outlined below.

Name	Date of Appointment	Term	Role	Committee Memberships	Annual Fee	Sitting Allowance
Stephen Maina	1st June 2018	3 years	Non Executive Director	Chairman of the Audit Committee	KSH 140,000	KSH 70,000
Robert Mbugua	22nd June 2018 as Chair 1st September 2018 (reconfirmation as Independent Director)	3 years	Non Executive Director and Chair of the Board	Chairman of the Nominations and Corporate Governance Committee	KSH 190,000	KSH 70,000
Cosima Wetende	1st March 2019	3 Years	Non Executive Director	Nominations and Corporate Governance Committee, Retirement and Remunerations Committee, Audit Committee	KSH 140,000	KSH 70,000

Marius Kruger and Ruben Chetty are employees of BOC Kenya's sister company, African Oxygen Limited and thus serve on the board on the behalf of BOC Holdings. They do not have a direct service contract with BOC Kenya.

Marion Mwangi and Arthur Kamau are employees of BOC Kenya and serve on the board as Managing Director and Finance Director respectively. They do not have service contracts as Directors but do have employment contracts.

9.12 Disclosure about any amendments to the service contracts of any Director or Proposed Director of BOC Kenya made in the last 6 months preceding the Offer Period

The service contracts have not been amended during the last 6 months preceding the Offer Period.

10. Summary

As highlighted, an offer is generally fair and reasonable if the purchase consideration is equal to or greater than the value of the entity that is the subject of the transaction.

As the fair value obtained is KSH 91.76 and the offer price is KSH 63.50, the offer is not considered to be fair and reasonable by definition.