

future >

**Proposal to Orchard Funds Limited**



# Summary

- Step 1 – Orchard merges with LandMark White
  - ✓ Provide liquidity for shareholders
  - ✓ Provide capital
  - ✓ Enhance the investment management team
  - ✓ Access to strong property knowledge and research
- Step 2 – Diversified Property Fund and the other Funds
  - Enhanced corporate structure provides opportunities to:
    - ✓ Better manage properties and funds
    - ✓ Access to other forms of debt
  - We can offer three stabilisation solutions
    - ✓ Capital raise available to all unit holders
    - ✓ Private capital – if necessary to back up the unit holders
    - ✓ Stapling – that provides liquidity for the funds



# Background

- LandMark White Limited (LMW) is publicly listed
- We are one of Australia's largest independent property valuation and consultancy companies
  - National presence with 150 staff
  - Providing commercial & residential valuations; funds management; research; advisory and tax depreciation
  - LMW established its retail funds management division in 2008



# Background

- We believe there is a two step solution for OFL
  - Step 1: Stabilise OFL Manager
    - Provide liquidity for existing shareholders
    - Provide opportunity to participate in the upside
    - Revitalise the board and management
    - Provide working capital to enable to undertake activities to restore DPF and run the funds
    - We understand that OFL & DPF have agreed new Bank terms
    - We can work within those parameters



# Background

- Step 2: address the issues in DPF and other Funds
  - A stable transparent manager will help the funds re-rate with all stake holders
  - We can work out DPF under the Bank parameters
  - We have access to capital to stabilise or remove the banks should that be required
  - We have a range of solutions for DPF



# Background

- LMW offers a safe pair of hands
  - Transparent governance
  - Strong track record in property
  - Long term relationship with NAB and BOSI
  - A merger structure that can be easily executed by OFL
  - We will integrate with existing people where appropriate
  - No legacy issues



# Status of DPF

- The current gearing of DPF is circa 80% - 85%
- The banks want debt reduced. This can be achieved by:
  - Selling assets (unlikely to maximise value)
  - Raising alternative sources of debt
  - Raising capital
    - Any capital raised will give current unit holders the opportunity to participate which protects themselves against dilution

The solution needs to ensure unit holders have the chance to recover some of the upside



# Property Market Overview

- Funding sources have still not returned to “normal” levels
- Astute investors are starting to invest - mostly “cash” buyers
- The GFC caused huge devaluation in assets - now stabilising
- Lack of development during the GFC, recent absorption & lead times to complete developments lead to tighter supply
- Australian economy is resilient
- Property values have dropped since peak between 23%-32%

Asset class	Drop since peak	Drop from 8 yr average
CBD Secondary Office	28%	20%
Non CBD Secondary Office	32%	22%
Industrial	23%	15%



# Property Market Forecast

*Dr Frank Gelber (BIS Shrapnel)*

- *“I want to increase my exposure, not reduce it – though I may be a little careful about the investment vehicle that I choose to do it through”.*
- We need to de-risk the DPF structure and return to a boring commercial property portfolio
  - *“Our forecasts ... show internal rates of return of between 16-20 percent over the next 5 years. That’s extraordinary.”*
  - *“I do know this about commercial property. This is the time to get set, to position for strong returns in two to five years time”.*
- If we can meet the challenges faced by DPF it can have a future. The buildings are still there, the rent is coming in and the fundamentals are sound.



# Step 1

## Stabilise OFL



# Step 1 – Merger Summary

- LMW proposes a merger with OFL
  - A scrip offer for all of the shares in OFL
  - 1 LMW share for every 28.37 OFL shares
  - ~\$11m:\$8m value ratio
  - Minimum 51% acceptance condition
- LMW will provide a \$6.25m to OFL to fund
  - Working capital to work through solution for DPF
  - \$4.35m underwritten by LMW and the management team
  - Streaming arrangements with BOSI to be agreed, within new bank parameters



# Step 1 – Merger Summary

- \$5m renounceable rights issue post merger
  - Repays \$3.10m of \$4.35m underwrite
  - Funds part of the OFL working capital
- Prior to formally making the offer LMW needs to
  - Engage with stakeholders in more detail
    - Engagement with OFL Board
    - Engagement with OFL Advisors and Fund financiers
    - Engagement with Shareholders
  - Develop accurate merged entity financial statements



# Step 1 – Merger Benefits

- The current LMW Board will be enhanced to reflect
  - New OFL stakeholders
    - Re-establishment of the Investor Advisory Council
  - The scale of the funds management operation
  - The desire to re-engage with advisors and their clients



# Step 1 – Merger Benefits

- LMW will enhance its funds management team
  - Their mandate - grow the business and fix the funds
  - The OFL team has real asset by asset familiarity
  - The LMW team will supplement them
  - The new team will have real “skin in the game”
  - The team has the capability to work out current issues
  - The new team will grow FUM at an appropriate time



# Barwon Offer - Contrasts

- The Barwon offer priced OFL at \$8m
- **We offer the same value and provide liquidity**
- Barwon provided \$4.35m of underwritten funding
- **Our offer provides \$4.35m immediately**
- Barwon have limited access to capital to assist DPF
- **LMW has access to listed and private capital sources**
- Barwon needs satisfactory streaming arrangements with BOSI
- **Our offer requires the same arrangements**
- Barwon do not have the support of a large number of advisory groups or shareholders
- **We will only proceed if we have YOUR support**



# Merger Pre-conditions

- A formal offer requires stakeholders to co-operate
- We need
  - Engagement with OFL Board
  - Streaming agreement with BOSI, within new bank parameters
  - Financier engagement at OFL Fund level
  - Satisfactory post 31 Dec 2010 due diligence
    - This will be required to build accurate merged entity pro forma profit and loss, balance sheet and cash flow statements



# Merger Pre-conditions

- This is not a formal offer by LMW
  - We would like to move to a position where it can make a formal offer as soon
  - We are a listed company with strict disclosure obligations
  - We need to work with stakeholders to manage those obligations



# Merger Terms

- LMW makes a public offer for all OFL shares at 1:28.37 ratio
  - Offer will be governed by the Corporations Law
  - Offer will be conditional on
    - 51% minimum acceptances
    - Satisfactory bank arrangements
      - BOSI arrangements finalised
      - No event of default triggered by change of control
  - Offer will be subject to the usual mandatory requirements



# Merger Terms

- LMW injects up to \$6.25m into OFL
  - To fund OFL working capital
    - Minimum amount of \$4.35m from convertible note and LMW
    - Maximum amount of \$6.25m made up of
      - \$1.25m convertible note
      - \$5m from renounceable rights issue
  - 5% over BBSW coupon paid quarterly (7.5% over if capitalising)
  - 6 year secured loan
  - Agreed streaming with BOSI, within bank parameters



# Merger Terms

- Skin in the Game
  - LMW management team
  - Hold up to 25% of funds management business
    - Convertible (at LMW option) to LMW shares
    - Anytime after year 3 on pro rata EBITDA



# Step 2

## Stabilisation of OFL Funds



**LandMark White**



**LMWGroup**

# Step 2 – Stabilisation of OFL Funds

- We will focus on Step 2 once OFL is stabilised
- LMW believes that the stabilisation of DPF is the key
- DPF represents the value in the platform
- The stabilisation of DPF is paramount to the other funds
- DPF is a large Fund unit holder ie. COF and Childcare



# Step 2 – Stabilisation of Funds

- We have a number of options to help stabilise DPF
  - We have access to the capital markets
    - If the banks choose to exit their position
  - We have access to significant private funds
    - To back up to the capital markets, if required
  - Alternatively, we could staple DPF to LMW
    - No other offer can do that
- **IMPORTANTLY**, if necessary we can combine all three to achieve a satisfactory outcome for all stakeholders



# Step 2 – Stabilisation of OFL Funds

- LMW has the experience and the relationships in the sector to bring all stakeholders through this two step process
- We will allow unit holders the opportunity to participate equally in any recapitalisation of the Funds
- We believe that unit holders and their advisors are the current and future business of the combined group



# Next Steps

- Engage with OFL stakeholders
  - OFL Board
  - OFL Financiers
  - OFL Shareholders
    - Including Macquarie, RBS Morgan, Seymour Group
  - OFL Funds Advisors
    - Including PIS, Peloton Private, 360 Private, Moneywise, Centre Capital, AFS and WealthSure
- Post 31 Dec 2010 due diligence
- Finalise offer terms



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