

24 August 2021

To: Shareholders of Balwin Properties Ltd ("Balwin")

**OPEN LETTER TO BALWIN SHAREHOLDERS REGARDING PROPOSED BEE TRANSACTION AND IMPACT ON CURRENT SHAREHOLDERS**

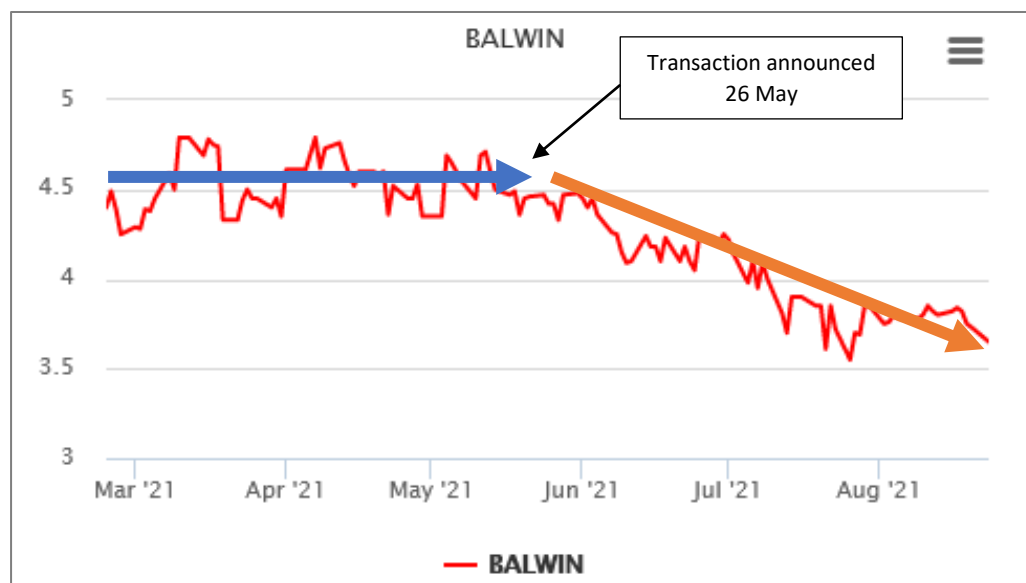
1. The circular dated 26 July 2021 detailing with Balwin's proposed BEE transaction refers (<https://balwin.co.za/wp-content/uploads/2021/07/Balwin-Properties-BEE-Transactional-Circular.pdf>).
2. I am writing this letter as concerned longstanding Balwin shareholder. After numerous interactions with various other shareholders, it became apparent that they share similar concerns and opposition to the proposed transaction.
3. We appeal to all Balwin shareholders to consider the value dilutive effect of the proposed transaction and **vote AGAINST** the proposed transaction at the upcoming general meeting.
4. Three of the resolutions to be voted on, requires at least 75% shareholder support to pass. At the 2020 AGM, shareholders expressed their opposition and voted against the 'General Authority to Issue Shares for Cash' with 21.3%. It is very likely that an opposition vote of >25% can be achieved and that this proposed transaction can be blocked.
5. Overview of proposed transaction:
  - Issue additional/new Balwin shares totalling about 10% of the current number of issued shares to a BEE SPV.

Current number of issued shares	472 192 592
New shares to be issued for transaction	47 219 259
Post-transaction number of issued shares	519 411 851
Percentage new shares to be issued	10.0%

- The subscription price at which the new shares are to be issued will be a -20% discount to the 26 May 2021 30-day-VWAP.
  - The subscription consideration will be vendor financed by Balwin, with a small nominal amount of R20m contributed by the subscriber. Current shareholders are essentially vendor financing 10% for a new shareholder at a -20% discount.
  - The BEE SPV will be locked in for 10 years. Balwin will retain session over the newly issued shares as collateral for repayment of the vendor loan over the 10-year period. If the the BEE SPV does not perform in terms of its obligations, Balwin will have to unwind the scheme at the cost of the current shareholders.
6. We are not opposed to transformation or black empowerment. We are opposed to transactions which are value destructive and constitutes bad capital allocation decisions.
  7. The circular states: "Balwin hopes that the BEE Transaction will serve as a yardstick for the conclusion of similar transactions such as this in the future." Directors and prescribed officers own 49.2% of Balwin pre-transaction. Adding the proposed 10% to be issued to the BEE SPV, implies Balwin will have a closely-knit network of insider shareholders that has control of the company. It is highly probable that the BEE SPV will support any future initiatives to issue shares

at a discount in similar transactions. Hence, Balwin is communicating via the circular that further value dilutive transactions are intended. With every transaction, the influence of minority shareholders and ability to oppose further transactions are impaired.

8. It is critical that minority shareholders prevent a potential downward spiral of decreasing influence, further value dilution and bad capital allocation by voting against the transaction at the upcoming general meeting.
9. The proposed transaction will have limited positive impact, if any, on Balwin's BBBEE rating. In terms of the BBBEE scorecard, ownership is measured against a target of 25% economic interest and voting rights to be held by black people. This transaction will only result in about 10% ownership.
10. The value dilution to existing shareholders is real and immediate. Effective immediately upon implementation, and forever in the future, about 10% of dividends will be directed from current shareholders to the new shareholder, in return for essentially zero compensation to existing shareholders as the newly issued shares are vendor financed. Redirecting future cash flows will have a significant negative impact on the Net Present Value of current shareholders' ownership in the company.
11. The market's reaction to the proposed deal is evident from the share price movement after the announcement on 26 May 2021. Should shareholders succeed in opposing the transaction, it is possible that the market will assess the company more positively and that the share price might recover.



12. I believe the price at which Balwin shares are currently trading is undervaluing the company. It is not a good capital allocation decision to issue additional shares when the price undervalues the company.
13. For the financial year ended February 2021, Balwin reported earnings per share of 71 cents, generated from a very high-quality tangible net asset value per share of R6.80. It implies a trailing PE ratio of 5 and discount to book of -46%. These earnings were generated during a financial year including the worst of COVID lockdowns and are likely to be at the bottom end of the cycle. With lower interest rates, many large developments moving into higher margin phases, and coming off a very low base – it is highly probable that Balwin will report significantly better earnings in the forthcoming reporting periods. Hence, the current share price and the price at which the new

shares are proposed to be issued, greatly undervalues Balwin. Issuing shares at the proposed price would constitute a value destructive capital allocation decision by the company.

14. Important dates: **Proxy forms should be lodged before 09h00 on 02 September 2021. Advised to arrange well before that.**

#### **SALIENT DATES AND TIMES**

**The definitions and interpretations commencing on page 5 apply to these salient dates and times.**

<b>Salient dates and times</b>	<b>2021</b>
Notice record date, being the date on which a Shareholder must be registered in the Register in order to be eligible to receive the Notice of General Meeting on	Friday, 16 July
Circular incorporating the Notice of General Meeting and Form of Proxy (red), posted to Shareholders on	Monday, 26 July
Announcement of posting of Circular and Notice convening the General Meeting released on SENS on	Monday, 26 July
Last day to trade Shares in order to be recorded in the Register to vote at the General Meeting (see note 3 below) on	Tuesday, 24 August
General Meeting record date, being the date on which a Shareholder must be registered in the Register in order to be eligible to attend and participate in the General Meeting and to vote thereat, by close of trade on	Friday, 27 August
For administrative reasons to ensure an orderly arrangement of affairs on the day, Forms of Proxy (red) in respect of the General Meeting may be emailed to proxy@computershare.co.za or received via post by 09:00 on	Thursday, 2 September
Form of Proxy (red) in respect of the General Meeting to be emailed to the chairperson of the General Meeting or to proxy@computershare.co.za at any time prior to the commencement of the voting	Monday, 6 September
General Meeting held at 09:00 on	Monday, 6 September
Results of the General Meeting published on SENS on	Monday, 6 September

In summary: The proposed transaction is value destructive to current shareholders, with likelihood of similar value destructive deals in the future should this transaction pass. The proposed transaction requires 75% shareholder support to pass. We appeal to shareholders to vote against this transaction at the forthcoming General Meeting in order to protect and enhance value for all current shareholders.

Sincerely,

**Rudi van Niekerk**

(Twitter DM @RudivNiekerk)