Initiation of Coverage
27 September 2021

Metrofile Holdings Ltd

Boxing Clever

Share Code: MFL – Market Cap: R1.3bn – PE: 11.6x – DY: 4.9%

12m Target Price	**468cps**
Share Price	**308cps**
Implied Return	**52%**

Business Support | South Africa

Business Overview: Dominant domestic document storage player

- Metrofile has the largest share of the South African document storage market with a strong pan-African & Middle Eastern footprint enjoying good margins and attractive growth.
- The Group has a long operating history with high returns, strong cash flows and a defendable track record against comparatives.

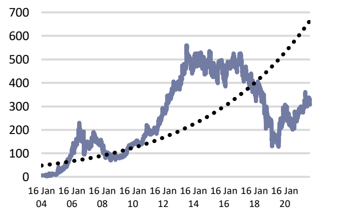
Document Storage + Digital Strategy = Evolving business

- While the global paper sector appears to be slowly contracting by between -1.0~-2.0% y/y, the document storage market is still growing with net box growth and rising, compounding revenues.
- Intuitively, while a piece of paper may only generate revenue *once* when sold, it appears to generate an average of between 14-to-15 years' worth of revenue when it goes into storage.
- Globally & domestically, strong regulatory tailwinds continue to drive the need for secure physical storage while economic activity continues to generate paper that requires this storage.
- Metrofile is using this platform, its cash flows & position of trust with clients to grow its services and digital offerings.
- Indeed—and likely key to Metrofile's long-term growth rate—the Group's management has specifically crafted a digital strategy that, while hard to quantify or value, may offer some exciting prospects as it is executed.

Forecast, Valuation and Implied Return: Undervalued share

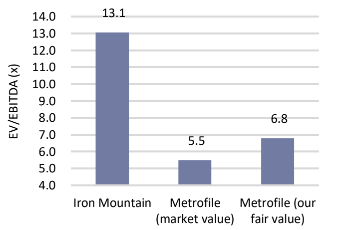
- Using a segmentally-driven DCF to build our SOTPs fair value, we see Metrofile shares as worth c.405cps on an implied EV/EBITDA of 6.8x (this is a 48% discount to Iron Mountain's EV/EBITDA).
- Rolling this fair value forward at our CoE, we arrive at a 12m TP of 468cps generating a large 52% implied return.
- Given recent takeover approaches that were frustrated by COVID-19, adding a 15~30% control premium to our fair value implies a fair takeover price of between 465cps to 526cps. For this reason, we view MFL shares as holding a long-dated embedded takeover option, however hard to predict or value.

Share Price – Metrofile Holdings Ltd



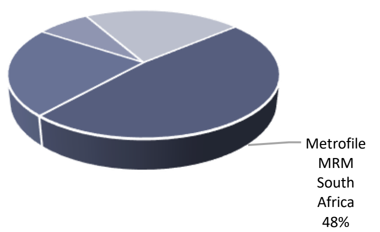
Sources: I-Net Bridge, Blue Gem Research

EV/EBITDA Comparison – IRM vs MFL



Sources: Refinivit, Blue Gem Research

Domestic Document Storage Market Shares



Sources: Various, Blue Gem Research estimates

Key Forecast (R m)	**FY 19A**	***YoY %***	**FY 20A**	***YoY %***	**FY 21E**	***YoY %***	**FY 22E**	***YoY %***	**FY 23E**	***YoY %***	**FY 24E**	***YoY %***
Revenue	913	*5%*	903	*-1%*	933	*3%*	972	*4%*	1,028	*6%*	1,087	*6%*
EBITDA	271	*0%*	302	*11%*	323	*7%*	328	*2%*	354	*8%*	382	*8%*
HEPS (cps)	**19.8cps**	***-32%***	**24.8cps**	***25%***	**31.9cps**	***29%***	**35.1cps**	***10%***	**39.5cps**	***13%***	**44.1cps**	***12%***
Return on Equity (%)	*1.3%*	-	*-3.0%*	-	*24.8%*	-	*24.0%*	-	*23.8%*	-	*23.4%*	-
Price Earnings Ratio (x)	*15.6x*	-	*12.4x*	-	*9.7x*	-	*8.8x*	-	*7.8x*	-	*7.0x*	-
DPS (cps)	10.0cps	*-52%*	13.0cps	*30%*	15.0cps	*15%*	17.5cps	*17%*	19.7cps	*13%*	22.0cps	*12%*
Dividend Yield (%)	*3.2%*	-	*4.2%*	-	*4.9%*	-	*5.7%*	-	*6.4%*	-	*7.2%*	-

Sources: Profile Media, Refinitiv, Metrofile Holdings, & Blue Gem Research workings and assumptions

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BLUE GEM RESEARCH

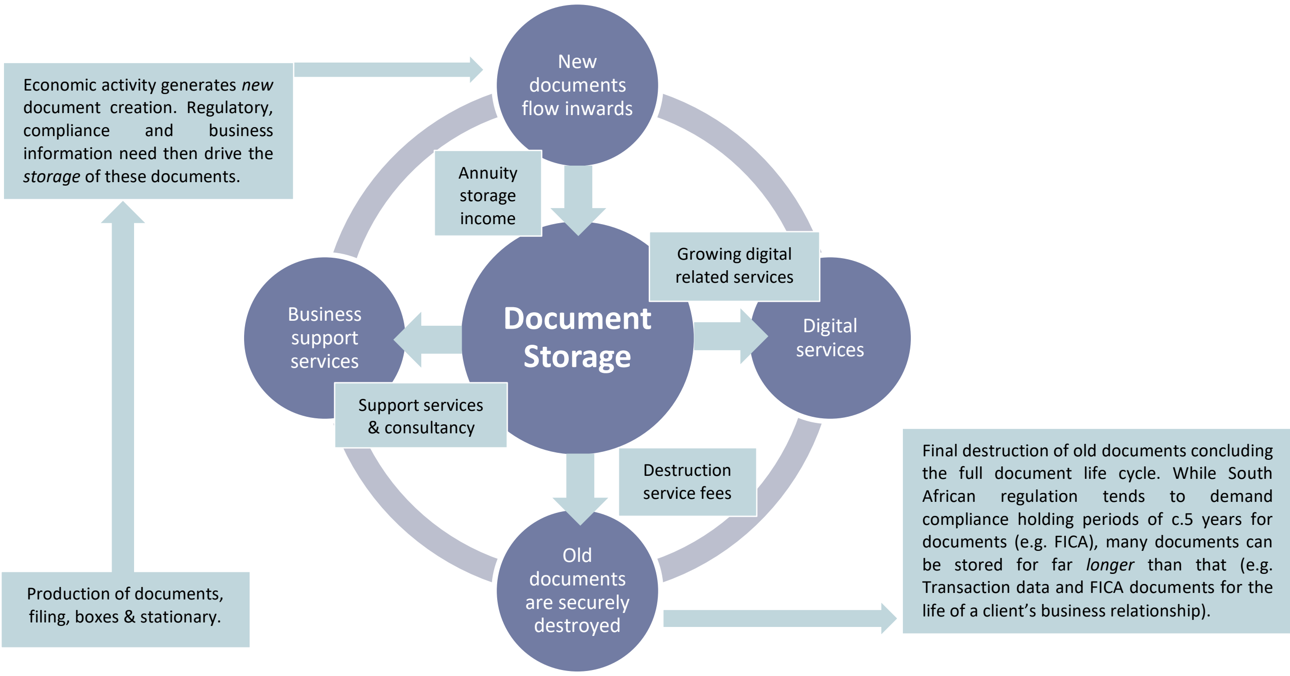
Key Forecast (R m)	FY 19A	YoY %	FY 20A	YoY %	FY 21A	YoY %	FY 22E	YoY %	FY 23E	YoY %	FY 24E	YoY %
Revenue	**913**	***5%***	**903**	***-1%***	**933**	***3%***	**972**	***4%***	**1,028**	***6%***	**1,087**	***6%***
MRM South Africa	556	*1%*	543	*-2%*	549	*1%*	564	*3%*	591	*5%*	618	*5%*
MRM Rest of Africa	105	*52%*	106	*1%*	100	*-6%*	106	*7%*	115	*8%*	125	*8%*
MRM Middle East	42	*3%*	55	*31%*	77	*42%*	87	*13%*	97	*12%*	108	*11%*
Products & Services	211	*-1%*	200	*-5%*	207	*4%*	215	*4%*	225	*5%*	236	*5%*
EBITDA	**271**	***0%***	**302**	***11%***	**323**	***7%***	**328**	***2%***	**354**	***8%***	**382**	***8%***
EBITDA Margin (%)	*29.7%*	-	*33.4%*	-	*34.6%*	-	*33.8%*	-	*34.5%*	-	*35.1%*	-
Operating Profit	224	*-3%*	217	*-3%*	241	*11%*	246	*2%*	269	*9%*	292	*9%*
Net finance charges	-69	*50%*	-65	*-6%*	-49	*-24%*	-40	*-19%*	-40	*0%*	-40	*0%*
Net Profit (Parents)	**8**	*-94%*	**-15**	*-296%*	**138**	*>100%*	**152**	*10%*	**171**	*13%*	**191**	*12%*
Weighted Ave. Number of Shares (millions)	*417.8*	*0%*	*431.2*	*3%*	*433.7*	*1%*	*433.7*	*0%*	*433.7*	*0%*	*433.7*	*0%*
EPS (Continuing Operations - cps)	**9.1cps**	*-71%*	**-3.4cps**	*-138%*	**31.9cps**	*>100%*	**35.1cps**	*10%*	**39.5cps**	*13%*	**44.1cps**	*12%*
HEPS (cps)	**19.8cps**	*-32%*	**24.8cps**	*25%*	**31.9cps**	*29%*	**35.1cps**	*10%*	**39.5cps**	*13%*	**44.1cps**	*12%*
Price Earnings Ratio (x)	*15.6x*	-	*12.4x*	-	*9.7x*	-	*8.8x*	-	*7.8x*	-	*7.0x*	-
Dividend Per Share (cps)	**10cps**	***-52%***	**13cps**	***30%***	**15cps**	***15%***	**18cps**	***17%***	**20cps**	***13%***	**22cps**	***12%***
Dividend Yield (%)	*3.2%*	-	*4.2%*	-	*4.9%*	-	*5.7%*	-	*6.4%*	-	*7.2%*	-
Dividend Cover (x)	*2.0x*	-	*1.9x*	-	*2.1x*	-	*2.0x*	-	*2.0x*	-	*2.0x*	-
Property, Plant & Equipment	581	*-1%*	598	*3%*	595	*0%*	514	*-14%*	428	*-17%*	338	*-21%*
Goodwill	439	*-9%*	317	*-28%*	314	*-1%*	314	*0%*	314	*0%*	314	*0%*
Intangible Assets	57	*-4%*	50	*-12%*	44	*-13%*	44	*0%*	44	*0%*	44	*0%*
Total Assets	1,376	*-6%*	1,378	*0%*	1,353	*-2%*	1,388	*3%*	1,486	*7%*	1,591	*7%*
Shareholder’s Equity (Parent)	565	*-7%*	499	*-12%*	559	*12%*	635	*14%*	720	*13%*	816	*13%*
NAV per share (cps)	133	*-7%*	110	*-17%*	129	*17%*	146	*14%*	166	*13%*	188	*13%*
Net Debt	602	*-2%*	527	*-12%*	434	*-18%*	289	*-33%*	122	*-58%*	-59	*-149%*
Net Debt:EBITDA (x)	*2.2x*	-	*1.7x*	-	*1.3x*	-	*0.9x*	-	*0.3x*	-	*-0.2x*	-
Net Debt:Equity (%)	*1.1*	-	*1.1*	-	*0.8*	-	*0.5*	-	*0.2*	-	*-0.1*	-
Free Cash Flow / EBITDA Conversion (%)	194	*72%*	79	*26%*	184	*57%*	176	*54%*	203	*57%*	225	*59%*
Free Cash Flow Yield (%)	***10.0%***	-	***4.2%***	-	***10.4%***	-	***10.9%***	-	***14.0%***	-	***17.6%***	-
Return on Equity (%)	***1.3%***	-	***-3.0%***	-	***24.8%***	-	***24.0%***	-	***23.8%***	-	***23.4%***	-
Return on Assets (%)	***0.5%***	-	***-1.1%***	-	***10.2%***	-	***11.0%***	-	***11.5%***	-	***12.0%***	-
Price Earnings Ratio (x)	*15.6x*	-	*12.4x*	-	*9.7x*	-	*8.8x*	-	*7.8x*	-	*7.0x*	-
Price-to-Book (x)	*2.3x*	-	*2.8x*	-	*2.4x*	-	*2.1x*	-	*1.9x*	-	*1.6x*	-
Current Ratio	*1.4x*	-	*1.4x*	-	*1.3x*	-	*2.4x*	-	*3.3x*	-	*4.3x*	-

Sources: Metrofile Holdings various reports, Refinitiv, Iress, Profile Media, & Blue Gem Research workings & assumptions

Investment Case: Metrofile Holdings Ltd (code: MFL)

Metrofile Holdings (code: MFL) has the largest share of the (South) African document storage market (Figure 6). Despite the world steadily digitizing, traditional business activities and regulatory requirements continue to drive paper usage and document creation such that the Group has seen and is likely to keep seeing net box inflows into its South African, pan-African & Middle Eastern facilities (Figure 5). This foundation offers a strong position to develop digital and support services in a data-rich environment collaborating with long-standing clients. Not just offering growth, these initiatives should also futureproof the Group's traditional business. While some digital-related growth has organically occurred in the Group over time, management has crafted a focussed digital strategy that will target Digital Twins and, ultimately, Digital-only expansion with capital being applied towards both organic and acquisitive initiatives (Figure 7).

Figure 1: Visual Representation of Metrofile Holdings' Business Model



Source: Blue Gem Research own workings & representation

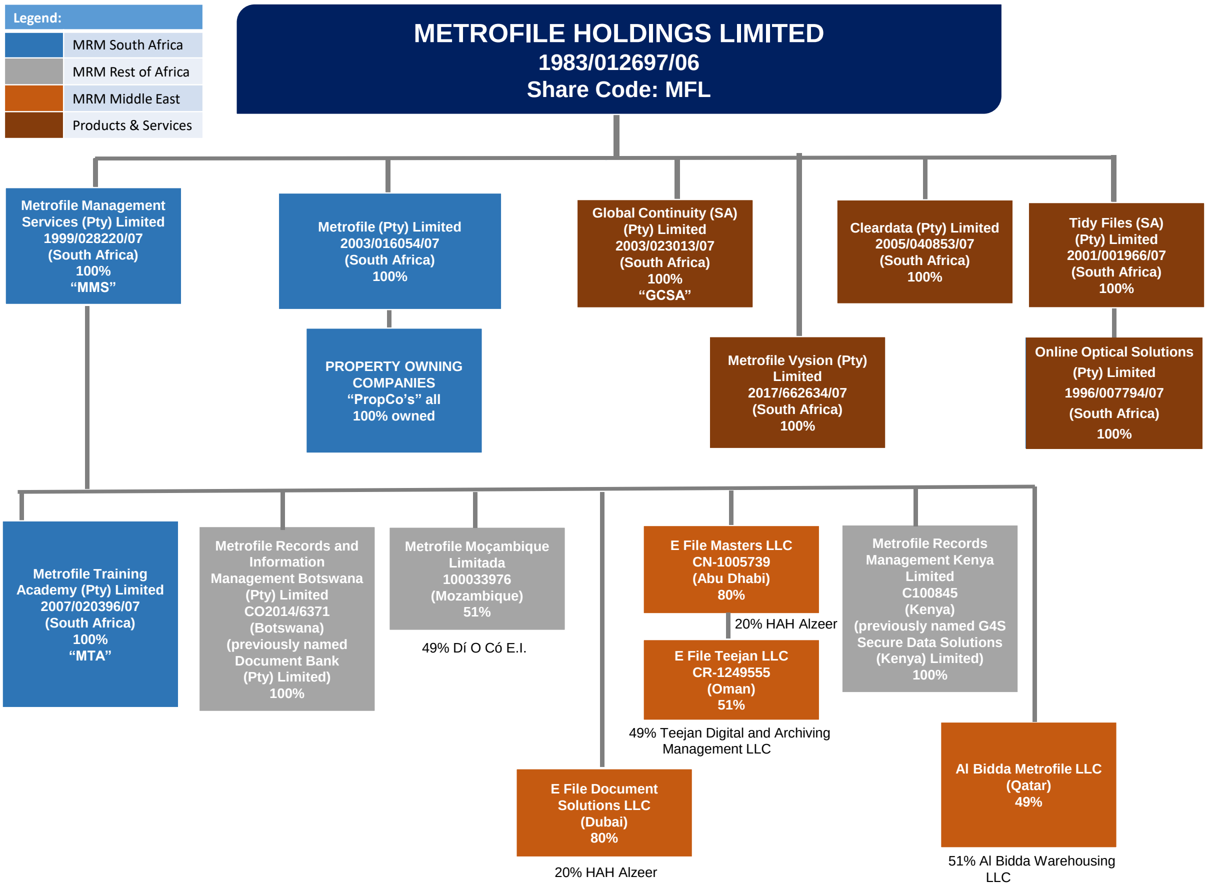
The Group's investment case is likely to be driven by the following:

1. **Valuation, Returns, Dividends & Cash Flows**: The share price has an undemanding valuation while the Group achieves attractive returns on its capital that are backed up by strong cash flows. In the absence of any corporate action (see 2 below), the Group's forward dividend flow appears attractive and its cash flow could also quite easily be applied towards a share buy-back or other accretive options.
2. **Takeover Optionality**: The Group has recently been subject to two potential takeovers. While COVID-19 has frustrated these suitors (they have been unable to travel into South Africa), the interest highlights how attractive a regionally dominant business like this can be and, thus, the share offers an embedded takeover option. While the initial takeover offer was priced at 340cps, we see possible takeover pricing as closer to 465cps to 526cps now (assuming our valuation is correct).
3. **Digital Optionality**: The Group's digital strategy offers the potential to both futureproof the Group's traditional business *and* lift the Group's long-term growth rate (&, thus, its market multiple).

While (2) & (3) may prove profitable, (1) is reasonably safer and a more predictable driver of the share's near-term investment return that should appeal to a range of potential investors.

Group Overview

Figure 1: Group Structure



Sources: Metrofile Holdings, Blue Gem Research consolidations & colour changes

Table 1: Summarised Corporate Governance Checklist

Corporate Governance Aspect	Is it in place at Group-level?	Comment
External auditors	Yes	Deloitte & Touché – They have remained the Group's auditors for years and an argument could be made for the need for external auditor rotation.
Internal audit function	Yes, outsourced	Outsourced to KPMG who reports to the Group Risk Officer and CFO on day-to-day matters.
Management incentives & Board alignment	Yes	Mineworkers Investment Company (RF) (Pty) Ltd (MIC) & Sabvest Capital Ltd (Sabvest) are both major shareholders in Metrofile Holdings Ltd and have representatives at Board-level. Management has various short-term and long-term incentives in place. The short-term incentives focus on outperformance of financial and qualitative criteria while the long-term incentives target revenue, EBIT, working capital & key qualitative criteria. We are comfortable with this alignment of interest and do not view the remuneration package as excessive.
Independent non-executive Chairman	Yes	From the 30th of September 2021, Chris Seabrooke (CEO of Sabvest - see our Sabvest report) will step down as Chairman (though remain as a non-executive director on the Board). Phumzile Langeni (previously Chairman of MIC) will take up this role from that date as an experienced independent Chairman.
Balance of non-executive directors on the Board	Yes	Eight non-executives (nine if the Chairman's Alternative is included) providing depth of oversight versus the Board's two executives.

Sources: Company AFS, Blue Gem Research

Overall, we are comfortable with the Group's relatively simple structure, its overall governance, strong alignment of interests and management incentives.

Document Storage Industry

Document storage industry overview, drivers & our approach

There is a range of drivers that both *generate* physical documents and the need to securely *store* (and be able to efficiently retrieve) these documents. Likewise, all businesses capture some degree of information in their day-to-day activities. Some of this information is captured on paper and, depending on business decisions and regulatory rules, some of these documents need to be stored *and* need to be stored *securely*.

For example, the Financial Intelligence Centre Act 38 of 2001 ('FICA') dictates that all accountable institutions (typically, banks, insurers, brokerages, and so on) need to identify their clients and store such documents for a certain period (or the life of the business relationship). While some businesses do this electronically, this has traditionally been complied with using physical documents. These documents need to be secure stored (*secure* to comply with the Protection of Personal Information Act or POPI Act) and the Act allows businesses to outsource this function (albeit, the downside of non-compliance cannot be outsourced). Furthermore, the Act(s) put burdens on the retrieval and safe storage that, ultimately, create (scale and/or reputational) barriers to entries for smaller, less established document storage service providers protecting existing, large & reputable document storage businesses with existing client relationships.

The headwinds to the document storage industry, though, are the increasing digitisation of information and the resulting *lack* of any physical document (and, thus, its storage requirements).

While regulatory tailwinds and digitisation headwinds are quite real, the ability to *quantify* the documents an economy generates is limited. Thus, we have struggled to arrive at clear growth rates *specifically* for document storage (i.e. net box growth). Hence, we have assumed the following in establishing what we believe is a defendable range of growth for us to use as our base case scenario:

- **Paper is a proxy for documents**: We use global and inferred local paper production, consumption, sales and forecasts as a proxy for document generation. In the long-term, we assume that supply matches demand and, indeed, documents are a function hereof.
- **Greatest weight on facts over forecasts**: Where we have historical growth rates—particularly from Metrofile Holdings, itself, and other document storage businesses—we emphasise these *facts* over any potentially extrapolated or assumed *forecasts*.

Global Paper Sector

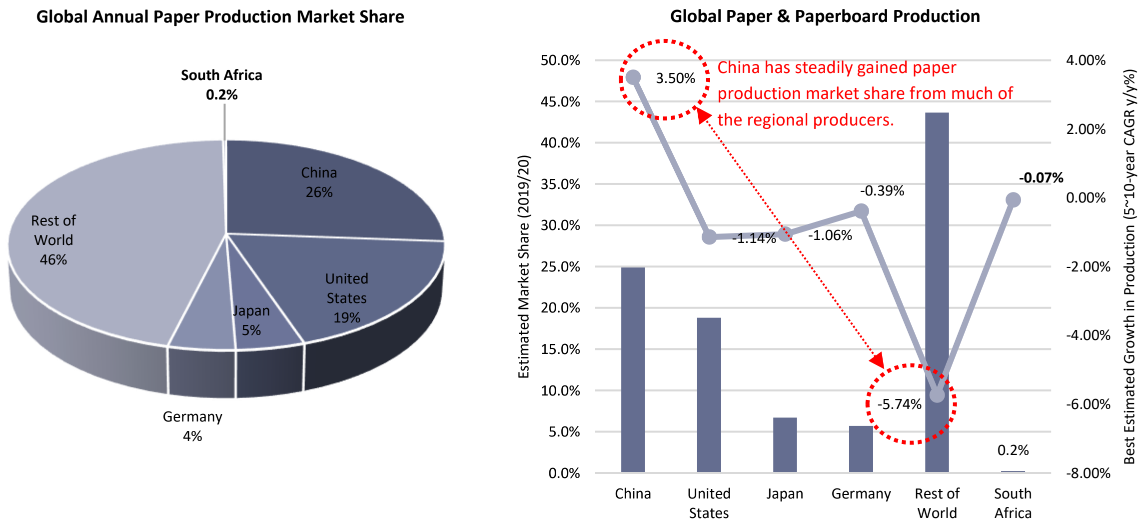
Paper production has steadily been shifting east (Figure 2) as China's producers have gained notable market share. China's global market share of paper production is current c.26% and has grown at +3.5% y/y for the last decade, offset by the 'Rest of the World' declining production of -5.74% y/y.

Excluded in 'Rest of the World' are the other major producing countries, being the United States of America (19% market share; -1.1% y/y production), Japan (c.7% market share; -1.1% y/y production) & Germany (c.6% market share; -0.4% y/y production).

South Africa features a 0.2% market share in paper production and has seen its production only decline by -0.07% y/y (basically, 0%) over the last 5 to 10 years.

On a market-weighted average, though, global paper production has been shrinking by c.-1.94% y/y over the last 5 to 10 years.

Figure 2: Global Annual Paper Production – Market Share & Estimated Growth Rates (5~10-year CAGR %y/y)

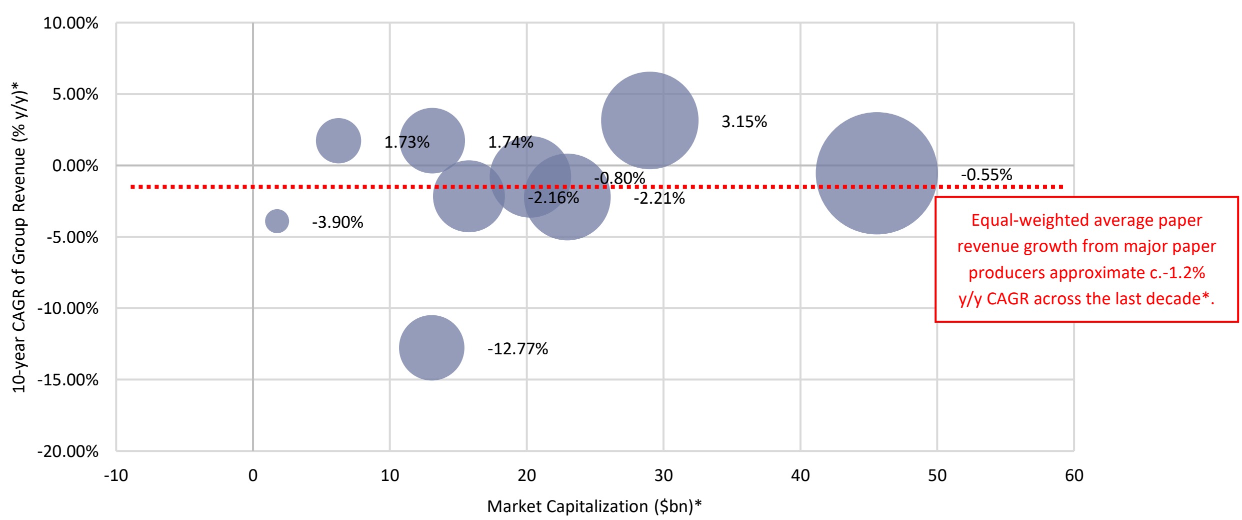


Sources: Refinitiv, Statista, Various Industry Reports, & Blue Gem Research workings & assumptions

Shifting focus from countries to companies (Figure 3), a broad analysis of listed paper producing companies shows a range of negative revenue growth rates.

While this naturally includes price effects (inflation and deflation), potential corporate actions and even any other non-paper segment revenues accounted within these figures, it is interesting to note that the average of these data points is -1.2% y/y (over the last decade) which agrees with the market share-weighted average growth rates (shown in Figure 2) of -1.95% y/y (similar period).

Figure 3: Major Global & South African Paper & Pulp Producers (Bubble Size = Market Capitalisation)



*Sources: xxx; *Where data is available, not adjusted for inflation, price changes or corporate actions & in regional reporting currencies (market capitalisations converted into US Dollars – 11 May 2021 intra-day spot prices)*

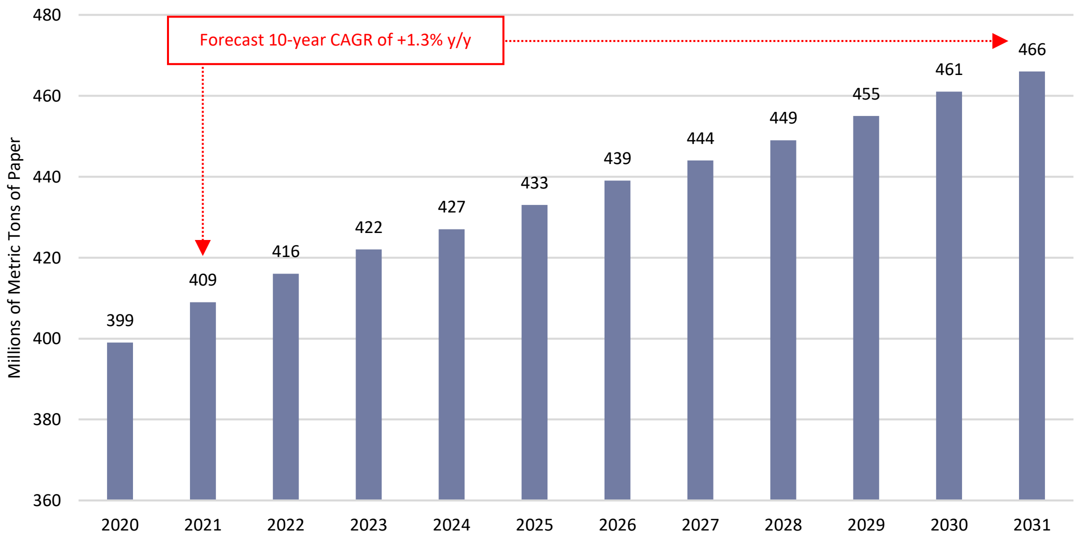
Hence, our initial conclusion is that the global paper sector is contracting by an average annual rate of between -1.0% y/y and -2.0% y/y.

Contrasting with the above data, analyst forecasts (Figure 4) are that global paper consumption will *grow* by c.+1.3% y/y over the next decade.

While this forecast *may* bode well for document generation, we believe that it is misleading due to the shift in many materials away from (non-ESG) plastics to (ESG) papers substitutes. This trend could bode well for paper demand but will not necessarily translate into more documents being generated (i.e. in the long-term digitisation will continue to erode the document storage market).

Hence, we note this positive forecast, but decide that it is a misleading data point and discard it to build our sector view. If we are wrong about this, then this data point implies upside risk to our forecasts.

Figure 4: Global Paper Consumption Forecast (2020~31)



Sources: Statista estimates – Unadjusted for the impact from COVID-19 (week of 11 May 2021)

In conclusion, we reassert our above-noted view that the global paper sector should continue to decline by between -1.0% y/y and -2.0% y/y. And, therefore, in the long-term, we expect document generation and its resulting document storage to follow suit.

Metrofile & Iron Mountain Growth Rates

Iron Mountain Inc (website) is the world's largest listed document storage business. While originating out of the United States of America (its first storage being in an abandoned iron mine, hence the name), the Group has expanded into over 50 countries with over 70 years of history.

For these reasons, we believe that Iron Mountain forms a good comparative for Metrofile Holdings. We revisit this in the 'Valuation' section, but here we are more focused on the two groups' respective growth rates.

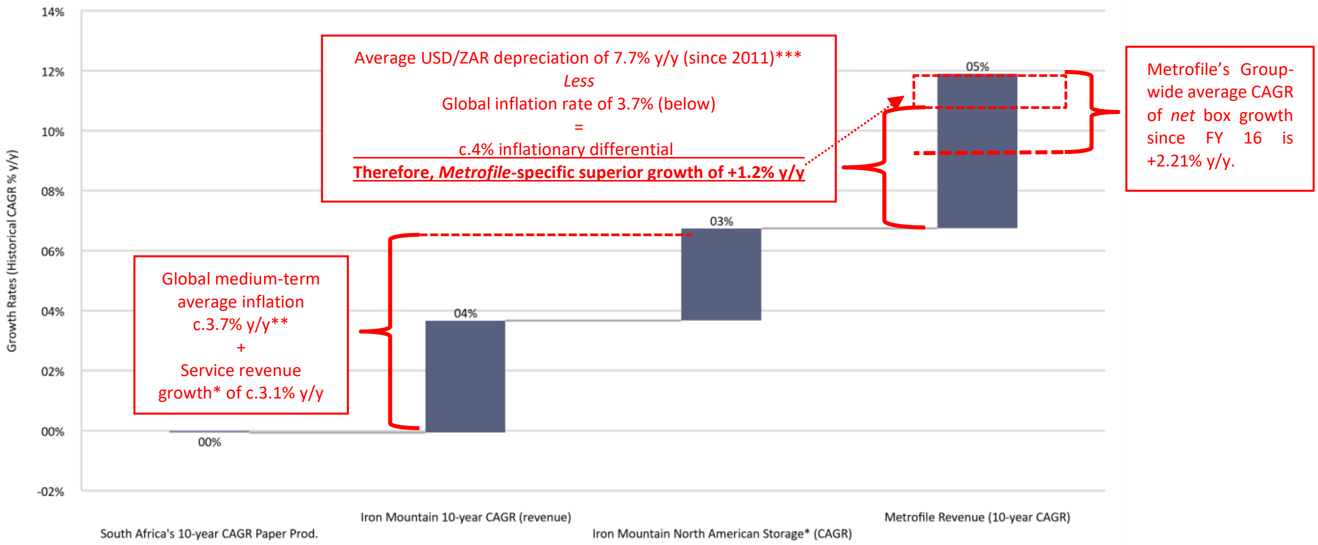
In Figure 5, we unpack the two groups' revenue growth rates. We initially build up from global inflation to Iron Mountain above-inflation growth and then to Metrofile's excess growth over and above that (made up of South African inflation differential and actual operational growth).

Figure 5 highlights the following:

- Iron Mountain has managed to grow its revenues more than global inflation by +3.1% y/y CAGR over the last decade. Assuming only inflationary price increases, this excess growth rate does indicate continued growth in net boxes in their storage facilities.

- Once we exclude South Africa's "excess" inflation (*more than* global inflation), Metrofile Holdings has managed to grow its revenues by an excess growth rate (over and above Iron Mountain's excess growth rate) of +1.2% y/y over the last decade.
- Digging into Metrofile Holdings' data, the Group's net boxes stored have grown by +2.21% y/y since FY 16.
- Ignoring the above-disclosed net box growth rate, all the other growth rates include growth in *service* income too and, thus, *over-estimate* pure storage box growth.

Figure 5: Waterfall Graph Unpacking Growth Rates of Global-Leader (Iron Mountain Plc) versus Metrofile Holdings



*Sources: Refinitiv, Statista, various industry reports, various company reports, & Blue Gem Research workings & assumptions; *Iron Mountain's entire Group's revenue includes data house and service growth, thus the analysis of just its "mature storage" business necessitates the analysis of its "Global Record and Information Management ("Global RIM") Business" which, interestingly, has a higher revenue growth rate of +6.8% y/y since it was reported in FY 12 till FY 20; ** 5-year average global inflation rate = 3.71% y/y since 2015; *** 6 May 2011 the USD/ZAR was R6.65 and 7 May 2021 it is R14.06 = CAGR depreciation of 7.7% y/y.*

Therefore, we can conclude that physical document storage *net* box growth of between +1.2% y/y and +4.3% y/y (= 3.1% + 1.2%) has occurred globally over the last decade.

It is worth contrasting the paper sector's negative growth rates with the document storage companies' positive growth rates. Why does this apparent paradox exist?

This apparent paradox is likely due to the compounding effect of the *same* document generating revenue across *multiple* years as it is *stored*, as opposed to it adding only a single year's revenue when *produced* in the paper sector.

Iron Mountain estimates that its average document is stored for 15 years*. We estimate that Metrofile Holding's average storage duration is c.14.5 years**.

While any single document would add to the paper industry's revenues only *once* (in the year it was produced/sold), it would have added 14~15 years of revenues into the document storage industry (and, likely, increasing by some degree of inflation over this period).

Hence, while the paper sector is declining and new document generation should follow suit, the document *storage* market could continue to grow revenues for many years before this decline begins to filter through.

(Slide 8 in Iron Mountain's latest quarter investor presentation where they state that "Boxes remain in facilities for 15 years on average". **Based on Metrofile's historical gross outflows of boxes averaging c.6.9% of opening boxes, thus 1/6.9 implies the average duration of each box is 14.4927 years)*

Blue Gem Research's Document Storage Sector Assumptions & Forecasts

Based on the above data points and other workings, we have arrived at our macro-economic assumptions regarding the global document storage sector's growth rates and expected future trajectory:

- **Global *net* box growth should currently be between 2.0% y/y to 2.75% y/y.**
- **Gross *out*flows should continue to average c.6.9% y/y of opening boxes.**
- **Gross *in*flows should currently be between c.8.9% y/y to 9.65% y/y of opening boxes (we have assumed a single point to be +9.5% y/y)**
- **These annual gross *in*flows should steadily decline by a linear rate matching the long-term decline in the paper sector of between -1.0% y/y to -2.0% y/y (mid-point assumed to be -1.5% y/y).**
- **Given that these are *global* averages and Metrofile's data points to an above-global-average growth rate, we have therefore built a small premium into our segmental assumptions in Metrofile (see various segmental sections for more detail hereon, largely using South Africa as a base).**

Domestic competitors and competitive forces

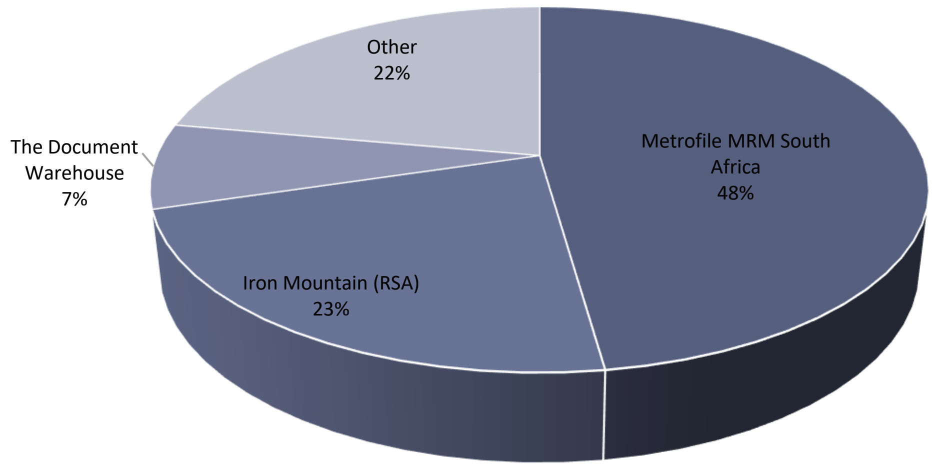
The only two listed document storage businesses in South Africa are Metrofile and a subsidiary of Iron Mountain (the latter is listed offshore). Despite that, there are several smaller unlisted players and in-house departments of businesses that do their own storage.

In estimating the domestic market shares (Figure 6), we have assumed a South African population of 58.5m people, a life expectancy of 63.86 years (2018), the resulting velocity of paper of 0.0235x (being that each person generates one and a half boxes worth of "storable documents" across their expected lifetimes) and the average period of storage being 14.5 years (based on Metrofile's average gross outflows being 6..9% of opening boxes and, thus, the average life of a box is 14.5years. This agrees with Iron Mountain's statistics that its average box is stored for 15 years).

The resulting math implies a total current market size of c.20m boxes in South Africa.

Given that Metrofile currently has c.9.5m boxes (in South Africa; the Group has c.10.5m boxes across its operations), this implies that the Group has a c.48% market share.

Figure 6: Estimated Domestic Market Share of Document Storage Market (South Africa)



Sources: Metrofile Holdings, Blue Gem workings & assumptions; Subjective estimates are used for Iron Mountain (RSA) and The Document Warehouse.

Metrofile's Digital Strategy

We expect Metrofile's traditional document storage business to remain profitable and continue to grow year-on-year, albeit at a modest rate. In addition to this, the Group has a small cluster of digital and related services (currently c.15% of the Group's turnover) that are already growing faster than the Group traditional document storage business (c.+4.1% y/y CAGR since FY 18 versus Physical Storage revenue growth of c.+1.2% y/y over the same period – The +4.1% y/y measure, though, includes scanning services as a digital revenue stream. If scanning is *excluded* from this revenue stream, growth has been mid-teens % year-on-year).

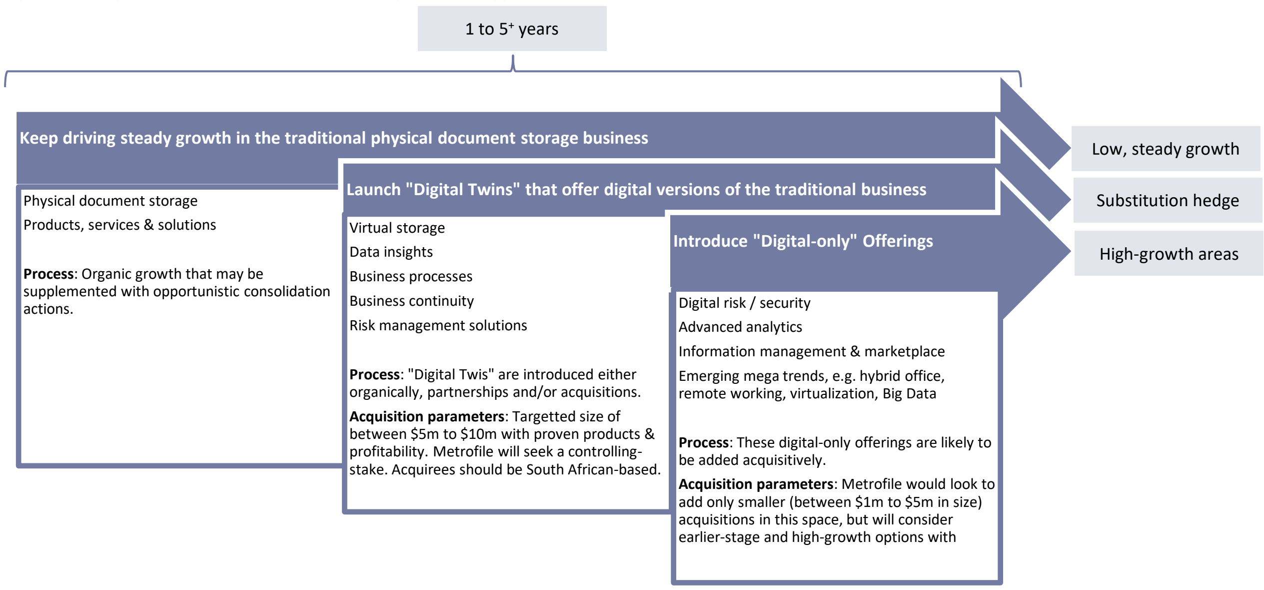
These digital services, their growth and their ultimate contribution to profit, though, could be much more significant. Management has acknowledged this fact and the Group's aptly named "digital strategy" is now a key focus going forward.

The digital strategy includes an element of creating a hedge against any decline in the Group's traditional physical business by digitalisation trends (Figure 7 – See the '*Digital Twins*' vector). Albeit the digital strategy goes well beyond these Digital Twins. Indeed, the strategy seeks to leverage the Group's reach, profile & client-base by growing out entirely *new* (digital) offerings as well (Figure 7 – See the '*Digital-only*' vector).

In our own words, Metrofile's digital strategy can be summarized as attempting to achieve two things:

- **Introduce "Digital Twins" – 1 to 3⁺ years**: Digitizing its core business services in parallel to running its traditional physical storage operations (not cannibalizing, but rather *supplementing* its physical storage and document management offerings to clients via bundling), &
- **Build, Buy &/or Partner-with "Digital-only" Offerings – 1⁺ to 5⁺ years**: Further in the future, the Group aims to build out digital-only offerings *around* its existing business & client base. These offerings will seek to leverage existing client needs and Metrofile's trusted position in handling, storing, retrieving, analysing, &, generally, being involved in sensitive client data and processes. While being complementary to the Group's existing services, these digital-only businesses will be offering services that the Group did not offer before.

Figure 7: Simple Illustration of Metrofile's Digital Strategy



Sources: Metrofile management discussion & Blue Gem Research's interpretation

While it is hard to forecast growth rates for businesses that do not yet exist (within the Group, at least), we do have a range of observations on management's digital strategy:

- **Futureproof/hedges prospects**: While our earlier assumptions around the traditional physical storage market indicate a long runway for future profitability, we may be wrong and paper-based storage needs may decline faster than expected. This steady and focussed foray into the Digital Twins hedges the Group's prospects against any possible decline as existing clients can be naturally converted into using the Group's Digital Twin offering and, thus, ensuring sustainability in revenues.
- **Boosts forward growth potential**: The world's steady push into digital spaces creates a natural tailwind that implies that the Digital-only drive may introduce significantly higher growth rates into the Group's various revenues streams. Indeed, the Digital Twins side—if traction is gained outside of mere substitution potential with existing clients—may also boost organic growth rates.
- **Creates an embedded "digital option" in the share**: Due to the above upsides—which are admittedly hard to quantify and even harder to value—Metrofile's share price can be considered to hold an embedded option on the outcome and success of the above iterated digital strategy.

At a Group-level, the historical growth of Metrofile's digital business lines has averaged c.+4.1% y/y CAGR. Given management's specific focus and the above articulated strategy, we have built a range of assumptions into our view of digital revenues growth. While our assumptions differ per segment and per region, over the period from FY 22E to FY 27E, we have lifted our (average) expected growth rate to +5.6% y/y from these business lines (i.e. CPI +1~2%).

That said, this has been an *organic* growth rate assumption. Management has specifically stated that they are comfortable also growing this part of the Group *acquisitively* and, thus, this growth may happen a lot lumpier—and quicker—than we have currently modelled. We note this as a specific upside risk to our forecasts (and, thus, valuation), though we are also limited in our ability to model acquisitions that have not yet been made.

- **Metrofile's digital offering has been growing at roughly double its traditional business's growth rate for some years (arguably higher if scanning revenues are excluded).**
- **Going forward, it is logical to assume that Metrofile's specific focus on its digital strategy should see this growth rate accelerate. Thus, we have lifted our assumptions around these businesses lines organic growth rates to a CPI + 1~2% target.**
- **The Group has also specifically highlighted the potential for acquisitions in this space (with clearly articulated parameters). In the event of a material acquisition in this space, it is plausible that the Group's growth rate in its Digital Strategy may rise dramatically. Despite this, though, we have not yet modelled any of this into our forecasts.**

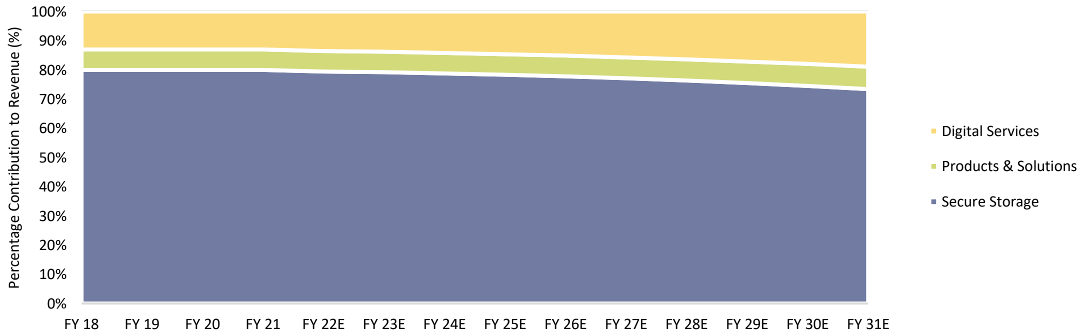
Metrofile Holdings Segments & Valuation(s)

Metrofile Records Management (MRM) South Africa

Table 2: MRM South Africa History, Forecast & Resulting Discounted Free Cash Flow (DCF) Valuation

Forecast & DCF (Rm's):	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	*0.9%*	*-1.3%*	*1.9%*	*2.1%*	*1.6%*	*1.1%*	*0.6%*	*0.1%*	*-0.4%*	*-0.9%*	*-1.4%*	*-1.9%*
Non-storage Revenue Contribution (%)	*20.0%*	*20.0%*	*20.1%*	*20.4%*	*20.8%*	*21.2%*	*21.8%*	*22.4%*	*23.2%*	*24.0%*	*25.0%*	*26.1%*
EBITDA Margin (%)	*46.8%*	*46.2%*	*45.2%*	*45.3%*	*45.4%*	*45.3%*	*45.0%*	*44.4%*	*43.7%*	*42.7%*	*41.6%*	*40.2%*
Revenue	**543**	**549**	**564**	**591**	**618**	**644**	**669**	**693**	**715**	**734**	**752**	**768**
Growth (y/y %)	*-2.3%*	*1.1%*	*2.7%*	*4.7%*	*4.7%*	*4.3%*	*3.9%*	*3.5%*	*3.1%*	*2.8%*	*2.4%*	*2.1%*
EBITDA	254	254	255	268	281	292	301	308	312	314	313	309
Working Capital	-2	3	-11	1	-3	-3	-3	-3	-2	-2	-1	-1
Capex	-39	-42	-51	-54	-52	-50	-47	-44	-40	-35	-30	-24
Tax	-56	-58	-58	-61	-65	-68	-70	-72	-73	-73	-73	-72
Free Cash Flow (FCF)	**157**	**157**	**135**	**154**	**160**	**171**	**181**	**190**	**198**	**204**	**209**	**212**
Discount Factor			*0.91*	*0.83*	*0.75*	*0.68*	*0.62*	*0.56*	*0.51*	*0.47*	*0.42*	*0.39*
Discounted FCF			**123**	**127**	**120**	**117**	**112**	**107**	**101**	**95**	**88**	**1,032**
Enterprise Value (EV)												**R2,024m**
EV/EBITDA (x)												***8.0x***

Revenue Contribution - Historical & Forecast



Sources: Metrofile various reports, Refinitiv, Iress, and Blue Gem workings and assumptions

This segment offers the following in South Africa:

- **Secure Storage**: This revenue stream is the core physical document storage business model we have examined in the preceding portion of this document.
- **Products & Services**: This revenue stream includes office filing, stationery, shelves & scanners to records management consulting, document destruction and related services.
- **Digital Services**: This revenue stream includes digital content lifecycle, imaging services, BPO, software solutions and digital health screening.

Using our previously concluded universal assumptions of the global document storage market—and tweaking it to reflect the less digitally-enabled economy of South Africa—we have built our segmental forecasts. The key assumptions are:

- **Initial inflow of boxes**: 10.0% of opening boxes (slightly higher than the global average of 9.5% as South Africa is an Emerging Market & agreeing closely with MRM South Africa's own data).
- **Rate of change of inflow of boxes**: A lowering of this rate of inflow by -0.5% per annum (lower than the global average of -1.0% to -2.0% as South Africa is an Emerging Market; i.e. more paper-based).
- **Outflow of boxes**: -6.9% of opening boxes (in line with global assumptions).
- **Digital services growth**: 7.5% y/y (inflation making up half of this and organic growth the remainder).
- **FY22E Riots**: We have specifically shaved off one month of box inflows & halved Products growth rate to compensate for the disruption of the recent South African riots during July 2021.

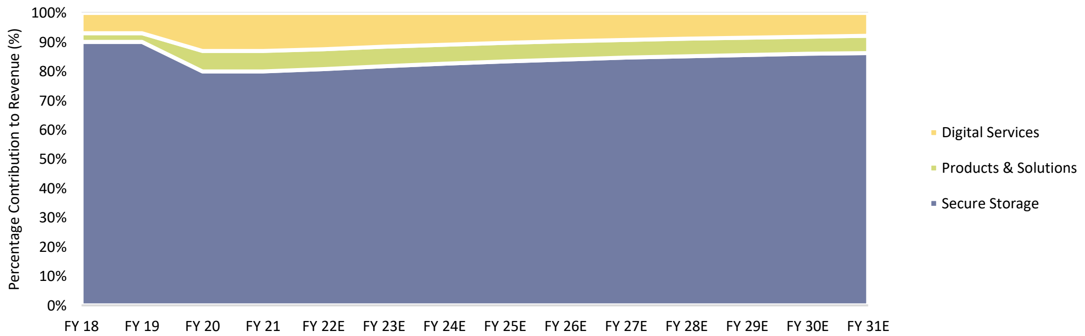
Importantly, these adjusted assumptions generate a Discounted Free Cash (DCF) Model for MRM South Africa that indicates the segment is worth c.R2.0bn or an 8.0x EV/EBITDA.

Metrofile Records Management (MRM) Rest of Africa

Table 3: MRM Rest of Africa History, Forecast & Resulting Discounted Free Cash Flow (DCF) Valuation

Forecast & DCF (Rm's):	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	*9.2%*	*3.0%*	*7.3%*	*6.8%*	*6.3%*	*5.8%*	*5.3%*	*4.8%*	*4.3%*	*3.8%*	*3.3%*	*2.8%*
Non-storage Revenue Contribution (%)	*20.0%*	*20.0%*	*19.2%*	*18.2%*	*17.4%*	*16.6%*	*15.9%*	*15.3%*	*14.8%*	*14.4%*	*14.0%*	*13.7%*
EBITDA Margin (%)	*45.4%*	*57.0%*	*57.7%*	*59.0%*	*60.2%*	*61.2%*	*62.0%*	*62.7%*	*63.2%*	*63.6%*	*63.8%*	*63.9%*
Revenue	**106**	**100**	**106**	**115**	**125**	**134**	**144**	**154**	**164**	**174**	**183**	**193**
Growth (y/y %)	*1.4%*	*-6.0%*	*6.8%*	*8.4%*	*8.0%*	*7.7%*	*7.3%*	*6.9%*	*6.5%*	*6.1%*	*5.7%*	*5.2%*
EBITDA	48	57	61	68	75	82	89	96	103	110	117	123
Working Capital	-1	1	-2	-0	-1	-1	-1	-1	-1	-1	-1	-1
Capex	-88	-5	-3	-3	-3	-3	-4	-4	-3	-3	-3	-3
Tax	-9	-10	-11	-13	-15	-16	-18	-20	-21	-23	-25	-26
Free Cash Flow (FCF)	**-50**	**42**	**44**	**52**	**56**	**61**	**67**	**72**	**78**	**83**	**88**	**93**
Discount Factor			*0.83*	*0.69*	*0.58*	*0.48*	*0.40*	*0.33*	*0.28*	*0.23*	*0.19*	*0.16*
Discounted FCF			**37**	**36**	**32**	**30**	**27**	**24**	**22**	**19**	**17**	**243**
Enterprise Value (EV)												**R487m**
EV/EBITDA (x)												***8.6x***

Revenue Contribution - Historical & Forecast



Sources: Metrofile various reports, Refinitiv, Iress, and Blue Gem workings and assumptions

This segment offers the following in across Kenya, Botswana, and Mozambique (historically there were operations in Nigeria too, but these were exited in FY 20/21):

- **Secure Storage**: This revenue stream is the core physical document storage business model we have examined in the preceding portion of this document.
- **Products & Services**: This revenue stream includes office filing, stationery, shelves & scanners to records management consulting, document destruction and related services.
- **Digital Services**: This revenue stream includes digital content lifecycle, imaging services, BPO, software solutions and digital health screening.

Using South Africa as our base rates, we further tweak these assumptions for Rest of Africa as per below:

- **Initial inflow of boxes**: 11,3% of opening boxes (slightly higher than South Africa's inflow as higher growth in Africa and a greater reliance placed on non-digital, physical documents).
- **Rate of change of inflow of boxes**: A lowering of this rate of inflow by -0.5% per annum (a slower decay rate than the global average of -1.0% to -2.0% as Kenya, Botswana & Mozambique are developing economies with higher paper-based activities; i.e. similar to South Africa).
- **Outflow of boxes**: -3.5% of opening boxes (a little less than half of South Africa's outflows).
- **Digital services growth**: 1.5% y/y (significantly lower than South Africa as a lower rate of digitisation and our conservative view as to uptake, at least in the short-term – this assumption could well be proven too conservative over time, but we would prefer to start with a low-range assumption here).

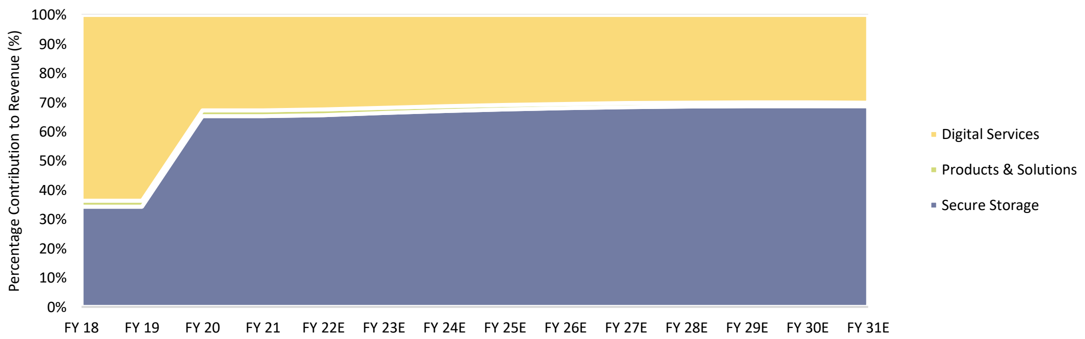
Importantly, these adjusted assumptions generate a Discounted Free Cash (DCF) Model for MRM Rest of Africa that indicates the segment is worth c.R0.5bn or an 8.6x EV/EBITDA.

Metrofile Records Management (MRM) Middle East

Table 4: MRM Middle East History, Forecast & Resulting Discounted Free Cash Flow (DCF) Valuation

Forecast & DCF (Rm's):	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Net Box Growth (y/y %)	*2.5%*	*6.2%*	*10.4%*	*9.9%*	*9.4%*	*9.0%*	*8.5%*	*8.0%*	*7.6%*	*7.1%*	*6.6%*	*6.1%*
Non-storage Revenue Contribution (%)	*36.0%*	*36.0%*	*34.9%*	*34.1%*	*33.5%*	*32.9%*	*32.5%*	*32.1%*	*31.9%*	*31.7%*	*31.7%*	*31.7%*
EBITDA Margin (%)	*8.6%*	*18.8%*	*24.3%*	*28.7%*	*32.8%*	*36.4%*	*39.7%*	*42.6%*	*45.3%*	*47.6%*	*49.7%*	*51.6%*
Revenue	**55**	**77**	**87**	**97**	**108**	**120**	**133**	**147**	**162**	**177**	**194**	**212**
Growth (y/y %)	*30.6%*	*41.7%*	*12.6%*	*11.6%*	*11.3%*	*11.0%*	*10.7%*	*10.4%*	*10.1%*	*9.7%*	*9.4%*	*9.1%*
EBITDA	5	15	21	28	35	44	53	63	73	84	97	109
Working Capital	-1	-2	-2	-0	-1	-1	-1	-1	-2	-2	-2	-2
Capex	-22	10	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2
Tax	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow (FCF)	**-19**	**22**	**18**	**26**	**33**	**41**	**50**	**59**	**70**	**81**	**93**	**105**
Discount Factor			*0.83*	*0.69*	*0.58*	*0.48*	*0.40*	*0.33*	*0.28*	*0.23*	*0.19*	*0.16*
Discounted FCF			**15**	**18**	**19**	**20**	**20**	**20**	**19**	**19**	**18**	**371**
Enterprise Value (EV)												**R539m**
EV/EBITDA (x)												***36.9x***

Revenue Contribution - Historical & Forecast



Sources: Metrofile various reports, Refinitiv, Iress, and Blue Gem workings and assumptions

This segment offers the following in the Middle East:

- **Secure Storage**: This revenue stream is the core physical document storage business model we have examined in the preceding portion of this document.
- **Products & Services**: This revenue stream includes office filing, stationery, shelves & scanners to records management consulting, document destruction and related services.
- **Digital Services**: This revenue stream includes digital content lifecycle, imaging services, BPO, software solutions and digital health screening.

Using South Africa as our base rates, we further tweak these assumptions for the Middle East as per below either to economic or historical differences:

- **Initial inflow of boxes**: 11,4% of opening boxes (slightly higher than the global average of 9.5% as the Middle East has a higher latent GDP growth rate and historical evidence points to this higher assumed run-rate of box inflows).
- **Rate of change of inflow of boxes**: A lowering of this rate of inflow by -0.5% per annum (i.e. similar to South Africa).
- **Outflow of boxes**: -0.5% of opening boxes (historically low outflows in this region).
- **Digital services growth**: 9.5% y/y (a highly digitised region with faster-than-average growth here).

Importantly, these adjusted assumptions generate a Discounted Free Cash (DCF) Model for MRM Middle East that indicates the segment is worth c.R0.5bn or a 36.9x EV/EBITDA (this multiple is higher than the other segments given this region’s low-base, slightly higher growth rate & large contribution from digital services).

Products & Services

Table 5: Products & Services History, Forecast & Resulting Discounted Free Cash Flow (DCF) Valuation

Forecast & DCF (Rm's):	FY 20	FY 21	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	FY 30E	FY 31E
Non-storage Revenue Contribution (%)	*94.0%*	*94.0%*	*94.2%*	*94.5%*	*94.8%*	*95.1%*	*95.3%*	*95.6%*	*95.8%*	*96.0%*	*96.2%*	*96.4%*
EBITDA Margin (%)	*12.6%*	*16.1%*	*15.7%*	*16.5%*	*17.2%*	*17.9%*	*18.7%*	*19.5%*	*20.3%*	*21.1%*	*21.9%*	*23.1%*
Revenue	**200**	**207**	**215**	**225**	**236**	**248**	**260**	**273**	**287**	**302**	**317**	**335**
Growth (y/y %)	*-5.4%*	*3.8%*	*3.6%*	*4.9%*	*4.9%*	*4.9%*	*5.0%*	*5.0%*	*5.0%*	*5.1%*	*5.1%*	*5.6%*
EBITDA	25	33	34	37	41	44	49	53	58	64	69	77
Working Capital	1	3	-4	-8	-3	-3	-3	-3	-3	-3	-3	-3
Capex	-11	-34	-15	-19	-20	-23	-25	-27	-30		-36	-40
Tax	-2	-5	-5	-5	-5	-6	-6	-7	-8	-8	-9	-10
Free Cash Flow (FCF)	**13**	**-2**	**10**	**6**	**12**	**13**	**15**	**16**	**18**	**53**	**22**	**24**
Discount Factor			*0.91*	*0.83*	*0.75*	*0.68*	*0.62*	*0.56*	*0.51*	*0.47*	*0.42*	*0.39*
Discounted FCF			**10**	**5**	**9**	**9**	**9**	**9**	**9**	**25**	**9**	**212**
Enterprise Value (EV)												**R306m**
EV/EBITDA (x)												***9.2x***

Sources: Metrofile various reports, Refinitiv, Iress, and Blue Gem workings and assumptions

This segment offers the following in South Africa:

- **Products**: Predominantly from Tidy File, this business includes office filing, stationery, shelves & scanners to records management consulting, document destruction and related services.
- **Services:** Predominantly from Global Continuity & ClearData, these services revolve around business continuity offerings and secure document destruction.
- This segment does offer document storage too and some of the above services are digital in nature too.

As the boxes in this segment are in South Africa, we use the same assumptions as the MRM South Africa segment while of the rest of this segment we assume the following:

- Physical product and service revenue growth of +4.0~5.0% y/y (real growth of 1~2% y/y with inflation at 3~4.0% y/y),
- Digital service growth of 7.5% y/y (real growth of 3~4.5% y/y), &
- Finally—similar to MRM South Africa—we have shaved off one month's net box inflows and halved products growth for FY 22E to compensate for the domestic riots and their resulting disruption to the business.

These adjusted assumptions generate a Discounted Free Cash (DCF) Model for Products & Services that indicates the segment is worth c.R0.3bn or a 9.2x EV/EBITDA.

Global Comparison & Peer Set

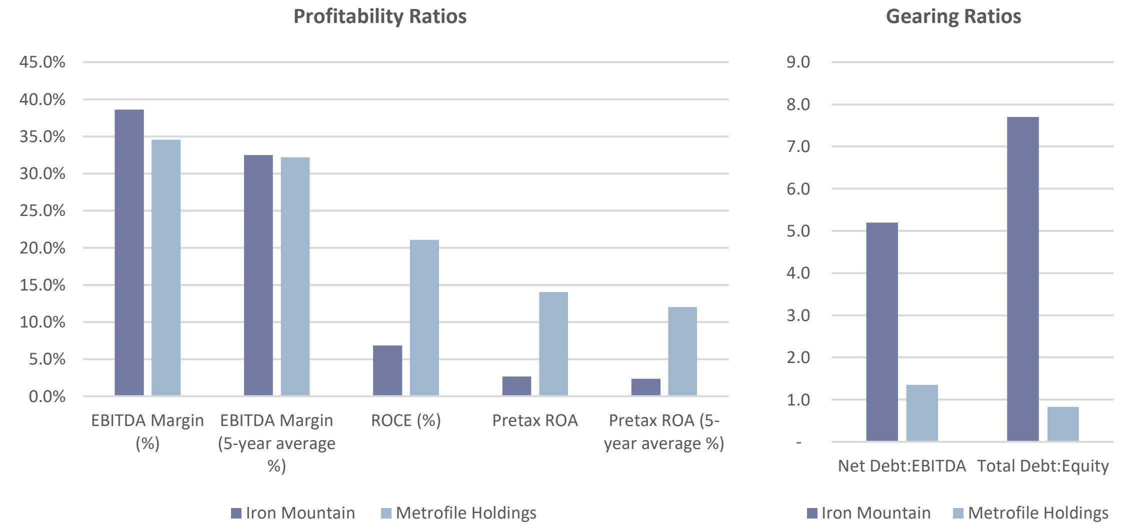
As mentioned earlier in this report, in our opinion Iron Mountain Inc (code: IRM) is the best listed pure-play document storage business for comparison to Metrofile Holdings. There *are* several notable differences, though between the two players. Specifically, these are Iron Mountain's major differences:

- **Iron Mountain is structured as a Real Estate Investment Trust (REIT)**: A REIT structure is quite different from Metrofile's public company structure in two material ways: (1) REITs do not pay tax, & (2) REIT are forced to distribute a relatively high proportion of their earnings to their investors. The former reason artificially lifts some of Iron Mountain's post-tax margins and returns higher while the latter forces their dividends and resulting dividend yield metrics higher than Metrofile's more flexible dividend decisions (alternatively, also sees less retained earnings compounding in future returns).
- **Iron Mountain predominantly operates in the United States of America**.
- **Iron Mountain's $12bn market capitalisation is materially larger than Metrofile Holdings' market capitalisation of c.$0.9bn.**

- **Iron Mountain leads Metrofile in building its (digital) service offering**: Iron Mountain has built out a strong service and digital offering that contributed c.35% of its latest quarterly revenues. This includes data centres and cloud, amongst other cutting edge digital services.

Despite these differences, Iron Mountain remains a good comparative for Metrofile which we summarize below:

Figure 8: Iron Mountain versus Metrofile Holdings



Sources: Iron Mountain, Metrofile, Refinitiv, Iress, and Blue Gem workings and assumptions

From Figure 8, it is clear that Metrofile has equivalent long-term margins, materially higher returns (even after paying tax) and significantly lower gearing than Iron Mountain. Figure 5 also reveals a higher growth rate.

Taken a step further, Table 6 compare's Metrofile's market ratios against Iron Mountain's. There are a range of digital storage plays that are also listed, thus we have extended this comparison against this peer set too, not as a comparative for Metrofile, but rather to show the potential re-rating upside if Metrofile's digital strategy gains significant traction and the market starts to price the share accordingly.

Table 6: Metrofile Holdings versus Iron Mountain & Digital Peer Set

Name	Market Cap. (USD)	EV/EBITDA (x)	FCF Yield (%)	PE (x)	P/S (x)	DY (%)	DY (5-yr ave. %)	ROCE (%)	Pretax ROA	Pretax ROA (5-yr ave. %
Iron Mountain	$12,996,768,098.60	13.1x	5.1%	21.5x	3.0x	5.5%	7.2%	6.9%	2.7%	2.4%
Metrofile Holdings	$91,546,165.28	5.5x	10.1%	9.9x	1.4x	4.9%	6.4%	21.1%	14.0%	12.0%
Metrofile Discount (%)		***58%***	***100%***	***54%***	***53%***	***-12%***	***-10%***			
Digital Peers Average		**33.6x**	**1.6%**	**158.3x**	**9.7x**	**1.4%**	**1.7%**	**16.6%**	**-2.2%**	**-3.5%**
Equinix Inc	$78,314,235,624.06	33.6x	0.0%	228.9x	12.4x	1.3%	1.8%		2.0%	2.1%
Digital Realty Trust	$45,467,933,862.40	36.6x	-0.7%	87.6x	10.6x	3.0%	3.4%	1.7%	1.4%	2.2%
Dropbox Inc	$12,232,894,841.00	30.5x	5.5%	-	6.0x	0.0%	0.0%	31.5%	-9.8%	-14.9%

Sources: Iron Mountain, Metrofile, Refinitiv, Iress, and Blue Gem workings and assumptions; "EV/EBITDA" is Enterprise Value to Earnings Before Interest Tax Depreciation & Amortisation; "FCF Yield" is Free Cash Flow Yield; "PE" is Price Earnings; "P/S" is Price to Sales; "DY" is Dividend Yield; "ROCE" is Return on Capital Employed; "Pretax ROA" is the before tax calculated return on assets.

As with the above comparison to Iron Mountain, what is clear from Table 6 is:

- Except for Iron Mountain's Dividend Yield*, Metrofile's market valuation is *significantly* discounted to Iron Mountain's valuation, &
- The market rewards digital storage businesses with significantly higher valuations than *both* Iron Mountain and Metrofile enjoy (despite these digital businesses achieving *lower* pretax ROAs than both physical storage groups).

** Iron Mountain's dividend is distorted by its c.117% payout ratio versus Metrofile's c.50% payout ratio. If we gave Metrofile a 117% payout ratio, its share's Dividend Yield would be c.10.4%. I.e. A similar discount to the other valuation metrics versus Iron Mountain.*

Valuation and 12m TP

Universal assumptions

With regards to the above segmental-DCF models and relating to our forecasts, we have made a range of simplifying assumptions:

- We have made universal working capital assumptions and pushed these through all the segments equally, though have weighted the 'Inventory' into the 'Products & Services' segment with the other segments predominantly having working capital that is composed of debtors and creditors.
- Despite being in different regions, because the Group's major segments are South African and because our valuation is in Rands, the Group's Weighted Average Cost of Capital (WACC) has been built as South African and used across all its segments.
- Our WACC has the following assumptions:
    - **Risk-free rate**: 8.91% based on the current South African 10-year bond rate.
    - **Equity risk premium**: 5.5% based on the broad average excess return of FTSE/JSE All Share Index over the SA All Bond Index.
    - **Beta**: 1.2x based on our subjective assessment of Metrofile Holdings being somewhat riskier than the market as a smaller capitalisation company.
    - **Cost of Debt**: 3-month JIBAR + 250bps = approximately 6.18% pre-tax
    - **Therefore our WACC has been assumed to be 10.01% for the Group.**
- Other assumptions include using regional tax rates per segment based on their respective dominant sovereign exposure.

Valuation

Firstly, pulling all the segmentally-driven DCF fair values together and then taking out a negative NPV for Group costs (calculated separately), we arrive at the following Sum-of-the-Parts (SOTP) for Metrofile Group:

Table 7: Metrofile Holdings' Segmentally-driven Sum-of-the-Parts

	Sum-of-the-Parts	*Implied EV/EBITDA (x)*	*Implied Price Earnings (x)*
MRM South Africa	R2,023,660,308	*8.0x*	-
MRM Rest of Africa	R486,743,772	*8.6x*	-
MRM Middle East	R538,706,222	*36.9x*	-
Product & Solution	R306,046,097	*9.2x*	-
Group	-R1,163,765,912	-	-
Enterprise Value (EV)	**R2,191,390,486**	***6.8x***	**-**
Net Debt	-R434,464,000		
Fair Value	**R1,756,926,486**		***12.7x***
Fair Value (cps)	**405cps**		***12.7x***

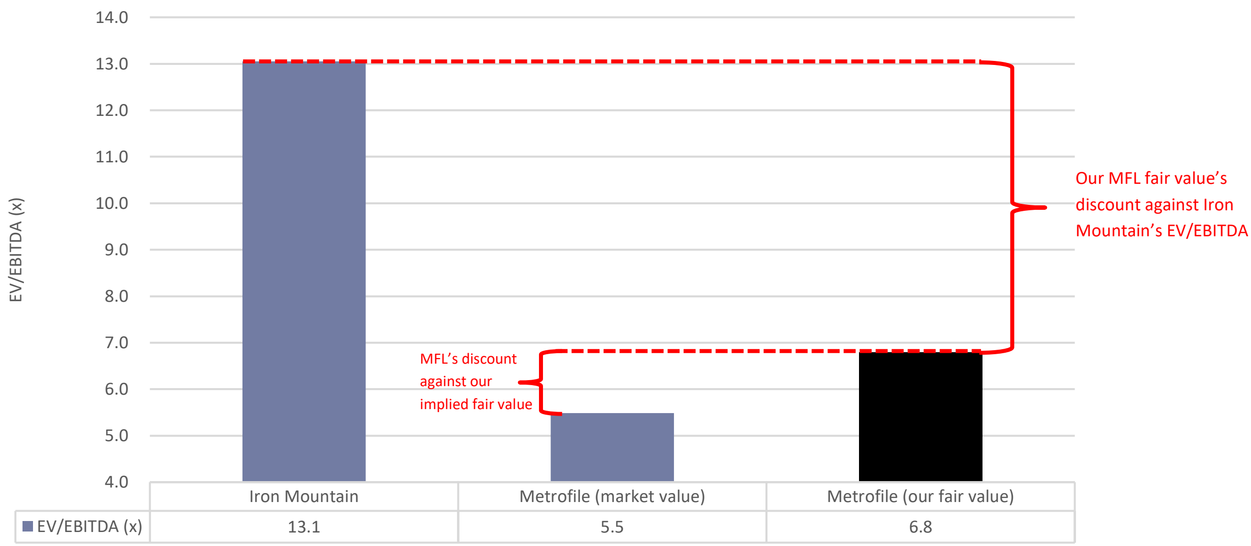
Sources: Metrofile various reports, Refinitiv, Iress, and Blue Gem workings and assumptions

The SOTPs implies that Metrofile is worth c.405cps on an EV/EBITDA of 6.8x and a Price Earnings (PE) of 12.7x.

Importantly, this implied fair value checks out well against Iron Mountain's relative fair value (Figure 8):

- Our SOTPs implied EV/EBITDA of 6.8x is *still* at a relatively large 48% *discount* to Iron Mountain's current 13.1x EV/EBITDA,
- At a 6.8x EV/EBITDA, Metrofile's Free Cash Flow (FCF) Yield would still be an attractive 8.4% (which compares well versus Iron Mountain's own FCF Yield of 5.1% and against the South African 10-year bond yield of 8.9%), &
- If we equalized Metrofile's dividend payout ratio to Iron Mountain's 117% payout ratio, at a fair value of 405cps this would place the MFLshare on an equivalent Dividend Yield of c.8.0% that still compares well against Iron Mountain's current DY of 5.5%.

Figure 8: Our Implied Fair Value for Metrofile Relative to Market & Iron Mountain



Sources: Iron Mountain, Metrofile, Refinitiv, Iress, and Blue Gem workings and assumptions

Therefore, in conclusion, we are comfortable to assert that Metrofile's fair value is c.405cps on an EV/EBITDA of 6.8x and a Price Earnings (PE) of 12.7x. This implies the current share price is undervalued by c.31%.

12m TP and Implied Return

Rolling our fair value for Metrofile Holdings forward at our CoE, we arrive at a 12m TP of 468cps on an Exit PE of 13.3x. Including dividends, this implies a return of 52%.

Key risk to our valuation

We have tried to highlight our global and granular assumptions at each stage of this report. If any of these assumptions or inputs turn out to be incorrect—to the upside or downside—then our resulting forecasts and valuation of Metrofile likely also turn out incorrect. As a summary of the key risks here, we would like to highlight the following:

- **Downside risks:**
  - Sovereign and macro risks, including South African, African & Middle Eastern economic/political deterioration and COVID-19 prospects,
  - A faster macro transition to digital and/or a higher decline in the physical document storage market than we have predicted,
  - Any growth or pricing assumptions missing to the downside, &
  - Poor execution on or weak traction gained with Metrofile Holdings' digital strategy.
- **Upside risks:**
  - Sovereign and macro risks, including South African, African & Middle Eastern economic/political improving and COVID-19 receding quicker than expected,
  - A slower macro transition to digital and/or a lower decline in the physical document storage market than we have predicted,
  - Any growth or pricing assumptions missing to the upside,
  - Excellent execution on or strong traction gained with Metrofile Holdings' digital strategy, &
  - Any delisting/takeover bid materializing for Metrofile, which will likely demand a c.15% to 30% control premium over-and-above our minority shareholder fair value calculation of c.405cps for the Group (i.e. a fair takeover range of between 465cps to 526cps based on our assessment of fair value).

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** Market prices have all been taken intra-day on the 17 & 20 September 2021*

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