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Muddy Waters, LLC
December 4, 2012

Olam's 180-Degree Reversal on Tapping the Markets Validates MW's Thesis, and Raises More Concerns

- Olam's surprise announcement of an unusually structured US$750 million debt issuance validates our thesis that Olam is in danger of failing. Only in the case of our November 2010 report on Rino International have we had a faster confirmation of an investment thesis.

  The announcement also intrigues us with the possibility that Olam could have been only days away from collapsing. Our view remains Strong Sell. Olam CEO Sunny Verghese has accused us of shouting "Fire!" in a crowded theater. Mr. Verghese: The fire department is now here and is pulling survivors out of the burning building.

- We are intrigued by the possibility that Olam could have been only days away from collapsing. We theorize that Olam's banks told Temasek they would turn off the taps unless Temasek provided additional financing to the Company. (If the banks were to stop lending to Olam, it would almost certainly collapse.) According to Mr. Verghese himself, the origin of this transaction was that Olam's banks approached Temasek, which then notified Olam of the proposal. (In our report, we theorized that Olam's banks could have become reluctant to lend it more money.)

  If we are correct, this financing is anything but an expression of confidence. It would not be a good sign if your banks ask your shareholders to lend you more money. It seems that even the banks, which are secured lenders, might have started to subscribe to Muddy Waters's thesis.

  Only four days ago, Mr. Verghese vehemently insisted that it would not tap the markets for at least five months. This 180-degree reversal supports our thesis that the Company was in dire straits over the weekend. (This reversal supports another point we have made about Olam – its management should be given no credibility. Its predictions of high returns from its CapEx binge are likely to turn out to be as inaccurate as its five month prediction.)

  Olam's effective cost of this debt is likely over 10%, which should indicate that this raise was not a luxury for Olam. The yield without the warrant is 8.08%, and with the cost of the warrant, the effective cost to Olam is likely in excess of 10%. The proceeds from this issuance are not intended for CapEx. The Company has stated that the funds raised will be for working capital and **to repay existing debt**. Its existing debt is presumably much less expensive than this new debt.

- The US$750 million that Olam is raising merely postpones the collapse that we feel is almost inevitable.[1] Given that our model forecasted Olam would have to raise or refinance up to S$4.6 billion in the next 12 months to stay afloat, this raise is likely only a portion of what it needs make it one more year.

  Regardless, Olam's fundamental problem remains unchanged: The Company has borrowed substantial amounts of money to fund capital projects that we believe are incapable of repaying the debt. We think this raise looks a lot like Hank Paulson's "bazooka", which only bought Fannie Mae and Freddie Mac a few months before they collapsed. Thus, we maintain our view on Olam.

- Is it really fair to ask retail investors to increase their exposure to Olam while Olam is refusing to obtain a bond rating? Olam has stated that it will not accept our offer to pay Standard & Poor's to rate one of its bond issues. A debt rating would be an important step toward transparency – particularly given Olam's substantial retail investor base.

  While Muddy Waters is a business, one of our primary motivations is to try to level the playing field between managements (and their lawyers, consultants, investor relations firms, and auditors) on one hand, and investors on the other. It is seldom a fair game for retail investors, and we think that Olam's attempt to foist more unrated debt upon retail investors is just another example of the sickness that ails today's capital markets.

- In other Muddy Waters news, the Ontario Securities Commission has charged Ernst & Young with securities violations for allegedly not performing its audits on Sino-Forest with proper diligence. E&Y also agreed to pay US$117.6 to settle class action claims resulting from its audits of Sino-Forest. Separately, the United States Securities and Exchange Commission has also announced that it is suing the PRC affiliates of E&Y, KPMG, BDO, PwC, and Deloitte for failing to comply with requests for their audit papers of various US-listed China companies.

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[1] If Olam were to raise at least S$3 billion of equity, we would reconsider our view.