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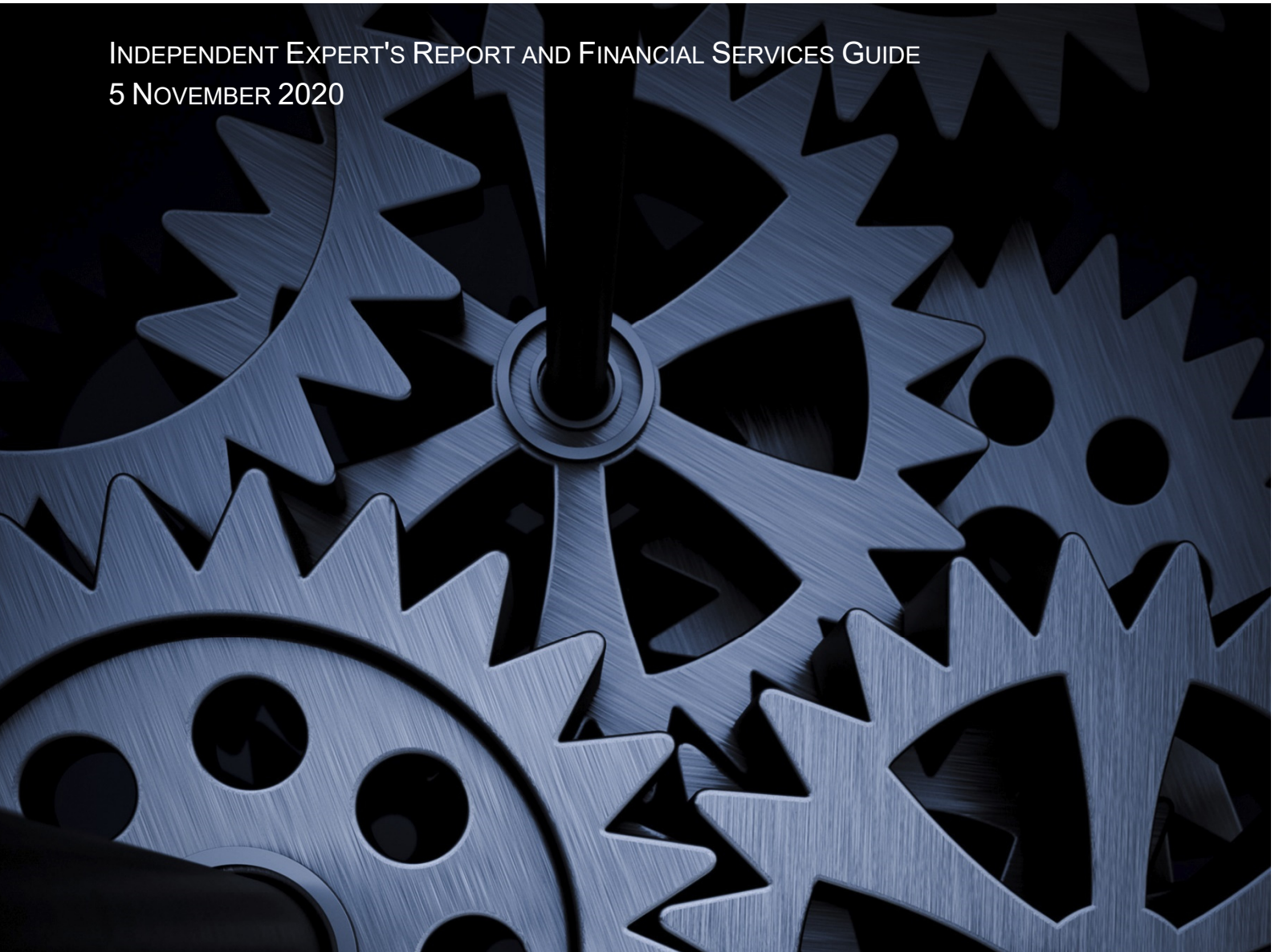
INCENTIAPAY LIMITED

Providing Assets as Security and in Converting the Convertible Note

Independent Expert's Report and Financial Services Guide
5 November 2020



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5 November 2020

Stephen Harrison
Chairman
IncentiaPay Limited
Level 5, 68 Harrington Street,
The Rocks NSW 2000

Dear Stephen,

Independent Expert's Report for IncentiaPay Limited

1. Introduction

IncentiaPay Limited ("**IncentiaPay**") is an integrated loyalty and payment solutions provider operating primarily in Australia and New Zealand. IncentiaPay uses its technology-enabled loyalty platform and digital marketing programs to help clients attract and engage consumers.

Suzerain Investments Holdings Ltd ("**Suzerain**") is a British Virgin Islands-based investment company that is currently the largest shareholder of IncentiaPay with a 70% shareholding (including shareholdings held by its associates). Skybound Fidelis Credit Fund ("**Skybound**") is an associate of Suzerain, due to common ownership.

On 27 February 2020, IncentiaPay entered into a loan arrangement with Suzerain providing IncentiaPay an initially unsecured $5.825 million facility. Subsequently, in June 2020, Suzerain agreed to increase the facility limit of this loan by $4 million to $9.825 million, of which $3.2 million has been drawn to date. The loan is convertible to ordinary shares at the higher of $0.0275 per share or the 30-day volume weighted average price ("**VWAP**") prior to conversion plus an additional 20% and will be secured over all assets of IncentiaPay, subject to shareholder approval.

On 4 June 2020, IncentiaPay entered into a separate $1.2 million loan agreement with Skybound, for the purpose of transformational capital expenditure requirements. Subject to shareholder approval, the loan will be secured over all assets of IncentiaPay, ranking behind and subordinated to any present or future security in favour of Suzerain.

Further background details are set out in Section 1 of our detailed report.

2. Purpose of the report

There are a number of different regulatory requirements for an independent expert's report.

2.1 Listing Rule 10.1

ASX Listing Rule 10.1 requires a listed entity to obtain shareholders' approval before it sells a substantial asset to a related party. As the convertible note and the transformation capital facility will be secured over all assets of IncentiaPay, granting security involves the potential disposal of a substantial asset. As Suzerain is currently a 70% shareholder of IncentiaPay, Suzerain and Skybound are related parties of IncentiaPay. Approval for granting the security is therefore required from IncentiaPay shareholders that are not associated with Suzerain ("**Non-Associated Shareholders**").

2.2 Section 611

By converting the convertible note Suzerain would increase its existing 70% shareholding. Approval for the conversion is therefore being sought at a general meeting of IncentiaPay's shareholders in accordance with item 7 ("**Item 7**") of Section 611 of the Corporations Act 2001 ("**s611**").

2.3 Chapter 2E of the Corporations Act 2001 ("Chapter 2E")

Whilst there is no regulatory requirement compelling the preparation of an independent expert's report in relation to the provision of financial benefits to related parties, the Australian Securities and Investments Commission ("**ASIC**") recommends an independent expert's report to be obtained as part of the materials accompanying the notice of meeting that will be sent to Non-Associated Shareholders in these circumstances.

2.4 Report scope

The directors of IncentiaPay have therefore requested Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report assessing whether each of the following are fair and reasonable to Non-Associated Shareholders:

- conversion of the Suzerain convertible note, in accordance with Item 7 of s611 and Chapter 2E
- granting of security for the Suzerain convertible note, in accordance with ASX Listing Rule 10.1 and Chapter 2E
- granting of security for the transformational capital facility, in accordance with ASX Listing Rule 10.1 and Chapter 2E.

We defined the three steps set out above jointly as the ("**Proposed Transaction**").

This report has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Transaction.

Further information regarding our scope and purpose is set out in Section 2 of our detailed report.

3. Basis of evaluation

When an independent expert's report is prepared to cover a number of different regulatory requirements with different measures of fairness, our preferred approach is to adopt the most onerous of the possible tests.

For the Proposed Transaction, we consider the s611 test to be more onerous than the Listing Rule 10.1 test. This arises because a control premium is taken into account under the s611 test but not under the Listing Rule 10.1 test.

In accordance with *Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC we have assessed the Proposed Transaction as if it was a takeover offer for IncentiaPay. Accordingly, in order to assess whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, we have:

- Assessed it as fair if the value of an IncentiaPay share after the Proposed Transaction is greater than or equal to the value of an IncentiaPay share before the Proposed Transaction. Our valuation before the Proposed Transaction has been undertaken on a control basis whereas our valuation after the Proposed Transaction has been undertaken on a minority basis.
- Assessed it as reasonable if it is fair, or if despite not being fair, the advantages to Non-Associated Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of this report.

4. The Proposed Transaction is not fair

4.1 Assessed value of IncentiaPay before the Proposed Transaction

We have assessed the fair market value of an IncentiaPay share using the discounted cash flow method. Our valuation is summarised in the following table:

Table 1: Assessed value of an IncentiaPay share before the Proposed Transaction

Equity value (control basis) ($'000)		
	Low	**High**
Enterprise value	**20,230**	**25,663**
Surplus assets	3,580	4,701
Non-operating liabilities	(3,431)	(3,431)
Surplus cash	6,369	6,369
Equity value	**26,747**	**33,301**
Ordinary shares on issue ('000)	912,799	912,799
Assessed value per ordinary share on a control basis ($)	**0.029**	**0.036**

Source: Leadenhall analysis

The enterprise value is based on a cash flow model prepared by IncentiaPay management. We reviewed the assumptions for reasonableness and confirmed they are appropriate for our purpose. We applied a discount rate of 13.0% to 15.0% to the projected cash flows to obtain the enterprise value.

We undertook a sensitivity analysis to highlight which assumptions had the greatest impact on the valuation conclusion. The assumption with the greatest impact is the membership subscriptions growth. We have compared this assumption with the historical average, and we consider them to be reasonable based on this comparison.

Any alternative reasonable set of forecast assumptions would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

Further details of our valuation of IncentiaPay before the Proposed Transaction are provided in Section 6 of our detailed report.

4.2 Assessed value of IncentiaPay after the Proposed Transaction

Our assessment of the value of an IncentiaPay share after the Proposed Transaction was based on the same discounted cash flow analysis, adjusted for the impact of the Proposed Transaction. Our valuation is summarised in the following table:

Table 2: Assessed value of an IncentiaPay share after the Proposed Transaction

Equity value (minority basis) ($'000)		
	Low	**High**
Calculated enterprise value on a control basis	**20,230**	**25,663**
Surplus assets	3,580	4,701
Non-operating liabilities	(3,431)	(3,431)
Surplus cash	16,197	16,197
Assessed equity value on a control basis	**36,576**	**43,129**
Discount for lack of control (25%)	(9,144)	(10,782)
Equity value on a liquid minority basis	**27,432**	**32,347**
Ordinary shares on issue ('000)	1,129,805	1,129,805
Assessed value per ordinary share on a minority basis ($)	**0.024**	**0.029**

Source: Leadenhall analysis

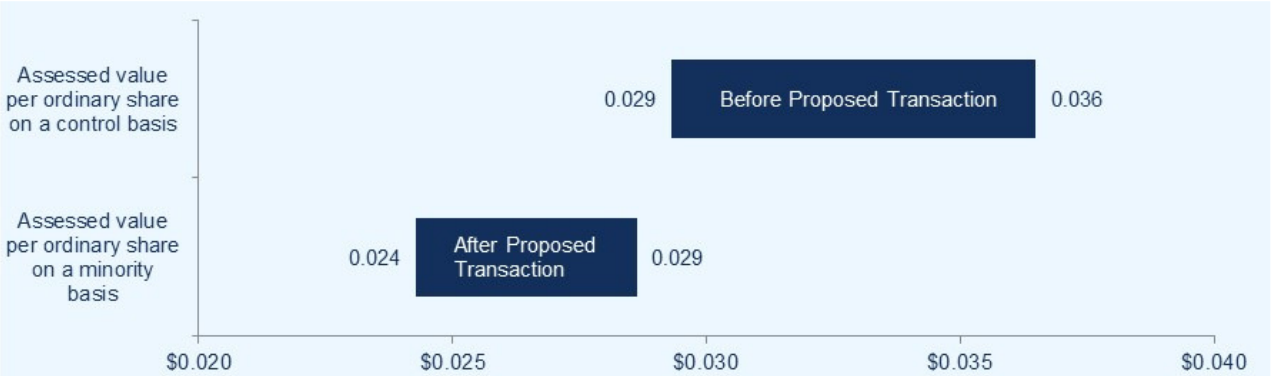
The key differences relate to the shares to be issued and increase in surplus cash from the full conversion of the convertible note, as well as a discount for lack of control ("**DLOC**") to reflect that market trading in IncentiaPay shares after the Proposed Transaction would be on a non-controlling basis.

Further details of our valuation of IncentiaPay after the Proposed Transaction are provided in Section 7 of our detailed report.

4.3 Conclusion on fairness

The following figure shows a comparison of our assessed value of an IncentiaPay share before the Proposed Transaction and our assessed value of an IncentiaPay share after the Proposed Transaction:

Figure 1: Assessment of fairness



Source: IncentiaPay and Leadenhall analysis

As the fair market value of an IncentiaPay share after the Proposed Transaction is less than the fair market value of an IncentiaPay share before the Proposed Transaction, we have assessed the Proposed Transaction as being not fair.

5. The Proposed Transaction is reasonable

In accordance with ASIC guidelines, we have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to Non-Associated Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Non-Associated Shareholders.

5.1 Advantages

The main advantages of the Proposed Transaction are:

- **Lower interest rates**: If the Proposed Transaction is not approved, the per annum interest rate for the convertible note and the transformational capital facility will increase from 10% to 14% and from 12.5% to 14% respectively as compensation for the absence of collateral. Therefore, the lower interest rates under the Proposed Transaction are an advantage to Non-Associated Shareholders. As shareholders already rank behind unsecured creditors, the granting of security has no incremental cost to Non-Associated Shareholders.
- **Conversion price above 30-day VWAP**: As the loan is convertible at the greater of $0.0275 per share or the 30-day VWAP prior to conversion plus an additional 20%, the conversion price is always greater than the market price for IncentiaPay shares and is also currently higher than our assessed, mid-point value for a minority shareholder. Thus, conversion is value accretive to Non-Associated Shareholders, notwithstanding they will not receive a full control premium.
- **Limited alternatives available**: IncentiaPay management has explored alternative sources of capital to fund its restructure plan, working capital and business operations' needs. However, other shareholders and potential lenders have not offered the same level of financial support as Suzerain. As at the date of this report, no alternative long-term financing proposals existed.

- **Impact on share price**: Since the Proposed Transaction was announced, market trading in IncentiaPay shares increased significantly. IncentiaPay shares have since traded in the range of 2.5 cents and 4.4 cents with a VWAP of 3.8 cents and at a one-year high of 4.4 cents on 27 August 2020. If the Proposed Transaction is not approved, we consider it likely the IncentiaPay share price would fall below current levels due to uncertainty associated with Suzerain remaining committed in continuing its support.

5.2 Disadvantages

The main disadvantage of the Proposed Transaction is:

- **Dilution of interests**: Interests of Non-Associated Shareholders would be further diluted upon conversion of the convertible note. If the convertible note facility is fully drawn down prior to conversion (assuming all else remains constant), Suzerain would potentially increase its shareholding to beyond 75% and would be able to pass special resolutions on its own. Therefore, Suzerain would obtain a significant amount of control and may not always act in the best interests of minority shareholders, subject to compliance with relevant laws and regulations. Given the current shareholding structure, this provides little difference to the practical level of control already enjoyed by Suzerain.

5.3 Conclusion on reasonableness

In considering the reasonableness of the Proposed Transaction, in particular:

- **in converting the Suzerain convertible note** – we consider the advantage of the conversion price being greater than the market price and our assessed, mid-point value for a minority shareholder to be more significant than the marginal increase in Suzerain's effective level of control.
- **as security for the Suzerain convertible note** – we consider the lower interest rate to be a significant advantage for Non-Associated Shareholders in the interim before Suzerain converts its debt into ordinary shares. As shareholders already rank behind creditors, the provision of security has little impact on their position.
- **as security for the transformational capital facility** – we consider the lower interest rate to be a significant advantage to shareholders. As noted above, the granting of security makes little difference to the shareholders' position.
- **in solidifying the commitment of Suzerain** – approval of the Proposed Transaction will likely solidify Suzerain's commitment to IncentiaPay which we consider is an important factor to the long-term viability of the business.

We have therefore assessed the Proposed Transaction as being reasonable.

6. Opinion

In our opinion, the Proposed Transaction is not fair but reasonable to Non-Associated Shareholders.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Richard Norris
Director

Nathan Timosevski
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.

Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

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The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $40,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

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We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

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As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Australian Financial Complaints Authority ("**AFCA**"). The AFCA will then be able to advise you as to whether or not they can assist in this matter. The AFCA can be contacted at the following address:

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

Website: www.afca.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

5 November 2020

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1 THE PROPOSED TRANSACTION

1.1 Background

IncentiaPay is an ASX-listed company with a market capitalisation of approximately $22 million. IncentiaPay is an integrated loyalty and payment solutions provider operating primarily in Australia and New Zealand. IncentiaPay uses its technology-enabled loyalty platform and digital marketing programs to help its clients attract and engage consumers.

Suzerain is a British Virgin Islands-based investment company that is currently the largest shareholder of IncentiaPay with a 70% shareholding (including shareholdings held by its associates). On 27 February 2020, IncentiaPay entered into a loan arrangement with Suzerain providing IncentiaPay an initially unsecured $5.825 million facility at an interest rate of 10% per annum. The loan facility has a repayment date of 31 December 2021 and is predominantly to be used for working capital and business operations purposes. Subsequently, in June 2020, Suzerain agreed to increase the facility limit of this loan by $4 million to $9.825 million, of which $3.2 million has been drawn to date. The loan is convertible to ordinary shares at the higher of $0.0275 per share or the 30-day VWAP prior to conversion plus an additional 20% and will be secured over all assets of IncentiaPay, subject to shareholder approval.

Skybound is an associate of Suzerain, due to common ownership. On 4 June 2020, IncentiaPay entered into a $1.2 million loan agreement with Skybound. The loan facility will be drawn for the purpose of transformational capital expenditure requirements and bears interest at a rate of 12.5% per annum. Subject to shareholder approval, the loan will be secured over all assets of IncentiaPay, ranking behind and subordinated to any present or future security in favour of Suzerain (which includes the convertible note), and shall be repaid 18 months after the first drawdown. To date, $0.2 million of this loan facility has been drawn.

1.2 Terms of the Convertible Note

Key terms of the convertible note are summarised in the table below:

Table 3: Summary of key terms of the convertible note

Key terms of convertible loan deed between IncentiaPay and Suzerain	
Total loan amount	$9.825 million
Drawdowns	$3.2 million drawn; further drawdowns to be agreed between the parties but up to a limit of $1 million per calendar month, subject to IncentiaPay meeting the budget net operating cash flow for that month
Administration fee	$75,000 (previously deducted from the first drawdown)
Repayment date	31 December 2021
Loan security	Shareholder approval is to be obtained to enter into a general security deed over the assets of IncentiaPay (or amend the 2019 general security deed to cover the convertible loan deed)
Interest rate	10% p.a. plus a $9,708 line fee per month; if shareholder approval on the loan security is not obtained, then the interest rate applicable is 14% p.a.
Capitalisation of interest	Interest will be capitalised monthly (and then form part of the principal for the purposes of calculating interest) and is payable in full on the repayment date
Conversion period	The period between date of the deed and ending on 1 October 2021
Conversion / issue price	The greater of $0.0275 per share or the 30-day VWAP prior to conversion plus an additional 20%
Conversion shares	The conversion shares will rank equally in all respects with all other shares
Loan repayment	IncentiaPay may repay the loan (in whole or part) at any time after the expiry of the conversion period and before the repayment date. Otherwise, the loan is repayable in full on the repayment date

Source: IncentiaPay

1.3 Transformational Capital Facility

Key terms of the transformational capital facility are summarised in the table below:

Table 4: Summary of key terms of the transformational capital facility

Key terms of loan deed between IncentiaPay and Skybound	
Facility limit	$1.2 million
Drawdowns	$0.2 million drawn; further drawdowns for specific capital projects as agreed between IncentiaPay and Skybound
Administration fee	$50,000 (deducted from the first drawdown)
Repayment date	18 months from the date of the first drawdown
Debt instrument	The loan contains no rights of conversion
Loan security	Shareholder approval is to be obtained to enter into a second ranking general security deed over the assets of IncentiaPay (ranking behind Suzerain)
Interest rate	12.5% p.a. plus a $2,000 line fee per month; if shareholder approval on the loan security is not obtained, then the interest rate applicable is 14% p.a.
Capitalisation of interest	Interest is payable at the end of each month beginning on the first drawdown and will be capitalised if unpaid when due
Loan repayment	IncentiaPay may repay the loan (in whole or part) at any time before the repayment date. Otherwise, the loan is repayable in full on the repayment date or if an event of default (i.e. insolvency) occurs

Source: IncentiaPay

2 SCOPE

2.1 Purpose of the report

Listing Rule 10.1

ASX Listing Rule 10.1 requires a listed entity to obtain shareholders' approval before it sells a substantial asset to a related party. An asset is considered to be substantial if its value, or the consideration being paid for it, is 5% or more of the equity in the listed entity, as set out in its latest accounts lodged with the ASX. As the convertible note and the transformation capital facility will be secured over all assets of IncentiaPay, the Proposed Transaction involves the potential disposal of a substantial asset. As Suzerain is currently a 70% shareholder of IncentiaPay, the Proposed Transaction is with a related party.

Listing Rule 10.5 requires that the notice of meeting sent to shareholders advising them of such a transaction includes a report from an independent expert stating whether the transaction is fair and reasonable to Non-Associated Shareholders.

Section 611

An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20%, or increase a greater than 20% holding, is prohibited under Section 606 of the Corporations Act 2001 ("**s606**"), except in certain circumstances.

One of the exceptions to s606 is where the acquisition is approved at a general meeting of the target company in accordance with Item 7 of s611. Under the Proposed Transaction, Suzerain will increase its existing 70% shareholding if it exercises its option to convert its debt into shares. Approval for the Proposed Transaction is therefore being sought at a general meeting of IncentiaPay's shareholders in accordance with Item 7.

Item 7 requires shareholders to be provided with all of the information known to the company and to the potential acquirer that is material to the shareholders' decision. *Regulatory Guide 74: Acquisitions Approved by Members* ("**RG74**") issued by ASIC provides additional guidance on the information to be provided to shareholders. RG74 states that the directors of the target company should provide shareholders with an independent expert's report or a detailed directors' report in relation to transactions to be approved under Item 7. RG111 issued by ASIC requires an independent expert assessing a transaction that has a similar effect to a takeover bid to assess whether the transaction is fair and reasonable.

Chapter 2E of the Corporations Act 2001

Chapter 2E requires a public company to obtain shareholders' approval before giving financial benefits to related parties. The Proposed Transaction entails the provision of a financial benefit to Suzerain and Skybound in relation to the following:

- providing the assets of IncentiaPay as security for the convertible note
- Suzerain exercising its option to convert its debt into shares
- providing the assets of IncentiaPay as a second ranking security for the transformational capital facility.

There are no specific requirements for an independent expert's report to be prepared in these circumstances. However, ASIC recommends an independent expert's report to be obtained as part of the materials accompanying the notice of meeting under Sections 218 to 221 of the Corporations Act 2001.

Purpose

The directors of IncentiaPay have therefore requested Leadenhall to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, specifically:

- in converting the Suzerain convertible note, in accordance with Item 7 of s611 and Chapter 2E
- as security for the Suzerain convertible note, in accordance with ASX Listing Rule 10.1 and Chapter 2E
- as security for the transformational capital facility, in accordance with ASX Listing Rule 10.1 and Chapter 2E.

This report has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Transaction.

2.2 Basis of evaluation

Introduction

RG111 requires a separate assessment of whether a transaction is 'fair' and whether it is 'reasonable' for both control transactions under s611 and related party transactions under Listing Rule 10.1. We have therefore considered the concepts of 'fairness' and 'reasonableness' separately.

Consistent with RG111.63 we have provided only one analysis of whether the Proposed Transaction is fair and reasonable. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

Listing Rule 10.1

According to RG111.57 'a proposed related party transaction is fair if '*the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity*'. This comparison should be made '*assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.*'

Section 611

Should the Proposed Transaction be approved, Suzerain will increase its controlling stake in IncentiaPay. Therefore, we have assessed the Proposed Transaction as a control transaction in accordance with RG111.8.

RG111.25 requires a transaction that is approved under s611 that is comparable to a takeover bid to be evaluated as if it was a takeover bid. RG111.11 defines a takeover offer as being fair if the value of the consideration is equal to, or greater than, the value of the securities subject to the offer.

Selected approach

When an independent expert's report is prepared to cover a number of different regulatory requirements with different measures of fairness, our preferred approach is to adopt the most onerous of the possible tests.

For the Proposed Transaction, we consider the s611 test to be more onerous than the Listing Rule 10.1 test. This arises because a control premium is taken into account under the s611 test but not under the Listing Rule 10.1 test. As a result, we have assessed the Proposed Transaction as fair if the value of an IncentiaPay share (on a minority basis) after the Proposed Transaction is greater than or equal to the value of an IncentiaPay share (on a control basis) before the Proposed Transaction.

As Non-Associated Shareholders would retain their IncentiaPay shares if the Proposed Transaction proceeds (as opposed to exchanging them for cash or the acquirer's scrip as in a takeover offer) the effective consideration is the continued ownership of an IncentiaPay share.

The value of an IncentiaPay share before the Proposed Transaction has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

After the Proposed Transaction, the value of an IncentiaPay share has been assessed on a minority interest basis (i.e. excluding a control premium) as Non-Associated Shareholders would continue to own a minority stake in IncentiaPay should the Proposed Transaction occur.

Basis of value

We have assessed the value of an IncentiaPay share (both before and after the Proposed Transaction) at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG111, this definition of fair market value is consistent with basis of value described at RG111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuation of IncentiaPay (both before and after the Proposed Transaction) does not include any special value.

Reasonableness

In accordance with RG111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Non-Associated Shareholders to vote for the proposals. We have therefore considered whether the advantages to Non-Associated Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.13:

- Suzerain's pre-existing voting power in IncentiaPay
- The liquidity of the market in IncentiaPay's shares
- Any special value of IncentiaPay to Suzerain
- The conversion price of the convertible note
- The availability of alternative sources of funding
- The incremental interest rate of the convertible note if the Proposed Transaction is rejected
- The likely market price of IncentiaPay's shares if the Proposed Transaction is rejected
- The value of IncentiaPay to an alternative bidder and the likelihood of an alternative offer

We have also considered other significant advantages and disadvantages to Non-Associated Shareholders of the Proposed Transaction.

2.3 Individual circumstances

We have evaluated the Proposed Transaction for Non-Associated Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the Proposed Transaction on their specific financial circumstances.

3 INDUSTRY ANALYSIS

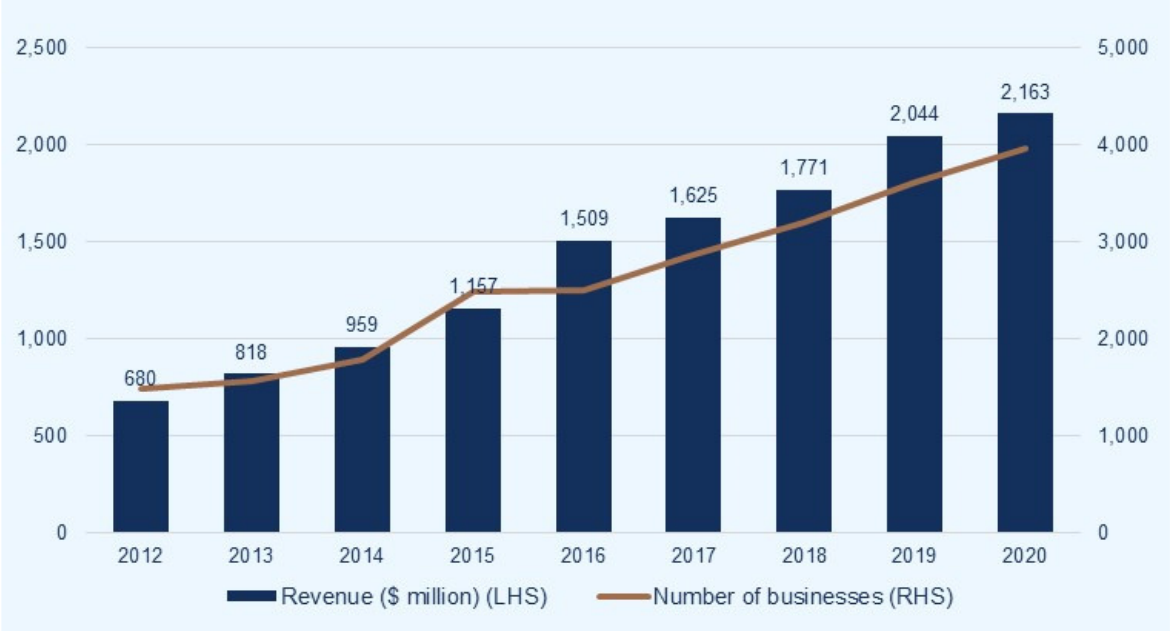
As IncentiaPay is an integrated loyalty solutions provider using digital marketing programs that enable businesses across various sectors connect to consumers, we have focused our analysis on the digital advertising industry in Australia.

3.1 Overview of the Digital Advertising Industry

Amid the COVID-19 pandemic, it is estimated that the global digital advertising industry is at a size of approximately USD 322.5 billion in 2020. According to ReportLinker, the United States is the largest digital advertising market, with a market share of approximately 27%, followed by China at 17%. It is projected that the global digital advertising market will reach a size of approximately USD 640 billion by 2027, growing at a compound annual growth rate ("**CAGR**") of approximately 10%.

The digital advertising industry in Australia has experienced significant growth over the past five years, largely due to the rising prevalence of internet-enabled devices and an increasing preference by advertisers for online marketing solutions. According to IBISWorld and taking into account the impact of COVID-19, the Australian industry has increased at a CAGR of 13.3% over the preceding five years to approximately $2.2 billion in 2020, as shown in Figure 2 below.

Figure 2: Digital advertising market in Australia



Source: IBISWorld

3.2 Customers and Services

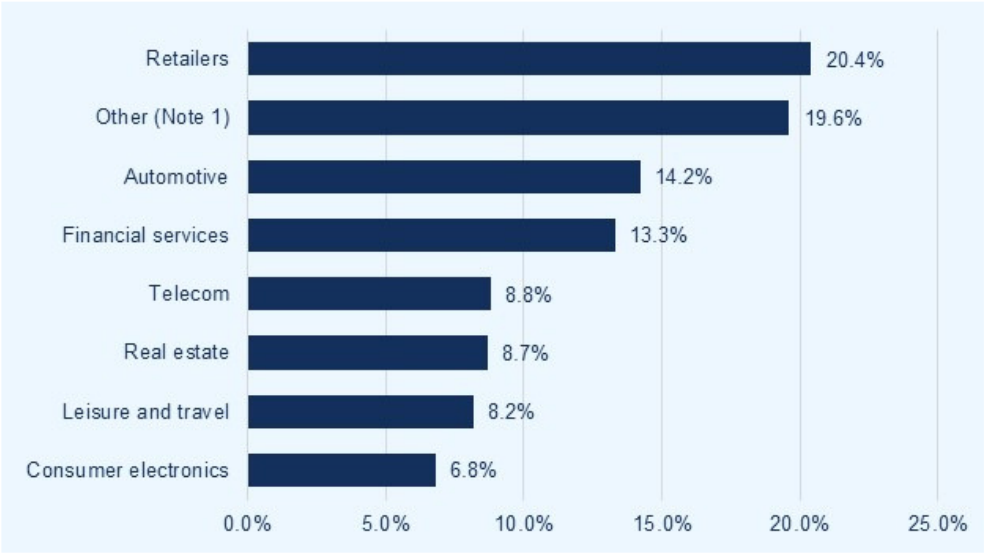
The digital advertising industry services a wide variety of customers from apparel retailers to leisure and travel operators and financial institutions. Services provided can be broadly classified into:

- **Search engine optimisation**: Approximately 44% of total industry revenue is generated by the provision of search engine marketing services which involve increasing the visibility of the customer on search engines. This is achieved by increasing its ranking on the search results page, through either including keywords on the customer's website or using the pay-per-click advertising model. With pay-per-click advertising, the advertiser pays the search engine owner each time the link is clicked into via the search results page. Due to slowing growth in search engine optimisation demand, this segment has experienced a decrease as a share of industry revenue in recent periods.

- **Digital content creation**: A significant and growing portion (approximately 38% of total revenue) is generated through the creation of digital advertising content for clients and buying media space to exhibit this content. Digital advertising content can be in the form of banner advertisements, video marketing, rich media and sponsorship. Media space includes social media channels like Facebook and Instagram and traditional news websites. Social media platforms have grown in popularity over the past five years as these platforms have the capability to collect consumer data via their browsing activities which help in facilitating the promotion of advertisements relevant to specific consumers. There have also been increasing trends of customers demanding innovative and interesting advertising and seeking the services of industry operators to handle their social media presence.
- **Online classified advertisements**: The remaining 18% of total revenue is generated through advertising on classifieds such as Gumtree, email marketing campaigns and lead generation.

The breakdown of downstream customers (by revenue) is shown in Figure 3 below:

Figure 3: Major market segmentation



Source: IBISWorld
Note 1: Other includes pharmaceutical and healthcare companies, government and public-sector institutions.

3.3 Profitability

Key drivers of profitability for the digital advertising industry include:

- **Number of new channels**: The number of new channels offering advertising space to businesses has a strong correlation with revenue growth and profitability of the digital advertising industry. As the amount and variety of content available online increases, demand for and effectiveness of internet-based marketing also increases. The number of social media applications has experienced exponential growth in recent periods and is anticipated to increase further. For example, Snapchat, an image and video messaging application with over 300 million monthly active users, has been expanding its product offerings to advertisers. These trends are expected to continue leading to increased demand for social media marketing services, with customers requiring advertisements that are more mobile-centric and customised to individual users.
- **Internet availability and prevalence of internet-enabled devices**: Internet penetration is a strong driver in the demand for digital advertising services. Digital advertising solutions such as search engine optimisation and webpage banners are delivered and viewed online. An increase in the number of internet connections expands the outreach of digital advertising services hence increasing the appeal of the internet as a marketing channel. In addition, the rising prevalence of internet-enabled devices has contributed to the growth of the digital advertising industry. The increase in the volume of data sharing between devices provides more avenues for digital advertising firms to help customers remarket their products and services. For example, advertisers can incorporate data analytics using information collected from smart/internet-enabled devices and send relevant advertisements to the consumers.

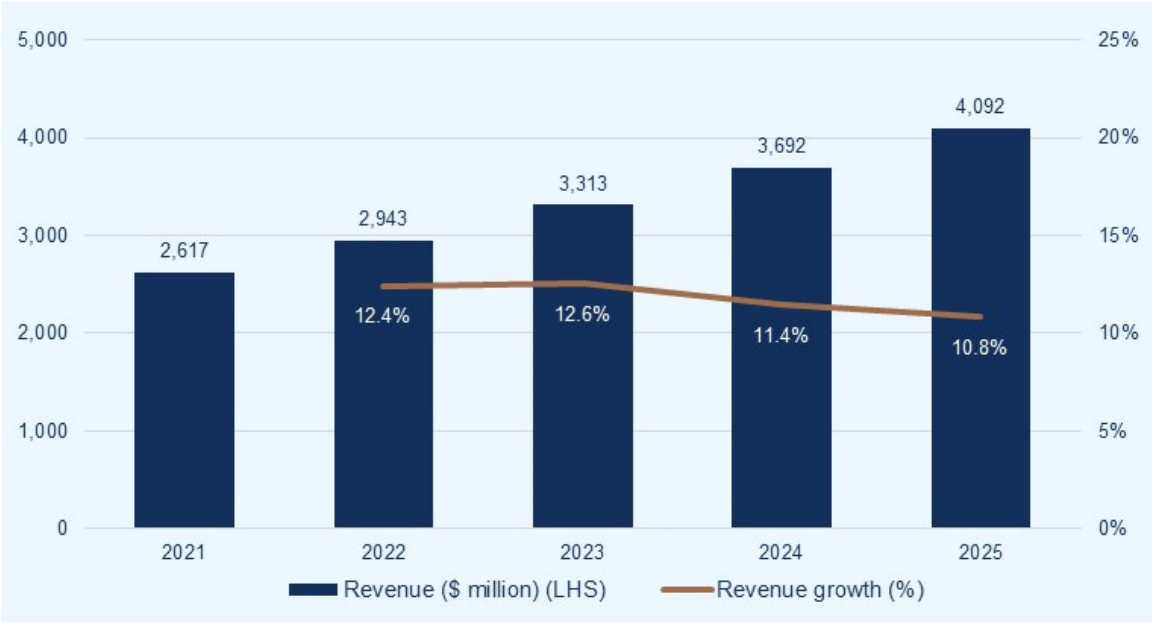
- **Macroeconomic environment**: Customers often increase their advertising budgets in times of strong economic growth which correspondingly has a positive impact on industry revenue. During periods of economic uncertainties, consumers tend to reduce unnecessary expenditures, such as non-essential shopping and leisure travel which directly affects the businesses of retailers and travel operators. This indirectly has an impact on the digital advertising industry in the form of reduced marketing spend. As a result of the impact of COVID-19, business confidence is expected to decline in the near-term.
- **Competition**: Low barriers to entry and rising demand for digital advertisements have led to an increase in competition over the past five years. Advertisers typically compete on product quality, the number of service offerings and price. With an increase in competition, prices are expected to be increasingly competitive together with inflating wages as a result of the growing need to hire skilled labour to meet demand. These factors therefore affect the overall profitability and margins of the industry.

3.4 Outlook

According to IBISWorld, industry revenue growth in Australia is forecast to slow over the next five years compared with the previous five-year period as the market reaches saturation. In addition, as the industry becomes increasingly competitive, profit margin is anticipated to increase at a declining rate.

COVID-19 has had a significant impact on revenue in 2020 with an increasing number of cancelled advertising projects which resulted in a revised revenue growth estimate of 5.8% (from 13.3% previously). Nonetheless, a strong recovery in 2021 is expected and industry revenue is forecast to increase at an annualised 13.6% over the five years through 2025 to reach AUD 4.1 billion as shown in Figure 4.
This outlook is broadly consistent with other market research. According to eMarketer's Global Digital Ad Spending Update for Q2FY20, the global digital advertising industry is likely to achieve a modest growth of 2.4% in 2020 (13.5% pre-pandemic) and is expected to bounce back with a strong revenue growth of 17% in 2021. Revenue growth in subsequent periods is forecast to slow gradually to 8.4% by 2024.

Figure 4: Forecast industry revenue growth in Australia



Source: IBISWorld
Note: Due to the anomaly of the impact of COVID-19 on 2020 revenue, revenue growth in 2021 has not been shown.

4 PROFILE OF INCENTIAPAY

4.1 Background

IncentiaPay is an integrated loyalty and payment solutions provider (membership subscriptions for payment discounts and offers) operating primarily in Australia and New Zealand. IncentiaPay was first established in 1994 as Entertainment Publications which thereafter became affectionately known as the Entertainment Book with its iconic published book offering members access to exclusive offers. In September 2016, Entertainment Publications was acquired by ASX listed BPS Technology Limited ("**BPS**") before subsequently changing its name to IncentiaPay in April 2018.

In 2019, IncentiaPay announced the shift from selling its publications to becoming fully application based. The publications were officially discontinued from 1 June 2020 with memberships now exclusively available as an application which can be activated at any time. The application allows users to conveniently search, save and instantly redeem offers on their mobile devices, with regular additions of offers all year round. More recently, IncentiaPay entered into a strategic partnership with Paywith Worldwide Inc. ("**Paywith**"), leveraging on IncentiaPay's content and relationships to deliver new products and value propositions for its customers. Together with this partnership, IncentiaPay obtained a multiyear licence for Paywith's technology platforms. This licence provides IncentiaPay with a platform for promoting digital marketing programs to help facilitate businesses attract and engage consumers.

A brief history of IncentiaPay is set out in the table below:

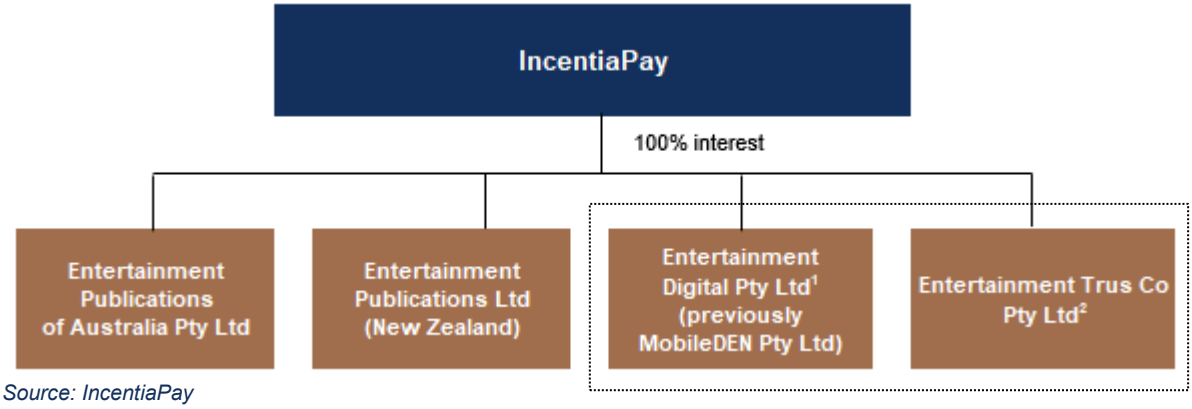
Year	Event
1994	♦ Established as Entertainment Publications.
2016	♦ Entertainment Publications was acquired by BPS, a company listed on the ASX since 2014 which owned Bartercard and had a minority stake in Now Book It.
2018	♦ BPS changed its name to IncentiaPay. ♦ IncentiaPay acquired ASX listed Gruden Group. ♦ A corporate restructure led to the divestiture of Bartercard, the Government division of Gruden Group and IncentiaPay's minority stake in Now Book It.
2019	♦ Completed a share placement. ♦ IncentiaPay continued its corporate restructure with the sale of the Performance Marketing division of Gruden Group. ♦ Entered into a binding convertible loan arrangement with Suzerain for the amount of $19 million. The loan has a repayment date of 30 September 2020 but can be converted at any time at the discretion of Suzerain, based on the higher of $0.047 per share or 30-day VWAP prior to conversion.
2020	♦ In February 2020, IncentiaPay entered into a separate loan arrangement with Suzerain providing IncentiaPay an initially unsecured $5.825 million facility. ♦ In March 2020, Suzerain converted the $19 million debt into 410.6 million ordinary shares at $0.047 per share, thereby increasing its shareholding in IncentiaPay from 20% to 70%. ♦ In June 2020, Suzerain agreed to increase the loan facility limit from $5.825 million to $9.825 million, of which $3.2 million has been drawn to date. ♦ The iconic Entertainment Book was discontinued from 1 June 2020. ♦ On 4 June 2020, IncentiaPay entered into a $1.2 million loan agreement with Skybound, of which $0.2 million has been drawn to date. ♦ On 3 August 2020, IncentiaPay announced a strategic partnership with Paywith.

Source: IncentiaPay

4.2 Corporate Structure

The existing corporate structure of IncentiaPay is set out as follows:

Figure 5: IncentiaPay corporate structure



Source: IncentiaPay
Notes:
1. IncentiaPay completed the sale of the MobileDEN platform and associated assets to Mobecom Ltd on 1 July 2020. The assets have been fully impaired as at 30 June 2020 on the basis that they will not produce any future economic benefits to IncentiaPay. IncentiaPay will be de-registering Entertainment Digital Pty Ltd in the near future.
2. Entertainment Trus Co Pty Ltd is a vehicle established in FY20 as trustee for the employee share plan trust which provide benefits to the current employees of IncentiaPay.
3. The dashed box around Entertainment Digital Pty Ltd and Entertainment Trus Co Pty Ltd indicates they are non-operating entities.

4.3 Overview of Operations

IncentiaPay is currently managed as one segment, being the Entertainment Publications business. In terms of the geographical split, the Australian entity accounts for the largest portion of total revenue (FY20: 89%). The breakdown of FY19 and FY20 revenue is as follows:

Figure 6: FY19 revenue split

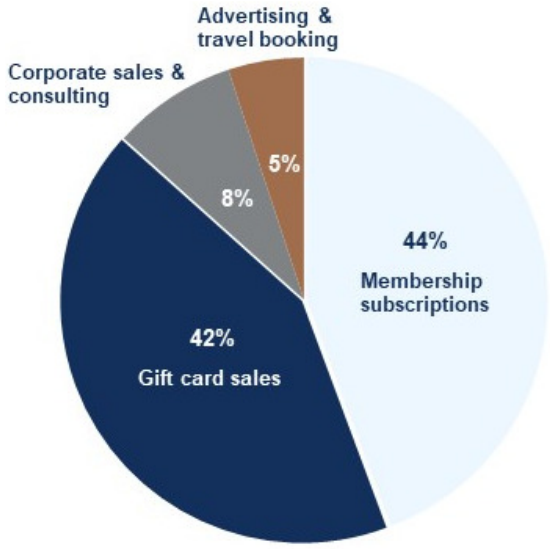
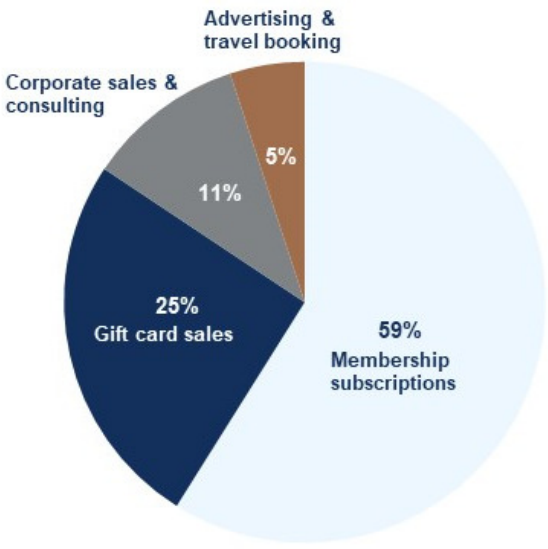


Figure 7: FY20 revenue split



Source: IncentiaPay

The Entertainment Publications business generates revenue from the following income streams:

- **Membership subscriptions**: Membership subscriptions is the largest revenue stream of IncentiaPay. In November 2019, a wholly digital version of the membership was launched that incorporates a rolling twelve-month subscription period. The membership contains discounts and special offers provided by merchants to members. Subscription are for a period of between 12 months to 24 months depending on the subscription plan selected.

  Memberships are sold primarily through the fundraiser channel consisting of more than 15,000 fundraiser groups across Australia and New Zealand. This channel allows consumers to participate in a good cause with 20% of membership sales directed to charities, local primary and high schools and community groups.

  As part of the restructure, IncentiaPay is introducing the Freemium program which is a free trial of the multi-city membership (retailing at a price of $119.99). The prospective member is given a membership with a fixed period (i.e. 3 months) from activation and at expiry of the trial, is invited to purchase the membership and nominate a charity. The nominated charity is then targeted for additional membership pipeline. As of the date of our report, there were 150,000 members (including Freemium).

- **Gift card sales**: Gift cards are provided by both gift card aggregators and merchants and are sold to IncentiaPay's members at a discount to face value. IncentiaPay generates a commission of up to 3% on each card sold, forming the second largest revenue stream.

- **Corporate sales, consulting and media fees**: IncentiaPay enters into contracts with and provides corporate clients information technology consulting and customisation services to help the businesses drive customer acquisition, retention and engagement.

- **Advertising and travel booking fees**: Revenue is generated through the placement of advertisements and the distribution of offers and promotions on behalf of businesses to members. In addition, as members have access to a range of discounts and deals from hotels, airlines and car rental companies through IncentiaPay's platform, IncentiaPay acts as an agent on behalf of these merchants and earns commissions when bookings are made and paid for.

4.4 Competitive Position

The table below sets out the strengths, weaknesses, opportunities and threats analysis for IncentiaPay.

Strengths	Weaknesses
♦ The new management team is experienced with industry-specific knowledge and track record in managing and growing similar businesses. ♦ The enhanced digital product has the flexibility which allows membership to commence at any time. New product options, such as multi-city and multi-year, have also been introduced which has led to a 29% increase in average revenue per transaction in the 2020 sales season. ♦ IncentiaPay has a stable and strong relationship with its merchants which saw an 81% retention rate of merchants as at the end of June 2020, despite COVID-19.	♦ IncentiaPay currently has limited access to capital, with a heavy reliance on Suzerain for funds. As a result, growth may be inhibited and there is a going concern risk if Suzerain withdraws its support in future. ♦ IncentiaPay is heavily reliant on several third-party contractors which provide essential services such as software and product development. This exposes IncentiaPay to risks of performance failures or price increases which IncentiaPay is unable to effectively control.
Opportunities	**Threats**
♦ The recently completed restructure has significantly reduced operating expenses thus increased revenue will lead to a significant increase in profits. ♦ The recent partnership with Paywith helps IncentiaPay facilitate the delivery of new products and expand its customer outreach with limited capital outlay.	♦ IncentiaPay is significantly impacted by the COVID-19 pandemic with significantly lower revenues than in prior periods. ♦ Payment solutions technology is constantly evolving which poses a threat of new entrants with superior technology and features to IncentiaPay. ♦ The loss of personnel due to the recent restructure could have an adverse impact on operations.

Source: Leadenhall analysis

4.5 Key Personnel

The senior management team of IncentiaPay includes:

Table 5: Key personnel of IncentiaPay

Directors	Experience
Stephen Harrison Chairman	Mr Harrison has been the Chairman of IncentiaPay since 2019 and has over 30 years of experience in the financial services, funds management, M&A, private equity and accounting fields – primarily focused on the energy, technology, IT services, infrastructure, financial services, health, entertainment and natural resource sectors. He is also currently serving as Chairman of two other public companies in Australia; NobleOak Life Limited and Conscious Capital Limited.
Jeremy Thorpe Non-executive Director	Mr Thorpe has over 30 years of experience in corporate finance, private equity, consumer and business credit, and structured finance. He is currently the Managing Director and Chief Executive Officer of Skybound Capital Australia.
Charles Romito Non-executive Director	Dr Romito is an experienced management consultant with an extensive background across venture capital and private equity, lead syndicate investing and management academia. Prior to his role at IncentiaPay, he was a Chief Operating Officer in a venture capital fund.
Dean Palmer Non-executive Director	Mr Palmer has more than 20 years of experience across a variety of industries including finance, property, and funds management. He is the founder and CEO of Skybound Fidelis Investment Limited – a specialist structured finance, commercial credit, and property fund manager. He also serves on the boards of all subsidiaries and associate companies within Skybound Australia's diverse range of investments in Australia.
Henry Jones Chief Executive Officer	Mr Jones was appointed the CEO of IncentiaPay in October 2019 and has more than 25 years of executive experience, predominantly in the technology sector. Prior to his role at IncentiaPay, he held senior positions at IBM across Australia, New Zealand, and North America.
Ben Newling Chief Operating Officer	Mr Newling joined IncentiaPay in 2018 and has more than 15 years of experience across general management and corporate advisory within investment banking, retail banking and technology.

Source: IncentiaPay

4.6 Financial Performance

The financial year for IncentiaPay is a twelve-month period ending 30 June. The audited consolidated statements of financial performance for FY18, FY19 and FY20 are set out in the table below.

Table 6: IncentiaPay's financial performance

$'000	FY18	FY19	FY20
Revenue	**75,809**	**64,572**	**42,185**
Operating expenses			
Direct expenses of providing services	(44,972)	(41,919)	(23,937)
Employee expenses	(23,910)	(19,141)	(16,980)
Other expenses	(12,838)	(14,118)	(7,680)
Bad debts	(275)	(447)	(2,810)
EBITDA	**(6,186)**	**(11,053)**	**(9,222)**
Depreciation and amortisation expense	(3,981)	(2,015)	(5,466)
Impairment loss	(11,929)	(14,553)	(4,990)
EBIT	**(22,096)**	**(27,621)**	**(19,678)**
Gain on disposal of investment	-	600	-
Interest income	-	-	20
Interest expenses	(1,101)	(346)	(1,295)
Loss before tax	**(23,197)**	**(27,367)**	**(20,953)**
Income tax benefit/(expense)	2,000	(786)	(3,709)
Loss from discontinued operations	(40,986)	(9,751)	-
Loss after tax	**(62,183)**	**(37,904)**	**(24,662)**

Source: IncentiaPay
Note: Normalisation adjustments in relation to restructuring costs have no significant impact on the historical operating losses of IncentiaPay. Accordingly, it would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

In relation to the historical financial performance of IncentiaPay set out above, we note the following:

- IncentiaPay has sustained operating losses in each of the periods presented above, largely attributable to a high fixed cost base and declining revenues.
- Revenue has decreased over the periods observed predominantly due to declines in membership renewals and gift card sales. The decline in gift card sales is mainly due to the shift away from offering gift cards which had not generated positive returns (or margins), i.e. David Jones. In addition, gift card revenue was severely impacted by the outbreak of COVID-19 in the second half of FY20.
- Prior to the shift to digital subscriptions, membership renewals were gradually declining. In addition, as subscriptions had a fixed commencement period, sales were highly seasonal. FY20 membership revenue was lower than expected due to delays in the commencement of the 2020 sales season with COVID-19 restrictions. Furthermore, the impact of COVID-19 restricted access to membership benefits hence reduced the appeal of subscriptions. Uncertainties associated with the economy in general and job security have also contributed to the lower demand.
- Historically, direct expenses of providing services related to book printing and production expenses including the amortisation of fundraiser sales commissions (which are initially recognised as prepayments). Direct expenses also include the costs of purchasing gift cards for resale (plus a small margin). Direct expenses have decreased significantly in FY20, in line with the shift from print to digital memberships, as well as a combination of a reduction in gift card sales and delays in the launch of fundraising events due to the impact of COVID-19.
- Employee expenses have also decreased significantly in FY20 as a result of the recently completed corporate restructure which led to a significant reduction in headcount. In addition, due to the impacts of COVID-19, staff (including senior management) temporarily reduced their remuneration and have been working reduced hours.

- Other expenses include office lease costs and third-party costs paid to contractors for the provision of services such as software and product development. Expenses have decreased significantly in FY20 with the closure of six regional offices and implementation of tighter controls over the expenditure process, i.e. a purchase order system is now in place.
- The increase in bad debts in FY20 is associated with the write-off of deferred consideration receivable for the sale of a group of previous subsidiaries known as the Bartercard business in FY19.
- The increase in depreciation and amortisation expenses in FY20 largely pertains to the amortisation of the software intangible asset (largely comprising costs associated with capitalised web development) after a re-assessment of its useful life. The other factor for the increase in depreciation and amortisation expenses is the depreciation of right-of-use assets (which relate to leased property) following the adoption of accounting standard AASB 16 Leases.
- The impairment loss in each of the periods presented above relates to the impairment of non-cash assets (i.e. goodwill and brand names) of discontinued operations (the Bartercard business and divisions of the Gruden business) which have incurred significant operating losses of $41.0 million and $9.8 million in FY18 and FY19 respectively.
- FY20 interest expenses mainly pertain to the interest-bearing convertible loan of $19 million and the loan facility of $5.825 million (which is now increased to $9.825 million) which are both provided by Suzerain at interest rates of 10% per annum.

4.7 Financial Position

The audited consolidated statements of financial position as at 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 7: IncentiaPay's financial position

$'000	30-Jun-18	30-Jun-19	30-Jun-20
Current assets			
Cash and cash equivalents	11,130	3,460	5,307
Trade and other receivables	9,675	3,423	992
Inventories	350	96	134
Other current assets	13,782	7,853	2,351
Total current assets	**34,937**	**14,832**	**8,784**
Non-current assets			
Property, plant and equipment	2,366	2,383	1,327
Deferred tax assets	4,773	3,717	-
Right-of-use asset	-	-	2,781
Trade and other receivables	141	2,414	-
Intangible assets	49,280	22,507	14,387
Total non-current assets	**56,560**	**31,021**	**18,495**
Total assets	**91,497**	**45,853**	**27,279**
Current liabilities			
Trade and other payables	(11,949)	(5,941)	(6,235)
Borrowings	(800)	(4,169)	(517)
Provisions & other current liabilities	(6,420)	(1,833)	(764)
Lease liability	-	-	(1,731)
Current tax liabilties	(169)	(186)	(186)
Deferred revenue	(22,001)	(21,394)	(6,219)
Total current liabilities	**(41,339)**	**(33,523)**	**(15,652)**
Non-current liabilities			
Trade and other payables	(851)	-	-
Borrowings	-	(466)	(2,691)
Provisions	(1,131)	(217)	(182)
Lease liability	-	-	(2,158)
Deferred revenue	-	-	(350)
Total non-current liabilities	**(1,982)**	**(683)**	**(5,381)**
Total liabilities	**(43,321)**	**(34,206)**	**(21,033)**
Net assets	**48,176**	**11,647**	**6,246**
Other information			
Net working capital balance[1]	(16,563)	(17,796)	(9,741)
Debt to equity ratio	0.02	0.40	1.14

Source: IncentiaPay
Note 1: Net working capital includes trade and other receivables, inventories, other current assets, trade and other payables, provisions and other liabilities and deferred revenue. Net working capital balances are negative as revenue is typically collected upfront.

In relation to the historical financial position of IncentiaPay set out above, we note the following:

- The significantly higher cash balance as at 30 June 2018 was largely attributable to the FY18 share issue with proceeds of $30.2 million. IncentiaPay has not generated cash from its continuing operations since FY17 and used approximately $13.5 million, on average, for its operations in FY19 and FY20.

- Trade and other receivables are recognised at fair value less any provision for loss allowance. IncentiaPay determines the loss allowance by analysing how balances change from one month to the next until they reach 90 days and by reviewing data over the last twelve months to determine the level of recovery of those receivables older than 90 days. IncentiaPay impairs the balance based on an assessment of the credit quality of the customers and their previous trading patterns. The significant trade and other receivables balance as at 30 June 2018 was attributable to the seasonal sale of publications between March and June under the previous business model.
- Other current assets relate to prepaid sales commissions paid for the sale of memberships and costs incurred for the development of the following year's membership package (i.e. print production prepayments). Consistent with the shift toward digital-only memberships, production costs and prepayments have decreased significantly.
- Deferred tax assets were derecognised in FY20 as it is uncertain if future taxable profits in the short term will be sufficient to utilise these losses.
- Right-of-use assets relate to leased property and are initially measured at cost equal to the lease liability and adjusted by any accrual lease payments and onerous lease provision. The right-of-use asset is depreciated over the shorter of the asset's life and the lease term on a straight-line basis. IncentiaPay has adjusted the right-of-use asset by $1.2 million in relation to an onerous lease provision ($0.6 million) and lease incentive loan ($0.6 million).
- Intangible assets as at 30 June 2020 largely relate to residual goodwill ($10.1 million after impairment) from previous acquisitions. Other components of intangible assets consist of brand names, international rights, technology and software assets acquired.
- Trade and other payables represent liabilities for goods and services received by IncentiaPay that remain unpaid at the end of the reporting period. These liabilities have payment terms of 60 days.
- Lease liabilities relate to the right-of-use asset, specifically the leased property.
- Deferred revenue relates to performance obligations to members which are not yet satisfied at the end of the reporting period. IncentiaPay receives upfront cash payments at the point of membership sales, for which revenue is recognised over time. The significant decrease in deferred revenue balance as at 30 June 2020 is predominantly due to the impact of the COVID-19 pandemic which resulted in the delay of planned launch events for new digital products.
- Borrowings as at 30 June 2020 consist of the interest-bearing loan of $0.5 million provided by Suzerain at an interest rate of 10% per annum repayable by 30 September 2020. Suzerain has also provided an additional $5.825 million convertible loan facility (which is now increased to $9.825 million) at an interest rate of 10% per annum, of which $2.7 million has been drawn down as at 30 June 2020. The convertible loan facility is currently unsecured with a view to obtaining shareholder approval for security over all of the assets of IncentiaPay.

Going concern risks

IncentiaPay's auditors have raised concerns regarding its ability to continue as a going concern (including in their FY20 audit report) as a result of:

- Uncertainties in meeting the cash flow projections, in particular its revenue performance
- Concerns in its ability to obtain further financing from Suzerain as required
- Historical losses incurred.

However, we consider IncentiaPay to be a going concern because Suzerain is the major shareholder of IncentiaPay and has an interest in keeping IncentiaPay solvent. In addition, a new and experienced management team was recently appointed and have implemented a number of cost-savings initiatives and will be introducing new digital products aimed at making IncentiaPay profitable from FY22.

4.8 Capital Structure and Shareholders

As at 30 September 2020, IncentiaPay had a total of 655,940,612 ordinary shares on issue. The following table sets out details of IncentiaPay's substantial shareholders as at that date:

Table 8: IncentiaPay's substantial shareholders

Shareholder	No. of shares held	% Total shares
Suzerain[1]	459,118,766	70.0%
Citicorp Nominees Pty Ltd[2]	38,855,503	5.9%
Other shareholders	157,966,343	24.1%
Total	**655,940,612**	**100.0%**

Source: IncentiaPay
Notes:
1. Includes holdings held by related entities, Australia Fintech Pty Ltd and Muirstone Capital Ltd.
2. None of the nominee shareholders hold an individual, substantial interest in IncentiaPay.

We note Suzerain is the controlling shareholder and Citicorp Nominees Pty Ltd is the only other shareholder with holdings over 5%.

As at 30 September 2020, IncentiaPay had drawn $3.2 million of the $9.825 million convertible loan facility provided by Suzerain (please refer to details in Section 1.2).

On 29 September 2020, IncentiaPay announced a share purchase plan which will be offered to all shareholders. Shareholders will have the opportunity to subscribe for up to $30,000 worth of ordinary shares in IncentiaPay, at a 20% discount to the five-day VWAP before 29 September 2020 which is equivalent to 2.6 cents. IncentiaPay aims to raise up to approximately $5.4 million from the share purchase plan where the funds will be used for the technological transformation associated with the Paywith partnership.

IncentiaPay will also be introducing a new loan funded share plan ("**LFS**") for the Chief Executive Officer and the Chief Operating Officer, an employee share scheme ("**ESS**") for senior executives and a gift plan ("**Gift Plan**") for eligible staff (together, the "**Incentive Schemes**"), subject to shareholder approval. IncentiaPay intends to issue 38.8 million ordinary shares under the LFS and up to $92,000 worth of ordinary shares under the Gift Plan once the Incentive Schemes are approved by the shareholders and the offers accepted by the participants. Key terms of the respective Incentive Schemes are summarised in the following table:

Table 9: Summary of key terms of the Incentive Schemes

Key terms of the LFS	
Maximum number proposed to be issued	38.8 million fully paid ordinary shares
Issue price	Five-day VWAP immediately before the relevant issue date. The issue price will be funded by a non-recourse loan from IncentiaPay
Vesting conditions	Upon shareholder approval, the shares will be issued in full but held in voluntary escrow. The shares will be granted to the executives in five tranches when vesting conditions are met. The first tranche will vest on the issue of the shares while subsequent tranches vest subject to the continued employment of the executives up to the relevant date on which the vesting conditions are tested. Performance targets may include: ♦ IncentiaPay meeting or exceeding the FY21 budget ♦ a share price target after the release of the FY22 and FY23 annual reports ♦ an alternative share price target for the full duration of FY22 and FY23, subject to continued employment until 30 June 2023. The final tranche will vest periodically, at the discretion of the board, whenever another tranche vests and whenever a portion of the convertible note facility between IncentiaPay and Suzerain is converted into shares such that the final tranche offsets potential dilution from the conversion. The escrow period expires on the later of the date of the final tranche vesting or 31 October 2023. Under a change of control event (unrelated to Suzerain), any unvested loan funded shares that have not ceased to be eligible will automatically vest.
Key terms of the ESS	
Maximum number proposed to be issued	7.5 million performance rights, with each performance right entitling the employee to receive one ordinary share
Issue price	Issued for no consideration but will be attached an issue price of the five-day VWAP immediately before the relevant issue date
Vesting conditions	The ESS performance rights will be granted in four tranches. Vesting of each tranche is subject to the continued employment of the executives up to the relevant date on which the vesting conditions are tested. Performance targets, the final tranche and change of control event (unrelated to Suzerain) operate on similar terms as the LFS described above.
Key terms of the Gift Plan	
Eligibility	All full-time employees who have not already been invited to participate in the LFS or ESS and do not hold more than 10% shareholding interest in IncentiaPay after accepting the invitation. Each invitation will offer an employee to receive a maximum of $1,000 worth of shares at the five-day VWAP immediately before the relevant issue date
Maximum number proposed to be issued	$100,000 worth of ordinary shares
Issue price	Issued for no consideration but will be attached an issue price of the five-day VWAP immediately before the relevant issue date
Vesting conditions	Nil

Source: IncentiaPay

4.9 Share Trading

The following chart shows the share market trading of IncentiaPay shares for the past two years:

Figure 8: Share price performance of IncentiaPay shares

Source: S&P Capital IQ
Note: Actual volume traded on the following dates were:
1. 3 August 2020 - 59,592,680 shares
2. 13 February 2019 – 24,746,660 shares
3. 12 February 2019 – 22,046,770 shares
4. 8 February 2019 – 20,416,430 shares
5. 7 December 2018 – 56,172,920 shares

In relation to the trading of IncentiaPay shares over the last two years, we note the following:

- IncentiaPay shares have traded infrequently over the period with an average daily volume of approximately 1.0 million shares. There were also a number of periods of several days in which there were no trades and the daily market trading of IncentiaPay shares is often under $50,000.
- There was a significant decrease in share price from 7.8 cents on 6 December 2018 to 2.6 cents on 7 December 2018 due to the announcement of the following key matters:
  - Proposed restructure with the sale of the Bartercard and Gruden businesses
  - Restructure of the senior management team with the imminent departure of Mr Iain Dunstan (the former managing director of IncentiaPay)
  - Profit guidance with IncentiaPay no longer expecting to deliver an underlying EBITDA for FY19 of between $3 million and $5 million as a result of the ongoing restructure
  - Uncertainties in funding as IncentiaPay is unlikely able to draw on its debt facilities for the remaining FY19 due to restrictive debt covenant arrangements in place.
- There was also a spike in volume and fluctuation in share price over the period 7 February 2019 to 13 February 2019. The share price increased from 5.5 cents to 8.5 cents on 8 February 2019 before decreasing to 7.4 cents on 12 February 2019 and a subsequent increase to 8.1 cents the following day. We note the increase in trading activities and fluctuations in share price is believed to be attributable to uncertainties associated with the possible change of control following the restructure announcement made in December 2018. IncentiaPay sought to clarify the movements in share price via an ASX announcement on 11 February 2019 and confirmed that IncentiaPay received expressions of interest (including non-binding proposals) to recapitalise and the parties had commenced due diligence on IncentiaPay.
- In addition, over the same period 7 February 2019 to 13 February 2019, there were a number of on-market sale of shares made by substantial shareholders (CVC Limited, LHC Capital Partners Pty Ltd and Sinetech Ltd), coupled with on-market purchase of shares by entities associated with Mr Iain Dunstan. Due to the relative illiquidity of the IncentiaPay shares, transactions of such values can significantly influence the share price in a short period of time.

- The significant increase in volume and share price from 2.6 cents to 4.3 cents on 3 August 2020 followed the same-day announcement of a partnership with Paywith.
- The recent spike in volume and fall in share price from 4.4 cents to 3.8 cents between 27 August 2020 and 28 August 2020 was likely to be attributable to the preliminary announcement of IncentiaPay's unaudited full year results for FY20.

5 VALUATION METHODOLOGY

5.1 Available Valuation Methodologies

To estimate the fair market value of IncentiaPay, we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method
- The capitalisation of future maintainable earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

5.2 Selected Methodology

In selecting an appropriate valuation methodology for IncentiaPay (both before and after the Proposed Transaction), we have considered the following:

Table 10: Consideration of methodologies

Method	Considerations	Approach
Discounted cash flow	♦ IncentiaPay has a variable revenue and cost profile due to significant changes in the business model with proposed initiatives to be implemented in phases over the period to FY25 which is best evaluated with a discounted cash flow method. ♦ We have been provided with financial projections to FY26 prepared by IncentiaPay management. We have used the projections as a basis for our own cash flow model.	Selected
Capitalisation of earnings	♦ There are a limited number of transactions (market trading and M&A) involving companies with comparable businesses to IncentiaPay. ♦ IncentiaPay has experienced operating losses historically with a volatile earnings profile expected in the near-to-mid-term due to significant changes in the business model. Therefore, the capitalisation of earnings method is not appropriate.	Not considered
Asset based methods	♦ IncentiaPay is neither an asset-based business nor an investment holding company. Asset based methods are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets. ♦ Although IncentiaPay has a history of operating losses and significant debt, we consider it to be a going concern as ongoing funding for the business is provided by Suzerain. Therefore, an asset method is not appropriate.	Not considered

Method	Considerations	Approach
Share trading	♦ Share market trading in IncentiaPay shares has been moderately liquid, with periods where no shares have been traded. Therefore, an analysis of share market trading is not as reliable as the discounted cash flow method as a primary valuation methodology in assessing the intrinsic value of an IncentiaPay share. ♦ As a broad cross-check to the discounted cash flow valuation: ❖ Before the Proposed Transaction – we have analysed share market trading in IncentiaPay shares before announcement of the Proposed Transaction and the control premium implied by our assessed value per share. ❖ After the Proposed Transaction – we have compared our analysis of share market trading in IncentiaPay shares since the announcement of the Proposed Transaction with our assessed value per share on a minority basis, adjusted for expected impacts associated with the Proposed Transaction.	Cross-check

6 VALUATION OF INCENTIAPAY BEFORE THE PROPOSED TRANSACTION

6.1 Background

We have assessed the fair market value of IncentiaPay using the discounted cash flow method, with a cross-check based on an analysis of recent share market trading in IncentiaPay shares. This assessment has been made on a control basis as required by RG111.

6.2 Discounted Cash Flow Method

In order to determine the value of an IncentiaPay share using the discounted cash flow method, we have:

- Prepared cash flow projections for IncentiaPay to FY26.
- Determined an appropriate discount rate.
- Assessed the long-term growth rate beyond the forecast period.
- Calculated the enterprise value based on the preceding assumptions.
- Assessed the value of any non-operating assets and liabilities.
- The number of shares expected to be on issue before the Proposed Transaction, inclusive of the issue of shares under the share purchase plan and the Incentive Schemes.
- Calculated the value of an IncentiaPay share (equity value) based on the preceding analysis.

6.3 Cash Flow Projections

We have used the projections prepared by IncentiaPay management as the basis for our own cash flow model. We have undertaken a detailed analysis of the forecasts and have discussed the key assumptions behind the forecast with IncentiaPay's management. We have considered supporting information to determine the reasonableness of the cash flow projections and considered the residual risks associated with achieving the forecast. Based on these discussions and analysis, we consider the assumptions to be reasonable for the purposes of our analysis.

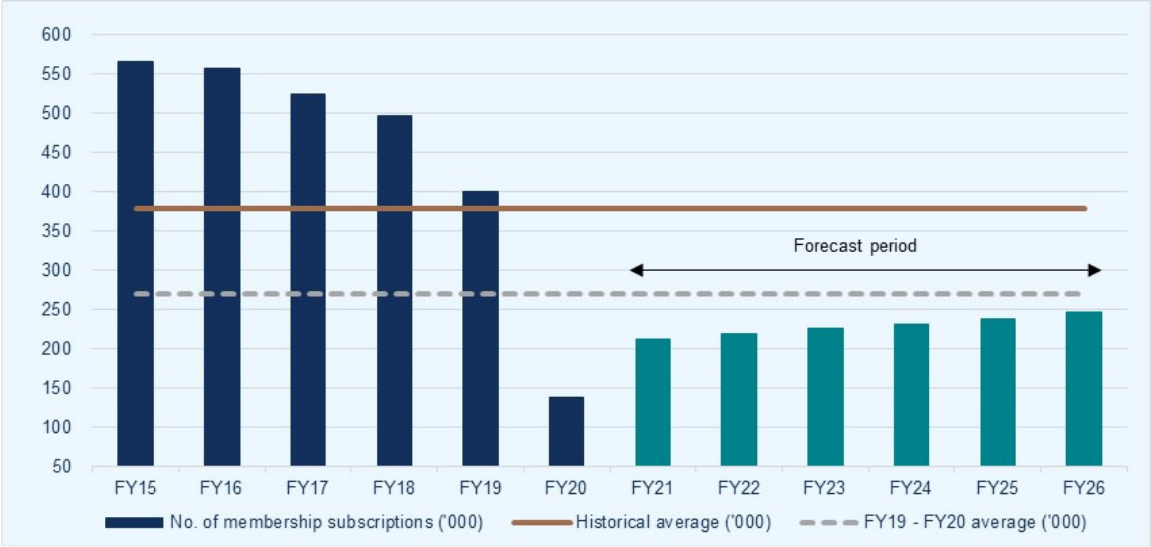
The detailed projections are not included in this report due to commercial sensitivity. However, the key assumptions underpinning the projections and the information considered in assessing the reasonableness of these assumptions are discussed below.

Entertainment membership subscriptions

Entertainment membership subscriptions forms the largest component of IncentiaPay's total revenue. Since inception, the number of membership subscriptions has averaged approximately 380,000 per annum, with a peak of approximately 570,000 in FY13. Membership subscriptions have since decreased steadily with the growth in popularity of digital payment technologies and online platforms with similar product offerings to IncentiaPay. This declining trend accelerated IncentiaPay's decision to replace publications with digital and application-based membership subscriptions in FY19.

As a result of COVID-19's impact which led to disruptions in the travel, leisure and entertainment industries, membership subscriptions decreased significantly in FY20 (from 400,000 in FY19 to 140,000 in FY20). From FY21, IncentiaPay management expects membership subscriptions to recover in line with the average membership subscriptions between FY19 and FY20 of approximately 270,000 and has assumed gross revenue of $80 per membership to remain unchanged. Although the forecast membership subscriptions are significantly lower than the historical average, we do not consider the assumption to be unreasonable in consideration of the uncertainties associated with COVID-19 on the business. Any alternative reasonable assessment of the forecast membership subscriptions would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction. These figures are summarised in the following chart:

Figure 9: Actual and forecast entertainment membership subscriptions (in units)



Source: IncentiaPay

Enterprise clients

Enterprise clients is the second largest revenue stream of IncentiaPay and includes corporate clients such as Zurich, Red Energy, HSBC and Budget Direct. These clients provide dining and leisure benefits to their customers via IncentiaPay's product offering. As a result of COVID-19, revenue from enterprise clients is expected to decrease from $4.0 million in FY20 to approximately $3.6 million in FY21.

With its strong focus over recent periods on servicing corporate clients through a program of active communication and new offers attracting interest from other corporates, IncentiaPay management has assumed a stronger recovery from enterprise sales (with an annual growth of 5%) compared to other revenue streams. It is expected to generate approximately $4.6 million by FY26.

Technological transformation net revenue

As part of its partnership with Paywith, IncentiaPay is undergoing a technological transformation which will see a new business model being rolled out. The new business model is expected to start generating revenue in FY23 at a margin of 8% from the following sources:

- **Entertainment Rewards**: Leveraging on its existing entertainment membership subscriptions base and enterprise clientele, IncentiaPay is planning to introduce a prepaid digital payment card, Entertainment Rewards, for use on its payment solutions platform. Additional benefits not included in the memberships, such as special discounts and offers for special events, will be offered to holders of the Entertainment Rewards card. Developed in conjunction with inputs from Paywith, IncentiaPay management has assumed a take-up rate of 40% of its membership base in FY23 and a fee of $5.50 per load (i.e. card recharge) per average load value of $50 before increasing to $6 per load by FY25. A 2% break fee of the load value (evenly split between IncentiaPay and Paywith) will also be charged.
- **Premium merchant account**: IncentiaPay will be introducing a new data analytics product offering aimed at increasing the sales of its merchant base through targeted offerings. Based on inputs from Paywith which has a similar product offering, a monthly subscription fee of $49 will be charged under this initiative. IncentiaPay management has assumed an initial take-up rate of 30% before increasing to 50% by FY25.

The margin of 8% has been determined by IncentiaPay management's analysis of revenue and costs including profit share with Paywith.

Other revenue components

Other revenue components mainly include advertising, commissions from gift card sales and travel bookings. A portion of other revenue in FY21 includes payments from the JobKeeper scheme calculated based on the number of employees over the period ending 28 March 2021. Excluding payments from the JobKeeper scheme, revenue from these components constitute approximately 10% of total revenue on average across the forecast period.

Revenues from advertising and travel bookings are expected to be significantly impacted by COVID-19 in the remaining calendar year 2020 while commissions generated from gift card sales are largely unaffected. As these revenue streams are not the key business focus of IncentiaPay, IncentiaPay management has assumed nominal revenue growth in line with inflation.

Employee costs

Employee costs is the largest cost component of IncentiaPay. Employee costs are projected to decrease significantly in FY21 and further in FY22 as a result of reduced headcount from the organisational restructure and IncentiaPay's drive for higher productivity. Subsequent to FY22, wages are assumed to increase by 3% which is marginally higher than the projected inflation rate of 2.5%.

Other operating expenses

Other components of operating expenses mainly include production costs, fundraiser commissions, marketing costs (including incentives) and information technology expenses. Production costs relate to the external costs of providing the digital platform for membership subscriptions as well as costs associated with servicing the enterprise clientele. With the Paywith partnership, production costs associated with membership subscriptions are expected to reduce significantly as IncentiaPay has obtained a multiyear licence to use Paywith's technology platforms. Production costs incurred in servicing the enterprise clientele are assumed to increase in line with enterprise sales. Fundraiser commissions are also expected to increase in line with membership subscriptions. Other operating expenses are assumed to increase in line with the inflation rate of 2.5%.

Capital expenditure

As information technology costs (including maintenance related costs) are incurred as expenses, ongoing capital expenditure is not expected to be significant. However, IncentiaPay will be incurring a capital outlay of $1.8 million in FY21 which predominantly relates to investments in its information technology systems as part of the technological transformation associated with the Paywith partnership.

Taxation

We have applied the Australian corporate tax rate of 30%. Tax losses are assessed separately as a surplus asset.

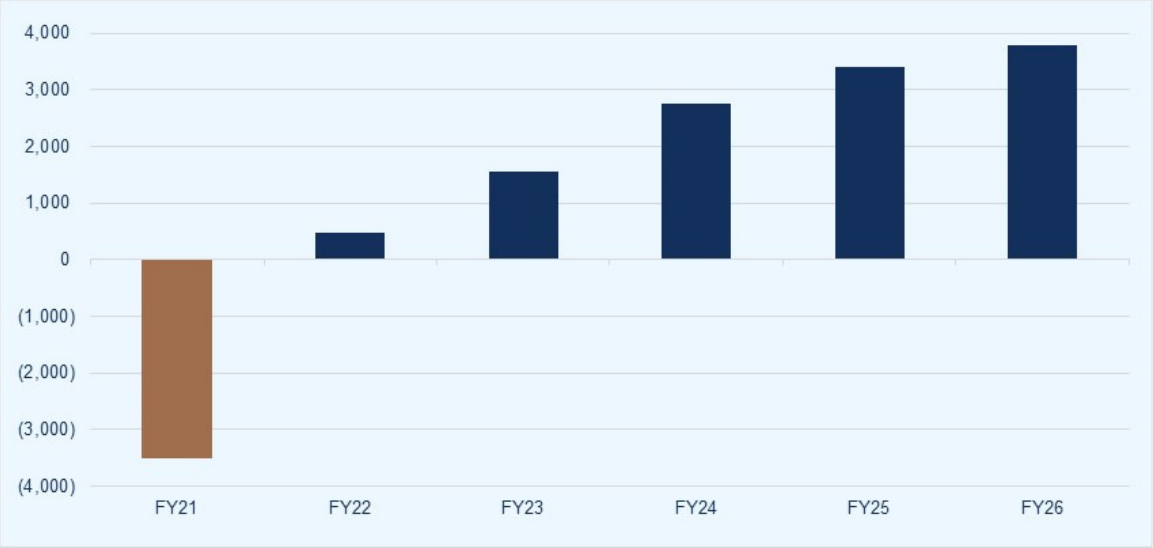
Working capital

We have assumed a constant level of working capital days, based on historical working capital levels of the business. Movements in working capital are projected to be small due to this and the small level of growth projected for revenues and operating expenses.

Projected free cash flows

The projected free cash flows resulting from the assumptions described above are summarised in the chart below:

Figure 10: Forecast free cash flows



Source: Leadenhall analysis

In summary, we note:

- The significant, negative free cash flow in FY21 is attributed to the combination of a slow recovery from the impacts of COVID-19 and capital outlay of $1.8 million.
- The marginal, positive free cash flow in FY22 is mainly attributed to cost savings from a significant decrease in employee costs, partially offset by payments from the JobKeeper scheme ceasing at the end of March 2021.
- The gradual increase in free cash flows from FY23 is predominantly contributed by net revenue from the new business model being rolled out.

Reasonableness of assumptions

While we have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information, we have undertaken a detailed review of the forecasts prepared by IncentiaPay management and have discussed the key assumptions with them. Based on this analysis, we consider these assumptions to be reasonable for the purpose of our analysis.

Any alternative reasonable set of forecast assumptions would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

6.4 Discount Rate

We have applied a discount rate of between 13.0% and 15.0% (nominal, post-tax, weighted average cost of capital ("**WACC**")) to the projected cash flows. We calculated the discount rate using the capital asset pricing model ("**CAPM**") based on the assumptions set out in Appendix 3.

6.5 Terminal Growth

The terminal value represents the value of the cash flows beyond the forecast period. Terminal values are commonly calculated based on the discount rate and the expected long-term growth rate of future cash flows. We have used a terminal growth rate of 3.0% being the high end of the long-term Reserve Bank of Australia inflation target, which we consider is a reasonable estimate of long-term growth in cash flows for IncentiaPay. Any alternative reasonable assessment of the terminal growth rate would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

6.6 Non-operating Assets and Liabilities

In order to assess the equity value of IncentiaPay, it is necessary to identify any non-operating assets and liabilities not used in generating the enterprise value. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity.
- **Surplus cash**: comprising of surplus cash held by the company, less debt used to fund a business.

Each of these factors are considered below.

Surplus assets

As at 30 September 2020, IncentiaPay had carried forward tax losses of approximately $40.3 million. By extending the cash flow projections based on the terminal growth rate, we note the tax losses will be fully utilised in approximately 23 years. Accordingly, we have assessed the present value of the tax credits at the discount rate of between 13.0% and 15.0% applied to IncentiaPay. Any alternative reasonable assessment of the applied discount rate does not impact our conclusion. Accordingly, the present value of the tax losses is between approximately $3.6 million and $4.7 million.

As at 30 September 2020, IncentiaPay had franking credits available for distribution of approximately $6.5 million. However, we have not attributed any value to franking credits because:

- They are not typically separately reflected in the fair market value of a business of IncentiaPay's nature.
- Franking credits need to be attached to dividends. As there is no expectation IncentiaPay will be able to distribute franking credits to a greater degree than similar companies in the industry, any value to a normal level is already reflected by our valuation approach.

Non-operating liabilities

We have identified the following non-operating liabilities of IncentiaPay:

Table 11: Non-operating liabilities of IncentiaPay

Description ($'000)	Low	High
Restructure costs	(632)	(632)
Tax backlog	(2,300)	(2,300)
Other non-operating items	(499)	(499)
Total non-operating liabilities	**(3,431)**	**(3,431)**

Source: Leadenhall analysis

A brief summary of each of the identified non-operating liabilities is provided below:

- **Restructure costs**: Costs associated with make-good and back rent for the discontinued office leases due to the recently completed restructure.
- **Tax backlog**: Cash payments in relation to unpaid, historical tax expenses that include payroll tax, goods and services tax and withholding income tax.
- **Other non-operating items**: Other non-operating items include an agreed termination payment of $0.2 million in relation to the previous chief executive officer, as well as fundraiser commissions from prior years.

Surplus cash

The surplus cash position for IncentiaPay as at 30 September 2020 is set out in the table below:

Table 12: Surplus cash summary

Description ($'000)	
Cash	4,980
Cash proceeds from the share purchase plan	5,400
Borrowings[1]	(4,011)
Surplus cash	**6,369**

Source: Leadenhall analysis
Note 1: We have assumed book value is representative of fair market value for all borrowings including the convertible note.

We have included the expected cash proceeds of $5.4 million from the share purchase plan (and the shares issued correspondingly). Although the share purchase plan is not underwritten, any alternative reasonable assessment of the share issue would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

6.7 Shares on Issue Before the Proposed Transaction

In our consideration of the number of shares before the Proposed Transaction, we have included:

- 655.9 million ordinary shares currently on issue
- 207.7 million ordinary shares to be issued as part of the share purchase plan, calculated based on the expected cash proceeds of $5.4 million using the issue price of $0.026
- 49.2 million ordinary shares to be issued as part of the Incentive Schemes.

The number of shares outstanding before the Proposed Transaction is set out in the table below:

Table 13: Shares outstanding before the Proposed Transaction

Description ('000)	
IncentiaPay shares currently on issue	655,941
Shares to be issued as part of the share purchase plan	207,692
Shares to be issued as part of the Incentive Schemes[1]	49,166
Total shares	**912,799**

Source: IncentiaPay
Note 1: Calculated as the sum of the shares to be issued under the Incentive Schemes as set out in Section 4.8, breakdown as follows:
i. Under the LFS – 38.8 million ordinary shares which will be issued upon shareholder approval but held in escrow.
ii. Under the ESS – 7.5 million ordinary shares which we have assumed the performance hurdles are met. Any alternative reasonable assessment of the probability in meeting the performance hurdles would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.
iii. Under the Gift Plan – 2.9 million ordinary shares based on an expected issue of $92,000 at the current 5-day VWAP of $0.032.

6.8 Assessed Value Before the Proposed Transaction

Summary

The preceding analysis leads to an assessed value of an IncentiaPay share before the Proposed Transaction, on a control basis, of between 2.9 cents and 3.6 cents as set out in the following table:

Table 14: Assessed value of an IncentiaPay share before the Proposed Transaction

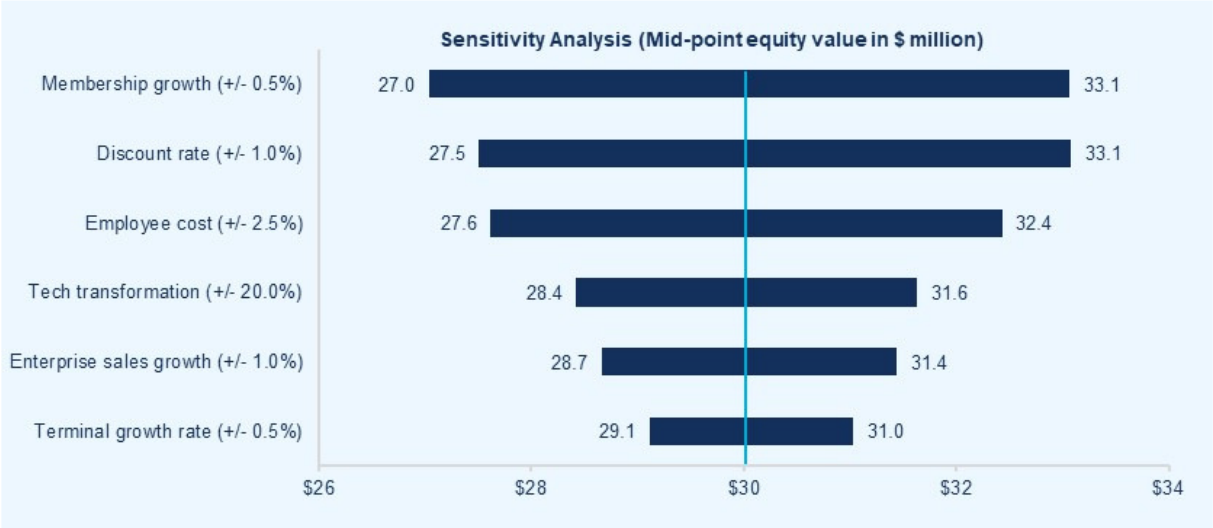
Equity value (control basis) ($'000)		
	Low	High
Enterprise value	**20,230**	**25,663**
Surplus assets	3,580	4,701
Non-operating liabilities	(3,431)	(3,431)
Surplus cash	6,369	6,369
Equity value	**26,747**	**33,301**
Ordinary shares on issue ('000)	912,799	912,799
Assessed value per ordinary share on a control basis ($)	**0.029**	**0.036**

Source: Leadenhall analysis

Sensitivity analysis

This valuation is sensitive to a number of key assumptions as set out in the following figure:

Figure 11: Sensitivity analysis



Source: Leadenhall analysis

6.9 Analysis of Share Trading Cross-Check

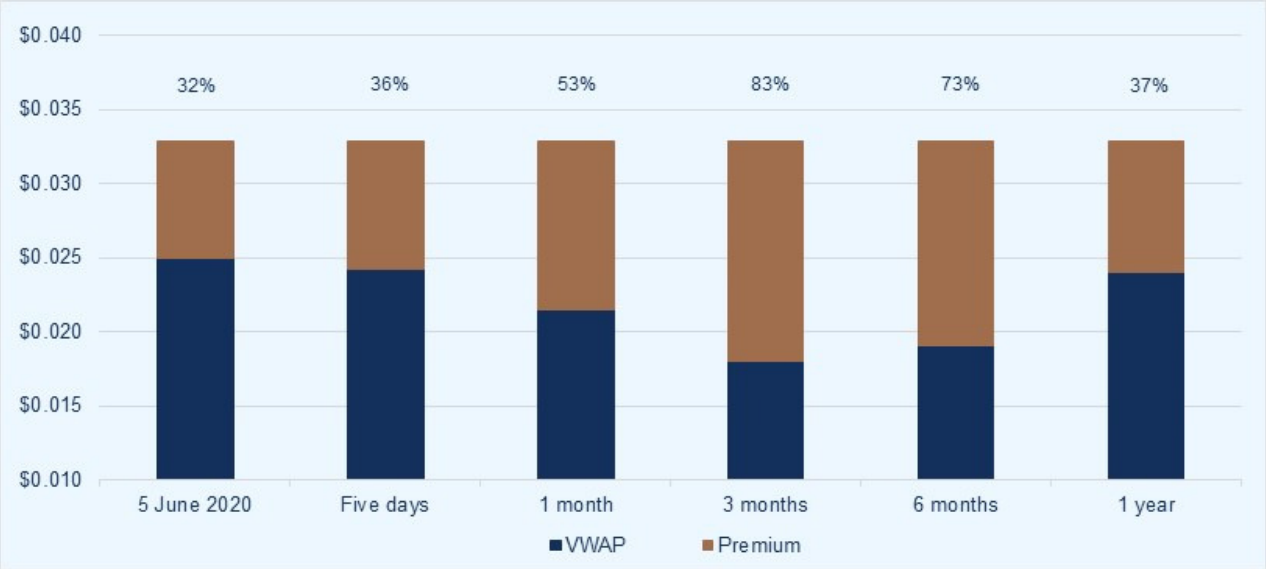
Market trading in IncentiaPay shares prior to the announcement of the Proposed Transaction on 5 June 2020 provides an indication of the market's assessment of the value of IncentiaPay on a minority basis. We have presented an analysis of recent trading in IncentiaPay shares in Section 4.9 above. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- IncentiaPay shares are closely held. Therefore, daily values traded over the past two years are approximately $56,000 on average, with the average declining to approximately $24,000 over the recent year. This level is below the level at which many institutional investors may wish to trade and may be seen as a deterrent for other significant investors.

- IncentiaPay is a listed company with continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably informed about its activities. However, there is uncertainty regarding its ability to continue as a going concern. Investing in IncentiaPay may therefore be perceived as speculative.

As a result of these factors, we consider the market trading to be reasonably well-informed but only moderately liquid. We have therefore undertaken only a high level analysis of share market trading by assessing the level of control premium implied by our mid-point valuation range compared to the VWAP of an IncentiaPay share over the year leading up to the announcement of the Proposed Transaction (which we note is near the date of our valuation analysis), as set out in the figure below.

Figure 12: Implied control premium to market trading prices



Source: S&P Capital IQ and Leadenhall analysis

The generally observed range for control premiums is between 20% and 40%. In addition, the average takeover premium observed for transactions in the information technology sector in Australia between 2007 and 2017 ranged from 1% to 100%. Further information on observed control premiums and takeover premiums is included in Appendix 5.

The control premium implied by our assessed value of an IncentiaPay share is within the generally observed range as well as transaction premiums observed in the information technology sector. This provides support for our primary discounted cash flow value of IncentiaPay before the Proposed Transaction.

6.10 Conclusion on Value Before the Proposed Transaction

Based on our discounted cash flow analysis and share trading cross-check, we have selected a valuation range for a share in IncentiaPay of between 2.9 cents and 3.6 cents, on a control basis as at the valuation date of 5 November 2020.

7 VALUATION OF INCENTIAPAY AFTER THE PROPOSED TRANSACTION

7.1 Introduction

If the Proposed Transaction is approved, the Non-Associated Shareholders will continue to own a share in IncentiaPay. However, RG111.25 requires an independent expert to evaluate an issue of securities under s611 as if it was a takeover offer.

Accordingly, the value of an IncentiaPay share after the Proposed Transaction has been assessed on a minority interest basis (i.e. excluding a control premium) as the Non-Associated Shareholders will own a minority stake in IncentiaPay should the Proposed Transaction proceed.

7.2 Assessed Value After the Proposed Transaction

In order to assess the value of an IncentiaPay share after the Proposed Transaction, we have assessed:

- The enterprise value of IncentiaPay before the Proposed Transaction on a control basis (Section 6).
- Adjustments for non-operating assets and liabilities in relation to the expected impacts associated with the Proposed Transaction.
- A discount for lack of control as the Non-Associated Shareholders would own a minority stake in IncentiaPay should the Proposed Transaction proceed.
- The number of shares expected to be on issue after the Proposed Transaction, assuming full conversion of the convertible note facility.

The value of an IncentiaPay share after the Proposed Transaction is as follows:

Table 15: Assessed value of an IncentiaPay share after the Proposed Transaction

Equity value (minority basis) ($'000)		
	Low	**High**
Calculated enterprise value on a control basis	**20,230**	**25,663**
Surplus assets	3,580	4,701
Non-operating liabilities	(3,431)	(3,431)
Surplus cash	16,197	16,197
Assessed equity value on a control basis	**36,576**	**43,129**
Discount for lack of control (25%)	(9,144)	(10,782)
Equity value on a liquid minority basis	**27,432**	**32,347**
Ordinary shares on issue ('000)	1,129,805	1,129,805
Assessed value per ordinary share on a minority basis ($)	**0.024**	**0.029**

Source: Leadenhall analysis

Enterprise value of IncentiaPay on a control basis

As discussed in Section 6, we have assessed the enterprise value of IncentiaPay before the Proposed Transaction on a control basis to be between $20.2 million and $25.7 million.

Surplus cash after the Proposed Transaction

From discussions with Suzerain, we understand it is intending to convert its debt into ordinary shares shortly after the Proposed Transaction. If the convertible note facility is fully drawn down prior to conversion, Suzerain's shareholding in IncentiaPay would potentially increase from 70% to beyond 75% (assuming all else remains constant, the conversion price falls below 3.1 cents and Suzerain participates in the share purchase plan in proportion to its current shareholding), giving it the ability to pass special resolutions. Accordingly, we have assumed a full conversion of the convertible note drawn down to its facility limit of $9.825 million which is equivalent to an additional draw down of $6.625 million from the balance as at 30 September 2020.

The surplus cash position for IncentiaPay as at 30 September 2020 under the Proposed Transaction is set out in the table below:

Table 16: Surplus cash summary

Description ($'000)	
Cash	4,980
Cash proceeds from the share purchase plan	5,400
Cash proceeds from additional note draw down	6,625
Borrowings[1]	(808)
Surplus cash	**16,197**

Source: Leadenhall analysis
Note 1: We have assumed book value is representative of fair market value for all borrowings. Borrowings after the Proposed Transaction include the interest-bearing loan provided by Suzerain of $0.5 million and transformational capital facility plus line fees of $0.3 million.

Discount for lack of control

As Non-Associated Shareholders would retain their IncentiaPay shares if the Proposed Transaction proceeds, they would continue to own a minority stake in IncentiaPay. Consistent with the requirements of RG 111, the value of the consideration must be determined on a minority interest basis. In order to estimate the value of a minority interest it is necessary to apply a DLOC to the value of a 100% equity interest in the business. This discount takes into account the lack of control that a minority shareholder has over the affairs of a company and is described in more detail in Appendix 5.

A DLOC is effectively the inverse of a control premium. Australian studies have indicated that control premiums generally range from 20% to 40%. This implies a range for DLOC of approximately 17% to 29%. In selecting a suitable DLOC, we have considered:

Table 17: Factors affecting DLOC

DLOC considerations	
Factors indicative of lower DLOC	**Factors indicative of higher DLOC**
♦ The Board currently comprises an independent Chairman and three non-executive directors, two of whom are associated with Suzerain. The existence of independent directors would tend to reduce the level of DLOC.	♦ The Proposed Transaction would potentially increase Suzerain's shareholding in IncentiaPay from 70% to beyond 75% if the convertible note facility is fully drawn down prior to conversion (assuming all else remains constant, the conversion price falls below 3.1 cents and Suzerain participates in the share purchase plan in proportion to its current shareholding). Thus, Suzerain's degree of control at a shareholder level is significant and would be able to pass special resolutions on its own. This would imply a higher DLOC. ♦ IncentiaPay shares are closely held by Suzerain and apart from Citicorp Nominees Pty Ltd (who hold approximately 6% of the shares in IncentiaPay prior to the Proposed Transaction), shares are dispersed over a large number of holders. A wider dispersion of other holdings increases the DLOC. ♦ IncentiaPay does not pay dividends. A low dividend pay-out typically produces a higher DLOC.

Source: Leadenhall analysis

As a result of these considerations, we have selected a DLOC of 25%. The assumed DLOC does not impact our conclusion on the Proposed Transaction.

Shares on issue after the Proposed Transaction

In our consideration of the number of shares after the Proposed Transaction, we have included:

- 912.8 million ordinary shares on issue before the Proposed Transaction as set out in Section 6.7
- 217.0 million ordinary shares to be issued assuming full conversion of the convertible note facility limit of $9.825 million, at the conversion price of $0.0453 (based on the current 30-day VWAP plus 20%).

The number of shares outstanding after the Proposed Transaction is set out in the table below:

Table 18: Shares outstanding after the Proposed Transaction

Description ('000)	
Shares outstanding before the Proposed Transaction	912,799
Shares to be issued upon full conversion of loan	217,005
Total shares	**1,129,805**

Source: IncentiaPay

7.3 Analysis of Share Trading Cross-Check

Market trading in IncentiaPay shares since the announcement of the Proposed Transaction may provide an indication of the market's assessment of the value of IncentiaPay after the Proposed Transaction (on a minority basis). When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- Average daily values traded have increased to approximately $77,000 since announcement of the Proposed Transaction.
- IncentiaPay has released its annual report on 18 September 2020 with an emphasis of matter raised by KPMG regarding its ability to continue as a going concern. Investing in IncentiaPay therefore continues to remain being perceived as speculative.
- On 29 September 2020, IncentiaPay provided the market with further updates on the Proposed Transaction, announcing the conversion price which is the greater of $0.0275 per share or the 30-day VWAP prior to conversion plus an additional 20%.

As a result of these factors, we consider the market trading to be reasonably well-informed but only moderately liquid. After the announcement of the Proposed Transaction, IncentiaPay shares have traded in the range of 2.5 cents and 4.4 cents with a VWAP of 3.8 cents. This is broadly consistent with our assessed valuation.

7.4 Conclusion on Value After the Proposed Transaction

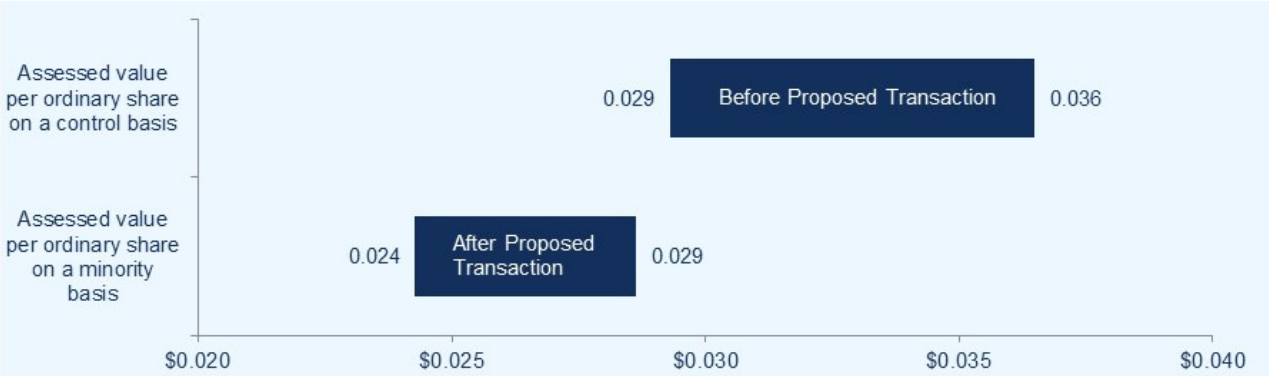
Based on our discounted cash flow analysis and share trading cross-check, we have selected a valuation range for a share in IncentiaPay after the Proposed Transaction of between 2.4 cents and 2.9 cents, on a minority basis as at the valuation date of 5 November 2020.

8 EVALUATION

8.1 Fairness

We have assessed the Proposed Transaction as fair if the fair market value of an IncentiaPay share before the Proposed Transaction on a control basis is less than or equal to the fair market value of an IncentiaPay share after the Proposed Transaction on a minority basis. This comparison is shown in the following figure:

Figure 13: Assessment of fairness



Source: IncentiaPay and Leadenhall analysis
Note: Comparison is made on a fully diluted basis.

As the value of an IncentiaPay share after the Proposed Transaction (on a minority basis) is less than the assessed value of an IncentiaPay share before the Proposed Transaction (on a control basis), we have assessed the Proposed Transaction as being not fair.

8.2 Reasonableness

In accordance with ASIC guidelines, we have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to Non-Associated Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Non-Associated Shareholders.

Advantages

Lower interest rates

If the Proposed Transaction is not approved, the per annum interest rate for the convertible note and the transformational capital facility will increase from 10% to 14% and from 12.5% to 14% respectively as compensation for the absence of collateral. Therefore, the lower interest rates under the Proposed Transaction are an advantage to Non-Associated Shareholders. As shareholders already rank behind unsecured creditors, the granting of security has no incremental cost to Non-Associated Shareholders.

Conversion price above 30-day VWAP

As the loan is convertible at the greater of $0.0275 per share or the 30-day VWAP prior to conversion plus an additional 20%, the conversion price is always greater than the market price for IncentiaPay shares and is also currently higher than our assessed, mid-point value for a minority shareholder. Thus, conversion is value accretive to Non-Associated Shareholders, notwithstanding they will not receive a full control premium.

Limited alternatives available

IncentiaPay management has explored alternative sources of capital to fund its restructure plan, working capital and business operations' needs. However, other shareholders and potential lenders have not offered the same level of financial support as Suzerain. As at the date of this report, no alternative long-term financing proposals existed.

Impact on share price

Since the Proposed Transaction was announced, market trading in IncentiaPay shares increased significantly. IncentiaPay shares have since traded in the range of 2.5 cents and 4.4 cents with a VWAP of 3.8 cents and at a one-year high of 4.4 cents on 27 August 2020. If the Proposed Transaction is not approved, we consider it likely the IncentiaPay share price would fall below current levels due to uncertainty associated with Suzerain remaining committed in continuing its support.

Disadvantages

Dilution of interests

Interests of Non-Associated Shareholders would be further diluted upon conversion of the convertible note. If the convertible note facility is fully drawn down prior to conversion (assuming all else remains constant), Suzerain would potentially increase its shareholding to beyond 75% and would be able to pass special resolutions on its own. Therefore, Suzerain would obtain a significant amount of control and may not always act in the best interests of minority shareholders, subject to compliance with relevant laws and regulations.

Given the current shareholding structure, this provides little difference to the practical level of control already enjoyed by Suzerain.

Conclusion on reasonableness

In considering the reasonableness of the Proposed Transaction, in particular:

- **in converting the Suzerain convertible note** – we consider the advantage of the conversion price being greater than the market price and our assessed, mid-point value for a minority shareholder to be more significant than the marginal increase in Suzerain's effective level of control.
- **as security for the Suzerain convertible note** – we consider the lower interest rate to be a significant advantage for Non-Associated Shareholders in the interim before Suzerain converts its debt into ordinary shares. As shareholders already rank behind creditors, the provision of security has little impact on their position.
- **as security for the transformational capital facility** – we consider the lower interest rate to be a significant advantage to shareholders. As noted above, the granting of security makes little difference to the shareholders' position.
- **in solidifying the commitment of Suzerain** – approval of the Proposed Transaction will likely solidify Suzerain's commitment to IncentiaPay which we consider is an important factor to the long-term viability of the business.

We have therefore assessed the Proposed Transaction as being reasonable.

8.3 Opinion

The Proposed Transaction is not fair but reasonable to Non-Associated Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own particular circumstances. If in doubt, the shareholder should consult an independent financial adviser.

APPENDIX 1: GLOSSARY

Term	Meaning
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
AUD	Australian Dollar
BPS	BPS Technology Ltd
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
Chapter 2E	Chapter 2E of the Corporations Act 2001
Corporations Act	The Corporations Act 2001
DLOC	Discount for lack of control
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ESS	An employee share scheme for senior executives
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FSG	Financial Services Guide
FY	Financial year
Gift Plan	A gift plan for eligible staff
IncentiaPay	IncentiaPay Limited
Incentive Schemes	The collective LFS, ESS and Gift Plan
IPO	Initial public offering
Item 7	Item 7 of Section 611 of the Corporations Act
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
LFS	A new loan funded share plan for the Chief Executive Officer and the Chief Operating Officer
Non-Associated Shareholders	IncentiaPay shareholders not associated with Suzerain
Paywith	Paywith Worldwide Inc.
Proposed Transaction	Collectively, the conversion of the Suzerain convertible note, granting of security for the Suzerain convertible note and granting of security for the transformational capital facility
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
s606	Section 606 of the Corporations Act 2001
s611	Section 611 of the Corporations Act 2001
Skybound	Skybound Fidelis Credit Fund
Suzerain	Suzerain Investments Holdings Limited
VWAP	Volume weighted average price
WACC	Weighted Average Cost of Capital

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: DISCOUNT RATE

The selected discount rate applied in our discounted cash flow analysis for IncentiaPay has been determined using the weighted average cost of capital. We have estimated the cost of equity component with the capital asset pricing model.

Post-tax cost of equity (K_e)

The CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk-free investments (such as government bonds). The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta \times (R_m - R_f) + \alpha$$

The components of the CAPM formula are:

Table 19: Components of CAPM

Input	Definition
K_e	The required post-tax return on equity
R_f	The risk-free rate of return
R_m	The expected return on the market portfolio
EMRP	The market risk premium ($R_m - R_f$)
β	The beta, the systematic risk of a stock (this is an equity or levered beta)
α	The specific company risk premium

Each of the components in the above equation is discussed below.

Risk-free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically over a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. We have selected a risk-free rate of 0.86%, being the yield on 10-year Australian Government bonds as at 30 September 2020.

Equity market risk premium (EMRP)

The EMRP ($R_m - R_f$) represents the additional return that investors expect from an investment in a well-diversified portfolio of assets (such as a market index). It is the excess return above the risk-free rate that investors demand for their increased exposure to risk, when investing in equity securities.

Leadenhall undertakes a review of the EMRP at least every six months, taking account of market trading levels and industry practice at the time. Our most recent analysis of the implied EMRP in Australia was as at August 2020. As a result, we are currently recommending an EMRP of 7.25% to 7.75% for Australia.

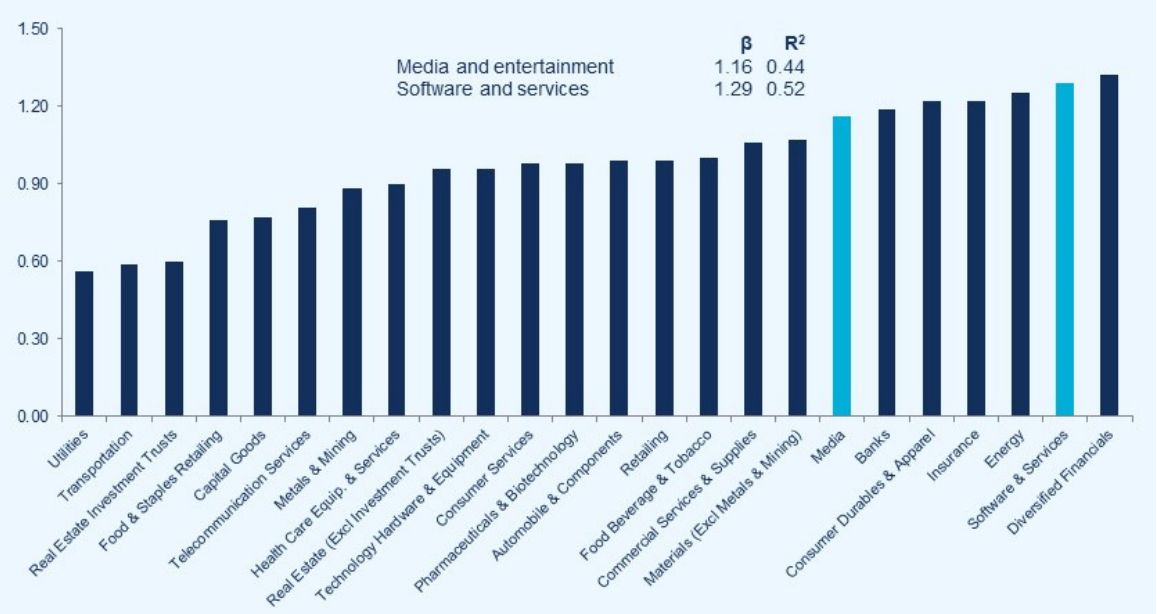
Beta estimate (β)

Description

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of assets. The only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or uninsurable risk.

Beta is a measure of the relative riskiness of an asset in comparison to the market as a whole – by definition the market portfolio has an equity beta of 1.0. The equity betas of various Australian industries listed on the Australian Stock Exchange are reproduced below. Given the significant unusual market movements driven by COVID-19 in early 2020, we have based our beta estimates on data up to December 2019.

Figure 14: Industry betas



Source: SIRCA as at 31 December 2019

Betas derived from share market observations represent equity betas, which reflect the degree of financial gearing of the company. In order to eliminate the impact of differing capital structures, analysts often 'unlever' observed betas to calculate an asset beta. The selected asset beta is then 'relevered' with a target level of debt. The asset betas of companies comparable to IncentiaPay are included in the following table.

Table 20: Comparable company betas

Company	Country	Market Cap (A$m)	Gearing D/EV	Asset Beta SIRCA	Asset Beta CIQ	Asset Beta LH	R^2 SIRCA	R^2 CIQ	R^2 LH
Australian Loyalty & Payment Solutions Providers									
EML Payments Limited	Australia	1,477	-26%	1.59	1.53	1.51	0.12	0.12	0.12
RooLife Group Ltd	Australia	12	-35%	2.36	1.20	0.99	0.01	0.02	0.01
Mobecom Limited	Australia	11	6%	(0.35)	(0.55)	(0.63)	0.13	0.01	0.01
Crowd Media Holdings Limited	Australia	5	23%	(0.29)	(0.06)	(0.43)	-	0.00	0.00
Invigor Group Limited	Australia	4	50%	(0.06)	0.22	0.31	-	0.00	0.00
REFFIND Ltd	Australia	3	-44%	(0.13)	0.44	0.03	-	0.00	0.00
Rewardle Holdings Limited	Australia	2	-6%	3.52	2.77	3.34	0.19	0.14	0.18
Average		**252**	**-4%**	**1.59**	**1.36**	**1.25**			
Median		**5**	**-6%**	**1.59**	**1.36**	**1.25**			
International Loyalty & Payment Solutions Providers									
Shopify Inc.	Canada	65,599	-8%	n/a	1.11	1.36	n/a	0.11	0.18
Pinduoduo Inc.	China	62,573	nmf	n/a	0.88	1.43	n/a	0.05	0.10
Expedia Group, Inc.	United States	22,302	7%	n/a	0.72	0.90	n/a	0.15	0.14
Rakuten, Inc.	Japan	16,600	-23%	n/a	0.87	0.98	n/a	0.15	0.20
Alliance Data Systems Corporation	United States	7,355	67%	n/a	0.76	0.82	n/a	0.42	0.44
Yelp Inc.	United States	3,480	-24%	n/a	1.09	1.29	n/a	0.08	0.11
Groupon, Inc.	United States	1,921	-40%	n/a	0.68	0.91	n/a	0.02	0.04
Quotient Technology Inc.	United States	1,249	-19%	n/a	0.84	0.85	n/a	0.04	0.05
Snipp Interactive Inc.	Canada	5	-8%	n/a	2.54	2.94	n/a	0.07	0.10
Average		**22,635**	**-6%**	**n/a**	**0.87**	**1.07**			
Median		**7,355**	**-14%**	**n/a**	**0.86**	**0.94**			
Average - Overall			**-5%**	**1.59**	**0.97**	**1.10**			
Median - Overall			**-8%**	**1.59**	**0.88**	**0.98**			

Source: S&P Capital IQ as at 31 December 2019; SIRCA as at 31 December 2019
Notes:
1. Gearing levels represent the five-year average gearing levels.
2. The outliers are highlighted in grey and have been excluded from the average and median calculations.

Selected beta (β)

In selecting an appropriate beta for IncentiaPay, we have considered the following:

- The outbreak of COVID-19 in early 2020 has introduced significant noise into beta estimation. The impact of the pandemic varies across industries and there is presently no reason to expect underlying beta has changed for any specific industry. We have therefore used pre-COVID data as at 31 December 2019 for our estimation.
- The industry equity betas for the Australian Media and Entertainment and Software and Services industries are 1.16 and 1.29 respectively.
- The average and median asset beta for comparable Australian loyalty and payment solutions providers is between 1.25 and 1.59, excluding outliers.
- The average asset beta for comparable international loyalty and payment solutions providers is between 0.87 and 1.07 while the median asset beta is between 0.86 and 0.94, excluding outliers.
- The overall average asset beta is between 0.97 and 1.59 while the median asset beta is between 0.88 and 1.59, excluding outliers.
- In terms of operations, Yelp Inc. and Groupon Inc. are considered broadly similar to IncentiaPay. Yelp Inc. operates a platform that connects consumers with local businesses in different locations globally and offers consumers the ability to purchase discounted deals and gift certificates. Yelp Inc. is significantly larger in size than IncentiaPay with a more diversified range of service offerings that include restaurant reservations and data analytics solutions for business owners. Groupon Inc. is a marketplace that connects consumers to merchants through its mobile applications and websites, offering discounts and coupons for consumers and acts as an advertiser for merchants. Groupon Inc. is also significantly larger in size than IncentiaPay with active operations in multiple countries. As IncentiaPay has less diversified operations with a predominant exposure to the Australian market, it inherently has a higher risk profile than the broadly comparable companies.
- We note the R-squared for Yelp Inc. and Groupon Inc. are relatively low, ranging from 0.02 to 0.11, which indicates that the betas presented are driven by company specific factors and therefore the actual betas could be different from the betas presented and do not provide a good indication of their risks.
- The industry equity betas are less directly relevant in terms of business models than the comparable company betas.

As a result of these considerations we have selected an asset beta between 0.95 and 1.05 for IncentiaPay which equates to an equity beta of 1.12 to 1.23 after applying our selected gearing level of 20%. Our selected gearing level takes into consideration IncentiaPay's long-term need for leverage to fund its growth and maximise returns to shareholders, constrained by the lack of ability to support significant levels of debt given its poor profitability and cash flow generation. The selected gearing level is within the range of the comparable companies' gearing levels.

Specific company risk premium (α)

Size premium

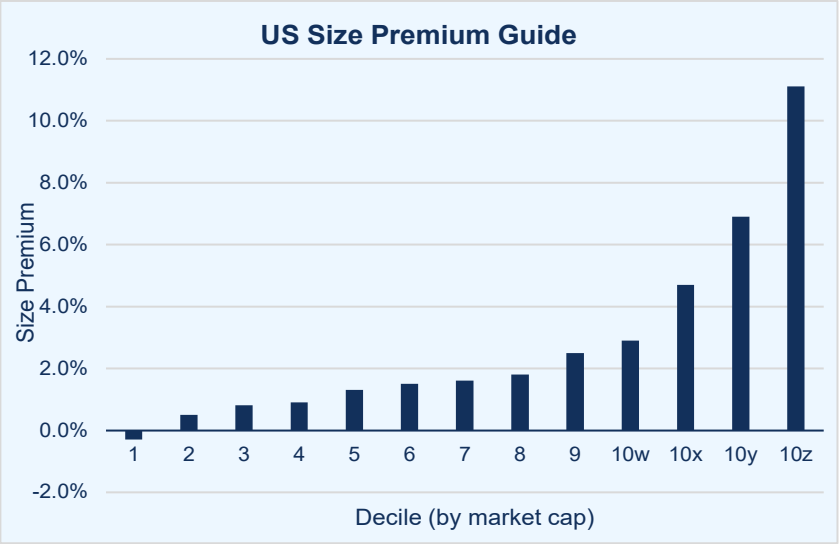
The size premium is the additional return that investors require for the risks of investing in small businesses. To date, whilst it has not been possible to isolate the specific causes of size premiums (other than simply size), many factors have been suggested, including:

- Depth of management
- Reliance on key personnel
- Weak market position
- Reliance on key customers
- Reduced access to capital
- Deeper pool of investors for larger companies
- Reliance on key suppliers
- Lack of geographic diversification
- Limited access to technology
- Absence of broker analysis
- Supplier concentration
- Investors in large companies often more diversified

The size premium can be observed in earnings multiples of listed companies, with large companies trading on higher multiples than small companies, all else being equal. Size premiums are observed consistently across time, across different markets and across a very wide range of company values.

A number of studies have been undertaken attempting to measure the size premium, in particular in the US. The Duff & Phelps Cost of Capital Navigator is an online application that provides guidance in estimating cost of capital. It contains calculations of the size premium for each decile of market capitalisation. As the size premium is most significant for very small companies, the tenth decile is then further divided into four equal segments. The following chart summarises the size premium data from the Duff & Phelps Cost of Capital Navigator.

Table 21: Evidence of size premium



Source: Duff & Phelps Cost of Capital Navigator, data through 31 December 2018
Note: The first decile represents the largest companies while the 10z decile represents the smallest companies by market capitalisation.

As mentioned above, the existence of the size premium has been well documented. However, there are limited studies setting out the appropriate bands of size premium and the quantum of size premium applicable to each band. For this reason, the above table should be taken as broad support for the size effect and not an exact guide to the extent of any particular discount or premium that should be applied.

Although there is considerable evidence from the US, in the Australian context, the relatively small size of the Australian equity market makes it more difficult to observe the existence of this phenomenon.

Leadenhall and others have conducted a number of high-level studies which have confirmed the existence of the size effect in the Australian market. However, we are not aware of any Australian studies that have been performed with the same detail and rigour as the US studies, such as the Duff & Phelps data presented above. Based on the evidence from US studies and our knowledge of prices actually paid in Australian transactions, from which a discount rate can be implied, we believe the size premium ranges in the below table are appropriate. This table should be taken as a guide to the appropriate size premium for a given business and needs to be considered in conjunction with the specific circumstances of a particular business.

Table 22: Leadenhall size premium bandings

Size Premium Guide for Australia				
Size	**Mkt Cap Range (AU$m)**		**Size Premium**	
	Low	***High***	***Low***	***High***
Largest	4,000	Above	-	-
Large	1,000	4,000	-	1.0%
Mid-cap	300	1,000	1.0%	2.0%
Low-cap	100	300	2.0%	3.0%
Small-cap	50	100	3.0%	5.0%
Micro-cap	10	50	5.0%	8.0%
Medium private [1]	*5*	*10*	*8.0%*	*11.0%*
Small private [1]	*2*	*5*	*11.0%*	*15.0%*
Smallest [1]	*-*	*2*	*15.0%*	*20.0%*

Source: Leadenhall analysis

Note 1: We do not generally consider the CAPM model to be reliable for entities of this size as they often do not meet the background assumptions underpinning the CAPM. In particular investors are often not diversified, and it is rarely possible to lend or borrow stock of entities this size (i.e. a market for shorting these stocks). These suggested size premiums are therefore presented as an approximate guide only as alternate models, studies and rules of thumb are commonly utilised for these types of companies.

Based on its market capitalisation of $22 million as at 30 September 2020, IncentiaPay would be considered a micro-cap public company and as such a size premium of between 5% and 8% would generally apply. Accordingly, we have selected a size premium of 6.5% to 7.5%.

Other company specific risks

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as reliance on key customers, reliance on key suppliers, existence of contingent liabilities etc that are not already factored into the size premium. We consider that these factors are reflected in either the cash flow forecasts or adjustments to size premium discussed above for IncentiaPay. We have therefore not applied a specific risk premium for the Proposed Transaction valuation.

Dividend Imputation

Since July 1987, Australia has had a dividend imputation system in place, which aims to remove the double taxation effect of dividends paid to investors. Under this system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is now not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added to any analysis of value.

However, in our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive. There are diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Due to the uncertainty surrounding the extent to which acquirers of assets factor in dividend imputation, we have not factored in dividend imputation.

Conclusion on cost of equity

The following table sets out our cost of equity estimate for IncentiaPay based on the assumptions and inputs discussed above:

Table 23: Estimated cost of equity for IncentiaPay

Components	Low	High
Risk free rate (R_f)	0.86%	0.86%
Asset beta (β_A)	0.95	1.05
Equity beta (β_E)	1.12	1.23
Equity market risk premium (EMRP)	7.25%	7.75%
Size premium (α_{size})	6.5%	7.5%
Specific risk premium (α_c)	0.0%	0.0%
Assessed cost of equity (k_e)	**15.4%**	**17.9%**

Source: Leadenhall analysis

Post-tax weighted average cost of capital (WACC)

WACC reflects the rate of return expected for an asset, adjusted for its underlying funding structure, such as relative components of debt and equity, calculated as follows:

$$\text{WACC} = (K_e \times E/V) + (K_d \times D/V + (1 - t_c))$$

The components of the WACC formula are:

Table 24: Components of WACC

Input	Definition
WACC	The post-tax weighted average cost of capital
K_e	The required post-tax return on equity
t_c	The corporate tax rate
K_d	The required pre-tax return on debt
D	The market value of debt
E	The market value of equity
V	The market value of business, where V = D + E

Each of the components in the above equation is discussed below.

Cost of equity (K_e)

The required post-tax return on equity as assessed in the preceding section.

Corporate tax rate (t_c)

The corporate tax rate in Australia is 30% and we have adopted this rate in calculating the WACC for IncentiaPay.

Cost of debt capital (K_d)

The cost of borrowing is the expected future borrowing cost of the relevant project and/or business. We have assessed the cost of debt capital for IncentiaPay to be between 5.5% and 6.5%, based on current indicative lending rates for businesses of similar size as IncentiaPay.

Debt and equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset. We have selected a debt to enterprise value of 20.0% which takes into consideration IncentiaPay's long-term need for leverage to fund its growth and maximise returns to shareholders, constrained by the lack of ability to support significant levels of debt given its poor profitability and cash flow generation. The selected gearing level is within the range of the comparable companies' gearing levels.

Calculation of WACC

The table below summarises the post-tax, nominal discount rate we have derived for IncentiaPay, based on the assumptions and inputs discussed above.

Table 25: Estimated WACC for IncentiaPay

Components	Low	High
Assessed cost of equity (k_e)	**15.4%**	**17.9%**
Cost of debt (K_d)	5.5%	6.5%
Gearing (D/V)	20.0%	20.0%
Tax rate (t)	30.0%	30.0%
Calculated WACC	**13.1%**	**15.2%**
Selected WACC	**13.0%**	**15.0%**

Source: Leadenhall analysis

APPENDIX 4: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by S&P Capital IQ.

Company	Description
Alliance Data Systems Corporation	Alliance Data Systems Corporation provides data-driven marketing and loyalty solutions in the United States, Canada, Europe, the Middle East, Africa, the Asia Pacific, and others.
Crowd Media Holdings Ltd	Crowd Media Holdings Limited sells information, entertainment, and content and utility services for mobile phones and tablets in Australasia, Europe, Latin America, and internationally.
EML Payments Ltd	EML Payments Limited provides prepaid payment services in Australia, Europe, and North America.
Expedia Group, Inc.	Expedia Group, Inc. operates as an online travel company worldwide.
Groupon, Inc.	Groupon, Inc. operates online local commerce marketplaces that connect merchants to consumers by offering goods and services at a discount in North America and internationally.
Invigor Group Ltd	Invigor Group Limited, a B2B data intelligence and solution company, provides data analytics solutions to the retail and service industries in Australia, Germany, Singapore, and internationally.
Mobecom Ltd	Mobecom Limited provides customer engagement technology that delivers end-to-end technology solutions for businesses to engage with their customers in Australia, Singapore, and South Africa.
Pinduoduo Inc.	Pinduoduo Inc., through its subsidiaries, operates an e-commerce platform in the People's Republic of China.
Quotient Technology Inc.	Quotient Technology Inc. is a digital marketing company that provides technology and services such as power integrated digital promotions and media programs for consumer-packaged goods brands and retailers.
Rakuten, Inc.	Rakuten, Inc. offers Internet services in Japan, the Americas, Europe, rest of Asia, and internationally.
REFFIND Ltd	REFFIND Ltd develops cloud-based SaaS that provides loyalty and employee engagement solutions in Australia and internationally.
Rewardle Holdings Ltd	Rewardle Holdings Limited, together with its subsidiaries, provides digital customer engagement platform for SME merchants.
RooLife Group Ltd	RooLife Group Limited, together with its subsidiaries, provides integrated digital marketing and customer acquisition services with a focus on driving online sales of products and services for its clients in Australia and China.
Shopify Inc.	Shopify Inc., a commerce company, provides a cloud-based multi-channel commerce platform for small and medium-sized businesses in Canada, the United States, the United Kingdom, Australia, and internationally.
Snipp Interactive Inc.	Snipp Interactive Inc., a loyalty and promotions technology company, provides mobile marketing, rebates, and loyalty solutions in the United States, Canada, Ireland, and internationally.
Yelp Inc.	Yelp Inc. operates a platform that connects consumers with local businesses in the United States, Canada, and internationally.

Source: S&P Capital IQ

APPENDIX 5: CONTROL PREMIUM

The outbreak of COVID-19 and the consequential general decline in share prices is likely to have an impact on implied control premiums in the current environment. Although there is anecdotal evidence from previous economic downturns of control premiums being higher than the long-term average in times of economic distress, it is difficult to quantify the impact of the current environment on long-term estimates based on currently available data. We have therefore presented our analysis of control premiums prior to the outbreak of COVID-19 noting that any reasonable range of control premiums does not impact our conclusion on the Proposed Transaction.

Background

The difference between the control value and the liquid minority value of a security is the control premium. The inverse of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including the ability to:

- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the company
- Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- Set the financial structure of the company (debt / equity mix)
- Block any or all of the above actions

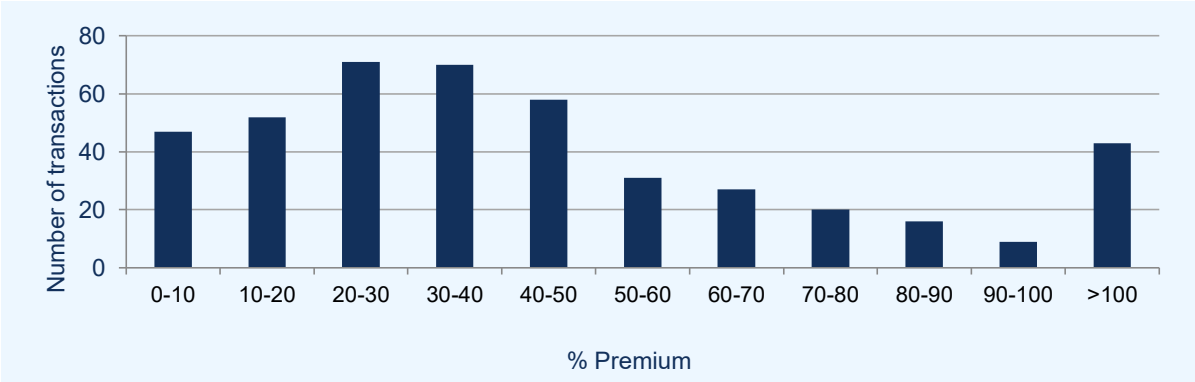
The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2007 and 2017. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

Figure 15: Takeover premium by size



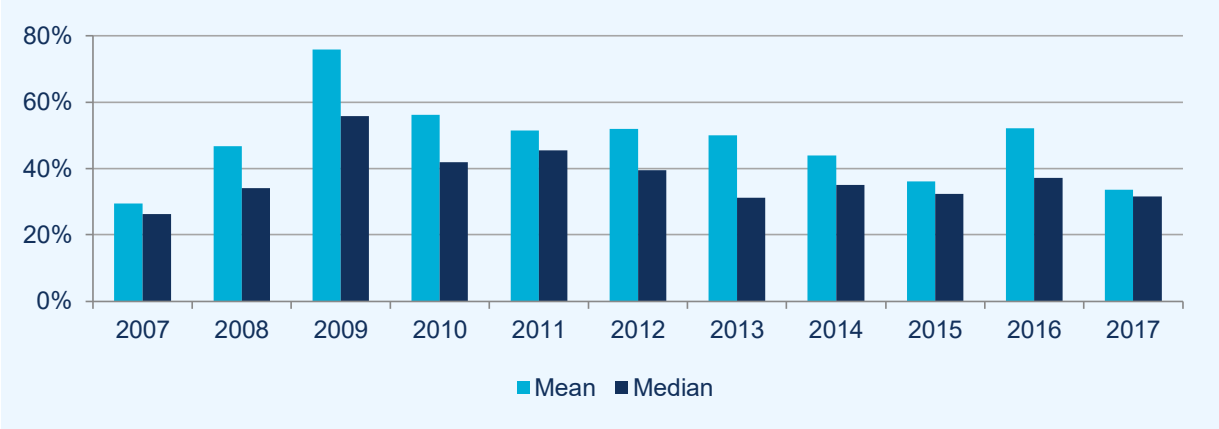
Sources: S&P Capital IQ, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premiums are in the range of 20% to 40%, with approximately 65% of all premiums falling in the range of 0% to 50%.

Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

Figure 16: **Average takeover premium (1 month)**



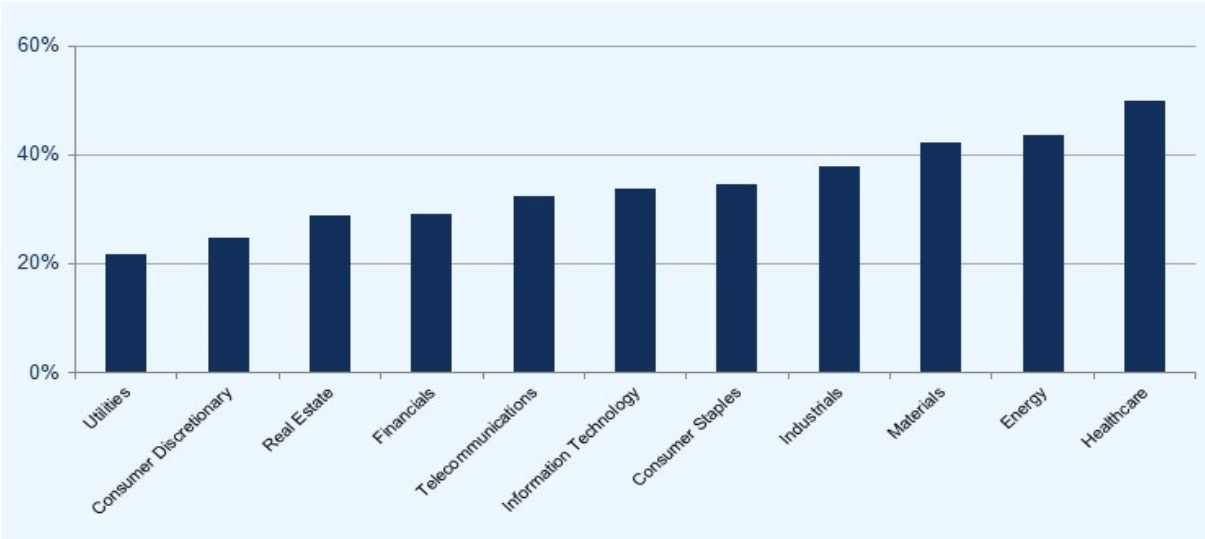
Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 40%.

Figure 17: Average takeover premium (2007 to 2017)



Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude specific transactions with implied control premiums below zero or over 100% which we consider to be outliers.

Key factors that generally lead to higher premiums being observed include:

- Competitive tension arising from more than one party presenting a takeover offer.
- Favourable trading conditions in certain industries (e.g. recent mining and tech booms).
- Significant synergistic special or strategic value.
- Scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- Grant Samuel - 20% to 35%
- KPMG - 25% to 35%
- Lonergan Edwards - 30 to 35%
- PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature on the topic.

Alternative View

Whilst common practice is to accept the existence of a control premium in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate view point to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. Those practitioners agree that the reason we see some takeovers at a premium is that if a company is not well run, there is a premium related to the difference in value between a hypothetical well-run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership/strategic stakes will confer different degrees of control and rights as shown below.

- 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- 75% - power to pass special resolutions
- > 50% - gives control depending on the structure of other interests (but not absolute control)
- > 25% - ability to block a special resolution
- 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- < 20% generally has only limited influence

Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

> 50%

For all practical purposes, a 50% interest confers a similar level of control to holdings of greater than 50%, at least where the balance of the shares are listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.

Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

< 20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.

As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium, Aswath Damodaran notes "the value of controlling a firm has to lie in being able to run it differently (and better)". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

Key factors in determining a reasonable control premium

Key factors to consider in determining a reasonable control premium include:

- **Size of holding** – generally, larger stakes attract a higher control premium
- **Other holdings** – the dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- **Industry premiums** – evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- **Size** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- **Dividends** – a higher dividend pay-out generally leads to a lower premium for control
- **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- **Board** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- **Shareholders' agreement** - the existence and contents of a shareholder's agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium.

APPENDIX 6: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Non-Associated Shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by IncentiaPay being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to IncentiaPay's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of IncentiaPay's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for IncentiaPay, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of IncentiaPay referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range.

Indemnities

In recognition that Leadenhall may rely on information provided by IncentiaPay and their officers, employees, agents or advisors, IncentiaPay has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by IncentiaPay and their officers, employees, agents or advisors or the failure by IncentiaPay and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin; Nathan Timosevski, BBus, Grad Dip App Fin, BV Specialist, CA, A.FINSIA; Simon Dalgarno, B.Ec, FCA, F.FINSIA; and Bruce Li, BCom., CA, CA BV Specialist.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of IncentiaPay. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.