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XPLORE WEALTH LIMITED

TAKEOVER OFFER FROM HUB24 LIMITED BY SCHEME OF ARRANGEMENT

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

14 DECEMBER 2020

14 December 2020

The Board of Directors
Xplore Wealth Limited
Suite 1, Level 5, 28 Margaret Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report for Xplore Wealth Limited

1. Introduction

Xplore Wealth Limited ("**Xplore Wealth**") is an Australian Securities Exchange ("**ASX**") listed specialist wealth management platform service provider that aims to provide a broad range of platform solutions to financial advisers. On 27 October 2020, Xplore has a market capitalisation of $19.6 million.

HUB24 Limited (**"HUB24"**) is also an ASX listed specialist platform service provider engaging in the provision of investment and superannuation portfolio administration services, licensee services to financial advisers and IT consulting services. On 27 October 2020, HUB24 has a market capitalisation of $1.3 billion.

On 28 October 2020 Xplore Wealth and HUB24 entered into a Scheme Implementation Agreement for HUB24 to acquire 100% of the shares and options in Xplore Wealth through two schemes of arrangement ("**Proposed Transaction"**). The consideration for the shares is a combination of cash and scrip, and for the options is cash.

Further details of the Proposed Transaction are set out in Section 1 of our detailed report.

2. Purpose of the report

In order to assist shareholders and optionholders evaluate the Proposed Transaction, the directors of Xplore Wealth have engaged Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report assessing whether the Proposed Transaction is in the best interests of Xplore Wealth's shareholders not associated with HUB24 ("**Shareholders**") and separately whether it is in the best interests the holders of options to acquire Xplore Wealth shares (**"Optionholders"**). This report is to be included in the scheme booklet regarding the Proposed Transaction.

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

3. Basis of evaluation

In order to assess whether the Proposed Transaction is in the best interest of Shareholders and Optionholders we have:

- Assessed the fairness and reasonableness of the Proposed Transaction
- Assessed it as fair if the value of the consideration offered is greater than or equal to the value of an Xplore Wealth share (or option) on a control basis
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to Shareholders or Optionholders outweigh the disadvantages.

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

4. The Proposed Transaction is fair to Shareholders

Assessed value of Xplore Wealth

We have assessed the fair market value of an Xplore Wealth share using a capitalisation of maintainable earnings. In adopting this approach, we have selected a maintainable EBITDA level of $4.5 million to $5.0 million. This range was primarily selected with reference to the current earnings run rate, with an adjustment to reflect expected cost savings from a cost rationalisation project that is currently underway.

We applied a multiple of 12.0 to 13.0 times the selected maintainable earnings. This multiple range was primarily based on prices paid in recent transactions for companies with similar activities to Xplore Wealth.

This analysis led to an assessed value of $0.192 to $0.231 per Xplore Wealth share, on a control basis.

Comparison to consideration

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Xplore Wealth share (on a control basis) with the consideration offered. This comparison is set out in the table below.

Table 1: Assessment of fairness - shares

$	Low	High
Assessed value of a Xplore Wealth share	0.192	0.231
Assessed value of Proposed Consideration	0.197	0.202

Source: Leadenhall Analysis

Since the consideration offered is within the assessed range of values of an Xplore Wealth share the Proposed Transaction is fair to Shareholders.

Further details of our valuation of Xplore Wealth are provided in Section 7 of our detailed report.

5. The Proposed Transaction is not fair to Optionholders

The following table sets out the various tranches of options to acquire Xplore Wealth shares that are outstanding. The table also compares our valuation of the options with the consideration offered under the Proposed Transaction.

Table 2: Assessment of fairness - options

Tranche	Number	Valuation	Consideration
2017 ESOP	278,735	1,776	252
2019 ESOP	1,506,816	61,173	10,277
2020 ESOP	3,021,732	255,447	62,171
2021 ESOP	5,821,500	529,365	133,548
2017 XSOP	856,666	10,491	1,576
2020 XSOP i	3,402,100	287,694	69,995
2020 XSOP ii	1,000,000	62,016	16,481
2020 XSOP iii	1,000,000	50,495	14,224
2021 XSOP	5,460,000	496,493	120,596
Total	**22,347,549**	**1,754,951**	**429,120**

Source: Leadenhall Analysis

As the proposed consideration is below our assessed value of the options the Proposed Transaction is not fair to Optionholders.

6. The proposed Transaction is reasonable to Shareholders

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

Advantages

The main advantages of the Proposed Transaction are:

- **Share price:** In the absence of the Proposed Transaction it is likely that the Xplore Wealth share price will fall below its recent trading range.
- **Control premium:** The Proposed Transaction offers a control premium of between 146% and 196% compared to the one-week VWAP for Xplore Wealth prior to its announcement. This is at the higher end of generally observed control premiums.
- **Retained exposure to the sector:** The scrip component of the Proposed Consideration allows for Xplore Wealth shareholders to retain exposure to the sector if they wish to do so.
- **No superior alternative:** We are not aware of any superior alternative proposals for Xplore Wealth.

Disadvantages

The main disadvantages of the Proposed Transaction are:

- **Loss of upside:** If Xplore Wealth is able to implement its strategy it is likely that its share price will increase. By accepting the Proposed Transaction Shareholders will have reduced exposure to this upside.
- **Tax implications:** The acceptance of the Proposed Transaction may result in tax leakage for shareholders that could otherwise be deferred.

Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable. It is therefore in the best interest of Shareholders.

7. The Proposed Transaction is reasonable to Optionholders

The advantages and disadvantages to Optionholders are similar to those listed above for Shareholders. However, an additional consideration for Optionholders is that if the share scheme is approved but the option scheme is not, Optionholders will have a one month window to exercise their options, otherwise the options will lapse. The shares that would be issued upon conversion of the options could then be compulsorily acquired by HUB24, therefore losing their time value. Compulsory acquisition at the offer price of $0.20 would lead to Optionholders receiving approximately $354,000 (net of the exercise price) as opposed to the proposed consideration under the option scheme of $429,000 as presented above. For this reason, we consider the Proposed Transaction is reasonable to Optionholders.

8. Opinion

As we have concluded that the Proposed Transaction is fair and reasonable to Shareholders and not fair but reasonable to Optionholders, we have also concluded that it is in the best interest of both Shareholders and Optionholders.

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

Simon Dalgarno
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.

General Financial Product Advice

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.

Benefits that We May Receive

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 $50,000 (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.

Referrals

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.

Complaints Resolution

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 Financial Ombudsman Service ("**FOS**"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.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.

14 December 2020

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1 THE PROPOSED TRANSACTION

1.1 Background

Xplore Wealth is an ASX listed specialist wealth management platform service provider. Further details of Xplore Wealth's operations are provided in Section 4 of this report. HUB24 is an ASX listed investment and superannuation platform service provider. Further details of HUB24's operations are provided in Section 5 of this report.

On 28 October 2020 Xplore Wealth and HUB24 entered into a Scheme Implementation Agreement for HUB24 to acquire 100% of the shares in Xplore Wealth by way of a scheme of arrangement. Xplore Wealth and HUB24 also agreed to a separate scheme of arrangement for HUB24 to acquire the outstanding options over Xplore Wealth shares. On the same date HUB24 also announced:

- The acquisition of Ord Minnett's portfolio administration and reporting service business for approximately $10.5 million
- A proposed 40% investment in Easton Investments Ltd ("**Easton**") for cash consideration of $14 million plus the transfer of advice business Paragem Pty Ltd ("**Paragem**") to Easton
- A capital raising package comprised of:
  - a $50 million underwritten placement to sophisticated investors
  - a $10 million share purchase plan for existing shareholders
  - a $12.5 million debt facility from ANZ.

1.2 Consideration

The agreed consideration for the acquisition of each Xplore Wealth share is $0.20. Under the Proposed Transactions, Shareholders may elect to receive their consideration as one of the following alternatives:

- $0.20 per share in cash ("**Cash Consideration**")
- 0.00927 HUB24 shares ("**Scrip Consideration**")

The total Cash Consideration is capped at $36 million and the Scrip Consideration is capped at 1.38 million HUB24 shares. If these caps are exceeded by the elections received from Shareholders, the elections will be scaled back on a pro-rata basis.

Shareholders who do not make an election will receive $0.20 per Xplore share for 50% of their Xplore shares and 0.00927 HUB24 Consideration Shares for 50% of their Xplore Shares ("**Mixed Consideration**").

In addition, a separate scheme has also been proposed for Optionholders which is conditional upon, but does not impact the Share Scheme.

1.3 Conditions

For the Proposed Transaction to become effective the following conditions need to be met:

- Shareholder approval which requires both a majority by number of Shareholders and 75% of the votes cast, at the meeting due to be held on 12 February 2021, to be in favour of the Proposed Transaction
- Approval by the Federal Court of Australia
- Various other customary conditions precedent (no prescribed occurrences etc.).

2 SCOPE

2.1 Purpose of the report

The Proposed Transaction is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act 2001 ("**s411**"). Under s411 the scheme must be approved by shareholders as described in Section 1.3.

Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cwlth) ("**Part 3**") prescribes the information to be provided to shareholders in relation to schemes of arrangement. Part 3 requires this to include an independent expert's report stating whether a proposed scheme is in the best interests of shareholders of the company subject to the scheme if, prior to the Proposed Transaction, either:

- The other party to the scheme is entitled to more than 30% of the voting shares in the company which is subject to the scheme
- A director of the corporation that is the other party to the scheme is also a director of the company that is the subject of the scheme.

As Xplore Wealth and HUB24 do not have any directors in common and HUB24 does not currently hold shares in Xplore Wealth, there is no formal requirement for an independent expert's report in relation to the Proposed Transaction. However, the directors of Xplore Wealth have engaged Leadenhall to prepare an independent expert's report as if it was required under Part 3, to assist Shareholders and Optionholders in evaluating the Proposed Transaction.

2.2 Basis of evaluation

Introduction

There is no legal definition of the expression '*in the best interests*'. However, *Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC provides guidance on its meaning. RG111.19 requires an expert to assess whether a scheme of arrangement involving a change of control is '*fair and reasonable*'. A transaction would be '*in the best interests*' of shareholders if it is either '*fair and reasonable*' or '*not fair but reasonable*'. As the Proposed Transaction is a control transaction, we have adopted this approach.

RG111 requires a separate assessment of whether a control transaction is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

In accordance with RG111.11, we have assessed the Proposed Transaction as fair if the consideration offered to Shareholders is equal to, or greater than, the value of an Xplore Wealth share. The value of an Xplore Wealth share 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.

We have assessed the values of an Xplore Wealth share and the consideration offered 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 Xplore Wealth 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 Shareholders to vote for the proposal. We have therefore considered whether the advantages to 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:

- The size of existing shareholding blocks in Xplore Wealth
- The liquidity of the market in Xplore Wealth's shares
- Taxation losses, cash flow or other benefits through achieving 100% ownership of Xplore Wealth
- Any special value of Xplore Wealth to HUB24
- The likely market price of Xplore Wealth shares if the Proposed Transaction is rejected
- The value of Xplore Wealth to an alternative bidder and the likelihood of an alternative offer.

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

2.3 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole and for Optionholders 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 SPECIALIST PLATFORM PROVIDER INDUSTRY

3.1 Introduction

Specialist platform providers offer independent wealth management platforms primarily used by independent financial advisors. Wealth management platforms offer an integrated solution where financial advisors and their clients can view and manage their investments with access to a range of investment options. Historically, the majority of financial advisers in Australia were aligned with large financial institutions and managed client investments through platforms administered by those institutions. However, the Future of Financial Advice ("**FOFA**") reforms implemented in July 2013, significantly changed the structure of the financial advice industry resulting in many financial advisers severing ties with larger institutions and offering independent advice. This move led to increased demand for independent wealth management platforms.

The trend of advisers severing ties with large financial institutions is expected to continue which is leading those institutions to consider selling off their wealth management divisions. This provides an opportunity for unaffiliated advisers and specialist platform providers to continue to grow market share as investors and advisers are cautious of the uncertainty surrounding the future of institutional wealth management divisions. Specialist platform providers generate income from fees levied on client accounts, usually a percentage of Funds Under Administration ("**FUA**"). For some products, platform providers also earn a margin on client cash accounts being the difference between the interest earned on client funds and interest paid to the client. Fees are also charged to execute trades as directed by the client or their financial adviser.

3.2 General characteristics

The specialist platform provider industry exhibits the following key characteristics:

- Highly competitive with competition primarily based on fees, ease of platform use and diversity of product offerings
- Providers benefit greatly from economies of scale as technology allows for a large number of advisers/clients to be provided services without a significant increase in costs
- Low capital intensity which can attract new providers in times of growth. However, new entrants need to develop advance technology as well as generate scale to become competitive
- The industry is highly regulated, and the level of regulation and scrutiny is increasing
- Industry participants are susceptible to local and international shocks which affect share markets as income is predominantly dependent on the value of clients' investments.

3.3 Industry participants

There are currently four listed specialist platform providers (after Praemium acquired Powerwrap in September 2020 and IRESS acquired OneVue in November 2020).

A summary of the major players in the industry is set out in the table below.

Table 3: Major specialist platform providers' metrics

	Netwealth	HUB24	Praemium	Xplore
FUA Sep 2019 ($ billion)	25.3	14.4	10.3	15.0
FUA Sep 2020 ($ billion)	34.0	19.1	18.5[1]	15.5
Revenue FY19 ($ million)	98.8	54.1	48.7	19.3
Revenue FY20 ($ million)	123.9	74.3	51.2	23.0
EBITDA FY19[3] ($ million)	52.0	18.0	12.5	2.8
EBITDA FY20[3] ($ million)	64.8	28.8	14.2	2.8
Market share June 2020	3.8%	2.1%	1.7%[4]	1.8%

Source: company annual reports and ASX announcements
Notes:
Praemium acquired Powerwrap in September 2020 therefore FUA as at September 2020 includes Powerwrap FUA.
Reported underlying EBITDA
Combined market share of Praemium and Powerwrap as at 30 June 2020

Recently there has been significant consolidation in the industry with Praemium completing the takeover of Powerwrap on 21 September 2020 and IRESS completing the takeover of OneVue on 6 November 2020. Consolidation was expected after a period of rapid growth as platforms seek the benefits of economies of scale.

3.4 Changes to the regulatory environment

3.4.1 FOFA

The most important factor in the growth of the specialist platform provider industry over the last ten years was the introduction of the FOFA reforms in 2013 in response to increasing complaints of poor financial advice leading to significant client losses. The FOFA reforms came about as a response to the Ripoll Report released by the Parliamentary Joint Committee on Corporations and Financial Services after the conduct of their inquiry into financial products and services in Australia. This report identified conflicted remuneration as the leading cause of poor financial advice provided to clients. The Ripoll Report made 11 recommendations that were designed to enhance professionalism in the financial advice sector and enhance consumer confidence and protection. Key aspects of the FOFA reforms are summarised below.

Best interest duty

The FOFA reforms introduced a best interest duty, a statutory duty requiring financial advisers to act in the best interest of their client. Prior to this change there was no requirement that a financial adviser give priority to the interests of their client when providing advice, meaning as long as the advice met the standard of being appropriate and the necessary disclosures had been made, they were not prohibited from giving advice that benefited the adviser rather than, and in preference to, the client.

Ban on conflicted remuneration

Traditionally financial advisers were remunerated by way of commission paid by the providers of financial products. Concerns that commissions increased an adviser's incentive to recommend products, regardless of the client's best interest, underpinned the ban on conflicted remuneration, which applied to both general advice and personal financial advice. The conflicted remuneration changes were aimed at creating a market-based incentive for advisers to act in the interest of their clients by ensuring an adviser's main source of remuneration was from clients, rather than from third parties. The conflicted remuneration provisions ban all payments that could reasonably be expected to influence advice provided.

The estimated impact of the FOFA changes on the income structure of the industry is set out in the figure below.

Figure 1:Pre-FOFA fee structure

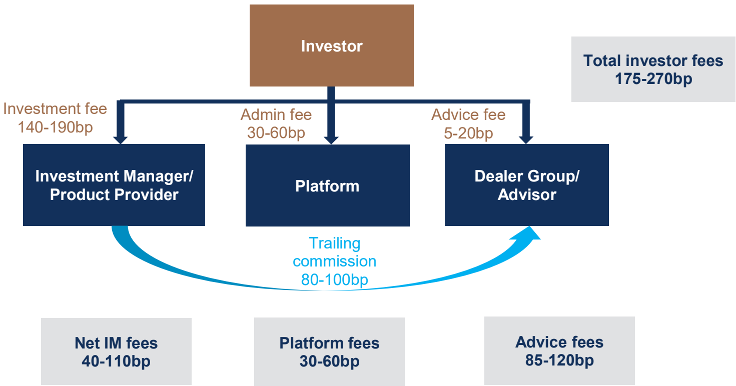
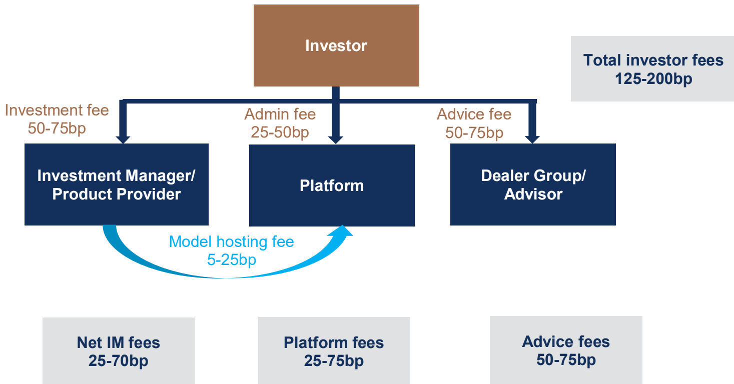


Figure 2: Current fee structure



Source: Xplore Wealth

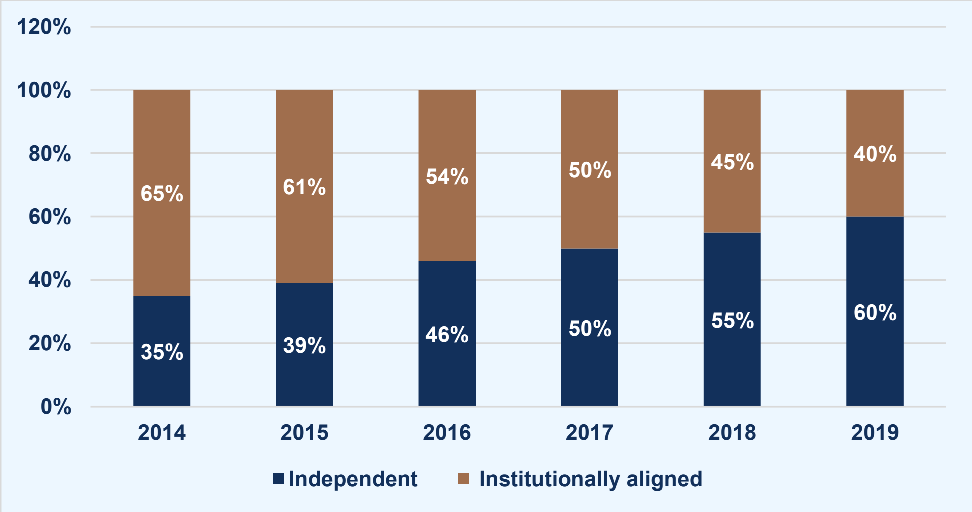
As shown in the figure above it is estimated that investors are paying less overall under the new structure. This reduction is primarily from fees generated by investment managers/product providers and financial advisers, while platform providers have the potential to earn an increased fee.

Changes have also meant that larger diversified financial institutions are exiting the wealth management sector as evidenced by:

- The sale of ANZ's OnePath pensions and investments business to IOOF in October 2019
- NAB entered into a transaction agreement with IOOF to divest 100% of its MLC wealth management business in August 2020
- Commonwealth Bank announcing the sale of 55% of its wealth management division, Colonial First State, to Kohlberg Kravis Roberts in May 2020
- Westpac initiating a process to sell its BT wealth management arm in May 2020

The impact of these changes on the financial advice industry has been significant. Most importantly, with respect to the specialist platform provider industry, the changes have resulted in a steady flow of advisers and corresponding FUA leaving institutionally linked wealth management teams to establish independent practices. Independent financial advisors generally prefer to use independent platforms. This trend away from institutionally aligned financial advisers and corresponding increase in market share of independent platform providers is demonstrated in the figures below:

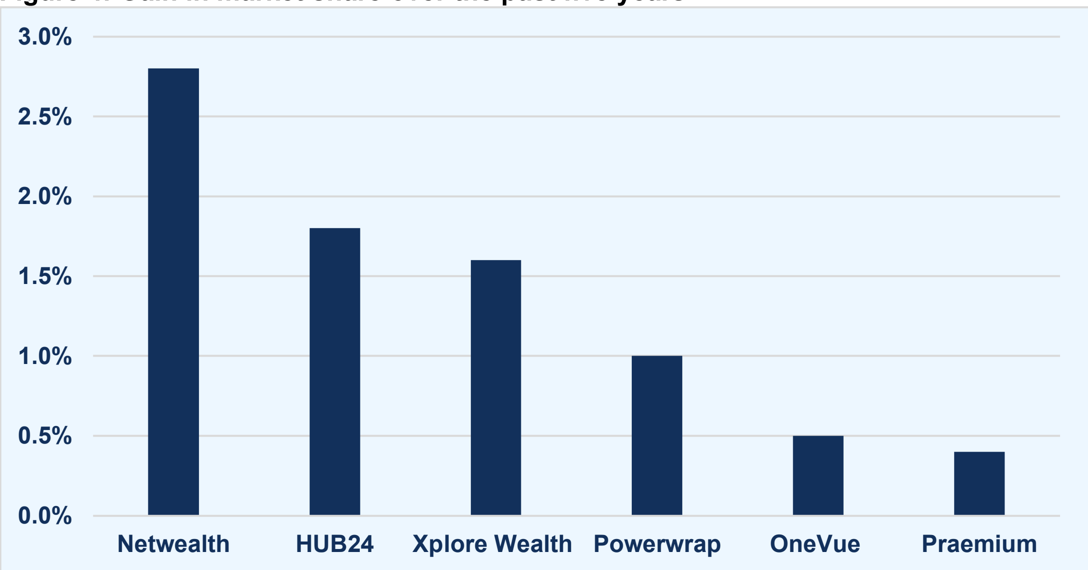
Figure 3:Proportion of licenced financial advisors aligned to the major institutions



Source: Advisor Rating

As shown in the figure above there has been a significant trend of advisers leaving the large institutions to become independent. This trend is reflected in flow of FUA over this period with large institutional platforms as a whole losing nearly 10% market share over the five years to June 2020. The biggest institutional outflows have been at AMP (4.1% down) and NAB (3.1% down). The only large institutional platform to gain market share over the last five years was Macquarie Group which was up 2.3%. In contrast, specialist platform providers have all gained market share over the past five years as summarised below[1]:

Figure 4: Gain in market share over the past five years



Source: Company data and Credit Suisse estimates

3.4.2 Professional standards of financial advisers

Further to the FOFA reforms, subsequent inquiries have reviewed and made recommendations on additional changes to the financial advice industry. In particular, changes to the professional standards of financial advisers has had a significant impact on the industry.

Prior to the introduction of these reforms, the financial services industry, consumer groups and ASIC raised concerns about the education and training requirements applicable to financial advisers. The Parliamentary Joint Committee Inquiry and Financial System Inquiry identified that the existing professional standards for financial advisers were too low and did not ensure that all advisers had the skills to provide quality advice.

[1] *Company data and Credit Suisse estimates*

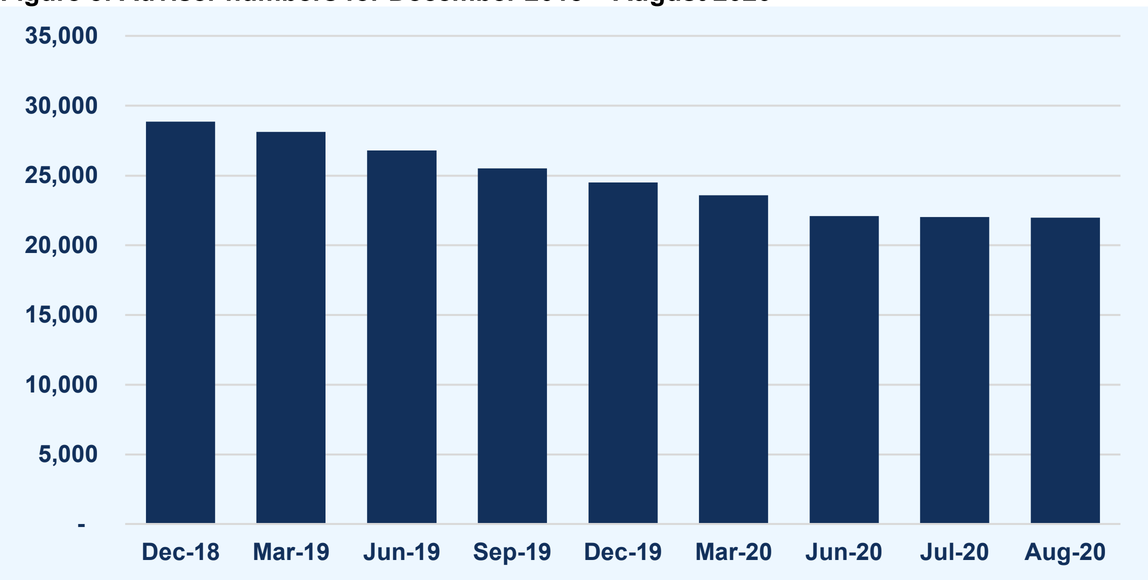
In response, the Corporations Amendment (Professional Standards of Financial Advisers) Act 2017 introduced several new measures including:

- Requiring new financial advisers to have a degree, pass an exam and undertake a professional year to be authorised to provide unsupervised personal advice to a retail client
- Requiring existing advisers to bring their qualifications up to degree or equivalent level, through bridging courses or other education-based programs and pass an exam
- Requiring all advisers, both new and existing, to undertake continuing professional development and be party to a code of ethics monitored by an ASIC approved compliance scheme
- Requiring Australian financial services licensees to ensure that their financial advisers comply with the new education standards.

Provisions for new advisers apply from 1 January 2019 whilst existing advisers have until 1 January 2020 to meet the degree equivalent requirement and 31 December 2021 to pass the exam.

The increased regulation of professional standards has had a noticeable impact on industry participation with adviser numbers dropping from 28,863 in the December 2018 quarter to 21,966 by August 2020, a 23.9% decline, as set out in the figure below.

Figure 5: Adviser numbers for December 2018 – August 2020



Source: ASIC

3.5 Key external drivers

The summary below set out the key external drivers of specialist platform provider performance.

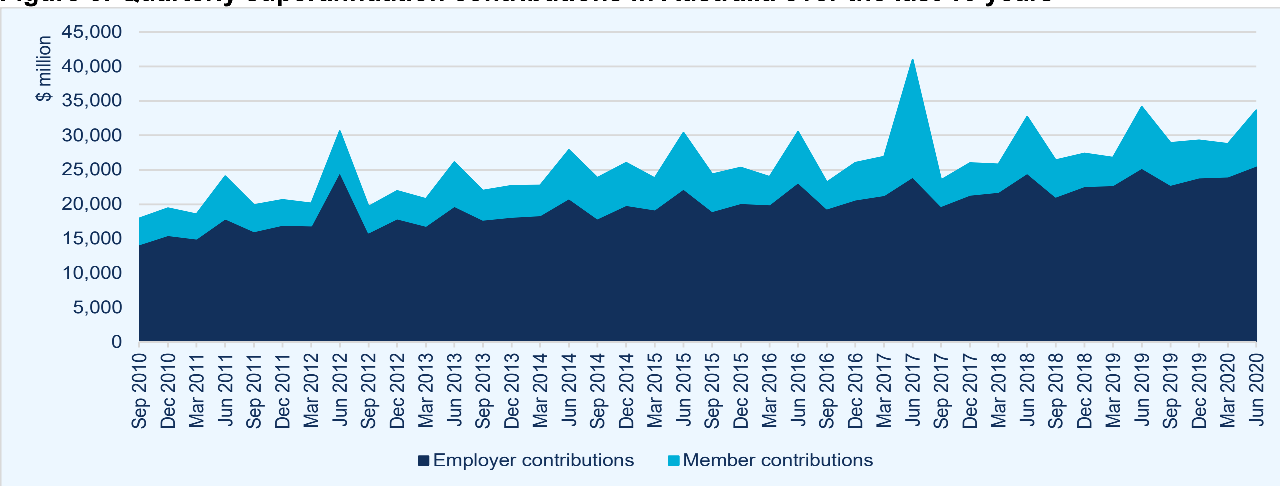
Number of financial advisors

The primary users of wealth management platforms are financial advisers. Financial advisers use these platforms to manage investments on behalf of their clients. As set out in Figure 5 above, there has been a significant decline in the total number of financial advisers in Australia since the introduction of more rigorous professional standards requirements. However, the performance of independent wealth management platforms is more closely aligned with the number of independent financial advisers. As set out in Figure 3 above, the percentage of independent financial advisers has grown rapidly since the introduction of the FOFA reforms from 35% in 2014 to 60% in 2019. This trend towards independence has benefited the specialist independent platform industry as independent financial advisers prefer to use independent platforms. The flow of funds from the large institutional wealth management platforms to independent platforms is expected to continue due to increased scrutiny of large financial services corporations, investor wariness of institutionally aligned advisers and structural industry change as large institutional players seek to sell or otherwise separate themselves from their wealth management businesses.

Superannuation funds flow

Increases in superannuation contributions provide an increased pool for funds for specialist platform providers to target. In particular, funds flow into self-managed superannuation funds ("**SMSFs**") is an important external factor affecting the performance of independent specialist platform providers as these funds are more likely to use an independent platform than industry or institutionally aligned funds. Over the last five years growth of superannuation contributions has been supported by the increase in minimum compulsory employer superannuation contributions from 9% to 9.5% in July 2014. The figure below shows the increase in quarterly superannuation contributions over the last ten years.

Figure 6: Quarterly superannuation contributions in Australia over the last 10 years



Source: APRA quarterly superannuation statistics
Note: Spikes in contributions in the June quarter primarily relate to additional salary sacrifice and personal member contributions made at the end of each financial year. Around June 2020, this trend was moderated by the COVID-19 early release of super measure.

As shown above, quarterly superannuation contributions have increased significantly in the last ten years from $17.9 billion in the September 2010 quarter to $28.7 billion in the March 2020 quarter. Furthermore, according to the Australian Taxation Office the number of SMSF's has also grown over the last ten years from 422,008 in the September 2010 quarter to 596,180 in the March 2020 quarter. SMSF's currently hold just under 40%[2] of the value of all superannuation funds.

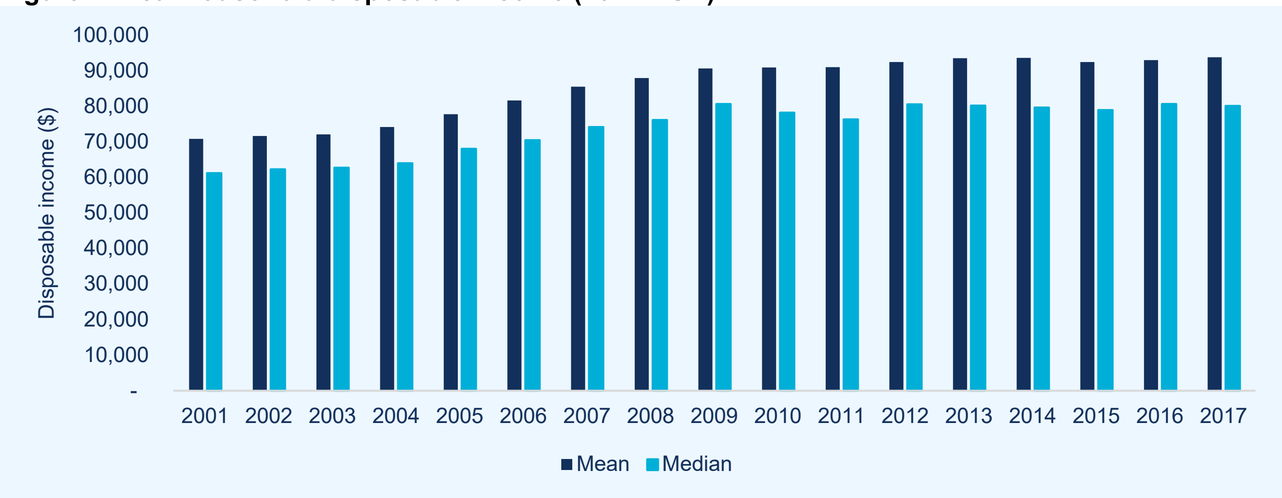
[2] *IBISWorld*

Superannuation contributions are expected to continue to grow over the next five years with compulsory employer superannuation contributions set to increase to 10% in FY22 and then at 0.5% per annum until the contribution rate reaches 12% in FY26. This will be partially offset by funds outflows as a greater number of members reach retirement age. Outside of the increase in compulsory contributions, SMSF balances are expected to grow at a slower rate due to the greater proportion in the retirement phase and the effect of regulatory changes that have reduced caps on concessional and non-concessional contributions made directly by members.

High net wealth individuals

High net wealth individuals often have complicated financial affairs with significant wealth outside of superannuation and often seek advice from financial advisers. Furthermore, a growing number of households are looking to secure their financial future by investing disposable income outside of superannuation. These types of retail investors also often seek guidance from financial advisers.

Figure 7: Real household disposable income (2017 AUD)



Source: The Household, Income and Labour Dynamics in Australia Survey, 2019

More recently, the impact of COVID-19 on household finances has been somewhat cushioned by government support packages. Nevertheless, the RBA expects unemployment to peak at 10% or over 1.3 million by the end of 2020 (up from 700,000 in December 2019) and stay at these levels until mid-2021. This increase in unemployment will likely negatively impact spending capacity despite government assistance.

Stock market levels

Specialist platform providers generate a significant proportion of revenue as a percentage of FUA. Therefore, market movements affecting the value of FUA also affect industry revenue. A broad measure of market movement and performance is the Australian All Ordinaries Index ("**All Ords**"). Over the past five years, consistent cuts to the cash rate by the Reserve Bank of Australia, and the rise of the technology sector, have contributed to consistent growth in the All Ords. Movements in the All Ords over this period are shown in the figure below.

Figure 8: Historical All Ordinaries index

Source: S&P CapIQ

The figure above shows a period of sustained growth in the All Ords until the onset of the COVID-19 epidemic in Australia. The first wave of COVID-19 caused the All Ords to plummet 37% in March 2020 before a partial recovery on the back of a significant government economic stimulus program. The economic impact of COVID-19 is expected to extend into FY21 particularly for the tourism and hospitality sectors. The uncertainty surrounding the economic recovery, weak consumer sentiment and negative business confidence is expected to constrain growth of the All Ords over the next twelve months.

Cash rate

Movements in the cash rate often affect asset prices. Lower cash rates usually increase the value of equity markets as fixed income securities become a less appealing investment. This relationship does not necessarily hold in times of crisis, like the current COVID-19 epidemic, where a flight to the safety of cash is often seen. For platform managers the cash rate affects asset prices and subsequently revenue generated as a percentage of FUA. It also affects the margin earned on cash accounts as platform providers provide a lower interest rate to investors than they receive on cash held across client accounts. Currently the Australian cash rate is at an historic low of 0.1% which is squeezing platform provider margins on cash accounts. The figure below set out the historical cash rate in Australia since 1990.

Figure 9: Historical Australian cash rate since 1990

Source: Reserve Bank of Australia

In reducing the official cash rate to 0.1% on November 3, the Reserve Bank of Australia stated that it would not consider increasing the cash rate from this level until actual inflation is sustainably within the 2% to 3% target range. This will require significant gains in employment and a return to a tight labour market. Given the outlook on these factors the Reserve Bank is not expecting to increase the cash rate for at least three years.

3.6 Outlook

Despite the impact of COVID-19 on market performance and the resulting declining cash rate, the medium term outlook for specialist platform providers is positive, primarily to due the expected continuation in the trend of FUA flowing out of institutionally aligned platforms into independent platforms. There is a near term opportunity to accelerate this trend as larger diversified institutional players seek to divest their wealth management platforms creating uncertainty for both investors and financial advisers. In the near-term organic growth in FUA and revenue is likely to be hampered by lingering effects of COVID-19. However, the current spate of consolidations within the industry may lead to increased margins as a result of economies of scale, although some of these benefits may be offset by decreasing prices charged as competition remains high.

4 PROFILE OF XPLORE WEALTH

4.1 Background

Xplore Wealth was established in 2004 to provide Managed Discretionary Accounts ("**MDAs**") to the financial planning market. Over the next 13 years Xplore Wealth grew to become Australia's largest specialist MDA provider with approximately $2.5 billion in FUA. In November 2017, Xplore Wealth merged with the Linear platform business. Linear was established in 2008 to provide administration and technology solutions to the wealth management industry and had over $10 billion FUA at the time of the merger. As at 30 September 2020, Xplore has $15.5 billion FUA and aims to provide a broad range of platform solutions to provide real choice for advisers in managing their clients' wealth.

4.2 History

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

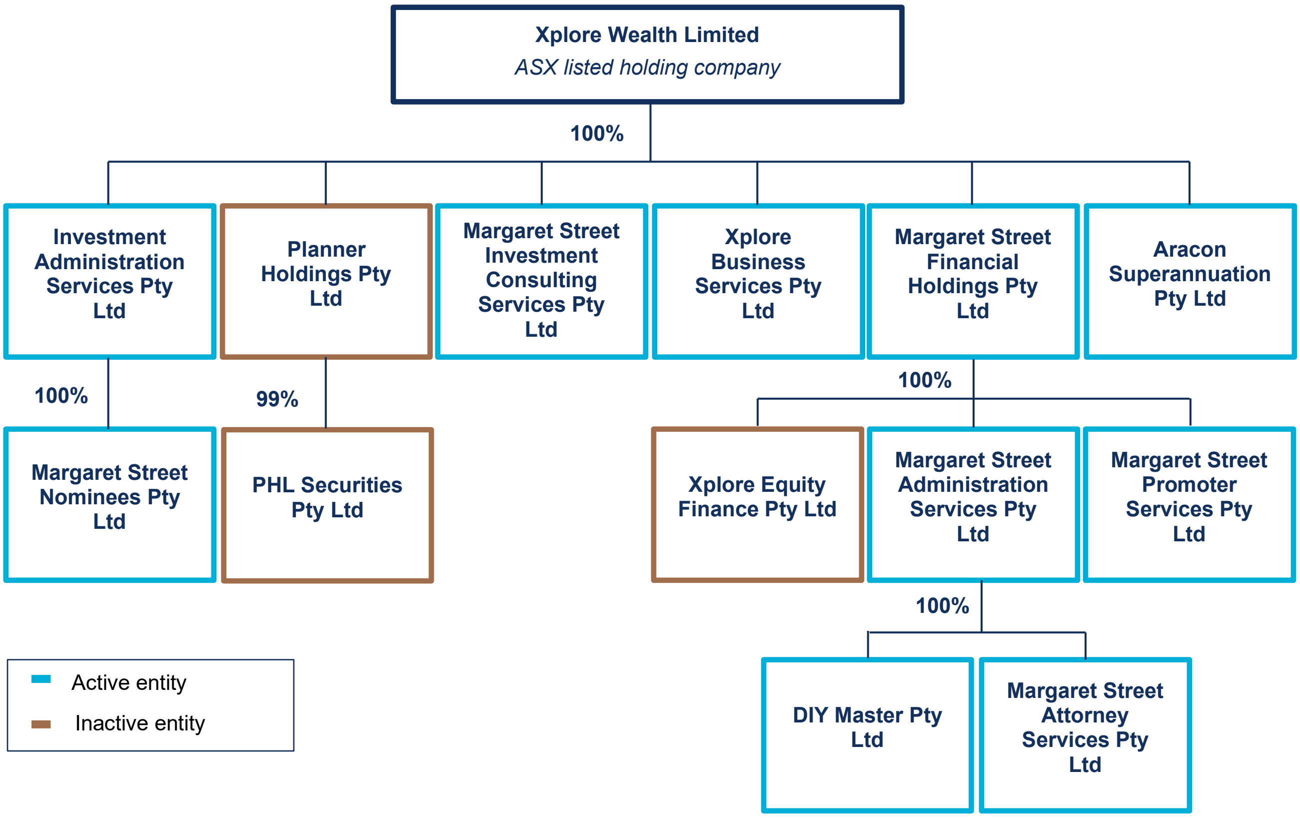
Year	Event
2004	♦ Managed Accounts Holding Ltd ("**MAH**") (previous name of Xplore Wealth) was incorporated.
2014	♦ MAH was admitted to the ASX and had 21 licensees with $900 million FUA.
2015	♦ Established a wholly owned subsidiary, Planner Holdings Pty Ltd, to provide expansion capital to select financial advisory firms.
2016	♦ Knight Financial Advisors implement a MDA service built in partnership with MAH with $300 million FUA transferred to the new solution. ♦ Planner Holdings Pty Ltd makes it first investment. ♦ MAH appointed as investment manager and asset consultant by a superannuation trustee.
2017	♦ Investment Administration Services Pty Ltd, a wholly owned subsidiary of MAH is approved to be a sponsorship and settlement participant in CHESS allowing them the ability to hold assets in a custodial structure or directly in the client's name. ♦ Acquired Linear Financial Holdings Pty Ltd ("**Linear**"), an administration and technology solutions provider to the wealth management industry.
2018	♦ MAH acquired Aracon Superannuation Pty Ltd ("**Aracon**"), a Registrable Superannuation Entity. ♦ MAH acquired DIY Master Pty Ltd ("**DIY Master**") a superannuation administrator and promoter.
2019	♦ MAH changed its name to Xplore Wealth Ltd. ♦ New CEO, Michael Wright, is appointed.
2020	♦ Implementation of One Platform transformation program to migrate all clients onto one fully integrated platform. ♦ Announced proposed acquisition of Xplore Wealth by HUB24.

Source: Xplore Wealth

4.3 Corporate structure

The figure below sets out the corporate structure of Xplore Wealth.

Figure 10: Xplore Wealth's corporate structure



The corporate functions of the active entities set out in the figure above are summarised below:

- **Investment Administration Services Pty Ltd:** the holder of the approval for sponsorship and settlement participant in CHESS
- **Margaret Street Nominees Pty Ltd:** ASX settlement participant nominee
- **Margaret Street Investment Consulting Services Pty Ltd:** Investment Committee and investment advisory supervision
- **Xplore Business Services Pty Ltd:** employment of group staff and administration of group service contracts
- **Margaret Street Financial Holdings Pty Ltd:** previous holding company of Linear Group with no current corporate activities
- **Margaret Street Administration Services Pty Ltd:** IDPS-Like, PAS and Westpac GIS Products investment administration
- **Margaret Street Promoter Services:** promoter activities for IDPS-like schemes and Aracon
- **DIY Master Pty Ltd:** Aracon and third-party registrable superannuation entity ("**RSE**") member administration of superannuation
- **Margaret Street Attorney Services Pty Ltd:** limited attorney services in relation to Xplore Wealth managed account scheme
- **Aracon Superannuation Pty Ltd:** RSE

4.4 Products

Xplore Wealth offers a wide range of platform solutions including MDA, super and investment wrap and direct holder identification number. Clients can access a broad range of investments including domestic and global listed securities, domestic managed funds, fixed interest and cash. Further detail on each of the solutions offered is set out below.

Managed Discretionary Account

A MDA is a facility where the client can make contributions and the client's portfolio assets are managed on an individual basis by the MDA provider. As the MDA provider, Xplore Wealth gives the Investment Manager the authority to manage a client's investments in accordance with pre-determined investment objectives and agreed investment guidelines without obtaining specific instructions for each transaction. The Investment Manager develops and manages the client's portfolio, a custodian holds the investments and cash on the client's behalf and Xplore Wealth operates as the administrator undertaking transactions, reporting to the client and providing online resources.

Xplore Wrap

The Xplore Wrap account enables the adviser to consolidate and manage their client's investment portfolio. The account revolves around a central transactional cash account which funds buy transactions and receives the proceeds from sold investments and investment income generated. The Xplore Wrap account is operated by an independent trustee, The Trust Company (RE Services) Limited, but the investor retains beneficial ownership of the underlying assets. An Xplore Wrap account:

- Consolidates all investments in one place
- Provides online access to view consolidated reports and enable quick and easy portfolio management
- Offers a single consolidated tax report at the end of each year
- Provides a wide range of investment choices
- Allows for access to boutique investments.

Xplore Managed Account

The Xplore Managed Account offers similar functions as an Xplore Wrap account. It is available as an off-the-shelf product with a comprehensive global equity capability. The SMA can also be white labelled to meet the specific requirement of advisory firms, wealth managers and stockbrokers.

Xplore Super and Pension

Xplore Super and Pension allows clients to hold a wrap style account (as detailed above) for their superannuation investment purposes. Xplore Super and Pension members must appoint a Financial Adviser to assist them in their investment choices. Aracon Superannuation Pty Ltd, a wholly owned subsidiary of Xplore Wealth, is the Trustee of the Fund. The trustee is an approved Trustee by the Australian Prudential Regulatory Authority ("**APRA**") under the Superannuation Industry (Supervision) Act 1993.

RSE And Superannuation Administration Services

Xplore Wealth also provides RSE and superannuation administrative services offered by Aracon and DIY Master respectively, as standalone services.

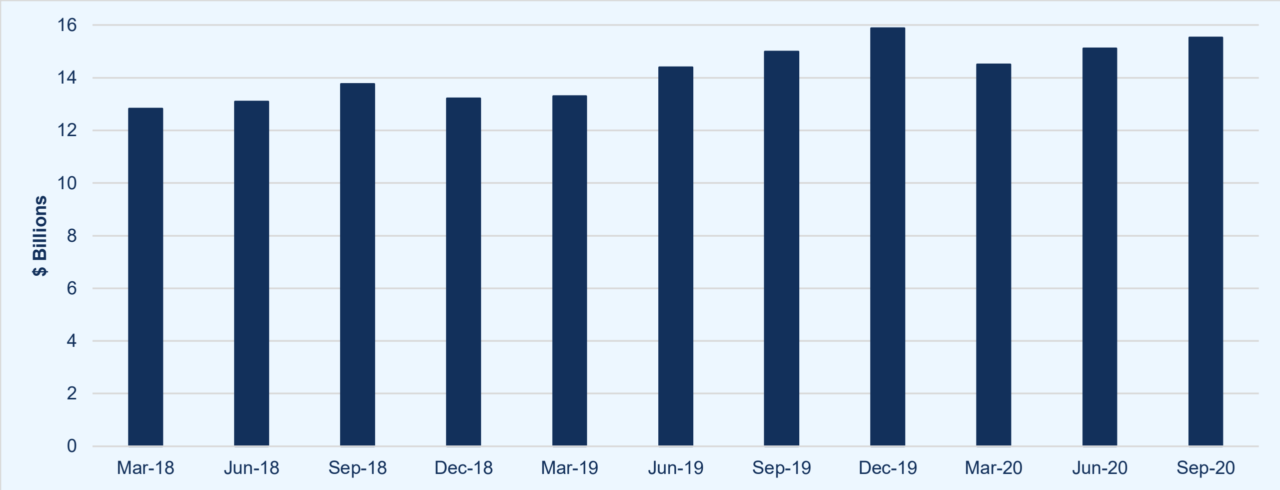
Share Broking Solutions

The Xplore Wealth share broking solutions provide a flexible end-to-end administration and taxation solution for stockbrokers and financial advisers who predominantly utilise ASX listed shares in client portfolios.

4.5 Funds under administration

Historical Xplore Wealth FUA is set out in the chart below:

Figure 11: Historical Xplore Wealth FUA



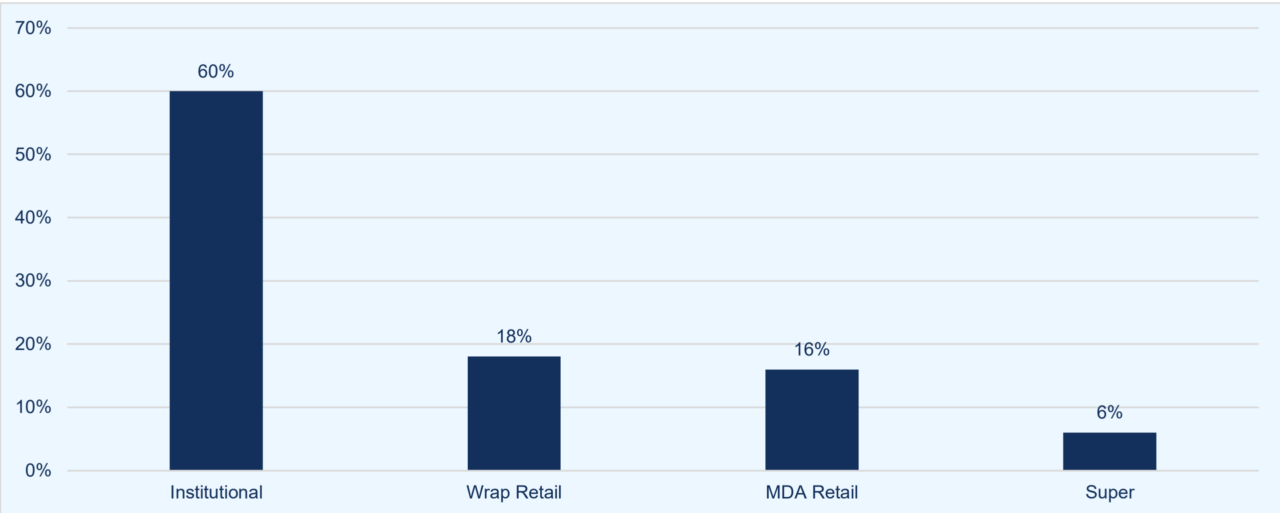
Source: Xplore Wealth

In respect of historical FUA we note the following:

- FUA has grown 21% from $12.83 billion as at 31 March 2018 to $15.53 billion as at 30 September 2020.
- Maximum FUA of $15.89 billion was reached in the December 2019 quarter. The decline since this period is due to the decline in the equity markets driven by COVID. This trend was somewhat moderated by an uplift in transaction fees, cash margin and the impact of fee caps.

FUA is split between retail and institutional clients. Retail clients are full-service clients whereas Xplore Wealth only provides administration services to institutional clients. The FUA split between retail and institutional FUA in the September 2020 quarter is set out in the figure below.

Figure 12: FUA split between retail and institutional - September quarter 2020



Source: Xplore Wealth

The split between retail and institutional FUA has been relatively steady since the merger with Linear. However, despite institutional clients representing 60% of FUA, revenue generated from institutional clients only accounted for 14% of revenue in FY20. This is because a broader range of services are provided to retail clients. Further, institutional FUA and revenue is generated by only two clients. Retail FUA and revenue is primarily generated through a network of over 370 financial advisers that administer their clients' investments through an Xplore Wealth platform.

4.6 Key personnel

The Board of Directors of Xplore Wealth comprises:

Table 4: Directors of Xplore Wealth

Directors	Experience
Alex Hutchison Chairman	Mr Hutchison has over 20 years' experience in the financial services industry having worked in a number of senior leadership roles in both ASX-listed and not-for-profit organisations. Mr Hutchison as active participation in industry associations including the Financial Planning Association ("**FPA**"), Australian Institute of Superannuation Trustees and Customer Owned Banking Association. Mr Hutchison is currently the Chief Executive Officer of Energy Industries Superannuation Scheme.
Don Sharp Non-executive Director	Mr Sharp is a qualified accountant and an experienced business builder and leader in the financial services sector. He co-founded Bridges Financial Services Pty Ltd, well known for establishing one of the first platform solutions for portfolio management in Australia. Mr Sharp is a former Chairman of Investors Mutual, Global Value Investors and Premium Investors limited and a former Director of Countplus Limited and Treasury Group Ltd.
Julie Berry Non-executive Director	Ms Berry is a registered tax (financial) adviser and a Certified Financial Planner who has practised as a financial planner for more than 30 years. Ms Berry is a member of the Tax Practitioners Board and Deputy Chair of the Future2 Foundation. Ms Berry has previously served as Chair of the Institute of Financial Advisers in New Zealand. She is a life member of the FPA and a recipient of the Money Management Lifetime Achievement Award.
Stephen Reed Non-executive Director	Mr Reed has extensive financial services experience including at Norwich Investments Management Ltd, as a Director and partner in Austock stockbroking companies and as founder and director of Austchoice Financial Services Ltd. He has established a number of financial practices, acted as Responsible Manager on a number of others and consulted to a number of financial services companies on strategy and marketing.
Jillian McGregor Joint Company Secretary	Mr McGregor has worked as a corporate lawyer for over 20 years, during which time she regularly advised companies and directors on compliance with the Corporation Act, ASX listing rules and other corporate legal matters.

Source: Xplore Wealth

4.7 Financial performance

The audited statements of financial performance for the periods ended 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 5: Xplore Wealth's financial performance

$'000	FY18	FY19	FY20
Revenue	**15,147**	**19,275**	**22,985**
Transaction costs	(3,106)	(4,755)	(5,661)
Gross Profit	**12,040**	**14,520**	**17,324**
Share of profits of joint ventures	21	50	-
Expenses			
Employee benefits expense	(6,821)	(10,484)	(11,694)
Professional fees and consulting	(739)	(1,012)	(1,258)
Computer and IT expenses	(548)	(1,547)	(1,849)
Cost of employee share scheme	(282)	23	(237)
Other expenses	(1,706)	(2,633)	(1,773)
EBITDA	**1,966**	**(1,082)**	**513**
Depreciation and amortisation	(2,788)	(4,483)	(2,172)
Impairment	(1,935)	(100)	(11,179)
EBIT	**(2,758)**	**(5,666)**	**(12,838)**
Other income	498	3,980	298
Acquisition related expenses	(1,263)	(224)	-
Finance income	128	95	71
Finance costs	(5)	(5)	(75)
Profit before tax	**(3,400)**	**(1,820)**	**(12,544)**
Income tax (expense) / benefit	896	1,279	796
Profit after tax	**(2,504)**	**(540)**	**(11,748)**
Other metrics			
Revenue Growth	n/a	27%	19%
Gross Margin %	*79.5%*	*75.3%*	*75.4%*
EBITDA Margin %	*13.0%*	*-5.6%*	*2.2%*

Source: Xplore Wealth

Note: EBITDA prior to FY20 included operating lease expenses which are now recognised as depreciation expenses and interest expenses for right-of-use assets since the introduction of AASB 16 on 1 July 2019.

In relation to the historical financial performance of Xplore Wealth set out above:

- The significant increase in revenue in FY19 was primarily due to the full year impact of the Linear merger.
- The decline in gross margin from FY18 was primarily due to the impact of the various acquisitions in FY18 and FY19.
- Other income in FY19 primarily related to a GST claim of $3.5 million in respect of the historical operations of Linear.
- The increase in operating expenses in FY19 is primarily as a result of the full year impact of the Linear merger.
- The increase in depreciation and amortisation in FY19 is primarily due to amortisation of software and customer relationship assets acquired as a result of the Linear merger. Depreciation expenses in FY20 also include the depreciation of a right-of-use asset (being leased premises) due to the adoption of AASB 16 Leases on 1 July 2019.
- The impairment expense recognised in FY20 is primarily related to the decision to write off the carrying value of the Linear software as a result of the decision to implement the One Platform program.

4.8 Financial position

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

Table 6: Xplore Wealth's financial position

$'000	30-Jun-18	30-Jun-19	30-Jun-20
Current assets			
Cash and cash equivalents	4,932	941	2,251
Other financial assets	1,250	1,501	1,908
Trade and other receivables	2,476	5,714	1,989
Other current assets	-	893	1,361
Non-current assets classified as held for sale	-	500	-
Total current assets	**8,659**	**9,548**	**7,509**
Non-current assets			
Investments accounted for using the equity method	545	-	-
Investments	101	12	-
Plant and equipment	262	341	263
Right-of-use assets	-	-	1,066
Intangibles	40,549	38,954	27,899
Deferred tax asset	4,298	5,398	5,971
Total non-current assets	**45,755**	**44,705**	**35,199**
Total assets	**54,413**	**54,254**	**42,707**
Current liabilities			
Trade and other payables	(2,086)	(3,353)	(3,050)
Deferred government grant	(307)	(237)	(111)
Lease liabilities	-	-	(565)
Provisions	(725)	(736)	(911)
Deferred consideration	-	(500)	-
Other current liabilities	(6)	-	-
Total current liabilities	**(3,124)**	**(4,827)**	**(4,636)**
Non-current liabilities			
Deferred government grant	(399)	(354)	(178)
Lease liabilities	-	-	(615)
Deferred tax liability	(982)	(758)	(533)
Provisions	(175)	(198)	(249)
Total non-current liabilities	**(1,556)**	**(1,310)**	**(1,575)**
Total liabilities	**(4,681)**	**(6,136)**	**(6,211)**
Net assets	**49,733**	**48,117**	**36,496**

Source: Xplore Wealth

In relation to the historical financial position of Xplore Wealth:

- The decrease in cash in FY19 was primarily related to acquisition expenses and share buy backs.
- Other financial assets are comprised of a loan receivable from McGregor Wealth Management Pty Ltd, term and bank deposits and the operational risk financial reserve requirement in accordance with APRA Prudential Standard.
- The increase in trade and other receivables in FY19 was as a result of the recognition of the Linear GST claim of $3.5 million.
- Other current assets are primarily comprised of prepayments and accrued income.

- In FY19, Xplore wealth made the decision to sell its interest in McGregor Wealth Management Pty Ltd and as such this was reflected as non-current assets held for sale in this period.
- Intangibles primarily relate to goodwill, customer relationships and software assets acquired as a result of the Linear merger. The decrease in FY19 and FY20 is related to amortisation and impairment of the customer relationship and software assets due to the implementation of the One Platform program
- Xplore Wealth adopted AASB 16 Leases as at 1 July 2019. As a result, right-of-use assets and corresponding lease liabilities are recognised for business premises leases.
- The deferred tax asset is primarily comprised of historical tax losses.
- Trade & other payables primarily represent liabilities for goods and services received by Xplore Wealth that remain unpaid at the end of the reporting period, accrued expenses and provision for research & development tax offset claims.
- Provisions are related to annual and long service leave entitlements.
- The deferred consideration liability in FY19 related to contingent consideration payable in respect of the acquisition of DIY Master Pty Ltd.
- Deferred tax liability relates to the difference between accounting and tax treatments of customer relationship acquired as the amortisation expense for customer relationship is not deductible for tax purposes.

4.9 Cash flows

The audited statements of cash flows for the periods ended 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 7: Xplore Wealth's cash flows

$'000	FY18	FY19	FY20
Receipts from customers (inclusive of GST)	15,004	21,638	26,146
Payments to suppliers and employees (inclusive of GST)	(12,690)	(21,631)	(22,588)
Acqusition related expenses	(1,263)	(224)	-
Payment to acquiree's supplier and employees	(1,526)	(196)	-
Interest received	128	95	71
Other revenue	498	-	-
Government grants received	-	-	81
Interest and other finance costs paid	(5)	(5)	(75)
Income taxes refunded	-	2	1
Net cash flows from operating activites	**146**	**(323)**	**3,637**
Payment for purchase of business	(23,071)	(904)	(792)
Payments for investments	(78)	(12)	-
Payments for plant and equipment	(214)	(51)	(65)
Payments for intangibles	(1,227)	(1,386)	(1,139)
Receipt from related party	-	-	125
(Payments)/proceeds from term deposits	138	(263)	(9)
Net cash flows used in investing activities	**(24,452)**	**(2,616)**	**(1,880)**
Proceeds from issue of shares	35,151	-	75
Payments for share buy-backs	-	(1,042)	-
Share issue transaction costs	(1,910)	(10)	(2)
Dividends paid	(268)	-	-
Repayment of borrowings - Linear	(5,359)	-	-
Repayment of lease liabilities	-	-	(520)
Net cash used in financing activities	**27,614**	**(1,052)**	**(447)**
Net increase/(decrease) in cash held	**3,308**	**(3,991)**	**1,310**
Cash at the beginning of the financial year	1,624	4,932	941
Cash at the end of the financial year	**4,932**	**941**	**2,251**

Source: Xplore Wealth

In relation to the historical cash flows of Xplore Wealth set out above, we note the following:

- Receipts from customers in FY20 incudes receipt of $3.5 million from the Linear GST claim.
- Payments for the purchase of business and acquisition related expenses in FY18 relate to the acquisition of Linear.

4.10 Capital structure and shareholders

As at 5 November 2020, Xplore Wealth had a total of 297,536,240 ordinary shares on issue. The following table sets out details of Xplore Wealth's substantial shareholders as at that date:

Table 8: Xplore Wealth's substantial shareholders

Shareholder name	Number of shares	% interest
Pivot Wealth	23,000,000	7.7%
Mr & Mrs Colin J Scully	21,993,389	7.4%
Investors Mutual	20,351,790	6.8%
Mr Donald K Sharp	18,133,389	6.1%
Mr & Mrs Paul A Collins	17,872,745	6.0%
Messrs Colin J Scully & Donald K Sharp	17,573,658	5.9%
Other Shareholders	178,611,269	60.0%
Total	**297,536,240**	**100.0%**

Source: Xplore Wealth

In to the ordinary addition shares set out above, Xplore Wealth has a total of 22,347,549 options on issue which were issued under employee and executive share schemes. A summary of the options on issue is set out in the table below.

Table 9: Xplore Wealth's options on issue

Tranche	Number	Exercise price	Expiry date
2017 ESOP	278,735	$0.35	15/09/2021
2019 ESOP	1,506,816	$0.28	15/02/2023
2020 ESOP	3,021,732	$0.18	12/03/2024
2021 ESOP	5,821,500	$0.18	23/11/2024
2017 XSOP	856,666	$0.35	29/01/2022
2020 XSOP i	3,402,100	$0.18	13/03/2024
2020 XSOP ii	1,000,000	$0.25	16/03/2024
2020 XSOP iii	1,000,000	$0.30	16/03/2024
2021 XSOP	5,460,000	$0.18	23/11/2024
Total	**22,347,549**		

Source: Xplore Wealth

We understand that additional 11.3 million options, in respect of the 2021 employee and executive plans, have been allocated but not yet been granted as at the date of this report. This would not impact our conclusion on the fairness or reasonableness of the Proposed Transaction.

4.11 Share trading

The following chart shows the share market trading of Xplore Wealth shares, for the 12 months to 5 November 2020:

Figure 13: Xplore Wealth's share trading over the past 12 months

Source: S&P CapIQ

In relation to the trading of Xplore Wealth shares over the past 12 months, we note the following:

- Xplore Wealth shares primarily traded in a band between $0.04 and $0.08 per share.
- The share price spiked to $0.12 per share on 11 February 2020, seemingly in anticipation of positive half year results. Upon release of the half year results a week later the share price fell back to $0.09.
- Between 20 March and 9 July shares traded between $0.04 and $0.06 as the uncertainty surrounding COVID-19 depressed the market in general. From 10 July 2020, the share price climbed slightly higher to trade between $0.06 and $0.09 as the overall market regained some strength.
- The spike in price and volume on 29 October 2020 coincided with the announcement of the HUB24 takeover offer. In total, 13.6 million shares were traded on 29 and 30 October 2020 at a price of $0.19. A further 10.7 million shares were traded over the next four trading days at a price of $0.18.
- Overall Xplore Wealth shares are relatively thinly traded with an average of 298,258 shares or $15,962 traded per day.

4.12 Outlook

Prior to the announcement of the Proposed Transaction, Xplore Wealth was in the final stages of executing its One Platform strategy which has delivered initiatives that will generate $1.6m in annualised cost savings to September 2020 and it's expected to contribute further significant cost savings in FY21 as well as providing a more streamlined service to clients. This low cost operating model and enhanced platform capability would enable Xplore Wealth to compete more effectively with the larger players in the independent platform market to exploit the outflows from institutional platforms which is expected to continue at least into the medium term. The short-term outlook is expected to be dominated by the negative effects of COVID-19 on the market, although there has been a significant recovery since the first wave hit the country at the end of March 2020. Overall, the outlook appears positive with industry dynamics expected to continue to favour the independent platform sector although this is likely to continue to increase competition in the sector.

5 PROFILE OF HUB24

As part of the consideration under the Proposed Transaction is HUB24 shares, we have provided an analysis of HUB24. HUB24 has a market capitalisation of $1.3 billion, compared to Xplore Wealth of only $20 million prior to the announcement of the Proposed Transaction. Accordingly, the impact of the Proposed Transaction on HUB24's share price is likely to limited. HUB24 shares are also highly liquid, thus a Shareholder would be able to realise the HUB24 consideration shares in the near term at a price similar to current trading in HUB24 shares, all else being equal. Whether to continue to hold HUB24 shares received as consideration is a separate investment decision for Shareholders, and is not the subject of this report. Thus, the intrinsic value of HUB24 shares, to the extent it may differ from the market price, is of limited relevance. As a result, our analysis of HUB24 is relatively brief.

5.1 Background

Founded in 2007, HUB24 is an ASX-Listed listed investment and superannuation platform service provider based in Sydney, NSW. The company, together with its subsidiaries provides a range of wealth management solutions to the financial services industry, including online portfolio administration services through their specialist investment platform (**"Platform"**). The Group also provides dealer licensee services under Paragem as well as application and technology products through Agility Applications Pty Ltd (**"Agility"**).

5.2 Overview of Operations

HUB24 operates through three main segments, Platform, Licensee and IT services with Platform accounting for the largest portion of total revenue (FY19: 56% and FY20: 67%).

The breakdown of FY19 and FY20 revenue is as follows:

Figure 14: FY19 Revenue breakdown

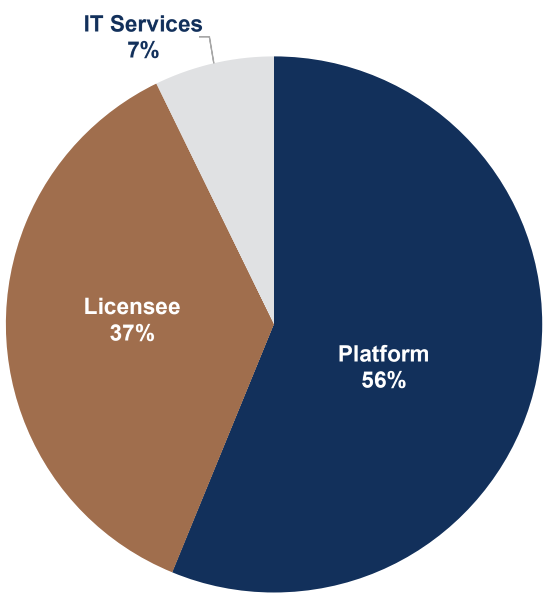
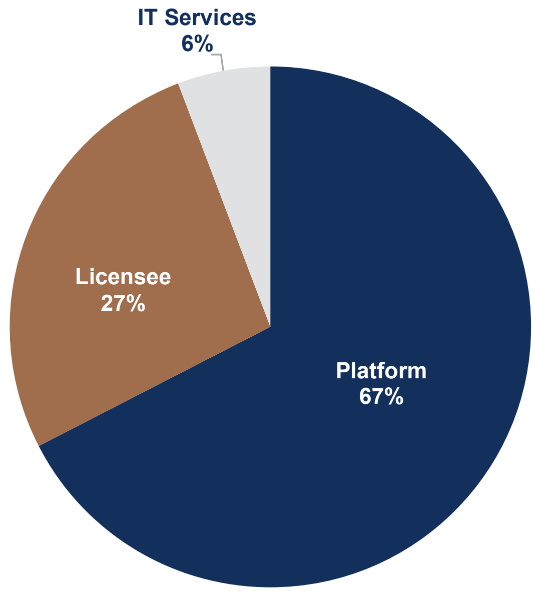


Figure 15: FY20 Revenue breakdown



Source: HUB24

Further information in respect of each of HUB24's segments is set out below.

- **Platform:** HUB24 provides investment portfolio and superannuation administration services to financial advisers through its specialist online platform. It allows advisers to serve their clients with access to diverse investment options, cost-effective trading and comprehensive reporting. Despite the COVID-19 disruption in the global economy, this segment has grown significantly with FUA up by over 30%, to $17.2 billion as at 30 June 2020.

In March 2020, HUB24 entered a strategic partnership with Clearview Wealth Ltd (**"Clearview"**) to include Clearview's managed portfolio and insurance products in the Platform. As part of the agreement, over $1 billion FUA will migrate from Clearview to HUB24 platform's in FY21.

- **Licensee:** HUB24 provides licensee services to financial advisers trading under Paragem. These include compliance, software, education, and support to financial planning practices, enabling advisers to provide clients with financial advice across a range of products. As at 30 June 2020, Paragem's network comprised 37 financial advice businesses, representing 77 financial advisers.
- **IT services:** Through its subsidiary, Agility, HUB24 provides business application and technology products to the financial services industry. It delivers various data management and reporting solutions via CONNECT a proprietary web-based application platform, with an aim to improve organizations' performance through efficiency in business process and data capacity. This segment currently services approximately 45% of the stockbroking market in Australia.

5.3 Key Personnel

The Board of Directors and senior management of HUB24 comprises:

Table 10: Key personnel of HUB24

Directors	Experience
Bruce Higgins Executive Chairman	Appointed as Chairman in October 2012, Mr Higgins has over 20 years' experience as a senior executive or CEO in various companies including listed technology companies. Prior to this, he held director positions in Legend Corporation Ltd and Novita Healthcare Ltd.
Andrew Alcock Managing Director	Mr Alcock has over 25 years' experience across wealth management encompassing advice, platforms, industry superannuation, insurance and information technology. Previously, he served as CEO of Australian Administration Services, a subsidiary of Link Market Services, providing superannuation administrations.
Paul Rogan Non-executive Director	Mr Rogan is a senior financial services executive with over 26 years' experience serving on several boards and industry groups. He has been on the HUB24 Board since 2017.
Ian Litster Non-executive Director	Mr Lister has more than 13 years' experience in designing and developing software for the financial planning industries. He is an expert in the management of information technology organisations and software development. Mr Lister was appointed to the Board in September 2012.
Anthony McDonald Non-executive Director	Mr McDonald was appointed to the HUB24 Board in September 2015. He was the co-founder of financial planning firm Snowball Group Ltd which merged with Shadforth in 2011. He is currently a non-executive director of SIP Emerging Companies Ltd and URB Investments Ltd.
Ruth Stringer Non-executive Director	Appointed in February 2020, Ms Stringer is an experienced financial services lawyer, particularly in funds management, superannuation, life insurance and financial planning. Ms Stringer also serves on the Audit, Risk and Compliance Committee.
Kitrina Shanahan Chief Financial Officer	Ms Shanahan has over 20 years of experience in finance, governance, and risk. She also has extensive experience in platforms, advice and broader financial services. Prior to HUB24, she was CFO at Westpac Insurance.
Craig Lawrenson Chief Operating Officer	Mr Lawrenson has over 20 years' experience in financial services across operations, distribution, product management, product development and business transformation. Previously, he worked in a variety of roles within BT Financial Group.

Source: HUB24

5.4 Financial performance

The audited statements of financial performance for the periods ended 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 11: HUB24's financial performance

$'000	FY18	FY19	FY20
Revenue			
Platform	39,768	54,145	74,355
Licensee	35,769	35,236	29,550
IT Services	8,460	6,977	6,360
Total	**83,998**	**96,358**	**110,265**
Other income	2,384	1,145	851
Expenses			
Direct costs for providing services	(39,566)	(39,921)	(35,942)
Employee benefits	(25,222)	(32,351)	(42,320)
Property and occupancy	(1,811)	(2,203)	(417)
Administrative	(8,570)	(10,772)	(14,027)
EBITDA	**11,213**	**12,256**	**18,410**
Depreciation and amortisation	(2,016)	(2,574)	(5,323)
Impairment	-	-	(1,000)
EBIT	**9,197**	**9,682**	**12,087**
Finance income	613	1,164	945
Finance costs	-	-	(204)
Profit before tax	**9,810**	**10,846**	**12,827**
Income tax (expense) / benefit	(2,431)	(3,682)	(4,599)
Profit after tax	**7,379**	**7,164**	**8,228**
Other metrics			
Revenue Growth	*n/a*	*14.7%*	*14.4%*
Gross Margin %	*52.9%*	*58.6%*	*67.4%*
EBITDA Margin %	*13.3%*	*12.7%*	*16.7%*

Source: HUB24

Note: EBITDA prior to FY20 included operating lease expenses which are now recognised as depreciation expenses and interest expenses for right-of-use assets since the introduction of AASB 16 on 1 July 2019.

In relation to the historical financial performance of HUB24 set out above, we note the following:

- HUB24 has demonstrated consistent growth in profitability and revenue between FY18 and FY20. In particular, the significant increase in FY20 was unpinned by the growth in FUA and net fund flows from new and existing adviser relationships on the Platform. The business was not significantly impacted by COVID-19 due to the higher trading volumes and cash balances on the Platform offsetting the decline in FUA based revenue.
- Other income represents the fair value adjustment for the deferred contingent consideration in relation to the acquisition of Agility in 2017.
- Direct costs of providing services pertain to platform and custody fees and licensee-related charges. These costs decreased in FY20, primarily due to the decline in licensee charges consistent with reduced licensee revenue as a result of some advisers moving to self-licensing.
- Employee benefit expenses are the largest cost for HUB24. These costs have increased significantly in FY20 due to increased headcount in the sales and distribution and IT development teams, as part of HUB24's investment in growth coupled with employee share-based payments recognised for the special long term incentive scheme during the year.

- The drop in property and occupancy costs relates to the implementation of AASB 16 Leases resulting in lease expenses being recognised as depreciation expense and interest expense.
- Impairment losses recognised in FY20 relates to the customer relationships and intangible assets acquired with Agility in 2017 following a strategic review of the IT business, whereby HUB24 decided to cease to provide technology hosting services to new clients going forward.

5.5 Financial position

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

Table 12: HUB24's financial position

$'000	30-Jun-18	30-Jun-19	30-Jun-20
Current assets			
Cash and bank balances	16,959	18,466	33,809
Trade and other receivables	5,088	7,565	10,046
Other current assets	765	781	1,799
Total current assets	**22,812**	**26,812**	**45,655**
Non-current assets			
Receivables	2,011	2,000	-
Office equipment	2,214	1,956	1,662
Right-of-use assets	-	-	5,437
Intangible assets	32,023	37,069	39,963
Deferred tax assets	13,361	9,685	5,101
Total non-current assets	**49,610**	**50,709**	**52,163**
Total assets	**72,422**	**77,522**	**97,818**
Current liabilities			
Trade and other payables	(5,228)	(3,363)	(5,370)
Provisions	(4,080)	(5,053)	(7,811)
Deferred income	(417)	(259)	(89)
Lease Liabilities	-	-	(1,670)
Total current liabilities	**(9,725)**	**(8,676)**	**(14,940)**
Non-current liabilities			
Provisions	(882)	(1,001)	(1,514)
Deferred income	(1,022)	(775)	(587)
Lease Liabilities	-	-	(4,385)
Other	(2,927)	(2,146)	(1,568)
Total non-current liabilities	**(4,831)**	**(3,923)**	**(8,054)**
Total liabilities	**(14,556)**	**(12,598)**	**(22,994)**
Net assets	**57,866**	**64,924**	**74,823**

Source: HUB24

In relation to the historical financial position of HUB24 set out above, we note the following:

- Cash and cash equivalents increased year-on-year due to the strong growth in the Platform business which saw consistent net flows and a rise in FUA. The significant increase in cash balance in FY20 is primarily a result of COVID-19 induced market volatility driving up trading volumes and cash account balances on the Platform.
- The increase in trade and other receivables over the period is consistent with the revenue growth from the Platform business.

- Non-current receivables pertains to the Operational Risk Financial Requirement (**"ORFR"**) loan advance to the Trustee for the HUB24 Superfund. The amount was fully repaid to the Group due to a change of trustee on 30 June 2020. A new ORFR loan was made subsequent to the year-end.
- HUB24 adopted AASB 16 Leases as at 1 July 2019. As a result, right-of-use assets and corresponding lease liabilities are recognised for business premises and equipment.
- Intangible assets largely consist of capitalised Platform and HUBConnect development costs, goodwill, customer relationships and software acquired with Agility in 2017. In FY20, impairment losses were recognised on the Agility customer relationship and software upon the strategy review of the IT business.
- Trade and other payables include liabilities for goods and services received by HUB24 that remain unpaid at the end of the reporting period as well as the current portion of the deferred contingent consideration for the acquisition of Agility in 2017. The balance has increased in line with the high level of trading activities caused by COVID-19.
- Provisions predominately relate to employee benefits. The increase in provision in FY20 is reflective of the increased headcount leading to a rise in provision for employee entitlements.
- Other non-current liabilities represent the non-current portion of deferred contingent consideration for the acquisition of Agility, reassessed annually.
- HUB24 does not have any debt. In FY20, the company entered a $5 million working capital facility which remained undrawn at year-end.

5.6 Cash flows

The audited statements of cash flows for the periods ended 30 June 2018, 30 June 2019 and 30 June 2020 are set out in the table below.

Table 13: HUB24's cash flows

$'000	30-Jun-18	30-Jun-19	30-Jun-20
Receipts from customers (inclusive of GST)	93,223	102,184	116,811
Payments to suppliers and employees (inclusive of GST)	(81,482)	(91,198)	(91,768)
Interest received	510	645	633
Interest paid on lease liability	-	-	(204)
Short term lease payments	-	-	(213)
Net cash inflow from operating activities	**12,251**	**11,631**	**25,258**
Payments for acquisitions (net of cash acquired)	(2,000)	(411)	(475)
Payments for office equipment	(2,012)	(458)	(498)
Payments for intangible assets	(4,389)	(6,905)	(6,727)
Net cash (outflow) from investing activities	**(8,401)**	**(7,774)**	**(7,700)**
ORFR loan facility advance settlement proceeds	-	-	2,000
Proceeds from issues of shares and other equity securities	2,325	1,093	1,242
Dividends paid	-	(3,423)	(3,827)
Payments for capital raising costs	(52)	(19)	(16)
Repayment of lease principal payments	-	-	(1,614)
Net cash (outflow)/inflow from financing activities	**2,273**	**(2,350)**	**(2,215)**
Net increase in cash and cash equivalents	**6,122**	**1,507**	**15,343**
Cash and cash equivalents at the beginning of the financial year	10,837	16,959	18,466
Cash and cash equivalents at end of year	**16,959**	**18,466**	**33,809**

Source: HUB24

In relation to the historical cash flows position of HUB24 set out above, we note the following:

- HUB24 has generated net cash inflow in each of the periods presented above. Most of which was due to the growth in the Platform business.
- The substantial net cash inflow in FY20 is largely attributable to higher transaction volume and cash account balance in the time of extreme market volatility led by COVID-19, coupled with organic growth in FUA driving up revenue.

5.7 Pro-forma Financials

On 28 October 2020, HUB24 announced the Proposed Transaction along with two other strategic transactions

- the acquisition of Ord Minnett's portfolio administration and reporting service business for approximately $10.5 million
- a proposed 40% investment in Easton for cash consideration of $14 million plus the transfer of Paragem.

A set of pro-forma consolidated financial statements have been prepared as if these transactions had been completed prior to 1 July 2019 in respect of the financial performance and prior to 30 June 2020 in respect of the financial position. Further information is provided in Section 10 of the scheme booklet.

The pro-forma statement of financial performance for the proposed merged entity for the 12 months ending 30 June 2020 is as follows:

Figure 16: Proforma statement of financial performance of the proposed merged entity

$'000	XPL FY20 Audited	HUB FY20 Audited	Proforma adjustments	Proposed merged entity
Revenue	22,985	110,265	(26,583)	106,667
Other income	298	304	675	1,277
Total	**23,284**	**110,569**	**(25,908)**	**107,944**
Expenses				
Direct costs for providing services	(5,661)	(35,942)	24,627	(16,976)
Employee benefits expense	(11,694)	(42,320)	-	(54,014)
Communication and IT expenses	(1,849)	(3,685)	-	(5,534)
Professional fees and consulting	(1,258)	(3,690)	-	(4,948)
Other expenses	(2,209)	(5,335)	4,327	(3,217)
EBITDA	**612**	**19,596**	**3,046**	**23,254**
Acquisition-related expenses	-	(1,733)	-	(1,733)
Depreciation & amortisation	(2,172)	(5,323)	-	(7,495)
Impairment of intangibles	(10,979)	(1,000)	-	(11,979)
Fair value gain on contingent consideration	-	851	-	851
EBIT	**(12,540)**	**12,391**	**3,046**	**2,897**
Finance income	71	641	-	712
Finance costs	(75)	(204)	-	(280)
Profit before tax	**(12,544)**	**12,827**	**3,046**	**3,329**
Income tax (expense) / benefit	796	(4,599)	(526)	(4,329)
Profit after tax	**(11,748)**	**8,228**	**2,520**	**(999)**

Source: HUB24

The pro-forma statement of financial position for the proposed merged entity as at 30 June 2020 is set out below.

Figure 17: Proforma statement of financial position of the proposed merged entity

$'000	XPL 30/06/2020	HUB 30/06/2020	Proforma adjustments	Proposed merged entity
Current assets				
Cash and cash equivalents	2,251	33,809	10,947	47,008
Trade and other receivables	1,989	10,046	(499)	11,536
Other financial assets	0	0	0	0
Other assets	3,341	1,799	0	5,140
Total current assets	**7,581**	**45,655**	**10,449**	**63,684**
Non current assets				
Plant and equipment	263	1,662	(7)	1,918
Intangibles	27,899	39,963	33,928	101,790
Right of use assets	1,066	5,437	0	6,503
Deferred tax assets (net of deferred tax liability)	5,437	5,101	0	10,538
Investment in associate	0	0	18,000	18,000
Other assets	0	0	(7)	(7)
Total non current assets	**34,665**	**52,163**	**51,913**	**138,741**
Total assets	**42,246**	**97,818**	**62,362**	**202,425**
Current liabilities				
Trade and other payables	(3,050)	(5,370)	594	(7,825)
Deferred income, grants and consideration	(111)	(89)	-	(200)
Employee benefits	(911)	(6,824)	-	(7,735)
Lease liabilities	(565)	(1,670)	-	(2,235)
Other liabilities	-	(987)	(2,975)	(3,962)
Total current liabilities	**(4,636)**	**(14,940)**	**(2,381)**	**(21,957)**
Non current liabilities				
Deferred income, grants and consideration	(178)	(587)	-	(765)
Employee benefits	(249)	(1,398)	-	(1,647)
Lease liabilities	(615)	(4,385)	-	(5,001)
Other liabilities	-	(1,684)	(9,500)	(11,184)
Total non current liabilities	**(1,042)**	**(8,054)**	**(9,500)**	**(18,596)**
Total liabilities	**(5,678)**	**(22,994)**	**(11,881)**	**(40,553)**
Net assets	**36,568**	**74,823**	**50,481**	**161,872**

Source: HUB24

5.8 Capital structure and shareholders

As at 4 November 2020, HUB24 had a total of 62,830,297 ordinary shares on issue. The following table sets out details of HUB24's substantial shareholders as at that date:

Table 14: HUB24's substantial shareholders

Shareholder name	Number of shares	% Total interest
TIGA Trading Pty Ltd	6,112,400	9.73%
ECP Asset Management Pty Ltd	6,135,832	9.77%
Hyperion Asset Management Limited	5,326,764	8.48%
Bennelong Australian Equity Partners Pty Ltd	4,857,092	7.73%
Mr Ian Litster	3,280,677	5.22%
Other shareholders	37,117,532	59.08%
Total	**62,830,297**	**100%**

Source: HUB24 Annual report FY20 and ASX

In addition, there are a total of 1.6 million share options on issue with exercise prices between $2.46 and $13.44, expiring between October 2020 and November 2024 and 864,936 performance award rights expiring between November 2031 and November 2034.

5.9 Share trading

The following chart shows the market trading of HUB24 shares, for the 12 months to 4 November 2020:

Figure 18: HUB24's share performance

Source: CapIQ

In relation to the trading of HUB24 shares over the past 12 months, we note the following:

- Shares were relatively liquid, with an average daily value traded of approximately $4.9 million at a volume weighted average price ("**VWAP**") of $11.49 over the period.
- Prior to March 2020, HUB24 was trading above $10. The decline in share price in the first half of March 2020 is likely attributable to the onset of the COVID-19 pandemic disrupting the capital market. The share price fell to $6.40 before recovering in April 2020.
- The surge in trading volume on 5 March 2020 coincided with the announcement of the resignation of the CFO and the appointment of an interim CFO.
- On 12 June 2020 HUB24 was removed from the S&P/ASX200 index, resulting in a spike in trading volume and subsequent dip in the share price.
- The share price has steadily grown since July 2020, surpassing $15 in late August 2020. This is likely due to the favourable industry conditions, positive FY20 result accompanied by fully franked dividends.
- On 28 October 2020, the company announced a $60 million equity raising for the Proposed Transaction along with two other strategic transactions. The share price rose by $1.75 to $22.72 the following day.

6 VALUATION METHODOLOGY

To estimate the fair market value of Xplore Wealth and the Scrip Consideration payable by HUB24 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.

6.1 Selected Methodology – Xplore Wealth

In selecting an appropriate valuation methodology for Xplore Wealth, we have considered the following:

Table 15: Consideration of methodologies

Method	Considerations	Approach
Capitalisation of earnings	♦ There are a number of comparable listed companies for which there is sufficient data available to calculate comparable earnings multiples. There have also been a number of recent M&A transactions involving other platform providers. ♦ We have been provided with a detailed FY21 budget and have had discussions with management regarding year to date performance. ♦ Whilst Xplore Wealth expects to improve profitability significantly in the short term, a significant portion of this improvement is attributable to cost savings which have already been identified and implemented.	Selected
Discounted cash flow	♦ While there are medium term projections available for Xplore Wealth, they were prepared for impairment testing purposes ("**Impairment Model**"). Due to the restrictions placed on cash flows allowed for impairment testing, these cash flows are lower than those we believe a hypothetical acquirer of Xplore Wealth would adopt. ♦ Longer term growth expectations that can be captured from a discounted cash flow model are also captured in a capitalisation of earnings approach to the extent suitable comparable companies are used which have similar growth prospects. For this reason, a discounted cash flow approach would not provide a better measure of the potential growth in this particular instance due to the existence of listed companies with highly comparable business to Xplore Wealth.	Cross-check

Method	Considerations	Approach
Share trading	♦ Share market trading in Xplore Wealth's shares has been moderately liquid, although there have been periods where no or very low volumes of shares have been traded for several days. Therefore, an analysis of share market trading is not as reliable as the capitalisation of earnings method as a primary valuation methodology in assessing the intrinsic value of an Xplore Wealth share.	Cross-check
Asset approaches	♦ Xplore Wealth is neither an asset-based business nor an investment holding company. Asset approaches are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets. ♦ Although Xplore Wealth has a history of before tax losses, we consider it to be a going concern as the business has been able to obtain additional capital from its shareholders when required. Therefore, an asset approach is not appropriate.	Not considered

6.2 Selected Methodology – Scrip Consideration

In selecting an appropriate methodology for the valuation of the Scrip Consideration, we have considered the following:

Method	Considerations	Approach
Share trading	♦ Trading in HUB24 shares is relatively liquid indicating that the share price probably adequately reflects expectations of future performance. ♦ HUB24 provides quarterly market updates of FUA, a key driver of performance, and other significant matters. ♦ HUB24 is much larger than Xplore Wealth and as such the Proposed Transaction is not expected to have a significant effect on the HUB24 share price in the short term. ♦ To the extent Shareholders receive HUB24 shares as consideration, in the near term those shares could be sold at, or close to, the prevailing market price. If a Shareholder chose to hold HUB24 shares longer term that is a separate investment decision that is not the subject of this report.	Selected
Capitalisation of earnings	♦ In the short term we do not anticipate that the Proposed Transaction will have a material impact on the price of HUB24 shares. Thus, the capitalisation of earnings approach is less relevant to a Shareholder's decision about the Proposed Transaction than the analysis of share trading. ♦ There is limited analyst coverage of HUB24, however FY21 earnings estimates are available. ♦ There are a number of comparable listed companies for which there is sufficient analyst coverage to determine market multiples.	Cross-check
Discounted cash flow	♦ As with the capitalisation of earnings approach, we consider the analysis of share trading to be more relevant to a shareholders decision than a discounted cash flow analysis.	Not considered
Asset approaches	♦ HUB24 is neither an asset-based business nor an investment holding company. Asset approaches are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets.	Not considered

7 VALUATION OF XPLORE WEALTH

We have assessed the fair market value of Xplore Wealth using the capitalisation of future maintainable earnings method which requires consideration of the following factors:

- An appropriate level of maintainable earnings
- An appropriate earnings multiple
- The value of any non-operating assets and liabilities
- Relevant cross-checks

These considerations are discussed in more detail below.

7.1 Maintainable earnings

The following measures of earnings are often used for business valuations:

- **Revenue**: mostly 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**: while commonly used in practice, multiples of EBIT are usually more reliable than EBITA multiples 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 the whole business for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing a minority interest in a company as the investor has no control over the level of debt.

We have selected EBITDA as appropriate measures for Xplore Wealth because:

- Earnings multiples based on EBITDA, EBITA and EBIT are not affected by different financing structures which impact multiples of net profit after tax.
- EBITDA is a commonly adopted metric in the industry and removes the impact of varying capital and asset structures across comparable companies.
- Comparable companies have significantly varying investments in intangible assets, particularly capitalised software assets acquired through business combinations. This results in large differences in amortisation costs across the comparable companies that are not necessarily reflective of ongoing investment requirements. Using a multiple of EBITDA eliminates the impact of this variance in amortisation expense.
- Historically, Xplore Wealth has recorded EBIT losses primarily due to large, short term amortisation expense which is not reflective of ongoing investment required.
- Third party forecasts of EBITA for comparable companies are not readily available, making EBITA multiples difficult to apply.

When considering an appropriate level of future maintainable earnings, it is important to base the analysis on a maintainable level of earnings which includes adjustment for any non-recurring items as these items will not impact the ongoing earnings of the business.

Maintainable EBITDA

The table below sets out the FY20 underlying EBITDA and annualised year-to-date performance to 31 October 2020.

Figure 19: EBITDA build up

EBITDA build up	FY20	Annualised FY21	FY21M
Underlying EBITDA	2.8	3.7	3.7
Cost of employee option scheme	(0.3)	(0.3)	(0.3)
Subtotal	**2.6**	**3.4**	**3.4**
Annualised One Platform savings in FY21	-	1.4	2.3
Adjusted EBITDA	**2.6**	**4.8**	**5.7**

Source: Xplore Wealth and Leadenhall analysis
Notes:
1. Annualised FY21 underlying EBITDA is based on the four months to October 2020.
2. FY21M represents the FY21 maintainable earnings after the completion of the One Platform program.
3. Total annualised One Platform savings is estimated to be $2.5 million net of $0.2 million savings realised to date.

Factors considered

In considering an appropriate level of maintainable EBITDA we have focussed on the following key factors:

- **FY20 EBITDA:** underlying EBITDA reported by Xplore Wealth for FY20 was $2.8 million after taking into account the following non-recurring items:
  - A provision of $0.5 million for an historical R&D claim payment that was being challenged. This claim has now been allowed in full and no repayment will be required.
  - Expenses relating to the implementation of the One Platform program.
  - Expenses incurred as a result of the termination of the previous CEO and hiring of a new CEO and head of sales.
- **Year to date performance:** Annualised EBITDA for the four months to October 2020 is $3.7 million, based on Xplore Wealth's management accounts.
- **One Platform cost savings:** The One Platform program is a transformation project to fully integrate the Linear business. It will create a single technology back-end with one custodian, one client portal, one team and one set of policies and procedures to achieve operational efficiencies and savings. The project is expected to deliver an annualised recurring savings, up to $2.5 million. As at the close of the first quarter in FY21, various initiatives had been implemented to deliver $1.6 million in annualised recurring cost savings, $208,000 of which had been realised. Further savings are expected to be realised in the near term, subject to the completion of the Platform migration.
- **Cost of employee option scheme:** Xplore Wealth employees are able to participate in an employee option scheme. Historically the cost of this scheme has been excluded from the calculation of reported underlying EBITDA. We consider that the cost of the scheme is akin to remuneration and as such have included the cost in our estimate of maintainable EBITDA based on an average historical cost of $250,000 per annum.
- **Key client retention:** early in FY21 a key client informed Xplore Wealth that it decided to put the contract to a limited tender involving Xplore Wealth, HUB24 and one other provider. We understand there are some operational impediments that would make changing provider challenging. However, there is still a possibility of Xplore Wealth losing this client. The loss of this client would have a significant impact on revenue and EBITDA.

Based the above analysis, we have selected a future maintainable earnings of $4.5 million to $5.0 million having regards to the uncertainty over the completion of the One Platform migration and subsequent realisation of cost savings as well as the potential risk of the loss of the key client.

7.2 Earnings multiple

Overview

The multiples selected to apply to maintainable earnings implicitly reflect expectations about future growth, risk and the time value of money all compensated for 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.
- Transactions involving companies engaged in the same or similar lines of business.
- It is also possible to build a multiple from first principles based on an appropriate discount rate and growth expectations. This approach is generally used when the first two are not possible. We have not considered this approach in valuing Xplore Wealth.

Trading multiples

In respect of public company trading multiples, we have considered publicly listed companies that operate businesses with similar industry exposure to Xplore Wealth. We have taken into account two sets of comparable companies. The first set includes publicly listed independent platform providers in Australia while the second set includes publicly listed financial services administration providers in Australia. The following table sets out the historical and forecast trading EBITDA and EBIT multiples for the selected comparable companies:

Table 16: Trading multiples of comparable companies

Company	EV ($'m)	Revenue growth		EBITDA growth		EBITDA margin		EBITDA multiple	
		FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Indpendent platform providers									
Netwealth Group Limited	3,983.0	17%	19%	18%	21%	53%	53%	52.1x	43.1x
HUB24 Limited	1,354.5	14%	21%	35%	48%	26%	32%	40.5x	27.4x
Praemium Limited	316.0	31%	17%	9%	33%	24%	27%	20.3x	15.3x
Average		***21%***	***19%***	***20.9%***	***34.0%***	***34.2%***	***37.4%***	***37.7x***	***28.6x***
Other platform and administration providers									
Link Administration Holdings Limited	3,655.9	0%	8%	10%	19%	22%	24%	13.5x	11.4x
IRESS Limited	2,000.3	8%	11%	-5%	9%	23%	23%	15.7x	14.5x
Class Limited	259.6	20%	10%	21%	10%	42%	42%	11.8x	10.7x
Mainstream Group Holdings Limited	151.6	27%	12%	27%	17%	18%	18%	12.9x	11.0x
Average		***14%***	***10%***	***13%***	***14%***	***26%***	***27%***	***13.5x***	***11.9x***
Overall average		***17%***	***14%***	***17%***	***22%***	***30%***	***31%***	***23.8x***	***19.1x***
Overall median		***17%***	***12%***	***18%***	***19%***	***24%***	***27%***	***15.7x***	***14.5x***

Source: S&P CapIQ, company announcements and Leadenhall analysis as at 10 November 2020
Note: the figures presented above are post AASB116 implementation

It should be noted that these multiples are based on trading of minority shareholders. In contrast, we are considering the value of an Xplore Wealth share on a control basis. Therefore, consideration must be given to observed control premiums in the Australian market and the impact on the minority trading multiples, of the comparable companies, if applied. Further information on control premiums is provided in Appendix 4.

In addition to considering the differences between minority and control multiples, we have also considered the following factors in relation to the comparable company trading multiples in determining an appropriate earnings multiple to apply to the valuation of Xplore Wealth:

- Xplore Wealth is much smaller than the comparable listed companies set out above. All other things being equal, smaller companies trade on lower multiples.
- Based on the midpoint of the selected maintainable earnings and FY20 revenue, Xplore Wealth's EBITDA margin would be 17.4%. This is lower than the other independent platform providers and in line with Mainstream. All other things being equal, companies operating on lower margins trade at lower multiples.

- Xplore Wealth has much lower forecast revenue growth than the comparable platform providers, Class Limited and Mainstream Group. Furthermore, Xplore Wealth's forecast EBITDA growth is almost exclusively related to cost reductions rather than revenue growth. All other things being equal, higher growth companies tend to trade on higher multiples. The difference in perceived growth prospects is highlighted by the significant increase in share prices experienced by the other listed independent platform providers over the last three months as summarised below:
  - Netwealth has increased from an enterprise value of $3.0 billion on August 17 2020[3] to $4 billion
  - HUB24 has increased from an enterprise value of $1.0 billion on August 24 2020[3] to $1.4 billion
  - Praemium has increased from an enterprise value of $158 million on August 13 2020[3] to $316 million
  - Xplore Wealth's enterprise value declined from $23 million on August 24 2020[3] to $20 million on the day prior to the announcement of the transaction with HUB24.
- The significant uplift in enterprise value of the comparable independent platform providers has not been driven by an increase in near term EBITDA forecasts (which have not changed materially since August 2020). This has resulted in a significant increase in forecast EBITDA multiples. Therefore, we have not placed significant weight on these trading multiples in our selection of an appropriate multiple generally to apply to the valuation of Xplore Wealth.
- Of the other platform and administration providers, the most comparable in terms of size and operations is Mainstream Group which provides fund administration services to 350 clients with over 1,000 funds. Importantly Mainstream Group revenue is driven by FUA, cash balances and transaction volumes in the same manner as platform providers. The main difference is a lower % of FUA is charged for administration services. In comparison to Xplore Wealth, Mainstream Group is larger, has higher growth expectations and a similar EBITDA margin (although Xplore Wealth would have a higher margin if all of the cost benefits from the One Platform Program were recognised). On this basis we would expect Xplore Wealth the trade on a lower multiple than Mainstream Group (before adjusting for a control premium).

Transaction multiples

In addition to our analysis of trading multiples, we have also reviewed relevant transaction multiples in Australia. The table below shows the historical and forecast (where available) EBITDA multiples from relevant transactions with publicly available data.

Table 17: Transaction multiples

Target	Acquirer	Target location	Date	Implied EV ($'m)	EBITDA Historical	EBITDA Forecast	EBITDA multiple Historical	EBITDA multiple Forecast
OneVue Holdings	IRESS Limited	Australia	6/11/2020	112.7	6.6	7.75 to 8.2	17.1x	13.7x to 14.5x
GBST Holdings Limited	FNZ (UK) Ltd	Australia	5/11/2019	225.9	16.0	19.6	14.1x	11.5x
Stat Pro Group plc	Confluence Technolgies Inc.	UK	29/10/2019	353.7	12.6	22.0	28.1x	16.1x
IFG Group plc	Epiris Fund II	UK	28/08/2019	318.8	25.0	n/a	12.8x	n/a
Diversa Trustees/CCSL Limited	Sargon Capital	Australia	28/06/2019	37.0	2.7	n/a	13.9x	n/a
Trinity Fund Administration	Mainstream	Australia	2/10/2017	4.7	0.7	n/a	7.0x	n/a
Agility Aplications	Hub24	Australia	3/01/2017	6.2	0.5	n/a	12.8x	n/a
Financial Synergy Pty Ltd	IRESS Limited	Australia	26/09/2016	87.8	9.4	n/a	9.3x	n/a
Average							***14.4x***	***13.9x***

Source: S&P CapIQ, company announcements and Leadenhall analysis
Notes:
1. *All transaction multiples except the OneVue Holdings multiple are calculated pre-AASB116. Pre-implementation of AASB116 EBITDA would have been lower as lease costs were included as an operating expense as such pre-AASB116 multiples would be higher than post-AASB116 multiples all other things being equal.*
2. *We have considered the recent acquisition of Powerwrap by Praemium. However, as Powerwrap has negative historical EBITDA and no analyst coverage we were unable to determine a meaningful multiple from this transaction.*
3. *The range of forecast EBITDA for OneVue Holdings is derived from the mid-point of the selected maintainable earnings of the independent expert who provided an opinion on the transaction and the consensus analyst EBITDA at the time the transaction was announced.*
4. *The assessed enterprise value for the Diversa Trustees and Trinity Fund administration transactions excludes contingent consideration as there was no forecast EBITDA publicly available.*
5. *The average forecast multiple includes the mid-point of the OneVue Holdings forecast multiple.*

[3] *Date of last balance sheet filing*

The observed multiples from comparable transactions are control multiples and include any premium paid for control. Therefore, no adjustment for a control premium is required. These multiples also include any value paid for synergies, including any special value.

We have considered the following factors in relation to the above transaction multiples in determining an appropriate earnings multiple to apply to the valuation of Xplore Wealth:

- The most comparable transaction is the acquisition of OneVue Holdings by IRESS which closed on 6 November 2020. OneVue has similar operations to Xplore Wealth. In FY20 OneVue derived approximately 64% of revenue from fund administration services with the remaining 36% of revenue being derived from platform services.
- In comparison to Xplore Wealth, at the time of the transaction, OneVue Holdings was larger (pre-announcement market cap of approximately $70 million, had higher historical EBITDA and EBITDA growth (underlying EBITDA of $6.6 million in FY20, representing 42% growth on the prior year), slightly higher forecast revenue growth in FY21 of 6.5%, lower forecast FY21 EBITDA growth of 24% (noting Xplore wealth forecast FY21 EBITDA growth is primarily attributable to One Platform cost savings) and similar forecast EBITDA margins (when using our selected maintainable earnings to calculate Xplore Wealth's forecast FY21 margin). Overall, due to the larger size and higher growth prospects of OneVue Holdings we expect that Xplore Wealth would trade on a slightly lower multiple.
- Excluding the Stat Pro transaction (which has a much higher historical multiple than the other comparable transactions), the average historical EBITDA multiple of the comparable transactions is 12.4x.

Conclusion

We have selected a capitalisation multiple of 12.0x to 13.0x to value Xplore Wealth on a control basis. Our key considerations in selecting the appropriate multiple are summarised below:

- We have given less weight to the current trading multiples of the comparable listed independent platform providers as Xplore Wealth has not followed the trend of positive market sentiment experienced by these companies in the last three months.
- We have given most weight to the forecast trading multiples of Mainstream Group and the OneVue Holdings transaction multiples as these are the most comparable companies in terms of size and EBITDA margins whilst also operating similar business models with the same revenue drivers as Xplore Wealth.

7.3 Non-operating assets and liabilities

In order to assess the value of Xplore Wealth shares, it is necessary to identify any other assets and liabilities not included in the enterprise value calculated. 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.
- **Net debt**: comprising of debt used to fund a business, less surplus cash held by the company.

Each of these factors are considered below.

Surplus assets

We have identified one surplus asset being carried forward tax losses. As at 30 June 2020, a deferred tax asset of $5.2 million was recognised in respect of carried forward tax losses. There are a further $2 million carried forward tax losses which does not meet the recognition criteria. We do not consider that a purchaser would attribute full value to the carried forward tax losses due to uncertainty regarding the timing and quantum of tax loss realisation. As such we have included a value of $3.6 million for the carried forward tax losses. We note that attributing full value to the tax losses would not change our opinion.

Non-operating liabilities

We have identified one non-operating liability, being the investment required to complete the One Platform program. Management estimate the cost to complete the One Platform program is in the range of $2 million to $2.5 million.

We note that as at June 2020, there was a contingent liability in respect of the potential repayment of previous R&D claims made by Linear. On 4 November 2020 it was confirmed that the R&D claim has been accepted in full and therefore no repayment is required.

Net debt

The net debt position for Xplore Wealth as at 30 September 2020 is set out in the table below:

Table 18: Net debt summary

Net debt ($'m)	
Cash	3.1
Loan receivable	0.7
Net cash / (debt)	**3.8**

Source: Xplore Wealth
Note: Loan receivable relates to the sale of Xplore Wealth's 50% interest in McGregor Wealth Management, the proceeds from which have a two year repayment period with settlement expected before 30 June 2021.

7.4 Value allocated to options

Xplore Wealth currently has 22.3 million options on issue as set out in Section 4.10 above. We have assessed the value of the outstanding options using the Black-Scholes Merton valuation method as described in Section 8 below.

7.5 Valuation summary

Based on the analysis set out above, the value of a Xplore Wealth share (on a control basis) is as set out in the table below:

Table 19: Valuation summary

($'m)	Low	High
Maintainable EBITDA	4.5	5.0
Multiple	12.0x	13.0x
Enterprise value	**54.0**	**65.0**
Net cash	3.8	3.8
Surplus asset	3.6	3.6
Non-operating liabilities	(2.5)	(2.0)
Equity value	**58.9**	**70.4**
Value allocated to options	(1.8)	(1.8)
Value attributable to ordinary shares	**57.1**	**68.6**
Number of shares	297.5	297.5
$/share	**0.192**	**0.231**

Source: Leadenhall analysis

7.6 Cross-checks

High level DCF

We have conducted a high level DCF analysis based on the impairment model provided by Xplore Wealth and our assessed discount rate. The key inputs to this analysis are summarised below:

- Revenue growth rate is assumed to be in line with the budget for FY21 and FY22 and 5% from FY23 onwards
- EBITDA margin is expected to increase towards market average over the forecast period
- The adopted discount rate is in the range of 12.5% to 14.5%
- The adopted terminal growth rate is 2.5%.

Based on the above inputs, the enterprise value for Xplore Wealth is in the range of $38.5 to $46.4million or $0.13 to $0.16 per share, which is slightly below our assessed value. This is in line with our expectation as, due to the restrictions on cash flows for impairment testing purposes, forecasts prepared for impairment testing purposes are generally conservative. Thus, we consider the high-level DCF to be broadly supportive of the value derived from our primary valuation methodology.

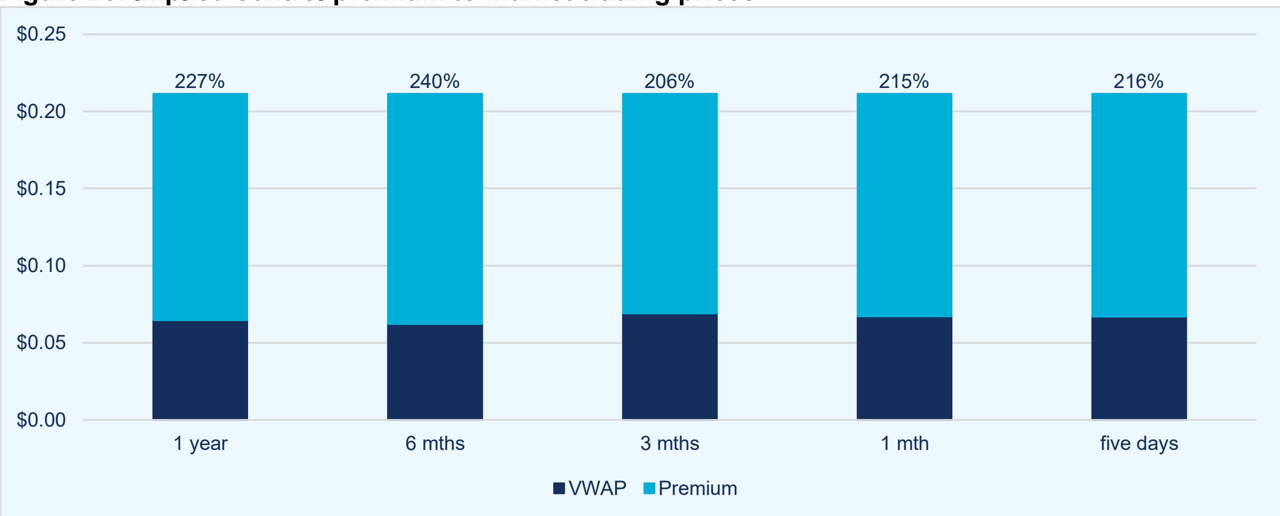
Share trading analysis

Market trading in Xplore Wealth shares provides an indication of the market's assessment of the value of Xplore Wealth on a minority basis. We have presented an analysis of recent trading in Xplore Wealth shares in Section 4.11 above. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- Xplore Wealth is a listed company with continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably informed about its activities. However, Xplore Wealth has demonstrated limited profitability in recent times. Investing in Xplore Wealth may therefore be perceived as speculative.
- Xplore Wealth is currently undergoing a transformation project aimed at delivering significant cost savings. The full quantum of the potential cost savings from the One Platform program has not been disclosed to the market.
- Xplore Wealth shares are reasonably widely held. However, Xplore Wealth shares traded with an average daily volume of approximately 0.25 million and the daily market trading was frequently under $20,000 over the 12 months to 28 October 2020. 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.

As a result of these factors, we consider the market trading to be moderately well-informed but relatively illiquid. 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 Xplore Wealth share over various periods leading up to the announcement of the Proposed Transaction on 29 October 2020, as set out in the following figure.

Figure 20: Implied control premium to market trading prices



Source: S&P CapIQ 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 4.

The control premium for Xplore Wealth is outside of the generally observed range, however we consider this is largely attributable to Xplore Wealth's shares likely trading below intrinsic value prior to the Proposed Transaction for the following reasons:

- Low liquidity level of Xplore Wealth shares with period of several days of little or no share trading. Companies with lower liquidity levels generally have larger gaps between share trading prices and intrinsic value.
- No analyst coverage. Smaller listed companies that have no analyst coverage have a smaller pool of buyers as institutional investors generally do not invest in these companies. Further, no analyst coverage means there is less information available regarding the expected intrinsic value of a companies shares.
- Low growth compared to larger listed peers. The significant growth of HUB24 and Netwealth may have led investors to believe that these larger listed companies would likely capture the majority of the growth opportunity from the continued trend away from institutionally aligned platforms to independent platforms.
- The market is not privy to the expected full benefit of the One Platform program. As this information is commercially sensitive it is likely that the full cost saving benefit of the One Platform program is not represented in the historical share price of Xplore Wealth.
- No FY21 earnings guidance. To date, Xplore Wealth has not provided earnings guidance for FY21 resulting in any expected increase in future earnings not being reflected in historical share prices.

Having regard to the potential reasons for the disparity between historical share prices and our assessed value, we do not consider that historical share trading is a meaningful representation of the value of an Xplore Wealth share and as such we have placed little weight on historical share prices when considering the current value of an Xplore Wealth share.

8 VALUATION OF OPTIONS

We have assessed the value of the outstanding options to acquire Xplore Wealth shares using the Black-Scholes option pricing model.

We adopted the following key inputs:

- A spot price of $0.211, being the midpoint of our assessed valuation range
- The relevant exercise price and expiry date as set out in Section 4.10 above
- A risk-free rate consistent with the yield on Australian Government bonds that most closely match the remaining life of each option tranche as at 12 November 2020 (two or three year bonds with a yield of 0.10% and 0.11% respectively)
- Volatility of 50% based on consideration of the observed volatilities for comparable entities presented in Appendix 5. In making this selection we note that recent market volatilities have been unusually high, which is not expected to persist in the future. This would lead to a generally lower volatility. This is balanced by Xplore Wealth being considerably smaller than many of the selected comparable entities and smaller entities generally experiencing a higher level of volatility.
- A dividend yield of 0% consistent with recent historical dividend yields and managements near term expectations.

The results of this analysis are summarised in our conclusion table in Section 11 below.

9 VALUATION OF CONSIDERATION

9.1 Introduction

Shareholders may elect to receive their consideration (per Xplore Wealth share) as one of the following alternatives:

- Cash Consideration - $0.20
- Scrip Consideration - 0.00927 HUB24 shares

The total Cash Consideration is capped at $36 million and the Scrip Consideration is capped at 1.38 million HUB24 shares. If these caps are exceeded by the elections received from Shareholders, the elections will be scaled back on a pro-rata basis.

Shareholders who do not make an election will receive $0.20 per Xplore share for 50% of their Xplore shares and 0.00927 HUB24 Consideration Shares for 50% of their Xplore Shares.

We have valued the cash component at face value which is typical unless there is a delay between completion and payment, or funds are received in tranches.

We have determined the fair market value of the scrip component using an analysis of share market trading in HUB24 shares. We have cross checked this against the current trading multiples of comparable companies. This assessment has been made on a minority interest basis (i.e. excluding a control premium) as Xplore Wealth's existing shareholders would be minority shareholders in HUB24 if the Proposed Transaction proceeds.

9.2 Analysis of share market trading

As market trading in HUB24 shares is well informed and liquid with a wide spread of shareholders we consider an analysis of recent share market trading to be a reasonable basis to determine the fair market value of a HUB24 share.

The Proposed Consideration is comprised of post transaction shares. As such we have primarily analysed trading in HUB24 shares since the announcement of the Proposed Transaction on 28 October 2020. Since the announcement of the Proposed Acquisition, HUB24 shares have traded in the range of $20.54 on 10 November 2020 to $22.97 on 30 October 2020, with a VWAP of $21.60 and average daily volume of $6.7 million. The latest share price as at 16 November 2020 is $21.23.

Based on recent share market trading after the announcement of the Proposed Transaction we have assessed the value of a HUB24 share to be in the range of $21.0 and $22.0.

9.3 Cross-check

Based on the selected value of a HUB24 share of between $21.0 and $22.0, the enterprise value and forecast EBITDA multiples for HUB24 are set out in the table below.

Implied EBITDA multiples		
($'m)	**Low**	**High**
Selected share price ($)	21	22
Number of share on issue	66	66
Notional market capitalisation	**1,378**	**1,443**
Add: net debt	(28)	(28)
Implied enterprise value	**1,350**	**1,416**
EBITDA multiple (FY21)	**40.4x**	**42.4x**
EBITDA multiple (FY22)	**27.3x**	**28.6x**

Source: Leadenhall Analysis
Note: EBITDA multiples are calculated based on the consensus forecast EBITDA available prior to the Proposed Transaction.

Forecast multiples for companies that operate in the same or similar sectors to HUB24 and Xplore Wealth are set out in Table 16. Whilst the calculated HUB24 EBITDA multiples are at the higher end of the comparable companies, we do not consider this to be unreasonable given their strong historical and forecast growth as well the recent performance and multiples of their closest competitor, Netwealth. Overall, we consider that the cross-check provides support for the selected value of a HUB24 share.

9.4 Assessed value of consideration

Based on the analysis above, the assessed value of the consideration is set out in the table below.

Table 20: Assessed value of consideration

($)	Low	High
Number of HUB24 shares per Xplore Wealth share	0.004635	0.004635
Assessed value of HUB24 share	21.00	22.00
Assessed value of scrip component of consideration	**0.097**	**0.102**
Cash consideration	0.10	0.10
Total value of Proposed Consideration	**0.197**	**0.202**

Source: Leadenhall Analysis

As the current share price of HUB24 is consistent with the price at which the Proposed Transaction was negotiated there is no material difference between the Scrip Consideration and the Cash Consideration. A shareholder's choice between the two will depend on the price of HUB24 shares at the time of the shareholder's election and the shareholder's personal situation, including individual taxation considerations.

Furthermore, as the total Cash Consideration is capped at $36 million and the Scrip Consideration is capped at 1.38 million HUB24 shares, if these caps are exceeded by the elections received from Shareholders, the elections will be scaled back on a pro-rata basis. This effectively means that overall shareholders need to take a mix of Cash and Scrip consideration.

10 EVALUATION - SHAREHOLDERS

10.1 Fairness

We have assessed whether the Proposed Transaction is fair by comparing our assessed fair market value of a Xplore Wealth share on a control basis with the consideration offered. This comparison is set out in the table below.

Table 21: Assessment of fairness

$	Low	High
Assessed value of a Xplore Wealth share	0.192	0.231
Assessed value of Proposed Consideration	0.197	0.202

Source: Leadenhall Analysis

Since the consideration offered is within the assessed range of values of a Xplore Wealth share the Proposed Transaction is fair to Shareholders.

10.2 Reasonableness

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. Despite determining the Proposed Transaction is fair to Shareholders, we have also considered the advantages and disadvantages of the Proposed Transaction below.

Advantages

Share price

Since the announcement of the Proposed Transaction Xplore Wealth shares have traded approximately in line with proposed consideration. This is considerably higher than trading prices before the announcement. If the Proposed Transaction is not approved it is likely that trading price will fall, at least in the short term.

Control premium

The assessed value of the Proposed Consideration represents a control premium of between 146% and 196% compared to the one week VWAP prior to the announcement of the Proposed Transaction. This is at the higher end of observed control premiums as set out in Appendix 4. Further if the Proposed Transaction did not proceed it is likely that the share price of Xplore Wealth would drop to closer to pre-transaction levels.

Retained exposure to sector

The scrip component of the Proposed Consideration allows for Xplore Wealth shareholders to retain exposure to the sector if they wish to do so.

No superior alternative offer

We are not aware of any competing proposals to acquire Xplore Wealth by any third party. However, we note that there would be an opportunity for any other interested party to put forward a competing offer prior to the scheme meeting being held. In these circumstances Shareholders would need to consider the competing offer before concluding on the Proposed Transaction.

Disadvantages

Potential loss of upside benefit

If Xplore Wealth is able to successfully implement the One Platform program delivering cost savings at the higher end of expectations and attracting new clients with an improved customer experience, it is possible that share price of Xplore Wealth may exceed our assessed value in the medium term. To the extent Shareholders receive cash consideration they will lose this exposure. However, there are significant risks associated with achieving this level of growth.

Tax implications

The acceptance of the Proposed Transaction may have varying tax implications for individual shareholders, which could result in immediate tax leakage that would otherwise be deferred in other transaction structures or in the absence of the Proposed Transaction. Since this may impact the net cash consideration received this may be a disadvantage for those shareholders that incur a taxation liability as a result of the Proposed Transaction. Shareholders should seek their own independent advice as to any potential tax implications of the Proposed Transaction.

Conclusion on reasonableness

As the Proposed Transaction is fair it is also reasonable.

10.3 Opinion

As the Proposed Transaction is fair and reasonable, it is also in the best interests of Shareholders.

We have evaluated the Proposed Transaction for 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 this Proposed Transaction on their specific financial circumstances.

11 EVALUATION – OPTIONHOLDERS

11.1 Fairness

The following table sets out a comparison of our assessed value for the options with the proposed consideration:

Table 22: Assessment of fairness - options

Tranche	Number	Valuation	Consideration
2017 ESOP	278,735	1,776	252
2019 ESOP	1,506,816	61,173	10,277
2020 ESOP	3,021,732	255,447	62,171
2021 ESOP	5,821,500	529,365	133,548
2017 XSOP	856,666	10,491	1,576
2020 XSOP i	3,402,100	287,694	69,995
2020 XSOP ii	1,000,000	62,016	16,481
2020 XSOP iii	1,000,000	50,495	14,224
2021 XSOP	5,460,000	496,493	120,596
Total	**22,347,549**	**1,754,951**	**429,120**

Source: Leadenhall Analysis

As the consideration offered is below our assessed value of the options, the Proposed Transaction is not fair to Optionholders.

11.2 Reasonableness

The advantages and disadvantages to Optionholders are broadly similar to those set out for Shareholders in Section 10.2 above. However, an additional consideration for Optionholders is that if the share scheme is approved but the option scheme is not, Optionholders will have a one month window to exercise their options, otherwise the options will lapse. The shares that would be issued upon conversion of the options could then be compulsorily acquired by HUB24, therefore losing their time value. As we consider the share scheme to be in the best interests of Shareholders we consider this to be a likely outcome. The following table compares the proceeds to Optionholders based on a compulsory acquisition at $0.20 with the consideration payable under the Proposed Transaction:

Table 23: Comparison to compulsory acquisition at $0.20

Tranche	Number	Consideration	Intrinsic value @ $0.20 share
2017 ESOP	278,735	252	-
2019 ESOP	1,506,816	10,277	-
2020 ESOP	3,021,732	62,171	60,435
2021 ESOP	5,821,500	133,548	116,430
2017 XSOP	856,666	1,576	-
2020 XSOP i	3,402,100	69,995	68,042
2020 XSOP ii	1,000,000	16,481	-
2020 XSOP iii	1,000,000	14,224	-
2021 XSOP	5,460,000	120,596	109,200
Total	**22,347,549**	**429,120**	**354,107**

Source: Leadenhall Analysis

As set out above, if the share scheme is approved the outcome for Optionholders is better if the option scheme is approved than if it is not approved. For this reason, we consider the Proposed Transaction is reasonable to Optionholders.

11.3 Opinion

As the Proposed Transaction is not fair but reasonable to Optionholders, it is in their best interests.

We have evaluated the Proposed Transaction for Optionholders 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 this Proposed Transaction on their specific financial circumstances.

APPENDIX 1: GLOSSARY

Term	Meaning
Agility	Agility Applications Pty Ltd
All Ords	Australian All Ordinaries Index
APRA	Australian Prudential Regulatory Authority
Aracon	Aracon Superannuation Pty Ltd
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUD	Australian Dollar
CAPM	Capital Asset Pricing Model
Cash Consideration	$0.20 per Xplore Wealth share in cash
Corporations Act	The Corporations Act 2001
DIY Master	DIY Master Pty Ltd
Easton	Easton Investments Ltd
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
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
FOS	Financial Ombudsman Service
FPA	Financial Planning Association
FSG	Financial Services Guide
FUA	Funds under Administration
FY	Financial year
Item 7	Item 7 of Section 611 of the Corporations Act
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
Linear	Linear Financial Holdings Pty Ltd
MAH	Managed Accounts Holding Ltd
MDAs	Managed Discretionary Accounts
Mixed Consideration	$0.20 per Xplore share for 50% of an Xplore share and 0.00927 HUB24 Consideration Share for 50% of an Xplore Share
Optionholders	Optionholders of Xplore Wealth
P / E	Price to Earnings
Paragem	Paragem Pty Ltd
Part 3	Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cwlth)
PBT	Profit Before Tax
Platform	HUB24 investment platform
PP&E	Property, plant and equipment
Proposed Transaction	The acquisition of 100% of the shares in Xplore Wealth by HUB24 through a scheme of arrangement
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
RSE	Registrable Superannuation Entity
Scrip Consideration	0.00927 HUB24 share per Xplore Wealth share
Section 411	Section 411 of the Corporations Act 2001
Shareholders	Shareholders of Xplore Wealth
SMSFs	Self-managed Superannuation Funds
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: COMPARABLE COMPANIES

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

Company	Description
Class Limited	Class Limited develops and distributes cloud-based accounting, investment reporting, and administration software for accountants, administrators, and advisers in Australia.
Fiducian Group Limited	Fiducian Group Limited, through its subsidiaries, operates as a financial services company in Australia and India.
HUB24 Limited	HUB24 Limited, together with its subsidiaries, provides wealth management solutions for the financial services industry in Australia.
IOOF Holdings Ltd	IOOF Holdings Ltd provides financial advice, portfolio management and administration, and investment management services in Australia.
IRESS Limited	IRESS Limited provides market data, trading, compliance, order management, portfolio and wealth management, mortgages and related tools in Australia, New Zealand, Asia, North America, Europe, South Africa, and the United Kingdom.
Link Administration Holdings Limited	Link Administration Holdings Limited provides technology-enabled administration solutions trustees in Australia, New Zealand, the United Kingdom, Channel Islands, and internationally.
Mainstream Group Holdings Limited	Mainstream Group Holdings Limited provides fund administration services for the financial services industry in the Asia Pacific, Americas, and Europe.
Netwealth Group Limited	Netwealth Group Limited, a financial services company, engages in the wealth management business in Australia.
Perpetual Limited	Perpetual Limited is a publicly owned investment manager.
Praemium Limited	Praemium Limited, together with its subsidiaries, provides managed accounts platform, investment management, portfolio administration, and reporting and financial planning software in Australia and internationally.
Xplore Wealth Limited	Xplore Wealth Limited, through its subsidiaries, operates as an independent specialist platform provider and investment administrator with a specialization in managed accounts in Australia.

Source: CapIQ

APPENDIX 4: 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

As discussed above, 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

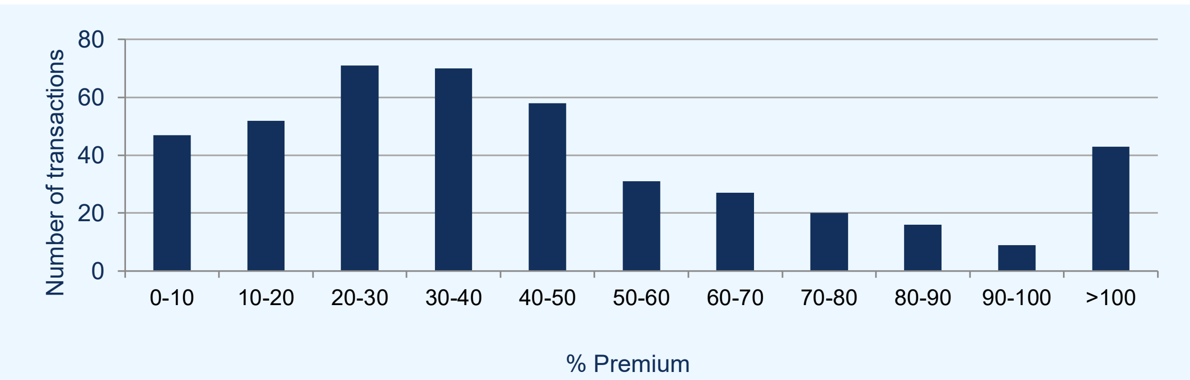
The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally 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 21: Takeover premium by size



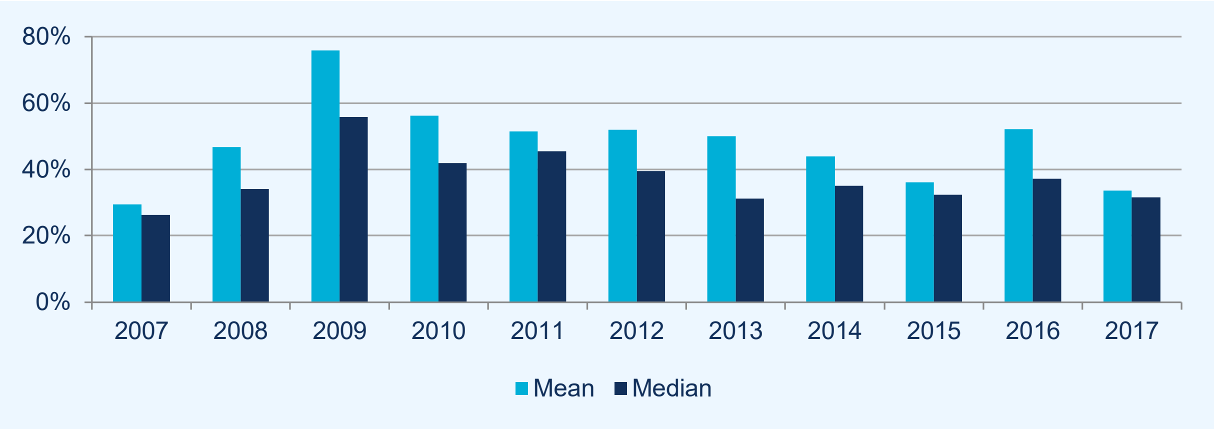
Sources: S&P Capital IQ, Leadenhall analysis

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 22: Average takeover premium (1 month)



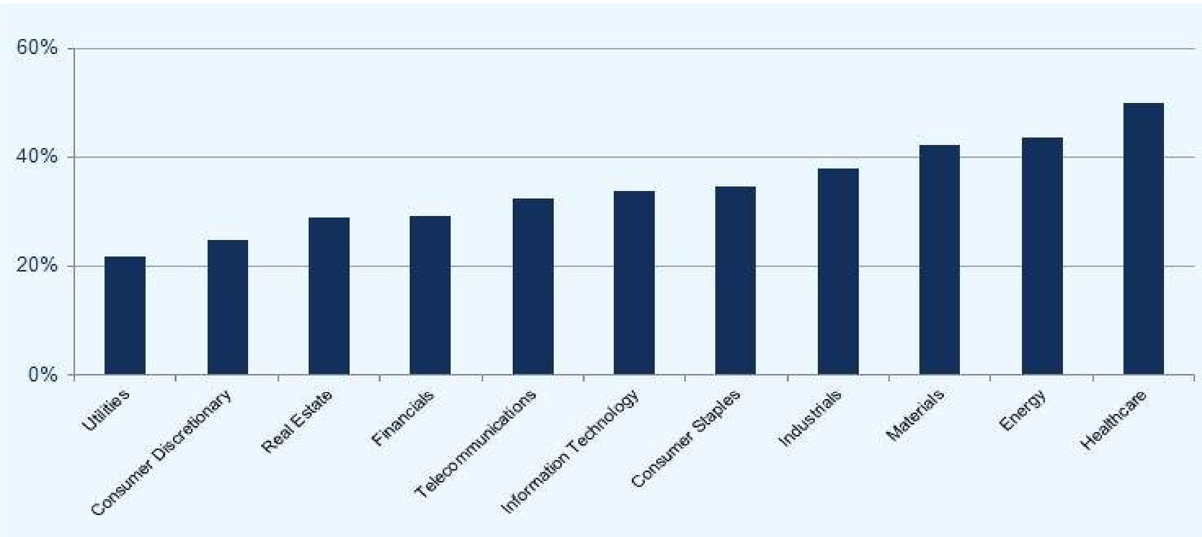
Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

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 23: 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 viewpoint 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 control 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 is 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 high dividend pay-out generally leads to a low 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 5: VOLATILITY ANALYSIS

The historical volatility of companies with comparable operations to Xplore Wealth are set out in the table below.

Company	Market cap ($'m)	4 Year	3 Year	2 Year	1 Year
Indpendent platform providers					
Netwealth Group Limited	3,767	41%	41%	42%	46%
HUB24 Limited	1,361	40%	44%	45%	49%
Praemium Limited	333	54%	57%	62%	64%
Average		**45%**	**47%**	**50%**	**53%**
Median		**41%**	**44%**	**45%**	**49%**
Other platform and administration providers					
Link Administration Holdings Limited	2,626	33%	36%	41%	48%
IOOF Holdings Ltd	2,497	49%	56%	66%	64%
IRESS Limited	1,995	24%	26%	27%	30%
Perpetual Limited	1,891	30%	33%	38%	46%
Class Limited	245	39%	41%	45%	52%
Fiducian Group Limited	180	30%	33%	35%	42%
Mainstream Group Holdings Limited	147	49%	52%	56%	59%
Average		**36%**	**40%**	**44%**	**49%**
Median		**33%**	**36%**	**41%**	**48%**

Sources: S&P Capital IQ as at 25 November 2020

APPENDIX 6: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Xplore Wealth's 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 Xplore Wealth 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 Xplore Wealth'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 Xplore Wealth'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 Xplore Wealth, 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 Xplore Wealth 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 Xplore Wealth and their officers, employees, agents or advisors, Xplore Wealth 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 Xplore Wealth and their officers, employees, agents or advisors or the failure by Xplore Wealth 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, Simon Dalgarno, B.Ec, FCA, F.FINSIA, Nathan Timosevski, BBus, Grad Dip App Fin, BV Specialist, CA, A.FINSIA, Katy Lawrence, BCom., CA and Vicky Lau, BCom., CA.

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 Xplore Wealth. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.

Leadenhall and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Xplore Wealth, HUB24 or any related entities or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

In the previous two years we have provided valuation advice to Xplore Wealth in order to assist Xplore Wealth management in satisfying their financial reporting requirements. This work did not involve Leadenhall participating in setting the terms of this report.