



Henry Morgan

Announcement

Henry Morgan Limited

ACN 602 041 770

8 June 2018

Completion of NTA Review by independent expert

Henry Morgan Limited (ASX: HML) (**Henry Morgan** or **Company**) refers to its previous announcement of 4 June 2018 regarding the appointment of Leadenhall Corporate Advisory Pty Ltd (**Leadenhall**) as an independent valuer to review its historical valuations of the Company's unlisted investments included in the net tangible asset backing of the Company's quoted securities (**NTA Review**). Leadenhall has now completed the NTA Review.

For the purposes of Listing Rule 4.12, the Company sets out below the indicative estimates¹ of the unadjusted net tangible assets (**NTA**) of the Company's investment portfolio for the months ending 31 May 2017 through to 30 April 2018. The Company considers that Leadenhall's report attached to this announcement validates the methodology that Henry Morgan has used to calculate each historical NTA and the reasonableness of the NTA calculations presented.

	31 May 2017	30 Jun 2017	31 Jul 2017	31 Aug 2017	30 Sep 2017	31 Oct 2017
NTA backing before tax ² :	1.9658	1.8074	1.8266	1.8444	1.8207	1.8171
NTA backing after tax:	1.6720	1.5228	1.5421	1.5598	1.5362	1.5326

	30 Nov 2017	31 Dec 2017	31 Jan 2018	28 Feb 2018	31 Mar 2018	30 Apr 2018
NTA backing before tax ³ :	1.8148	1.8664	1.8603	1.7736	1.7648	1.7571
NTA backing after tax:	1.5303	1.5751	1.5690	1.4601	1.4512	1.4435

The Company also refers to previous announcements⁴ regarding an offer for the acquisition of all of its interests in JB Financial Group Pty Ltd and Bartholomew Roberts Pty Ltd for a total combined consideration (face value which may not be representative of fair value) of \$79.16 million (**Offer**). Should the Offer proceed as envisaged and receive Henry Morgan shareholder approval, an increase in the Company's NTA may reasonably be expected to occur.

Stuart McAuliffe, Managing Director, said, "Detailed management valuations of the Company's investments in unlisted assets reflected in the above NTA have not been revised since 28 February 2018. Even in the absence of the Offer, the Company would work with its auditors to revalue its unlisted investments as at 30 June 2018

¹ Unless otherwise indicated, the estimates do not include the impact of corporate actions for the month-to-date. The indicative estimates provided in this announcement are after accrued performance fees. Apart from the annual audit and half year review undertaken by HML's auditor, KPMG, the indicative estimates are based primarily on internal data and, being estimates, should not be relied upon by any party.

² Provisions for tax on realised and unrealised profits and gains have not been included in the calculation of 'NTA backing before tax.'

³ *Ibid.*

⁴ Refer to announcements dated 11 May 2018 and 28 May 2018.



Henry Morgan

Announcement

Henry Morgan Limited

ACN 602 041 770

in light of the expected uplift due to the perceived positive performance of underlying businesses of the unlisted investments over this period.”

Kevin Mischewski

Company Secretary

Henry Morgan Limited

cosec@henrymorgan.com.au

8 June 2018

The Independent Directors
Henry Morgan Limited
GPO Box 3112
Brisbane QLD 4001

Dear Directors,

RE: Review of unlisted assets valuation for Henry Morgan Limited

1. Introduction

1.1. Background

Henry Morgan Limited ("**HML**") is a listed investment company with interests in derivative instruments and in listed and unlisted securities. HML's unlisted investments primarily comprise investments in JB Financial Group Limited ("**JBFG**") and Bartholomew Roberts Pty Limited ("**BRL**") (together "**HML Unlisted Investments**"). BRL is an investment company invested in unlisted securities. BRL's assets include an interest in JBFG. JBFG is a financial services company with businesses including foreign exchange dealing, a specialist derivatives broking and proprietary trading business ("**JBTH**"), mercantile agency and investigation services, and a recently established FinTech division. The retail foreign currency business is operated through a 100% subsidiary, Kings Currency Exchange Pty Ltd ("**Kings Currency**").

1.2. Scope

HML has not provided an update to the market in respect of its net tangible asset position ("**NTA**") since 30 June 2017.

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") has previously been engaged by HML to prepare an independent expert's report ("**IER**") for the independent directors of HML in respect of the potential sale of HML's interests in JBFG and BRL ("**Proposed Transaction**").

Whilst our substantive work for evaluation of the Proposed Transaction is largely complete, the timing of the Proposed Transaction has been delayed as the final documentation is in the process of being finalised.

In order to assist in finalising the NTA position for HML since 30 June 2017, HML has therefore requested Leadenhall prepare a review of the valuation of the HML Unlisted Investments from 1 July 2017 to 30 April 2018 and to provide a short letter summarising our findings for lodgement with ASX.

1.3. Definition of value

For the purpose of our analysis, we have utilised 'fair market value' which is defined 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 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."

Source: International Glossary of Business Valuation Terms

We consider this definition to be consistent with the definition of fair value in accordance with AASB 13 Fair Value Measurement.

2. Approach

2.1. Our approach

Our approach in reviewing the valuation of the HML Unlisted Investments since 1 July 2017 included:

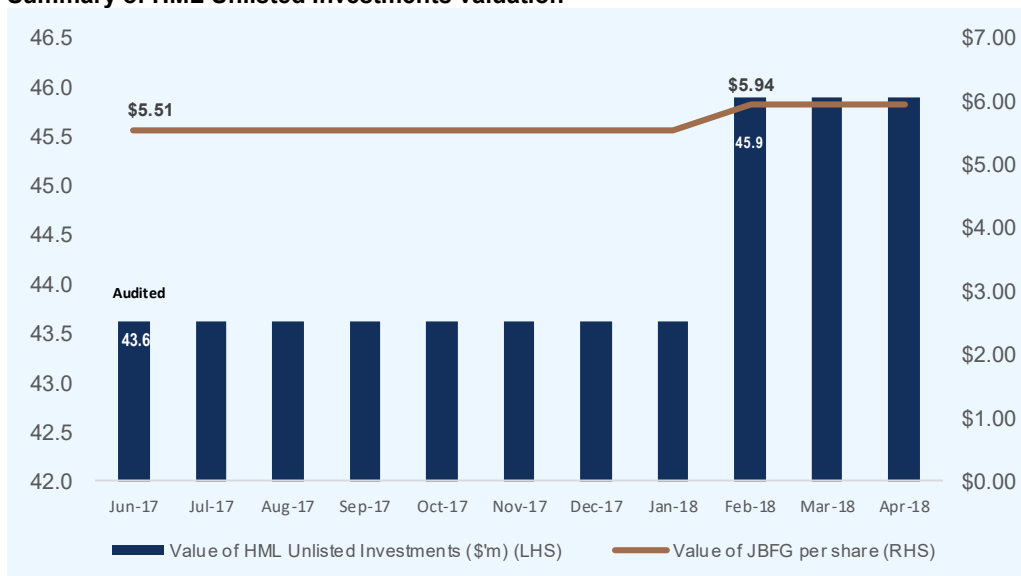
- ◆ Discussions with the external auditors of HML to understand the approach adopted and key findings in respect of auditing the fair value of the HML Unlisted Investments as at 30 June 2017 and the half-year review as at 31 December 2017.
- ◆ Discussions with HML and JBFG management in respect of the approach to estimating the value of the HML Unlisted Investments over the period and the key changes to the businesses and/or operating environments since.
- ◆ Consideration of the components of the independent valuation work we have undertaken to date in respect of the IER that relate specifically to the HML Unlisted Investments.

3. Analysis and findings

3.1. Summary of management valuation of HML Unlisted Investments

HML has provided the NTA position since 30 June 2017 which primarily comprises the HML Unlisted Investments, the value of which is summarised below:

Summary of HML Unlisted Investments valuation



Source: HML, Leadenhall analysis

Note: HML's valuation of the HML Unlisted Investments is undertaken on a half-yearly basis

3.2. Consideration of changes since 30 June 2017

In assessing the reasonableness of the valuation of the HML Unlisted Investments since 30 June 2017 we have considered the following:

- ◆ We have relied upon the 30 June 2017 valuation as a starting point as this was subject to audit. We discussed the approach to assessing the reasonableness of HML's valuation of the HML Unlisted Investments as at 30 June 2017 with HML's auditor and note that the auditor issued an unqualified opinion.
- ◆ The increase in the value of the HML Unlisted Investments over the period was \$2.3 million and was due to an increase in HML's assessed value of its economic interest in JBFG.

- ◆ The changes in the underlying businesses of JBFG since 30 June 2017 which included the following:
 - Whilst there were slower than anticipated ramp-ups in revenue/profitability across most of the businesses, this was largely seen to be a timing delay as more recent months indicate a higher trajectory in these businesses.
 - Execution of strategic initiatives across the group which included a significant strategic alliance established by JBTH, thirteen additional store openings by Kings Currency (as well as detailed planning and indicative pricing obtained for a potential IPO of the business) and establishment of a FinTech strategy (although this remains at a very early stage).
 - Acquisition of Genesis and Shuh Group for combined consideration of \$12 million.
- ◆ An increase in net liabilities of \$1.1 million in respect of HML's investment in BRL.
- ◆ No significant changes in equity markets broadly that would indicate any broad re-rating of JBFG.

Based on the above factors, the change in the value of the HML Unlisted Investments does not appear to be unreasonable.

3.3. Other analysis

As part of our work to date in respect of the IER for the Proposed Transaction, we have undertaken significant analysis in respect of the valuation of the underlying businesses of JBFG which has included:

- ◆ Discussions with senior management of all business units of JBFG to understand the history of each business unit of JBFG as well as the respective competitive environment, recent financial results and basis for budgets and other longer-term projections prepared (where applicable).
- ◆ Review of historical financial results (including current year management accounts) and existing budgets/forecasts and key underlying assumptions.
- ◆ Independent analysis of appropriate maintainable earnings projections, near term estimates and run rates having regard to actual performance relative to budget, likely market participant assumptions and available benchmarking to market evidence (such as earnings margins, growth rates observed for comparable companies).
- ◆ Independent analysis of market evidence for each business unit of JBFG in respect of discount rates and/or earnings multiples implied by the share trading and transactions involving broadly comparable companies.

We highlight that due to the complexity and the early-stage nature of a number of the underlying businesses of JBFG that any assessment of value for JBFG is necessarily dependent on a range of subjective assessments.

However, based on our analysis to date in respect of the Proposed Transaction, HML's assessed value of the HML Unlisted Investments is not unreasonable.

4. Conclusion

Based on the factors considered above, we do not consider that the value of the HML Unlisted Investments summarised in Section 3.1, and as used in the calculation of the historical monthly NTA for HML set out in the ASX Announcement for HML dated 8 June 2018, is unreasonable.

Yours sincerely



Dave Pearson
Director



Richard Norris
Director

Appendix 1: Disclaimers

Responsibility and Purpose

This report has been prepared for HML to assist in its reporting obligations including possible lodgement with the ASX. Leadenhall expressly disclaims any liability to HML, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

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.

Reliance on Information

In preparing this report we relied on the information provided to us by HML being complete and accurate. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to HML management for confirmation of factual accuracy.

Indemnities

In recognition that Leadenhall may rely on information provided by HML and its officers, employees, agents or advisors, HML 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 HML and its officers, employees, agents or advisors or the failure by HML and its officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Independence

Leadenhall has acted independently of HML. Compensation payable to Leadenhall is not contingent upon the conclusion reached in this report.

Professional Standards

As our scope has been to review the analysis undertaken by HML in respect of the HML Unlisted Investments, we do not express an opinion of value in respect of these investments and therefore this engagement does not comply with APES 225 Valuation Services issued by the Accounting Professional & Ethical Standards Board.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, ASA, Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, and Gary Cornelius, B.Ec (Hons), FFTP, FAICD Dip and Bruce Li, BCom, CA.