



Benjamin Hornigold Ltd  
ACN 614 854 045

ASX Announcement  
(ASX: BHD)

31 August 2018

## Update on Independent Expert's Report

The Board of Benjamin Hornigold Limited (ASX: BHD) refer to previous announcements regarding the proposed convertible note transaction with JB Trading House Pty Ltd.

As previously announced, the Company lodged meeting materials with ASX on 23 July 2018, which included an independent expert's report (IER) in relation to the proposed convertible note transaction with JB Trading House. Hanrick Curran, the Independent Expert, has now expanded their IER by providing further information as to the conclusions reached in their report in response to queries from the ASX.

In order to ensure shareholders are fully informed, BHD now attaches the updated IER, and awaits ASX's confirmation that the meeting materials may now be dispatched for consideration by shareholders.

Further details will be provided as they become available.

ENDS

**Kevin Mischewski**

Company Secretary

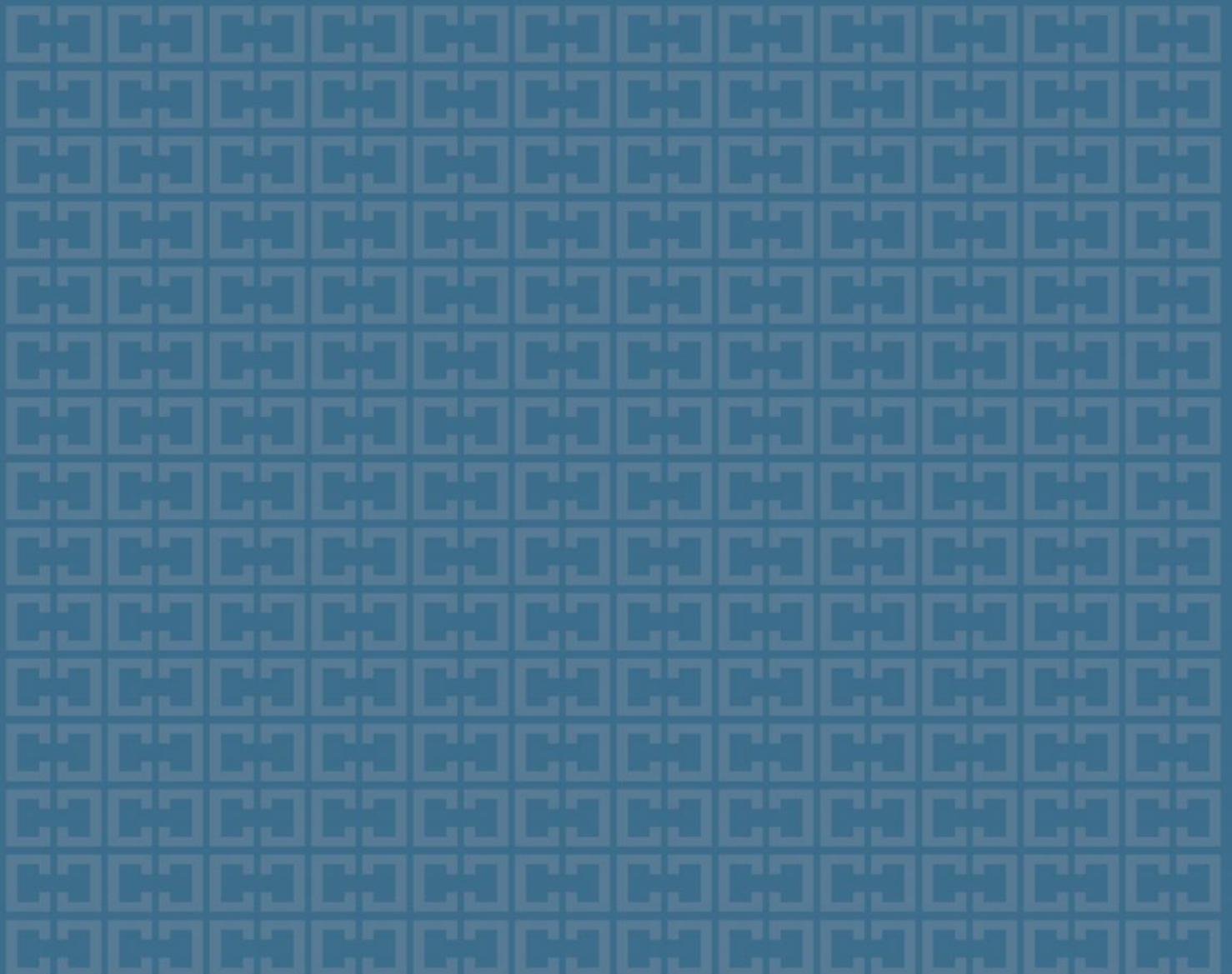
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Independent Expert's Report and  
Financial Services Guide

Benjamin Hornigold Limited

31 August 2018





## Part 1 – Independent Expert's Report

31 August 2018

The Independent Directors  
Benjamin Hornigold Limited  
Level 9 Riverside Centre  
BRISBANE Qld 4000

Dear Independent Directors,

### Proposed Transaction

By draft Notice of Extraordinary General Meeting ("Notice"), Benjamin Hornigold Limited ("BHD" or "the Company") advised that as part of the Company's strategic planning it would ask Shareholders to consider whether the Company would enter into an exclusive 5 year trading commitment with JB Trading House Pty Ltd ("JBTH"). JBTH is 100% controlled by JB Financial Group Pty Ltd and in turn has 100% control of JB Markets Pty Ltd ("JB Markets"), JB Alpha Ltd ("JB Alpha") and Genesis Proprietary Trading Pty Ltd ("Genesis").

In consideration for this exclusive commitment, BHD is to receive 13,500 redeemable convertible notes (Notes) issued by JBTH (refer Appendix 4).

Notwithstanding that there may be no Australian Stock Exchange (ASX) or legal requirement for the preparation of a Report the Independent Directors of BHD have requested Hanrick Curran Corporate Finance Pty Ltd ("HCF") to prepare an Independent Expert's Report ("Report" or "IER") expressing our opinion as to whether the proposed transaction ("Transaction") is fair and reasonable to those Shareholders of BHD whose votes are not to be disregarded ("Non-Associated Shareholders"), the purpose of which is to assist Non-Associated Shareholders in considering whether to approve the Transaction at an Extraordinary General Meeting (the "Meeting"). Our Report is to be included in the Notice being sent to the Shareholders in relation to the Meeting.



## Basis for Evaluation

In preparing our Report, we have had regard to ASX Listing Rule 10.1. Under Listing Rule 10.1, an entity must ensure that neither it nor any of its child entities acquires a substantial asset from or disposes of a substantial asset to any of the following persons without the approval of holders of the entity's ordinary securities:

- 10.1.1 A related party of the entity;
- 10.1.2 A child entity of the entity
- 10.1.3 A substantial holder in the entity, if the person and the person's associates have a relevant interest or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities in the entity
- 10.1.4 An associate of a person referred to in 10.1.1 to 10.1.3 above
- 10.1.5 A person whose relationship to the entity or a person referred to in 10.1.1 to 10.1.4 above is such that in ASX's opinion, the transaction should be approved by security holders.

We are advised that the ASX may exercise its discretion under Listing Rule 10.1.5 to require the Transaction to be approved by security holders.

Rule 10.10 requires the notice of meeting to include a report on the transaction by an independent expert stating whether in the expert's opinion the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded (the Non-Associated Shareholders)

We have considered the ASX Listing Rules, ASIC Regulatory Guides, the Corporations Act and common market practice.

Having considered these various sources, we consider it appropriate to assess whether the Transaction is fair and reasonable to Non-Associated Shareholders having regard to the advantages and disadvantages, so far as Non-Associated Shareholders are concerned, of the Transaction. In considering these matters we have, amongst other things, compared the consideration being paid for the exclusive 5 year trading commitment with our estimate of the fair market value for such an arrangement.

In line with the above requirements and market practice, in order to assist Non-Associated Shareholders with their consideration of whether to approve the Transaction, we have also prepared a valuation of the JBTH shares.

The Transaction represents a transaction in respect of minority interests, that is, the likely outcome of the Transaction relates to approximately 18% of the equity interest in JBTH.



Consistent with RG 111 and within our Report, we provide:

- ) a valuation of the shares of JBTH;
- ) a valuation of the bond and embedded option in consideration for the exclusive trading commitment;
- ) an analysis of the advantages and disadvantages of the Transaction; and
- ) an assessment of whether the Transaction is fair and reasonable to Non-Associated Shareholders.

This letter contains HCF's valuation conclusion which is based on the approach and analysis set out in HCF's independent expert's report. It also contains a summary of the advantages and disadvantages of the Transaction.

## Opinion Summary

### Fairness

Under the Transaction, BHD is receiving the Notes in consideration for an exclusive trading arrangement with JBTH. Table 1 below summarises our assessed value of the Notes. The performance of JBTH is subject to service standard and performance measures within the Exclusive Trading Agreement with JBTH and its wholly owned subsidiaries.

Prima facie BHD is not providing any reciprocal consideration to JBTH apart from an exclusive 5 year trading arrangement at normal commercial (or better) rates. Accordingly, in assessing fairness, we considered the value of the Notes compared to the value provided by BHD for the Notes. As a result, we conclude that BHD is receiving Notes which:

- a) are substantially in excess of the consideration provided by BHD; and
- b) in excess of the entire value of the equity of BHD (on a minority basis) as per our calculations detailed in Section 9 of this report.

Table 1

	Ref	Low	High
Consideration provided by JBTH (the Notes)	8.4	\$23.4m	\$23.5m
Benefits provided by BHD	10.1	Less than \$22.7m	



### Reasonableness

In Section 10 of the Report, we provide a number of factors which the Shareholders should consider. However, and in summary:

- ) as the proposed Transaction is fair, it is also considered to be reasonable in accordance with RG 111; and
- ) the proposed Transaction is being undertaken on the rationale of providing both BHD and JBTH with an increased opportunity to grow and greater certainty in the relationship between the two companies. It also allows BHD to participate in any share value increments brought about by several alternatives including the growth in JBTH profits and/or listing of JBTH on a recognised stock exchange.

After reviewing the results of our assessment of the fairness of the proposed Transaction and evaluating other considerations set out in Section 10, we conclude that proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

### Other Matters

Each Shareholder's decision in relation to the proposed Transaction will be influenced by their particular circumstances. In undertaking our assessment, we have considered the proposed Transaction from the perspective of the Company's Non-Associated Shareholders as a whole. HCF has not considered the effect of the Transaction or the circumstances, objectives, financial situation or needs of individual securities holders as it is not practicable to consider the implications on individual Shareholders as their circumstances are unknown to HCF. HCF has prepared a Financial Services Guide as required by the Corporations Act 2001. This is included as Part 2 to our Report.

This letter is a summary of HCF's valuation extracted from our Independent Expert's Report. Our respective valuations are at the date of this summary letter, and reflect the circumstances and conditions as at that date.

Yours faithfully,  
Hanrick Curran Corporate Finance Pty Ltd

Alex Fraser  
Director and Representative



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## Part 2 - Financial Services Guide





## 1 INTRODUCTION

### 1.1 Background to the Transaction

The Board of JB Financial Group Pty Ltd ("JB") has resolved to merge JB Markets Pty Ltd ("JB Markets"), JB Alpha Ltd ("JB Alpha") and Genesis Proprietary Trading Pty Ltd ("Genesis"), with a view to seeking a float of that merged trading house, JB Trading House Pty Ltd ("JBTH") on an exchange such as the ASX or NASDAQ over the next 12-18 months.

Exclusive trading commitments are sought from high volume trading clients to trade through JBTH for a 5 year period.

BHD is a high volume trading client of JB.

Under the proposed arrangement, BHD gives a 5 year exclusive commitment commencing on the date of the transaction to trade through JBTH, with no minimum or maximum trading requirements. BHD will be charged broking fees which are equal to or more competitive than market rates. We have been provided with a copy of the "Exclusive Trading Deed" which sets out the terms for this commitment.

In return for the above support, JBTH will provide BHD with a number of redeemable convertible notes ("Notes") (refer Section 3.2.1) as consideration. This overall arrangement and consideration is described as the "Transaction" or "Proposed Transaction".

### 1.2 Terms for the Notes

We have been provided with a copy of the executed Transaction Documents. The Redeemable Convertible Note Subscription Deed ("Subscription Deed") details the terms for the Notes. Based on the Subscription Deed and discussions with representatives of BHD, the terms can be summarised as follows:

- (a) JBTH will pay BHD 4.1% interest (or coupon) per annum coupon on the amount of \$13,500,000 (being \$553,500 per annum) six monthly in arrears, secured over the assets of JBTH;
- (b) During the 4 years after the Transaction Date, BHD will have the right to elect to either:
  - i. Maintain the 'bond feature' in (a) and after the 4 years, be paid \$13,500,000 in 12 equal monthly instalments from that date (being \$1,125,000 per month). In this event, the coupon is calculated based on monthly principal balances during the 12-month period ("Option A"); or
  - ii. convert all or part of the \$13,500,000 into ordinary shares in JBTH at a price which represents a 40% discount to the pre-money valuation of JBTH ("Option B"); or
  - iii. convert in full into ordinary shares to result in a 18.651% stake in JBTH for BHD, with a pro-rata result in the event of a partial election to convert ("Option C").

We have included in Appendix 4 a summary of further details of the key terms of the Transaction Documents.



## 2 SCOPE OF THIS REPORT

### 2.1 Purpose of this Report

Hanrick Curran Corporate Finance Pty Ltd ("HCF") has been appointed by the independent Directors of BHD to prepare an Independent Expert's Report ("Report" or "IER") in relation to the Transaction expressing our opinion as to whether the Transaction is fair and reasonable to those Shareholders of the Company whose votes are not to be disregarded (Non-Associated Shareholders). The purpose of our Report is to assist Shareholders in their deliberations on whether to approve the Transaction.

### 2.2 Requirements for the Independent Expert's Report

This Report has been prepared to meet the following regulatory requirements:

#### 2.2.1 Australian Stock Exchange Chapter 10

As detailed in Part 1 of this report, Listing Rule 10 requires the Notice of Meeting to include a report by an independent expert stating whether in the expert's opinion the Transaction is fair and reasonable to the Non-Associated Shareholders.

#### 2.2.2 Australian Securities and Investment Commission

ASIC Regulatory Guide 111: Content of expert reports ("RG111") provides guidance regarding the preparation of independent expert's reports and the information which should be provided to Shareholders. RG111 does not provide specific guidance on how to form an opinion, or the factors to consider in forming such an opinion.

In considering the approach to adopt with respect to the evaluation of the proposed Transaction we have considered the ASX Listing Rules, ASIC Regulatory Guidance, the Corporations Act and common market practice.

This report has also been prepared to assist Non-Associated Shareholders in their assessment of whether to approve the Transaction. In order to assist Non-Associated Shareholders in their assessment, we have prepared a valuation of the Notes.



## 2.3 Basis of Assessment

The Independent Directors of BHD have requested us to prepare an IER in relation to the Transaction, the purpose of which is to provide:

- ) a valuation of JBTH assuming the Shareholders pass the resolution(s);
- ) a comparison of the consideration offered (if any) for the Transaction;
- ) an analysis of the advantages and disadvantages of the Transaction in order to assess whether the offer is reasonable; and
- ) an assessment of whether the Transaction is fair and reasonable to Non-Associated Shareholders.

The appropriate basis of valuation for IER purposes is 'fair market value' which is generally defined in Australia as:

"the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length".

Our assessment of the fair market value has been undertaken on a basis consistent with this definition.

RG111 provides guidelines in determining whether a proposed transaction is fair and reasonable. Pursuant to RG 111 fairness relates to price, whereas reasonableness includes the consideration of factors other than price.

### 2.3.1 Professional Standards

This Report has been prepared in accordance with APES 225: Valuation Services ("APES 225") issued by the Accounting Professional & Ethical Standards Board Limited in respect of valuation engagements. In accordance with APES 225, we have performed a Valuation Engagement, which is defined as "an engagement where the valuer is free to choose the valuation approaches, methods and procedures as appropriate to the circumstances. The estimate of value that results in a conclusion of value".

We provide our valuation of the redeemable convertible notes issued under the Transaction in Section 8 of this Report. In Section 10 we consider the advantages and disadvantages of the Transaction.



## 2.4 Independence

Prior to accepting this engagement, we considered our independence with respect to BHD with reference to ASIC Regulatory Guide 112: Independence of experts. In our opinion, we are independent of BHD.

HCF, and global affiliations, have not provided any services to BHD in relation to the Transaction except for the preparation of this Report. HCF has no involvement with, or interest in, the outcome of the proposed Transaction other than that of Independent Expert. HCF is entitled to receive a fee based on commercial rates for the preparation of this Report. Except for those fees, HCF will receive no other benefit in connection with the issue of this Report. In particular, payment of our fees is not contingent in any way on the resolutions

## 2.5 Limitations and reliance on information

In the preparation of this Report, HCF was provided with information in respect of BHD which is set out in Appendix 2.

Our opinion is based on economic, market and other external conditions prevailing at the date of this Report. These conditions can change over relatively short periods of time and these changes can be material.

Our Report is also based upon financial and other information provided by BHD in relation to the Transaction. HCF has considered and relied upon this information. BHD has represented to HCF that to its knowledge, the information provided is correct and that there are no material facts which have been omitted.

The information provided to HCF has been evaluated through analysis, enquiry and review for the purposes of assisting Shareholders in their deliberations of whether to approve the Transaction. However, HCF does not warrant that its enquiries have identified all of the matters that an audit and extensive examination might disclose.

Preparation of this Report does not imply that we have, in any way, audited or conducted an audit review of the financial statements of BHD or any entities the subject of our valuation. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards as applicable.



In forming our opinion, we have also assumed that:

- ✓ The information set out in the Notice to be sent by BHD to its Shareholders is complete, accurate and fairly presented in all material aspects;
- ✓ The publicly available information relied upon by HCF in its analysis was accurate and not misleading; and
- ✓ The Transaction will be implemented in accordance with its terms.

The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. This Report should be read in the context of the full qualifications, limitations and consents set out in Appendix 3 of this Report.

We provided draft copies of this Report to the Independent Directors and Company Secretary of BHD for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made as a result of the review by the Independent Directors and Company Secretary of BHD have not changed the methodology or conclusions reached by HCF.



### 3 VALUATION METHODOLOGIES AND APPROACH

#### 3.1 Standards of Value

When assessing the value of an entity, it is important to establish which standard or concept of value applies to the asset which is the subject of the valuation.

Unless otherwise required by law or by binding legal agreement, before embarking on a valuation it is necessary to define the standard or concept of value which applies to the particular circumstances. This defines the type of value which is being sought.

As stated in Section 2.3, we have adopted the Fair Market Value basis as defined.

It also needs to be clear whether we are valuing the shares (equity) or the actual business (total operations) which is funded by both debt and equity. On this occasion we are initially determining our opinion on the Fair Market Value of the equity of JBTH. Our equity valuation will then be used as a basis for further valuation assessment applicable to the Notes. We are also providing our opinion on the fair market value of the bond feature which forms part of the Notes.

For the purposes of this report, our equity valuation is assessed on a minority basis.



## 3.2 Valuation Approach

### 3.2.1 Overview of the Notes

In summary, the attributes of the Notes and their relevant characteristics are as follows:

- ) Option A  
A slightly modified derivation of a typical 5 year bond.
- ) Option B  
An American Style, 4 year embedded call option to acquire shares of JBTH at a 40% discount to the market share price at the time of exercising.
- ) Option C  
An American Style, 4 year call option to acquire 18.651% of shares of JBTH, exercisable at any time during the 4 years after Transaction Date.
- ) Conditional Event  
In the event that JBTH is listed on a Stock Exchange, the calculation contemplated by Options B and C above is done prior to listing subject to any unconverted notes. The conversion number of shares will then be fixed at the calculated number. While conversion of any unconverted Notes can still be exercised any time during the 4 year period, Options B and C are replaced by the fixed number of shares calculated above.

We note that within the Subscription Deed, Options B and C are not separate options. Instead, the "Option C" we describe above is stated as an adjustment, if conversion is exercised and the calculated conversion number of shares is less than Option C. For the ease of our calculations, and since it is sensible for BHD to always pursue the most favourable outcome, we can treat them as separate options while the conclusion will not be affected.

We further note that set out in the Transaction Documents, there is a similar arrangement between JBTH and Henry Morgan Limited ("HML") with a slightly different principal amount under Option A and lesser Reference % under Option C.

Due to the existence of the two arrangements, depending on the sequence of conversion and possible partial conversions by HML and BHD, actual conversion outcomes can vary due to dilution effects. That is, the Subscriber (BHD or HML) who converts first, for example, HML, will have its percentage shareholding diluted by the subsequent issue of shares to BHD upon BHD's conversion. There are clauses in the Subscription Deed which aim to minimise the possible dilution effect to BHD by adjusting the conversion number of shares under the assumption that HML has fully converted all its convertible notes held when BHD convert its final parcel of Notes.

As the value of Option B and Option C are both dependent on the value of equity of JBTH, it is necessary for us to assess that value. In addition, as we are dealing with a minority interest (18.651%), such value should be also determined on a minority basis. This method is further detailed in Section 3.2.3.



### 3.2.2 Overall Approach

In summary, the steps involved in our valuation are as follows:

1. Valuation of the Equity of JBTH.
2. Valuation of Option A (based on the combined principal of both Subscribers, BHD and HML).
3. Valuation of the overall payoff of Options A, B and C (based on combined Reference % relevant to both Subscribers)
4. Valuation of the "Put Option" in respect of the conditional event.
5. Calculation of value of Options B and C, net of: Option A and the Put Option.
6. Allocation of value of Option A (held by BHD).
7. Allocation of value of Options B and C (net of the Put Option, held by BHD).

As discussed in Section 3.2.1, the sequence of conversion or partial conversions by HML can vary possible results for BHD despite relevant clauses within the Subscription Deed which aim to minimise such impact. We note, however, for valuation purposes, the underlying assumption is that both BHD and HML will exercise the conversion option in full at a decision point that maximises payoff in each price path. Therefore, being rational investors who act with the sole purpose to maximise return, BHD and HML are assumed to exercise their conversion option fully and contemporaneously under the valuation model (if and when more favourable against Option A).

### 3.2.3 Methodology – Value of Equity of JBTH

We have adopted the Capitalisation of Earnings method in assessing the equity value of JBTH. In particular, we referenced the Price to Earnings Ratio (PER) of comparable companies within the industry and multiplied the expected earnings of JBTH.

In adopting this method, we have considered:

- ) The business units included within JBTH have high growth prospects;
- ) JB has documented strategic plans for the relevant entities and JB management have indicated strong confidence in the strategic goals being achieved in the near future;
- ) JB has provided FY18 and FY19 budgets for the relevant entities. The entities are budgeted to generate positive earnings after tax. We have confirmed with JB management that significant growth has been achieved in major areas as at April 2018 which is in line with the budget provided;
- ) Whilst budgets have been prepared for FY19, no cash flows have been prepared. Accordingly, a valuation of JBTH on a discounted cash flow basis is not possible; and
- ) JBTH is planning to seek a float on an exchange such as the ASX or NASDAQ over the next 12 – 18 months.





#### 3.2.4 Methodology – Valuation of Option A

Option A shows very similar characteristics to a bond. The widely used methodology in valuing a bond is the Discounted Cash Flow method, which we have adopted for the purposes of valuing Option A.

#### 3.2.5 Methodology – Valuation of Options B and C

The Monte Carlo Simulation Option Pricing method is widely used and most appropriate in valuing options which are complex or dependent on multiple variables. We have adopted this method for the purposes of valuing Options B and C.

Other commonly used methods in valuing options include the Binomial Option Pricing method and the Black-Scholes Model which we have considered but determined not to adopt due to the complex nature and variables involved in the Options.

#### 3.2.6 Methodology – Valuation of the Conditional Event (the “Put Option”)

The conditional event is not under the control of Subscribers. Notwithstanding there are various possible considerations under which JBTH may make the decision on whether to apply for listing on a Stock Exchange, JBTH could arguably trigger this condition by submitting an application for the sole purpose of maximising payoff (from JBTH’s perspective) under this arrangement. For valuation purposes, this can be viewed as an option on Subscribers’ Options B and C (‘Option on Option’), which is essentially a call option held by JBTH. However, to avoid confusion and for simplicity, we describe this as the “Put Option” for the purposes of this Report.

We utilise the same Monte Carlo Simulation method as stated in the above section in valuing the Put Option.



## 4 VALUATION OF JBTH

### 4.1 Business Operations

JB Markets and JB Alpha (through its parent company, HPH Holdings Pty Ltd) were acquired by JB during FY17; they offer a full broking service to clients. They provide retail, sophisticated and institutional investors with comprehensive advice, discretionary trading services, stock portfolio selection, commodity hedging and Managed Discretionary Account (MDA) services.

Genesis Proprietary Trading Pty Ltd was acquired by JB in September 2017. Genesis was founded in 2016 and operates a business that trains, develops and supports proprietary traders who utilise internal capital to trade financial securities. Genesis is primarily involved in trading financial securities within the fixed income, futures, foreign exchange and commodity markets. Management of JB believes that the Genesis acquisition is complementary to the existing broking operations of JB Markets and JB Alpha, delivering scale and driving increased volume through the broking division and will assist the Group in achieving a market leading position in bond and bank bill trading.

JBTH has recently been formed which merges JB Markets, JB Alpha and Genesis, while allowing them to operate as separate businesses.

### 4.2 Capitalisation of Earnings

Under this approach, earnings are multiplied by an appropriate price earnings ratio which reflects the risk of investing in similar kinds of investments.

In undertaking the capitalisation of earnings method to value the equity of JBTH, we have given consideration to the determination of the following:

- ) Earnings, represented by expected net profits after tax (NPAT); and
- ) Selection of an appropriate Price Earnings Ratio/Multiple (PER).

Set out below are the key parameters and our considerations with respect to each.



### 4.3 Earnings

In considering JBTH's future earnings, we also reviewed the latest available financial information (for the purposes of this IER). Management of JBTH has provided a summary of earnings (on an EBITDA basis) for the 11 months to 31 May 2018 (Period) as follow, noting this is prepared based on internal management accounts that have not been subject to audit review:

Table 4.3.1

	FY18 YTD (\$'000)
Total income	22,075
Expenses	
Accounting and audit	76
Administration	353
Commission & dealing expenses	13,755
Trading participant rebates	(6,492)
Consulting	528
Information technology & data services	1,456
Legal expenses	167
Marketing expenses	36
Rent	797
Employee benefits and fees	11,797
Other expenses	374
Total expenses	22,848
EBITDA	(773)

From discussions with and information provided by management of JBTH, we understand the following major trading conditions and changes attributable to JBTH's business divisions:

- ) Trading volume in the ASX24 flagship product, the Three-Year Government Bond has been significantly reduced due to the decision by the exchange to reduce the bid/ask spread to half a point. This change has led to a reduction in overall trading profits for Genesis;
- ) Offshore revenue has increased and is expected to continue to increase. Genesis has adjusted trading strategies and focus due to change in ASX24 trading volume. The division expects to capture additional volume reimbursements from offshore exchanges;
- ) Automatic high frequency trading algorithms are being implemented and the implementation program is on schedule. It is expected that additional revenue will be generated starting the coming months;
- ) Consolidation process of the current 24 hour trading desks is on schedule. This is expected to reduce costs while maintaining trading revenue;
- ) Development of a new asset platform partnership is in progress, which is expected to attract over 1,000 users during the third quarter of 2018 calendar year;



- ) Trading revenue is expected to increase significantly, contributed by a joint venture with Saxo Capital;
- ) Additional costs during the Period included significant expenses in respect of legal services for licence variations and corporate actions that are not expected to recur in the future; and
- ) Market volatility during April and May 2018 has been low. Lower trading volume resulted in reduced commission revenue. However, the focus during these months has been on development of new business lines and projects which are expected to contribute to revenue increase from the third quarter of 2018 calendar year onwards.

In addition to the above, we have reviewed budgets for FY18 and FY19 and strategic plans provided by JB. As the business divisions within JBTH were all acquired recently, we have adopted the forecast NPAT for FY19 which in our opinion better reflects earnings for a typical year. We have also considered and adjusted for the risk of such earnings level not being achieved within our assessment of the PER.

2019 forecast NPAT for the relevant entities are summarised as follows:

Table 4.3.2

Forecast NPAT	
JB Markets & JB Alpha	\$7,474,799
Genesis	\$1,558,184
	<b>\$9,032,983</b>

In considering future earnings, we have also reviewed the earnings to date in respect of JB Markets, JB Alpha and Genesis, how those earnings compared to budget, the earnings of Genesis prior to acquisition in FY18 along with adjustments to be considered to reflect any changes to the businesses model and or key executives (post merger), any seasonality to the FY18 earnings and whether the budgets reflected seasonality and adjustments (cost savings) going forward to make those businesses more efficient.



## 4.4 Earnings Multiple (PER)

### 4.4.1 Comparable Trading Multiples

A PER can be estimated by observing trading multiples of comparable listed companies in the market. We note there is no directly comparable company due to the unique investment profile of JBTH. However, we have examined 95 broadly comparable listed companies which are in the 'Investment Banking and Brokerage' or 'Asset Management and Custody Banks' industry and from which, we selected 21 companies that are most comparable to JBTH in terms of size.

The average PER for these companies is 19.90x. In our opinion, it is reasonable to adopt this average as a basis for our assessment of the PER.

(Refer Appendix 5 for the comparable companies list and details)

### 4.4.2 PER Adjustments

As discussed in Section 4.3, the entities within JBTH were recently acquired and thus there is little historical financial performance data available for the business operations under the current structure. We have received comments from JB that as at May 2018, budgets have been achieved in revenue terms but actual profits have not yet been achieved. We have included a discount for prediction risk within a range of 15% to 20% against the average PER to reflect the risk that the forecast NPAT may not be achieved under these circumstances.

Also, we have included a further 15% discount considering JBTH is currently not listed and the timing of such liquidity event has uncertainties. This risk category is often described as 'lack of marketability' and various court rulings have suggested the discount for this risk is typically within a range of 10% to 30%.

### 4.4.3 Assessed PER

Based on the above, our assessed PER is summarised as follows:

Table 4.4.3

		Low	High
Comparable PER	Average	19.90x	19.90x
Discount	Lack of Marketability	15%	15%
	Profit Prediction Risk	20%	15%
		13.53x	14.38x

Our assessed PER is in the range of 13.53 times to 14.38 times earnings.



## 4.5 Conclusion – Equity Value of JBTH

Our assessed value of JBTH derived from the capitalisation of earnings method is summarised as follows:

Table 4.5

	Ref	Low	High
<u>Forecast Earnings:</u>			
JB Markets & JB Alpha	4.3	\$7,474,799	\$7,474,799
Genesis	4.3	\$1,558,184	\$1,558,184
JBTH		\$9,032,983	\$9,032,983
Comparable PER - Average	4.4.1	19.90x	19.90x
Lack of Marketability Discount	4.4.2	15%	15%
Profit Prediction Risk Discount	4.4.2	20%	15%
PER	4.4.3	13.53x	14.38x
Equity Value - JBTH		\$122,213,856	\$129,852,222
Mid Point		\$126,033,039	



## 5 VALUATION OF OPTION A

### 5.1 Discounted Cash Flow (DCF) Method

Under this approach, future net cash flows attributable to the 'bond' feature of the Notes are discounted back to the present value at an appropriate discount rate.

Cash flows are discounted to present values by recognising both the risk and the time value of money by using a suitable discount rate.

### 5.2 DCF Computation Inputs

In preparing the DCF bond feature valuation, we have utilised the following inputs:

Table 5.2

Input	Value	Description
Coupon Rate	4.10% p.a.	As per Subscription Deed
Principal	\$25,500,000	As per Subscription Deed
Discount Rate	6.05%	*BB Grade AUD 5 year Corporate Bond Yield as at 9 May 2018
Discount Compounding	Semi Annually	

\*We are of the opinion that a BB credit grading (under the S&P grading system) is appropriate for a debt issued by JBTH.

We note coupon interest accrues daily according to the Subscription Deed. However, as the commencement date is uncertain at this stage, coupon is calculated semi-annually for the purposes of this report.



### 5.3 Valuation Conclusion – Option A

Based on the above, the calculated value of Option A as at Transaction Date is \$23,605,522. (Refer Appendix 6 for detailed calculations)

We note the above value is attributable to both Subscribers (BHD and HML). Allocation of value attributable to BHD will be calculated in Section 8 of this report.

For the purposes of valuing Options B and C, we have repeated the calculation steps but start our calculation at each 6-monthly interval during the 4 years after Transaction Date (i.e. setting such time as 'present'). The calculated value for each of the relevant months is summarised in Table 5.3.

Table 5.3

Decision Month	DCF Value
0	23,605,522
6	23,796,839
12	23,993,944
18	24,197,011
24	24,406,220
30	24,621,758
36	24,843,817
42	25,072,592
48	25,308,288





## 6 VALUATION OF OPTIONS A, B & C

### 6.1 Monte Carlo Simulation Method

Monte Carlo simulation is commonly used to evaluate the risk and uncertainty that would affect the outcome of different decision options. The method allows us to incorporate the total effects of uncertainty in variables as well as the effect of distinct risk events on payoffs under different outcome paths generated randomly by means of movement derived from the original Brownian Motion Theory. This method is generally used in pricing complex options or financial Notes involving multiple options or variabilities.

In undertaking the Monte Carlo approach to simulate asset price changes, there are two components to price movements: drift, which is a constant directional movement, and a random input 'shock', which represents market volatility. By analysing historical price data, we can estimate the drift, standard deviation, variance, and average price movement for a security.

Relevant formulae are as follows:

$$(a) \text{ Daily Return } (\mu) = \ln \frac{T}{P} \frac{y'sP}{U y'sP}$$

$$(b) \text{ Volatility } (\sigma) = \text{standard deviation of } \mu$$

$$(c) \text{ Drift } (\mu - t) = \mu - \frac{\sigma^2}{2}$$

$$(d) \text{ Shock } (z) = \sigma \times Z$$

$$(e) \text{ Next day's price} = \text{Today's price} \times e^{(\mu \Delta t + z \sigma \sqrt{\Delta t})}$$

Where:

- ) "ln" represents the natural logarithm, a mathematical term.
- ) "Z" represents Z Score of the Standard Normal Distribution Curve by generating a random percentage of the area under the curve.

Briefly, the Notes provide BHD with 3 options during the first 4 years after Transaction Date:

- ) Option A – Maintain bond position
- ) Option B – Convert to shares at 40% discount off share price
- ) Option C – Convert to shares to result in 18.651% of JBTH

(Refer Section 3.2.1 and Appendix 4 for details)



Values of Options B and C are dependent on the share price at the time each decision is made. Therefore, to determine the most favourable option to Subscribers at each decision point, the share price (or equity value) of JBTH must be assessed.

For the above reason, the Monte Carlo Simulation method is utilised to generate possible paths of movement of the equity value of JBTH. In doing so, possible outcomes applicable to Options A, B and C can be quantified at each decision point under each price movement path (course of decision making). The Backward Induction technique can then be used to compute the present value of payoffs applicable to each price movement path.

In order for the valuation to be statistically accurate, a large number of generated paths are required. For the purposes of this report, we are of the opinion that computing 10,000 simulation paths will balance accuracy and practicality.

## 6.2 Share Price Simulation

As a proxy for the price movement behaviour expected to be applicable to shares of JBTH, we have examined comparable companies and selected Bell Financial Group Ltd ("BFG") for reasons of its comparability in terms of its business, industry and size relative to JBTH.

Daily movement of BFG's share price and volatility (represented by standard deviation of such daily movement) over the past 5 years are computed using historical data (Source: Capital IQ).

In preparing the Monte Carlo simulated price paths, we have utilised the following inputs and applied to the formulae detailed in Section 6.1:

Input	Value	Description
Daily Return	0.0061%	Average daily return on the share price of BFG over the preceding 5 years as a proxy for expected future daily price movement of the equity value of JBTH over the life of the options.
Volatility	2.6961%	Standard deviation of the daily return of BFG as described above.
No. of Days	252 per year	Average No. of trading days for a typical year.
Decision Interval	Half-yearly	Half-yearly review intended, confirmed by Director of BHD

Utilizing the above inputs, 10,000 possible price movement paths are generated. As the simulation method in its nature produces estimation only, we have run the simulation twice to produce a range. For the purposes of this report, they are referred to as 'Simulation 1' and 'Simulation 2', which produces 'High' and 'Low' values.

(Refer Appendix 7)



### 6.3 Payoffs Paths – Options A, B and C

For each price path generated in Section 6.2 above, the Backward Induction technique is used such that at each decision point, the most favourable payoff from one of the below options is determined:

- ) Option A – Maintain bond feature position;
- ) Option B – Convert to shares in JBTH at 40% discount off market price;
- ) Option C – Convert to shares in JBTH resulting in 35.507% equity interest; and
- ) Discounted value of the next decision point (except for the last decision point).

We note:

- ) if the option for the next decision point is Option B or Option C, a risk free rate of 2.44% is applied in discounting for the period (represented by the average 5 year Government Bond yield over the past 5 years); and
- ) the payoff under Option B is calculated on a post-conversion, after dilution basis taking into account the dilution effect of additional shares being issued.

(Refer Appendix 8)

### 6.4 Value of Overall Payoff (Options A, B & C)

The average of the discounted payoff at Month 0 for the two sets of 10,000 simulated paths in Section 6.3 is calculated to be within the range of \$70,091,008 and \$71,143,584, which represents the overall value of Options A, B and C attributable to both Subscribers (BHD and HML).



## 7 VALUE OF THE PUT OPTION

### 7.1 Payoffs Paths – The Put Option

We utilise the simulated share prices detailed in Section 6.2 and corresponding to hypothetical decisions by Subscribers concluded under Options A, B and C (refer Section 6.3). For each price path generated, the Backward Induction technique is used such that at each decision point, the most favourable payoff from JBTH's perspective in relation to one of the below options is chosen:

- ) If the corresponding decision by Subscribers at the decision point is either Option B or C, the payoff applicable to the Put Option at that decision point is nil;
- ) If the corresponding decision by Subscribers at the next decision point is Option A, the payoff applicable to the Put Option at that decision point is also nil; and
- ) If otherwise, the payoff is calculated by subtracting the payoff for Options A, B and C at the next decision point by the payoff (from a Subscribers' perspective, also at the next decision point) assuming the calculation contemplated by the higher of Option B or C is done at the decision point. The calculated payoff at that next decision point is then discounted at the risk free rate (as discussed in Section 6.3).

(Refer Appendix 9)

In more simplified terms, the payoff for the Put Option depends on the decision of the Subscribers. At any given equivalent decision point, the Put Option is irrelevant because:

- ) Subscribers can opt not to convert (i.e. Option A); and
- ) The Put Option is essentially the same as Options B or C at any equivalent decision point.

Collectively, the above is essentially the same as Options A, B and C.

The Put Option payoff (from JBTH's perspective) at a decision point may be positive only when the decision by Subscribers at the next decision point is either Option B or C as Option A remains under the Subscribers' discretion.

### 7.2 Conclusion – Valuation of the Put Option

The average of the discounted payoff (from JBTH's perspective) at Month 0 for the two sets of 10,000 simulated paths is calculated to be within the range of \$25,672,037 and \$26,569,444 (refer Appendix 9).



## 8 VALUE ALLOCATION

### 8.1 Subscribers' Valuation Summary

Based on the above, our assessed value for the Subscribers are summarised in the table below:

Table 8.1

	Ref	Simulation 1	Simulation 2
Payoff - Options A, B & C	6.4	\$71,143,584	\$70,091,008
Less: Payoff – Put Option	7.2	(\$26,569,444)	(\$25,672,037)
		\$44,574,141	\$44,418,971
Value - Bond Feature (Option A)	5.3	(\$23,605,522)	(\$23,605,522)
Value – Options (B&C)		\$20,968,618	\$20,813,449

### 8.2 Bond Feature Value Allocation

We allocate BHD's allocated portion of the bond feature value (Option A) by its weighting based on the principal amount. BHD's principal amount is \$13.5m out of Subscribers' total principal amount (including the principal amount for HML) of \$25.5m. Therefore, the weighting is 52.941%.

The Bond Feature value relevant to BHD is calculated below:

Table 8.2

	Ref	BHD
Subscribers' Value	5.3	\$23,605,522
Allocation %		52.941%
Value relevant to BHD		\$12,497,041



### 8.3 Options Value Allocation

We allocate BHD's allocated portion of the options value (Options B and C) by its weighting based on the reference equity interest % in respect of Option C. BHD's reference % is 18.651% out of Subscribers' total % of 35.507% (16.856% attributable to HML). Therefore, the weighting is 52.528%.

The Options value relevant to BHD is calculated below:

Table 8.3

	Ref	Simulation 1	Simulation 2
Subscribers' Value	8.1	\$20,968,618	\$20,813,449
Allocation %		52.528%	52.528%
Value relevant to BHD		\$11,014,327	\$10,932,820

### 8.4 Conclusion

Based on the above, BHD's allocated value of the Notes is summarised below:

Table 8.4

	Ref	Low	High
Value - Bond Feature	8.2	\$12,497,041	\$12,497,041
Value - Options	8.3	\$10,932,820	\$11,014,327
		\$23,429,861	\$23,511,368



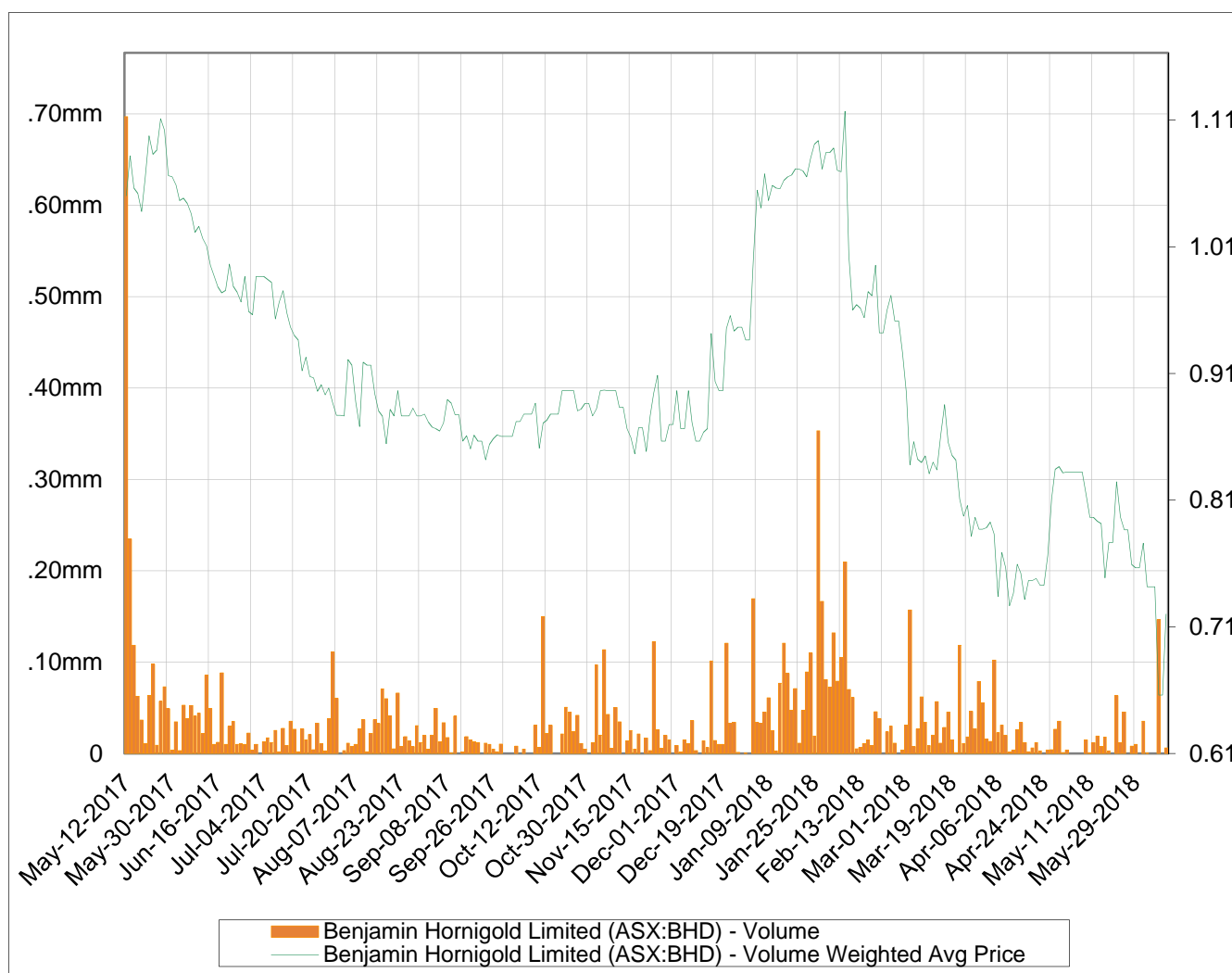
## 9 TRADING PRICE HISTORY OF BHD SHARES

### 9.1 Liquidity of BHD Shares

Based on the relatively wide spread between the buy/sell price and low trading volume for BHD shares generally observed, we are of the opinion that BHD shares constitute a thinly-traded stock. For this reason, the current share price (or share price at any given point in time) may not accurately reflect the true value for BHD. Considering this, we are of the opinion that looking at the Volume Weighted Average Price (VWAP) for BHD over a period of time is more appropriate. We have analysed VWAP information for BHD shares since the Company was listed in May 2017.

### 9.2 Share Price History

The following graph shows the Volume Weighted Average Price (VWAP) and Volume of BHD shares since listed on the ASX:



Source: Capital IQ



### 9.3 Market Capitalisation

Market Capitalisation is a widely adopted proxy for a company's equity value on a minority basis. It is computed by multiplying the share price by the total number of shares on issue.

Since listed, BHD has had a number of share structure changes events. The total outstanding number of shares has increased from 20m shares to approximately 25m shares as at 6 June 2018.

For the purposes of this report, we have computed the weighted average of daily VWAP based on corresponding market capitalisation for each day.

Our assessed weighted VWAP is \$0.9035 (on a per share basis as at 6 June 2018). The market capitalisation for BHD is therefore calculated at \$22.73m.





## 10 FAIRNESS AND REASONABLENESS OF THE TRANSACTION

### 10.1 Fairness

BHD is receiving the Notes in consideration for an exclusive trading arrangement with JBTH. Below table 10.1.1 (a repeat of Table 8.4) summarises our assessed value of the Notes within the range of \$23.4m and \$23.5m.

Table 10.1.1

	Ref	Low	High
Value - Bond Feature	8.2	\$12,497,041	\$12,497,041
Value - Options	8.3	\$10,932,820	\$11,014,327
		\$23,429,861	\$23,511,368

Prima facie BHD is not providing any reciprocal financial consideration to JBTH apart from an exclusive 5 year trading arrangement at normal commercial (or better) rates. Possible opportunity costs to BHD (represented by its inflexibility from engaging other trading services providers during the 5-year term) may exist but is both difficult to quantify and expected to be immaterial.

From JBTH's perspective, the value of the arrangement is the access to BHD's client base and the volume of trading that is expected to be brought about by them during the 5-year term.

In Section 9, we have reviewed the market capitalisation of BHD. Investors (on a minority interest basis) are pricing equity interest in the entire company at \$22.73m. Being a company with nil reported debt and as its client base for the 5-year period forms only part of the entire company's goodwill, it is inferred that such value must be less than \$22.73m although not specifically quantified.

Accordingly, we conclude that BHD is receiving the Notes which have a value between \$23.4m and \$23.5m in consideration for opportunity cost or benefits provided to JBTH for a value less than \$22.73m. The proposed Transaction is therefore fair.



## 10.2 Reasonableness

### 10.2.1 Advantages

#### The Redeemable Convertible Notes

Within the terms of the Notes, BHD will receive a bond with a face value of \$13.5m and coupon interest of 4.1% per annum. Prior to potential conversion to JBTH shares at BHD's discretion, the interest is cumulative. In addition, prior to conversion, the Notes represent a debt which ranks in priority to ordinary shares in the event that JBTH is liquidated.

#### Minimum Service Standards

Minimum service standards are specifically set out in the Exclusive Trading Deed. BHD has the flexibility to terminate the arrangement if service standards are not met and retain any coupon interest received to that date.

#### JBTH's expertise and ability to process transactions

We are advised that JBTH has the resources and capability to process large volumes of transactions in a time critical manner. We understand a significant component of the rationale for forming an exclusive relationship with JBTH was JBTH's expertise in specialised structured financial instruments and ability to process transactions promptly and within small time windows that trading profits can be made.

#### Opportunity to participate in capital growth in JBTH's shares

If and when BHD exercises its right of conversion to JBTH's shares, BHD will be afforded the opportunity to participate in any value increase in those JBTH shares.

### 10.2.2 Disadvantages

#### Illiquidity of JBTH shares

JBTH is currently a private company. As such, any shares BHD may convert its Notes into may be less liquid compared to that of a listed entity.

#### Price of JBTH Shares

The price at which the Company will be able to sell the Shares is uncertain and there may only be a market in the event that the requirements of an authorised exchange are able to be met by JBTH.

#### Minority shareholding in JBTH

Upon conversion, and with approximately 18.6% (and potentially higher) of ordinary equity in JBTH, BHD may be able to exert influence over JBTH. However, while it represents a strategic interest in JBTH, it generally does not allow BHD to exercise control over JBTH.



## APPENDIX 1 - GLOSSARY

Term	Definition
\$	All currencies are in Australian dollars unless otherwise stated
AASB	Australian Accounting Standards Board
AFSL	Australian Financial Services Licence
American Style	In the context of this report, this refers to the type of option that does not have a specified exercise date and the optionholder is free to exercise any time before expiry date.
ASIC	Australian Securities and Investments Commission
Associated Shareholders	Any shareholders of BHD and entities associated with them that are excluded from voting on the Transaction by the ASX.
ASX	ASX Limited A.C.N 008 824 691 or the financial market operated by it as the context requires
Backward Induction	The technique or process of reasoning backwards in time, from the end of a situation, to determine a sequence of optimal actions towards the starting point.
BFG	Bell Financial Group Ltd
BHD or the Company	Benjamin Hornigold Ltd (ASX Code: BHD)
CAANZ	Chartered Accountants Australia and New Zealand
Corporations Act or Act	The Corporations Act 2001 (Cth)
Date of this Report / Report Date	31 August 2018
DCF	Discounted cash flow methodology
Directors	The Directors of BHD as at the date of this Report, who comprise Stuart McAuliffe, Peter Aardoom and the Independent Directors
Eligible Shareholder	A Shareholder who is a registered holder of Ordinary Shares on the Transaction record date
Exclusive Trading Deed	The Exclusive Trading Deed between JBTH and BHD
Extraordinary General Meeting	The meeting of Shareholders scheduled for 5 September 2018 as convened by the Notice of Extraordinary General Meeting
FY	Each financial year ended/ending 30th June
Genesis	Genesis Proprietary Trading Pty Ltd



Term	Definition
Hanrick Curran Corporate Finance or HCF	Hanrick Curran Corporate Finance Pty Ltd A.C.N 165 488 620 holder of AFSL No. 467461
HML	Henry Morgan Limited (ASX Code: HML)
IER or Report	Independent Expert's Report
Independent Directors	Vincent Gordon, Simon Richardson and Bryan Cook
JB	JB Financial Group Pty Ltd
JB Alpha	JB Alpha Ltd
JB Markets	JB Markets Pty Ltd
JBTH	JB Trading House Pty Ltd, the merged trading house formed from: <ul style="list-style-type: none"> <li>• JB Alpha;</li> <li>• JB Markets; and</li> <li>• Genesis</li> </ul>
Listing Rules	The listing rules of the ASX
Monte Carlo Simulation	A method that relies on repeated random sampling to obtain numerical results to solve problems that might be deterministic in nature.
Note(s)	The redeemable convertible note(s) set out by the Subscription Deed.
Notice	The Notice of an Extraordinary General Meeting giving notice to Shareholders of the Extraordinary General Meeting
NASDAQ	The Nasdaq Stock Market - an American stock exchange market
NPAT	Net profit after tax
Ordinary Shares	An ordinary share in the capital of BHD
Option A /B / C	Options of the Notes as set out in Section 3.2.1
Pari Passu Deed	The Pari Passu Deed between BHD and HML
Put Option	The hypothetical "Option on Option" held by JBTH as described in Section 3.2.6 of the Report
PER	Price Earnings Ratio / Multiple. The ratio / multiple of the price per share compared to the earnings per share
RBA	Reserve Bank of Australia
Reference %	Reference equity interest % as set out in the Subscription Deed



Term	Definition
Resolutions	The resolutions set out in the Notice of Extraordinary General Meeting (if required)
RG 111	ASIC Regulatory Guide 111 Content of expert reports
RG 112	ASIC Regulatory Guide 112 Independence of experts
Shareholder	A registered holder of an Ordinary Share in BHD
Subscribers	Subscribers of the Notes, being BHD and HML
Subscription Deed	The Redeemable Convertible Note Subscription Deed between JBTH and BHD
Transaction	Proposed transaction between BHD and JBTH as set out in the Transaction Documents
Transaction Date	To be determined, conditional upon Shareholders' approval of the proposed Transaction.
Transaction Documents	Include the Subscription Deed, Exclusive Trading Deed, General Security Agreement and the Pari Passu Deed



## APPENDIX 2 – SOURCES OF INFORMATION

## SOURCE OF INFORMATION

- ) Budgets for FY18 and FY19 for JB Markets, JB Alpha and Genesis provided by JB. (Source: JB)
- ) Redeemable Convertible Note Subscription Deed. (Source: BHD)
- ) Exclusive Trading Deed. (Source: BHD)
- ) Pari Passu Deed. (Source: BHD)
- ) Valuation Report – JB Financial Group Ltd as at 31 December 2017. (Source: JB)
- ) Board Paper and Commentary on Financial Forecast. (Source: BHD)
- ) Risk and Strategic Planning documents. (Source: BHD)
- ) Strategy Paper and JB Trading House Rationale. (Source: BHD)
- ) Credit ratings and Australian corporate bond yield (Source: Capital IQ)
- ) Comparable companies including trading multiples, market capitalisation, industry information and daily share prices. (Source: Capital IQ)
- ) Government Bond Yield. (Source: RBA)



## APPENDIX 3 – STATEMENT OF QUALIFICATION AND DECLARATIONS

### STATEMENT OF QUALIFICATION AND DECLARATIONS

Hanrick Curran Corporate Finance Pty Ltd (HCF), a wholly owned subsidiary of Hanrick Curran (HC), holds an Australian Financial Services Licence under the Act and its representatives are qualified to provide this Report. The director of HCF responsible for this Report has not provided financial advice to BHD

Prior to accepting this engagement, HCF considered its independence with respect to BHD with reference to Regulatory Guide 112: Independence of experts

This Report has been prepared specifically for the Shareholders of BHD in relation to the Transaction. Neither HCF, HC nor any employee therefore undertakes responsibility to any person, other than BHD Shareholders, in respect of this Report, including any errors or omissions howsoever caused.

The statements and opinions given in this Report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this Report HCF has relied upon information believed after due inquiry to be reliable and accurate. HCF has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. HCF has evaluated the information provided to it by BHD, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate that information provided was materially misstated or would not afford reasonable grounds upon which to base its report. HCF does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this Report is set out in Appendix 2 to this Report.

BHD has provided an indemnity to HCF for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this Report.

HCF provided a draft copy of this Report to BHD for comments as to factual accuracy, as opposed to opinions, which are the responsibility of HCF alone. Changes made to this Report as a result of this review by the Independent Directors and Company Secretary have not changed the methodology or conclusions reached by HCF.

HCF will receive a professional fee based on time spent in the preparation of this Report estimated at approximately \$32,500 (exclusive of GST). HCF will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this Report.



## STATEMENT OF QUALIFICATION AND DECLARATIONS

Mr Alex Fraser, a director and representative of HCF assumed overall responsibility for this Report. He has the necessary experience and professional qualifications appropriate to the advice being offered. Other HCF staff have been consulted in the preparation of this Report where appropriate.





## APPENDIX 4 – SUMMARY OF KEY TERMS OF TRANSACTION

Key terms set out by the Subscription Deed, Exclusive Trading Deed and the Pari Passu Deed are summarised below. We note our interpretation of the terms has been confirmed with BHD:

- ) JBTH will issue, and BHD will subscribe for, 13,500 Redeemable Convertible Notes (“Notes”).
- ) Face value (or principal) for each Note is \$1,000.
- ) Term for the Notes is 5 years.
- ) 12,000 Notes in very similar terms will be issued to HML subject to certain conditions precedent including shareholder approval by HML shareholders.
- ) Interest on the Notes is payable at 4.1% per annum, accrued daily and paid every six months in arrears until the end of the term or conversion.
- ) Principal and interest of the Notes are secured over the assets of JBTH.
- ) Conversion Equation

During the first 4 years of the term, BHD can convert some or all of the Notes into JBTH shares according to the following equation:

$$X = Y / \text{conversion price}$$

where:

- ) Y is the total value of those Notes being converted (being the number of Notes being converted multiplied by the Face Value); and
  - ) conversion price is at 40% discount to the price determined from an independent valuation of JBTH by an Expert or quoted share price if JBTH is listed at the time.
- ) Adjustment

On the date if and when BHD converts its last parcel of Notes (“Final Conversion Date”), JBTH must calculate the percentage of Shares on issue in JBTH that BHD would hold immediately following the conversion on the Final Conversion Date, on a fully diluted basis (and assuming that HML has converted all of its convertible notes to Shares in accordance with the terms of those notes). If, following such conversion on the Final Conversion Date, BHD would, having regard to JBTH’s calculation under the equation, hold an interest in Shares that represents less than 18.651% (“Reference %”) of the Shares on issue in JBTH



on a fully diluted basis (and assuming that HML has converted all of its convertible notes to Shares in accordance with the terms of those notes) as at the Final Conversion Date, the number of Shares to be issued on conversion of the relevant Notes on the Final Conversion Date must be increased, such that the total number of Shares held by BHD represents not less than 18.651% of the Shares on issue in JBTH on a fully diluted basis (and assuming that HML has converted all of its convertible notes to Shares in accordance with the terms of those notes) as at the Final Conversion Date.

- ) The Reference % applicable to HML is 16.856%.
- ) In the event that JBTH is listed on a Stock Exchange, while any or all of the Notes held by BHD are still on foot (Unconverted Notes), the calculation contemplated by the Equation and Adjustment above must be done by JBTH immediately prior to JBTH listing on the relevant Stock Exchange (as though that date was the Final Conversion Date) on the basis of JBTH's post-listing share capital on a fully diluted basis (and assuming that HML has converted all of its convertible notes to Shares in accordance with the terms of those notes), such that a fixed number of Shares to be issued to the Subscriber on conversion of the Remaining Notes is determined and fixed prior to JBTH listing on the relevant Stock Exchange (which may be adjusted after that date to reflect any reconstruction of capital in JBTH post-listing).



## APPENDIX 5 - COMPARABLE TRADING MULTIPLES

Company Name	P/LTM Diluted EPS Before Extra [Latest] (x)
Consolidated Operations Group Limited (ASX:COG)	20.4
Fiducian Group Limited (ASX:FID)	16.0
Pacific Current Group Limited (ASX:PAC)	2.58
Aberdeen Asia-Pacific Income Investment Company Limited (TSX:FAP)	115.6
Amcil Limited (ASX:AMH)	42.4
Pengana International Equities Limited (ASX:PIA)	36.9
Australian Ethical Investment Ltd (ASX:AEF)	32.3
WAM Research Limited (ASX:WAX)	18.4
Microequities Asset Management Group Limited (ASX:MAM)	17.0
Clime Capital Limited (ASX:CAM)	15.6
Century Australia Investments Limited (ASX:CYA)	12.2
CVC Limited (ASX:CVC)	10.7
Oceania Capital Partners Limited (ASX:OCP)	10.0
Euroz Limited (ASX:EZL)	9.99
Perpetual Equity Investment Company Limited (ASX:PIC)	9.67
Thorney Opportunities Ltd (ASX:TOP)	9.55
Bell Financial Group Limited (ASX:BFG)	9.17
Blue Sky Alternatives Access Fund Limited (ASX:BAF)	8.8
APN Property Group Limited (ASX:APD)	7.99
Aberdeen Australia Equity Fund, Inc. (AMEX:IAF)	6.5
Westoz Investment Company Limited (ASX:WIC)	6.08
Average PER	
19.90x	

Source: Capital IQ



## APPENDIX 6 - VALUATION OF OPTION A – DISCOUNTED CASH FLOWS

Year	Month	Coupon Payment	Principal Repayment	Principal Balance	Cash Flow	Discount Factor	Discounted Cash Flow
1	0	-	-	25,500,000	-	1.0000	-
1	6	522,750	-	25,500,000	522,750	0.9706	507,401
1	12	522,750	-	25,500,000	522,750	0.9421	492,503
2	18	522,750	-	25,500,000	522,750	0.9145	478,042
2	24	522,750	-	25,500,000	522,750	0.8876	464,006
3	30	522,750	-	25,500,000	522,750	0.8616	450,382
3	36	522,750	-	25,500,000	522,750	0.8363	437,158
4	42	522,750	-	25,500,000	522,750	0.8117	424,322
4	48	522,750	-	25,500,000	522,750	0.7879	411,863
5	49	-	2,125,000	23,375,000	2,125,000	0.7840	1,665,946
5	50	-	2,125,000	21,250,000	2,125,000	0.7801	1,657,692
5	51	-	2,125,000	19,125,000	2,125,000	0.7762	1,649,478
5	52	-	2,125,000	17,000,000	2,125,000	0.7724	1,641,306
5	53	-	2,125,000	14,875,000	2,125,000	0.7686	1,633,174
5	54	450,146	2,125,000	12,750,000	2,575,146	0.7647	1,969,329
5	55	-	2,125,000	10,625,000	2,125,000	0.7610	1,617,031
5	56	-	2,125,000	8,500,000	2,125,000	0.7572	1,609,019
5	57	-	2,125,000	6,375,000	2,125,000	0.7534	1,601,047
5	58	-	2,125,000	4,250,000	2,125,000	0.7497	1,593,114
5	59	-	2,125,000	2,125,000	2,125,000	0.7460	1,585,221
5	60	188,771	2,125,000	-	2,313,771	0.7423	1,717,490
		4,820,917	25,500,000		30,320,917		23,605,522



## APPENDIX 7A - MONTE CARLO SIMULATION OF SHARE PRICE (EQUITY VALUE) – SIMULATION 1

### Daily Movement

Day	6 Mth	12 Mth	18 Mth	24 Mth	30 Mth	36 Mth	42 Mth	48 Mth
1	131.9m	159.1m	180.6m	172.2m	193.9m	325.8m	349.3m	315.5m
2	137.8m	159.4m	175.9m	172.4m	199.7m	328.0m	345.9m	340.6m
3	134.6m	160.1m	179.1m	174.2m	203.3m	336.3m	337.5m	336.2m
4	135.8m	158.9m	186.0m	163.9m	204.6m	345.2m	336.7m	342.3m
5	129.8m	158.6m	182.3m	162.7m	205.8m	328.2m	329.2m	348.4m
124	165.9m	191.3m	160.5m	188.6m	322.3m	327.8m	311.2m	311.2m
125	166.5m	195.8m	169.2m	202.9m	319.7m	327.2m	315.3m	292.8m
126	162.7m	195.5m	166.8m	198.2m	313.5m	329.1m	319.6m	285.8m

### Simulations

Average:		126.7m						
Simulation	Price - 6 Mth	Price - 12 Mth	Price - 18 Mth	Price - 24 Mth	Price - 30 Mth	Price - 36 Mth	Price - 42 Mth	Price - 48 Mth
Trial	162.7m	195.5m	166.8m	198.2m	313.5m	329.1m	319.6m	285.8m
1	88.7m	62.2m	69.5m	52.0m	35.4m	38.4m	38.0m	20.5m
2	117.2m	159.6m	106.2m	112.6m	100.8m	120.0m	135.2m	76.9m
3	117.9m	98.8m	82.0m	135.1m	97.8m	90.8m	128.6m	97.1m
4	179.0m	161.1m	303.2m	278.6m	162.9m	215.5m	229.7m	221.4m
5	95.7m	70.0m	54.3m	49.5m	33.8m	41.2m	20.3m	15.4m
9999	143.6m	191.4m	193.1m	79.9m	52.8m	70.9m	79.4m	54.3m
10000	152.4m	142.8m	157.5m	170.2m	144.7m	149.5m	202.5m	94.8m

(Rounded to the nearest 0.1m)



## APPENDIX 7B - MONTE CARLO SIMULATION OF SHARE PRICE (EQUITY VALUE) – SIMULATION 2

### Daily Movement

Day	6 Mth	12 Mth	18 Mth	24 Mth	30 Mth	36 Mth	42 Mth	48 Mth
1	124.0m	153.5m	110.1m	197.4m	377.5m	293.2m	326.8m	375.1m
2	126.8m	158.4m	114.0m	195.7m	373.7m	298.0m	319.6m	377.9m
3	131.8m	158.0m	114.5m	198.9m	369.1m	291.4m	328.6m	384.5m
4	129.5m	158.1m	113.0m	202.7m	364.1m	293.4m	332.9m	381.2m
5	126.4m	149.4m	111.0m	202.0m	357.5m	294.3m	326.1m	379.9m
124	158.2m	114.5m	202.7m	370.8m	282.0m	332.1m	361.0m	327.0m
125	159.8m	113.0m	196.9m	361.2m	284.3m	316.2m	369.9m	328.7m
126	160.3m	113.1m	192.3m	366.5m	287.0m	325.8m	382.0m	330.0m

### Simulations

Average:		126.3m						
Simulation	Price - 6 Mth	Price - 12 Mth	Price - 18 Mth	Price - 24 Mth	Price - 30 Mth	Price - 36 Mth	Price - 42 Mth	Price - 48 Mth
Trial	160.3m	113.1m	192.3m	366.5m	287.0m	325.8m	382.0m	330.0m
1	102.7m	125.4m	158.5m	69.2m	44.0m	46.2m	46.5m	37.3m
2	154.8m	140.6m	161.3m	137.2m	95.9m	96.1m	119.2m	91.2m
3	85.3m	102.7m	110.1m	95.2m	65.1m	44.3m	52.9m	55.9m
4	88.3m	103.8m	83.3m	57.5m	124.9m	96.8m	89.3m	107.4m
5	82.3m	83.3m	88.2m	195.0m	292.1m	244.7m	265.0m	207.1m
9999	214.0m	263.8m	203.5m	192.4m	343.3m	182.3m	150.8m	183.2m
10000	132.1m	69.8m	54.8m	36.9m	51.1m	49.2m	34.5m	41.9m

(Rounded to the nearest 0.1m)



## APPENDIX 8A - MONTE CARLO METHOD- PAYOFF PATHS (OPTIONS A, B & C) – SIMULATION 1

Face Value	25.5m
Conversion Price - Option B	42.5m
Conversion % - Option C	35.507%
Bond Discount Rate	6.05%
Risk Free Rate	2.44%

Average: 71.1m									
Simulation	Payoff - Mth 0	Payoff - Mth 6	Payoff - Mth 12	Payoff - Mth 18	Payoff - Mth 24	Payoff - Mth 30	Payoff - Mth 36	Payoff - Mth 42	Payoff - Mth 48
1	43.4m	26.1m	26.4m	25.3m	25.6m	24.6m	24.8m	25.1m	25.3m
2	43.4m	36.3m	33.1m	29.8m	28.8m	28.4m	24.8m	25.1m	25.3m
3	43.4m	36.0m	36.4m	36.9m	37.3m	37.8m	38.2m	38.7m	39.2m
4	56.1m	56.8m	57.5m	35.4m	26.7m	27.0m	25.1m	25.4m	25.3m
5	43.4m	36.3m	36.7m	37.2m	37.6m	38.1m	32.1m	32.5m	32.9m
9997	94.9m	96.1m	97.2m	98.4m	99.6m	100.8m	102.1m	103.3m	40.4m
9998	64.7m	65.5m	49.3m	42.2m	42.7m	43.2m	43.8m	44.3m	31.6m
9999	61.3m	62.1m	62.8m	45.0m	34.6m	35.1m	35.5m	27.0m	25.3m
10000	43.4m	31.9m	27.2m	26.5m	26.8m	27.2m	26.5m	26.8m	27.2m

(Rounded to the nearest 0.1m)



## APPENDIX 8B - MONTE CARLO METHOD- PAYOFF PATHS (OPTIONS A, B & C) – SIMULATION 2

Face Value	25.5m
Conversion Price - Option B	42.5m
Conversion % - Option C	35.507%
Bond Discount Rate	6.05%
Risk Free Rate	2.44%

Average: 70.1m									
Simulation	Payoff - Mth 0	Payoff - Mth 6	Payoff - Mth 12	Payoff - Mth 18	Payoff - Mth 24	Payoff - Mth 30	Payoff - Mth 36	Payoff - Mth 42	Payoff - Mth 48
1	54.3m	54.9m	55.6m	56.3m	26.3m	24.6m	24.8m	25.1m	25.3m
2	55.2m	55.9m	56.6m	57.3m	48.7m	41.3m	41.8m	42.3m	32.4m
3	43.4m	38.1m	38.6m	39.1m	33.8m	25.7m	24.8m	25.1m	25.3m
4	43.4m	42.2m	42.8m	43.3m	43.8m	44.4m	37.2m	37.7m	38.1m
5	97.6m	98.8m	100.0m	101.2m	102.5m	103.7m	93.0m	94.1m	73.5m
9997	59.6m	60.3m	51.5m	52.0m	41.3m	41.8m	28.2m	26.6m	26.6m
9998	43.4m	37.1m	24.0m	24.2m	24.4m	24.6m	24.8m	25.1m	25.3m
9999	114.7m	116.1m	117.5m	119.0m	120.4m	121.9m	64.7m	64.2m	65.0m
10000	46.3m	46.9m	26.4m	24.2m	24.4m	24.6m	24.8m	25.1m	25.3m

(Rounded to the nearest 0.1m)





## APPENDIX 9A - MONTE CARLO METHOD- PAYOFF PATHS (PUT OPTION) – SIMULATION 1

Average:		26.6m							
Simulation	Payoff - Mth 0	Payoff - Mth 6	Payoff - Mth 12	Payoff - Mth 18	Payoff - Mth 24	Payoff - Mth 30	Payoff - Mth 36	Payoff - Mth 42	Payoff - Mth 48
1	2.4m	2.4m	2.4m	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-
3	16.2m	16.4m	16.6m	15.6m	12.4m	12.5m	12.7m	-	-
4	6.2m	6.2m	6.3m	6.4m	6.5m	6.5m	-	-	-
5	9.1m	9.2m	9.4m	9.5m	9.6m	9.7m	9.8m	-	-
9997	48.9m	49.5m	38.0m	38.0m	31.1m	14.6m	-	-	-
9998	6.5m	6.6m	6.6m	6.7m	6.8m	6.9m	-	-	-
9999	10.9m	11.1m	11.2m	11.3m	11.5m	.7m	.7m	-	-
10000	6.4m	6.4m	6.5m	6.6m	6.7m	6.8m	-	-	-

(Rounded to the nearest 0.1m)



## APPENDIX 9B - MONTE CARLO METHOD- PAYOFF PATHS (PUT OPTION) – SIMULATION 2

Average:		25.7m							
Simulation	Payoff - Mth 0	Payoff - Mth 6	Payoff - Mth 12	Payoff - Mth 18	Payoff - Mth 24	Payoff - Mth 30	Payoff - Mth 36	Payoff - Mth 42	Payoff - Mth 48
1	10.8m	10.9m	1.7m	1.7m	-	-	-	-	-
2	7.1m	7.2m	7.3m	7.4m	7.5m	7.6m	-	-	-
3	2.4m	2.5m	2.5m	2.5m	2.6m	-	-	-	-
4	22.3m	22.6m	22.8m	23.1m	5.8m	5.8m	5.9m	-	-
5	68.7m	69.6m	69.0m	32.8m	5.9m	6.0m	-	-	-
9997	11.4m	11.5m	11.6m	11.8m	1.2m	1.3m	1.3m	.1m	-
9998	-	-	-	-	-	-	-	-	-
9999	49.6m	50.2m	50.8m	51.5m	10.3m	10.4m	10.6m	-	-
10000	1.6m	1.6m	-	-	-	-	-	-	-

(Rounded to the nearest 0.1m)



# Financial Services Guide

## **1. Hanrick Curran Corporate Finance Pty Ltd**

Hanrick Curran Corporate Finance Pty Ltd ("HCF") carries on a business, and has a registered office, at Level 11, 307 Queen Street, Brisbane QLD 4001. HCF holds Australian Financial Services License No 467461 authorising it to provide financial product advice in relation to securities to wholesale and retail clients.

HCF has been engaged by Benjamin Hornigold Limited ("BHD" or "the Company") to provide general financial product advice in the form of an independent expert's report to the Proposed Transaction. This Report is to be included in the Company's Notice of Meeting and Explanatory Memorandum.

## **2. Financial Services Guide**

This Financial Services Guide ("FSG") has been prepared in accordance with Corporations Act, 2001 and provides important information to help retail clients make decisions as to their use of the general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

## **3. General financial product advice.**

In our Report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

HCF does not accept instruction from retail clients. HCF provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. HCF does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

## **4. Remuneration**

When providing the Report, HCF's client is the Company. HCF receives its remuneration from the Company. In respect of the Report, HCF will receive from BHD a fee of \$32,500 plus GST, which is based on a commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the Report. Our directors and employees providing financial services receive an annual salary, a performance based bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of HCF or any directors, employees or any associated entities receives any other remuneration or other benefit directly or indirectly for or in connection with the provision of this Report.

## **5. Independence**

HCF is required to be independent of BHD in order to provide this Report. The guidelines for independence in the preparation of independence expert's report are set out in Regulatory Guide 112 Independence of experts issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of HCF is stated below.

"HCF and its related entities do not have at the date of this Report, and have not had within the previous two years, any shareholding in or other relationship with BHD (and associated entities) that



could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the transaction.

HCF has no involvement with, or interest in the outcome of the Transaction, other than the preparation of this Report.

HCF will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of this Transaction. HCF's out of pocket expenses in relation to the preparation of the Report will be reimbursed. HCF will receive no other benefit for the preparation of this Report.

HCF considers itself to be independent in terms of Regulatory Guide 112 Independence of experts issued by the ASIC.

## **6. Complaints process**

HCF has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 34891). All complaints must be in writing and addressed to the Managing Director at HCF. We will endeavor to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West

Melbourne, VIC 8007

Telephone: 1800 335 405

HCF is only responsible for this Report and FSG. Complaints or questions about the General Meeting should not be directed to HCF. HCF will not be responsible in any way that might involve any provision of financial product advice to any retail investor.

## **7. Compensation**

HCF has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.