

# TARGET'S STATEMENT

YOUR DIRECTORS UNANIMOUSLY  
RECOMMEND THAT YOU

			<b>REJECT</b>
			Mercantile's Offer

To **REJECT** Mercantile's Offer **DO NOTHING**

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to how to deal with this document,  
please contact your legal, financial, taxation or other professional adviser

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## KEY DATES

Offer announced, Bidder's Statement lodged with YBR, ASIC and ASX	20 August 2018
Offer Period commenced	14 September 2018
Date of this Target's Statement	20 September 2018
Date for Mercantile to provide Notice of Status of Conditions <sup>1</sup>	12 October 2018
Offer Period closes (unless Offer is extended or withdrawn)	19 October 2018

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<sup>1</sup> If the Offer Period is extended, this date will be taken to be postponed by the same period.

# REJECT THE OFFER

To **REJECT** the Offer **DO NOTHING**

Ignore all documents sent to you by Mercantile

## YOUR DIRECTORS' REASONS TO REJECT THE OFFER

1. Your Directors have determined that the Offer is **GROSSLY INADEQUATE**.
2. Mercantile's Offer does not reflect, and will deprive accepting YBR Shareholders of, the full existing and strategic value of YBR.
3. The Offer is highly opportunistic.
4. The YBR Directors intend to reject the Offer in respect of all YBR Shares they own or control, representing 19.69% of YBR Shares
5. If you accept the Offer, you will lose the option to participate in any subsequent superior offer for your YBR Shares from any third party, should one emerge.
6. The funding available to Mercantile to pay for the Offer is not certain.

Section 1.2 of this Target's Statement elaborates on these key reasons

## IMPORTANT NOTICES

### Target's Statement

This document is a Target's Statement dated 20 September 2018 and is issued by Yellow Brick Road Holdings Limited ACN 119 436 083 (**YBR**) under Part 6.5 Division 3 of the Corporations Act. This Target's Statement sets out the YBR Board's formal response to the off-market takeover offer made by Mercantile OFM Pty Ltd (**Mercantile**) in its Bidder's Statement.

### ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and ASX on 20 September 2018. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

### Forward-looking statements

Some statements in this Target's Statement are forward looking statements. All statements other than statements of historical fact are forward looking statements. You should note that these forward looking statements are only predictions and are inherently subject to uncertainties, in that they may be affected by a variety of known and unknown risks, variables and other important factors, many of which are beyond the control of YBR. Actual values or results, performance or achievements may differ materially from those expressed or implied by such statements. The risks, variables and other factors that may affect the forward looking statements include matters specific to the financial services industry as well as economic and financial market conditions, legislative, fiscal or regulatory developments, the price performance of YBR Shares, including the risk of possible price decline in the absence of the Offer or other takeover or merger speculation, and risks associated with the business and operations of YBR. Further information can be found in Section 5 of this Target's Statement.

None of YBR or any of its officers, or any person named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) or gives any assurance as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statements, except to the extent required by law. You are cautioned not to place undue reliance on any such statement.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement. Subject to any continuing obligations under the ASX Listing Rules or the Corporations Act, YBR and its officers disclaim any obligation or undertaking to update or revise any forward looking statements to reflect any change in expectations in relation to them or any change in events, conditions or circumstances on which any forward looking statement is based.

### Mercantile information in this Target's Statement

The information in this Target's Statement relating to Mercantile has been prepared by YBR using publicly available information including the Bidder's Statement. YBR and its Directors are unable to verify the accuracy or completeness of that information. The information on Mercantile in this Target's Statement should not be considered comprehensive. Accordingly, to the maximum extent permitted by law, YBR does not make any representation or warranty, express or implied, as to the accuracy or completeness of that information.

### Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Target's Statement. Discrepancies between totals in tables and or in calculations are due to rounding.

### No account of personal circumstances

This Target's Statement and the recommendations and other information contained in it do not constitute financial product advice. The recommendations and other information contained in this Target's Statement should not be taken as personal financial or taxation advice, as each Shareholder's deliberations and decision will depend upon their own financial situation, tax position, investment objectives and particular needs.

It is important that you read this Target's Statement in its entirety before making any investment decision and any decision relating to the Offer. Your Directors encourage you to obtain independent advice from your investment, financial, taxation or other professional adviser before making a decision whether or not to accept Mercantile's Offer.

### Risk factors

Shareholders should note that there are a number of risks that they should have regard to before deciding how to respond to the Offer. Further information about those risks can be found in Section 5.

### Privacy statements

YBR has collected your information from the register of Shareholders for the purpose of providing you with this Target's Statement. The type of information YBR has collected about you includes your name, contact details and information on your YBR shareholding. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the YBR Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by YBR, please contact the YBR Share Registry (Computershare Investor Services) on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

### Shareholder enquiries

YBR has established the Shareholder Information Line, which Shareholders may call if they have any queries in relation to Mercantile's Offer. The telephone number for the Shareholder Information Line is 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) and will be available between 8.30am and 5.30pm (Sydney time) Monday to Friday. For queries about your YBR Shareholding, please contact the YBR Share Registry (Computershare Investor Services) on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

### Defined terms

Capitalised terms used in this Target's Statement are defined in Section 8. Section 8 also sets out some rules of interpretation which apply to this Target's Statement.

## CHAIRMAN'S LETTER

20 September 2018

Dear YBR Shareholder,

### REJECT MERCANTILE'S OFFER

Mercantile OFM Pty Ltd (**Mercantile**) launched a conditional takeover offer of \$0.09 per YBR Share (**Offer**) on 20 August 2018.

The Offer is unsolicited and, in the view of the Board of Directors of YBR, it materially undervalues the existing and future value of the Company and is opportunistic in its nature, timing and pricing.

Your Directors unanimously recommend that you **REJECT** Mercantile's Offer for your Shares.

### REASONS TO REJECT MERCANTILE'S OFFER<sup>2</sup>

#### 1. Your Directors have determined that the Offer is **GROSSLY INADEQUATE**.

This view is based on the following:

- *Significant discount to YBR's audited net assets:*

The Offer Price represents a significant discount to YBR's audited net assets as set out in YBR's audited accounts for the year ended 30 June 2018. The Offer Price represents a:

- **65% discount** to YBR's audited net assets per YBR Share of 25.9 cents; and
- **33% discount** to YBR's audited net tangible assets per YBR Share of 13.4 cents.

- *Discount to recent YBR Share trading prices:*

The Offer Price represents the following discounts to recent trading prices of YBR Shares on ASX prior to the date of the Bidder's Statement:

- 3.2% discount to the last sale price;
- 6.3% discount to the 3 month VWAP;
- 13.4% discount to the 6 month VWAP; and
- 22.4% discount to the 12 month VWAP.

- *No control premium:*

Mercantile is not offering any premium for control of YBR, to reflect the benefits that Mercantile would obtain if it receives sufficient acceptances under the Offer to gain control of YBR's business operations and strategy, noting that "effective" control could be obtained if Mercantile attains a Shareholding which is less than 50% of the YBR Shares on issue.

- *Material discount to peer group:*

The Offer Price represents a material discount to the observed trading prices of YBR's peer group of listed mortgage origination and/or management businesses.

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<sup>2</sup> See Section 1.2 of this Target's Statement for further details of the reasons summarised in this letter, including calculations.

2. **Mercantile's Offer does not reflect, and will deprive accepting YBR Shareholders of, the full existing and strategic value of YBR.**

Your Directors believe that the Offer does not adequately recognise the full existing and strategic value of YBR, made up of the following:

- YBR's existing financial assets, which generate significant annuity-style recurring revenue streams;
- the value of YBR's distribution and operating platform, which is the generator of future growth in those revenue-generating financial assets; and
- the anticipated future benefits of YBR's planned strategic initiatives.

3. **The Offer is highly opportunistic.**

Mercantile's parent company, MVT, has recently bought YBR Shares at average prices that represent a 47% premium to the Offer Price. It clearly sees greater value in YBR. Mercantile has a track record of making opportunistic takeover offers for under-valued companies like YBR.

4. **The YBR Directors intend to reject the Offer in respect of all YBR Shares they own or control, representing 19.69% of YBR Shares.**

5. **If you accept the Offer, you will lose the option to participate in any subsequent superior offer for your YBR Shares from any third party, should one emerge.**

6. **The funding available to Mercantile to pay for the Offer is not certain.**

Your Directors are focused on continuing to pursue YBR's growth strategy to maximise the value of your investment in YBR.


## **NEXT STEPS**

### **TO REJECT MERCANTILE'S OFFER, SIMPLY IGNORE ALL DOCUMENTS SENT TO YOU BY MERCANTILE.**

You should read this Target's Statement in its entirety. You should also carefully consider the Offer having regard to your own personal risk profile, investment strategy and tax position. You may also wish to seek independent legal, financial, taxation or other professional advice in relation to your overall assessment of the Offer.

Your Directors will continue to keep you updated on all material developments relating to the Offer. All company announcements are available on our website, [www.ybr.com.au](http://www.ybr.com.au). In the meantime, if you have any questions in relation to this Target's Statement, please call us on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

Yours sincerely



**Mark Bouris**  
Executive Chairman  
Yellow Brick Road Holdings Limited

# **YOUR DIRECTORS' EVALUATION OF THE OFFER**

**1**



# YOUR DIRECTORS' EVALUATION OF THE OFFER

## 1.1 RECOMMENDATION

Your Directors unanimously recommend that you **REJECT** the Offer, for the reasons set out in Section 1.2 of this Target's Statement.

In evaluating the Offer, your Directors encourage you to:

- read the whole of this Target's Statement and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the choices available to you and ensure you understand the consequences of those choices, as outlined in Section 4 of this Target's Statement;
- carefully consider Section 1.2 (Reasons why you should REJECT the Offer) and Section 4 (Information about the Offer & other important issues) of this Target's Statement; and
- seek independent financial, legal, taxation or other professional advice if you are in any doubt as to what you should do in response to the Offer.

Your Directors will keep you informed of any material developments relating to the Offer.

## 1.2 REASONS WHY YOU SHOULD REJECT THE OFFER

### Reason 1: **Your Directors have determined that the Offer is GROSSLY INADEQUATE**

Your Directors believe that Mercantile's Offer is grossly inadequate, for the following reasons:

- ***Significant discount to YBR's audited net asset values:***

The Offer Price represents a significant discount to YBR's audited net assets as set out in YBR's audited accounts for the year ended 30 June 2018. The Offer Price represents a:

- **65% discount** to YBR's audited net assets per YBR Share of 25.9 cents; and
- **33% discount** to YBR's audited net tangible assets per YBR Share of 13.4 cents.<sup>3</sup>

In a takeover offer, one would ordinarily expect a premium to these metrics, not a discount.

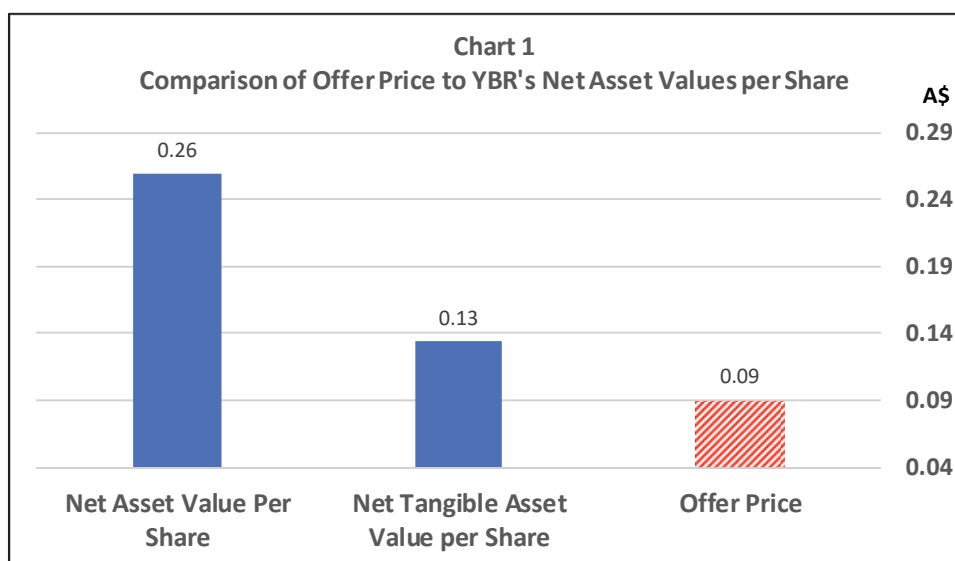
The audited net assets and net tangible assets of YBR primarily derive their value from the present value of YBR's future trail commission receivables from its current underlying loan book, minus the net present value of its future trail commission payables on that loan book (**NPV of Underlying Loan Book**, also referred to as **Embedded Loan Book Value**).<sup>4</sup> YBR's NPV of Underlying Loan Book as at 30 June 2018 was \$0.18 per YBR Share, as set out in YBR's Appendix 4E Preliminary Final Report for FY2018 lodged with ASX.<sup>5</sup>

Chart 1 below sets out a comparison of the Offer Price to YBR's audited net assets and net tangible assets per YBR Share as at 30 June 2018.

<sup>3</sup> Values based on net assets and net tangible assets figures in YBR's audited consolidated financial statements as at 30 June 2018.

<sup>4</sup> YBR commissions an independent actuary to value its loan book as at 31 March each year. The actuary then provides a formula to roll that valuation forward to 30 June each year to enable a valuation of YBR's loan book as at 30 June each year. YBR's auditor then relies upon the actuary's assessment to value current and non-current trail commission receivables and current and non-current trail commission payables that are reported in YBR's audited financial accounts for each 30 June year end.

<sup>5</sup> Lodged with ASX on 29 August 2018. Available on the ASX website ([www.asx.com.au](http://www.asx.com.au)) or from YBR (see Section 7.10 of this Target's Statement).



Source: YBR

- ***Discount to recent YBR Share trading prices***

The Offer Price represents the following discounts to recent trading prices of YBR Shares on ASX prior to the date of the Bidder's Statement:

- 3.2% discount to the last sale price;<sup>6</sup>
- 6.3% discount to the 3 month VWAP of \$0.096;
- 13.4% discount to the 6 month VWAP of \$0.104; and
- 22.4% discount to the 12 month VWAP of \$0.116.<sup>7</sup>

- ***No control premium***

Mercantile is not offering any premium for control of YBR to reflect the benefits that Mercantile would obtain if it receives sufficient acceptances under the Offer to gain control of YBR's business operations and strategy, noting that "effective" control could be obtained if Mercantile attains a Shareholding which is less than 50% of the YBR Shares on issue. Historically, control premiums in successful Australian public company takeovers have frequently been in the range of 20% to 40%, with premiums recently being observed to be approximately 30%.<sup>8</sup>

- ***Material discount to peer group***

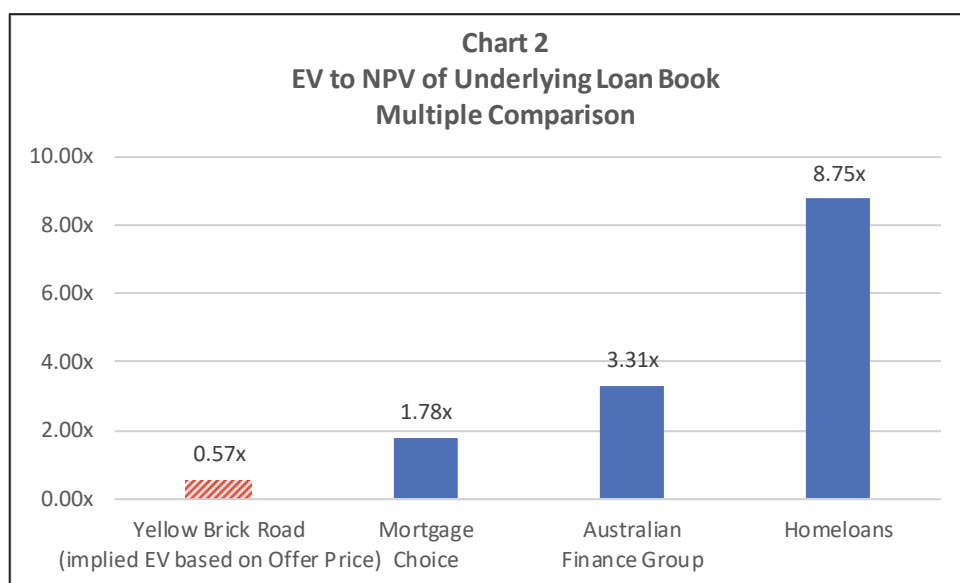
The Offer Price represents a material discount to the observed trading prices of YBR's peer group of listed mortgage origination and/or management businesses.<sup>9</sup> Chart 2 below sets out the ratio of Enterprise Value (**EV**) to NPV of Underlying Loan Book for three ASX listed mortgage originators/managers in the peer group (as defined for this analysis), compared to the same metric for YBR that is implied by the Offer Price.

<sup>6</sup> Last sale price \$0.093 on 17 August 2018, being the last trading day prior to the date of the Bidder's Statement.

<sup>7</sup> 3, 6 and 9 month VWAPs calculated using the cumulative volume and cumulative value of YBR Shares traded over the period from 18 May 2018, 18 February 2018 and 18 August 2017 (respectively) to 17 August 2018 inclusive (source: Thomson Reuters).

<sup>8</sup> Ernst & Young Transaction Advisory Services Pty Ltd - Independent Expert's Report for the acquisition of Finsure Holding Pty Ltd by Goldfields Money Limited (ASX: GMY) dated 3 August 2018 (p.47), lodged by GMY with ASX ([www.asx.com.au](http://www.asx.com.au)) on 6 August 2018 with Notice of Meeting and Explanatory Memorandum.

<sup>9</sup> Peer group is defined as Mortgage Choice Limited (ASX: MOC), Australian Finance Group Limited (ASX: AFG) and Homeloans Limited (ASX: HOM).



*Source: YBR and Thomson Reuters (for market capitalisations) based on last sale prices on the ASX for Mortgage Choice, Australian Finance Group and Homeloans as at 14 September 2018. All loan book and other data sourced from peer group ASX-lodged Appendix 4E Preliminary Final Reports for year ended 30 June 2018.*

Chart 2 above illustrates that Mercantile's Offer Price represents:

- a significant discount (43%) to YBR's NPV of Underlying Loan Book as at 30 June 2018; and
- a material discount to the EV to NPV of Underlying Loan Book metric for each member of the identified YBR peer group.

Shares in the above peer group companies are trading at multiples of their NPV of Underlying Loan Book, not at a discount.<sup>10</sup>

There are certain differences between YBR and the above peer group of companies. In YBR's case, being a much younger business than its peers, (i.e. 8 years compared to an average of 29 years), it has taken time and YBR has incurred losses in building and investing in the necessary mortgage and wealth distribution, infrastructure and operational platform needed to support its growing businesses as they reach scale. However, YBR has also experienced strong growth in its lending and wealth asset base relative to its peers and is now reaching a level of business maturity that generates significant recurring income. Due to this short history and YBR's developing business maturity, it is considered by the YBR Directors that it is not appropriate to apply other, profit-based valuation metrics to YBR in its present state.

- ***The price of YBR Shares on the ASX has traded consistently higher than Mercantile's Offer Price since the Offer was announced***

As at 19 September 2018, the last trading date prior to the date of this Target's Statement, the VWAP of YBR Shares traded since Mercantile announced the Offer on 20 August 2018 is 10.5 cents per YBR Share.<sup>11</sup>

**CONCLUSION: DON'T GIVE UP YOUR YBR SHARES FOR A GROSSLY INADEQUATE PRICE.**

## **Reason 2: Mercantile's Offer does not reflect, and will deprive accepting shareholders of, the full existing and strategic value of YBR**

On 29 August 2018, YBR released to the ASX its Appendix 4E Preliminary Final Report for FY2018, along with a Chairman's covering letter which, amongst other things, summarised YBR's key business

<sup>10</sup> Based on ASX closing prices for MOC, AFG and HOM on 14 September 2018. (Source: Thomson Reuters).

<sup>11</sup> (Source: Thomson Reuters).

initiatives for FY2018 and its strategy for FY2019. A copy of this letter is attached in the Annexure to this Target's Statement.

Following on from that discourse, your Directors believe that the Offer does not adequately recognise the full existing and strategic value of YBR, made up of the following three components:

**a. Value of YBR's existing financial assets:**

YBR has three types of valuable underlying financial assets that are "embedded" into its businesses, which generate significant and recurring revenue streams. Under the Australian Accounting Standards, some of these assets must be recognised on-balance sheet, whilst others must not (and so the latter are considered by your YBR Directors as "off-balance sheet" assets). These underlying financial assets of the YBR Group are:

- YBR's NPV of Underlying Loan Book (on-balance sheet);
- the funds under management attributable to YBR (**FUM**) (off-balance sheet) through its 50% ownership of Smarter Money Investments Pty Ltd and other direct 100% interests; and
- the premiums under management (**PUM**) and gross written premiums (**GWP**) derived from its respective life and general insurance distribution businesses (also off-balance sheet).

Table 1 below sets out the size and the values of these underlying financial assets.

Table 1			
Asset	Size \$m	Value \$m	Methodology
NPV of Underlying Loan Book <sup>1</sup>	47,648	<b>50.3</b>	Actuarially assessed
Underlying FUM <sup>2</sup>	1,009	<b>21.0</b>	Directors' estimate
Underlying PUM + GWP <sup>3</sup>	25	<b>4.6</b>	Directors' estimate
<b>Total</b>		<b>75.9</b>	

**Notes**

1. Refer YBR's Appendix 4E Preliminary Final Report for FY2018.
2. Refer YBR's Appendix 4E Preliminary Final Report for FY2018. Directors' estimate based on an assessed multiple of 2.0% of FUM
3. Refer YBR's Appendix 4E Preliminary Final Report for FY2018. Directors' estimate based on assessed multiples of PUM and GWP of 0.20x and 0.14x, respectively.

Source: YBR

The YBR Directors believe that the market has not fully appreciated the size and value of these existing financial assets, which generate significant and growing levels of recurring revenue for YBR Group. In the view of the YBR Directors, YBR's value is not fully reflected in the trading price of YBR Shares.

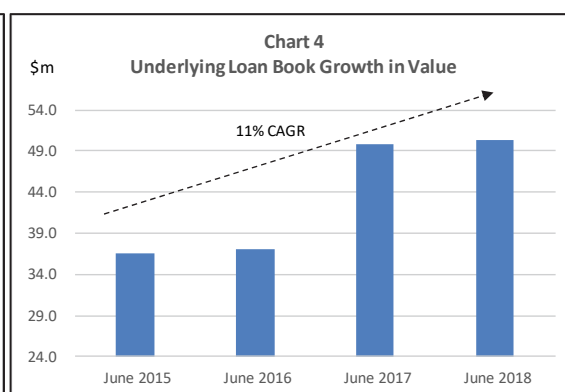
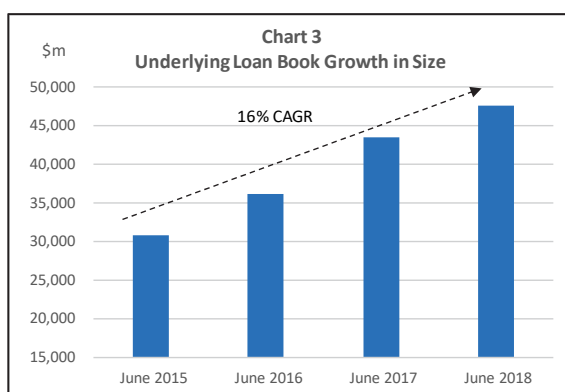
**b. Value of YBR's distribution and operating platform:**

The above underlying financial assets have been generated by YBR's multi-faceted distribution network and operating platform comprised of:

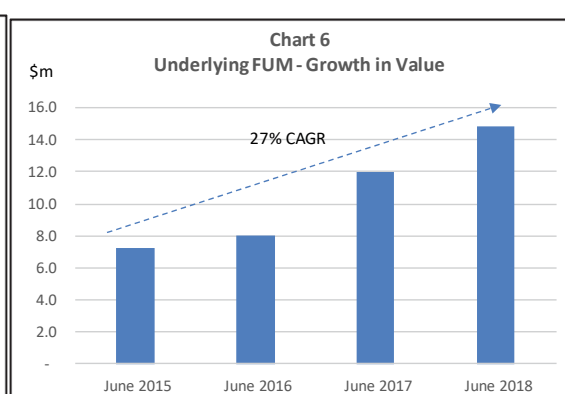
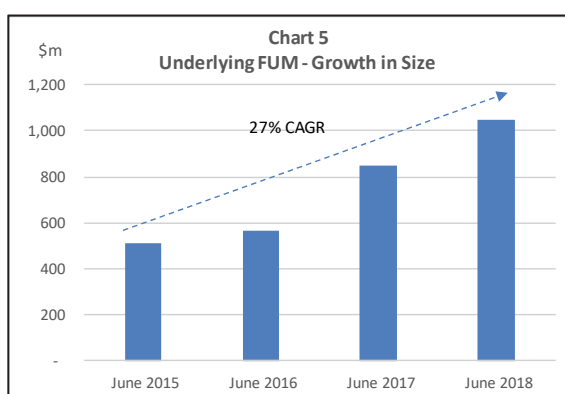
- 117 YBR-branded shopfront franchises (with 180 accredited business writers);
- 529 independent Vow broking firms (with over 1,200 accredited business writers); and
- head office distribution support, accreditation, training, compliance and finance teams.

However, the power of this distribution and operating platform lies fundamentally in its ability to originate additional long-tail annuity-style financial assets during each year of its future operation, thus adding a multiplier effect of compounding income.

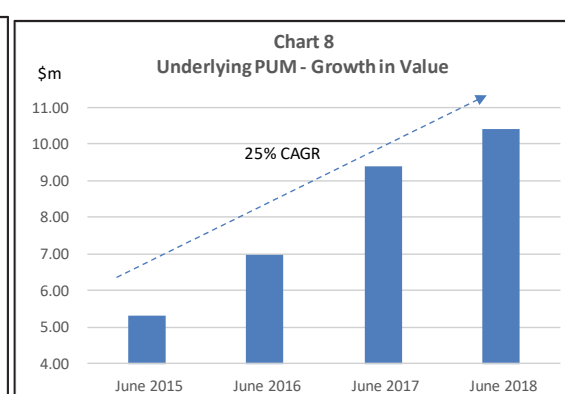
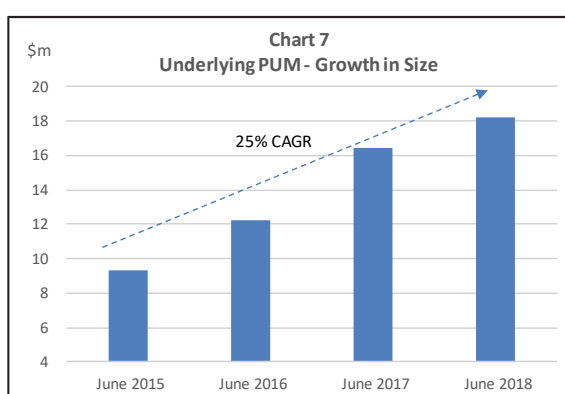
This compounding effect is demonstrated in Charts 3-8 below, which set out the historical growth in the size of YBR's Underlying Loan Book, FUM and PUM and the Directors' estimate of their values over the last 3 years since June 2015:



Source: YBR



Source: YBR



Source: YBR

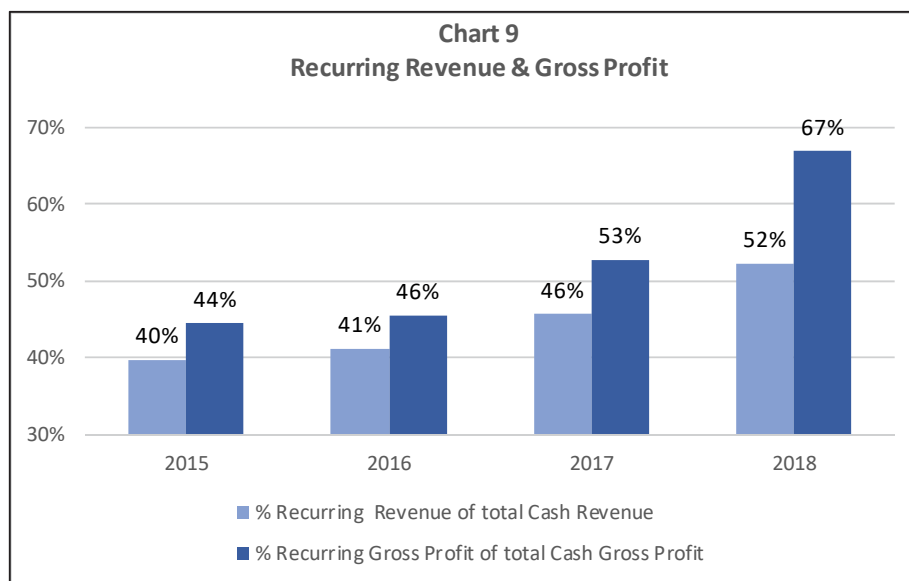
#### Notes

1. Size refers to total amounts of Underlying Loan Book, FUM and PUM respectively, attributable to YBR.
2. Value refers to (i) Underlying Loan Book: independent actuarial assessment conducted annually and reported in YBR's audited annual financial statements.  
(ii) FUM and PUM: Directors' estimate using consistently applied multiples as per notes to Table 1 above.

While noting that past growth may not be an indicator of future growth, the YBR Directors believe the above growth rates are significant and strongly support a whole-of-business value for YBR that should contain a premium to its existing underlying financial asset values (i.e. YBR's Underlying Loan Book, FUM and PUM), similar to its peers. In effect, this premium represents the value of YBR's distribution and operating platform, which can generate new business, but which the Directors believe the market has not adequately recognised.

In addition, as a sign of the maturing nature of the YBR business, the aggregate recurring revenues and recurring gross profits generated from these underlying financial assets in each of the last 4

years to 30 June as a percentage of total cash revenue and total cash gross profit<sup>12</sup> have been increasing steadily, which the YBR Directors believe shows the improving quality and certainty of YBR's revenue and gross profit. This is demonstrated in Chart 9 below.



Source: YBR

Notes: Refer to the Annexure to this Target's Statement (Chairman's strategy and results letter) for details of FY2017 and FY2018 revenue and gross profit items.

Again, while noting that the past is not a necessary indicator of the future, the Directors believe that as YBR's distribution and operating platform generate further "books" of NPV, FUM, PUM and GWP, the percentages of recurring revenue and gross profit should further increase.

### **c. Potential future benefits of YBR's planned initiatives:**

A significant new strategic initiative - YBR's intention to pursue securitisation as a source of additional funds for mortgage lending - was outlined in the recent YBR Chairman's letter to Shareholders dated 29 August 2018 (attached as the Annexure to this Target's Statement).

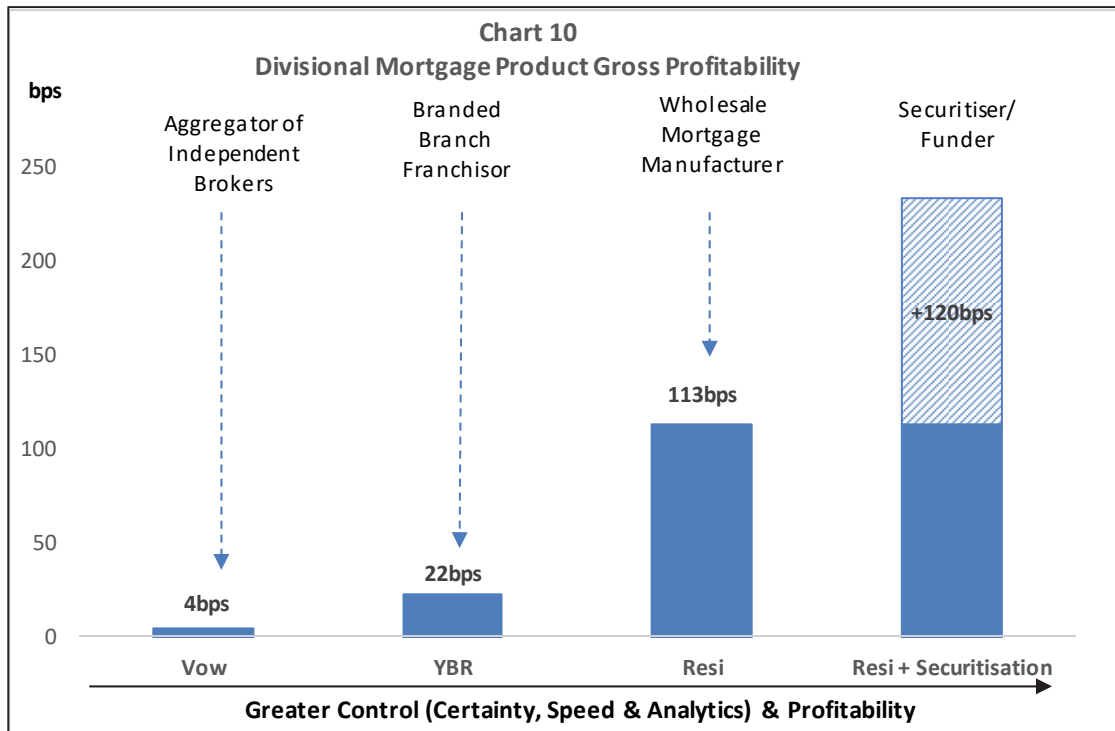
The YBR Directors believe that a securitisation programme will be a key value-enhancing component in YBR's overall mortgage strategy. It will afford YBR a deeper ownership of the mortgage value chain, whereby YBR would gain greater control over the underlying mortgages and obtain a "net interest margin" similar to a bank, as opposed to solely being a broker and the recipient of commission-based income.

To demonstrate this, Chart 10 below depicts the profitability, at a gross profit level, of YBR's existing underlying books of mortgages and how that profitability increases as one goes up the value chain in the mortgage process, according to whether a business is either an aggregator for other mortgage originators (like YBR Group's Vow business), a franchisor of a branded branch network of mortgage originators (like YBR Group's shop-front YBR branded franchise network), a wholesale mortgage "manufacturer" (like YBR Group's Resi business) or a securitiser mortgage funder (YBR's intention to extend the Resi business).

Chart 10 shows, for the first three of these different distribution channels, its NPV of Underlying Loan Book divided by the size of the Underlying Loan Book, and shows the additional value that the YBR Directors would expect to attain from securitisation – an extra 120bps of value.<sup>13</sup> That is a measure of the additional portion of borrower interest payments that YBR would expect to earn from loans funded by a YBR Group (Resi) securitisation programme.

<sup>12</sup> The composition and amount of YBR's total cash revenue and total cash gross profit for FY2017 and FY2018 is summarised in the table on page 4 of the Chairman's letter annexed to this Target's Statement.

<sup>13</sup> YBR Directors' estimate based on internal modelling, market-sourced pricing and third party cost information, including a 95bps NIM (net interest margin).



Source: YBR

As one critical step to achieve this, YBR will need one or more warehouse facilities for the programme. Discussions with potential warehouse providers are reasonably advanced and are ongoing.

Additionally, other critical steps for YBR for its securitisation plans include the need to source mezzanine and equity “skin-in-the-game” funding for the programme, as well as working capital for the securitisation servicer / trust manager business. YBR has begun planning the sourcing of this capital, but has not yet begun to implement these plans.

It is noted that there is no guarantee that any definitive transaction documentation for any warehouse facility will be executed, nor that any or all capital required for the intended securitisation programme will be raised.

While none of the above is included in any valuation of YBR, in the view of the YBR Directors, it adds further support to their recommendation that now is not the time to sell your YBR Shares.

## YBR sum of the parts value

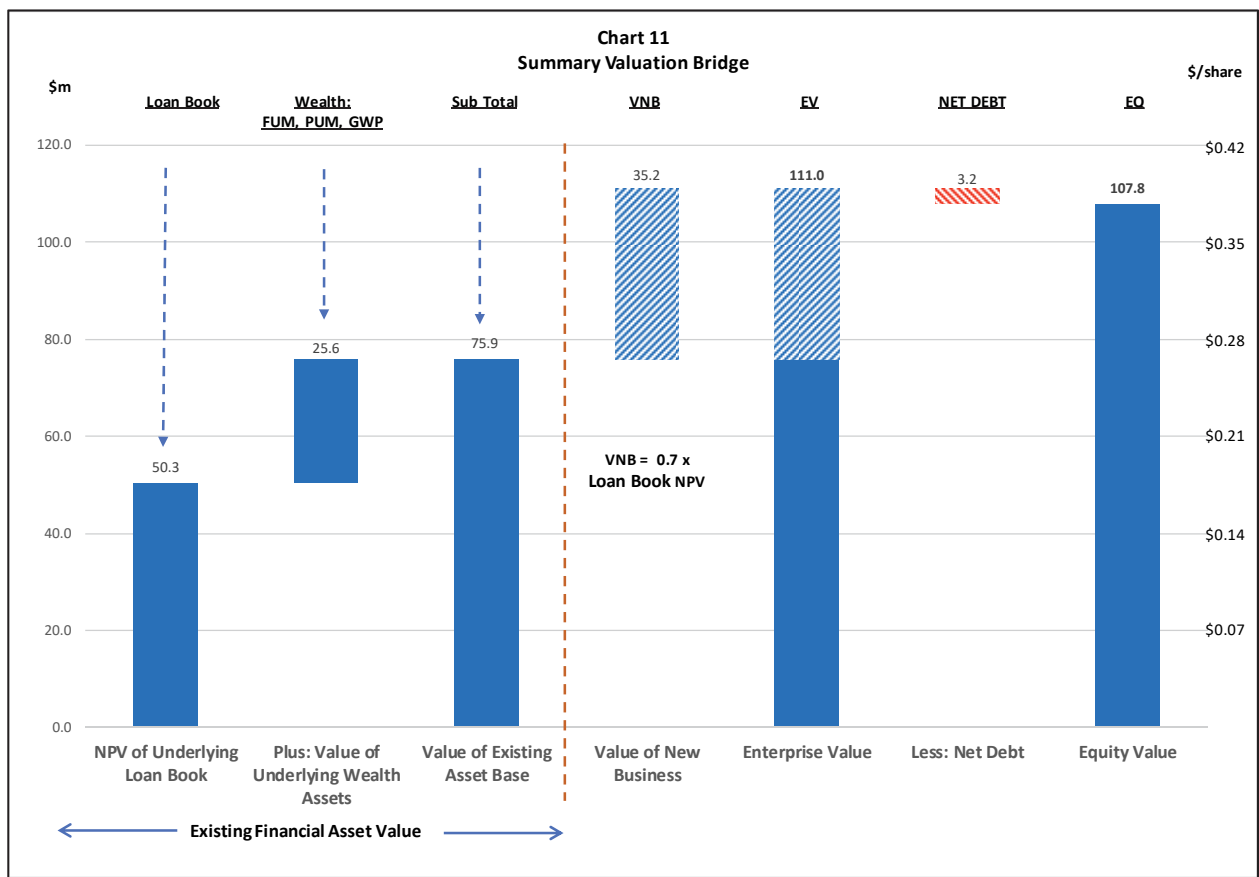
The YBR Directors have considered the indicative value of YBR and YBR Shares by reference to a number of methodologies appropriate to a financial services business. These methodologies included, amongst others:

- Sum of the parts (SOTP) value;
- Discounted cash flow (DCF) value; and
- Divisional value implied by recent transaction multiples and peer group trading multiples.

The methodologies result in an indicative value of YBR within a narrow range, which the YBR Directors believe is most appropriately explained by the SOTP methodology, as it can be readily ascertained from audited financial statements and by reference to current market parameters.

Chart 11 below summarises the various parts which the Directors have relied upon to determine an Enterprise Value of YBR. Chart 11 also summarises the YBR Directors' assessment of the equity value of YBR (being the Enterprise Value of YBR less YBR's net debt) which produces a value per YBR Share (being the equity value of YBR divided by the number of YBR Shares on issue as at the date of this Target's Statement).





Source: YBR

The Directors have valued each of the parts set out in Chart 11 above as follows:

- NPV of Underlying Loan Book (or Embedded Loan Book Value) of \$50.3 million, as reported in YBR's Appendix 4E Preliminary Final Report for FY2018.
- Director's basis for their estimate of the value of YBR's financial assets (namely underlying FUM, PUM and GWP) of \$25.6 million is set out in paragraph a above ("Value of YBR's existing financial assets").
- The value of new business (**VNB**), represents the YBR Directors' view of the value of the distribution and operating platform of YBR. The distribution and operating platform of YBR is described in paragraph b above ("Value of YBR's distribution and operating platform"). The platform generates YBR's ability to add new financial assets such as Underlying Loan Books, FUM, PUM and GWP into the future. It can be observed and priced in the market as the excess of trading Enterprise Values over the value of these underlying financial assets - see Chart 2 above which shows that for YBR's peer group of Mortgage Choice, Australian Finance Group and Homeloans, their VNBs are respectively 0.78x, 2.31x and 7.75x (ie, 1.78x – 1.00, 3.31x – 1.00 & 8.75x – 1.00, respectively) their respective NPVs of Underlying Loan Books. The YBR Directors have selected a 0.7x Underlying Loan Book multiple (net of corporate costs) to value YBR's VNB in Chart 11 above. The YBR Directors believe this to be a conservative multiple to be used.

The final part of Chart 11 illustrates the Director's view of the equity value of YBR under this methodology as \$108 million, or \$0.38 per YBR Share.

No value has been attributed to any of YBR's planned Strategic Initiatives (as discussed in paragraph c above ("Potential future benefits of YBR's planned initiatives")) in the SOTP valuation above. However, based upon current business plans and detailed financial modelling undertaken to date, the Directors expect securitisation would provide significant potential value in excess of that set out above.



**CONCLUSION: YBR IS ACTIVELY PURSUING A GROWTH STRATEGY THAT IS VALUE ENHANCING. MERCANTILE'S OFFER ASCRIBES NO VALUE TO THIS STRATEGY. NOW IS NOT THE TIME TO SELL.**

**Reason 3: The Offer is highly opportunistic.**

- ***Mercantile's parent company has recently bought YBR Shares at average prices that represent a 47% premium to the Offer Price - it clearly sees greater value in YBR.***

ASX disclosures by MVT show that it has bought YBR Shares between 1 December 2017 and as recently as 20 April 2018 at an average price of \$0.1325 per YBR Share and up to \$0.146 per YBR Share. This buying highlights the opportunistic nature of Mercantile's Offer.

- ***Mercantile has a track record of making takeover offers for under-valued companies like YBR***

Mercantile is a wholly-owned subsidiary of Mercantile Investment Company Limited (**MVT**), which is an ASX listed investment company. Predominantly, MVT is not an operator of businesses, rather it invests in cash and securities (listed and unlisted). MVT's modus operandi is to find and acquire interests in companies (and other investments) which it perceives are under-valued. It has no proven ability to operate a large and integrated mortgage and wealth origination and management business.

Mercantile's Bidder's Statement does not, in the view of YBR Directors, clearly disclose what Mercantile's intentions are with respect to the business operations of YBR. It is stated in the Bidder's Statement that Mercantile is seeking greater influence regarding YBR's strategy and operations. Given Mercantile's lack of experience in operating a complex financial services business such as YBR Group's, the YBR Directors do not believe it would be in the best interests of YBR Shareholders if Mercantile obtained greater influence over YBR's strategy and operations.

In the last 3 financial years, Mercantile has launched 7 takeover offers for ASX listed companies, and all but one offer were contested by the target companies. These target companies were mostly "cash boxes" that had no operations, significant cash reserves and/or had operations in run-off. Their businesses were very different to a multi-faceted operating business like YBR Group's, with its large franchise and broker networks with significant contractual rights and obligations between them.

In each of the 6 contested takeover offers referred to, Mercantile offered an initial price that was rejected by the target board as containing either no or an insufficient premium to recent market prices, no premium for control, or for being at a discount to the target company's NTA or cash backing. The Offer for YBR Shares involves a similarly derisory Offer Price. Of these 6 contested takeover offers, Mercantile sold into a higher competing offer in one case, and subsequently increased its offer price in the other 5 cases. Only in 3 of the contested takeover offers did Mercantile's higher price eventually lead to it succeeding in its offer.

As best the YBR Directors can ascertain, Mercantile's objective in these other takeover bids has been to:

- sell the shares to another bidder, should one emerge, for a higher value than it paid;
- return excess cash to shareholders, including itself, via business or asset sales or wind-down scenarios (i.e. a "business breakup"); and/or
- exercise board influence to achieve an asset breakup outcome.

The YBR Directors believe that, were Mercantile to succeed in its Offer, it would likely involve elements of the above strategy, which would add significant disruption and instability to the YBR distribution network, without any proven outcomes.

**CONCLUSION: DON'T LET MERCANTILE PROFIT AT YOUR EXPENSE.**

**Reason 4: The YBR Directors intend to reject the Offer in respect of all YBR Shares they own or control, being a total of 19.69%.**

Please see Section 7.1 of this Target's Statement for details of the YBR Shareholdings owned or controlled by the YBR Directors.

**Reason 5: If you accept the Offer, you will lose the option to participate in any subsequent superior offer for your YBR Shares from any third party, should one emerge**

If you accept the Offer you will lose the option to participate in any superior offer or other transaction proposal that may emerge from a third party.

As at the date of this Target's Statement, YBR has received a number of exploratory confidential non-binding and incomplete proposals, none of which has reached a stage which warrants any further disclosure in this Target's Statement. Your Directors can give no assurance that any competing proposal will emerge, and will keep YBR Shareholders informed of any material developments in this regard.

**Reason 6: The funding available to Mercantile to pay for the Offer is not certain**

Mercantile, as the bidder making the Offer, has stated in its Bidder's Statement that the total consideration required under the Offer to acquire the YBR Shares in which it does not hold a relevant interest is \$20,348,125 (which amount would not include any related costs).

Mercantile also stated that no cash reserve held by it is expected to be used to pay for the Offer consideration. Instead, it is reliant upon a letter of commitment from its parent MVT to lend Mercantile the funds necessary to pay for the Offer on an unsecured basis.

In turn, MVT has stated that it has less than \$5.5 million in its own uncommitted and available cash at the date of the Bidder's Statement, which amount will vary in accordance with its investment activities. This in itself is not sufficient to pay for all the Offer consideration without liquidating a substantial part of MVT's investment portfolio.

Accordingly, MVT is itself also reliant upon what it refers to as a revolving funding facility (the **Revolving Facility**) from Sir Ron Brierley, its chairman and main shareholder, to satisfy Mercantile's commitments to pay the Offer consideration. However, as Sir Ron Brierley is a private individual and not a bank or listed company that publishes financial accounts, it is not possible for YBR or YBR Shareholders to assess whether Sir Ron Brierley will have sufficient funds available to make any required advance under the Revolving Facility. Additionally, no disclosure has been made in relation to when any funds that may be advanced under the Revolving Facility have to be repaid by MVT to Sir Ron Brierley.

Accordingly, the YBR Directors believe the disclosed funding arrangements for the Offer are uncertain and unclear. In such circumstances, accepting Shareholders might be taking credit risk against Mercantile. Shareholders should note that if Mercantile does not pay you the Offer Price in accordance with the terms of the Offer, your only recourse is against Mercantile, not MVT or Sir Ron Brierley.

**CONCLUSION: MERCANTILE'S FUNDING ARRANGEMENTS ARE NOT CERTAIN.**

# **FREQUENTLY ASKED QUESTIONS**

## **2**

## 2 FREQUENTLY ASKED QUESTIONS

This Section answers some questions you may have about the Offer. It is not intended to address all relevant issues for Shareholders. This Section should be read in conjunction with all other parts of this Target's Statement.

Question	Answer
<b><i>The Offer</i></b>	
<b>What is Mercantile's Offer for my YBR Shares?</b>	Mercantile is offering \$0.09 cash for each YBR Share you hold.
<b>Who is Mercantile?</b>	<p>Mercantile is a wholly-owned subsidiary of Mercantile Investment Company Ltd, a listed investment company (ASX:MVT) (<b>MVT</b>).</p> <p>As at the date of Mercantile announcing its Offer, MVT held 19.9% of the issued share capital of YBR.</p> <p>The Chairman and major shareholder of MVT is Sir Ron Brierley. According to its last Annual Report, MVT has portfolio investments in over 60 different companies and trusts, across various industries but mainly in the minerals and energy sector.</p>
<b>Did YBR have any knowledge of Mercantile's intention to make the Offer?</b>	No. The Offer was unsolicited and made without prior notice to or consultation with YBR. Mercantile first informed YBR of its intention to make the Offer just before Mercantile lodged its Bidder's Statement with ASIC and ASX on 20 August 2018.
<b>What choices do I have in response to the Offer?</b>	<p>As a Shareholder you have the following three choices in respect of your YBR Shares:</p> <ul style="list-style-type: none"> <li>• <b>REJECT</b> the Offer and remain a YBR Shareholder - to reject the Offer, simply do nothing – ignore all documents sent to you by Mercantile. This option is your Directors' unanimous recommendation;</li> <li>• sell your YBR Shares on the ASX (unless you have previously accepted the Offer); or</li> <li>• accept the Offer by following the instructions set out in section 1.6 of the Bidder's Statement.</li> </ul>
<b>Will YBR remain listed on the ASX?</b>	<p>That depends on the outcome of the Offer.</p> <p>If Mercantile acquires 50% or more of the YBR Shares on issue, Mercantile states that it may seek to delist YBR from ASX. Any proposal to delist YBR from ASX will require ASX's consent and may be subject to conditions imposed by ASX. See Section 4.5 for further details.</p>

<b>Does the Offer extend to YBR Performance Rights?</b>	<p>No.</p> <p>The impact of the Offer on the YBR Performance Rights is set out in Section 4.8 of this Target's Statement.</p>
<b><i>How to respond to the Offer</i></b>	
<b>What do your Directors recommend?</b>	<p>Your Directors unanimously recommend that you <b>REJECT</b> the Offer, for the reasons set out in Section 1.2 of this Target's Statement.</p> <p>If there is a change to this recommendation or any material developments in relation to the Offer, YBR will keep you fully informed.</p>
<b>What do your Directors intend to do with their own Shares?</b>	Your Directors recommend to <b>REJECT</b> the Offer. Each of your Directors intends, for all Shares held by them or in which they otherwise have a relevant interest, to act in accordance with their recommendation from time to time to Shareholders.
<b>When do I have to make a decision?</b>	<p>If you wish to follow your Directors' recommendation that you <b>REJECT</b> the Offer, you do not need to do anything. You should <b>IGNORE</b> all documents received from Mercantile.</p> <p>If you wish to accept the Offer, you must do so before its scheduled closing date. Mercantile has stated that its Offer remains open until 7.00pm (Sydney time) on 19 October 2018. Mercantile has reserved the right to extend the Offer Period in accordance with the Corporations Act. In addition, the Offer Period may be extended automatically in certain circumstances. See Section 4.7 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.</p>
<b>Will Mercantile increase its Offer?</b>	<p>Mercantile has not declared its Offer to be final. Accordingly, it remains open for Mercantile to increase its Offer if it chooses.</p> <p>However, YBR cannot say whether Mercantile will increase its Offer as this is a matter for Mercantile.</p>
<b>What happens if Mercantile increases its Offer or another offer emerges?</b>	If Mercantile increases its Offer or another offer emerges, your Directors will carefully consider the revised offer or new offer and advise Shareholders accordingly.
<b>What happens if I accept the Offer and a superior offer is subsequently made by a third party for my YBR Shares?</b>	<p>Shareholders should be careful. If you accept the Offer, you are only able to withdraw your acceptance before the Offer Period ends in one limited circumstance: that is, you may withdraw your acceptance if Mercantile varies its Offer in a way that postpones for more than one month the time by which Mercantile must meet its obligations under its Offer, for example, if Mercantile extends the Offer Period for more than one month while its offer remains conditional.</p> <p>Accordingly, if you accept the Offer, you will be unable to accept any other superior offer that may emerge.</p>
<b>What happens if I do nothing?</b>	<p>You will remain a YBR Shareholder.</p> <p>If Mercantile acquires between 50% and 90% of the YBR Shares on issue and Mercantile's Offer becomes unconditional, you will remain a minority shareholder in YBR. The implications</p>

	of this outcome are described in Section 4.4 of this Target's Statement.
<b>What are the risks associated with continuing to hold YBR Shares?</b>	Those risks are outlined in Section 4 of this Target's Statement.
<b>If I accept the Offer now, can I withdraw my acceptance later?</b>	<p>Generally, no.</p> <p>You may only withdraw your acceptance before the Offer Period ends if Mercantile varies its Offer in a way that postpones the period Mercantile is required to satisfy its obligations by more than one month and Mercantile's Offer is still subject to one or more Conditions. This circumstance will occur if Mercantile extends the Offer Period by more than one month while Mercantile's Offer is still subject to any Condition.</p>
<b>Can Mercantile extend the closing date of its Offer?</b>	Yes. Mercantile has stated that its Offer remains open until 7.00pm (Sydney time) on 19 October 2018. Mercantile has reserved the right to extend the Offer Period in accordance with the Corporations Act.
<b>Can I be forced to sell my YBR Shares?</b>	<p>You cannot be forced to sell your YBR Shares unless Mercantile is legally allowed to proceed to compulsory acquisition of YBR Shares. You may be forced to sell your shares if Mercantile acquires at least 90% of all YBR Shares (under the Offer or otherwise) and elects to proceed to compulsory acquire the outstanding YBR Shares.</p> <p>If Mercantile does compulsorily acquire the outstanding YBR Shares, you will receive the same Offer Price for your YBR Shares that you would have received under the Offer, but it will take longer for you to receive the Offer Consideration.</p> <p>For more information about compulsory acquisition refer to Section 4.6 of this Target's Statement.</p>
<b>Can I accept the Offer for only some of my YBR Shares?</b>	No. The terms of the Offer allow you to accept the Offer for only <b>all</b> of your YBR Shares. Special rules apply to nominees and others holding shares for different accounts.
<b>When will I be paid if I accept the Offer?</b>	<p>It is important to understand that even if you accept Mercantile's Offer, you will not receive any cash unless all of the Conditions are satisfied or waived.</p> <p>If you accept Mercantile's Offer and the Offer is or becomes unconditional, you will be entitled to receive your Offer Consideration by the earlier of:</p> <ul style="list-style-type: none"> <li>• one month after the date of your acceptance of Mercantile's Offer or, if Mercantile's Offer is subject to a Condition when you accept Mercantile's Offer, within one month after the contract arising from your acceptance of Mercantile's Offer becomes unconditional; and</li> <li>• 21 days after the end of the Offer Period.</li> </ul>
<b>Will I need to pay brokerage or stamp duty if I accept the Offer?</b>	If your YBR Shares are registered in your name in an Issuer Sponsored Holding (your SRN starts with 'I'), you will not incur any brokerage fees or pay stamp duty in connection with your acceptance of Mercantile's Offer.

	<p>If your YBR Shares are registered in a CHESS Holding (your HIN starts with an 'X'), or if you are a beneficial owner whose Shares are registered in the name of a broker, bank, custodian or other nominee, you will not pay stamp duty by accepting Mercantile's Offer. However, you should ask your Controlling Participant (usually your broker) or nominee whether it will charge any transactional fees or service charges in connection with acceptance of Mercantile's Offer.</p> <p>You may incur brokerage costs if you choose to sell your YBR Shares on the ASX.</p>
<b>Are there taxation implications of accepting the Offer?</b>	<p>A general outline of the tax implications for certain Australian and foreign resident YBR Shareholders of accepting the Offer is set out in Section 6 of this Target's Statement. As that outline is general in nature and does not take into account your individual circumstances, you should not rely on that outline as advice for your particular circumstances.</p> <p>You should seek your own independent advice on the taxation implications applicable to your specific circumstances.</p>
<b>Is the Offer subject to any conditions?</b>	<p>Yes, Mercantile's Offer is subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• that Mercantile has a relevant interest in more than 50.1% (by number) of YBR Shares on issue before the end of the Offer Period; and</li> <li>• that none of the following happen during the period commencing on the date of the Bidder's Statement (20 August 2018) and ending on the expiry of the Offer Period (each being a separate condition): <ul style="list-style-type: none"> <li>• the shares of YBR or any of the Controlled Entities of YBR are converted into a larger or smaller number of shares;</li> <li>• YBR or a subsidiary of YBR resolves to reduce its share capital in any way;</li> <li>• YBR or a subsidiary of YBR: <ul style="list-style-type: none"> <li>• enters into a buy-back agreement; or</li> <li>• resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;</li> </ul> </li> <li>• YBR or a subsidiary of YBR issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;</li> <li>• YBR or a subsidiary of YBR issues or agrees to issue convertible notes;</li> <li>• YBR or a subsidiary of YBR disposes or agrees to dispose of the whole or a substantial part of its business or property;</li> <li>• YBR or a subsidiary of YBR grants or agrees to grant an Encumbrance over the whole or a substantial part of its business or property; or</li> <li>• an Insolvency Event occurs with respect to YBR or a subsidiary of YBR.</li> </ul> <p>The Conditions are set out in full in Section 7.1 of Mercantile's Offer (Appendix A to the Bidder's Statement).</p> </li></ul>

	<p>To receive the Offer Consideration, all of the Conditions must be satisfied or waived by Mercantile before the Closing Date of Mercantile's Offer. Please refer to Section 4.2 of this Target's Statement for a discussion of the conditions and their implications.</p>
<p><b>Are there any risks of accepting Mercantile's Offer while it is still conditional?</b></p>	<p>Yes. If you accept Mercantile's Offer now while Mercantile's Offer is subject to conditions, there are significant consequences for you including the following:</p> <ul style="list-style-type: none"> <li>• you will give up your right to sell your YBR Shares on the ASX or to otherwise deal with them (for example, by accepting any superior offer from another bidder if such an offer is made); and</li> <li>• you will relinquish control of your YBR Shares and the Rights attaching to them to Mercantile with no guarantee of payment until Mercantile's Offer becomes unconditional,</li> </ul> <p>subject in each case to your right to withdraw your acceptance of Mercantile's Offer in the limited circumstance outlined above in response to the question 'If I accept the Offer now, can I withdraw my acceptance later?'.</p>
<p><b>What happens if I accept Mercantile's Offer and the Conditions are not satisfied or waived?</b></p>	<p>If the Conditions are not satisfied and Mercantile has not waived the Conditions before the end of the Offer Period, Mercantile's Offer will lapse and your acceptance of Mercantile's Offer will be void and of no effect whatsoever. In this circumstance it means that:</p> <ul style="list-style-type: none"> <li>• you will not receive any payment for your YBR Shares from Mercantile; and</li> <li>• you will continue to own your YBR Shares and you will then be free to deal with them.</li> </ul>
<p><b>How will I know if Mercantile's Offer becomes unconditional?</b></p>	<p>Mercantile is required to inform YBR, ASX and Shareholders as soon as any Conditions are satisfied or waived.</p> <p>Notices from Mercantile will be available via YBR's ASX company announcements platform.</p> <p>Mercantile has set 12 October 2018 as the date on which it will give YBR and ASX a notice required by law on the status of the Offer Conditions. This date will be extended if the Offer Period is extended.</p>
<p><b>What if I have further questions?</b></p>	<p>You should contact your legal, financial, taxation or other professional adviser. If you have any questions about Mercantile's Offer or this document please call the Shareholder Information Line on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) (Monday to Friday between 8.30am and 5.30pm (Sydney time)).</p> <p>If you have any questions about your YBR shareholding, please contact Computershare directly:  Phone: 1300 850 505 (within Australia)  Phone: +61 3 9415 5000 (outside Australia)  Fax: +61 3 9473 2500  Email: <a href="mailto:web.queries@computershare.com.au">web.queries@computershare.com.au</a></p>



# **YOUR CHOICES AS A YBR SHAREHOLDER**

## **3**

### 3 YOUR CHOICES AS A YBR SHAREHOLDER

Your Directors unanimously recommend that you **REJECT** the Offer.

You have the following choices available to you:

#### 1 REJECT THE OFFER

To **REJECT** the Offer, you should do nothing. You are not required to take any action to reject the Offer. In particular, you should not complete or return the Acceptance Form that accompanied the Bidder's Statement, nor should you respond to any documentation sent to you by Mercantile or any other communication from Mercantile (including telephone solicitation or canvassing by Mercantile or its representatives).

#### 2 SELL YOUR YBR SHARES ON THE ASX

During the Offer Period, you may sell your YBR Shares on-market through ASX at the prevailing market price for cash (less any brokerage), provided you have not already accepted the Offer for those Shares.

The latest trading price for YBR Shares may be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au) using the code YBR.

If you sell your YBR Shares on-market, you will receive the consideration for that sale of your Shares sooner than if you accept Mercantile's Offer. If you sell your YBR Shares on-market, you:

- will lose the ability to accept Mercantile's Offer and receive the Offer Consideration (and any possible increase in the Offer Consideration) in relation to those Shares;
- will lose the ability to accept any offer from a competing bidder if one eventuates;
- may incur a brokerage charge; and
- will lose the opportunity to receive future returns from YBR in relation to those YBR Shares.

You should contact your broker for information on how to sell your YBR Shares through ASX and your tax adviser to determine your tax implications from such a sale.

#### 3 ACCEPT THE OFFER

YBR Shareholders who accept Mercantile's Offer:

- will not receive the Offer Consideration unless and until each of the conditions of Mercantile's Offer are satisfied or waived;
- will not be able to withdraw their acceptance and sell their YBR Shares, meaning that they would not be able to accept any offer from a competing bidder if one eventuates, except in certain limited circumstances; and
- will exit their investment in YBR completely and will not benefit if the market price for YBR Shares on the ASX trades above the Offer Price.

If Mercantile increases the Offer Consideration, all YBR Shareholders, whether or not they have already accepted Mercantile's Offer before then, will be entitled to receive the increased Offer Consideration.

Refer to section 1.6 of the Bidder's Statement for directions on how to accept the Offer.

# **INFORMATION ABOUT THE OFFER & OTHER IMPORTANT ISSUES**

**4**

## 4 INFORMATION ABOUT THE OFFER & OTHER IMPORTANT ISSUES

### 4.1 SUMMARY OF THE OFFER

<b>The Offer</b>	<p>Mercantile is offering to acquire all of your YBR Shares.</p> <p>You may accept the Offer only for <b>all</b> of your YBR Shares. You cannot accept the Offer for <b>part</b> of your holding.</p>
<b>Offer Price</b>	<p>Mercantile is offering \$0.09 cash for every one YBR Share you hold.</p> <p>The Offer Consideration will only be received if all of the Conditions of Mercantile's Offer are satisfied or waived.</p>
<b>Conditions</b>	<p>Mercantile's Offer is subject to Conditions. See Section 4.2 of this Target's Statement for further details of your Directors' assessment of these Conditions.</p> <p>The Offer Consideration will only be received if all of the Conditions of Mercantile's Offer are satisfied or waived.</p>
<b>Mercantile has not yet declared its Offer final</b>	<p>Mercantile has not declared its Offer final. Accordingly, it remains open for Mercantile to increase the Offer Consideration, which Mercantile may at its discretion choose to do.</p> <p>If Mercantile increases the Offer Consideration, all YBR Shareholders who accept Mercantile's Offer, whether or not they have already accepted the Offer before then, will be entitled to receive that increased Offer Consideration.</p> <p>Nevertheless, there are still substantial risks in accepting Mercantile's Offer while it remains conditional. See Section 4.2 of this Target's Statement for further details.</p>
<b>Offer closing date</b>	<p>Mercantile's Offer is scheduled to close at 7.00pm (Sydney time) on 19 October 2018 unless Mercantile's Offer is extended or withdrawn.</p>
<b>Procedural aspects</b>	<p>The Offer Period may be extended by Mercantile.</p> <p>The Offer Period may be required by law to be extended in certain circumstances.</p> <p>Mercantile's Offer may be withdrawn in limited circumstances.</p> <p>Mercantile must notify YBR and the ASX on the status of the Conditions by a certain date.</p> <p>If you accept Mercantile's Offer and all of the Conditions are satisfied or waived, Mercantile is required to provide your Offer Consideration within a certain timeframe.</p> <p>These and other procedural aspects of Mercantile's Offer are outlined in Section 4.7 of this Target's Statement.</p>

## 4.2 CONDITIONS OF MERCANTILE'S OFFER

Mercantile's Offer is subject to the Conditions which are set out in full in section 7.1 of the Offer document (Appendix A to the Bidder's Statement).

Unless all of the Conditions are satisfied or waived by Mercantile before the end of the Offer Period,<sup>14</sup> Mercantile's Offer will lapse and no Offer Consideration will be received by YBR Shareholders who have accepted Mercantile's Offer. Furthermore, YBR Shareholders who accept Mercantile's Offer will lose the ability to deal with their YBR Shares including accepting any potential higher competing offer, except in certain limited circumstances.

When considering how these Conditions might affect the prospects of success of Mercantile's Offer, you should be aware of the following matters which are set out more fully in the table below:

- the Conditions are to some extent out of YBR's control;
- there is no certainty on whether the Conditions will be satisfied; and
- the Conditions to some extent require YBR to refrain from taking actions, where satisfying those Conditions may not be in the interests of YBR Shareholders.

Condition	Likely to be satisfied?
<b>50.1% Minimum Acceptance Condition:</b> Mercantile has a relevant interest in more than 50.1% (by number) of YBR Shares on issue before the end of the Offer Period.	Unknown. This Condition is wholly outside YBR's control.
<p><b>No Prescribed Occurrences Condition:</b> None of the following happens during the period commencing on the date of the Bidder's Statement (20 August 2018) and ending on the expiry date of the Offer Period (each being a separate condition):</p> <ul style="list-style-type: none"> <li>• the shares of YBR or any of the Controlled Entities of YBR are converted into a larger or smaller number of shares;</li> <li>• YBR or a subsidiary of YBR resolves to reduce its share capital in any way;</li> <li>• YBR or a subsidiary of YBR: <ul style="list-style-type: none"> <li>• enters into a buy-back agreement; or</li> <li>• resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;</li> </ul> </li> <li>• YBR or a subsidiary of YBR issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;</li> <li>• YBR or a subsidiary of YBR issues or agrees to issue convertible notes;</li> <li>• YBR or a subsidiary of YBR disposes or agrees to dispose of the whole or a substantial part of its business or property;</li> <li>• YBR or a subsidiary of YBR grants or agrees to grant an Encumbrance over the whole or a substantial part of its business or property; or</li> </ul>	<p>Unknown other than with respect to:</p> <p>(a) the condition that YBR does not issue shares during the relevant period. YBR notes that on 4 September 2018, YBR issued 36,057 Shares as a result of the exercise of the rights of conversion of 36,057 YBR Performance Rights; and</p> <p>(b) with respect to the condition that YBR or a subsidiary of YBR does not dispose or agree to dispose of the whole or a substantial part of its business or property during the relevant period. As announced to ASX by YBR on 31 August 2018, the wholly owned subsidiaries of YBR, Yellow Brick Road Investments Services Pty Ltd and Yellow Brick Road Wealth Management Pty Ltd, completed the sale of their private client advice service and related wealth portfolio on that date. This followed a YBR announcement to ASX on 25 June 2018, that a contract for that sale had been entered into. The sale represented the disposal of the substantial part of the business of Yellow Brick Road Investment Services Pty Ltd.</p> <p>YBR does not know whether Mercantile will waive this Condition, despite the above events, or whether it will seek to rely on any of the above events to assert that this Condition has not been satisfied.</p>

<sup>14</sup> Or in the case of Condition 7.1(b) (*No Prescribed Occurrences*), by the end of three Business Days after the end of the Offer Period.

<ul style="list-style-type: none"> <li>• an Insolvency Event occurs with respect to YBR or a subsidiary of YBR.</li> </ul>	
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### 4.3 RISKS ASSOCIATED WITH THE OFFER

YBR Shareholders should be aware of the following key risks associated with the Offer:

#### (a) Risks associated with rejecting the Offer

If you choose to reject the Offer, you will not receive the Offer Price for your YBR Shares. Instead you will remain a YBR Shareholder and will continue to be subject to the risks associated with holding YBR Shares. A non-exhaustive summary of those risks is set out in Section 5.5 of this Target's Statement.

If you choose to reject the Offer and Mercantile acquires less than 90% of YBR Shares, you will continue to be exposed to the minority shareholder risks described in Section 4.4 of this Target's Statement.

#### (b) Risks associated with accepting the Offer

If you accept Mercantile's Offer you are only able to withdraw your acceptance in the following limited circumstance: if Mercantile varies the Offer in a way that postpones for more than one month the time by which Mercantile must meet its obligations under the Offer. This circumstance will occur if Mercantile extends the Offer Period by more than one month and Mercantile's Offer is still subject to the Conditions.

Accordingly, if you accept Mercantile's Offer now while it is conditional, some of the consequences include the following (subject to your right to withdraw your acceptance of Mercantile's Offer in the limited circumstance described above):

- you will give up your right to sell your YBR Shares on the ASX or otherwise deal with them (relinquishing your right, for example, to participate in a superior offer should one eventuate); and
- you will relinquish control of your YBR Shares and the Rights attaching to them to Mercantile with no guarantee of payment until Mercantile's Offer becomes unconditional.

The effect of accepting Mercantile's Offer is set out in Section 5 of Mercantile's Offer document (Appendix A to the Bidder's Statement). YBR Shareholders should read those provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their YBR Shares and the representations, warranties and indemnities which they give by accepting Mercantile's Offer.

In particular, YBR Shareholders should note that on Mercantile's Offer, or any contract resulting from the acceptance of Mercantile's Offer becoming unconditional, Mercantile will be entitled to attend meetings of YBR and vote on accepting YBR Shareholders' behalf in respect of their YBR Shares to defeat resolutions relating to any competing offers which may adversely affect the success of Mercantile's Offer.

In addition, if you accept the Offer, you will no longer be eligible to access the benefits of remaining a YBR Shareholder. Those benefits include the opportunity to participate in:

- the future additional value of YBR that your Directors expect would be created if YBR can successfully implement its FY2019 strategy and opportunities described in Section 1.2 above *"Reason 2: Mercantile's Offer does not reflect, and will deprive accepting shareholders of, the full existing and strategic value of YBR"*; and
- any increase in the YBR Share price above the Offer Price.

#### 4.4 CONSEQUENCES OF MERCANTILE ACQUIRING LESS THAN 90% OF YBR

If Mercantile acquires more than 50% but less than 90% of the YBR Shares then, assuming all Conditions to Mercantile's Offer are satisfied or waived, Mercantile will acquire a majority shareholding in YBR.

In those circumstances, YBR Shareholders who do not accept Mercantile's Offer will continue to be minority shareholders of YBR. This outcome has a number of possible implications, including:

- Mercantile will be in a position to cast the majority of votes at a general meeting of YBR, enabling Mercantile to control the composition of YBR's board of directors and senior management and the strategic direction of YBR and its subsidiaries;
- the YBR Share price may fall immediately following the end of the Offer Period although this may be mitigated by the underlying attractiveness of YBR's business;
- the liquidity of YBR Shares may be lower than at present, and there is a risk that YBR could be fully or partially removed from, or in the future not qualify for, certain S&P/ASX market indices due to lack of free float and/or liquidity;
- If the number of YBR Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then Mercantile may seek to have YBR removed from the official list of the ASX. If this occurs, YBR Shares will not be able to be bought or sold on the ASX; and
- Mercantile and YBR will not be able to form an income tax consolidated group.

In addition, if Mercantile acquires 75% or more of the YBR Shares it will be able to pass a special resolution at meetings of YBR Shareholders, which, among other things, would enable Mercantile to pass amendments to YBR's constitution.

If Mercantile's Offer lapses or if Mercantile acquires less than 50% of YBR Shares, the trading price of YBR Shares may be higher or lower than the implied value of the Offer Consideration. If you remain a YBR Shareholder in this circumstance, you will continue to enjoy the rewards, and be subject to the risks, of being a YBR Shareholder.

#### 4.5 POTENTIAL DELISTING

Mercantile states in its Bidder's Statement that if it obtains greater than 90% of YBR, Mercantile will seek to delist YBR from ASX. Mercantile also states in its Bidder's Statement that it may seek to delist YBR from ASX if it obtains at least 50% but less than 90% of YBR. Therefore, there is a possibility of YBR being delisted following the Offer. If this occurs, YBR Shares will not be able to be bought or sold on the ASX.

As at the date of this Target's Statement, your Directors consider that it is **highly unlikely** that YBR faces imminent delisting. **Your Directors wish to emphasise the following important legal protections to Shareholders regarding any potential delisting of YBR:**

- Any decision to apply to the ASX to delist YBR would need to be made by the YBR Board not by Mercantile as the controlling Shareholder.
- The YBR Board, including nominee directors appointed by Mercantile, could only decide to seek a delisting if the Board concludes that this action is in the best interest of YBR and its Shareholders as a whole, at the relevant time.
- Your Directors currently consider that the disadvantages for Shareholders of delisting outweigh any potential benefits. Therefore, your Directors' current intention would be to vote against any Board proposal to delist YBR (however, your Directors' views may change depending on future circumstances including the final level of control achieved by Mercantile at the end of the Offer).

- Even if (a majority of) the Board resolved to delist YBR from ASX, this action would still require the ASX's consent and is likely to be subject to conditions imposed by ASX.
- ASX states<sup>15</sup> that it will use its discretion to ensure that the delisting of any entity is being sought for acceptable reasons. For example, ASX notes that a request to remove an entity from the ASX that is primarily or solely aimed at denying minority shareholders a market for their securities, in order to coerce them into accepting an offer from a controlling shareholder to buy out their securities, would be an unacceptable reason for requesting removal from the official list.
- The ASX applies a number of guidelines to safeguard the interests of minority shareholders in the context of any proposed delisting.
- A key ASX guideline is that the approval of YBR minority shareholders would most likely be needed for the ASX to allow delisting unless each of the following three conditions is met: (a) Mercantile has at least 75% control of YBR at the time delisting is sought and (b) there are fewer than **150** YBR Shareholders (excluding Mercantile and its related bodies corporate) whose shareholding is worth at least A\$500. As at the date of this Target's Statement, YBR has approximately 2,200 Shareholders; and (c) the Offer remains open for at least an additional two weeks after Mercantile attains at least 75% control of YBR.

If, despite the above procedural protections, YBR is ultimately delisted at some point in the future, any remaining Shareholders would be holders of unlisted shares. A delisting would result in a number of disadvantages for Shareholders such as:

- The absence of an orderly, transparent and timely mechanism for share trading.
- Restricted information compared to that currently provided. YBR would no longer be subject to the continuous disclosure requirements of the ASX Listing Rules. If YBR remains a public company after delisting and has at least 100 members, YBR would still be required to disclose material information to ASIC. Nevertheless, the level of shareholder reporting in these circumstances would be diminished.
- The ceasing of various requirements and protections for minority shareholders under the ASX Listing Rules. Examples of provisions that would cease to apply include: restrictions on the issue of new securities, a governance framework for related party transactions and requirements to seek Shareholder approval for significant changes in the nature or scale of YBR's activities.

## 4.6 COMPULSORY ACQUISITION

### (a) Compulsory acquisition following the Offer

Mercantile states in its Bidder's Statement that if it becomes entitled to proceed to compulsorily acquire outstanding YBR Shares at the end of the Offer Period under Part 6A.1 of the Corporation Act, it intends to do so.

If you choose to reject the Offer, you will only have your Shares compulsorily acquired if, by the end of the Offer Period, Mercantile:

- increases its ownership interest from approximately 19.9% as at the date of this Target's Statement to at least 90%; and
- acquires at least 75% of the YBR Shares that Mercantile offered to acquire (excluding YBR Shares in which Mercantile had a relevant interest as at the date of Mercantile's Offer).

If these thresholds are met, Mercantile will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted Mercantile's Offer.

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<sup>15</sup> See ASX Guidance Note 33 which sets out ASX's policy in relation to a delisting request.



In this regard, YBR's second largest Shareholder, Pink Platypus Pty Ltd (**PPL**) (a wholly owned subsidiary of Nine Entertainment Co Holdings Limited), owns 49,592,858 YBR Shares, representing approximately 17.6% of all YBR Shares currently on issue. In addition, YBR's third largest Shareholder, Golden Wealth Holdings, together with other associates of Mark Bouris, the founder and Executive Chairman of YBR, together own 51,701,187 YBR Shares, representing approximately 18.3% of all YBR Shares currently on issue. If either or both PPL or Golden Wealth Holdings and its associates do not accept the Offer for their respective YBR shares, it will be impossible for Mercantile to proceed to compulsory acquisition under the current Offer.

#### **(b) Future compulsory acquisition by Mercantile**

Even if Mercantile does not satisfy the compulsory acquisition threshold referred to in Section 4.6(a) of this Target's Statement, it is possible that Mercantile will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the YBR Shares. Mercantile would then have rights to compulsorily acquire YBR Shares not owned by it within six months of becoming a 90% holder. The price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert at the relevant time.

#### **(c) Challenging compulsory acquisition**

YBR Shareholders have statutory rights to challenge any compulsory acquisition. However, a successful challenge will require the relevant YBR Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent *fair value* for the YBR Shares.

If YBR Shares are compulsorily acquired, Shareholders who have their YBR Shares compulsorily acquired are not likely to receive payment for the YBR Shares until at least one month after the compulsory acquisition notices are dispatched to them.

## **4.7 PROCEDURAL ASPECTS OF THE OFFER**

Extension of the Offer Period	<p>Mercantile may extend the Offer Period at any time before giving the Notice of status of Conditions (referred to below) while Mercantile's Offer is subject to Conditions.</p> <p>However, if Mercantile's Offer becomes unconditional (that is, if all the Conditions are satisfied or waived), Mercantile may extend the Offer Period at any time before the end of the Offer Period.</p> <p>In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:</p> <ul style="list-style-type: none"> <li>• Mercantile improves the Offer Consideration; or</li> <li>• Mercantile's voting power in YBR increases to more than 50%.</li> </ul> <p>If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the occurrence of the relevant event.</p> <p>The maximum duration of the Offer Period is 12 months.</p>
Notice of status of Conditions	<p>Section 7.6 of Mercantile's Offer document states that Mercantile will give a Notice of status of Conditions to the ASX and YBR on 12 October 2018.</p> <p>Mercantile is required to set out in its Notice of status of Conditions:</p> <ul style="list-style-type: none"> <li>• whether Mercantile's Offer is free of any or all of the Conditions;</li> </ul>

	<ul style="list-style-type: none"> <li>• whether so far as Mercantile knows, any of the Conditions has been satisfied; and</li> <li>• Mercantile's voting power in YBR.</li> </ul> <p>If the Offer Period is extended by a period before the current date by which the Notice of status of Conditions is required to be given (12 October 2018), the date for giving the Notice of status of Conditions will be postponed for the same period. In those circumstances, Mercantile is required, as soon as practicable after the extension, to give a notice to the ASX and YBR that states the new date for the giving of the Notice of status of Conditions.</p> <p>If a Condition is satisfied during the Offer Period, but before the date on which the Notice of status of Conditions is required to be given, Mercantile must as soon as practicable after the extension, give a notice that states that the particular Condition has been satisfied.</p> <p>As at the date of this Target's Statement, Mercantile had not given notice that any of the Conditions has been satisfied or waived.</p>
Withdrawal of Offer	Mercantile may withdraw its Offer at any time but only in limited circumstances with the written consent of ASIC and subject to the conditions (if any) specified in ASIC's consent.
Effect of acceptance	If you accept the Offer, then you will give up your right to sell your YBR Shares on-market or to sell your Shares to any other person who may make a takeover bid or to otherwise deal with your Shares in any manner.
Limited ability to withdraw your acceptance	<p>If you accept Mercantile's Offer, you only have limited rights to withdraw your acceptance.</p> <p>You may only withdraw your acceptance of Mercantile's Offer if Mercantile varies its Offer in a way that postpones, for more than one month, the time when Mercantile needs to meet its obligations under the Offer. This will occur if Mercantile extends the Offer Period by more than one month and the Offer is still subject to Conditions.</p>
Timing for receipt of Offer Consideration if you accept	<p>The terms of Mercantile's Offer are that no Offer Consideration for YBR Shares accepted into the Offer will be made by Mercantile until the Offer becomes unconditional.</p> <p>If Mercantile's Offer becomes unconditional, you will be entitled to receive your Offer Consideration by the earlier of:</p> <ul style="list-style-type: none"> <li>• one month after the date of your acceptance of Mercantile's Offer or, if the Offer is subject to a Condition when you accept the Offer, within one month after the contract arising from your acceptance of Mercantile's Offer becomes unconditional; and</li> <li>• 21 days after the end of the Offer Period.</li> </ul> <p>Refer to Section 6 of Mercantile's Offer document for further details on when you will receive your Offer Consideration from Mercantile.</p>
Effect of improvement in Offer Consideration for Shareholders who have already accepted	If Mercantile increases the Offer Consideration, all YBR Shareholders, whether or not they have already accepted Mercantile's Offer before then, will be entitled to receive that increased Offer Consideration.

Lapse of Mercantile's Offer	Mercantile's Offer will lapse if the Conditions are not satisfied or waived by the end of the Offer Period, in which case all contracts arising from acceptance of Mercantile's Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will remain a YBR Shareholder and will be free to deal with your YBR Shares as you see fit.
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#### 4.8 EFFECT OF THE OFFER ON YBR PERFORMANCE RIGHTS

YBR has issued YBR Performance Rights to Golden Wealth Holdings (the company that provides YBR with the consultancy services of Mark Bouris, YBR's executive chairman) and some of the YBR Franchisees.

Each YBR Performance Right entitles the holder to one share upon vesting and exercise. There is no exercise price payable on exercise of the YBR Performance Rights and they carry no voting or dividend rights.

As at the date of this Target's Statement, the holdings of YBR Performance Rights are set out in the table below:

Rights holder	Number of YBR Performance Rights
Golden Wealth Holdings	10,000,000
Con Christie and Melpo Christie	166,153
Optimal MCL Pty Limited	18,461
Mortgage and Capital Solutions Pty Limited	96,153
Kendall Knight Consulting Pty Limited	38,461
CDRM Group Pty Limited	144,230
Todd Anthony Francis	36,058
Stephen James Goodwin	36,057
<b>Total</b>	<b>10,535,573</b>

Under the terms of the YBR Performance Rights, if a takeover bid is made for YBR and **either** the Board recommends acceptance by YBR Shareholders **or** the takeover bid becomes unconditional **or** a person acquires voting power in YBR of 90% or more as a result of the takeover bid, the Board may in its absolute discretion determine that any YBR Performance Right that has not vested will vest on, and may be exercised on and from, the date determined by the Board.

Mercantile's Offer is a takeover bid and, accordingly, if any of the above circumstances occurs in relation to Mercantile's Offer, the YBR Board has a discretion to determine that all or some of the unvested YBR Performance Rights shall vest.

The Board's current intention is that, if it has the discretion to do so, as a result of Mercantile's Offer and the occurrence of any of the above circumstances, it will determine that all YBR Performance Rights held by YBR Franchisees (or their associated holders) will immediately be vested and capable of being exercised.

As at the date of this Target's Statement the Board has not yet made any determination as to whether or not any or all of the YBR Performance Rights held by Golden Wealth Holdings shall vest should either the Board recommend acceptance by YBR Shareholders of the Offer, a person acquires voting power in YBR of 90% or more as a result of the Offer or the Offer becomes unconditional.

All vested YBR Performance Rights may be exercised by a holder of those YBR Performance Rights, following which new YBR Shares will be issued to the holder of those YBR Performance Rights. These new YBR Shares will not be able to participate in Mercantile's Offer. The Bidder's Statement states in sections 1.2 and 8.1 that Mercantile's Offer extends only to the YBR Shares on issue on the Register Date.

# PROFILE OF YBR

**5**

## **5 PROFILE OF YBR**

### **5.1 INTRODUCTION**

YBR is the holding company of a diversified retail financial services group which owns businesses engaged in mortgage origination, aggregation, management and wholesaling, wealth management and insurance broking.

YBR's business listed on the ASX through a "back-door listing" in 2011. YBR currently has approximately 2,200 Shareholders.

### **5.2 BUSINESS ACTIVITIES**

The principal products and services provided by YBR Group are:

- Lending: includes the provision of mortgage broking, origination, aggregation, management and wholesaling products and services.
- Wealth management: includes the provision of investment, wealth management, life insurance and general insurance products and services.

The Annexure to this Target's Statement sets out the YBR Group's intended strategies and initiatives as at the date of this Target's Statement.

### **5.3 DIRECTORS**

<b>Name</b>	<b>Title</b>
Mark Bouris	Executive Chairman
Owen Williams	Non-Executive Director
John George	Non-Executive Director
Adrian Bouris	Non-Executive Director

A biography of each Director is provided in the 2018 Appendix 4E Preliminary Final Report released to the ASX on 29 August 2018.

### **5.4 FINANCIAL INFORMATION**

YBR's last published financial statements are for the financial year ended 30 June 2018, as set out in its Appendix 4E preliminary final statement for the year ended 30 June 2018 released to the ASX on 29 August 2018.

Except as set out in this Target's Statement, your Directors are not aware of any material changes to the financial position of YBR since the release of the above financial information.

### **5.5 KEY RISKS FACED BY YBR**

Set out below is a summary of the key risks to which YBR Shareholders will continue to be exposed if they reject the Offer and retain their current investment in YBR Shares. The risks identified in this Section are not an exhaustive list of all of the risks relevant to YBR. No assurances or guarantees are given as to YBR's future performance, profitability or dividend payments.

<b>YBR specific risks</b>	
Operational Risks, including achievement of its business plans, and ability to launch its securitisation strategy	<p>The YBR Group encounters operational risk arising from the daily functioning of its businesses. Such risk is highly dependent on YBR's ability to effectively process large volumes of transactions and undertake complex functions daily.</p> <p>The YBR Group will also have specific operational exposures including in relation to the achievement of its future business plans and strategies (including securitisation), in addition to legal and regulatory compliance, process error, fraud, system failure, failure of security and physical protection systems, improper business practices, human error and pricing risk. Any failure to manage operational risks may materially adversely impact the YBR Group's reputation, business, operations and financial performance.</p>
Competition	<p>The YBR Group operates in the highly competitive financial services industry. It competes with a variety of market participants in the lending and wealth markets and competitive forces may impact the YBR Group detrimentally. If there are increased number of entrants, reduction in fees or interest margins to remain competitive or in line with competitors in the lending or wealth market, or any loss of market share, the YBR Group may suffer a material and adverse impact on its business and financial performance.</p>
Regulatory and compliance risks	<p>YBR operates in a highly regulated industry. Changes in law, regulation or policy in any of the markets in which the YBR Group conducts business could have a material adverse impact upon its operating and financial performance. YBR is regulated by ASIC under the Corporations Act, the Australian Securities and Investments Act 2001, (Cth), the National Consumer Credit Protection Act 2009 (Cth), the Franchising Code of Conduct (Cth) and the National Credit Code. YBR is also subject to other legislation including but not limited to privacy, anti-money laundering, consumer protection, fair trading and competition related legislation.</p> <p>If the YBR Group fails to comply with existing, developing interpretations of, and retrospective applications of applicable laws, regulations or codes of conduct including in relation to enforceability of loans and responsible lending, the YBR Group may face potential legal, regulatory sanctions or reputational damage. Any breach could result in sanctions, fines, penalties, payment of compensation or cancellation or suspension of, or the imposition of restrictions on, certain licences or the YBR Group's ability to carry on certain activities or businesses which would materially adversely affect its business, operating and financial performance.</p>
Dependence on key distribution and lending partners	<p>The YBR Group relies on a number of banking relationships and distribution partners including franchisees, independent mortgage brokers, aggregators and other strategic partners to continue to maintain and grow its business. The ability to retain these existing key banking and distribution relationships and attract new distribution partners will be important to the YBR Group. Any materially adverse impact upon these key relationships could adversely affect YBR's business, operating and financial performance.</p>

Dependence on key personnel	The YBR Group's performance is dependent on the strength and dedication of its key personnel and, in particular, the Executive Chairman. YBR's ongoing ability to compete effectively depends on its capacity to retain and motivate existing employees as well as attract new employees. The loss of key personnel could cause material disruption to YBR's business, operating and financial performance.
Information technology	The YBR Group relies extensively on information technology systems and platforms to provide reliable services, accurate data, including pricing and reporting information. Any significant or sustained failure in its core business or technology systems could have a materially adverse effect on YBR's operations and financial performance. The YBR Group may also be subject to system failures, computer viruses, cyber-attacks or other events that could materially adversely impact its information technology and in turn business, operations and financial performance.
Interest rate risks	Any increase in interest rates can negatively impact the demand for home loans and increase the repayment burden and default risk for customers of the YBR Group. Interest rates are currently at generally accepted lows in Australia and there is a risk that if interest rates increase in the future, it could have an adverse impact on YBR's business and financial performance.
Brand and reputational risks	The ability of the YBR Group to increase its customer base depends to a large extent upon the brands and reputation of its businesses. Any decline in any of its brand and reputation could contribute to lower new business sales, increased refinancing and redirection of business to other mortgage providers, damage to client strategies and may impact the future business and financial performance of the YBR Group.
Imprecise prediction of the rate of repayment of existing assets	There is a risk that the rate of repayment (also known as CPR) associated with YBR's loan portfolio increases as a result of lower interest rates, broker or franchisee activity, increased loan refinancing and increased competition in the lending market. YBR's income forecasts are dependent on accurately estimating the CPR. There is a risk that the CPR is higher than YBR's management forecasts which, if not offset by additional originations, could impact adversely YBR's profitability. This could materially adversely affect YBR's operating and financial performance.
Fraud risk	The YBR Group may be exposed to risks associated with fraud by customers and counterparties, including franchisees, aggregators, servicing customers and individual loan borrowers. There is a risk that individual borrowers, franchisees, brokers or other parties may act fraudulently by misrepresenting the borrower's ability to service loans, overstate the value of collateral, modify or falsify documentation, or undertake identity theft in order to obtain loans. The YBR Group has internal control procedures to protect against fraud, however, there is no guarantee that it is able to do so which may have the result of increasing losses, and damaging YBR's reputation, which could have the result of materially adversely affecting its business and financial performance.
Banking facility	As at the date of this Target's Statement the Company has indebtedness of approximately \$8,651,000 outstanding under a loan facility agreement with a major Australian trading bank. The

	<p>outstanding balance of the loan facility falls due for repayment on 31 July 2019, unless the Company is able to successfully refinance it or extend the term by that time. The loan facility is subject to financial covenants that include (i) a debt service cover ratio, and (ii) a minimum cash holding. It is an event of default under the loan facility agreement if any of the financial covenants are breached. Any adverse change in business conditions that affects YBR Group's cash flow could trigger a breach of the financial covenants. It is also an event of default if a change of control or a change in the senior management occurs in respect of the Company. A change of control will occur under the loan facility agreement if Mercantile were to obtain Control (as defined in the Corporations Act) of the Company, which would include (but is not limited to) Mercantile obtaining a relevant interest in greater than 50% of YBR Shares.</p> <p>If the Company is not able to refinance the loan facility when it falls due or if an event of default occurs which cannot be either cured by the Company or waived by the Company's lender, it would have a materially adverse impact on the Company's financial position and its ability to continue trading as a going concern.</p>
Change in control	<p>The YBR Group is party to a number of material contracts as outlined below which contain change of control provisions. If Mercantile and its associates obtain a relevant interest of more than 50% of YBR Shares then this will trigger the change in control provisions which will give the counterparty to each of these material contracts the right to terminate the contract unless the counterparty consents to the change in control. If a counterparty exercises its termination right, this may adversely impact YBR's business. The following contracts are material to YBR's earnings and financial position and have change in control provisions that would be triggered as a result of Mercantile acquiring an ownership interest in more than 50% of YBR:</p> <ul style="list-style-type: none"> <li>• Loan facility agreement described above</li> <li>• Various funder agreements</li> <li>• Agreement for provision of mortgage aggregator software</li> <li>• Alliance agreement with OneVue Holdings Limited</li> </ul>
Litigation	<p>The YBR Group may be exposed to risks associated with potential legal and other claims or disputes in the course of its business, including litigation from customers, employees, franchisees, brokers, Shareholders, regulators or other third parties. An adverse outcome in litigation or the cost of responding to potential or actual litigation may have a materially adverse impact on the financial performance of the YBR Group.</p>
Disruption in global markets	<p>The YBR Group could be affected by a major liquidity disruption in global capital markets, given it is directly or indirectly exposed to securities, loans and activities that are dependent on the functioning of capital markets. Disruption in global markets may also result in the slowing or contracting of major global economies for a period of time, which could have an adverse impact on the YBR Group.</p>
Offer does not succeed	<p>If the Offer is withdrawn or is not successful, the market price of YBR Shares may fall.</p>



<b>General risks</b>	
General economic climate	Factors such as inflation, currency fluctuations, interest rates, legislative changes, political decisions and industrial disruption have an impact on operating costs. YBR's future income, asset values and share price can be affected by these factors and, in particular, by the market price for any products or services that YBR may acquire or sell.
Government policy changes	Any material adverse changes in government policies or legislation of any countries in which YBR may operate may affect the viability and profitability of YBR.
Taxation	<p>Future changes in Australian taxation laws, including changes in interpretation or application of laws by the courts or taxation authorities in Australia, may affect taxation treatment of an investment in YBR Shares, or the holding and disposal of those shares. Further changes in tax law or changes in the way tax law is expected to be interpreted in the various jurisdictions in which YBR operates may impact the future tax liabilities of YBR.</p> <p>The utilisation of current and prior year tax losses is subject to the satisfaction of various eligibility criteria and loss integrity rules under Australian tax law. In particular, changes of ownership or changes of business activity of YBR may affect its ability to utilise tax losses. Denial of deductions for tax losses may result in an increase in income tax expense and effective tax rate of YBR. This could materially and adversely affect YBR's business and operating and financial performance.</p>
Australian Accounting Standards	<p>Australian Accounting Standards are set by the Australian Accounting Standards Board (AASB) and are outside the control of either YBR or its Directors. The AASB is due to introduce refined AASB 9 and AASB 15 to apply in respect of FY2019, which may affect future measurement and recognition of key income and balance sheet items, including revenue and receivables.</p> <p>There is also a risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key income and balance sheet items, including revenue and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in YBR's consolidated financial statements.</p>
Stock market conditions	YBR Shares are quoted on the ASX, where their price may rise or fall. The market price of YBR Shares may fluctuate due to various factors including the risk factors outlined above. These factors are not an exhaustive list of risks faced by YBR or by investors in YBR. The above factors, and others not referred to in this Section, may in the future materially affect the financial performance of YBR. The marketing for financial services industry securities has historically experienced significant fluctuations in price and trading volumes which may be unrelated to the performance of individual companies. YBR securities carry no guarantee in respect of profitability, dividends, return of capital, liquidity or the price at which they may trade on the ASX. The stock market has in the past and may in the future be affected by a number of matters including: market confidence; supply and demand for money; and currency exchange rates.

# **TAXATION CONSEQUENCES**

**6**

## **6 TAXATION CONSEQUENCES**

### **6.1 INTRODUCTION**

This Section provides a summary of the Australian income tax, goods and services tax (**GST**) and stamp duty implications for YBR Shareholders on disposing of their YBR Shares (through acceptance of the Offer or having them compulsorily acquired by Mercantile) in return for cash consideration.

This Section is relevant for Australian resident and foreign resident YBR Shareholders that hold their YBR Shares on capital account. This information relates only to YBR Shares, and not to other rights held over YBR Shares or the YBR Performance Rights. This Section does not consider the Australian tax consequences for YBR Shareholders:

- who hold their YBR Shares as trading stock or as revenue assets;
- who hold their YBR Shares as assets used in carrying on a business or as part of a profit-making undertaking or scheme;
- who acquired their YBR Shares through an employee share, option or rights scheme;
- who are taken for capital gains tax purposes to have acquired their YBR Shares before 20 September 1985;
- who are Australian tax residents but who hold their YBR Shares as part of an enterprise carried on, at or through a permanent establishment in a foreign country;
- who are foreign resident shareholders who hold their YBR Shares in carrying on a business through a permanent establishment in Australia;
- that are financial institutions, insurance companies, partnerships, tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents; or
- who are subject to the taxation of financial arrangements rules in Division 230 of the Income Tax Assessment Act 1997 (Cth) in relation to gains and losses on their YBR Shares.

The information in this Section is based on Australian taxation law and practice in effect as at the date of this Target's Statement. It is not intended to be an authoritative or complete statement or analysis of the taxation laws applicable to the particular circumstances of every YBR Shareholder. YBR Shareholders should seek independent professional advice regarding the taxation consequences of accepting the Offer and disposing of their YBR Shares. YBR Shareholders who are tax residents of a country other than Australia (whether or not they are also residents or temporary residents of Australia for tax purposes) should also take into account the tax consequences under the laws of their country of residence.

The information in this Section 6 does not constitute "financial product advice" within the meaning of the Corporations Act.

This Section 6 does not take into account the objectives, financial situation or needs of any individual YBR Shareholder. Accordingly, any YBR Shareholder should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider its appropriateness having regard to their objectives, financial situation and needs and consider obtaining independent financial advice.

### **6.2 TAXATION CONSEQUENCES OF DISPOSAL OF YBR SHARES BY AUSTRALIAN RESIDENTS**

The below is a summary of the income tax consequences relevant for Australian resident YBR Shareholders who dispose of their YBR Shares (through acceptance of the Offer or having them compulsorily acquired by Mercantile).

#### **YBR Shareholders who accept the Offer**

YBR Shareholders who accept the Offer will dispose of their YBR Shares by way of transfer to Mercantile in exchange for the Offer Price. The disposal of YBR Shares to Mercantile under the Offer will constitute a capital gains tax (CGT) event for YBR Shareholders. The CGT event will happen at the time YBR Shareholders accept the Offer.

## **Compulsory acquisition**

If a YBR Shareholder does not accept the Offer and their YBR Shares are compulsorily acquired by Mercantile, the YBR Shareholder will be treated as having disposed of their YBR Shares for CGT purposes at the time at which the YBR Shares are acquired by Mercantile.

## **Calculation of capital gain or capital loss**

YBR Shareholders will:

- make a capital gain if the capital proceeds received on the disposal of their YBR Shares are more than the cost base of those YBR Shares; or
- make a capital loss if the capital proceeds received on the disposal of the YBR Shares are less than the reduced cost base of those YBR Shares.

The capital proceeds received by a YBR Shareholder that accepts the Offer (or has their YBR Shares compulsorily acquired by Mercantile) will be equal to the Offer Price.

Where a capital gain is made, the cost base of YBR Shares in the hands of the YBR Shareholders will be broadly the original amount paid to acquire their YBR Shares plus any non-deductible incidental costs associated with the acquisition of the YBR Shares plus any non-deductible incidental costs associated with the disposal of the YBR Shares to Mercantile less any previous capital returns made by YBR. Where a capital loss is made, the reduced cost base of the YBR Shares is determined in a similar manner.

As the Offer is an offer of cash alone, no CGT roll-over will be available for YBR Shareholders.

YBR Shareholders may be entitled to reduce any capital gain on the disposal of their YBR Shares by applying the CGT discount (discussed below).

## **CGT discount**

The CGT discount should be available to YBR Shareholders who are individuals, trusts or complying superannuation funds and have held their YBR Shares for at least 12 months before the time of the CGT event resulting in the disposal of the YBR Shares by accepting the Offer (or having their YBR Shares compulsorily acquired).

Broadly, the CGT discount rules enable YBR Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 1/3% for complying superannuation funds.

The CGT discount is not available to YBR Shareholders that are companies.

The application of the CGT discount rules to a YBR Shareholder that is a trustee of a trust is complex, particularly where distributions to beneficiaries of the trust are attributable to discounted capital gains. The ultimate access to the CGT discount may depend on a beneficiary's entitlement to the CGT discount. YBR Shareholders that are trustees of trusts should obtain specific tax advice.

## **Net capital gains or losses**

If a YBR Shareholder makes a capital gain from the disposal of their YBR Shares, that capital gain will be combined with any other capital gains that the YBR Shareholder has made for the income year. Any available capital losses will then be applied against the total capital gains made for the income year, following which the CGT discount (if available) is applied to any remaining discount capital gains. A resulting net capital gain will be included in the YBR Shareholder's assessable income for the income year.

A resulting net capital loss cannot be deducted against other income for income tax purposes, but may be carried forward to offset capital gains made in future income years (before taking into account the CGT discount, if available). Specific loss recoupment rules apply to companies and trusts to restrict their ability

to utilise capital losses in future years in some circumstances. YBR Shareholders should seek their own tax advice in relation to the operation of these rules.

### **6.3 TAXATION CONSEQUENCES OF DISPOSAL OF YBR SHARES BY FOREIGN RESIDENTS**

Shareholders who are not residents of Australia for income tax purposes and do not hold their YBR Shares through a permanent establishment in Australia, should be able to disregard any capital gain or capital loss that would otherwise arise from the disposal of their YBR Shares to Mercantile. This is on the basis of advice from the YBR Board that the YBR Shares do not currently constitute an indirect Australian real property interest.

Foreign resident YBR Shareholders who are subject to CGT on the disposal of their YBR Shares will not be entitled to the CGT discount in relation to that portion of the capital gain which relates to the period after 8 May 2012.

Foreign resident YBR Shareholders should note that the Australian tax consequences from the disposal of YBR Shares may be affected by any double tax agreement between Australia and their country of residence. Foreign resident YBR Shareholders should obtain specific tax advice, including in their country of residence.

### **6.4 FOREIGN RESIDENT CGT PAYMENT RULES**

In respect of certain types of transactions, bidders in an off-market takeover are required to pay an amount equal to 12.5% of the offer consideration to the ATO (broadly referred to as the foreign resident CGT payment rules). However, no such obligation should arise where the YBR Shares do not constitute an indirect Australian real property interest.

As noted above, the YBR Board has advised that the YBR Shares are not currently considered to be an indirect Australian real property interest. As such, YBR currently does not expect that Mercantile should withhold any amount from consideration payable to foreign resident YBR Shareholders.

Nevertheless, foreign resident YBR Shareholders should obtain independent tax advice as to the potential implications to them of the foreign resident CGT payment rules.

### **6.5 STAMP DUTY**

No Australian stamp duty will be payable by a YBR Shareholder on the transfer of their YBR shares under the Offer.

### **6.6 GST**

No GST will be payable by YBR Shareholders in respect of their disposal of their YBR Shares under the Offer.

YBR Shareholders may be charged GST on costs (such as brokerage and adviser fees) that relate to their participation in Mercantile's Offer. YBR Shareholders may not be entitled to claim full input tax credits for the GST included in such costs that relate to the disposal of their YBR Shares. YBR Shareholders should seek independent advice in relation to the impact of GST in their individual circumstances.

# **ADDITIONAL INFORMATION**

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## 7 ADDITIONAL INFORMATION

### 7.1 YOUR DIRECTORS' INTERESTS AND DEALINGS IN YBR SHARES

#### (a) Interests in YBR securities

As at the date of this Target's Statement, the YBR Directors and their respective interests in YBR Shares are set out in the table below.

Name	Position	YBR Shares in which a relevant interest is held by Director
Mark Bouris	Executive Chairman	51,710,187
Owen Williams	Non-Executive Director	498,250
John George	Non-Executive Director	240,000
Adrian Bouris	Non-Executive Director	3,155,400
<b>Total</b>		55,603,837

In addition, Mark Bouris has an interest in 10,000,000 YBR Performance Rights held by Golden Wealth Holdings.

#### (b) Dealings in YBR Shares

No YBR Director has acquired or disposed of a relevant interest in any YBR Shares in the four months ending on the date immediately before the date of this Target's Statement.

#### (c) Intentions in relation to the Offer

Your Directors recommend to **REJECT** the Offer. Each of your Directors intends, for all YBR Shares held by them or in which they otherwise have a relevant interest, to act in accordance with their recommendation from time to time to Shareholders.

### 7.2 YOUR DIRECTORS' INTERESTS AND DEALINGS IN MERCANTILE SECURITIES

#### (a) Interests in Mercantile securities

As at the date of this Target's Statement, no YBR Director has a relevant interest in any securities of Mercantile or MVT.

#### (b) Dealings in Mercantile securities

No YBR Director has acquired or disposed of a relevant interest in any securities of Mercantile or MVT in the four months ending on the date immediately before the date of this Target's Statement.

### 7.3 BENEFITS AND AGREEMENTS

#### (a) Directorships

As at the date of this Target's Statement, no Director of YBR is a director of Mercantile or MVT.

#### **(b) Benefits in connection with retirement from office**

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of YBR.

#### **(c) Agreements connected with or conditional on the Offer**

There are no agreements made between any Director and any other person in connection with, or conditional on, the outcome of the Offer other than in their capacity as a holder of YBR Shares.

BBB Capital Pty Limited, an entity associated with one of your Directors, Adrian Bouris, has entered into an engagement letter with YBR for the provision of corporate advisory services in respect of the Offer on terms that would be reasonable if YBR and BBB Capital Pty Limited were dealing at arm's length. Adrian Bouris does not believe the terms of the engagement letter preclude him from making a recommendation in respect of the Offer.

#### **(d) Benefits from Mercantile**

No Director has agreed to receive, or is entitled to receive, any benefit from Mercantile or MVT which is conditional on, or is related to, the Offer, other than in their capacity as a holder of YBR securities as outlined in Section 7.1(a) of this Target's Statement.

#### **(e) Material interests of Directors in contracts with Mercantile**

No director has any interest in any contract entered into by Mercantile or MVT.

### **7.4 MATERIAL LITIGATION**

Your Directors do not believe that YBR is involved in any litigation or dispute which is material in the context of YBR and the YBR Group taken as a whole, except as follows:

- (a) On 22 May 2018, YBR received a summons which commenced legal procedures against it in relation to a dispute over the earn-out provisions contained in the Share Sale Agreement ("**SSA**") dated 8 July 2014 under which YBR acquired Resi Mortgage Corporation Pty Ltd ("**Resi**").

An earn-out amount of up to \$2,500,000 in cash was agreed to be paid by YBR to the vendors of Resi on or about the first anniversary of the completion of the acquisition if certain earn-out conditions were satisfied.

The proceedings deal with the issue of whether the earn-out conditions have been satisfied or not. YBR is confident that its interpretation of the SSA is correct, and that no earn-out is payable. YBR is defending the proceedings.

- (b) During the financial year ended 30 June 2018, YBR received claims from 2 broker groups for additional commission totalling \$600,000. These claims have been strongly disputed by YBR and as such no liability has been recorded in YBR's financial statements.

### **7.5 ISSUED CAPITAL**

As at the date of this Target's Statement, YBR's issued capital comprises 282,455,888 YBR Shares. As at the date of this Target's Statement, YBR also has 10,535,573 YBR Performance Rights on issue.

### **7.6 SUBSTANTIAL HOLDERS**

As at the date of this Target's Statement, the following persons (together with their associates) held relevant interests in 5% or more of the YBR Shares on issue, as disclosed in substantial holding notices provided to the ASX:



Name	Number of YBR Shares	Percentage of YBR Shares
Mercantile OFM Pty Ltd	56,329,555	19.95%
Pink Platypus Pty Limited	49,592,858	17.56%
Golden Wealth Holdings	51,710,187	18.31%

## 7.7 ASX ANNOUNCEMENTS

YBR is a *disclosing entity* under the Corporations Act and therefore has continuous disclosure obligations under that legislation and also under the ASX Listing Rules. YBR is required to immediately disclose to the market through ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of YBR Shares.

YBR is in compliance with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules. YBR's announcements are available free of charge from the ASX website at [www.asx.com.au](http://www.asx.com.au) (ASX code: YBR).

The most recent financial information regarding YBR is set out in the following document:

- Appendix 4E Preliminary Final Report for the year ended 30 June 2018 announced to the ASX on 29 August 2018

A copy of this document is also available free of charge from YBR on request and is also available on YBR's website at [www.ybr.com.au](http://www.ybr.com.au).

## 7.8 TAKEOVER RESPONSE COSTS

The Offer will result in YBR incurring expenses that would not otherwise have arisen in 2018. These include legal, financial and other expenses from advisers engaged by YBR to assist in responding to the Offer. The total cost of the takeover response depends on the outcome of the Offer, the duration of the Offer and required response activities as well as the complexity of the issues addressed in the response. It is therefore difficult to estimate the likely cost to YBR. These defence costs will be reflected in YBR's financial results for the financial year ending 30 June 2019.

## 7.9 CONSENTS

BBB Capital Pty Ltd has consented to being named in this Target's Statement as the financial adviser to YBR and has not withdrawn that consent at the date of this Target's Statement.

Landerer & Company Legal Services Pty Limited has consented to being named in this Target's Statement as the legal adviser to YBR and has not withdrawn that consent at the date of this Target's Statement.

Computershare Investor Services Pty Limited has consented to being named in this Target's Statement as YBR's share registry and has not withdrawn that consent at the date of this Target's Statement.

Each person named in this Section 7.9 of this Target's Statement as having given its consent to being named in this Target's Statement:

- has not authorised or caused the issue of this Target's Statement;
- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

## **7.10 RELIANCE ON CLASS ORDERS**

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to the ASX. In accordance with that Class Order, the consent of the person to whom any such statement is attributed or the ASX (respectively) is not required for the inclusion of such statements in this Target's Statement. YBR will, on request during the Offer Period, provide within 2 business days of the request a copy of any of those documents free of charge to any YBR Shareholder.

## **7.11 NO OTHER MATERIAL INFORMATION**

This Target's Statement is required to include all the information that YBR Shareholders and their professional advisers would reasonably require to make an informed assessment whether or not to accept the Offer but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in the Target's Statement; and
- only if the information is known to any of your Directors.

Your Directors are of the opinion that the only information that YBR Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- the information contained in releases by YBR to the ASX before the date of this Target's Statement; and
- the information contained in this Target's Statement.

Your Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless expressly indicated otherwise in this Target's Statement). However, your Directors do not take any responsibility for the content of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained therein.

In deciding what information should be included in this Target's Statement, your Directors have had regard to:

- the nature of YBR Shares;
- the matters YBR Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers to YBR Shareholders;
- the nature of the Offer; and
- the time available to YBR to prepare this Target's Statement.

## **7.12 APPROVAL OF TARGET'S STATEMENT**

This Target's Statement has been approved by a resolution passed by your Directors.

Signed for and on behalf of Yellow Brick Road Holdings Limited by:

A handwritten signature in black ink, appearing to read 'Mark Bouris', written in a cursive style.

Mark Bouris  
Executive Chairman  
Date: 20 September 2018

# **GLOSSARY & INTERPRETATION**

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## 8 GLOSSARY & INTERPRETATION

### 8.1 GLOSSARY

<b>AEST</b>	Australian Eastern Standard Time
<b>ASIC</b>	Australian Securities and Investments Commission
<b>associate</b>	has the same meaning given to that term for the purposes of Chapter 6 of the Corporations Act (as modified by ASIC from time to time) as if section 12(1) of that Act included a reference to this Target's Statement and YBR was the designated body
<b>ASX</b>	ASX Limited ABN 98 008 624 691 or, where the context otherwise requires, a financial market operated by it known as the Australian Securities Exchange
<b>ASX Listing Rules</b>	the listing rules of ASX, as amended or replaced
<b>Bidder's Statement</b>	The bidder's statement by Mercantile dated 20 August 2018 as amended by the supplementary bidder's statement by Mercantile dated 14 September 2018
<b>bps</b>	basis points, a measure of an interest rate or part of an interest rate. One basis point is 1/100 <sup>th</sup> of one percent
<b>CAGR</b>	compound annual growth rate
<b>CGT</b>	capital gains tax
<b>Conditions</b>	each defeating condition to which Mercantile's Offer is subject, as set out in section 7.1 of the Offer document
<b>Controlled Entities</b>	has the meaning given in the Bidder's Statement
<b>Corporations Act</b>	the <i>Corporations Act 2001</i> (Cth)
<b>Director</b>	a director of YBR
<b>Enterprise Value or EV</b>	a listed entity's market capitalisation (i.e. number of issued shares times the share price on ASX as at a particular date), plus its corporate debt (based on its latest published financial report), minus its cash balance (based on its latest published financial report).
<b>Encumbrance</b>	has the meaning given in the Bidder's Statement
<b>FUM</b>	funds under management
<b>FY2017</b>	the financial year commencing 1 July 2016 and ending 30 June 2017
<b>FY2018</b>	the financial year commencing 1 July 2017 and ending 30 June 2018
<b>FY2019</b>	the financial year commencing 1 July 2018 and ending 30 June 2019
<b>Golden Wealth Holdings</b>	Golden Wealth Holdings Pty Ltd ACN 123 500 238, a company controlled by Mark Bouris, YBR's executive chairman
<b>GST</b>	goods and services tax
<b>GWP</b>	gross written premiums derived from general insurance distribution business

<b>Insolvency Event</b>	has the meaning given in the Bidder's Statement
<b>Mercantile</b>	Mercantile OFM Pty Ltd ACN 120 221 623
<b>MVT</b>	Mercantile Investment Company Ltd ACN 121 415 576, the ASX-listed holding company of Mercantile
<b>net interest margin or NIM</b>	the difference between the borrower interest rate payable on a loan and the lender's cost of funds for that loan.
<b>NPV of Underlying Loan Book, also referred to as Embedded Value of Loan Book</b>	The actuarially assessed net present value of future trail commission receivables from the relevant Underlying Loan Book, minus the net present value of future trail commission payables on that Underlying Loan Book.
<b>NPV</b>	Net present value
<b>Offer</b>	the off-market takeover bid by Mercantile for all YBR Shares other than those already owned by Mercantile and its associates, on the terms set out in Appendix A to the Bidder's Statement
<b>Offer Consideration</b>	the consideration that may become due to you as a result of your acceptance of the Offer, being the Offer Price multiplied by your YBR Shares accepted into the Offer
<b>Offer Period</b>	the period during which the Offer will remain open for acceptance in accordance with section 2 of the Offer document
<b>Offer Price</b>	the consideration offered by Mercantile under the Offer. As at the date of this Target's Statement, the Offer Price is \$0.09 cash for each YBR Share
<b>PUM</b>	premiums under management derived from life insurance distribution business
<b>Register Date</b>	the date set by Mercantile under section 633(2) of the Corporations Act, being 21 August 2018
<b>relevant interest</b>	has the meaning given in sections 608 and 609 of the Corporations Act
<b>Resi</b>	Resi Mortgage Corporation Pty Limited, a wholly owned subsidiary of YBR
<b>Rights</b>	All accretions, rights or benefits of whatever kind attaching to or arising from YBR Shares directly or indirectly after the date of the Bidder's Statement (20 August 2018), including, without limitation, all dividends, distributions, and all rights to receive dividends, distributions or to receive or subscribe for Securities, stock, shares, notes, bonds, options or other securities, declared, paid or issued by YBR or any of its controlled entities.
<b>Security</b>	has the meaning given in section 92 of the Corporations Act
<b>Target's Statement</b>	this document, being the statement of YBR under Part 6.5 of the Corporations Act in response to the Offer.
<b>Underlying Loan Book</b>	loans from which the relevant originator, aggregator, manager or lender (as the case may be) derives commission or interest margin income.
<b>voting power</b>	has the meaning given in section 610 of the Corporations Act
<b>Vow</b>	Vow Financial Pty Ltd, a wholly owned subsidiary of YBR

<b>VWAP</b>	volume weighted average price
<b>YBR or the Company</b>	Yellow Brick Road Holdings Limited ACN 119 436 083
<b>YBR Board or Board</b>	the board of directors of YBR
<b>YBR Franchisees</b>	persons granted the right to conduct a "Yellow Brick Road" branded shop-front retail business under a franchise agreement with YBR Group
<b>YBR Group</b>	YBR and its subsidiaries
<b>YBR Performance Rights</b>	unlisted performance rights (zero exercise price options) to acquire YBR Shares, subject to conditions, further details of which are set out in Section 4.8 of this Target's Statement.
<b>YBR Share or Share</b>	a fully paid ordinary share in the capital of YBR
<b>YBR Shareholder</b>	a holder of YBR Shares
<b>YBR Share Registry</b>	Computershare Investor Services Pty Ltd ACN 078 279 277

## 8.2 INTERPRETATION

In this Target's Statement, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa and words importing one gender include the other genders;
- (b) terms defined in the Corporations Act as at the date of this Target's Statement have the meanings given to them in the Corporations Act at that date;
- (c) a reference to a person includes a reference to a corporation, trust or other entity and vice versa;
- (d) a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provisions substituted for, and all legislation and statutory instruments issued under, such legislation or provision.
- (e) a reference to dollars, \$, A\$, AUD and cents is to the currency of the Commonwealth of Australia;
- (f) headings and bold type are for ease of reference only.

## CORPORATE DIRECTORY

<b>Directors</b> Mark Bouris (Executive chairman) Owen Williams (non-executive) John George (non-executive) Adrian Bouris (non-executive)	<b>Financial adviser</b> BBB Capital Pty Ltd Level 11, 1 Chifley Square Sydney NSW 2000
<b>Executive</b> Richard Shaw (chief financial officer) Glenn Gibson (general manager lending) Adam Youkhana (general manager wealth) Clive Kirkpatrick (general manager lending, Vow Financial)	<b>Legal adviser</b> Landerer & Company Legal Services Pty Limited Level 31, 133 Castlereagh Street Sydney NSW 2000
<b>Registered office</b> Level 11, 1 Chifley Square Sydney NSW 2000 T +61 2 8226 8200 F +61 2 8226 8201 W <a href="http://www.ybr.com.au">www.ybr.com.au</a>	<b>Share registry</b> Computershare Investor Services Pty Ltd Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 T 1300 850 505 (within Australia) T +61 3 9415 4000 (outside Australia) F +61 3 9473 2500 E <a href="mailto:web.queries@computershare.com.au">web.queries@computershare.com.au</a>



# **ANNEXURE CHAIRMAN'S LETTER AND YBR STRATEGY AND RESULTS**

29 August 2018

Dear Fellow YBR Shareholders

**RE: YBR STRATEGY & RESULTS**

I would like to take this opportunity to communicate with you, in greater than usual detail, about:

- the “market/investment proposition” for Yellow Brick Road Holdings Limited (**YBR** or the **Company**);
- what YBR has achieved since it listed on the Australian Securities Exchange (**ASX**) in 2011;
- the FY2018 Results;
- the considerable restructuring that we have undertaken during the FY2018 year;
- what is planned in the FY2019 Business as Usual (**BAU**) Strategy; and
- our intentions with our Securitisation Strategy.

It is a big agenda, but it is the right time with the structural shift that has occurred in the last 12 months in the mortgage and broader financial services sector.

We are taking this approach to show what may not have been apparent to some shareholders or the public about how YBR has been investing in improving the scalability and efficiency of the business, and how YBR has been working diligently towards capturing an exciting market opportunity that is presenting itself. The timing of this FY2019 Strategy disclosure has also been brought forward partly because of recent events whereby a subsidiary of Mercantile Investment Company Limited (**MVT**) has made an announcement of a takeover offer for all of YBR’s shares (**Takeover Offer**). We would like YBR shareholders to better understand what YBR is and where it intends to go before they receive any Takeover Offer documentation.

***Please note that YBR’s formal detailed response to the Takeover Offer will be forwarded to shareholders in due course in the YBR Target’s Statement but, in the interim, the YBR Directors re-iterate their advice that you do nothing with your YBR shareholding.***

**A. The YBR Group Market & Investment Proposition**

My original rationale for establishing YBR was to address an unmet need in the financial services sector for an alternate lender and adviser. At its core, this was to build a wealth creation business that leverages the centrepiece of wealth for most Australians (ie the family home, and the aspirational investment property) through a proven mortgage-based customer acquisition model, with the provision of additional wealth generating strategies for young and middle aged families, as well as retirees.

The logic for this strategy is clear. By spending money on customer acquisition, one should have a whole-of-life proposition and product set. By leveraging its mortgage offering, YBR can introduce wealth creation far earlier in a family’s life cycle and decision timeframe, providing access to advice to enable them to focus on long term wealth creation commencing from mortgage settlement. In addition, the significant permission inherent in establishing new mortgage relationships enables YBR to efficiently leverage the information capture process to additionally deliver long term wealth creation strategies.

This enables YBR to provide a seamless offering that is free of the barriers inherent with the traditional bank model and captures a market that most other wealth companies ignore until pre-retirement. Fundamentally, it also enables YBR to generate multiple robust long-term annuity streams that are complementary – wealth increases as home loans are paid down.

## **B. The YBR Group Today**

YBR is a young company compared to its listed peers, the benefit of which is that it has been able to establish a 'fit for purpose' whole-of-life wealth business from the ground up. Whilst this has taken longer than first envisaged and has involved some well documented challenges along the way, YBR is on track to becoming one of the leading non-bank financial services companies in Australia.

Another significant benefit of its young history is that YBR is an agile business that is able to take advantage of the emerging opportunities from macro-prudential and other regulatory controls that are impacting more onerously on the larger established banks and financial institutions.

In its brief history since it listed on the ASX in 2011, YBR has established the following horizontally and vertically integrated assets and businesses:

### **1. A Strong Brand:**

We have achieved this via:

- Our prominent YBR-branded physical shopfront branch network that creates a strong local market presence and awareness.
- A significant relationship with the Nine Entertainment Group (**NEC**) as an 18% shareholder in YBR and a major contributor to leveraging YBR's brand equity.
- The translation of awareness to YBR from the association with my personal brand, consumer reach and media channels via The Apprentice/Celebrity Apprentice TV series, The Mentor TV series, mentored.com.au, and my standing via my chairing of or participation in various regulatory taskforces and industry reviews and other media commentary.

### **2. Loan Books and Lending Platforms with Scale:**

Together with its \$47.6b underlying "book" of loans under management, YBR has a significant national mortgage distribution network of local business owners in numerous communities across Australia utilising diversified business models suited to their maturity and preference involving independent and branded brokers, direct to customer channels and wholesale mortgage provision. We have done this via:

- The YBR-branded physical "shopfront" franchise network. We now have a footprint of 117 YBR contracted and active franchisees with over 180 accredited business writers. This network has an underlying mortgage book of \$7.3b as at 30 June 2018, and with average mortgage settlements per month of \$185m to June 2018.
- The Vow "independent broker" network. Vow is estimated to be the 4th largest mortgage aggregator in Australia with a footprint of 529 independent active broking firms, with over 1200 accredited business writers. This network has an underlying mortgage book of circa \$38.5b as at 30 June 2018, and with average mortgage settlements per month of \$948m to June 2018.
- The Resi/Loan Avenue "mortgage manager" wholesale business. This business has a credit decisioning capacity, which is important as it adds greater control over the certainty and speed of approval and direction of allocation of funding of any mortgage application, and allows the YBR Group to be a "manufacturer" of mortgage products via separate wholesale funding lines from the likes of Bank of Adelaide/Bendigo Bank, Advantedge, Resimac, etc. The Resi/Loan Avenue business has an underlying mortgage book of circa \$1.8b as at 30 June 2018, and with average mortgage settlements per month of \$28m to June 2018.

### **3. Growing Wealth Platform that provides Margin:**

Given the dominance of the mortgage business within the overall YBR Group, it is often overlooked that it has a small but significant and growing wealth business. This division offers the following suite of products and services, mainly through its YBR branch network and head office teams:

- Advice

- Life, Total Permanent Disability, Trauma, Income Protection Insurances
- Investments & Superannuation
- General Insurance Broking

YBR also has a profitable cash/fixed interest trust distribution, management and investment business known as Smarter Money Investments (**SMI**), which is 50% owned by YBR. This business manages 3 funds which collectively are rated by 6 research agencies, are listed on over 50 approved product lists (**APLs**) and 24 investment management platforms, and have over 80 Australian Financial Services Licensees (**AFSLs**) supporting and having clients invested in its funds. It is consistently ranked in the top quartile of its peers in terms of gross, net and risk-adjusted returns.

Overall, as at 30 June 2018, the wealth business had funds under management (**FUM**) (attributable to YBR via its 50% indirect SMI interests and its other 100% direct interests) of \$1.049b and premiums under management/gross written premiums (**PUM**) of \$18m p.a. These are annuity-style income products, with strong margins.

#### **4. Market Leading Compliance & Training Platform:**

Given the increasing regulation prevalent in the mortgage and wealth industries, to stay ahead YBR has developed an industry leading compliance and training platform called YBR & Vow Professional, which has been positively received by both ASIC and several banks. It encompasses the following components, set out in on-line and physical modules:

- Induction Program
- Accreditation Processes
- Continuing Training and Professional Development
- Audit and Remediation Programs
- YBR and Vow Chat – an online Q&A option to enable our business writers to ask questions and to receive answers from our expert staff and partners.

This platform is currently only available to the YBR and Vow networks, but it is intended in the future to be offered to external parties to generate additional revenues.

### **C. FY2018 Results Summary & Commentary**

In the circumstances of the significant headwinds that have surrounded the financial services market in the last 12 months, I am pleased with our FY2018 Results.

We made a small Comprehensive Net Loss of \$0.64m (FY2017 Comprehensive Net Profit of \$1.18m). This result was mainly impacted by a \$5.1m reduction in the contribution from non-cash revenue. Despite this, it was pleasing to see the following:

- a \$9.5m increase in total revenue to \$230.7m (FY2017: \$221.3m)
- a \$13.0m increase in recurring revenue to \$97.1m (FY2017: \$84.1m)
- an increase in the proportion of recurring revenue to 52% of total cash revenue (FY2017: 46%)
- a \$1.3m increase in cash gross profit to \$32.1m (FY2017: \$30.7m)
- a \$1.7m improvement in cash EBITDA\* to \$1.8m (FY17: \$0.1m)
- a \$4.8m improvement in operating cash surplus to \$2.4m (FY17: deficit of \$2.3m)
- a 2% decrease in operating costs by \$0.5m to \$33.6m

(\* Cash EBITDA excludes non-cash trail gross profit recognised in advance - ie NPV)

Set out below is a summary of YBR's FY2018 performance and pertinent balance sheet items, as well as other key financials:

Summary Items (\$m)	2018	2017	Var \$	% var
<b>REVENUE</b>				
<b>Cash revenue</b>				
Origination	85.0	97.7	(12.7)	(13%)
Recurring	97.1	84.1	13.0	15%
Sponsorship & volume bonus	2.3	2.4	(0.1)	(3%)
Other revenue	1.2	0.2	1.0	613%
<b>Total cash revenue</b>	<b>185.5</b>	<b>184.3</b>	<b>1.2</b>	<b>1%</b>
Trail income recognised in advance	45.2	37.0	8.3	22%
<b>Total revenue</b>	<b>230.7</b>	<b>221.3</b>	<b>9.5</b>	<b>4%</b>
Origination % of total cash revenue	46%	53%	-7%	
Recurring % of total cash revenue	52%	46%	7%	
<b>GROSS PROFIT</b>				
<b>Cash Gross Profit</b>				
Origination	7.3	11.8	(4.6)	(39%)
Recurring	21.4	16.2	5.2	32%
Sponsorship & volume bonus	1.9	2.4	(0.4)	(19%)
Other revenue	1.4	0.3	1.1	374%
<b>Total cash gross profit</b>	<b>32.1</b>	<b>30.7</b>	<b>1.3</b>	<b>4%</b>
Trail gross profit recognised in advance	0.2	5.4	(5.1)	(96%)
<b>Total gross profit</b>	<b>32.3</b>	<b>36.1</b>	<b>(3.8)</b>	<b>(11%)</b>
Cash gross profit margin	17.3%	16.7%	0.6%	
Origination % of total cash gross profit	23%	39%	-16%	
Recurring % of total cash gross profit	67%	53%	14%	
Costs	(33.6)	(34.1)	0.5	2%
<b>Net Profit Before Taxation</b>	<b>(1.3)</b>	<b>2.0</b>	<b>(3.3)</b>	<b>(162%)</b>
<b>NET PROFIT AFTER TAX</b>	<b>(0.7)</b>	<b>1.0</b>	<b>(1.7)</b>	
<b>EBITDA</b>				
Reported (Inc non cash revenue)	2.1	5.5	(3.4)	
Excluding non cash trail gross profit recognised in advance	1.8	0.1	1.7	
<b>Cash Flow</b>				
Operating	2.4	(2.3)	<b>4.8</b>	
Investing	(2.1)	(0.5)	<b>(1.6)</b>	
Financing	0.0	1.1	<b>(1.1)</b>	
<b>Total</b>				
Closing cash	5.4	<b>5.1</b>	<b>0.4</b>	6.9%
Closing debt	8.7	8.7	<b>0.0</b>	0.0%
Closing net debt	(3.2)	(3.6)	<b>0.3</b>	(9.5%)
NPV of underlying loan book	50.3	49.9	<b>0.4</b>	0.8%
Net tangible assets	37.7	38.6	<b>(0.9)</b>	(2.3%)
<b>EBITDA reconciliation</b>				
<b>Net profit (loss) after tax</b>	<b>(0.7)</b>	<b>1.0</b>	<b>(1.7)</b>	
Add depreciation & amortisation	2.7	2.7	(0.0)	
Add interest expense	0.7	0.8	(0.1)	
Add income tax (benefit) expense	(0.6)	1.0	(1.6)	
<b>EBITDA: Reported (Inc non cash revenue)</b>	<b>2.1</b>	<b>5.5</b>	<b>(3.4)</b>	
Trail gross profit recognised in advance	0.2	5.4	(5.1)	
<b>EBITDA: Excluding non cash revenue</b>	<b>1.8</b>	<b>0.1</b>	<b>(1.7)</b>	

## **D. Summary of FY2018 Growth Initiatives and Restructuring**

In FY2018 YBR commenced various key initiatives with the primary aim to:

- enhance the overall team by recruiting highly skilled, experienced and market respected executives
- align distribution, manufacturing, funding and support areas to establish a solid foundation to build a low cost and efficient operation to sponsor growth and maximise profit
- invest in real time systems and tools to align our management, network and clients.

These initiatives and work completed by the team resulted in a number of important achievements which I would like to recognise, specifically:

### **1. Adoption of a new Business Architecture**

YBR achieved financial and headcount benefits through implementing a revised Organisational Structure by:

- integrating the Adelaide Loan Avenue processing operation with the Resi Sydney operation, reducing headcount by 10 FTEs;
- reducing YBR's FTEs from a peak of 157 (including full time, part time, contractors) to 131;
- recruiting a number of experienced executives:
  - GM YBR Retail (replacement)
  - YBR Recruitment and Training (replacement)
  - In-house lawyer (replacement)
  - Head of Compliance (replacement)
  - Head of Learning & Development (replacement)
  - Financial Controller (replacement)
  - GM Revenue and MIS (new role)
  - Head of HR (new role).

### **2. Rationalising the Distribution Footprint and Productivity**

A strategy to rationalise the YBR branch footprint and to reduce the number of high volume but low economic value advisors in the Vow network was implemented. This and some other factors contributed to a reduction in loan settlement volumes during the year, specifically:

- The active management of non-performing YBR branches during FY 2018 resulted in reduction in the branch footprint from 124 to 117. This proactive action was implemented to support focus on increased productivity in high value franchises whilst identifying new franchisees and growth territories to expand the YBR footprint.
- The limited platform functionality of the legacy Vow platform not only inhibited VOW's capacity to attract new broker partners but also contributed to a decline in broker partner numbers during the year. To address this, VOW has built a new and market leading, lending, advice and customer management platform called Vownet. The roll-out of the Vownet platform is expected to drive an increase in broker groups and settlement volumes in FY 2019.

### **3. Investing in Systems and Platforms**

YBR continued its significant investment in key operational systems and platforms, investing a total of \$3.4 million for the 2018 financial year. Major investments included:

- Vownet, as highlighted above.
- Money Manager, which is a sophisticated financial fitness tool and personal cash flow manager powered by live market data. Money Manager provides the YBR network with the tools to navigate changing credit underwriting requirements whilst also strengthening the responsible lending process.

- Business Intelligence, a reporting platform to support an agile business through proactive portfolio management. Business Intelligence will provide franchised networks with increased key business reporting, including real time analytics and trend analysis.
- YBR & Vow Professional, (as mentioned earlier) YBR's market leading compliance and training platform. This was specifically designed and built for the YBR and Vow networks and provides scalable and efficient compliance and training capabilities which can be rolled out externally.

## **E. Summary of FY2019 BAU Strategy**

We look forward to FY2019 with confidence in that the work and restructuring YBR completed in FY2018 will position and support growth in a number of our key businesses, human talent and resources:

### **1. Lending, in which we aim to:**

- diversify YBR's revenue base by increasing the retail mortgage product offering;
- expand the existing Vow commercial business by combining and embedding it with the YBR network for commercial, leasing, equipment finance and SME lending;
- grow YBR's new business settlements across residential, commercial and wealth divisions assisted by market momentum and recruitment of new branches;
- integrate proactive distribution initiatives to increase wealth product sales penetration into the YBR and Vow networks and average loan settlements per branch;
- expand our sales footprint into geographic growth corridors and the eastern seaboard; and
- build out our BDM team to nurture prospective franchise owners and mobile sales people to grow new business flow.

### **2. Wealth, in which we aim to:**

- expand the SMI cash/fixed interest product into new APLs, investment platforms and AFSLs;
- migrate the YBR Super offering to Morningstar platform models;
- increase our fund manager & insurance product suites, advocacy and penetration across our customers, advisers and brokers; and
- accelerate expansion of Wealth distribution business through launching Exchange IQ to increase product sales through recruiting new advisers and brokers.

### **3. Resi, in which we aim to:**

- reintroduce the Resi Home Loan brand to the network and greater market with a specific strategy to:
  - establish Resi as the primary go-to funder for various credit gaps not serviced by mainstream lenders; and
  - extend Resi sales footprint internally and externally across broker networks; and
- build a new Resi securitisation funding programme to assist and enable YBR to fill the void created through reduced lending appetite of the banks resulting from APRA's new macro-prudential controls (see **Section F** below).

### **4. Our People are key to YBR's growth and success, so we aim to:**

- identify and recruit experienced and market respected leaders to inspire, coach and mentor our staff and network; and
- continue to refine and implement revised organisation structure which aligns experience and skill sets to key roles within YBR to support growth opportunities.

## F. Securitisation Strategy

YBR shareholders may recall that we announced in FY2016 that YBR was considering establishing its own securitisation programme. To that end, we have undertaken a large amount of work which resulted in:

- the employment of a well-known securitisation specialist with detailed expertise and in-house experience in operating a securitisation business, running treasury functions, being a senior analyst at a major rating agency, and a senior executive in origination and sales distribution and underwriting within the debt capital markets team of a major international investment bank;
- the development and stress testing of detailed financial modelling and a business case;
- the establishment of a securitisation master trust structure;
- the engagement of a well-respected trustee and a mortgage servicer and other service providers;
- designing product sets and features and documenting credit policies and manuals;
- a significant systems build to map servicing processes and create interfaces with our transactional bankers and the trustee and mortgage servicer.

Work was suspended on this major initiative during FYs 2017 and 2018 to wait for more favourable market conditions and allow YBR to implement other important internal projects.

However, the YBR Directors believe the market timing is now ripe. This is because we believe there has been a **structural shift** in the mortgage market in the last 12 months. This structural shift is evident by:

- APRA & ASIC imposed macro-prudential controls – eg the introduction of caps and other restrictions on foreign resident, investor and interest only loans;
- severe tightening by Australian banks of serviceability criteria and income and expense verification processes;
- Australian banks retreating away from certain categories of lending products
- the proliferation of acquisitions by major global private equity firms seeking mortgage and finance sector exposure – eg KKR's acquisition of Pepper, Blackstone's acquisition of LaTrobe, Cerebus' acquisition of Bluestone.

This activity clearly points to an under-served gap in the mortgage market product set creating a significant opportunity for the YBR group to address:

- Self-employed lending
- SME business lending
- >80% LVR loans
- Investor loans
- Interest only loans
- SMSF loans
- Foreign loans
- Other specialist lending products.

Yet, despite the unfulfilled demand in the above product categories, there still exist strong fundamentals that underpin the mortgage market and any securitisation initiative:

- Strong population growth of circa 1.7% pa over the last 10 years to December 2017, which is expected to continue with expectation of near doubling of population by 2061 (source ABS);
- The overall mortgage market still continues to grow. In the last 10 years to March 2018 total residential mortgage outstandings in Australia have grown at 6.7% CAGR and in the last 12 months to June 2018 total new residential settlements have been \$389b (source ABS);
- Growth in the non-bank/broker originated mortgage business spiked to 56% of the total mortgage market in September 2017 from 50% in June 2016 (source CoreLogic);
- The supply of mortgage funding via domestic RMBS issuance during CY2017 has been at its highest levels ever at over A\$33b, exceeding pre-GFC levels (source Macquarie Debt Capital Markets);
- Continued low RMBS arrears of 1.38% as at June 2018 (source S&P).



In effect, securitisation is the next step in YBR's mortgage strategy. Such a programme will generate "own" funding via the domestic and/or international debt capital markets. The intention is to replicate what I did after we created Wizard Home Loans and eventually merged it with the Australia Mortgage Securities business during the years between 2001 – 2004 inclusive. This is an essential value enhancing component in our overall mortgage strategy. It affords deeper ownership of the mortgage value chain whereby we have control over the underlying mortgages and "net interest margin" similarly to a bank, as opposed to merely being a broker and the recipient of commission-based income.

As one critical step to achieve this, YBR will need a warehouse facility for the programme. Discussions with potential warehouse providers are reasonably advanced and the Company has received a number of indicative detailed term sheets, which we intend to progress.

Additionally, other critical steps for YBR include the need to source mezzanine and equity "skin-in-the-game" funding for the programme, as well as working capital for the securitisation servicer / trust manager business. YBR has begun planning the sourcing of this capital, but at this date it has not yet begun to implement these plans.

It is noted that there is no guarantee that any definitive transaction documentation for any warehouse facility will be executed, nor that any or all capital required for the intended securitisation programme will be raised.

I trust the above will assist in your greater understanding of what we are and hope to be.

Yours faithfully

A handwritten signature in black ink, reading "Mark Bouris". The signature is written in a cursive, flowing style.

Mark Bouris  
Executive Chairman

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