Yellow Brick Road Holdings Limited
ACN 119 436 083

First Supplementary Target's Statement in relation to Mercantile's Offer

YOUR DIRECTORS CONTINUE TO RECOMMEND THAT YOU REJECT MERCANTILE'S OFFER

1. INTRODUCTION

This document is the first supplementary target's statement (**First Supplementary Target's Statement**) given by Yellow Brick Road Holdings Limited (**YBR** or the **Company**) under section 644 of the Corporations Act 2001 (Cth) (**Corporations Act**).

This First Supplementary Target's Statement relates to and supplements YBR's Target's Statement dated 20 September 2018 in response to Mercantile's Offer and should be read together with that document.

Unless the context otherwise requires, terms defined in the Target's Statement have the same meaning in this First Supplementary Target's Statement. To the extent there is any inconsistency between the Target's Statement and this First Supplementary Target's Statement, this First Supplementary Target's Statement will prevail.

A copy of this First Supplementary Target's Statement was lodged with ASIC and sent to ASX and Mercantile on 12 October 2018. Neither ASIC, ASX nor any of their respective officers takes any responsibility as to the contents of this First Supplementary Target's Statement.

2. FURTHER DETAIL ON DIRECTORS' REASONS TO REJECT THE OFFER

In Section 1.2 of the Target's Statement, YBR's Directors set out numerous reasons for their recommendation that YBR Shareholders should REJECT Mercantile's Offer. The information in this section 2 provides further detail in support of the explanation for Reasons 1 and 2 in section 1.2 of the Target's Statement.

A. <u>Valuation Methodologies</u>

On page 15 of the Target's Statement, the YBR Directors stated that they considered the value of YBR and YBR Shares by reference to a number of valuation methodologies.

The primary methodology adopted by the YBR Directors was the SOTP methodology, which the Directors believe is the most appropriate methodology in valuing a multi-faceted business such as YBR, which comprises:

- its mortgage businesses YBR, Vow and Resi respectively conducting branded franchise origination, aggregation and broking, and wholesale management of mortgage products and services; and
- its wealth management business conducting financial planning and advice, and the distribution and broking of investment, superannuation, life insurance and general insurance products and services.

The Directors also believe that the SOTP methodology is the most clear and concise methodology to explain the components of the above YBR group businesses in a way that is readily ascertained from information contained in audited accounts and observed market parameters (such as trading multiples).

The other methodologies noted in the Target's Statement (being a discounted cash flow valuation and a divisional value implied by recent transaction multiples and peer group trading multiples) were considered in addition to the primary SOTP methodology, but no reliance was placed upon them. This is because they required or contained a number of subjective assumptions as to the future, commercially sensitive and confidential information, unpublished forecasts and would generally lack the standard of certainty required to be disclosed to shareholders.

In determining the preferred SOTP valuation methodology (and to the extent relevant to the individual valuation of each component of the SOTP calculation), the Directors also had regard to the following common valuation methodologies and cross-checks:

(i) Income-based approaches based on multiples of revenue, earnings and net profits after tax. The Directors do not believe these methodologies are appropriate in valuing YBR given its relatively young history of operations, the costs involved in building its brand, distribution, infrastructure and operational platforms, its relatively high growth rates, and the resulting losses (or investment spent) in building its current scale.

(ii) Other asset-based approaches, being multiples of net assets or net tangible assets. The Directors believe these methodologies are more appropriate for a company which is an Australian Authorised Deposit-taking Institution (**ADI**) or a securitiser (**Balance Sheet Lenders**), and not for YBR, as:

  - Balance Sheet Lenders record their mortgage loan assets and the corresponding funding liabilities on their balance sheets, as they own and control the mortgage loan and all its benefits and corresponding liabilities and risks. Accordingly, they own and control pricing, terms, enforcement power (including the power of sale of the underlying secured property), the ability to sell or securitise the mortgage or pool of mortgages, and have direct personal covenants from the borrower and any guarantor, and rights against any originator or distributor. Additionally, they retain all risk of the costs of funding, asset/liability mismatches and arrears/enforcement; and

  - Mortgage aggregators and brokers such as YBR do not have any of these powers, benefits or risks. The main asset they own is the right to receive commission-based income from their book of underlying mortgages. This is a saleable asset which they control. The income they receive is predominantly commission-based income from those assets, not net interest margin that a Balance Sheet Lender receives. Additionally, mortgage aggregators and brokers are "capital-lite" compared to Balance Sheet Lenders. Accordingly, the YBR Directors believe it is more appropriate to use a methodology which is driven by the value of the commissions derived from the underlying loan book, and upon which a multiple can be applied for the ability to grow that main asset and derive further income, by applying a multiple (VNB) of the NPV of Underlying Loan Book.

(iii) The history of the trading prices of YBR Shares on ASX. Different VWAP's of trading prices of YBR Shares on ASX are set out on page 10 of the Target's Statement. It is evident that these YBR Share trading prices, including the YBR Share price subsequent to the announcement of the Offer, has occurred in a price range that is materially lower than the SOTP valuation. The following are the factors which the Directors believe may have contributed to this:

- Australian Prudential Regulation Authority and ASIC imposed macro-prudential controls on lending;
- tightening by Australian banks of lending criteria and serviceability tests;
- macroeconomic conditions, including the widely reported over-valuation and more recent downturns in transaction volumes and sale prices in the property market;
- the public noise and potential future impact of the Financial Services Sector Royal Commission;
- the relatively small market capitalisation of YBR, and therefore its non-inclusion in any major ASX indices, and lack of coverage by stockbrokers and analysts;
- the downward momentum upon the YBR Share price caused by recent selling by a major shareholder (Macquarie Bank Limited); and
- the general lack of depth and liquidity in trading in YBR Shares.

As an example of the latter point, the Directors note:

- As shown in Table 2 below, the average percentage of YBR Shares traded in a month as a proportion of total shares on issue over the 12 month period from 1 August 2017 to 31 July 2018 was 0.76%, which is considered low[1]. As another example, the lowest single day's trading volumes in a number of months in that period were approximately 2,000 -3,000 shares.
- The top 10 YBR Shareholders hold approximately 67.0% of the issued share capital currently, and YBR's free float is approximately 51% (source Thompson Reuters).

Table 2

Month	# Days	Monthly Volume	Monthly Volume as % of Total Outstanding Shares	Average Daily Volume in month	Highest Daily Volume in month	Lowest Daily Volume in month	Average Daily $ Value Traded in month
Jul-18	20	2,078,718	0.74%	103,936	372,100	6,493	10,303
Jun-18	19	10,120,497	3.58%	532,658	5,310,058	20,000	49,288
May-18	23	20,401,196	7.22%	887,009	4,137,599	9,229	91,773
Apr-18	14	1,227,949	0.43%	87,711	287,000	3,115	12,122
Mar-18	18	1,850,415	0.66%	102,801	354,344	5,521	14,308
Feb-18	16	2,619,934	0.93%	163,746	711,364	2,532	23,232
Jan-18	17	1,459,354	0.52%	85,844	284,379	3,500	12,448
Dec-17	15	1,910,700	0.68%	127,380	307,086	3,552	18,758
Nov-17	21	2,482,696	0.88%	118,224	485,397	3,018	17,276
Oct-17	17	2,816,887	1.00%	165,699	1,344,856	1,750	27,822
Sep-17	19	3,113,317	1.10%	163,859	503,965	4,000	23,482
Aug-17	21	1,966,232	0.70%	93,630	720,699	8,663	12,521
Average		***4,337,325***	***1.54%***	***219,375***			***26,111***
Average (excluding May+June 2018)			***0.76%***				
Maximum			***7.22%***				
Minimum			***0.43%***				

Source: Thomson Reuters

Note: The above volumes exclude off-market share transfers

[1] The trading volumes for May and June 2018 have been excluded from this calculation given the abnormally high volumes in those months due to Macquarie Bank selling its YBR shareholding during this period.

As a result of the above factors, the Directors consider that the YBR Share price and its trading history do not reflect its true value.

In summary, given the above matters, in valuing the YBR Group via the SOTP methodology, the Directors have chosen:

- to value the main asset of the YBR Group, being the Underlying Loan Book, and the mortgage business that relates to it, via the EV/NPV of the Underlying Loan Book multiple methodology;

- to value YBR's Underlying FUM, and the wealth/funds management income streams and business that relates to it, using an EV/FUM methodology. The YBR Directors believe that this is a commonly used valuation methodology for such businesses and as such is an appropriate measure of value for this component of the SOTP calculation; and

- to value YBR's PUM and GWP, and the life and general insurance broking income streams and businesses that relates to them, using an EV/PUM and an EV/GWP methodology, respectively. The YBR Directors believe that these are commonly used valuation methodologies for such businesses and is consistent with the above approaches.

Finally, the Directors are aware that many valuers typically present their valuations within a range. The valuation of each individual component of YBR in the SOTP valuation is based at, near or below the lower end of the range of valuation metrics used by the Directors, which resulted in a singular valuation figure. For the purposes of the Target's Statement, the Directors considered a singular valuation figure to provide greater clarity and have exercised their judgement and considered this to be a conservative approach.

B. Selection of Peer Group

In Reasons 1 and 2 of the Target's Statement, the YBR Directors make reference to the "peer group".

The YBR Directors selected its peer group following a review of all ASX listed financial services companies. Based on that review, the YBR Directors believe the most comparable companies to YBR are those companies that are mortgage originators and/or brokers, rather than ADIs and other financial institutions. Consequently YBR Directors selected the following companies as YBR's peer group, being the only ASX listed companies that the YBR Directors believe are conducting that type of business:

- Mortgage Choice Limited (**MOC**) – it is a "shopfront" based franchise mortgage broker, with a small wealth management business, and in the view of the Directors is therefore very similar to the YBR mortgage and wealth franchise, although it lacks a Vow mortgage aggregation business, a Resi mortgage manager business, and certain FUM based businesses like YBR's SMI joint venture and YBR's other superannuation FUM;

- Australian Finance Group Limited (**AFG**) – it is a similar business to YBR's Vow mortgage aggregation business, and it derives approximately 80% of its gross profit from its commission-based activities, which is similar to the YBR Group; and

- Homeloans Limited (**HOM**) – prior to its merger with Resimac, HOM was a similar business to YBR's Resi mortgage manager business, but even though post the merger the Directors' review indicated it derives a far greater percentage of its gross profit from the Resimac business, which is largely involved in wholesale mortgage funding (like Resi) and securitisation (unlike YBR at this point in time), the Directors believe there is still sufficient similarity in the nature of its business for it to be considered within the peer group.

It is noted on page 11 of the Target's Statement that there are other differences between YBR and the above peer group, including that the peer group are mature businesses generating profits. Despite this, the YBR Directors consider that they are still comparable to YBR and should be considered as peers because of the similarity in the nature of the businesses.

YBR Directors did not include within the peer group:

(a) any ADIs, for the reasons discussed in paragraph 1 (ii) above; and

(b) companies that are solely or predominantly engaged in retail or commercial finance, insurance and wealth management, as this comprises a relatively minor part of the YBR Group. However, as discussed below in paragraphs 3 (c) and (d), it is noted that some comparable wealth management and insurance broking companies were considered in valuing YBR's wealth management and insurance broking businesses.

C. Further Detail Regarding SOTP Valuation

This First Supplementary Target's Statement sets out further explanation supporting the valuation of YBR's financial assets in section 1.2 of the Target's Statement.

(a) Valuation of NPV of Underlying Loan Book

As noted in the "YBR sum of the parts value" disclosure in Section 1.2 of the Target's Statement, the Directors consider the NPV of the Underlying Loan Book as the largest single component of value of YBR. It is derived from an independent actuarial assessment of YBR's loan book conducted annually and reported in YBR's audited annual financial statements.

As set out in Table 1 and Chart 11 of the Target's Statement, the NPV of the Underlying Loan Book as at 30 June 2018 was $50.3 million and is calculated from YBR's 2018 audited Financial Statements (and accompanying notes) as follows:

Table 3

Item	Source	A$m
Non-Current Assets - Trail Commission Receivables	FY2018 Annual Report, Balance Sheet, Page 17	255.2
Plus: Current Assets - Trail Commission Receivables	FY2018 Annual Report Note 9, Page 35	63.7
Less: Non-Current Liabilities - Trail Commission Payables	FY2018 Annual Report, Balance Sheet, Page 17	(215.2)
Less: Current Liabilities - Trail Commission Payables	FY2018 Annual Report, Note 15, Page 40	(53.4)
Net Trail Commission Receivable (NPV of Underlying Loan Book)		**50.3**

Furthermore, the $50.3m NPV of Underlying Loan Book (or Embedded Value of Loan Book) is referenced in YBR's FY2018 Annual Report on the following pages:

1. Chairman's Letter accompanying the Annual Report (Page 4) (also included as the Annexure to the Target's Statement);
2. Appendix 4E, Preliminary final report, under item 2 "Results for announcement to the market";
3. Directors' Report, Page 3 of the Annual Report; and
4. Auditors' Report, Page 62 of the Annual Report.

(b) VNB

As explained on page 16 of the Target's Statement, the VNB represents the Directors' view of the value of YBR's distribution and operating platform, which generates YBR's ability to add new financial assets such as Underlying Loan Books (and FUM, PUM and GWP) into the future.

The Directors believe VNB can be observed and priced in the market as the excess of market observed Enterprise Values over the NPV of its Underlying Loan Book. Chart 2 of the Target's Statement shows that for YBR's peer group of MOC, AFG and HOM, their VNBs are respectively 0.78x, 2.31x and 7.75x their respective NPVs of Underlying Loan Books.

As these multiples are derived from Enterprise Values observed in the market, they take account of operating and corporate costs required to maintain each peer group company's operations.

In selecting a 0.7x multiple to value YBR's VNB (as set out in Chart 11 of the Target's Statement), the Directors had regard to the following considerations in relation to the VNBs of the peer group:

(i) The companies in the peer group are larger, more mature and profitable companies relative to YBR, which is younger;

(ii) However, the YBR Group's growth in the size of its Underlying Loan Book (see Chart 3 of the Target's Statement) and in its NPV (see Chart 4 of the Target's Statement) has been strong, being 16% CAGR and 11% CAGR respectively over the last 3 financial years. Indeed, the growth in NPV has been more pronounced in its individual YBR mortgage business (34% CAGR) and Vow business (10% CAGR). This growth compares favourably to the growth in the NPV of its peer group where, as can be seen in the Table 4 below, the Directors believe MOC and HOM have experienced negative growth in their respective NPVs recently;

(iii) Chart 9 in the Target's Statement showed the increasing percentages of YBR's recurring revenue and recurring gross profit against its total cash revenue and total cash gross profit, which is at 52% and 67% respectively in FY2018. The Directors believe this shows the increasing maturity in YBR's business and the increasing quality of its income;

(iv) As a result of YBR's Resi mortgage manager business, which generates much larger margins as described in Chart 10, the Directors believe YBR has additional attributes closer to AFG and HOM, which further differentiate it more positively than MOC to a higher VNB;

(v) The Directors believe the higher VNB multiples at which AFG and HOM trade (particularly HOM in FY2018), may be explained by the fact that net interest income earned by these companies from on-balance sheet lending activity comprises a significant proportion of total gross profit (in AFG's case, being approximately 20% of total gross profit and in HOM's case being approximately 103% of HOM's gross profit).

Table 4				
	FY15	**FY16**	**FY17**	**FY18**
MOC	127.1	126.6	127.3	100.4
Growth		*-0.3%*	*0.5%*	*-21.1%*
AFG	58.9	59.1	79.0	86.5
Growth		*0.3%*	*33.7%*	*9.5%*
HOM	n/d	n/d	33.7	29.6
Growth		*n/m*	*n/m*	*-12.2%*
YBR	36.7	37.2	49.9	50.3
Growth		*1.4%*	*34.2%*	*0.8%*

Notes:

1. n/d = not disclosed, n/m = not measurable

2.The above table considers only the NPV of net commission income receivable from the underlying, off-balance sheet loan books and does not consider any on-balance sheet loan books where applicable

Source: Published Financial Statements for FY16-FY18 for individual companies as provided to ASX

Based upon the above considerations, the YBR Directors believe their selection of the 0.7x multiple of the NPV of its Underlying Loan Book to value YBR's VNB to be appropriate for YBR and is conservative.

(c) Valuation of Underlying FUM

The source of YBR's Underlying FUM as at 30 June 2018 is set out below in Table 5.

Table 5	
Fund	**Size $m**
SMI Total (inc. Institutional)	1,348
Less: SMI Institutional	(448)
SMI "Retail/Wholesale" only	901
YBR's attributed 50% Share of SMI	**450**
Wealth Management incl. YBR Super	534
Investment Services[1]	43
Brightday	22
Total FUM attributable to YBR (30.06.2018)	**1,049**
Less: Adjustment for Investment Services Sale Completion[1]	(43)
Total Adjusted FUM (30.06.2018)	**1,006**

1. YBR Investment Services was divested post FY18 financial year end

Source: YBR

The YBR Directors' estimate of $21m set out in Table 1 of the Target's Statement for the valuation of YBR's Underlying FUM was based on $1,049m in total FUM attributable to YBR as at 30 June 2018. Subsequent to that date, the sale of the YBR Investment Services business assets, which was announced to the ASX on 25 June 2018, was completed on 31 August 2018, as also announced to the ASX on that date. Table 5 above reflects the total Underlying FUM attributable to YBR as at 30 June 2018, adjusted for that sale. As a pro-forma adjustment, this results in a minor downward movement of $0.8m in the total equity value of YBR on page 16 of the Target's Statement, including Chart 11. On such an adjusted basis, the equity value of YBR is $107m as at 30 June 2018, but the equity valuation of $0.38 per YBR Share remains unchanged.

The Directors' estimate of the valuation of YBR's Underlying FUM was assessed following a consideration of the following valuation methodologies for funds management businesses:

(i) multiple of funds under management implied from recent publicly announced transactions. As noted in section 2.A above, the YBR Directors considered this as the primary valuation methodology for this component; and

(ii) multiple of funds under management implied from trading multiples of ASX listed wealth and funds management companies. The YBR Directors have considered the implied EV/FUM trading multiples of ASX listed wealth companies in order to provide a cross-check to the primary valuation methodology for this component. It is noted that whilst trading multiples provide a broader sample size of wealth/funds management companies, the multiples derived from this methodology are for trading in minority parcels of shares and lack a control premium.

The Directors reviewed the following acquisitions of wealth management businesses and multiples observed or derived (EV/FUM), as set out in Table 6 below:

Table 6

Target	Acquirer	Transaction value ($m)	Percentage acquired (%)	EV/FUM
One Path Pension Investments	IOOF Holdings	975	100%	4.1%
Clearview Wealth Wealth Limited	Sony Life Insurance	145	100%	7.8%
Priority Advisory Group Pty Ltd	AZ Next Generation Advisory	9	100%	2.3%
Wealthwise Pty Ltd	AZ Next Generation Advisory	10	100%	2.5%
RI Toowoomba Pty Ltd	AZ Next Generation Advisory	8	100%	2.9%
Harvest Wealth Pty Ltd	AZ Next Generation Advisory	3	100%	1.6%
Financial Lifestyle Partners Pty Ltd	AZ Next Generation Advisory	5	100%	5.1%
Lifestyle Financial Planning Services Pty Ltd	AZ Next Generation Advisory	6	100%	3.5%
Eureka Whitaker Macnaught	AZ Next Generation Advisory	6	100%	1.8%
Total Average				3.5%
Average Excluding One Path & Clearview Transactions				**2.8%**

Source: S&P Global

Of the transactions identified in Table 6, the Directors excluded the larger scale transactions (One Path and Clearview) from their assessment, and made the following observations from what limited information was available in relation to the remainder:

(i) As the primary acquirer of businesses in Table 6, AZ Next Generation Advisory (AZNGA) is part of Azimut Group, a listed company on the Borsa Italiana S.p.A. It is a financial planning and advisory firm formed from consolidating local practices of financial advisers. AZNGA to date has completed the acquisition of numerous financial planning and advisory companies and is believed to have funds under advice of approximately $6 billion.

(ii) Priority Advisory Group Pty Ltd (PAG) provides a range of financial advisory services including investment and asset allocation advice, retirement planning, insurance, strategic financial planning advice, aged care, and philanthropic services. Its FUM was approximately $400m at the time of acquisition.

(iii) Wealthwise Pty Ltd (WW) is a financial planning business providing investment and asset allocation advice, retirement planning, insurance, corporate superannuation, and strategic financial planning advice to its client base. The company operates in Victoria and had $380m in funds under advice at the date of acquisition.

(iv) The last 4 acquisitions in Table 6 are relatively small transactions in terms of value, reflecting their smaller scale and operation, relative to YBR.

The Directors had regard to the range and averages of the EV/FUM multiples in Table 6 and adopted a multiple lower than the average multiple (excluding the One Path and Clearview transactions), and lower than the PAG and WW transactions, even though the latter were smaller relative to YBR.

The Directors also had regard to trading multiples (EV/FUM) of the following ASX listed wealth and funds management companies, as set out in Table 7 below:

Table 7	
Select Wealth/Funds Management Companies	**EV/FUM**
Centrepoint Alliance Ltd	0.4%
IOOF Holdings Ltd	12.6%
Challenger Ltd	7.8%
Perpetual Ltd	4.6%
Magellan Financial Group Ltd	7.8%
Pendal Group Ltd	2.8%
Platinum Investment Management Ltd	11.1%
Clime Investment Management Ltd	2.3%

Source: Thomson Reuters (for EV) as at 14 September 2018, various financial statements for FY18 for individual companies as provided to ASX

In view of the fact of the large variation in the above trading multiples, and that these listed funds management companies are not directly comparable to YBR in terms of their size, scale, investment asset classes and business models, the Directors did not rely on the above-mentioned EV/FUM trading multiple range (which also exclude any control premium) and therefore did not consider this cross-check methodology of being of great weight other than to show that scale justifies a higher multiple.

After considering the above matters and nothwithstanding the strong growth in YBR's Underlying FUM as set out in Chart 5 of the Target's Statement (27% CAGR over the last 3 financial years), the YBR Directors selected a multiple of 2% of FUM in valuing YBR's Underlying FUM in Table 1 of the Target's Statement. As outlined above, the Directors believe their approach to be conservative.

(d) Valuation of Underlying PUM and GWP

The Directors' estimate of $4.6m for the valuation of YBR's Underlying PUM and GWP set out in Table 1 of the Target's Statement, while being less material in the overall valuation of YBR, was made following a consideration of the following valuation methodologies for comparable life and general insurance broking/distribution businesses:

(i) multiple of EV/PUM implied from trading multiples of ASX listed life insurance distribution companies identified below; and

(ii) multiple of EV/GWP implied from trading multiples of ASX listed general insurance distribution companies identified below.

In the case of life insurance distribution companies, the Directors considered the following ASX listed companies: Freedom Insurance Group Ltd (FIG), Challenger Limited (CGF) and Clearview Wealth Ltd (CVW).

FIG (current market cap of $20m) designs, distributes and administers life insurance products via direct and indirect channels. The company is also engaged in the distribution of life insurance products, and ongoing administration and management of the life insurance products that it distributes. It is one of the smaller insurance distribution companies listed on the ASX and provides services similar to YBR, although also undertakes product design. Nothwithstanding the similar services offered by FIG, little reliance was placed on this company because the Directors believe it has been adversely impacted by the current Financial Services Royal Commission.

CGF operates through two segments being life insurance and funds management. The life segment provides annuities and guaranteed retirement income products and self-managed superannuation fund services. It is a large and diversified business, but was excluded from any final consideration.

CVW provides life insurance and wealth management products, and provides financial advice on investment, superannuation and retirement options, as well as life insurance. It operates a similar, but larger scale business model, to the part of the YBR wealth business that operates its life insurance distribution business.

Therefore, in forming their opinion on the assessed multiple of PUM, the Directors primarily considered the 2.19x EV/PUM multiple[2] at which CVW had traded. As CVW is a significantly larger and more mature business than this component of YBR's life insurance distribution business, the YBR Directors considered only a fraction of this multiple could be applied to this YBR business. Accordingly, in valuing YBR's Underlying PUM and business segment, the Directors assessed an EV/PUM of 0.2x as an appropriate (and conservative) multiple, relative to these observations and considerations.

In forming their opinion on the assessed multiple for GWP, the Directors had regard to trading multiples (EV/GWP) of selected general insurance broking/distribution companies, which comprised AUB Group Ltd (0.19x) and Steadfast Ltd (0.43x)[3]. It was noted that these trading multiples also exclude a premium for control.

AUB provides general insurance broking, risk management and underwriting agency services to the Australian market through its owned and part-owned agent network.

Steadfast is a large general insurance broker network with operations in Australia, New Zealand United Kingdom and Singapore, providing similar insurance broking, risk management and related services.

Given YBR's smaller size and scale of operations compared to the above mentioned insurance brokers, in valuing YBR's Underlying GWP, the Directors assessed an EV/GWP of 0.14x as a conservative multiple relative to these observations and considerations, noting also that the Underlying GWP comprises a relatively deminimus component of YBR's overall SOTP valuation. The Directors also considered that this was an appropriate value relative to the historic purchase price of YBR's general insurance broking business.

3. STATUS OF MERCANTILE'S BID AND BOARD RECOMMENDATION

As at the date of this document, it appears that acceptances of Mercantile's Offer amount to less than 1% of YBR Shares in total.

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[2] Thomson Reuters (for EV) as at 14 September 2018, various financial statements on ASX for PUM in FY18

[3] Thomson Reuters (for EV) as at 14 September 2018, various financial statements on ASX for GWP in FY18

Mercantile has announced to ASX that it will not increase its Offer Price of $0.09 per YBR Share. Accordingly, YBR's Directors continue to recommend that YBR Shareholders **REJECT** the Mercantile Offer.

4. CONSENTS

YBR has relied on ASIC Class Order 13/521 and ASIC Corporations (Consents to Statements) Instrument 2016/72, to include in this First Supplementary Target's Statement statements made, or based on statements made, by other persons in documents lodged with ASIC or given to the ASX, and references to trading data prepared by other persons. Those other persons have not consented to the inclusion of such statements or the use of such trading data references in this First Supplementary Target's Statement. Any shareholder who would like to receive a copy of any of the documents referred to in this paragraph may obtain a copy (free of charge) during the Offer Period by contacting YBR.

5. APPROVAL

This First Supplementary Target's Statement is dated 12 October 2018 and has been approved by resolution passed by the directors of YBR.

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

Mark Bouris

Mark Bouris
Executive Chairman
12 October 2018