



Yellow Brick Road Holdings Limited

ACN 119 436 083

Second 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 second supplementary target's statement (**Second 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**) in relation to Mercantile's Offer to acquire all shares in YBR that Mercantile and its associates do not own.

This Second Supplementary Target's Statement supplements, and should be read together with, YBR's Target's Statement dated 20 September 2018 and its first supplementary target's statement dated 12 October 2018.

This document is issued in response to the Second Supplementary Bidder's Statement issued by Mercantile on 15 October 2018 and is not being issued by YBR as a result of any misleading or deceptive statement in or omission from the Target's Statement or any new circumstance that has arisen.

Unless the context otherwise requires, terms defined in the Target's Statement have the same meaning in this Second Supplementary Target's Statement.

A copy of this Second Supplementary Target's Statement was lodged with ASIC and sent to ASX and Mercantile on 18 October 2018. Neither ASIC, ASX nor any of their respective officers takes any responsibility as to the contents of this Second Supplementary Target's Statement.

2. SECOND SUPPLEMENTARY BIDDER'S STATEMENT

As far as the YBR Directors are aware, as at the date of this Second Supplementary Target's Statement:

- acceptances of Mercantile's Offer are less than 1% of YBR Shares in total; and
- Mercantile's Offer still remains subject to its original conditions which have not been satisfied or waived, and, in the opinion of the YBR Directors, are not likely to be satisfied by the end of the Offer Period, the consequences of which, if that transpires, are:

- the Offer will end on Friday 19 October 2018; and
- all acceptances of Mercantile's Offer (if any) will become void.

The Directors continue to recommend to YBR Shareholders to **reject** Mercantile's Offer and do nothing.

Once the Offer ends your Directors will be able to return to concentrating on the running of YBR's businesses and trying to implement YBR's planned initiatives and strategies, without the distraction of and the limitations caused by Mercantile's Offer and without having to continue to incur costs and expenses in dealing with Mercantile's Offer. As Shareholders may be aware, under the ASX Listing Rules a company listed on the ASX such as YBR may not raise capital by issuing new shares during the first 3 months after being told that a person is making or proposes to make a takeover bid for securities in it without shareholder approval unless one of the exceptions to ASX Listing Rule 7.9 applies.

In the view of your Directors, the Second Supplementary Bidder's Statement does not contain any reason or justification as to why YBR Shareholders should accept the Offer which Mercantile did not state in the original Bidder's Statement. However, the Second Supplementary Bidder's Statement does contain a number of statements which your Directors believe require a response, including:

1. Despite Mercantile's assertion in the Second Supplementary Bidder's Statement, YBR Directors deny that any of the statements in the Target's Statement are not based on reasonable grounds.
2. Mercantile states that "many" of YBR's explanations as to YBR's value are confusing, yet Mercantile only refers to one example. The YBR Directors deny any of the explanations in the Target's Statement are confusing or not fully or clearly explained. YBR notes that as at the date of this document, only one enquiry has been made to YBR's Shareholder Information Line that was established for the purposes of the Offer. Your Directors are advised that the caller did not ask for any clarification as to YBR's explanations as to YBR's value.
3. Mercantile has stated in the Second Supplementary Bidder's Statement that its intention is to seek greater influence regarding YBR's strategy and operations in order to facilitate change. Yet in that document Mercantile did not identify any of YBR's strategies or operations or anything else with respect to YBR that it wishes to change.
4. Mercantile states that it "believes YBR has raised the possibility of securitisation once again, simply in an attempt to defend itself against Mercantile OFM's Offer". The allegation is not true and is strenuously denied by YBR.

In fact, the ASX announcement released by YBR on 27 August 2018 regarding the securitisation proposal (and referred to by Mercantile in its Second Supplementary Bidder's Statement) stated that YBR had undertaken in the past few months prior to the announcement an extensive market sounding process. That market sounding process included three different banks each issuing a detailed indicative term sheet to YBR relating to the securitisation proposal. All of this occurred in the 12 month period prior to Mercantile first announcing its unsolicited Offer on 20 August 2018.

It is true that the Directors began the process of trying to implement a securitisation program in or about August 2015, but for numerous reasons, including that it had received new and more profitable funding lines from other sources at the time, the Directors decided not to pursue it at that time. During the early part of 2018, your Directors formed the view that market conditions were even more positive towards securitisation, as the YBR Directors

articulated in the Target's Statement (including in the Chairman's letter annexed to the Target's Statement).

5. The YBR Directors believe that in its Second Supplementary Bidder's Statement, Mercantile has tried to undermine the potential value to YBR of YBR implementing a securitisation program. Mercantile has made the confusing statements that "YBR does not have the capital required to establish a warehouse and securitisation program" and that YBR does not have "the financial capacity to establish a warehouse facility".

These statements contradict each other. YBR does not currently have the capital required to establish a securitisation program. YBR has made that clear in both the Target's Statement and in its announcements to the ASX. However, your Directors believe YBR has the capacity to raise the capital that will be needed to establish a securitisation program. Once and if YBR completes negotiations to establish a warehouse facility and securitisation program, then the amount of capital that will need to be raised by YBR will be able to be ascertained and announced to the market.

As Shareholders will be aware, on 12 September 2018 YBR announced to the ASX that it had entered into an exclusive negotiation arrangement with a major Australian bank for it to provide a \$300 million residential mortgage-backed securities warehouse facility to YBR. As part of this process, the bank has now issued a detailed indicative term sheet to YBR and the required due diligence process has been partially completed and the terms of a warehouse facility agreement are being negotiated.

6. Mercantile makes reference constantly to YBR's poor financial and share price performance. While YBR has reported losses over the years, the Directors reiterate that:
 - (a) YBR is young and is growing;
 - (b) these losses represent the investment necessary to date in building YBR's brand, distribution and operational infrastructure, in a very competitive and highly regulated and scrutinised financial services sector;
 - (c) YBR's recurring revenue and recurring gross profit has been increasing for the last three years, which the YBR Directors believe is a strong indication of the improving quality of YBR's earnings; and
 - (d) in their view the YBR Share price and Share trading history does not represent YBR's underlying true value and the YBR Directors have provided numerous reasons for that in the Target's Statement.

3. APPROVAL

This Second Supplementary Target's Statement is dated 18 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
Executive Chairman
18 October 2018