

ASX Release
14 June 2016

STARGROUP LIMITED
Update from the Chairman and CEO

Fellow Shareholders,

On 1 July 2016, it will be 12 months since I was appointed Chief Executive Officer of Stargroup Limited (**ASX:STL**) ("Stargroup" or "the Company"), formerly iCash Payment Systems Limited.

Although the anniversary of the merger that formed Stargroup is still a few months off, I thought it a poignant time to reflect on the Company's achievements to date, particularly given the recent announcement about a further acquisition, our third corporate transaction this year.

At both the time of my appointment as Chief Executive Officer and subsequently when I was named Executive Chairman, I stated I was excited by the opportunities available to Stargroup and was looking forward to leading the Company through a transformational period.

A significant transformation is arguably what has taken place since then.

Significant Increase in ATM Revenues

Service and ATM transactional revenues for financial year 2015 were \$429,840.

The financial year 2016 ATM Network Revenues as at the date of this letter were \$2,901,997. Our projected revenue for the month of June is circa \$500,000 and therefore our financial year 2016 ATM network revenues are going to be up more than 650%.

As you can see, monthly revenue is now greater than our annual revenue in financial year 2015!

Post completion of the acquisition of the CashMyATM Network, the business will have more than 350 ATM machines; be processing 2.9 million transactions; and will have annualised turnover of more than \$7.5 million. With further organic growth in the ATM business we in fact are expecting the turnover to be greater than \$11 million in the 2017 financial year.

**Actual FY16
ATM Revenue
Up 691%**

**Projected FY17
ATM Revenue to
be Up 179%**

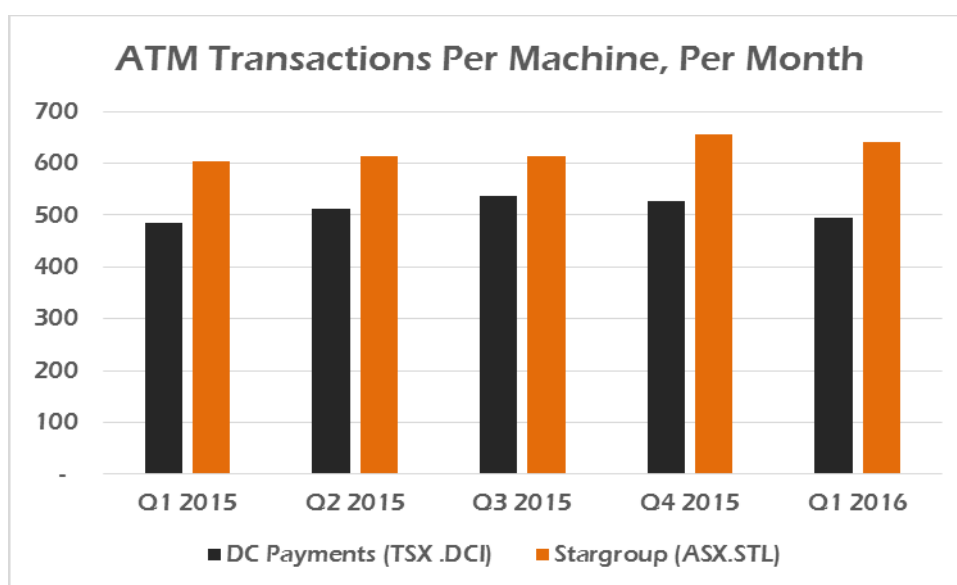
Market Leader in ISO ATM Metric

Whilst we have experienced a significant increase in turnover as part of a concerted effort to increase our share of the independent service operator ("ISO") ATM market in Australia, it would ordinarily see the average number of transactions per ATM per month decrease. We have in fact seen this key metric improve during this transformational phase.

Stargroup's average number of transactions per machine, per month for financial year 2015 was 613 transactions. As at the date of this letter, the current average for the financial year 2016 year was 635. This is a 3.5% increase.

How does this compare with the market leader? The largest ISO in Australia and arguably the world is Canadian listed entity DC Payments (TSX:DCI). The DCI March 2016 quarterly report showed transactional averages and revenues in decline. Its year-to-date average is 520 transactions per machine per month. Therefore on a peer-to-peer comparison, we are outperforming the industry's biggest by some 22%.

**Key ATM
Transaction Metric
is 22% Up on
Market Leader**



Stargroup is continuing to focus on the average monthly transactions per ATM metric as this is the best guide as to how well we are investing our shareholder capital. This has have been a major metric requirement during the due diligence of the acquisitions we have made in the past 12 months.

Significant Increases in Other Revenues

The other revenue of the Company for financial year 2015 was \$159,449. The financial year 2016 other revenue as at the date of this letter was \$240,970.

Therefore even on year-to-date figures for financial year 2016 we are up a significant 51%.

These revenues include ATM product sales (sale of ATMs and ATM-related software to third parties and EFTPOS revenues).

When initially becoming the CEO of iCash and subsequently the merged Group, it was clear that the other revenues of the business had significantly declined from the financial year 2014 result. In fact the financial year 2015 result was a 53% reduction.

Whilst we have been extremely busy in the past 12 months, one of the key strategies of the merger was to re-establish the confidence in the NeolCP manufactured product in Australia as previously its reputation was second to none yet product sales had diminished.

**FY16 Other
Revenues
Up 51%**

As part of that process, we engaged with our customers to determine the reasons behind the significant drop-off. I can proudly report that a number of issues were in fact determined to be managerial and given the complete management change as part of the merger, the confidence in the product has returned. In turn, that has translated into a significant improvement in orders and other revenues in recent months. In particular, a recent customer that spent in excess of \$1million on hardware with a competitor in the 2015 financial year has commenced acquiring our hardware again.

EFTPOS/PayWave and Card Payment Technologies

We announced to the market on 24 November that we signed a collaborative projects and development agreement with Anthem Software Pty Ltd and Claim Co Pty Ltd to jointly develop intellectual property ("IP") on the EFTPOS terminal for one of their major customers, a 16,500 automotive industry member group.

We have spent considerable time and money on the preliminary development of this IP and are in the process of finalising the full scope of the development with our equipment supplier with a view to commencing the final stages of the IP development in Q3 2016 with a proposed rollout in Q4 of 2016. Getting this IP development to market has taken longer than anticipated but the IP we are developing is very unique and based on polling of the client's members there will be significant take up of this technology when completed.

Further, we have just signed an agreement with a major customer to supply them with greater than 60 EFTPOS terminals which are estimated to process more than \$8million in transactions in the 2017 financial year.

We are also looking at improving the EFTPOS technology processes as a result of the IP development and releasing additional complementary products into the market, including a Star branded debit and credit card.

We will be co-branding greater than 30,000 debit and credit cards from Q3 2016 through to Q1 of 2017 as part of an agreed supply deal with an unlisted public company.

High Quality Acquisitions on Net Asset Backing or Low Multiples

During the past 12 months, the business has made three high quality acquisitions including the merger between iCash and Stargroup and the purchases of the Cash+ and CashmyATM businesses. Every acquisition has brought immediate accretive value to Stargroup shareholders and despite personally undertaking a number of roadshows promoting that message, a number of shareholders are still not fully versed in what these deals have brought to the Company. For their benefit, I have outlined below the key rationale behind each acquisition.

iCash and Stargroup Merger

The key strategic reasons for the merger between iCash and Stargroup were outlined in detail in the notice of meeting in July 2015.

The merger was completed on 7 August 2015 but with an effective takeover date of 1 July 2015 and as at that date the net assets of the business were \$1,884,993.

The key elements of the merger, which was negotiated over a long period of time, were as follows:

- Stargroup would raise \$3,000,000;
- iCash would raise \$500,000;
- iCash would allow shareholders to swap some iCash shares for NeolCP shares; and
- Stargroup would replace all key management personnel and have Board control.

The above was initially agreed to be done at \$0.06 per share in December 2014. Stargroup and I believed this was a fair transaction at that time as the Stargroup Board felt some of the key assets of the business were not on the balance sheet or undervalued, namely the tax loss assets (carry forward tax losses of \$15 million and carry forward capital losses of \$11 million) and the value of NeolCP. The income tax losses alone were worth over \$5 million and the NeolCP value was felt to be approximately \$3

**Deal was
re-negotiated with
iCash from \$0.06
to \$0.035!**

million. Couple that with the cash on hand and ATM inventory and the 30 ATM machines in the field and it was a great acquisition, even at \$0.06.

iCash however then chose to raise the \$500,000 by way of funding from NeolCP. NeolCP raised these funds by issuing fresh capital in the private Korean Company at a value lower than the historical cost paid by iCash for the NeolCP shares as recorded in the iCash financial statements.

Therefore, I, as CEO of the unlisted Stargroup Limited re-negotiated the contract with iCash given the diminution in value of the key asset of iCash, namely the investment in NeolCP and as a result, the agreed issue price of the iCash shares to Stargroup was reduced from \$0.06 to \$0.035 and this merger was completed on 7 August 2015.

This was a significant acquisition for Stargroup shareholders and arguably, not so for the iCash shareholders. This put the enterprise value of the merged entity at \$4.3 million post-merger, which was less than one times (1x) the projected annualised revenue. Further, the net assets were significantly greater than that given the tax loss assets alone were worth more than \$5.5 million and these were not on the balance sheet given the numerous years of losses posted by iCash.

EV at time of merger was \$4.3mil yet tax losses alone were worth >\$5.5mil

It was fair to say that the Stargroup shareholders felt this transaction was a bargain and with only 240 million shares on issue post the merger, the Company had a market value of \$8.4 million based on the agreed \$0.035.

However, it was clear to management that the business should have been valued significantly higher and the logic for this was as follows:

- Cash and Cash Equivalents (pre capital raising costs) - \$3.5mil;
- Future Tax Benefit Asset of tax losses (\$26mil x 30%) - \$7.8mil;
- ATM Network of 100 ATMs (net asset value) - \$0.8mil;
- ATM Inventory of 70 ATMs (cost value) - \$0.5mil;
- NeolCP Valuation (estimated valuation) - \$3mil;
- Debt - \$nil; and
- Total Net Assets - \$15.6mil.
- Shares on Issue - 240mil

With the net assets being \$15.6 million and 240 million shares on issue, the share price should have been trading at around \$0.05 to \$0.065 based on a net asset backing taking into account the valuation of the tax losses and the NeolCP investment.

As CEO and Executive Chairman of the new merged entity, a strategic priority was to ensure the investment in NeolCP was protected and we executed a five-year exclusive distribution agreement in relation to

distributing the NeoICP products in Australia, which was announced on 17 August 2015 within 14 days of the merger completion.

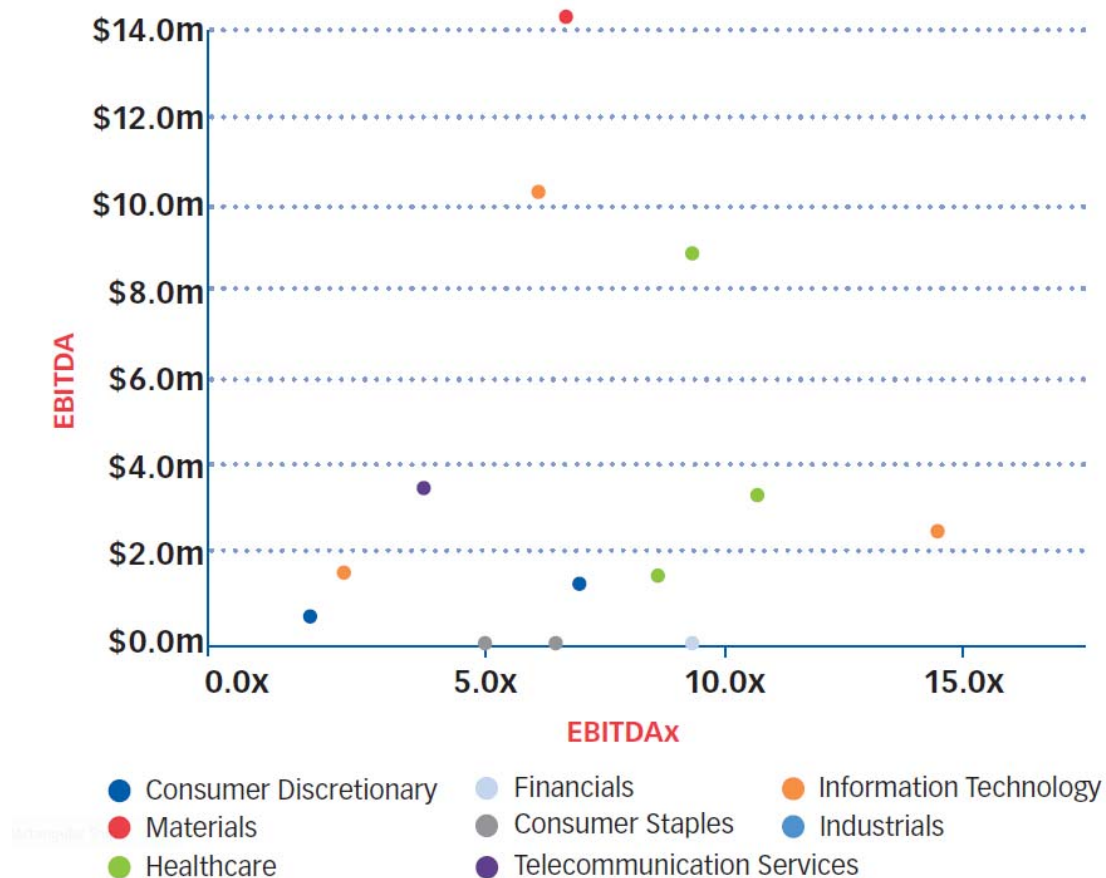
Cash+ ATM Acquisition

Stargroup announced the Cash+ acquisition on 1 October 2015 and this was a \$6.5 million purchase to be funded 50% by cash and 50% by issuing Stargroup shares at a price of \$0.04 to the vendor. Our shares were trading at \$0.036 at that time.

We raised \$3.4 million at \$0.035 cents and completed this acquisition on 1 December 2015. The 104 ATMs owned by Cash+ were acquired on a multiple of 5x EBITDA. Many shareholders and investors have questioned why this multiple is used in this industry.

This multiple is normal in the ATM industry and arguably normal in the mid-market merger and acquisition markets and such a multiple is supported by a recent report published by Nexia Australia.

Snapshot of EBITDAX distribution by sector



*Source : Australian mid-market activity, Quarter 3, 2016 Financial Year, Nexia Australia

Typically ATM contracts are for a 5 to 7-year period and the average resigning or retention rate of clients is greater than 80%, so you are realistically getting a greater than 10-year income stream from these acquisitions.

Further, there were significant economies of scale in that some of our key supply contracts were significantly better than those in place by Cash+. Therefore even though the multiple of 5x was paid on their existing revenue stream, our revenue streams were going to be greater than that achieved by Cash+ and therefore the 'real' multiple paid on this business was circa 4.6.

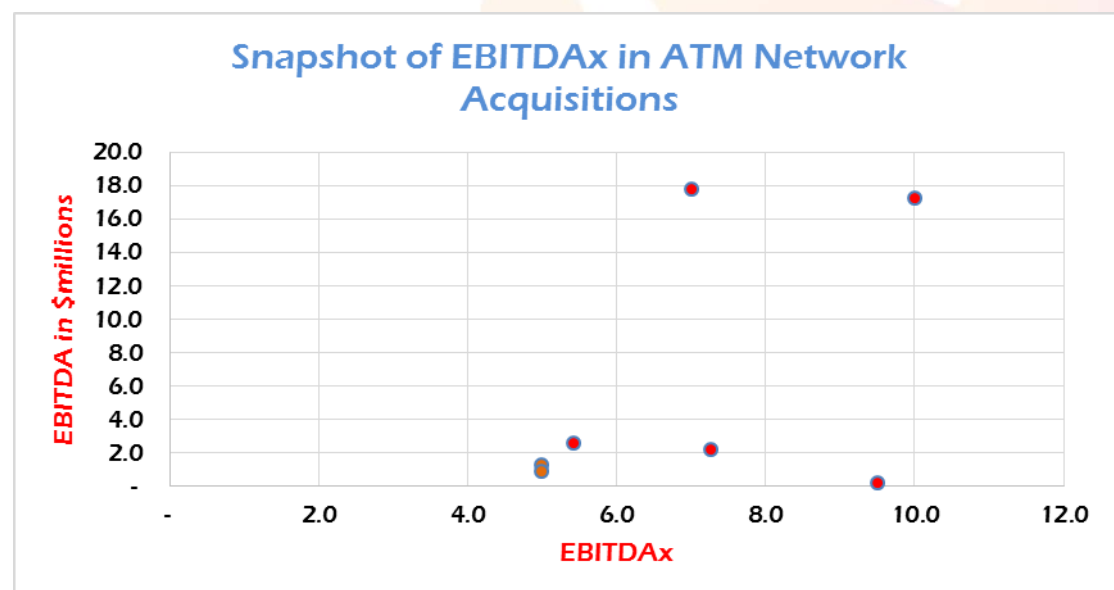
This acquisition increased our annualised revenue from \$2.6 million to \$4.6 million and increased our annualised EBITDA from a loss of \$731,916 to a profit of \$592,464.

"A multiple of 5x is low considering we were being outbid at up to a multiple of >7x"

I wish to also point out to shareholders that despite having secured two major acquisitions in the last 12 months, namely the Cash+ acquisition and the CashMyATM we have looked at a further three ATM networks but were outbid on all occasions by other competitors in the market on significantly higher multiples, some as high as 7x EBITDA.

Further, historically there have been even higher multiples paid to buy out Australian ATM companies with the highest multiple being the 10x paid by DC Payments to acquire the Customers Limited (ASX:CUS) business in 2012.

An illustration of the various multiples paid for various ATM businesses in the last 10 years is as follows:



You can see from the above illustration that the multiples paid by Stargroup (highlighted in Orange) are at the lower end of the spectrum of multiples paid for ATM networks.

CashMyATM Acquisition

We announced the CashMyATM acquisition on 3 June 2016 and this is an ATM network of some 97 machines for a consideration of \$4.54 million with 10% to be paid in Stargroup shares at \$0.05 (escrowed for 12 months) and the balance in cash. We have already raised and completed a \$3 million private placement at \$0.036 and will be raising a further \$3 million via a 1:6 rights issue with shareholders at \$0.036.

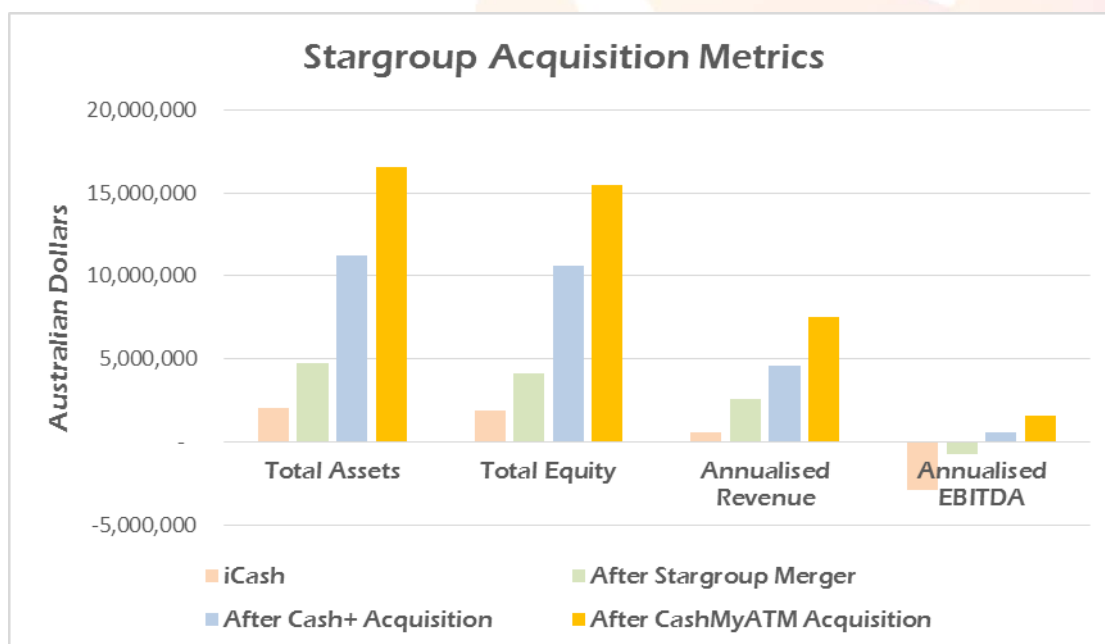
Vendor took stock at \$0.05, a premium to market and escrowed for 12 months

This will expand our ATM network to 365 machines and was also acquired on a multiple of 5x EBITDA. There again exists significant economies of scale as part of this acquisition as the key material cost of the business, namely the switching costs incurred by Stargroup are less than 50% of what CashMyATM is currently paying to process transactions on its ATM network.

It is anticipated that we will net a minimum of \$1 million EBITDA from this high quality acquisition and are therefore paying a multiple of 4.5x post absorption into our existing infrastructure. The effective date of acquisition of this business is 1 June 2016.

Key Stargroup Metrics post Acquisitions

The key Stargroup metrics after each of these acquisitions is as follows:

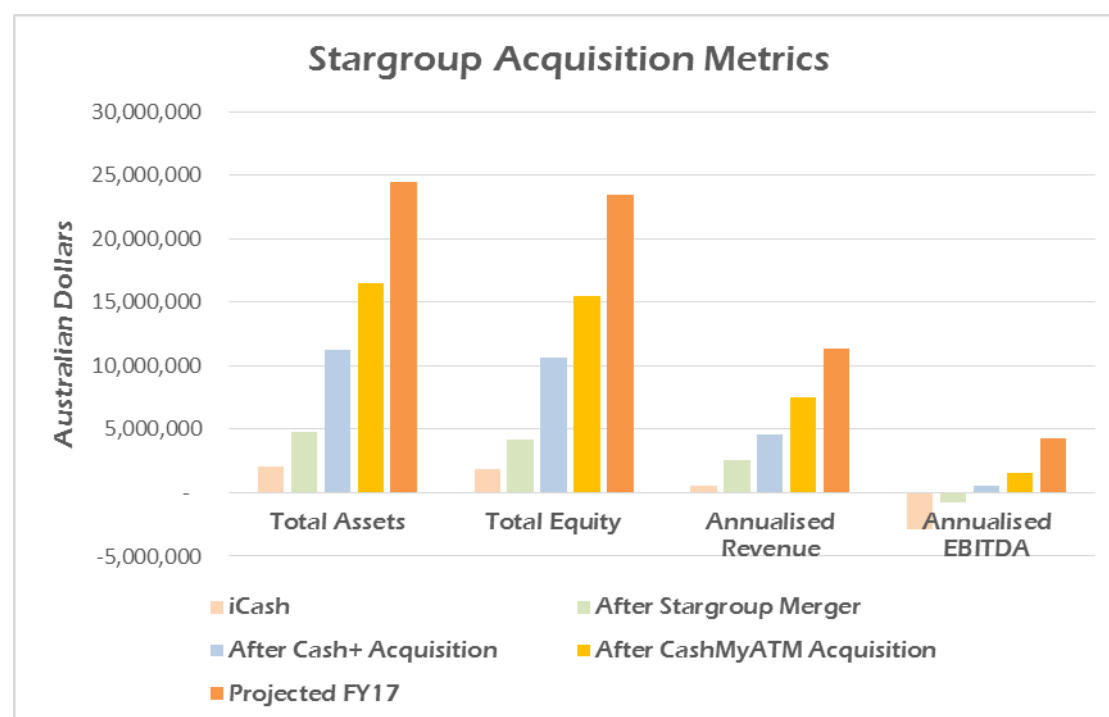


The CEO of CashMyATM will be joining Stargroup as our National Business Development Manager and will bring significant value to the Stargroup shareholders.

We have had a \$1.5 million banking facility approved by a major bank to part fund this acquisition or future acquisitions but at this time the Company is not intending to borrow to fund this purchase. The demand to participate in the private placement and the initial interest in the rights issue from the same shareholders that participated in the private placement has been excellent.

Annualised 2017 Picture Post CashMyATM Purchase

Post the CashMyATM Acquisition, annualised revenue will increase from the projected \$9.3 million to \$11.4 million in financial year 2017 and our projected EBITDA is \$4.3 million.



NeolCP Korea Inc and our Distribution Agreement

As at the date of this letter, we continue to have a >11% interest in NeolCP Korea Inc. and are part way through the first year of a five-year distribution agreement.

When undertaking the merger negotiations it was clear that the relationship between iCash and NeolCP had deteriorated significantly over the past few years. The level of orders and sales in Australia had been disappointing and management had failed to deliver on rolling out other technologies.

A key condition of the distribution agreement signed in August 2015 was that we are required to order 100 ATMs per annum. At the time of the merger between Stargroup and iCash, there was in excess of 70 ATMs in inventory.

Given our organic growth and current sales pipeline, we have just placed another order with NeolCP and as a result we have well exceeded our annual order requirement, having ordered 165 ATMs from NeolCP in the first 10 months of the agreement.

Further, NeolCP have had a turbulent couple of years with a major dispute having occurred between them and their major customer back in 2012. It has taken several years for this matter to be resolved in the courts.

Stargroup announced to the market on 2 February 2016 that NeolCP have posted an impressive record EBITDA of AUD\$1.9 million for the half year 31 December 2015.

Investors and shareholders often ask me what I think about the NeolCP Korea Inc investment and its technologies. Would I consider selling the investment to invest further in the business in Australia? How is the relationship with the Korean Directors? Are there technologies keeping pace with the industry etc?

“The NeolCP investment is a key strategic point of difference”

As mentioned above, I highly value the investment in NeolCP and it was a key reason I agreed to the merger. We are the only ATM deployment company in Australia with direct ownership in its manufacturer and this provides us with unique opportunities to work very closely with NeolCP to customize some of our solutions for some of the larger corporate clients that we are in negotiations with. It is a key strategic point of difference.

However, if the time came to divest of our investment in NeolCP we would consider doing so but only at the right price. NeolCP did recently undertake a buy-back of some of their shares at KWON\$605 per share. This is at a higher valuation than what we currently have our shares valued at in our financials but is not in my opinion a representative value of the market price of each share.

In Korea, you are required to value the shares in a private company based on the three-year historical performance of the business. Obviously whilst being in dispute with its major customer for some time, the financial performance of NeolCP was severely affected. Now that this has been resolved and together with the excellent deployment of casino settlement solutions by NeolCP throughout Asia and our performance in Australia, the NeolCP results are only likely to further improve.

As a result we did not elect to participate in the recent buy-back at that valuation. I personally believe that our >11% investment in NeolCP is worth at

least twice what it is currently valued at in our financial statements. As at the date of this report the investment is valued at \$1,524,597. This was revalued in the half-year accounts and the Board will consider further revaluation of this investment subject to independent expert advice.

Further, I am scheduled to attend an extraordinary general meeting in Korea on 15 June 2016 at which a resolution has been put to all of the shareholders regarding my appointment to the Board of NeolCP. I would hope this resolution will be carried by the shareholders as we have been working to strengthen the relationship with NeolCP and this will also enable me to continually inform our shareholders of the developments occurring within this private Korean company.

So to briefly answer some of those questions, I believe this investment needs to be retained in the short term and the relationship between Stargroup and NeolCP needs to continue to be improved. Given we have a five-year distribution agreement, we could divest of the investment and continue to distribute the hardware in Australia but such a divestment would have to be at a valuation acceptable to the Board and our shareholders. This would need to be well north of \$3 million to even be considered.

Shareholders and Share Performance

During my first 12 months as the CEO of Stargroup I have taken considerable time to engage with 'old' iCash shareholders and regularly field queries from our 'new' shareholders and would encourage shareholders to contact me at any time.

The feedback to date has been very encouraging in that we have significantly improved the level of communication between the Company and shareholders. To the 'old' shareholders this has been quite refreshing.

Our share performance over the past 12 months has been as follows:



At the time of the merger, Stargroup had 612 shareholders with >50% of these shareholders owning unmarketable parcels. The average liquidity was approximately 200,000 shares a day and the share price was \$0.035, largely as a result of the renegotiated merger price between iCash and Stargroup.



As at the date of this letter, we had 1,041 shareholders and 254 shareholders with unmarketable parcels (24%) who hold 1,615,115 shares or 0.003% of our register. Further, the liquidity has significantly improved and our annual average turnover of shares is >2million per day.

Our turnover of shares has increased 900% and shareholders have increased 70%.

Our Top 20 continue to own 68.91% of our shares and management and related parties own 22.5% of our shares, with the majority of that being owned by myself and family interests (16.36%).

Our market capitalisation during the past 12 months has increased but primarily as a result of acquisitions that have been made as opposed to growth in the underlying share price. We have done three capital raisings: one to fund the merger at \$0.035, one to fund the Cash+ acquisition at \$0.035 and a private placement and rights issue at \$0.036 to fund the current CashMyATM acquisition.

**Liquidity is
up 900%
and Shareholder
Numbers are
up 70%**

This has seen us increase our market capitalisation from \$8.6 million to \$21.8 million post completion of the CashMyATM acquisition and rights issue. Further this acquisition will further strengthen our profitability and cash flow.

The share price has been a little disappointing but given the number of corporate actions, there was always going to be some overhang in the market. There was significant overhang in the market price of our shares post the Cash+ acquisition as it was expected that the vendor of that business would be a short term seller of his shares. The market was proven correct!

Subsequent to the Cash+ acquisition, the vendor stock which was issued at \$0.04 was purchased off market via a private placement which I arranged with Top 20 shareholders and some further strategic shareholders at a price of \$0.027 in April 2016.

Research Notes

PAC Partner have released an Initiation Note featuring Stargroup which is available for viewing on the Stargroup website via the Investor & Media Section.



What should our share price be? Obviously the market dictates what our price will be but given our projected financial year 2017 EBITDA result you would think that our shares would be at least \$0.057 based on a similar net asset backing calculation per share:

- Cash and Cash Equivalents (pre capital raising costs and post completion of the rights issue) - \$1mil;
- Future Tax Benefit Asset of tax losses (\$26mil x 30%) - \$7.8mil;
- ATM Network of 365 ATMs (EBITDA of \$4.3mil at 5x) \$21.5mil;
- ATM Inventory of 110 ATMs (cost value) - \$0.6mil;
- NeolCP Valuation (estimated valuation) - \$3mil;
- Debt - \$nil; and therefore
- Total Net Assets of \$33.9mil.
- Shares on Issue (post CashMyATM Purchase) – 591m

Rights Issue and Top Up

As part of the current acquisition we have given shareholders via the rights issue an opportunity to top up their shares as opposed to merely being able to take up their standard 1:6 entitlement.

We have listened to our shareholders and a number of them have clearly indicated that they would undertake a top-up if the opportunity was presented as during the year shareholders on occasion have not been able to participate in certain capital raising efforts due to the restrictions imposed by the ASX on sophisticated placements.

Accordingly, this is an opportunity for all shareholders to not only take up their rights issue but to in fact top up at the \$0.036 level before our shares are significantly re-rated and which I believe will happen in the financial year 2017 year as our financial performance continues to improve and as we continue to announce record results. We have announced nine continuous record quarters of growth and will be announcing our 10th shortly.

I would like to think there will be very little to no overhang in the share price post completion of the rights issue given all shareholders have been given the opportunity to acquire at this level and the market is becoming more informed of what STL is doing.

FY16 Cost Savings and Future Cost Savings

We made a major announcement about the renegotiation of a number of our key supply contracts on 4 February 2016 where we had reduced our major costs by 52.90%.

This reduced the payback on our initial investment per ATM by four months (over 20% reduction in the payback period) to 15 months and we indicated we expected further cost savings as part of ongoing negotiations.

We are currently in negotiations with a number of our suppliers to further reduce our costs given the further increase in our scale of operations and will advise the market as and when those negotiations are finalized.

We will continue to look toward minimizing our operating costs, particularly now that we have finished our transformational phase and are well on the way to building a strong foothold in the Australian payment industry.

What's Next?

As the Chief Executive Officer and a fellow shareholder, I am excited by what we have managed to achieve in the first year post the merger and I look forward to leading the Company through our next growth phase as part of becoming a significant ISO in the Australian market.

Stargroup still has significant growth planned for financial year 2017 and beyond and several other catalysts are expected over the next six to 12 months.

I am committed to maximizing shareholder value in the near and long-term and to delivering on our plan which we previously outlined to our shareholders.

This includes:

- Further organic growth in only quality ATM sites via disciplined site selection;
- Further penetration of the EFTPOS ISO market by leveraging our excellent wholesale rates;
- Rolling out new technology products such as our Recycler ATM that allows users to both withdraw and deposit money;
- Rolling out our Stargroup debit and credit card; and
- Further sales of NeolCP ATMs and software in Australia.

I wish to again thank you for your continued support.

Todd Zani – CEO and Executive Chairman
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