

**PayGroup Limited**  
ACN 620 435 038

**SCHEME BOOKLET**

For the recommended Scheme of Arrangement between  
**PayGroup Limited ACN 620 435 038**  
and its shareholders  
in relation to the proposed acquisition by Deel Australia Holdings Pty Ltd of  
all the issued shares in PayGroup Limited

Each PayGroup Director recommends you **VOTE IN FAVOUR** of the Scheme in the  
absence of a Superior Proposal.

The Independent Expert has concluded that the **SCHEME IS IN THE BEST INTEREST** of  
PayGroup Shareholders in the absence of a Superior Proposal.

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION**

IF YOU HAVE ANY QUESTIONS IN RELATION TO THE SCHEME BOOKLET OR THE  
SCHEME MEETING PLEASE CONTACT YOUR LEGAL, INVESTMENT OR OTHER  
PROFESSIONAL ADVISER

**Deloitte.**

Financial Adviser

**K&L GATES**

Legal Adviser

# IMPORTANT NOTICES

## The Scheme Booklet

This Scheme Booklet sets out details of the Scheme and constitutes the Explanatory Statement for the Scheme for the purposes of section 412(1) of the Corporations Act.

It explains the effect of the Scheme between PayGroup Limited ACN 620 435 038 (**PayGroup** or **Company**) and the PayGroup Shareholders to be considered at the Scheme Meeting.

**You should read this Scheme Booklet in its entirety before making a decision as to how to vote on the resolution to be considered at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.**

## ASIC and ASX

A copy of this Scheme Booklet has been examined and registered by ASIC for the purposes of section 412(6) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme.

If ASIC provides that statement, then it will be produced to the Court at the time of the Second Court Hearing. Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this document has been lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this document.

## Federal Court Notice

### IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved this Scheme Booklet to accompany the Notice of the Meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how PayGroup Shareholders should vote (on this matter PayGroup Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for, the content of this Scheme Booklet.

## Notices of Scheme Meeting

The Notice of Scheme Meeting is included in this Scheme Booklet as Annexure F.

The Scheme Meeting will be held at 11:00 am (Melbourne time) on 30 September 2022 at the

offices of K & L Gates Melbourne, Level 25, 525 Collins Street, Melbourne, Victoria. PayGroup Shareholders and proxies can only vote by attending in person or by proxy, attorney or corporate representative (if applicable).

## Notice of Second Court Hearing

On the Second Court Date, the Federal Court of Australia will consider whether to approve the Scheme following the votes at the Scheme Meeting. Any PayGroup Shareholder may attend the hearing held on the Second Court Date, expected to be held on 25 October 2022. A PayGroup Shareholder seeking to attend the hearing should review the Federal Court list (available at <https://www.fedcourt.gov.au/court-calendar/daily-court-lists/vic>) for details of the hearing and how to attend it. The Court's list is usually available by 4.30pm the day before the hearing. Any PayGroup Shareholder who wishes to oppose approval of the Scheme at the hearing on the Second Court Date may do so by filing with the Court and serving on PayGroup a notice of appearance in the prescribed form together with any affidavit that the PayGroup Shareholder proposes to rely on.

## Investment decisions

The information contained in this Scheme Booklet does not constitute financial product advice. This Scheme Booklet does not take into account the investment objectives, financial situation or particular needs of individual PayGroup Shareholders or any other person. Independent financial and taxation advice should be sought before making any decision in relation to the Scheme.

## Responsibility statement

The PayGroup Information has been prepared by PayGroup and its directors and is the responsibility of PayGroup. Deel, its Related Bodies Corporate and their respective directors, officers, employees and advisers have not verified any PayGroup Information and do not assume any responsibility for the accuracy or completeness of the PayGroup Information.

The Deel Information has been provided by Deel and its directors and is the responsibility of Deel. PayGroup, its Related Bodies Corporate and their respective directors, officers, employees and advisers have not verified any Deel Information and do not assume any responsibility for the accuracy or completeness of the Deel Information.

Lonergan Edwards & Associates Limited has prepared the Independent Expert's Report in Annexure B and is responsible for that report only. None of PayGroup, Deel and their respective Related Bodies Corporate and

respective directors, officers, employees and advisers assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except in the case of PayGroup in relation to the information which it has provided to the Independent Expert.

### **Forward looking statements**

Certain statements in this Scheme Booklet relate to the future. The forward-looking statements in this Scheme Booklet are not based on historical facts, but rather reflect the current views of PayGroup or, in relation to the Deel Information, Deel, held only as at the date of this Scheme Booklet concerning future results and events and generally may be identified by the use of forward looking words such as "may", "should", "expect", "anticipate", "estimate", "scheduled" or "continue," their negative equivalent, or comparable terminology. Similarly, statements that describe PayGroup's or Deel's objectives, plans, goals or expectations are or may be forward-looking statements.

Such statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause the actual results, performance or achievements of PayGroup to be materially different from the results, performance or achievements expressed or implied by such statements. The operation and financial performance of PayGroup is subject to various risks including those summarised in this Scheme Booklet, and which may be beyond the control of PayGroup or Deel. As a result, the actual results of PayGroup's operations and earnings following implementation of the Scheme and the actual advantages or disadvantages of the Scheme may differ significantly from those that are anticipated or may not be achieved.

Any forward looking statements in this Scheme Booklet are made, and reflect views held, only as at the date of this Scheme Booklet. PayGroup and Deel make no representation and give no assurance or guarantee that the occurrence of the events or the achievement of results expressed or implied in such statements will actually occur. You are cautioned not to rely on any forward-looking statement.

### **Privacy and personal information**

PayGroup will need to collect personal information to implement the Scheme. The personal information may include the names, contact details and details of shareholdings of PayGroup's Shareholders, plus contact details of individuals appointed by PayGroup Shareholders to act as proxies, corporate representatives or attorneys at the Scheme Meeting. The primary purpose of the collection of personal information is to assist PayGroup in the conduct of the Scheme Meeting and to enable the Scheme to be implemented. The collection of certain personal information is required or authorised by the Corporations Act.

PayGroup Shareholders, and other individuals in respect of whom personal information is

collected, have certain rights to access the personal information collected about them and can contact the PayGroup Share Registry on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia if they wish to exercise those rights.

Personal information may be disclosed to the share registrars of PayGroup or Deel, print and mail service providers, authorised securities brokers, Deel, Related Bodies Corporate of PayGroup and Deel, and PayGroup and Deel's advisers to the extent necessary to effect the Scheme. If the information outlined above is not collected, PayGroup may be hindered in, or prevented from, conducting the Scheme Meeting, or implementing the Scheme effectively or at all. PayGroup Shareholders who appoint a named person to act as their proxy, corporate representative or attorney at the Scheme Meeting should ensure that they inform that person of the matters outlined above.

### **Notice to PayGroup Shareholders in jurisdictions other than Australia**

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in compliance with the disclosure requirements of Australia which may be different from those in other jurisdictions.

This Scheme Booklet and the Scheme do not in any way constitute an offer of securities or a solicitation of an offer to purchase securities in any place in which, or to any person to whom, it would not be lawful to make such an offer or solicitation.

### **References to time and currency**

Unless otherwise stated, a reference to time in this Scheme Booklet is a reference to the time in Melbourne, Victoria. References to (\$) or (A\$) dollars in this Scheme Booklet are to Australian dollars, unless otherwise stated.

### **Rounding**

Certain financial figures in this Scheme Booklet have been rounded as applicable, unless otherwise stated. Such figures should be considered as approximate figures. Any discrepancies in any table between totals and sums of amounts listed therein or to previously published financial figures are due to rounding.

### **Defined terms and interpretation**

Capitalised terms used in this Scheme Booklet are defined either in the Glossary in Section 10 or in the body of this Scheme Booklet.

Unless otherwise stated or where the context otherwise requires, all data contained in this Scheme Booklet, including in charts, graphs and

tables, are based on information available as at the Last Practicable Date.

**Websites**

Any references in this Scheme Booklet to any website are for information purposes only and no information contained on any website forms part of this Scheme Booklet.

**Tax**

A general guide to the taxation implications of the Scheme is set out in Annexure A. This guide is expressed in general terms only and PayGroup Shareholders should consult their tax adviser as to the applicable tax consequences of the Scheme.

**If you have any questions**

If after reading this Scheme Booklet in its entirety you do not fully understand it, you should consult an accountant, solicitor or other professional adviser for assistance.

This document is very important and should be read in its entirety.

**Date**

This Scheme Booklet is dated 25 August 2022.

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## LETTER FROM THE PAYGROUP CHAIRMAN

**Dear Shareholder,**

On behalf of the PayGroup Board, I am very pleased to provide you with this Scheme Booklet that contains important information for your consideration about the proposed acquisition of PayGroup by Deel Australia Holdings Pty Ltd (which is a wholly owned subsidiary of Deel, Inc).

### THE SCHEME

On 23 June 2022, PayGroup announced that it had entered into a Scheme Implementation Agreement with Deel and Deel Guarantor. It is proposed that Deel will acquire 100% of the issued PayGroup Shares by way of a Scheme of Arrangement, subject to approval by PayGroup Shareholders and the Court; and the satisfaction of certain other conditions (**Scheme**).

In consideration for their PayGroup Shares, PayGroup Shareholders will receive \$1.00 for every PayGroup Share held on the Scheme Record Date, subject to a price adjustment if the number of PayGroup Shares on issue on the Scheme Record Date exceeds the Share Cap.<sup>1</sup> The Scheme Consideration values the equity of PayGroup at \$119,330,380 and represents a 174% premium<sup>2</sup> to the close of trading PayGroup Share price of \$0.365 as at the last trading day prior to the announcement of the Scheme.

### INDEPENDENT EXPERT

PayGroup appointed Lonergan Edwards & Associates Limited as the Independent Expert to prepare the Independent Expert's Report, including an opinion as to whether the Scheme is in the best interest of PayGroup Shareholders. The Independent Expert, Lonergan Edwards & Associates Limited, has concluded that the Scheme is fair and reasonable and in the best interest of all shareholders in the absence of a Superior Proposal. The Independent Expert has assessed the value of PayGroup at between \$0.91 to \$1.01 per PayGroup Share. The Scheme Consideration of \$1.00 per PayGroup Share (assuming no Price Adjustment) is within this valuation range.

A full copy of the Independent Expert's Report is included as Annexure B to this Scheme Booklet.

### PAYGROUP BOARD'S RECOMMENDATION

The PayGroup Directors have considered the advantages and disadvantages of the Scheme. Each PayGroup Director recommends that PayGroup Shareholders vote in favour of the Scheme in the absence of a Superior Proposal. Subject to that same qualification, each PayGroup Director who holds PayGroup Shares, or on whose behalf PayGroup Shares are held, intends to vote or cause to be voted, all PayGroup Shares held by or controlled by them in favour of the Scheme.

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<sup>1</sup> If the number of PayGroup Shares on issue as at the Scheme Record Date exceeds the Share Cap, then the cash price per PayGroup Share will be adjusted down on a proportional basis. Please refer to Section 1.4 for more information.

<sup>2</sup> Calculated on the basis that PayGroup's fully diluted share capital is 119,330,380 ordinary shares.

The key reasons why the PayGroup Board believes the Scheme to be in the best interest of all shareholders include:

- **Attractive premium for PayGroup Shareholders:** The Scheme Consideration represents an attractive premium for PayGroup Shareholders on the pre-announcement PayGroup Share price. Deel's offer for PayGroup represents a 172.4% premium to the 1-month volume weighted average price (**VWAP**) of PayGroup Shares and a premium of 157.2% to the 3-month VWAP of PayGroup Shares prior to the announcement of the Scheme;<sup>3</sup>
- **Certainty in volatile markets:** The offer from Deel is an all-cash offer. This provides a high degree of certainty of value and timing in the current uncertain markets;
- The Independent Expert has concluded that **the Scheme is fair and reasonable and in the best interests of PayGroup Shareholders**, in the absence of a Superior Proposal. A copy of the Independent Expert's Report is set out in Annexure B of this Scheme Booklet;
- **No Superior Proposal** has been received by PayGroup as at the date of this Scheme Booklet.

There are also reasons why you may choose to vote against the Scheme which are set out in Section 4.4.

## SCHEME MEETING

Your vote is important as the Scheme Resolution requires a certain level of PayGroup Shareholder support to be approved. I encourage you to read this Scheme Booklet carefully as it contains information that will assist in both your decision for voting, but also information on how to vote.

I also encourage you to vote at the Scheme Meeting held at 11:00 am (Melbourne time) on 30 September 2022 either by personally attending and participating in the Scheme Meeting or by appointing a proxy, an attorney or, in the case of a PayGroup Shareholder or proxy who is a corporation, a corporate representative to participate in the Scheme Meeting and vote on your behalf. Section 3.7 of this Scheme Booklet contains further information regarding the Scheme Meeting and your vote.

## FURTHER INFORMATION

The Scheme Booklet sets out important information relating to the Scheme, the reasons why the PayGroup Board has recommended that PayGroup Shareholders vote in favour of the Scheme together with the Independent Expert's Report. The Scheme Booklet also sets out some of the reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety. It will assist you in making an informed decision on how to vote. We also recommend that you seek independent financial, legal and taxation advice before making any decision in relation to your PayGroup Shares.

If you require further information after reading this Scheme Booklet in its entirety, please call PayGroup on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia.

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<sup>3</sup> As of 22 June 2022 and assuming no Price Adjustment is applied.

On behalf of the PayGroup Board, I thank you for your ongoing support and I look forward to your participation at the Scheme Meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ian Basser', with a large, stylized flourish underneath.

**Ian Basser**  
**Chairman**  
**PayGroup Limited**

## IMPORTANT DATES

Event	Date and time
Latest date and time for lodgement of Proxy Forms or powers of attorney for Scheme Meeting	11:00 am (Melbourne time) on 28 September 2022
Date and time for determining eligibility to vote at Scheme Meeting	7:00 pm (Melbourne time) on 28 September 2022
<b>Scheme Meeting</b> to vote on the Scheme to be held	11:00 am (Melbourne time) on 30 September 2022
Second Court Date for approval of the Scheme	25 October 2022
<b>Effective Date</b> – Court Order lodged with ASIC and announced to ASX	26 October 2022
PayGroup Shares cease trading on ASX at close of trading	26 October 2022
Scheme Record Date for determining participants in the Scheme and entitlements to Scheme Consideration	28 October 2022
<b>Implementation Date</b> – Scheme Shares transferred to Deel and Scheme Consideration provided to Scheme Participants	7 November 2022

### Dates may change

*Please note that the timetable above is indicative only and certain dates and times are subject to receipt of all necessary approvals from PayGroup Shareholders, the Court and other Regulatory Authorities. PayGroup, in consultation with Deel, may vary any or all of these dates and times, subject to Court approval where required.*

*Any changes to the above timetable will be announced to ASX, please refer to <https://www2.asx.com.au/markets/company/pyg>. The actual timetable will depend on factors outside the control of PayGroup and implementation of the Scheme is subject to the satisfaction or, if applicable, waiver of the Scheme Conditions (see Section 8.8).*

*All references to time are to the time in Melbourne, Victoria unless otherwise stated.*

## 1. SCHEME HIGHLIGHTS

### 1.1 Summary of reasons to vote in favour of or against the Scheme

#### Reasons to vote in favour of the Scheme

<b>1</b>	The <b>PayGroup Directors unanimously recommend</b> that the PayGroup Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and, subject to the same qualification, the PayGroup Directors <b>intend to vote, or cause to be voted</b> , all PayGroup Shares held or controlled by or for them <b>in favour of the Scheme</b> .
<b>2</b>	The Independent Expert has concluded that <b>the Scheme is fair and reasonable and in the best interest of PayGroup Shareholders</b> , in the absence of a Superior Proposal. A copy of the Independent Expert's Report is set out in Annexure B of this Scheme Booklet.
<b>3</b>	No Superior Proposal has been received by PayGroup as at the date of this Scheme Booklet.
<b>4</b>	The Scheme Consideration represents an attractive premium for PayGroup Shareholders on the pre-announcement PayGroup Share price. Deel's offer of \$1.00 per PayGroup Share <sup>4</sup> represents a 172.4% premium to the 1-month VWAP of PayGroup Shares and a premium of 157.2% to the 3-month VWAP of PayGroup Shares, respectively, prior to the announcement of the Scheme.
<b>5</b>	No brokerage charges or stamp duty will be payable on the transfer of your PayGroup Shares if the Scheme proceeds.

#### Reasons why you may choose to vote against the Scheme

<b>1</b>	You may disagree with the PayGroup Directors' recommendation or the conclusion of the Independent Expert.
<b>2</b>	You may consider that there is the potential for a Superior Proposal to be made in the foreseeable future.
<b>3</b>	The tax consequences of the Scheme may not be suitable for you considering your individual circumstances.
<b>4</b>	You may wish to maintain an interest in a publicly listed investment with PayGroup's specific characteristics.
<b>5</b>	The Scheme may be subject to conditions that you consider unacceptable.

See Section 4 for further details of the above summaries of the reasons to vote in favour of or against the Scheme.

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<sup>4</sup> Assuming that no Price Adjustment is applied – refer to Section 1.4.

## 1.2 Independent Expert's conclusion

Lonergan Edwards & Associates Limited has been appointed as the Independent Expert by the PayGroup Board to prepare the Independent Expert's Report, including an opinion as to whether the Scheme is in the best interest of PayGroup Shareholders.

The Independent Expert has concluded that the Scheme Consideration is fair and reasonable and in the best interest of the PayGroup Shareholders in the absence of a Superior Proposal. The Independent Expert has assessed the value of PayGroup at between \$0.91 to \$1.01 per PayGroup Share. The Scheme Consideration of \$1.00 per PayGroup Share (assuming no Price Adjustment) is within this valuation range.

A copy of the Independent Expert's Report can be found in Annexure B.

## 1.3 Scheme Conditions

The obligations of PayGroup and Deel to complete the Scheme are subject to the Scheme Conditions which are discussed in further detail in Section 8.8. The Scheme Conditions are contained in clause 3 of the Scheme, as set out in Annexure E to this Scheme Booklet. For the Scheme to be implemented, all of the Scheme Conditions must be either satisfied or waived in accordance with the Scheme and the Scheme Implementation Agreement (as applicable).

As at the date of this Scheme Booklet, PayGroup and Deel are not aware of any circumstances which would cause the Scheme Conditions not to be satisfied or waived. An update as to the status of the Scheme Conditions will be provided at the Scheme Meeting.

## 1.4 Scheme Consideration

If the Scheme is approved and implemented, Scheme Participants will be entitled to receive \$1.00 for every PayGroup Share held on the Scheme Record Date,<sup>5</sup> which represents a 172.4% premium to PayGroup's 1-month VWAP prior to the announcement of the Scheme of \$0.367.

The Scheme Consideration of \$1.00 per PayGroup Share is based on there being no more than 119,830,380 PayGroup Shares on issue on the Scheme Record Date (**Share Cap**). The current number of PayGroup Shares on issue as at the date of this Scheme Booklet is 118,849,868, but it is possible additional PayGroup Shares will be issued before the Scheme Record Date as outlined below. If the number of PayGroup Shares on issue as at the Scheme Record Date exceeds the Share Cap, then the cash price per Scheme Share will be adjusted down on a proportional basis to be an amount per Scheme Share calculated by dividing the maximum equity value of PayGroup Shares under the Scheme of \$119,830,380 by the actual number of Scheme Shares on issue as at the Scheme Record Date (**Price Adjustment**).

As referred to above at the date of this Scheme Booklet there are 118,849,868 PayGroup Shares on issue. Prior to the Scheme Record Date additional PayGroup Shares may be issued as a result of:

- the issue of 299,789 to PayGroup Shares to Mark Samlal and 180,723 PayGroup Shares to Franck Neron-Bancel, subject to first obtaining

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<sup>5</sup> Assuming no Price Adjustment.

Shareholder approval to that issue at the Company's 2022 Annual General Meeting (scheduled to be held at 10.30 am on 30 September 2022 immediately prior to the Scheme Meeting at 11am);

- the potential issue of additional PayGroup Shares to Mr Marcus Webb (one of the vendors of the Astute Group of Companies purchased by PayGroup on 14 November 2019) on determination under an independent mediation as to the achievement of subsequent performance hurdles to the value of \$1.5 million (at the closing price on the trading day immediately prior to the determination of the mediation).

Where the bonus shares referred to above are approved by PayGroup shareholders, the total number of PayGroup shares on issue will then be 119,330,380 (which is less than the Share Cap and therefore there would be no Price Adjustment). Further where the performance hurdles are determined as achieved in the Astute Mediation - assuming an issue price of 94 cents - the issue of additional new PayGroup Shares would result a Price Adjustment with the Scheme Consideration per PayGroup Share being approximately \$0.9909 per issued PayGroup Share.

## 1.5 Scheme Meeting

The Scheme Meeting will be held at 11:00 am (Melbourne time) on 30 September 2022 at the offices of K & L Gates Melbourne, Level 25, 525 Collins Street, Melbourne, Victoria.

**The Scheme Meeting will be a physical meeting where PayGroup Shareholders and proxies can attend in person.** The Scheme Meeting will not be conducted as a virtual or hybrid meeting.

The Notice of Scheme Meeting convening the Scheme Meeting is included in Annexure F of this Scheme Booklet.

For the Scheme to proceed, votes in favour of the Scheme Resolution must be received from both:

- a majority in number (more than 50%) of PayGroup Shareholders present and voting at the Scheme Meeting (whether personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative) (**Headcount Test**); and
- at least 75% of the total number of PayGroup Shares voted at the Scheme Meeting by PayGroup Shareholders (personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative),

(the **Requisite Majorities**).

The passing of the resolution approving the Scheme is a condition of the Scheme becoming Effective and being implemented. If the necessary majorities of PayGroup Shareholders vote in favour of the Scheme at the Scheme Meeting and all other Scheme Conditions have been either satisfied or waived (if applicable), the Court will be asked to approve the Scheme. Voting at the Scheme Meeting will be by poll.

The Court has the power to approve the Scheme even if the Headcount Test has not been satisfied. The Court may, for example, approve the Scheme if it finds that the vote was unfairly influenced by activities such as share splitting.

Each person who is registered on the PayGroup Register as a PayGroup Shareholder as at 7.00 pm (Melbourne time) on 28 September 2022, is entitled to be present and vote at the Scheme Meeting, either personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative. Registered transfers or transmission applications that are registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

## **1.6 Warranties and releases provided by PayGroup Shareholders**

On the Implementation Date, each Scheme Participant is deemed to have warranted to Deel that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) which are transferred to Deel under the Scheme will, on the date of the transfer of them to Deel, be fully paid and free from all encumbrances and interests of third parties of any kind (whether legal or otherwise) and restrictions on transfer of any kind (whether legal or otherwise);
- (b) they have full power and capacity to sell and to transfer their Scheme Shares together with any rights and entitlements attaching to such shares; and
- (c) they have no existing right to be issued any PayGroup Shares, PayGroup Options, performance rights, convertible notes or any other PayGroup security.

## **1.7 Exclusivity, competing proposals, break fee arrangements and cost contribution**

### **(a) Exclusivity and competing proposals**

Until the Scheme is approved by the Court, other parties may make unsolicited proposals to acquire PayGroup.

If during the Exclusivity Period PayGroup is approached in relation to an actual or potential Competing Proposal, it must notify Deel of the approach.

If a Competing Proposal is a Superior Proposal, Deel will be given 5 Business Days to provide PayGroup a matching offer. If Deel makes a matching offer, then Deel and PayGroup must use their best endeavours to agree to give effect to the matching offer.

Further details regarding Deel's exclusivity rights under the Scheme Implementation Agreement are set out in Section 4.5(a) of this Scheme Booklet.

### **(b) Break Fee**

PayGroup will be liable to pay a Break Fee of \$1,198,303.80 to Deel if the Scheme does not proceed as a result of:

- (i) a Competing Proposal being announced by the PayGroup Board during the Exclusivity Period and, within 12 months of such announcement, the proponent of that Competing Proposal -
  - (A) completes the Competing Proposal; or

- (B) otherwise acquires a Relevant Interest in, or an economic interest in, 50% or more of the PayGroup Shares or Control of PayGroup and that acquisition is unconditional;
  - (ii) where during the Exclusivity Period a PayGroup Director fails to recommend, withdraws or adversely modifies their recommendation or voting intention as outlined in Section 4.1 or otherwise makes a public statement indicating that he or she no longer supports the Scheme, other than -
    - (A) if the Independent Expert changes its recommendation for any reason (other than because of a Competing Proposal); or
    - (B) where PayGroup is entitled to terminate the Scheme Implementation Agreement due to either an unremedied material breach of that Agreement (including due to any material breach of any warranty by Deel), the Scheme Conditions not being satisfied by the relevant time, the Scheme not becoming Effective by the Sunset Date, PayGroup Shareholders not approving the Scheme, the Court refusing to grant orders directing PayGroup to convene the Scheme Meeting or approving the Scheme, Deel becoming insolvent or as a result of a mutual agreement with Deel); or
  - (iii) Deel validly terminating the Scheme Implementation Agreement due to an unremedied material breach of that Agreement by PayGroup.
- (c) **Reverse Break Fee**
- Deel agrees to pay the Reverse Break Fee of \$1,198,303.80 to PayGroup without withholding or set off if the Scheme does not become Effective because:
- (i) the Scheme Implementation Agreement is terminated by PayGroup due to an unremedied material breach of that Agreement by Deel; or
  - (ii) Deel does not pay the aggregate Scheme Consideration when it is required to do so in accordance with the terms of the Scheme Implementation Agreement, the Scheme and the Deed Poll.

## 1.8 Carefully read and consider this Scheme Booklet

The Scheme Booklet is designed to provide PayGroup Shareholders with information to consider before voting on whether the Scheme should proceed at the Scheme Meeting scheduled for 30 September 2022.

**This is an important document.** You should read the information in this Scheme Booklet in its entirety before making a decision on how to vote at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser. There is a "**Questions and Answers**" summary included in Section 2, to help answer any questions you may have. If you have any other questions, please call the PayGroup Shareholder Information Line on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia.

## 2. QUESTIONS AND ANSWERS

This Section answers some basic questions that you may have about the Scheme. The information in this Section is a summary only which you should read in conjunction with the entire Scheme Booklet (including the recommendation of the PayGroup Directors and the key reasons for those recommendations as set out in Section 4) before deciding how to vote on the Scheme.

Questions	Answers
<b>Questions about the Scheme</b>	
<b>What is the Scheme?</b>	<p>A scheme of arrangement is a statutory arrangement facilitated by Part 5.1 of the Corporations Act between a company and its shareholders.</p> <p>Schemes are commonly used to effect the acquisition of shares in an ASX listed target company.</p> <p>Schemes must be approved by a Requisite Majority of shareholders and the Court in order to become binding on the target company's shareholders.</p> <p>On 23 June 2022, PayGroup announced a proposal under which Deel agreed to acquire all of the shares of PayGroup by way of a Scheme of Arrangement. Deel will provide the Scheme Consideration to the Scheme Participants.</p> <p>The Scheme is between PayGroup and the PayGroup Shareholders and requires approval by both the PayGroup Shareholders and the Court.</p> <p>The Scheme is subject to a number of Scheme Conditions which are summarised in Section 8.8.</p> <p>If the Scheme is approved and implemented:</p> <ul style="list-style-type: none"> <li>• all Scheme Shares you own will be transferred to Deel;</li> <li>• PayGroup will become a Subsidiary of Deel;</li> <li>• you will receive \$1.00 (subject to possible Price Adjustment, if any, as described in Section 1.4) per Scheme Share held by you as at the Scheme Record Date (and for clarity, will not receive any shares in Deel as a consequence of the Scheme proceeding); and</li> <li>• PayGroup will be delisted from ASX.</li> </ul>
<b>What is this Scheme Booklet for?</b>	<p>The Scheme will only proceed if it is approved by the Requisite Majorities of PayGroup Shareholders at the Scheme Meeting. This Scheme Booklet is</p>

Questions	Answers
	<p>designed to provide PayGroup Shareholders with information to consider before they vote at the Scheme Meeting on whether the Scheme should proceed.</p> <p>You should read this Scheme Booklet in its entirety before making a decision as to how to vote on the Scheme Resolution.</p>
<p><b>What are the benefits of the Scheme?</b></p>	<p>The PayGroup Board believes that the Scheme is the best opportunity to realise value currently available for PayGroup Shareholders, in the absence of a Superior Proposal.</p> <p>In forming that view, the PayGroup Board believes that the advantages of the Scheme to PayGroup Shareholders include the following:</p> <ul style="list-style-type: none"> <li>• the Scheme Consideration represents an attractive premium to recent trading prices of PayGroup shares;</li> <li>• cash consideration delivers certainty and immediate value;</li> <li>• the Scheme allows PayGroup Shareholders to sell all their PayGroup Shares;</li> <li>• since the announcement of the Scheme, no Superior Proposal has emerged;</li> <li>• the Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of PayGroup Shareholders, in the absence of a Superior Proposal;</li> <li>• if the Scheme is not approved, the PayGroup Share price may fall below the value of the Scheme Consideration;</li> <li>• if the Scheme is not approved, PayGroup Shareholders will continue to be exposed to risks associated with PayGroup's business rather than realising certain value for their PayGroup Shares in a certain timeframe; and</li> <li>• no brokerage or stamp duty will be payable by PayGroup Shareholders on the transfer of their PayGroup Shares under the Scheme.</li> </ul> <p>Further information regarding the advantages and reasons to vote in favour of the Scheme are set out in Sections 4.2 and 4.3.</p>

Questions	Answers
<p><b>What are the potential disadvantages of voting in favour of the Scheme?</b></p>	<p>The reasons why you may choose to vote against the Scheme may include:</p> <ul style="list-style-type: none"> <li>• you may disagree with the PayGroup Directors' recommendation or the conclusion of the Independent Expert;</li> <li>• you may consider that there is the potential for a Superior Proposal to be made in the foreseeable future;</li> <li>• the tax consequences of the Scheme (which are outlined further in Annexure A) may not be suitable for you considering your individual circumstances;</li> <li>• you may prefer to realise the potential value of PayGroup over the long term, and may consider that the Scheme does not capture PayGroup's long term potential; and</li> <li>• you may believe it is in your best interests to maintain your current investment and risk profile.</li> </ul> <p>Further information regarding the disadvantages and reasons to vote against the Scheme are set out in Section 4.4.</p>
<p><b>What are the risks of the Scheme?</b></p>	<p>The risks to the Scheme proceeding include:</p> <ul style="list-style-type: none"> <li>• the Scheme will not go ahead unless PayGroup Shareholders vote in favour of the Scheme in the Requisite Majorities;</li> <li>• the Scheme will not go ahead unless it is approved by the Court; and</li> <li>• the Scheme will not go ahead unless the Scheme Conditions are satisfied or waived - see Section 8.8 for a summary of the Scheme Conditions.</li> </ul> <p><b>PayGroup Shareholders should consider these risks as well as the risks of continuing to hold PayGroup Shares outlined in Section 7 carefully before deciding how to vote on the Scheme.</b></p>
<p><b>What will I receive if the Scheme is implemented?</b></p>	<p>If the Scheme is implemented, for each PayGroup Share you hold on the Scheme Record Date you will be entitled to receive the Scheme Consideration (that is \$1.00, subject to a possible Price Adjustment as summarised in Section 1.4).</p>

Questions	Answers
	Further details of the Scheme Consideration are set out in Sections 1 and 8.3.
<b>What do the PayGroup Directors recommend?</b>	The PayGroup Board unanimously recommends that all PayGroup Shareholders vote in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.
<b>How do the PayGroup Directors intend to vote in respect of their own PayGroup Shares?</b>	In the absence of a Superior Proposal, each PayGroup Director who holds PayGroup Shares, or on whose behalf PayGroup Shares are held, intends to vote or cause to be voted, all PayGroup Shares held or controlled by them in favour of the Scheme at the Scheme Meeting.
<b>What is the opinion of the Independent Expert?</b>	<p>The Independent Expert has considered the Scheme and has concluded that the Scheme is fair and reasonable and in the best interest of PayGroup Shareholders in the absence of a Superior Proposal.</p> <p>The Independent Expert's Report is set out in full in Annexure B.</p>
<b>What happens if a Competing Proposal emerges?</b>	<p>Although no Competing Proposal has emerged as at the date of this Scheme Booklet, it is possible that one could emerge, noting that PayGroup has agreed not to solicit Competing Proposals.</p> <p>Until the Scheme is approved by the Court, other parties may make unsolicited proposals to acquire PayGroup. If during the Exclusivity Period PayGroup is approached in relation to an actual or potential Competing Proposal, it must notify Deel of the approach, together with relevant details of the relevant approach, including the identity of the person that made the approach and the material terms and conditions of the Competing Proposal (unless PayGroup believes that in providing all the relevant details it would cause the PayGroup Board to breach fiduciary or statutory obligations to which it or PayGroup is subject).</p> <p>If a Competing Proposal received by PayGroup is a Superior Proposal, Deel will be given 5 Business Days to provide PayGroup a matching offer. If Deel makes a matching (or superior) offer to the Superior Proposal, then Deel and PayGroup must use their best endeavours to agree to give effect to the matching offer. Further details regarding Deel's exclusivity rights under the Scheme Implementation Agreement are set out in Section 4.5(a).</p>
<b>How will the Scheme be implemented?</b>	The Scheme will be implemented by way of a Scheme of Arrangement between PayGroup and PayGroup Shareholders, pursuant to which Deel will

Questions	Answers
	<p>acquire all of the Scheme Shares and provide the Scheme Consideration to those PayGroup Shareholders who are Scheme Participants.</p> <p>Further details on how the Scheme will be implemented are set out in Sections 1 and 7.</p>
<b>When will the Scheme become Effective and implemented?</b>	<p>Subject to satisfaction or waiver of any outstanding Scheme Conditions and the approval of the Court, it is expected that the Scheme will become Effective on 26 October 2022. It is expected that the Scheme will be implemented on 7 November 2022.</p> <p>Further details about the timetable are set out under the heading “<b>Important Dates</b>” at the front of this Scheme Booklet.</p>

Questions	Answers
<p><b>What happens if the Scheme does not proceed?</b></p>	<p>If the Scheme is not approved by the Requisite Majorities at the Scheme Meeting (or is approved at the Scheme Meeting but is not approved by the Court or the Scheme Conditions are not satisfied or waived), then the Scheme <b><u>will not be implemented</u></b>.</p> <p>In this situation:</p> <ul style="list-style-type: none"> <li>• the price of PayGroup Shares may fall beneath the value of the Scheme Consideration, in the absence of a Competing Proposal;</li> <li>• material transaction costs and expenses incurred by PayGroup in connection with the Scheme estimated at \$827,465 excluding GST will be indirectly borne by PayGroup Shareholders for no purpose;</li> <li>• the benefits of the Scheme will not be realised, and the disadvantages of the Scheme will not arise;</li> <li>• PayGroup Shareholders will not receive the Scheme Consideration and will retain their interests in PayGroup Shares and continue to collectively control PayGroup;</li> <li>• PayGroup will remain an independent company and focus on its current business and strategic plans;</li> <li>• PayGroup will continue to operate under the existing corporate structure with the current PayGroup Directors and management in place; and</li> <li>• the rights of PayGroup Shareholders will remain unchanged.</li> </ul> <p>Further details are set out in Sections 4.3 and 8.5.</p> <p>PayGroup will be liable to pay a Break Fee of \$1,198,303.80 to Deel, in addition to the above consequences, if the Scheme does not proceed as a result of circumstances described in Section 1.7(b):</p> <p>Deel will be liable to pay the Reverse Break Fee of \$1,198,303.80 to PayGroup if the Scheme does not proceed as a result of circumstances described in Section 1.7(c).</p>

Questions	Answers
<p><b>What are the risks associated with an investment in PayGroup if the Scheme does not proceed?</b></p>	<p>If the Scheme is not approved and implemented, you will continue to be a PayGroup Shareholder and participate in the future financial performance of PayGroup's business and continue to be subject to the specific risks associated with PayGroup's business and other general risks. Details of these risks are set out in Section 7.</p> <p>The Scheme provides PayGroup Shareholders with the opportunity to avoid these risks and uncertainties and allows PayGroup Shareholders to fully exit their investment in PayGroup and realise certain and immediate value.</p>
<p><b>What will be the effect of the Scheme on PayGroup Shareholders?</b></p>	<p>If the Scheme is implemented:</p> <ul style="list-style-type: none"> <li>• PayGroup Shareholders will transfer all of their PayGroup Shares they hold on the Scheme Record Date to Deel;</li> <li>• in consideration for the transfer of their PayGroup Shares, each PayGroup Shareholder will receive \$1.00 cash (assuming no Price Adjustment) per Scheme Share held as at the Scheme Record Date;</li> <li>• PayGroup will become a Subsidiary of Deel; and</li> <li>• PayGroup Shares will cease to be quoted on ASX and PayGroup will be delisted.</li> </ul> <p>Further details are set out in Sections 8.1 and 8.2.</p>
<p><b>What happens if the Scheme is not approved by the Requisite Majorities?</b></p>	<p>The Scheme will not proceed.</p>
<p><b>Questions about Deel</b></p>	
<p><b>Who are Deel and Deel Guarantor?</b></p>	<p>The Deel Group is comprised of Deel Guarantor, an unlisted company incorporated in Delaware, United States of America and its Subsidiaries, including Deel.</p> <p>Deel is an unlisted Australian proprietary company limited by shares incorporated and registered in Victoria on 20 June 2022 for the purposes of the Scheme. Further details about Deel are set out in Section 6.2.</p>

Questions	Answers
<b>How is Deel funding the Scheme Consideration?</b>	<p>Deel intends to fund the Scheme Consideration and related transaction costs through utilising the existing cash reserves of Deel Guarantor.</p> <p>See Section 6.6 for further details.</p>
<b>What are the intentions of Deel in relation to the business, assets and employees of PayGroup?</b>	<p>Deel does not currently intend to make any material changes to PayGroup's operations.</p> <p>Following implementation of the Scheme, Deel intends to undertake a review of PayGroup's operations, assets and structure with a view to identifying potential areas where PayGroup's business can be enhanced with the support of, and as a member of, the Deel Group. In undertaking this review, Deel intends to explore potential efficiencies across PayGroup's business where it is commercially appropriate to do so. Deel does not believe that it has a reasonable basis to speculate as to what the value of these potential efficiencies (if any) is likely to be.</p> <p>Further details about Deel's intentions concerning PayGroup and its business are set out in Section 6.7.</p>
<b>Questions about your entitlement</b>	
<b>Who is entitled to receive the Scheme Consideration?</b>	<p>Only Scheme Participants, being persons registered as holders of PayGroup Shares on the Scheme Record Date (currently 7.00 pm on 28 October 2022), will be entitled to receive the Scheme Consideration.</p>
<b>Does it impact my entitlement if I live outside Australia?</b>	<p>No, as the Scheme Consideration comprises the payment of cash and not the issue of any securities in Deel, the place of your residence has no bearing on your entitlement to receive Scheme Consideration.</p>
<b>Will I be required to pay broker fees or stamp duty?</b>	<p>No, you will not incur any broker fees or stamp duty in respect of the implementation of the Scheme.</p>
<b>When will I receive my Scheme Consideration?</b>	<p>If all the Scheme Conditions are satisfied or waived (as applicable), PayGroup Shareholders on the PayGroup Register on the Scheme Record Date will receive the Scheme Consideration on the Implementation Date.</p> <p>The Implementation Date is currently expected to be 7 November 2022.</p> <p>See Sections 1.4 and 8.3 for further details.</p>

Questions	Answers
<p><b>Can I sell my PayGroup Shares now?</b></p>	<p>If the Scheme becomes Effective, PayGroup Shares will cease trading on ASX at the close of trading on the Effective Date, currently expected to be 7 November 2022. Accordingly, you can sell your PayGroup Shares on market at any time before the close of trading on the Effective Date. If the Scheme becomes Effective, no transfers of PayGroup Shares will be registered after the Scheme Record Date, expected to be 28 October 2022, other than to Deal on the Implementation Date.</p> <p>See Section 8.12 for further details.</p>
<p><b>What are the tax implications of the Scheme?</b></p>	<p>The general taxation implications of the Scheme for PayGroup Shareholders who are residents in Australia are set out in Annexure A.</p> <p>This Scheme Booklet does not contain a discussion of the taxation consequences of the Scheme for PayGroup Shareholders outside Australia, including those resident in New Zealand.</p> <p>It is recommended that you consult with your financial, legal, taxation or other professional adviser prior to making a decision on how to vote on the Scheme. Your decision should be based on your own investment objectives, financial situation, taxation position and particular needs.</p>
<p><b>What is the Proxy Form enclosed with this Scheme Booklet?</b></p>	<p>If you wish to vote at the Scheme Meeting but will be unable to attend or participate at the Scheme Meeting, you should complete and return the enclosed Proxy Form. You do not need to complete the Proxy Form if you intend to vote personally or by attorney, or in the case of a PayGroup Shareholder who is a corporation, by corporate representative at the Scheme Meeting.</p> <p>For further details regarding proxy voting and submitting the Proxy Form for the Scheme Meeting, see Section 3 and the Notice of Meeting in Annexure F.</p>
<p><b>Questions about conditions to be satisfied to allow the Scheme to proceed</b></p>	
<p><b>What are the key conditions to be satisfied before the Scheme can proceed?</b></p>	<p>There are a number of outstanding Scheme Conditions set out in the Scheme Implementation Agreement that will need to be satisfied or waived (if applicable) before the Scheme can be completed. These conditions include:</p> <ul style="list-style-type: none"> <li>• PayGroup Shareholders approving the Scheme at the Scheme Meeting by the Requisite Majorities; and</li> </ul>

Questions	Answers
	<ul style="list-style-type: none"> <li>• no Material Adverse Change occurring before 8:00 am on the Second Court Date;</li> <li>• no PayGroup Prescribed Occurrence occurring before 8:00 am on the Second Court Date;</li> <li>• each of the PayGroup Warranties and the Deel Warranties being true and correct in all material respects on the date those representations and warranties are given;</li> <li>• the Restructure and Confirmation Steps being completed to Deel's reasonable satisfaction before 8.00 am on the Second Court Date;</li> <li>• No Court or Regulatory Authority issues or takes steps to issue a restraining order, preliminary or permanent injunction or other material legal restraint or prohibition preventing the Scheme or requiring a material change to the terms of the Scheme, which remains in force at 8.00 am on the Second Court Date;</li> <li>• Before 8.00 am on the Second Court Date, PayGroup has taken all actions required to ensure that no Third Party has any entitlement to be issued PayGroup Shares on or after the Effective Date;</li> <li>• before 8.00 am on the Second Court Date, PayGroup has taken all actions required to enable all Escrowed PayGroup Shares to be acquired by Deel under the Scheme; and</li> <li>• the Court approving the Scheme.</li> </ul> <p>The conditions that must be satisfied or waived are discussed in Section 8.8 and set out in full in the Scheme Implementation Agreement which is reproduced in Annexure C. As at the date of this Scheme Booklet, the PayGroup Directors are not aware of any reason why these conditions should not be satisfied or waived (where capable of waiver).</p>
<p><b>What other information is available?</b></p>	<p>This Scheme Booklet provides detailed information in relation to the Scheme that all PayGroup Shareholders should read.</p> <p>If you have any questions or require further information, please call PayGroup on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia.</p>

Questions	Answers
<b>Questions about the Scheme Meeting and voting</b>	
<p><b>When and where will the Scheme Meeting be held?</b></p>	<p>The Scheme Meeting will be held at 11:00 am (Melbourne time) on 30 September 2022 at the offices of K &amp; L Gates, Level 25, 525 Collins Street, Melbourne, Victoria.</p> <p>PayGroup Shareholders wishing to vote, or their attorneys or in the case of a PayGroup Shareholder or proxy which is a corporation, corporate representatives, can only participate in the Scheme Meeting by attending the offices of K &amp; L Gates on the above date and time.</p> <p>Note, if you have appointed a proxy and subsequently wish to attend the meeting yourself, the proxy will retain your vote and you will be unable to vote yourself unless you have notified the registrar of the revocation of your proxy appointment before the commencement of the meeting.</p> <p>The Scheme Meeting will be a physical meeting where PayGroup Shareholders and proxies can attend in person. The Scheme Meeting will not be conducted as a virtual or hybrid meeting.</p>
<p><b>What will the PayGroup Shareholders be asked to vote on at the Scheme Meeting?</b></p>	<p>At the Scheme Meeting, PayGroup Shareholders will be asked to vote on whether to approve the Scheme by voting on the Scheme Resolution.</p> <p>The Scheme Resolution is set out in the Notice of the Scheme Meeting attached in Annexure F.</p>
<p><b>Who is entitled to vote at the Scheme Meeting?</b></p>	<p>PayGroup Shareholders on the PayGroup Register at 7.00 pm (Melbourne time) on 28 September 2022 will be entitled to vote at the Scheme Meeting. Further details about voting rights and procedures are set out in Section 3 and in the Notice of Meeting in Annexure F.</p>
<p><b>What approvals are required at the Scheme Meeting?</b></p>	<p>For the Scheme to be approved, votes in favour of the Scheme must be received from both:</p> <ul style="list-style-type: none"> <li>• a majority in number (more than 50%) of PayGroup Shareholders present and voting (whether personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative) at the Scheme Meeting; and</li> <li>• at least 75% of the total number of PayGroup Shares voted at the Scheme Meeting (whether personally or by proxy, attorney, or in the case of a PayGroup Shareholder or</li> </ul>

Questions	Answers
	<p>proxy who is a corporation, by corporate representative).</p> <p>Voting at the Scheme Meeting will be by poll.</p>
<p><b>Is voting compulsory?</b></p>	<p>No, voting is not compulsory. However, your vote is important. If you cannot attend the Scheme Meeting, you should complete and return the Proxy Form enclosed with the Scheme Booklet. For further details regarding proxy voting and submitting the Proxy Form for the Scheme Meeting, see Section 3.</p>
<p><b>Will I be bound by the Scheme even if I vote against the Scheme?</b></p>	<p>If the Scheme becomes Effective, it will bind all PayGroup Shareholders, including those who voted against it and those who did not vote at all.</p>
<p><b>How can I vote if I cannot attend or participate in the Scheme Meeting?</b></p>	<p>If you would like to vote but cannot attend or participate personally in the Scheme Meeting, you can vote by:</p> <ul style="list-style-type: none"> <li>• submitting your proxy online at <a href="http://www.investorvote.com.au">www.investorvote.com.au</a> OR For Intermediary Online subscribers (custodians) go to <a href="http://www.intermediaryonline.com">www.intermediaryonline.com</a> and following the instructions in the enclosed Proxy Form. You will require the information on your Proxy Form to lodge your Proxy Form through the website;</li> <li>• by mailing a completed Proxy Form to the PayGroup Share Registry at PayGroup Limited C/- Computershare Investor Services Pty Limited GPO Box 242 Melbourne VIC 3001;</li> <li>• appointing an attorney to attend the Scheme Meeting and vote on your behalf; or</li> <li>• appointing a corporate representative if that option is applicable to you.</li> </ul> <p>For details on how to vote please refer to Section 3.7 of this Scheme Booklet.</p>
<p><b>When will the results of the Scheme Meeting be known?</b></p>	<p>The results of the Scheme Meeting are expected to be available shortly after the conclusion of the meeting and will be announced to ASX (<a href="http://www.asx.com.au">www.asx.com.au</a>) once available.</p> <p>Even if the Scheme is approved by the Requisite Majorities at the Scheme Meeting, the Scheme is still subject to the approval of the Court (as well as other Scheme Conditions).</p>

### 3. WHAT TO DO AND HOW TO VOTE

#### 3.1 Carefully read and consider this Scheme Booklet

This is an important document. You should read the information in this Scheme Booklet in its entirety before making a decision on how to vote at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

#### 3.2 Consider the reasons to vote in favour of the Scheme, the disadvantages of voting in favour of the Scheme and the risks of the Scheme

Refer to Section 4.2 for a discussion of the reasons to vote in favour of the Scheme, Section 4.4 for a discussion of the disadvantages of voting in favour of the Scheme and Section 4.3 for a discussion of the consequences if this Scheme does not proceed.

#### 3.3 Consider the recommendation of the PayGroup Directors and the opinion of the Independent Expert

The PayGroup Board unanimously recommends that, in the absence of a Superior Proposal, you vote in favour of the Scheme at the Scheme Meeting. Each PayGroup Director who holds PayGroup Shares, or on whose behalf PayGroup Shares are held, intends to vote, or cause to be voted, all PayGroup Shares they hold or control in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.

The Independent Expert has concluded that the Scheme Consideration is fair and reasonable and in the best interest of PayGroup Shareholders in the absence of a Superior Proposal.

#### 3.4 Scheme Meeting

The Scheme Meeting will be held as at 11:00 am (Melbourne time) on 30 September 2022 at the offices of K & L Gates Melbourne, Level 25, 525 Collins Street, Melbourne, Victoria.

**The Scheme Meeting will be a physical meeting where PayGroup Shareholders and proxies can attend in person.** The Scheme Meeting will not be conducted as a virtual or hybrid meeting.

Please refer to Sections 3.6 and 3.7 below for further details on how to participate in the Scheme Meeting.

The Notice convening the Scheme Meeting is contained in Annexure F. A personalised Proxy Form is also enclosed with this Scheme Booklet.

For the Scheme to proceed, votes in favour of the Scheme must be received from the Requisite Majorities, being both:

- (a) a majority in number (more than 50%) of PayGroup Shareholders present and voting at the Scheme Meeting (whether personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative) (**Headcount Test**); and

- (b) at least 75% of the total number of PayGroup Shares voted at the Scheme Meeting by PayGroup Shareholders (personally or by proxy, attorney, or in the case of a PayGroup Shareholder or proxy who is a corporation, by corporate representative).

Voting at the Scheme Meeting will be by poll.

The Court has a statutory discretion to disregard the Headcount Test for the purpose of the Scheme Meeting if it considers appropriate to do so.

The passing of the Scheme Resolution is a condition of the Scheme becoming Effective and being implemented.

### **3.5 Vote on the Scheme in person or by proxy**

The PayGroup Directors urge all PayGroup Shareholders to vote on the Scheme at the Scheme Meeting. The Scheme affects your Shareholding and your vote at the Scheme Meeting is important in determining whether the Scheme proceeds. Voting entitlements and how to vote instructions follow in Sections 3.6 and 3.7 below.

### **3.6 Voting entitlements**

#### **(a) Scheme Meeting**

Each person who is registered on the PayGroup Register as a PayGroup Shareholder as at 7:00 pm (Melbourne time) on 28 September 2022, is entitled to attend and vote at the Scheme Meeting, either by attending personally and participating in the Scheme Meeting or by appointing a proxy, an attorney or, in the case of a PayGroup Shareholder or proxy who is a corporation, a corporate representative to participate in the Scheme Meeting and vote on your behalf.

Registered transfers or transmission applications that are registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

Voting at the Scheme Meeting will be by poll.

#### **(b) Jointly held PayGroup Shares**

If more than one PayGroup Shareholder votes in respect of jointly held PayGroup Shares, only the vote of the PayGroup Shareholder whose name appears first in the PayGroup Register will be counted whether the vote is given personally, by attorney or proxy.

### **3.7 Voting at the Scheme Meeting**

#### **(a) Voting in person**

PayGroup Shareholders wishing to vote, or their attorneys or in the case of a PayGroup Shareholder or proxy which is a corporation, corporate representatives, can only vote by attending in person, or by proxy, attorney or corporate representative (if applicable) at the Scheme Meeting.

#### **(b) Voting by proxy**

PayGroup Shareholders wishing to appoint a proxy to vote on their behalf at the Scheme Meeting must either complete and sign or validly authenticate the

personalised Proxy Form which accompanies this Scheme Booklet or lodge their proxy online. A person appointed as a proxy may be an individual or a body corporate and need not be a PayGroup Shareholder.

Completed Proxy Forms must be received by the PayGroup Share Registry by 11:00 am (Melbourne time) on 28 September 2022 in any of the following ways:

- (i) **By mail** in the enclosed reply-paid envelope (or the self-addressed envelope, for Shareholders whose registered address is outside Australia) mailed to the PayGroup Share Registry at PayGroup Limited C/- Computershare Investor Services Pty Limited GPO Box 242 Melbourne VIC 3001.
- (ii) **By fax** to the PayGroup Share Registry on 1800 783 447 within Australia or +61 3 9473 2555 outside Australia.
- (iii) **Online** if you wish to appoint your proxy online, you should do so by visiting [www.investorvote.com.au](http://www.investorvote.com.au) OR for Intermediary Online subscribers (custodians) go to [www.intermediaryonline.com](http://www.intermediaryonline.com) and following the instructions in the enclosed Proxy Form. Online appointments of proxies must be done by 11:00 am (Melbourne time) on 28 September 2022.
- (iv) **By hand** to Computershare Investor Services Pty Limited 452 Johnston Street, Abbotsford VIC 3067.

Note, if you have appointed a proxy and subsequently wish to attend the Scheme Meeting yourself, the proxy will retain your vote and you will be unable to vote yourself unless you have notified the PayGroup Share Registry of the revocation of your proxy appointment before the commencement of the meeting.

(c) **Undirected proxies**

If you do not instruct your proxy on how to vote, your proxy may vote as they see fit at the Scheme Meeting.

If a PayGroup Shareholder nominates the chairman of the Scheme Meeting as that PayGroup Shareholder's proxy, the person acting as chairman of the Scheme Meeting must act as proxy under the appointment in respect of any or all items of business to be considered at the Scheme Meeting.

If a proxy appointment is signed or validly authenticated by that PayGroup Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman of the Scheme Meeting will act as proxy in respect of any or all items of business to be considered at the Scheme Meeting.

Proxy appointments in favour of the Chairman of the Scheme Meeting, the company secretary or any PayGroup Director which do not contain a direction as to how to vote will be voted in favour of the Scheme Resolution at the Scheme Meeting (in the absence of a Superior Proposal from another party prior to the date of the Scheme Meeting).

The Chairman intends to vote undirected proxies of which he is appointed as proxy in favour of the Scheme Resolution (in the absence of a Superior Proposal from another party prior to the date of the Scheme Meeting).

**(d) Voting by attorney**

If a PayGroup Shareholder executes, or proposes to execute any document, or do any act, by or through an attorney which is relevant to that PayGroup Shareholder's shareholding in PayGroup, that PayGroup Shareholder must deliver the instrument appointing the attorney to the PayGroup Share Registry for notation.

PayGroup Shareholders wishing to vote by attorney at the Scheme Meeting must, if they have not already presented an appropriate power of attorney to PayGroup for notation, deliver to the PayGroup Share Registry (at the address, email or facsimile number provided in Section 3.7(b) of this Scheme Booklet) the original instrument appointing the attorney or a certified copy of it to be received by the PayGroup Share Registry by 11:00 am (Melbourne time) on 28 September 2022.

Any power of attorney granted by a PayGroup Shareholder will, as between PayGroup and that PayGroup Shareholder, continue in force and may be acted on, unless express notice in writing of its revocation or the death of the relevant PayGroup Shareholder is received by the PayGroup Share Registry by 11:00 am (Melbourne time) on 28 September 2022.

**(e) Voting by corporate representative**

To vote at the Scheme Meeting, a PayGroup Shareholder or proxy which is a corporation may appoint an individual to act as its representative.

To vote by corporate representative at the Scheme Meeting, a PayGroup Shareholder or proxy which is a corporation should obtain a Certificate of Appointment of Corporate Representative from the PayGroup Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be received by the PayGroup Share Registry (at the address, email or facsimile number provided in Section 3.7(b) of this Scheme Booklet) by 11:00 am (Melbourne time) on 28 September 2022.

The appointment of a representative may set out restrictions on the representative's powers.

The original form of appointment of a representative, a certified copy of the appointment, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

The chairman of the Scheme Meeting may permit a person claiming to be a representative to exercise the body's powers even if they have not produced a certificate or other satisfactory evidence of their appointment.

**3.8 If you have any further queries**

Please refer to the Notice of Scheme Meeting in Annexure F to this Scheme Booklet for further information on voting procedures and details of the Scheme Resolution to be voted on at the Scheme Meeting.

The results of the Scheme Meeting will be announced to ASX shortly after the conclusion of the Scheme Meeting.

If you have any questions in relation to the Scheme, the Scheme Booklet or the Scheme Meeting after reading this Scheme Booklet, please contact your legal, investment or other professional adviser or contact PayGroup on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia.

If you would like more information about PayGroup, you can visit the PayGroup website at [www.paygrouplimited.com](http://www.paygrouplimited.com).

If you would like more information about Deel, you can visit the Deel website at [www.deel.com](http://www.deel.com).

## 4. ASSESSMENT OF THE SCHEME AND THE REASONS IT IS BEING PROPOSED

### 4.1 PayGroup Board's recommendation

The PayGroup Board unanimously recommends that, in the absence of a Superior Proposal, you vote in favour of the Scheme at the Scheme Meeting.

Each PayGroup Director who holds PayGroup Shares, or on whose behalf PayGroup Shares are held, intends to vote, or cause to be voted, all PayGroup Shares they hold or control in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.

In making this recommendation, the PayGroup Board have, among other things, considered the:

- (a) reasons PayGroup Shareholders should vote in favour of the Scheme as set out in Section 4.2;
- (b) consequences if the Scheme does not proceed as set out in Section 4.3;
- (c) disadvantages of voting for the Scheme as set out in Section 4.4; and
- (d) Independent Expert's Report.

The PayGroup Board may change its recommendation if a Superior Proposal is received. In certain circumstances, a change in recommendation will trigger a Break Fee – see Section 4.5(b) below.

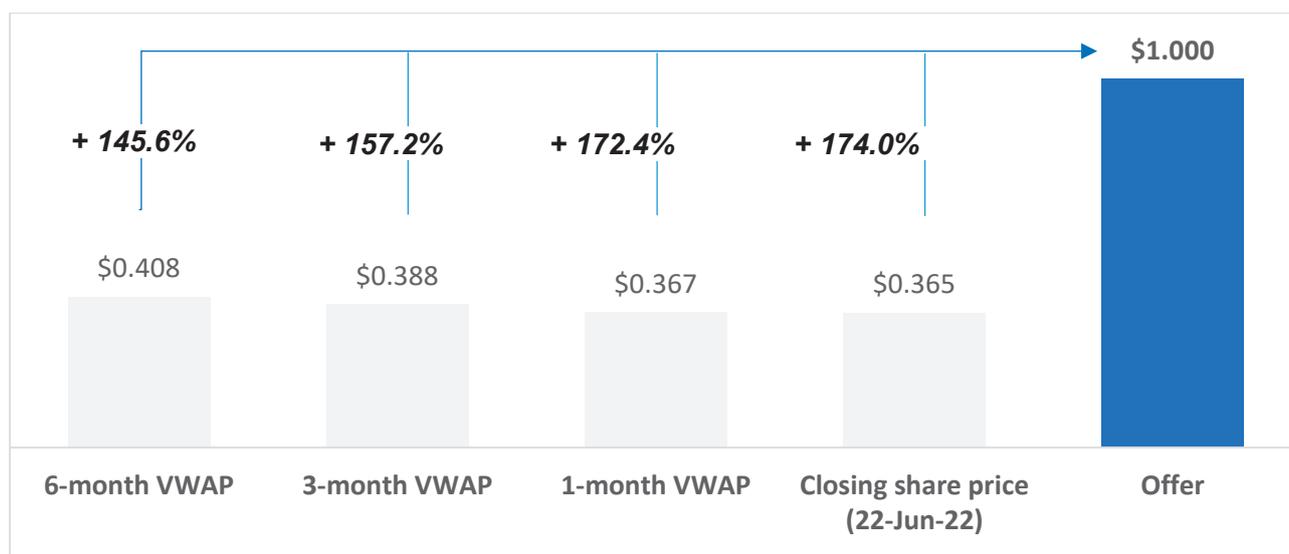
### 4.2 Why PayGroup Shareholders should vote in favour of the Scheme

The PayGroup Board believes PayGroup Shareholders should vote in favour of the Scheme at the Scheme Meeting for the following reasons:

- (a) **Attractive premium for PayGroup Shareholders:** As set out in the chart below, the Scheme Consideration represents an attractive premium for PayGroup Shareholders pre-announcement PayGroup Share price. Deel's offer for PayGroup represents a 172.4% premium to the 1-month VWAP of PayGroup Shares and a premium of 157.2% to the 3-month VWAP of PayGroup Shares prior to the announcement of the Scheme.<sup>6</sup>

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<sup>6</sup> As of 22 June 2022 and assuming no Price Adjustment is applied.



- (b) **Certainty in volatile markets:** The offer from Deel is an all-cash offer. This offers a high degree of certainty of value and timing.

The Scheme provides a certain cash payment of \$1.00 for every PayGroup Share held on the Scheme Record Date (subject to a possible Price Adjustment as summarised in Section 1.4). This provides a fixed cash amount for your PayGroup Shares in the current uncertain markets.

In contrast, if the Scheme does not proceed, the amount which PayGroup Shareholders will be able to realise for their investment in PayGroup Shares will be uncertain. The Scheme removes this uncertainty for PayGroup Shareholders. For details of the risks relating to remaining a PayGroup Shareholder, see Section 7.

- (c) **No Superior Proposal:** No Superior Proposal has been received by PayGroup as at the date of this Scheme Booklet and the PayGroup Directors are not aware of any Superior Proposal that is likely to emerge.
- (d) **Best interest of PayGroup Shareholders:** The Independent Expert regards the Scheme to be fair and reasonable and in the best interests of PayGroup Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the value of PayGroup at between \$0.91 to \$1.01 per PayGroup Share. The Scheme Consideration of \$1.00 per PayGroup Share (assuming no Price Adjustment) is within this valuation range. Please refer to Annexure B of this Scheme Booklet which contains the Independent Expert Report and further details of the Independent Expert's assessment.
- (e) **Risks in continuing to hold PayGroup Shares:** If the Scheme is not approved, the PayGroup Share price may fall below the value of the Scheme Consideration. In the one month period before the date that PayGroup announced that it had entered into the Scheme Implementation Agreement, the VWAP of PayGroup Shares was \$0.367. The PayGroup Board considers that if the Scheme is not approved, the PayGroup Share price on ASX may fall below the value of the Scheme Consideration, in the absence of a Competing Proposal.
- (f) **If the Scheme is not approved, PayGroup Shareholders will continue to be exposed to risks associated with PayGroup's business** (as referred to in section 7) rather than realising a cash certain value for their PayGroup Shares in a certain timeframe. If the Scheme does not proceed, the amount

which PayGroup Shareholders will be able to realise in respect of their PayGroup Shares, in terms of trading price and future dividends, will be uncertain and subject to a number of risks outlined in Section 7. The Scheme provides PayGroup Shareholders with the opportunity to avoid these risks and uncertainties and allows PayGroup Shareholders to fully exit their investment in PayGroup and realise certain and immediate value.

- (g) **No brokerage charges or stamp duty:** PayGroup Shareholders will not incur any brokerage charges or stamp duty on the transfer of their PayGroup Shares under the Scheme.

### 4.3 If the Scheme does not proceed

If the Scheme is not implemented:

- (a) while the PayGroup Directors are unable to predict the price at which PayGroup Shares will trade in the future, the price of PayGroup Shares may fall beneath the value of the Scheme Consideration in the absence of a Superior Proposal. The 3 month volume-weighted average price as at the date of the Scheme was announced was \$0.388;
- (b) material transaction costs and expenses relating to the Scheme will be incurred by PayGroup for no purpose (estimated at \$827,465);
- (c) the benefits of the Scheme will not be realised;
- (d) PayGroup Shareholders will retain their interests in PayGroup Shares and continue to collectively control PayGroup;
- (e) PayGroup will remain an independent company listed on the ASX;
- (f) PayGroup will continue to operate under the existing corporate structure including ongoing high costs involved in operating a listed public company;
- (g) the rights of PayGroup Shareholders will remain unchanged;
- (h) trading in PayGroup Shares could remain relatively illiquid;
- (i) depending on the reasons the Scheme does not proceed, PayGroup or Deel may also be liable to pay the Break Fee or Reverse Break Fee (as applicable) to the other. Details of the Break Fee and Reverse Break Fee and the circumstances in which they may become payable are set out in Section 4.5(b); and
- (j) PayGroup Shareholders may not, in the near term, realise a price for their PayGroup Shares which is equivalent to or greater than the implied value of the Scheme Consideration.

### 4.4 Disadvantages of voting in favour of the Scheme

The Scheme has a number of potential disadvantages and risks that PayGroup Shareholders must consider in deciding whether or not to vote in favour of the Scheme. While the PayGroup Directors are of the opinion that these disadvantages are outweighed by the Scheme's advantages, PayGroup Shareholders should consider their individual circumstances and make their own determination. Disadvantages of the Scheme to PayGroup Shareholders include:

- (a) You may believe that the Scheme is not in the best interests of PayGroup Shareholders or you may consider that the Scheme Consideration is too low. In

concluding that the Scheme is in the best interests of PayGroup Shareholders, absent a Superior Proposal, the PayGroup Directors and the Independent Expert are making judgments based on future trading conditions and events which cannot be predicted with any certainty and which may prove to be inaccurate (positively or negatively). You may hold a different view from, and are not obliged to follow the recommendation of, the PayGroup Directors, and you may not agree with the Independent Expert's conclusion.

- (b) You may believe it is in your best interests to maintain your current investment and risk profile by maintaining a direct interest in PayGroup as a listed company and that you may find it difficult to find an investment with a similar profile to that of PayGroup. If the Scheme is implemented you will no longer be able to participate in any value offered by a direct investment in PayGroup. Transaction costs may also be incurred undertaking any new investment.
- (c) You may prefer to realise the potential value of PayGroup over the long term, and may consider that the Scheme does not capture PayGroup's long term potential. You may consider that PayGroup has stronger long term growth potential and that the Scheme Consideration does not fully reflect your view on the long term value. You may therefore prefer to retain your PayGroup Shares and realise the value of your PayGroup Shares over the longer term.
- (d) You may consider that there is the potential for a Superior Proposal to be made to PayGroup. Whilst it is possible a Superior Proposal could materialise in the future, a competitive sale process was undertaken by Deloitte Corporate Finance and this Scheme represents the superior offer received as a result of that process. For that reason, the PayGroup Directors believe it is unlikely a Superior Proposal will materialise. Further, since the date that PayGroup announced it has entered into the Scheme Implementation Agreement, no Competing Proposal has emerged and the PayGroup Directors are not aware of any Competing Proposal that is likely to emerge. It should be noted that the Scheme Implementation Agreement contains "no shop" and "no talk" provisions which generally restrict PayGroup from soliciting or discussing a Competing Proposal. For a summary of these obligations, see Section 4.5(a).
- (e) The tax consequences or implications (if any) of transferring your PayGroup Shares may not be suitable to your financial position. The general tax implications for PayGroup Shareholders are described in Annexure A to this Scheme Booklet but you should obtain advice about your personal circumstances.

## 4.5 Other relevant considerations

### (a) Exclusivity

The Scheme Implementation Agreement contains exclusivity arrangements in favour of Deel which apply during the Exclusivity Period. There are exceptions to these restrictions if PayGroup Directors need to take certain actions to comply with their fiduciary or statutory duties. Details of PayGroup's exclusivity obligations are summarised below.

PayGroup has agreed that it must not, and must ensure that its Representatives do not do any of the following during the Exclusivity Period:

- (i) solicit, invite, initiate, facilitate or encourage any enquiries, negotiations or discussions with a view to obtaining an expression of interest, proposal or offer from any Third Party in relation to a Competing Proposal or which may

- be reasonably be expected to lead to an actual or potential Competing Proposal or communicate any intention to do any of the preceding; or
- (ii) facilitate, enter into or otherwise participate (including by way of responding) in any negotiations or discussions with any Third Party -
    - (A) in relation to a possible Competing Proposal;
    - (B) which may reasonably be expected to encourage or lead to an actual or potential Competing Proposal; or
    - (C) which may otherwise lead to the Scheme not being completed, even if not directly or indirectly solicited, invited, encouraged or initiated by PayGroup or its Representatives, or that person has publicly announced the Competing Proposal;
  - (iii) enter into any agreement, arrangement or understanding with any Third Party-
    - (A) regarding a Competing Proposal;
    - (B) which may reasonably be expected to lead to a Competing Proposal; or
    - (C) which may otherwise lead to the Scheme not being completed;
  - (iv) communicate to any person an intention to do any of the things referred to in sub-paragraphs (ii) or (iii) above or approve or recommend a Competing Proposal;
  - (v) make available to any Third Party or permit any Third Party to receive (in the course of due diligence investigations or otherwise) any non-public information relating to it or its business or operations (or those of its Subsidiaries), for the purpose of assisting that Third Party to make a Competing Proposal;
  - (vi) enter, and must procure that no member of the PayGroup Group enters, into any legally binding agreement, arrangement or understanding pursuant to which a Third Party or PayGroup proposes to undertake or give effect to a Competing Proposal, unless -
    - (A) the Competing Proposal was not encouraged, solicited, invited or initiated by PayGroup in contravention of the Scheme Implementation Agreement;
    - (B) the PayGroup Board acting in good faith and in order to satisfy its statutory or fiduciary duties, determines that the Competing Proposal is a Superior Proposal;
    - (C) PayGroup has provided Deel with the material terms and conditions of the Competing Proposal, including price, conditions, details of any break fee and the identity of the party making the proposal; and
    - (D) PayGroup has given Deel 5 Business Days to provide a matching or superior proposal to the terms of the Competing Proposal.

During the Exclusivity Period, PayGroup must notify Deel if it receives or becomes aware of any approach or attempt to initiate discussions or negotiations regarding a Competing Proposal with such notice to be accompanied by all relevant details of the approach, including, the identity of the proposed acquirer or bidder and the material terms of the Competing Proposal, except where the PayGroup Board has determined, in good faith and acting reasonably, that providing such information would cause the PayGroup Board to breach fiduciary or statutory obligations to which it or PayGroup is subject.

Fiduciary Exceptions: The above no talk and no due diligence restrictions and obligations do not apply to the extent they restrict PayGroup or the PayGroup Board from taking, or require PayGroup or the PayGroup Board to take, any action with respect to a Competing Proposal provided that:

- (a) the Competing Proposal is bona fide and is made in writing by or on behalf of a person that the PayGroup Board considers is of reputable commercial standing; and
- (b) the PayGroup Board has determined in good faith, after consulting with its Advisers, that the Competing Proposal is, or is reasonably likely to become, a Superior Proposal and taking or failing to take the action with respect to the Competing Proposal would, or would be reasonably likely to, involve a breach of the fiduciary or statutory obligations of any PayGroup Director.

(b) **Break Fees**

PayGroup will be liable to pay a Break Fee of \$1,198,303.80 to Deel if the Scheme does not proceed (as a result of the reasons listed in section 1.7(b) above).

Deel will be liable to pay a Reverse Break Fee of \$1,198,303.80 to PayGroup if the Scheme does not proceed (as a result of the reasons listed in section 1.7(c) above).

## 5. OVERVIEW OF PAYGROUP

### 5.1 Corporate structure

PayGroup Limited, the parent company, is a public limited liability company, domiciled in Australia and listed on the Australian Securities Exchange (ASX: PYG) on 25 May 2018.

At the date of this Scheme Booklet, PayGroup had 118,849,868 shares on issue and no options. However there are potentially additional PayGroup Shares which may be issued prior to the Scheme Record Date - see section 1.4 for more information.

PayGroup Ltd has 23 controlled entities:

- Pay Asia Pte Ltd, domiciled in Singapore;
- PayMy Outsourcing Sdn Bhd, domiciled in Malaysia;
- Pay Asia Australia Pty Ltd, domiciled in Australia;
- Pay Asia Japan Co., Ltd, domiciled in Japan;
- PayAsia Ltd, domiciled in Hong Kong;
- Pay Asia HR Services Limited, Inc, domiciled in Philippines;
- Pay Asia Management Pvt Ltd, domiciled in India;
- Pay Asia (Thailand) Limited, domiciled in Thailand;
- Payasia Company Limited, domiciled in Myanmar;
- Cong Ty TNHH Pay Asia Vietnam, domiciled in Vietnam;
- PT Payasia Konsultansi Indonesia, domiciled in Indonesia;
- Payasia BPO Payroll India Private Limited, domiciled in India;
- Payme Management Consultancies L.L.C, domiciled in Dubai;
- PayGroup UK Limited, domiciled in United Kingdom;
- PayGroup NZ Limited, domiciled in New Zealand;
- Astute One Pty Limited, domiciled in Australia;
- Astute International Pty Ltd, domiciled in Australia;
- Astute Corporation Pty Ltd, domiciled in Australia;
- Managed Payroll Solutions Pty Ltd, domiciled in Australia;
- Pay Asia Taiwan LLC, domiciled in Taiwan;
- PayrollHQ Pty Ltd, domiciled in Australia;
- Integrated Workforce Solutions Pty Ltd, domiciled in Australia; and
- IWS Bookkeeping Australia Pty Ltd, domiciled in Australia.

### 5.2 PayGroup's Directors and Executive Team

#### (a) Directors

As at the date of this Scheme Booklet, the PayGroup Board is comprised of the following directors:

Name	Current position
Ian Basser	Non-Executive Chairman (Independent)
Mark Samlal	Managing Director
David Fagan	Non-Executive Director (Independent)
Franck Neron-Bancel	Executive Director
Shane Gild	Non-Executive Director (Independent)

(b) **Executive Team**

As at the date of this Scheme Booklet, PayGroup's executive team is comprised of the following members:

Name	Current position
Mark Samlal	Managing Director and Chief Executive Officer
Sachin Goklaney	Chief Commercial Officer
Franck Neron-Bancel	Chief Strategy Officer
Elise Nguyen	Chief Financial Officer
Muralidharan Ramakrishnan	Chief Product Lead
Chris Brunton	Chief Operating Officer

### 5.3 PayGroup historical financial information

(a) **Introduction**

This Section 5.3 contains the historical financial information for PayGroup (**PayGroup Historical Financial Information**) comprising:

- the historical consolidated statements of profit or loss and other comprehensive income for the years ended 31 March 2020, 31 March 2021, and 31 March 2022;
- the historical consolidated statements of financial position as at 31 March 2020, 31 March 2021, and 31 March 2022; and
- the historical consolidated statements of cash flows for the years ended 31 March 2020, 31 March 2021, and 31 March 2022.

(b) **Basis of Preparation**

The PayGroup Historical Financial Information set out in this Section 5.3 is prepared for the purposes of this Scheme Booklet and its preparation and presentation is the responsibility of the PayGroup Board.

The PayGroup Historical Financial Information as at and for the years ended 31 March 2020, 31 March 2021, and 31 March 2022 has been derived from PayGroup's financial statements for the respective years which were audited by Grant Thornton in accordance

with Australian Auditing Standards. Grant Thornton issued unqualified audit opinions on these financial statements.

The PayGroup Historical Financial Information is presented in an abbreviated form and does not contain all the disclosure, presentation, statement or comparatives that are usually provided in an annual financial report prepared in accordance with the Corporations Act. The PayGroup Historical Financial Information should be read in conjunction with the full financial statements of PayGroup, for the respective periods, including a description of the accounting policies contained in the financial statements and notes to those financial statements.

Full financial statements for PayGroup for the years ended 31 March 2020, 31 March 2021 and 31 March 2022, were lodged with ASX and are available free of charge at <https://www2.asx.com.au/markets/company/pyg> under ASX code 'PYG' or from PayGroup's website (<https://paygrouplimited.com/asx-announcements/>).

The PayGroup Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, issued by the Australian Accounting Standards Board (**AASB**) which are consistent with International Financial Reporting Standards (**IFRS**).

The significant accounting policies adopted by PayGroup in the preparation of the PayGroup Historical Financial Information are consistent with those disclosed in PayGroup's financial statements for the respective periods.

(c) **PayGroup Historical Consolidated Profit or Loss and Other Comprehensive Income Statement**

	2022 \$	2021 \$	2020 \$
Revenue	26,232,825	15,627,285	10,186,701
Other income	938,517	584,074	315,383
Foreign exchange gain / (loss)	(296,552)	(162,473)	419,584
Expenses:			
Subcontractors	(2,062,709)	(1,408,912)	(833,613)
Technology expense	(2,145,520)	(1,424,501)	(788,630)
Employee benefits expense	(16,955,224)	(7,793,222)	(6,251,899)
Rent and occupancy	(171,595)	(223,713)	(241,820)
Consulting and professional fee	(1,971,245)	(1,787,497)	(1,911,474)
Allowance for credit losses	(125,906)	(28,786)	(75,982)
Impairment of non-trade receivables	599,768	(599,768)	-
Travelling expenses	(142,405)	(18,897)	(275,196)
License fee	(1,496,743)	(197,688)	(298,712)
Other expenses	(1,395,503)	(930,368)	(880,837)
<b>Profit/ (loss) before depreciation, amortisation, interest and income tax expense</b>	<b>1,007,708</b>	<b>1,635,534</b>	<b>(636,495)</b>
Depreciation and amortisation expense	(2,761,649)	(2,264,589)	(1,402,276)
<b>Loss before interest and income tax expense</b>	<b>(1,753,941)</b>	<b>(629,055)</b>	<b>(2,038,771)</b>
Interest income	38,432	25,142	15,713
Interest expense	(195,427)	(155,168)	(116,662)

Net interest and financing costs	(156,995)	(130,026)	(100,949)
<b>Loss before income tax expense</b>	<b>(1,910,936)</b>	<b>(759,081)</b>	<b>(2,139,720)</b>
Income tax benefit	1,553,132	248,384	65,709
<b>Loss after income tax expense</b>	<b>(357,804)</b>	<b>(510,697)</b>	<b>(2,074,011)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations	99,213	(69,387)	(392,158)
<i>Items that will not be reclassified to the statement of profit or loss:</i>			
Actuarial gains/(losses) on defined benefit plan	63,963	61,957	160,108
<b>Total other comprehensive (loss)/income for the period</b>	<b>163,176</b>	<b>(7,430)</b>	<b>(232,050)</b>
<b>Total comprehensive loss for the period</b>	<b>(194,628)</b>	<b>(518,127)</b>	<b>(2,306,061)</b>

(d) **Management discussion and analysis of financial performance**

Please refer to the commentary provided within the Directors' Reports contained within the 2020, 2021 and 2022 Annual Reports.

(e) **PayGroup Historical Consolidated Statement of Financial Position**

	2022 \$	2021 \$	2020 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	25,312,644	12,111,732	9,041,450
Trade and other receivables	4,638,189	2,883,483	3,849,861
Income tax recoverable	519,510	611,807	558,804
Prepayments	285,579	163,196	164,567
Contract assets	985,245	486,919	245,714
Other assets	373,034	788,667	510,867
<b>Total current assets</b>	<b>32,114,201</b>	<b>17,045,804</b>	<b>14,371,263</b>
<b>Non-current assets</b>			
Trade and other receivables	844,682	473,928	322,187
Right-of-use assets	726,323	1,461,408	1,622,520
Property, plant and equipment	392,853	251,023	181,934
Intangibles	33,097,333	18,723,564	12,564,478
Deferred tax assets	1,190,457	77,071	80,615
Contract assets	1,681,144	1,131,721	740,582
<b>Total non-current assets</b>	<b>37,932,792</b>	<b>22,118,715</b>	<b>15,512,316</b>
<b>Total assets</b>	<b>70,046,993</b>	<b>39,164,519</b>	<b>29,883,579</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			

Trade and other payables	24,981,019	14,467,795	12,569,427
Current tax liabilities	25,309	32,391	64,579
Lease liability	602,694	619,750	624,505
Provisions	1,522,902	826,754	569,206
Contract liabilities	808,724	350,098	154,910
<b>Total current liabilities</b>	<b>27,940,648</b>	<b>16,296,788</b>	<b>13,982,627</b>
<b>Non-current liabilities</b>			
Contract liabilities	1,257,812	644,971	446,315
Lease liability	172,563	863,873	1,096,274
Provisions	703,108	532,744	472,892
<b>Total non-current liabilities</b>	<b>2,133,483</b>	<b>2,041,588</b>	<b>2,015,481</b>
<b>Total liabilities</b>	<b>30,074,131</b>	<b>18,338,376</b>	<b>15,998,108</b>
<b>Net assets</b>	<b>39,972,862</b>	<b>20,826,143</b>	<b>13,885,471</b>
<b>Equity</b>			
Issued Capital	62,519,759	43,672,726	36,213,927
Reserves	(16,257,809)	(16,915,299)	(16,907,869)
Accumulated losses	(6,289,088)	(5,931,284)	(5,420,587)
<b>Total equity</b>	<b>39,972,862</b>	<b>20,826,143</b>	<b>13,885,471</b>

## (f) PayGroup Historical Consolidated Statement of Cash Flows

**Consolidated statement of cash flows**

For the year ended 31 March

2022  
\$2021  
\$2020  
\$**Cash flows from operating activities**

Receipts from customers (inclusive of GST/VAT/SST)	29,563,239	19,211,296	11,020,709
Payments to suppliers and employees (inclusive of GST/VAT/SST)	(29,187,817)	(18,862,431)	(10,610,141)
Government grants and tax incentives	276,291	1,340,121	284,007
Interest received	38,432	25,141	15,121
Interest and other finance costs paid	(195,427)	(120,024)	(128,554)

<b>Net cash generated from operating activities</b>	<b>494,718</b>	<b>1,594,103</b>	<b>581,142</b>
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**Cash flows from investing activities**

Payments for development of intangible assets	(3,601,020)	(2,566,163)	(2,161,954)
R&D grant received	451,681	-	-
Payments for purchase of plant and equipment	(327,071)	(131,526)	(99,096)
Net cash (outflow)/inflow from acquisition, net of cash paid	(7,972,050)	(122,776)	261,534

Payments for acquisition-related transaction costs	(171,616)	(287,537)	(721,000)
<b>Net cash utilised by investing activities</b>	<b>(11,620,076)</b>	<b>(3,108,002)</b>	<b>(2,720,516)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	15,650,741	3,500,000	3,000,000
Payments for fund raise	(818,982)	(192,500)	(144,600)
Repayment of principal on lease liability	(759,640)	(527,280)	(296,607)
Proceeds from borrowings, net			5,314
<b>Net cash generated from financing activities</b>	<b>14,072,119</b>	<b>2,780,220</b>	<b>2,564,107</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,946,761</b>	<b>1,266,321</b>	<b>424,733</b>
Cash and cash equivalents at the beginning of the financial year	3,096,029	1,967,603	1,428,748
Effects of exchange rate changes on cash and cash equivalents	129,924	(137,895)	114,122
<b>Cash and cash equivalents at end of year</b>	<b>6,172,714</b>	<b>3,096,029</b>	<b>1,967,603</b>

#### 5.4 Material changes in PayGroup's financial position since 31 March 2022

There have been no material changes in PayGroup's financial position since 31 March 2022.

#### 5.5 PayGroup securities on issue

##### (a) PayGroup Shares

As at the date of this Scheme Booklet there are 118,849,868 issued PayGroup Shares. It is possible additional PayGroup Shares may be issued (as detailed in section 1.4) prior to the Scheme Record Date.

##### (b) Twenty largest quoted equity security holders

As at the Last Practicable Date, the names of the twenty largest holders of PayGroup's quoted securities were:

Holder of Security	Number of Ordinary Shares Fully Paid	% Held of Issued Security
BNP PARIBAS NOMS PTY LTD	22,161,170	18.73
CITICORP NOMINEES PTY LIMITED	12,325,328	10.42
LAWRENCE PUSHPAM	7,051,953	5.96
NATIONAL NOMINEES LIMITED	7,007,741	5.92
BNP PARIBAS NOMINEES PTY LTD	6,423,804	5.43
CS THIRD NOMINEES PTY LIMITED	3,912,942	3.31
IMT HERON PTY LTD	2,764,228	2.34
MS KERSTIN WAHLQVIST	2,089,844	1.77
UBS NOMINEES PTY LTD	1,839,288	1.55
TALENTOZ SDN BHD	1,614,209	1.36
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	1,434,000	1.21
NEWECONOMY COM AU NOMINEES PTY LIMITED	1,401,879	1.18
JCVC PTY LTD	1,302,450	1.10
MARKET EFFECT PTY LTD <THE MKOB FAMILY A/C>	1,252,669	1.06
ELIZABETH & CO PTY LTD	995,124	0.84
ROME CORP PTY LIMITED	984,977	0.83
FRANCK NERON-BANCEL	947,296	0.80
MARKET EFFECT PTY LTD <MKOB FAMILY A/C>	879,507	0.74
MR PHILIP ANDREW RICHARDS	800,000	0.68
GREENWICH PARTNERS PTY LTD	797,750	0.67
<b>Total Top 20 holders of ordinary fully paid shares</b>	<b>77,986,159</b>	<b>65.91</b>

(c) **PayGroup Options**

As at the Last Practicable Date, PayGroup has no PayGroup Options on issue.

## 5.6 PayGroup dividend policy

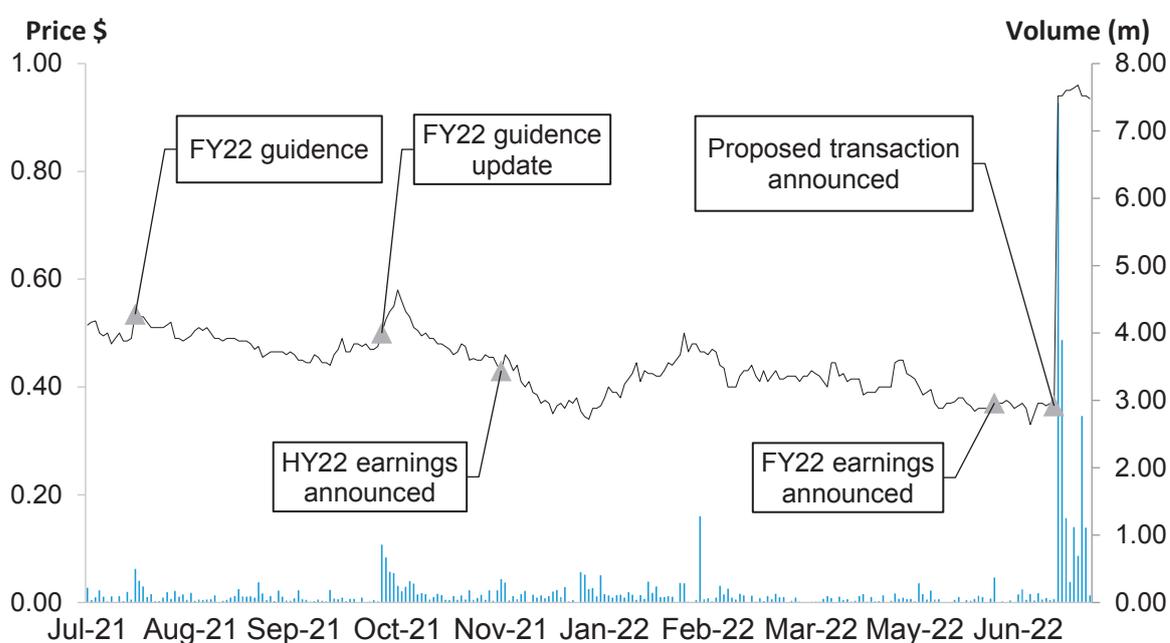
The Corporations Act requires that dividends may be paid to shareholders from profits or other distributable amounts generated as well as compliance with surplus net assets and solvency conditions. Given its financial results, PayGroup has not paid dividends to

PayGroup Shareholders in recent years, nor are such dividends proposed in the immediate future.

## 5.7 Recent share performance

Set out below is a summary of the trading performance of PayGroup Shares on the ASX during the 12 months up to and including 18 August 2022, being the Last Practicable Date:

PayGroup Share price information	Price (in cents)
Last recorded price on ASX on the Last Practicable Date	95.50
Last recorded price on ASX on 22 June 2022, being the last trading day before the public announcement of the Scheme	36.50
Highest closing price during the 12 months ended 22 June 2022, being the last trading day before the public announcement of the Scheme	58.00
Lowest closing price during the 12 months ended 22 June 2022, being the last trading day before the public announcement of the Scheme	33.00



## 5.8 PayGroup Board's intentions

Subject to the Scheme becoming Effective, on the Implementation Date, unless otherwise requested by Deel, all current PayGroup Directors will resign as directors of PayGroup and the PayGroup Board will be reconstituted so that it consists only of Deel nominees. It will be for the reconstituted PayGroup Board to determine its intentions as to:

- the continuation of the business of PayGroup;
- any major changes to be made to the business of PayGroup; and
- the future employment of the present employees of PayGroup.

The current intentions of Deel with respect to these matters are set out in Section 6.7.

If the Scheme is not implemented, the PayGroup Board intends to continue the business of PayGroup as it is now conducted.

## 5.9 Continuously disclosing entity

PayGroup is obliged to comply with the continuous disclosure requirements of ASX and the Corporations Act. PayGroup's Annual Report for the year ended 31 March 2022 was released to ASX on 30 June 2022.

A list of announcements made by PayGroup from the announcement of entry into the Scheme Implementation Agreement to the Last Practicable Date is set out below:

Date	Headline
22/07/2022 6:32 PM	Extension of time to hold AGM and ASX Appendix 4G
30/06/2022 7:23 PM	Annual Report to shareholders
27/06/2022 7:26 PM	Ceasing to be a substantial holder from SB2
24/06/2022 8:58 AM	Notification of cessation of securities - PYG

Copies of announcements made by PayGroup to ASX in the 12 months prior to the date of this Scheme Booklet are available at <https://www.asx.com.au/> under ASX Code 'PYG' and on PayGroup's website at <https://paygrouplimited.com/asx-announcements/>.

## **6. OVERVIEW OF DEEL**

### **6.1 Introduction**

The information contained in Section 6 of this Scheme Booklet has been prepared by Deel. The information concerning Deel and its group companies and the intentions, views and opinions contained in this Section 6 are the responsibility of Deel.

PayGroup, its Related Bodies Corporate and their respective directors, employees, officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

### **6.2 Overview of Deel**

The Deel Group is comprised of Deel Guarantor, an unlisted company incorporated in Delaware, United States of America and its Subsidiaries, including Deel.

Deel is an unlisted Australian proprietary company limited by shares incorporated and registered in Victoria on 20 June 2022 for the purposes of the Scheme. Deel does not conduct business and does not own any assets or have any liabilities other than in connection with its incorporation, the entry into the Scheme Implementation Agreement and other transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the implementation of the Scheme. Deel is wholly owned by Deel Holdco.

Deel Holdco is an unlisted Australian proprietary company limited by shares incorporated and registered in Victoria on 9 December 2020. Deel Holdco is an operating entity within the Deel Group focused on service delivery within the Australian market. Deel Holdco is wholly owned by Deel Guarantor.

The Deel Group is a market leading global compliance and payroll solution group with operations in more than 90 countries. Launched in 2018 and with over 6,000 active customers and over 200 local expert partners, the Deel Group enables businesses to create locally compliant contracts, pay their global teams in their preferred currency and payment method, and stay compliant in more than 150 countries – all in a few clicks, using one powerful dashboard.

The Deel Group is headquartered in San Francisco, California, United States of America.

Further information on Deel Guarantor can be obtained from Deel Guarantor's website at [www.deel.com](http://www.deel.com)

### **6.3 Group and organisational structure**

Deel is a wholly-owned subsidiary of Deel Holdco, which is in turn a wholly-owned subsidiary of Deel Guarantor.

Deel Guarantor is ultimately owned by various individuals and entities, including certain venture capital firms which include Andreessen Horowitz, YCombinator, Spark Capital and Coatue.

### **6.4 Deel's Board and key management**

(a) At the date of this Scheme Booklet, Harry Papadopoulos is the sole director of Deel.

- (b) At the date of this Scheme Booklet, the members of the board of directors of Deel Holdco are:

Alexandre Nathanel Ephraim Bouaziz	Director
Daniel Westgarth	Director
Harry Papadopoulos	Director

- (c) At the date of this Scheme Booklet, the members of the board of directors of Deel Guarantor are:

Alexandre Nathanel Ephraim Bouaziz	Director and Chief Executive Officer
Philippe Bouaziz	Director and Chief Financial Officer
Shuo Wang	Director and Chief Revenue Officer
Anish Acharya	Director
Yasmin Razavi	Director
Ali Rowghani	Director
Franck Cohen	Director

- (d) At the date of this Scheme Booklet, the Deel Guarantor executive team is comprised of the following members:

Alexandre Nathanel Ephraim Bouaziz	Chief Executive Officer, President and Secretary
Philippe Bouaziz	Chief Financial Officer
Shuo Wang	Chief Revenue Officer
Daniel Westgarth	Chief Operating Officer
Yaron Lavi	Chief Technology Officer

## 6.5 Rationale for the proposed acquisition of PayGroup

The acquisition of PayGroup reflects Deel's commitment to grow its business as a leading global compliance and payroll solution provider.

Deel believes that integrating PayGroup into the Deel Group is strategically compelling and will enable the combined group to benefit from greater scale and a broader geographical footprint with Deel able to leverage PayGroup's strong presence within the APAC region.

The resulting combination will integrate PayGroup into a truly global business with a network of 600 local expert partners and over 9,000 customers opening up significant cross-selling and up-selling opportunities for both entities.

## 6.6 Funding arrangements for the Scheme Consideration

- (a) **Cash consideration**

The Scheme Consideration will be paid wholly in cash. As a result of the Share Cap, the maximum cash consideration payable by Deel in connection with the Scheme will be \$119,830,380.

Pursuant to the Deed Poll, Deel has undertaken in favour of each Scheme Participant to deposit, or procure the deposit of, an amount equal to the aggregate Scheme Consideration payable to all Scheme Participants in a trust account operated by or on behalf of PayGroup as trustee for the Scheme Participants, subject to and in accordance with the Scheme. For further details regarding Deel's obligations under the Deed Poll, see Section 8.4(b) of this Scheme Booklet. A copy of the Deed Poll is reproduced in Annexure D.

(b) **Overview of funding arrangements**

Deel intends to fund the Scheme Consideration and related transaction costs through utilising the existing cash reserves of Deel Guarantor. As at 30 June 2022, Deel Guarantor held cash or cash equivalents in excess of the aggregate Scheme Consideration and related transaction costs. The Scheme Terms provide that 2 Business Days before the Implementation Date, Deel is to deposit the aggregate Scheme Consideration in cash into a trust account controlled by PayGroup. Neither Deel nor Deel Guarantor is aware of any security interests, rights of set off or other arrangements that might materially affect Deel's ability to pay the Scheme Consideration and related transaction costs.

On the basis of arrangements described in this Section 6.6, Deel is of the opinion that it has a reasonable basis for forming the view, and it holds the view, that it will have sufficient funds available to fund the payment of the Scheme Consideration and related transaction costs as and when it is due and payable under the terms of the Scheme.

## **6.7 Deel's intentions if the Scheme is implemented**

This Section sets out the intentions of Deel in relation to the continuation of the business of PayGroup, any major changes to the business of PayGroup including any redeployment of the fixed assets of PayGroup and the future employment of the present employees of PayGroup, assuming Deel acquires all of the PayGroup Shares on issue as a result of implementation of the Scheme.

These statements of intention are based on information concerning PayGroup, the circumstances affecting the business of PayGroup and the general business environment which is known to Deel at the date of this Scheme Booklet. In addition to publicly available information, certain other information has been made available to Deel and its advisers by PayGroup. However, Deel does not currently have knowledge of all information that is necessary to determine all the operational, commercial, taxation and financial implications of its current intentions. Following implementation of the Scheme, Deel will conduct a general review of its business, including PayGroup. Final decisions on these matters will only be made after that review and in light of all relevant information and circumstances at the relevant time if the Scheme is implemented.

Accordingly, the statements set out in this Section 6.7 are statements of current intention only, which may change as new information becomes available or circumstances change, and the statements in this Section should be read in that context and as being subject to the law (including the Corporations Act) and the legal obligations of the directors of Deel from time to time to act in good faith in the best interests of Deel.

Deel's intentions regarding the business, assets and employees of PayGroup are as follows:

**(a) Corporate structure**

Deel will be the direct holding company of PayGroup upon implementation of the Scheme, with Deel Guarantor as the ultimate holding company.

Following implementation of the Scheme, PayGroup may be converted to a proprietary company.

**(b) PayGroup Board**

If the Scheme is implemented, Deel intends to reconstitute the PayGroup Board. The final composition of the PayGroup Board after implementation of the Scheme has not been determined as at the date of this Scheme Booklet. Final decisions on the composition of the PayGroup Board after implementation of the Scheme will be made in light of the circumstances at the relevant time.

**(c) Strategy and operations**

Following implementation of the Scheme, Deel intends to undertake a review of PayGroup's operations, assets and structure with a view to identifying potential areas where PayGroup's business can be enhanced with the support of, and as a member of, the Deel Group. In undertaking this review, Deel intends to explore potential efficiencies across PayGroup's business where it is commercially appropriate to do so. Deel does not believe that it has a reasonable basis to speculate as to what the value of these potential efficiencies (if any) is likely to be.

Based on its current understanding and evaluation of the PayGroup business, Deel intends that:

- (i) the business of PayGroup will be conducted in substantially the same manner in which it currently operates as part of the larger combined group;
- (ii) no major changes will be made to the PayGroup business; and
- (iii) there will be no redeployment of the fixed assets of PayGroup.

**(d) PayGroup to be delisted**

If the Scheme is implemented, Deel will arrange for PayGroup to be removed from the official list of the ASX.

**(e) Head office**

Deel currently intends for PayGroup to maintain its current head office in Melbourne following the Implementation Date.

**(f) Employees and incentive plans**

As a growing company intent on expanding into the APAC region, Deel expects to leverage the PayGroup employee base to substantially augment its presence in Australia and the broader APAC region.

Deel expects there to be significant value and knowledge in the existing staff of PayGroup that it considers important to the continued success of PayGroup and fundamental to achieving the global expansion plans of the combined group.

Deel has no intention to rationalise the PayGroup workforce and is committed to investing in the long term future of its management and employees, including through

offering equity based incentives following implementation of the Scheme to assist in the reward, retention and motivation of key PayGroup personnel and employees and promote long term value creation.

## 6.8 Deel's interests in PayGroup

### (a) Interest in PayGroup Shares

As at the date of this Scheme Booklet, none of Deel or any of its Associates has any Relevant Interest or voting power in any PayGroup Shares other than as set out in the table below.

Holder of Relevant Interest	PayGroup Shares	
	Number held	% of issued shares
Philippe Bouaziz*	353,229	0.2972%#

\* Philippe Bouaziz is a Director of Deel Guarantor and is an Associate of Deel pursuant to section 12(2)(c) of the Corporations Act on the basis that he is acting in concert with Deel in relation to the affairs of PayGroup

# Based on 118,849,868 PayGroup Shares, being the number of PayGroup Shares on issue as at the date of this Scheme Booklet

Philippe Bouaziz intends to vote all PayGroup Shares he holds in favour of the Scheme Resolution.

### (b) Dealing in PayGroup Shares in the previous four months

Apart from Deel's offer to acquire all PayGroup Shares under the Scheme, none of Deel or any of its Associates has provided or agreed to provide consideration for any PayGroup Shares under any other transaction during the period of four months before the date of this Scheme Booklet.

### (c) Benefits given during previous four months

During the four months before the date of this Scheme Booklet, none of Deel or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to vote in favour of the Scheme or dispose of PayGroup Shares, where the benefit was not offered to all PayGroup Shareholders.

### (d) Benefits to PayGroup Directors

None of Deel or its Associates will be making any payment or giving any benefit to any current officers of PayGroup as compensation for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

## 6.9 Other material information

Otherwise than as contained or referred to in this Section 6, there is no other information regarding Deel, or its intentions regarding PayGroup, that is material to the making of a decision by a PayGroup Shareholder in relation to the Scheme, being information that is known to any director of Deel and which has not previously been disclosed to PayGroup Shareholders.

## 7. RISKS

The PayGroup Board considers that it is appropriate for PayGroup Shareholders, in considering the Scheme, to be aware that there are a number of risk factors, general and specific to PayGroup's business, which could materially adversely affect the future operating and financial performance of PayGroup and the value of PayGroup Shares and the value in continuing to hold PayGroup Shares where the Scheme not approved by the Requisite Majorities.

You should read the whole of this Scheme Booklet in order to fully appreciate such matters and the manner in which PayGroup currently operates before any decision is made on how to vote at the Scheme Meeting.

If the Scheme does not proceed, you will continue to hold your PayGroup Shares and will continue to be exposed to risks associated with that investment.

### 7.1 Risks associated with PayGroup's business

#### (a) Sufficiency of funding

PayGroup has limited financial resources and will need to raise additional funds from time to time to finance the complete development and commercialisation of its products and its other longer-term objectives. PayGroup's ability to raise additional funds will be subject to, among other things, factors beyond the control of PayGroup and the PayGroup Directors, including cyclical factors affecting the economy and share markets generally. The PayGroup Directors can give no assurance that future funds can be raised by PayGroup on favourable terms, if at all.

#### (b) Competition

The Company operates in a competitive industry. There are companies within the industry with significantly greater financial, technical, human, research and development, and marketing resources than the Company. The Company's competitors may develop products in advance of PayGroup's and/or produce products that are more effective than those developed by the Company. If this was to occur, the Company's current and future products may become obsolete or uncompetitive, resulting in adverse effects on cash flows and profitability.

#### (c) Key personnel

The Company currently employs a number of key management and specific personnel. PayGroup will also require the services of additional staff to further develop the Company's products and implement its marketing strategy. The Company's future success depends on retaining and attracting suitably qualified personnel. There is no guarantee they will stay with PayGroup.

#### (d) Regulatory risks

The Company, its services and products are subject to various laws and regulations. Changes in these laws and regulations (including interpretation and enforcement) could adversely affect the Company's financial performance. PayGroup is not currently aware of any specific material changes in relevant regulations or policy which are likely to materially adversely affect PayGroup or its business.

**(e) Dependence on Service Providers**

The Company operates a significant amount of its key activities through a series of contractual relationships with licensees, independent contractors and suppliers. All of the Company's contracts carry a risk that the third parties do not adequately or fully comply with its or their respective contractual rights and obligations. Such failure could lead to termination and/or significant damage to the Company's product development efforts.

**(f) Currency Risk**

While the Company's financial reports are prepared in Australian dollars, a proportion of revenues and expenditures are earned and incurred in overseas jurisdictions. These revenues and expenditures are subject to the risk of fluctuations in foreign exchange markets.

**(g) Management of financial growth**

The ability of PayGroup to achieve adequate financial performance is dependent on a number of factors, not all of which are within the control of PayGroup.

In the future, PayGroup may require additional capital, whether by equity or debt, to explore and/or develop further business opportunities. There can be no assurance that PayGroup will be able to raise such capital on favourable terms, if at all.

The inability to raise additional capital, if required, may have a detrimental impact on PayGroup's financial performance and the ability of PayGroup to expand its business.

**(h) Unforeseen expenses**

PayGroup may be subject to significant unforeseen expenses or actions. This may include unplanned operating expenses, future legal actions or expenses in relation to future unforeseen events.

**7.2 General risks associated with PayGroup**

Most of the general risks discussed below are outside the control of PayGroup and the PayGroup Board and cannot be mitigated.

**(a) Impact of COVID-19**

The global impact of the COVID-19 pandemic, and the advice and responses from health and regulatory authorities, is continuously developing, and may continue to have a significant impact on capital markets and share prices. PayGroup's Directors are closely monitoring the situation and considering the impact on the Company's business from both a financial and operational perspective.

To date, COVID-19 has affected equity markets, governmental action, regulatory policy, quarantining, self-isolations and travel restrictions. These impacts are creating risks for PayGroup's business and operations in the short to medium term. The Company has in place business continuity plans and procedures developed to manage the keys risks, such as COVID-19, that may cause a disruption to PayGroup's business and operations.

(b) **Market for PayGroup Shares**

No assurance can be given that an active market will exist in the future for PayGroup Shares or that PayGroup Shares will trade at or above the current price the PayGroup Shares.

(c) **Stock market volatility**

The market price of PayGroup Shares may rise or fall depending upon a range of factors beyond PayGroup's control and which are unrelated to PayGroup's operational performance. The price of PayGroup's Shares listed on ASX may also be affected by a range of factors including PayGroup's financial performance and by changes in the business environment.

PayGroup Shares carry no guarantee in respect of profitability, dividends, return on capital, or the price at which they may trade on the ASX.

There are a number of national and international market factors that may affect the price of PayGroup Shares, including movements on international stock markets, economic conditions and general economic outlook, interest rates and exchange rates, inflation rates, commodity supply and demand, government taxation and royalties, legislation, monetary and other policy changes and general investors' perceptions. Neither PayGroup nor the PayGroup Directors have control over these factors.

(d) **General economic conditions**

The general economic climate may affect the financial performance of PayGroup. These factors include the general level of international and domestic economic activity, inflation and interest rates. These factors are beyond the control of PayGroup and the PayGroup Directors and their impact cannot be predicted.

(e) **Changes in laws and government policy**

Changes in laws and government policies (including changes to PayGroup's industry), both domestically and internationally, may adversely affect the financial performance of the current and proposed operations of PayGroup.

(f) **Insurance risks**

Although PayGroup maintains insurance, no assurance can be given that adequate insurance will continue to be available to PayGroup in the future on commercially acceptable terms.

(g) **Government actions and other events**

The impact of actions by domestic and international governments may affect PayGroup's activities, including in relation to its infrastructure, compliance with environmental regulations, export, taxation and royalties.

Events may occur within or outside Australia that could impact on the world economy, the financial services market, PayGroup's operations and the price of PayGroup Shares. These events include war, acts of terrorism, civil disturbance, political intervention, pandemics and natural disasters. PayGroup has only a limited ability to insure against some of these risks.

### **7.3 Risks specific to the Scheme**

#### **(a) Competing Proposal**

There is a risk that PayGroup receives, and recommends, a Competing Proposal before the Second Court Date. If this were to occur, the Scheme Implementation Agreement would likely be terminated and the Scheme would not likely proceed.

As at the date of this Scheme Booklet, PayGroup has not received a Competing Proposal and the PayGroup Board continues to unanimously recommend the Scheme in the absence of a Superior Proposal.

#### **(b) Scheme Conditions**

Implementation of the Scheme is subject to a number of Scheme Conditions, outlined in Section 8.8 including that no court or Regulatory Authority takes any action to restrain or prohibit the Scheme. Certain Scheme Conditions are beyond the control of PayGroup and Deel. There can be no guarantee that the Scheme Conditions will be satisfied or waived (as applicable) in a timely manner or at all. Any failure or delay to satisfy the Scheme Conditions could prevent or delay implementation of the Scheme.

## 8. IMPLEMENTATION OF THE SCHEME

### 8.1 Overall effect of the Scheme

The Scheme is to be implemented through the Scheme of Arrangement outlined in this Scheme Booklet between PayGroup and PayGroup Shareholders pursuant to which Deel will acquire all of the issued shares in PayGroup and PayGroup will become a wholly-owned Subsidiary of Deel and be delisted from the ASX.

If the Scheme becomes Effective, on the Implementation Date all the Scheme Shares will be transferred to Deel, and PayGroup will enter the name and address of Deel in the PayGroup Register as the holder of all the Scheme Shares. Each Scheme Participant, being a person who is registered as a PayGroup Shareholder on the Scheme Record Date, will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares.

### 8.2 People who are affected by the Scheme

If the Scheme becomes Effective, Scheme Participants will have all of their Scheme Shares transferred to Deel without the need for any further act by any Scheme Participant in return for the Scheme Consideration for each Scheme Share that they hold.

### 8.3 Scheme Consideration

If the Scheme becomes Effective, Scheme Participants will receive Scheme Consideration of \$1.00<sup>7</sup> for every PayGroup Share held as at the Scheme Record Date.

The Scheme Consideration will be paid on the Implementation Date which is currently expected to be 7 November 2022.

Scheme Participants will not be receiving any shares in Deel as any part of their Scheme Consideration.

Payments will be made by direct deposit into the Scheme Participant's nominated bank account, as advised to the PayGroup Share Registry as at the Scheme Record Date. If a Scheme Participant has not nominated a bank account, payment will be made by Australian dollar cheque posted to the Scheme Participant's registered address as shown on the PayGroup Register.

If a Scheme Participant does not have a registered address, or PayGroup considers the Scheme Participant is not known at its registered address and no bank account has been nominated, payments due to the Scheme Participant will be held by PayGroup until claimed or applied under the relevant laws dealing with unclaimed money.

### 8.4 Steps in implementing the Scheme

- (a) **Scheme Implementation Agreement:** On 23 June 2022, PayGroup, Deel and Deel Guarantor executed the Scheme Implementation Agreement under which PayGroup agreed to propose the Scheme. A copy of the Scheme Implementation Agreement is reproduced in Annexure C.
- (b) **Execution of Deed Poll:** Deel and Deel Guarantor have executed the Deed Poll in favour of PayGroup Shareholders. Subject to the Scheme becoming Effective,

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<sup>7</sup> Assuming there is no Price Adjustment - refer to Section 1.4.

pursuant to the Deed Poll, Deel covenants in favour of Scheme Participants to perform its obligations under the Scheme including, among other things, providing each Scheme Participant with their Scheme Consideration and Deel Guarantor undertakes in favour of each Scheme Participant to procure that all obligations of Deel under the Deed Poll and the Scheme are met. A copy of the Deed Poll is reproduced in Annexure D.

- (c) **Scheme Meeting:** On 23 August 2022 the Court ordered that PayGroup convene the Scheme Meeting to be held at 11:00 am (Melbourne time) on 30 September 2022 for the purpose of the PayGroup Shareholders voting on the Scheme. Section 3.7 of this Scheme Booklet contains further information regarding the Scheme Meeting and your vote.
- (d) **Court approval of the Scheme:** If the Scheme is approved by the Requisite Majorities of PayGroup Shareholders at the Scheme Meeting, and all other Scheme Conditions have been satisfied or remain capable of being satisfied, or waived (if applicable) PayGroup will apply to the Court for an order approving the Scheme. Each PayGroup Shareholder has the right to appear at Court at the hearing of the application by PayGroup for orders approving the Scheme. See the 'Important Notices' section of this Scheme Booklet for further information. The Court has discretion as to whether to grant the orders approving the Scheme, even if the Scheme is approved by the Requisite Majorities of PayGroup Shareholders.
- (e) **Court Orders and Effective Date:** If the Court Order approving the Scheme is obtained, on or before 5.00 pm on the first Business Day following approval of the Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, PayGroup will lodge with ASIC an office copy of the Court Order. The date the office copy of the Court Order is lodged with ASIC will be the Effective Date.
- (f) **Suspension of trading of PayGroup Shares:** If the Court approves the Scheme, then PayGroup will notify ASX of that approval on the day it is received. It is expected that suspension of trading in PayGroup Shares on ASX will occur from the close of trading on the Effective Date.
- (g) **Scheme Record Date:** The Scheme Participants will be entitled to receive the Scheme Consideration in respect of the Scheme Shares they hold as at the Scheme Record Date (which is expected to be 7pm (Melbourne time) on 28 October 2022).
- (h) **Payment of Scheme Consideration:** On the Implementation Date, the Scheme Consideration will be paid to the Scheme Participants in accordance with the terms and conditions of the Scheme, which terms include that no later than two Business Days before the Implementation Date, Deel will deposit the aggregate Scheme Consideration payable to all Scheme Participants in cleared funds to an account nominated by PayGroup to be held on trust by PayGroup for Scheme Participants.
- (i) **Transfer of Scheme Shares:** If the Scheme becomes Effective, then on the Implementation Date, in consideration for and subject to Deel providing the Scheme Consideration to PayGroup (for PayGroup to pay to the Scheme Participants as described in Section 8.4(h) above), all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Deel without the need for any further act by any Scheme Participant, by PayGroup effecting a valid transfer or transfers of the Scheme Shares to Deel by:
  - (i) PayGroup delivering to Deel duly completed and executed share transfer forms (which may be a master transfer of all or part of the Scheme Shares executed on behalf of all Scheme Participants) to transfer all of the Scheme Shares to Deel;

- (ii) Deel executing and delivering the share transfer forms to PayGroup; and
  - (iii) as soon as practicable after the execution and delivery of the share transfer forms by Deel, PayGroup entering the name and address of Deel in the PayGroup Register as the holder of all of the Scheme Shares.
- (j) **Delisting of PayGroup:** Following the implementation of the Scheme, it is expected that PayGroup will apply for the termination of the official quotation of PayGroup Shares on ASX and for PayGroup to be removed from the official list of ASX.

On completion of the steps above, Deel will hold all of the PayGroup Shares. In the event that the Scheme Implementation Agreement is terminated, the Scheme will not become Effective.

## 8.5 If the Scheme does not proceed

If the Scheme does not proceed, PayGroup will not become a wholly-owned Subsidiary of Deel and Scheme Participants will not receive the Scheme Consideration, will continue to retain their interest in PayGroup Shares and continue to collectively control PayGroup. In this case, the advantages of the Scheme described in Section 4.2 will not be realised. See Section 4.3 for further details of the consequences of the Scheme not proceeding.

## 8.6 Effect of Scheme

If the Scheme becomes Effective, it will constitute a binding arrangement between PayGroup and each Scheme Participant and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of PayGroup.

## 8.7 Enforcement of Deed Poll

PayGroup undertakes in favour of each Scheme Participant to enforce the Deed Poll against Deel and Deel Guarantor on behalf of and as agent and attorney for the Scheme Participants.

## 8.8 Scheme Conditions

The Scheme is conditional on and will be of no force and effect until the following conditions have been satisfied or waived (if capable of waiver):

- (a) **Orders convening Scheme Meeting:** The Court orders the convening of the Scheme Meeting under section 411(1) of the Corporations Act;
- (b) **PayGroup Shareholder approval:** The Scheme being approved by PayGroup Shareholders by the Requisite Majorities under section 411(4)(a) of the Corporations Act;
- (c) **No termination:** As at 8:00 am on the Second Court Date, the Scheme Implementation Agreement and Deed Poll have not been terminated in accordance with their terms;
- (d) **Court Approval:** The Court has approved the Scheme for the purposes of section 411(4)(b) of the Corporations Act with or without modification;
- (e) **No restraints:** No Court or Regulatory Authority issues or takes steps to issue a restraining order, preliminary or permanent injunction or other material legal restraint or prohibition preventing the Scheme or requiring a material change to the terms of the Scheme, which remains in force at 8.00 am on the Second Court Date;

- (f) **No PayGroup Prescribed Occurrences:** No PayGroup Prescribed Occurrence occurs before 8.00 am on the Second Court Date, which has not been remedied as at 8.00 am on the Second Court Date;
- (g) **No Material Adverse Change:** No Material Adverse Change occurs before 8.00 am on the Second Court Date;
- (h) **PayGroup Warranties:** Each of the PayGroup Warranties are true and correct in all material respects on the date those representations are given;
- (i) **Deel Warranties:** Each of the Deel Warranties are true and correct in all material respects on the date those representations are given;
- (j) **Restructure and Confirmation Steps:** PayGroup has completed certain restructure and confirmation steps (Restructure and Confirmation Steps) to Deel's reasonable satisfaction before 8.00 am on the Second Court Date. The purpose of the Restructure and Confirmation Steps is to ensure that, to the extent permitted by law, PayGroup owns or controls all the issued share capital in the entities comprising the PYG Group, whereas prior to the completion of the Restructure and Confirmation Steps certain individuals held shares in certain foreign Subsidiaries of PayGroup (on behalf of PayGroup) for local foreign compliance reasons;
- (k) **Contingent Share Issues:** Before 8.00 am on the Second Court Date, PayGroup has taken all actions required to ensure that no Third Party has any entitlement to be issued PayGroup Shares on or after the Effective Date;
- (l) **Escrowed PayGroup Shares:** Before 8.00 am on the Second Court Date, PayGroup has taken all actions required to enable all Escrowed PayGroup Shares to be acquired by Deel under the Scheme;
- (m) **Additional Conditions:** Such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to Deel and PayGroup have been satisfied; and
- (n) **Court orders effective:** Pursuant to section 411(10) of the Corporations Act, the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable section 411(6) of the Corporations Act) in relation to the Scheme must be lodged with ASIC to become Effective.

## 8.9 Status of Scheme Conditions

There are a number of Scheme Conditions that as at the date of this Scheme Booklet are still to be satisfied (including Restructure and Confirmation Steps; the Contingent PayGroup Share Issues and Escrowed PayGroup Shares).

PayGroup anticipates these will be satisfied or waived prior to the date of the Scheme Meeting and PayGroup will provide an ASX market update on the status of the Scheme Conditions prior to the Scheme Meeting.

## 8.10 Termination

As outlined in clause 15 of the Scheme Implementation Agreement, the Scheme Implementation Agreement may be terminated in circumstances including (but not limited to) the following events:

- (a) by either party by notice to the other at any time prior to 8.00 am on the Second Court Date upon the following:

- (i) the other party (**Breaching Party**) is in material breach of the Scheme Implementation Agreement (including any material breach of any PayGroup Warranty or Deel Warranty); and -
    - (A) the non-Breaching Party has given written notice to the Breaching Party setting out the relevant circumstances and stating an intention to terminate; and
    - (B) the relevant circumstances have continued to exist for 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time such notice is given;
  - (ii) if the Conditions set out in the Scheme Implementation Agreement have not been fulfilled and the Scheme is not Effective by the Sunset Date;
  - (iii) if the Scheme Participants fail to approve the Scheme;
  - (iv) if the Scheme is not Effective by the Sunset Date and PayGroup and Deel are unable to agree an alternative approach to implement the Scheme;
  - (v) the Court refuses to grant orders directing PayGroup to convene the Scheme Meeting or approving the Scheme, and either an appeal made against those orders is not successful or no appeal is made;
  - (vi) a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;
  - (vii) the other party is insolvent; or
  - (viii) it is agreed in writing by the parties;
- (b) by Deel at any time before 8:00 am on the Second Court Date by written notice to PayGroup if any member of the PayGroup Board fails to make the Recommendation, withdraws their Recommendation, adversely changes or qualifies their Recommendation, or otherwise makes a public statement indicating that he or she no longer supports the Scheme (excluding a statement that no action should be taken by PayGroup Shareholders pending the assessment of a Competing Proposal by the PayGroup Board); and
  - (c) by either party by giving written notice to the other party at any time prior to 8.00 am on the Second Court Date if the PayGroup Board determines that a Competing Proposal is a Superior Proposal and communicates that determination to the PayGroup Shareholders, and provided that the Competing Proposal was not solicited or facilitated by PayGroup or its Representatives in breach of PayGroup's obligations under the Scheme Implementation Agreement.

Full details of the termination events are detailed in the Scheme Implementation Agreement contained in Annexure C.

If the Scheme Implementation Agreement is terminated, Break Fees may become payable - refer to Section 1.7 for further details.

## 8.11 Sunset Date

The Scheme will lapse and be of no further force or effect if the Scheme has not become Effective on or before the Sunset Date or such later date as the Court approves with the consent of Deel and PayGroup.

## 8.12 Establishing Scheme Participants

### (a) Dealings prior to the Scheme Record Date

For the purpose of establishing the persons who are Scheme Participants, dealings in PayGroup Shares will be recognised by PayGroup provided that:

- (i) in the case of CHESS dealings, the transferee is registered in the PayGroup Register as the holder of the PayGroup Shares by the Scheme Record Date; and
- (ii) in all other cases, registrable transmission applications or transfers in registrable form, or valid requests in respect of other alterations, in relation to those dealings are received on or before the Scheme Record Date at the place where the PayGroup Register is kept,

and PayGroup will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of PayGroup Shares received after the Scheme Record Date, other than a transfer to Deel in accordance with the Scheme or its successors in title.

### (b) Dealings after the Scheme Record Date

For the purpose of determining entitlements to the Scheme Consideration, the PayGroup Register will be determinative.

As and from the Scheme Record Date, each entry on the PayGroup Register relating to PayGroup Shares (other than an entry in respect of Deel will cease to have any effect other than as evidence of an entitlement to the Scheme Consideration.

From the Scheme Record Date, all certificates and holding statements for Scheme Shares held by Scheme Participants existing on the Scheme Record Date will cease to have effect as documents of title.

## 8.13 Suspension and termination of trading in PayGroup Shares

PayGroup will apply to ASX for suspension of the PayGroup Shares from official quotation on ASX with effect from close of trading on the Effective Date. Following the Implementation Date, ASX will be then requested to remove PayGroup from the official list of ASX.

## 8.14 Covenants and releases by Scheme Participants

Under the Scheme, each Scheme Participant without the need for any further act, irrevocably appoints PayGroup as its agent and attorney for the purpose of:

- (a) executing any document or doing any other act necessary to give effect to the terms of the Scheme including, without limitation, the execution of the share transfer(s) to be delivered under the Scheme and the giving of the Scheme Participants consent to PayGroup and Deel doing all things necessary, incidental or expedient to the implementation and performance of the Scheme; and
- (b) enforcing the Deed Poll against Deel and Deel Guarantor.

## 8.15 Warranties by Scheme Participants

The Scheme provides that on the Implementation Date, each Scheme Participant is deemed to have warranted to Deel that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) which are transferred to Deel under the Scheme will, on the date of the transfer of them to Deel, be fully paid and free from all encumbrances and interests of third parties of any kind (whether legal or otherwise), and restrictions on transfer of any kind (whether legal or otherwise);
- (b) they have full power and capacity to sell and to transfer their Scheme Shares together with any rights and entitlements attaching to such shares; and
- (c) they have no existing right to be issued any PayGroup Shares, PayGroup Options, performance rights, convertible notes or any other PayGroup security.

#### **8.16 Status of Scheme Shares**

Upon the provision of the Scheme Consideration in accordance with the Scheme and until PayGroup registers or procures the registration of Deel as the holder of all the Scheme Shares in the PayGroup Register:

- (d) Deel will be beneficially entitled to the Scheme Shares transferred to it under the Scheme;
- (a) each Scheme Participant:
  - (i) is deemed to have irrevocably appointed Deel as attorney and agent (and directed Deel in such capacity) to appoint an officer or agent nominated by Deel as their sole proxy and, where applicable, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolutions, whether in person, by proxy or by corporate representative; and
  - (ii) must take all other actions in the capacity of a registered holder of Scheme Shares as Deel reasonably directs.

## 9. ADDITIONAL INFORMATION

### 9.1 Relevant Interests in PayGroup Shares held by PayGroup Directors

As at the Last Practicable Date, the PayGroup Directors held the following Relevant Interests in PayGroup securities.

Name	PayGroup Shares <sup>8</sup>
Ian Bassar	613,717
Mark Samlal	22,132,570
David Fagan	289,214
Franck Neron-Bancel	994,370
Shane Gild	345,575

PayGroup Directors, and entities who are controlled by any of them, who hold PayGroup Shares, will be entitled to vote at the Scheme Meeting.

PayGroup Directors, or the entities controlled by them, who hold PayGroup Shares on the Scheme Record Date will receive the Scheme Consideration along with the other Scheme Participants.

### 9.2 Relevant Interests in Deel held by PayGroup Directors

As at the date of this Scheme Booklet, no PayGroup Director has a Relevant Interest in any securities of Deel or any of its Related Bodies Corporate.

No PayGroup Director acquired or disposed of a Relevant Interest in any securities in Deel in the 4-month period ending on the date immediately prior to the date of this Scheme Booklet.

### 9.3 Relevant Interests of PayGroup in Deel

As at the date of this Scheme Booklet, PayGroup has no interests, including any Relevant Interest, in any securities of Deel or any of its Related Bodies Corporate.

### 9.4 Payments or other benefits to PayGroup Directors, secretaries or executive officers

No payment or other benefit is proposed to be made or given to any PayGroup Director or any secretary or executive officer of PayGroup or of any Related Body Corporate of PayGroup as compensation for loss of, or as consideration for or in connection with his or her retirement from, office as a PayGroup Director, secretary or executive officer of PayGroup or of a Related Body Corporate of PayGroup, as the case may be, as a result of the Scheme.

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<sup>8</sup> PayGroup Shares includes the total number of ordinary shares issued to PayGroup Directors

## 9.5 Agreements or arrangements with PayGroup Directors

There are no agreements or arrangements made or proposed to be made between PayGroup and any PayGroup Director and any other person in connection with or conditional on, the outcome of the Scheme.

## 9.6 PayGroup Directors' interests in Deel contracts

No PayGroup Director has an interest in any contract entered into by Deel or any of its Related Bodies Corporate.

## 9.7 Effect of Scheme on creditors

PayGroup has paid and is paying all its creditors within normal terms of trade. It is solvent and is trading in an ordinary commercial manner. The Scheme will not adversely affect the interests of PayGroup's creditors.

## 9.8 No unacceptable circumstances

The PayGroup Board does not consider that the Scheme involves any circumstances in relation to the affairs of PayGroup that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

## 9.9 Other material information

Except as set out in this Scheme Booklet, there is no information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any PayGroup Director or director of any Related Body Corporate of PayGroup, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to PayGroup Shareholders.

## 9.10 Consents

### (a) Interests of advisers

Other than as set out in this Section 9.10 or elsewhere in this Scheme Booklet, no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to any of these persons for services rendered by them in connection with the preparation of this Scheme Booklet or in connection with the Scheme.

### (b) PayGroup's advisers and fees

The following persons are named in this Scheme Booklet as performing a function in a professional or advisory capacity in connection with the Scheme and with the preparation of this Scheme Booklet on behalf of PayGroup:

- (i) **K&L Gates** - legal adviser and will be entitled to receive professional fees charged in accordance with their normal basis of charging;
- (ii) **Deloitte Corporate Finance** - as financial advisor and will be entitled to receive professional fees charged in accordance with their engagement terms;
- (iii) **Lonergan Edwards & Associates Limited** - an Independent Expert who will provide an Independent Expert's Report, the fee for which is \$90,000 plus GST.

**(c) Total aggregate fees**

The aggregate external transaction fees of PayGroup (which includes advisory fees, legal fees, valuation fees, Court fees and registry, printing and mailing costs), where the Scheme is implemented, are expected to be approximately \$3,587,690 (plus GST). The aggregate fees incurred by PayGroup if the Scheme is not implemented for any reason, would be approximately \$827,465 (plus GST). This amount does not include the Break Fee which may be payable in certain circumstances as outlined in Section 4.5 of this Scheme Booklet.

**(d) Consents and disclaimers**

- (i) The following parties have given, and have not withdrawn before the time of registration of this Scheme Booklet by ASIC, their consent to be named in this Scheme Booklet in the form and context in which they are named:
  - (A) K&L Gates as legal advisor to PayGroup;
  - (B) Deloitte Corporate Finance as financial advisor to PayGroup;
  - (C) Lonergan Edwards & Associates Limited as the Independent Expert and to the inclusion of the Independent Expert's Report set out in Annexure B;
  - (D) Computershare Investor Services Pty Limited as PayGroup's Share Registry; and
  - (E) Deel Holdco and Deel Guarantor.
- (ii) Deel has given and has not withdrawn before the time of registration of this Scheme Booklet by ASIC, its consent to be named in this Scheme Booklet in the form and context in which it is named, and in relation to the inclusion of the Deel Information in this Scheme Booklet in the form and context in which that information is included.
- (iii) Each person named in Section 9.10(d):
  - (A) has not authorised or caused the issue of this Scheme Booklet;
  - (B) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in Section 9.10(d); and
  - (C) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in Section 9.10(d).

**9.11 Supplementary information**

If PayGroup becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration with ASIC and the Effective Date:

- (a) a material statement in this Scheme Booklet is false or misleading;
- (b) a material omission from this Scheme Booklet;

- (c) a significant change affecting a matter in this Scheme Booklet; or
- (d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, PayGroup may circulate and publish a supplementary document in the manner it considers appropriate, which may include:

- (e) making an announcement to ASX;
- (f) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- (g) posting the supplementary document to PayGroup Shareholders at their registered address as shown in the PayGroup Register; and/or
- (h) posting a statement online on PayGroup's website at [paygrouplimited.com/asx-announcements/](http://paygrouplimited.com/asx-announcements/).

Deel has separately agreed under the Scheme Implementation Agreement to take all steps reasonably necessary to ensure that the Deel Information is promptly updated or supplemented with any information that arises after the Scheme Booklet has been despatched that is necessary to ensure that the Scheme Booklet does not contain any material statement that is false or misleading in a material respect including because of any material omission from that statement.

## 10. GLOSSARY OF TERMS

**A\$** or **\$** means the lawful currency for the time being of the Commonwealth of Australia;

**AAS** means the Australian Accounting Standards;

**AASB** means the Australian Accounting Standards Board;

**Adviser** means any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to PayGroup or Deel (as applicable);

**ASIC** means the Australian Securities and Investments Commission;

**Associate** has the meaning given in section 12 of the Corporations Act;

**Astute Mediation** means the mediation between PayGroup and Mr Webb (one of the vendors of the Astute group of companies purchased by PayGroup in November 2019) regarding the assessment of performance criteria for a specified period after the completion of that acquisition;

**ASX** means ASX Limited ACN 008 624 691 and where the context requires, the Australian Securities Exchange financial market operated by it;

**Break Fee** means \$1,198,303.80, as described in Section 4.5(b);

**Business Day** means a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne, Victoria;

**CHES** means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532;

**Competing Proposal** has the meaning provided to that term in the Scheme Implementation Agreement (attached as Annexure C);

**Control** has the meaning given in section 50AA of the Corporations Act;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**Court** means the Federal Court of Australia;

**Court Order** means an order made by the Court pursuant to section 411(4)(b) of the Corporations Act approving the Scheme;

**Deed Poll** means the deed poll made by Deel and Deel Guarantor in favour of Scheme Participants, a copy of which is reproduced in Annexure D;

**Deel** means Deel Australia Holdings Pty Ltd ACN 660 260 051;

**Deel Group** means Deel Guarantor and its Subsidiaries;

**Deel Guarantor** means Deel, Inc;

**Deel Holdco** means Deel Australia Services Pty Ltd ACN 646 477 723;

**Deel Information** means the responses to the questions set out under “Questions about Deel” in Section 2 (Questions and answers) and the information contained in Section 6 (Overview of Deel);

**Deel Warranties** means the warranties provided by Deel in clause 10 and Schedule 5 of the Scheme Implementation Agreement (attached as Annexure C);

**Effective** or **Effect** means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme;

**Effective Date** means the date on which the Scheme becomes Effective;

**Escrowed PayGroup Shares** means any PayGroup Shares which are the subject of voluntary escrow arrangements or other restrictions on disposal;

**Exclusivity Period** means the period from the date of the Scheme Implementation Agreement being 23 June 2022 to the earlier of:

- (a) the termination of the Scheme Implementation Agreement;
- (b) the Effective Date; and
- (c) the Sunset Date;

**Explanatory Statement** means the explanatory statement for the purposes of section 412 of the Corporations Act, constituted by this Scheme Booklet;

**IFRS** means the International Financial Reporting Standards;

**Implementation Date** means the date which is the fifth Business Days after the Scheme Record Date or such other date as ordered by the Court or agreed between PayGroup and Deel;

**Independent Expert** means Lonergan Edwards & Associates Limited, ABN 53 095 445 560 (AFSL 246532);

**Independent Expert’s Report** means the independent expert’s report prepared by the Independent Expert, a copy of which is reproduced in Annexure B;

**Last Practicable Date** means 18 August 2022, being the last practicable trading day prior to the date of this Scheme Booklet;

**Listing Rules** means the official listing rules of ASX;

**Material Adverse Change** has the meaning provided to “Material Adverse Change” in the Scheme Implementation Agreement (attached as Annexure C);

**Notice** or **Notice of Meeting** or **Notice of Scheme Meeting** means the notice of general meeting, a copy of which is contained in Annexure F;

**PayGroup** or the **Company** means PayGroup Limited ACN 620 435 038;

**PayGroup Board** or **PayGroup Directors** means the board of directors of PayGroup;

**PayGroup Information** means the information in this Scheme Booklet other than the Deel Information and the Independent Expert’s Report;

**PayGroup Option** means an option to acquire a PayGroup Share;

**PayGroup Prescribed Occurrence** has the meaning provided to “Target Prescribed Occurrence” in the Scheme Implementation Agreement (attached as Annexure C);

**PayGroup Register** means the register of members of PayGroup maintained in accordance with the Corporations Act;

**PayGroup Share** means a fully paid ordinary share in the capital of PayGroup;

**PayGroup Share Registry** means Computershare Investor Services Pty Limited;

**PayGroup Shareholder** means each person registered as a holder of at least one PayGroup Share in the PayGroup Register;

**PayGroup Warranties** means the warranties provided by PayGroup in clause 9 and Schedule 4 of the Scheme Implementation Agreement (attached as Annexure C);

**Price Adjustment** means, in relation to the Scheme Consideration, the price adjustment required if there are more than 119,830,380 PayGroup Shares on issue on the Scheme Record Date, as summarised in Section 1.4;

**Proxy Form** means the proxy form for the Scheme Meeting enclosed with this Scheme Booklet;

**PYG Group** means PayGroup and its Subsidiaries;

**Recommendation** means the recommendation of the PayGroup Directors that PayGroup Shareholders vote in favour of the Scheme in the absence of a Superior Proposal;

**Regulatory Authority** means:

- (a) ASIC, ASX, and the Australian Competition and Consumer Commission;
- (b) a government or governmental, semi-governmental or judicial entity or authority;
- (c) a Minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (d) any regulatory (including self-regulatory) organisation established under statute;

**Related Body Corporate or Related Bodies Corporate** has the meaning given to those terms in section 50 of the Corporations Act;

**Relevant Interest** has the meaning given to that term in sections 608 and 609 of the Corporations Act;

**Representatives** means, in respect of a person, that person's directors, officers, employees, contractors and Advisers (including a director, officer or employee of that Adviser);

**Requisite Majorities** has the meaning given to that term in Section 1.5 of this Scheme Booklet;

**Restructure and Confirmation Steps** has the meaning given to that term in Section 8.8(j) of this Scheme Booklet;

**Reverse Break Fee** means \$1,198,303.80, as described in Section 4.5(b);

**Scheme** and **Scheme of Arrangement** means the scheme of arrangement to be established pursuant to the Scheme Implementation Agreement under Part 5.1 of the Corporations Act between PayGroup and the PayGroup Shareholders in respect of all of the PayGroup Shares, a copy of which scheme of arrangement is set out in Annexure E, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act;

**Scheme Booklet** means this scheme booklet dated 25 August 2022, including the Annexures to it and the Proxy Form for the Scheme Meeting;

**Scheme Conditions** means the conditions set out in clause 3 of the Scheme and Schedule 1 of the Scheme Implementation Agreement (as the context requires);

**Scheme Consideration** (or **SC**) means the consideration payable by Deel for the transfer of Scheme Shares held by a Scheme Participant to Deel, being the lesser of:

- (a) \$1.00 per Scheme Share; and
- (b) the amount per Scheme Share calculated in accordance with the following formula:

$$SC = (\text{Maximum Equity Value}/N)$$

where:

**SC** means the consideration payable per Scheme Share;

**Maximum Equity Value** means \$119,830,380; and

**N** means the number of Scheme Shares on issue as at the Scheme Record Date;

as described in Sections 1.4, 2 and 8.3 of this Scheme Booklet;

**Scheme Implementation Agreement** means the Scheme Implementation Agreement dated 23 June 2022 between Deel and PayGroup, a copy of which is reproduced in Annexure C (except for its annexures);

**Scheme Meeting** means the meeting of PayGroup Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting;

**Scheme Participant** means each person registered in the PayGroup Register as the holder of Scheme Shares as at the Scheme Record Date;

**Scheme Record Date** means 7.00 pm (Melbourne time) on the date which is 2 Business Days after the Effective Date, or such other Business Day agreed by Deel and PayGroup;

**Scheme Resolution** means a resolution of PayGroup Shareholders to approve the Scheme, the form of which is set out in the Notice of Meeting;

**Scheme Shares** means all of the PayGroup Shares on issue on the Scheme Record Date;

**Second Court Date** means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing;

**Share Cap** means 119,830,380 PayGroup Shares;

**Subsidiary** has the meaning given to that term in section 46 of the Corporations Act;

**Sunset Date** means 5:00 pm on 23 November 2022 or such other date and time agreed between Deel and PayGroup;

**Superior Proposal** means a bona fide Competing Proposal which the PayGroup Board, acting in good faith in order to satisfy what the PayGroup Board reasonably considers to be its fiduciary or statutory duties and after taking advice from PayGroup's legal and financial advisers, determines:

- (a) is reasonably likely to be completed in accordance with its terms in a timely fashion taking into account all financial, regulatory and other aspects of such proposal, including its conditionality and the ability of the proposing party to fund and consummate the transactions contemplated by the Competing Proposal; and
- (b) would, if completed substantially in accordance with its terms, result in a transaction that is more favourable to PayGroup Shareholders than the Scheme, taking into account the terms and conditions of the Competing Proposal;

**Third Party** means a person other than PayGroup, Deel or their respective Related Bodies Corporate; and

**VWAP** means volume-weighted average price.

## Annexure A – Taxation Implications of the Scheme

### Introduction

This section sets out a general summary of the key Australian income tax, goods and services tax (GST) and stamp duty consequences of the Scheme for PayGroup Shareholders.

The summary is based on the Australian tax laws, regulations, interpretations of such laws and regulations, and administrative practices in effect as at the date of this Scheme Booklet. The laws are complex and subject to change as is their interpretation by the courts and tax authorities.

This summary is general in nature and is not intended to be a complete statement of the law applicable to the particular circumstances of every PayGroup Shareholder and is not intended to be advice and should not be relied on as such.

The tax consequences arising to PayGroup Shareholders will vary depending on their tax profile and circumstances. Accordingly, PayGroup Shareholders should obtain independent professional taxation advice in relation to their own particular circumstances and should not rely only upon the comments contained in this summary.

The Australian tax consequences outlined below are relevant to PayGroup Shareholders who are individuals, companies, trusts and complying superannuation funds that hold their PayGroup Shares on capital account for Australian income tax purposes.

This summary does not apply to PayGroup Shareholders who:

- hold their PayGroup Shares as trading stock, as part of a profit-making undertaking or scheme or otherwise on revenue account;
- may be subject to specific tax regimes or rules, such as banks, insurance companies, tax exempt organisations, certain trusts, superannuation funds (unless otherwise stated) or dealers in securities;
- are "temporary residents" as that term is defined in section 995-1(1) of the *Income Tax Assessment Act 1997 (Cth)*;
- change their tax residence whilst holding PayGroup Shares;
- are not tax residents for Australian income tax purposes and who hold their PayGroup Shares as an asset of a permanent establishment in Australia;
- are not tax residents for Australian income tax purposes who, together with their associates, hold 10% or more of the shares in PayGroup;
- 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 PayGroup Shares.

This summary does not discuss the laws of other jurisdictions. As such, PayGroup Shareholders who may be subject to tax in any jurisdiction outside Australia should obtain independent taxation advice on their particular circumstances.

## **Scheme Participants that are Australian residents**

### **(b) Australian income tax consequences arising from the disposal of PayGroup Shares**

A capital gains tax (CGT) event will occur for PayGroup Shareholders when they dispose of their PayGroup Shares to Deel under the Scheme. The time of the disposal of PayGroup Shares for CGT purposes is the date on which all Scheme Shares held by PayGroup Shareholders on the Scheme Record Date are transferred to Deel, namely the Implementation Date.

PayGroup Shareholders should make a capital gain from the disposal of their PayGroup Shares to the extent that the capital proceeds received exceed the cost base of their PayGroup Shares. Conversely, PayGroup Shareholders should make a capital loss to the extent that the reduced cost base of their PayGroup Shares exceeds the capital proceeds received.

The capital proceeds from the disposal of the PayGroup Shares should equal the Scheme Consideration received by PayGroup Shareholders, being \$1.00 per Scheme Share (subject to a possible adjustment in price, as described in section 1.4 of this Scheme Booklet).

The cost base or reduced cost base of a PayGroup Shareholder's PayGroup Share should broadly equal the money they paid or were required to pay to acquire the PayGroup Shares plus any incidental costs incurred in acquiring or disposing of the PayGroup Shares that have not been deducted. This could include brokerage fees or legal fees.

PayGroup Shareholders may be able to utilise the discount capital gains regime to reduce any capital gain made in respect of the disposal of the PayGroup Shares, where those PayGroup Shares have been held for at least 12 months before disposal. The amount of the CGT discount is:

- one half for individuals and trusts; and
- one third for complying superannuation funds.

Companies are not eligible for the CGT discount.

## **Australian income tax consequences for foreign tax resident shareholders**

### **(a) Australian income tax consequences arising from the disposal of PayGroup Shares**

PayGroup Shareholders that are not tax residents of Australia and who, together with their associates, hold a less than 10% interest in PayGroup should be able to disregard any capital gain or capital loss arising from the disposal of their PayGroup Shares. This is on the basis that the PayGroup Shares should not constitute 'taxable Australian property'.

PayGroup Shareholders that are not tax residents of Australia, including those holding a 10% or greater interest in PayGroup, should seek independent tax advice on the Australian tax consequences arising from the disposal of the PayGroup Shares.

Where the PayGroup Shares are not "taxable Australian property", the foreign resident capital gains withholding tax regime should not apply. Accordingly, the regime should not operate to require Deel to withhold an amount of the Scheme Consideration that is to be paid to the PayGroup Shareholders that are not tax residents of Australia.

PayGroup Shareholders that are not tax residents of Australia (particularly those holding a 10% or greater interest in PayGroup) should seek independent professional taxation advice in this regard.

**GST**

GST should not be payable on the disposal of the PayGroup Shares under the Scheme. PayGroup Shareholders may be charged GST on costs incurred in relation to the Scheme such as tax or legal fees charged by their advisers. Certain PayGroup Shareholders that are registered (or required to be registered) for GST may be entitled to claim input tax credits (or reduced input tax credits) in relation to GST incurred on these costs. PayGroup Shareholders should seek their own independent advice on the impact of GST having regard to their own particular circumstances.

**Stamp duty**

Shareholders should not be liable for any stamp duty on the disposal of their PayGroup Shares

## **Annexure B – Independent Expert’s Report**

# LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Directors  
PayGroup Limited  
Level 1  
325 Flinders Lane  
Melbourne VIC 3000

18 August 2022

## **Subject: Independent Expert's Report on proposed acquisition by way of Scheme**

Dear Directors

### **Introduction**

- 1 On 23 June 2022, PayGroup Limited (PayGroup or the Company) announced that it and Deel, Inc. (Deel) had entered into a Scheme Implementation Agreement (SIA or the Agreement) under which Deel<sup>1</sup> has agreed to acquire 100% of the ordinary shares on issue of PayGroup for a cash price of A\$1.00 per share (Scheme Consideration).
- 2 The proposed acquisition of the PayGroup shares is to be implemented via a scheme of arrangement between PayGroup and its shareholders (the Scheme) and is subject to a number of conditions precedent (as summarised in Section I of our report)<sup>2</sup>.
- 3 If the Scheme is approved and implemented, PayGroup shareholders will receive A\$1.00 cash for each PayGroup share they hold on the Scheme Record Date<sup>3</sup>, subject to a maximum equity value of \$119,830,380. If the number of fully paid ordinary shares on issue as at the Scheme Record Date exceeds 119,830,380, then the cash price per PayGroup share will be adjusted down on a proportional basis.

### **PayGroup**

- 4 PayGroup is a provider of a broad range of payroll and human capital management (HCM) solutions to over 2,800 clients across 82 countries predominantly in the Asia Pacific (APAC) region. Through its subsidiaries; PayAsia, Talent Oz, Payroll HQ, Astute Payroll (formerly Astute One) and Integrated Workforce Solutions, PayGroup delivers payroll, compliance,

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1 The acquirer is Deel Australia Holdings Pty Ltd, which is a wholly-owned subsidiary of Deel. For the purpose of our report we have referred to both entities as Deel.

2 Capitalised terms used, but not defined, in our report have the meaning given to them in the Scheme Booklet in respect of the Scheme (Scheme Booklet).

3 The Scheme Record Date is presently expected to be 5:00pm on the second business day after the Scheme becomes effective.

#### **Authorised Representatives:**

Wayne Lonergan • Craig Edwards\* • Hung Chu • Martin Hall • Martin Holt\* • Grant Kepler\* • Julie Planinic\* • Nathan Toscan • Jorge Resende

\* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.

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billing, rostering, global payment and various strategic human resources (HR) solutions to corporate, workforce management and franchise clients.

## Deel

- 5 Founded in 2019 Deel is a leading global compliance and payroll solution provider that helps businesses hire anyone, anywhere. Deel's technology offers payroll, HR, compliance, perks, benefits, and other capabilities needed to hire and manage a global team. Deel's employees are based worldwide and using a technology-enabled self-serve process customers can hire independent contractors and full-time employees in over 150 countries, compliantly and in minutes. Deel enables any business to create, sign and send compliant localised contracts from a library of templates and pay teams of employees in more than 120 currencies.

## Purpose of report

- 6 There is no regulatory requirement for the PayGroup Directors to commission an independent expert's report (IER) and it is not a condition of the Scheme. However the Directors' recommendation of the Scheme is in the absence of a superior proposal and subject to an independent expert concluding, and continuing to conclude, that the Scheme is in the best interests of PayGroup shareholders<sup>4</sup>.
- 7 In addition the Australian Securities & Investments Commission's (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) states that where a scheme of arrangement is used as an alternative to a takeover bid to give effect to a control transaction, the form of analysis undertaken by any appointed independent expert should be substantially the same as for a takeover bid, and that form of analysis should consider whether the transaction is "fair and reasonable".
- 8 Accordingly, the Directors of PayGroup have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of PayGroup shareholders and the reasons for that opinion.
- 9 LEA is independent of PayGroup and Deel and has no other involvement or interest in the proposed Scheme.

## Summary of opinion

- 10 In our opinion, the Scheme is fair and reasonable and in the best interests of PayGroup shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

## Value of PayGroup

- 11 We have assessed the value of PayGroup shares on a 100% controlling interest basis at \$0.91 to \$1.01 per share as shown below:

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<sup>4</sup> Subject to these qualifications the Directors have advised an intention to vote all PayGroup shares they hold or control in favour of the proposed Scheme. The Directors of PayGroup together hold or control approximately 19% of the issued share capital in PayGroup.

**PayGroup – valuation of shares on a 100% controlling interest basis**

Valuation method	Enterprise value	
	Low \$m	High \$m
Enterprise value	107.0	118.0
Surplus cash	2.0	2.0
Equity value	109.0	120.0
Fully diluted shares on issue	119.3	119.3
<b>Adopted range per share</b>	<b>\$0.91</b>	<b>\$1.01</b>

- 12 In arriving at our enterprise value of PayGroup we adopted both the DCF and revenue multiple approaches, with a greater weighting to the DCF valuation outcome given the comparatively more robust nature of this valuation methodology.
- 13 For valuation purposes we have adopted 119.3 million shares on issue. However, as noted in Section VI, the SIA also includes a recognition of the further potential issue of shares to a third party depending on the outcome of a current mediation (where a binding decision from the mediator is awaited). In the event of an outcome favourable to the Company no additional shares will be issued. In the event certain performance hurdles are determined by an independent mediator as having been satisfied, PayGroup will be required to issue new shares to the value of \$1.5 million (which reduces our valuation range per share slightly) and the Scheme Consideration will be adjusted downwards (as discussed in Section VI). However, as noted in Section VI, the mediation outcome (favourable or adverse) does not change our opinion on the Scheme.

**Fair and reasonable opinion**

- 14 Pursuant to RG 111 a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for PayGroup shares is shown below:

**Position of PayGroup shareholders**

	Low A\$/share	High A\$/share	Mid-point A\$/share
Value of Scheme Consideration	1.00	1.00	1.00
Value of 100% of PayGroup	0.91	1.01	0.96
Extent to which the Scheme Consideration exceeds (or is less than) the value of PayGroup	0.09	(0.01)	0.04

- 15 As the Scheme Consideration is consistent with the high end of our assessed valuation range for PayGroup shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to PayGroup shareholders when assessed based on the guidelines set out in RG 111.
- 16 Pursuant to RG 111, a transaction is reasonable if it is fair. Accordingly, in our opinion, the Scheme is also “reasonable” in the absence of a superior proposal.

**In the best interests**

- 17 There is no legal definition of the expression “in the best interests”. However, RG 111 notes that if an expert concludes that a scheme is “fair and reasonable”, or “not fair but reasonable”,

then the expert will also be able to conclude that the scheme is “in the best interests” of members of the company.

- 18 In our experience, if a transaction is “fair” and “reasonable” under RG 111 it will also be “in the best interests” of shareholders. This is because if the consideration payable pursuant to a scheme is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.
- 19 We therefore consider that the Scheme is also “in the best interests” of PayGroup shareholders in the absence of a superior proposal.

### **Assessment of the Scheme**

- 20 We summarise below the likely advantages and disadvantages of the Scheme for PayGroup shareholders.

#### **Advantages**

- 21 In our opinion, the Scheme has the following benefits for PayGroup shareholders:
- (a) the Scheme Consideration of \$1.00 cash per share is consistent with the high end of our assessed valuation range for PayGroup shares on a 100% controlling interest basis
  - (b) the Scheme Consideration represents a significant premium to the recent market prices of PayGroup shares prior to the announcement of the Scheme
  - (c) furthermore, the premium is well above observed premiums generally paid to target company shareholders in comparable circumstances (reflecting our view that there was a clear disconnect between the value attributed by share market investors in PayGroup prior to the announcement of the Scheme and the inherent value of the Company)
  - (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, PayGroup shares are likely to trade at a significant discount to our valuation and the Scheme Consideration due, in part, to the portfolio nature of individual shareholdings.

#### **Disadvantages**

- 22 PayGroup shareholders should note that if the Scheme is implemented they will no longer hold an interest in PayGroup. PayGroup shareholders will therefore not participate in any future value created by the Group over and above that reflected in the Scheme Consideration.
- 23 However, as the high end of the range of our assessed value of PayGroup shares is consistent with the Scheme Consideration, in our opinion, the present value of PayGroup’s future potential is adequately reflected in the Scheme Consideration.

#### **Conclusion**

- 24 Given the above analysis, we consider the acquisition of PayGroup shares under the Scheme is fair and reasonable and in the best interests of PayGroup shareholders in the absence of a superior proposal.

#### **General**

- 25 In preparing this report we have considered the interests of PayGroup shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

- 26 The impact of approving the Scheme on the tax position of PayGroup shareholders depends on the individual circumstances of each investor. PayGroup shareholders should read the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
- 27 The ultimate decision whether to approve the Scheme should be based on each PayGroup shareholder's assessment of their own circumstances. If PayGroup shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that PayGroup shareholders read the remainder of our report.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Holt  
Authorised Representative

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## I Key terms of the Scheme

### Terms

28 PayGroup has entered into the SIA with Deel that sets out the terms and conditions under which the Scheme is to be implemented. An overview of the key terms of the Scheme is set out at paragraphs 1 to 3.

### Conditions

29 Implementation of the Scheme is subject to a number of customary conditions, including PayGroup shareholder approval at the Scheme meeting, Court approval, no “prescribed occurrences” or “material adverse changes” occurring (in relation to PayGroup), and each of the respective warranties given by PayGroup and Deel being true and correct (in all material respects). Implementation of the Scheme is not subject to a financing or funding condition.

30 In addition, PayGroup must ensure that before 8.00am on the Second Court Date:

- (a) the Restructure and Confirmation Steps (within the existing PayGroup corporate structure) are completed to Deel’s reasonable satisfaction
- (b) no Third Party has any entitlement to be issued PayGroup shares on or after the Effective Date of the Scheme, including in relation to any Contingent Target Share issues. As noted in Section VI, the potential exists for the further issue of shares to a third party depending on the outcome of a current mediation (where a binding decision from the mediator is awaited). In the event of an outcome favourable to the Company no additional shares will be issued. In the event of an adverse mediation outcome, PayGroup will be required to issue new shares to the value of \$1.5 million
- (c) PayGroup has taken all actions required to enable all Escrowed Target Shares to be acquired by Deel under the Scheme.

31 Further information on these conditions is set out in the Scheme Booklet.

### Exclusivity provisions and break fees

32 The SIA also contains certain customary exclusivity provisions, including “no shop”, “no talk” and “no due diligence” restrictions, a notification obligation and a matching right in favour of Deel in respect of a Competing Proposal that emerges during the Exclusivity Period. The SIA also provides for certain circumstances under which PayGroup is required to pay a break fee of approximately A\$1.2 million to Deel, or Deel is required to pay a reverse break fee of approximately A\$1.2 million to PayGroup.

33 PayGroup may undertake any of the activities restricted by the “no talk” and “no due diligence” provisions where the PayGroup Board has:

- (a) determined in good faith that, after consultation with its advisers, such a bona fide Competing Proposal is a Superior Proposal or could reasonably be expected to become a Superior Proposal; and
- (b) after having considered external written legal advice from external advisers, that not undertaking that act would, or would be reasonably likely to, constitute a breach of the fiduciary or statutory duties owed by any Director of PayGroup, provided that the

Competing Proposal was not brought about by a breach of the exclusivity provisions in the SIA.

## **Resolution**

- 34 PayGroup shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the Notice of Scheme Meeting accompanying the Scheme Booklet.
- 35 If the resolution is passed by the requisite majorities and subject to all other conditions precedent in the SIA (other than Court approval) being satisfied or waived (where permitted), PayGroup must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC (at which time the Scheme will become effective) and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme and the Scheme becomes effective, it will become binding on PayGroup, Deel and all PayGroup shareholders who hold PayGroup shares as at the Scheme Record Date, whether or not they voted in favour of the Scheme (and even if they voted against the Scheme).

## II Scope of our report

### Purpose

- 36 The Scheme is to be effected pursuant to Part 5.1 of the *Corporations Act 2001* (Cth) (Corporations Act), which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations 2001 (Corporations Regulations) prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.
- 37 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 38 Deel has no current shareholding in PayGroup<sup>5</sup> and has no representation on the PayGroup Board. Accordingly, there is no regulatory requirement for an IER to be prepared for PayGroup shareholders pursuant to the Corporations Act or the Australian Securities Exchange (ASX) Listing Rules. However:
- (a) a qualification to the PayGroup Directors' recommendation of the Scheme is that an independent expert concludes, and continues to conclude, that the Scheme is in the best interests of PayGroup shareholders
  - (b) as the Scheme will give effect to a control transaction (as an alternative to a takeover bid), RG 111 also requires any appointed independent expert to provide an opinion on whether the Scheme is fair and reasonable.
- 39 The Directors of PayGroup have therefore requested LEA to prepare an IER stating whether, in LEA's opinion, the proposed acquisition of the shares in PayGroup by Deel under the Scheme is fair and reasonable and in the best interests of PayGroup shareholders and the reasons for that opinion.
- 40 This report has been prepared by LEA for the benefit of PayGroup shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Scheme Booklet to be sent to PayGroup shareholders (which will include the Notice of Scheme Meeting). The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of PayGroup shareholders.
- 41 The ultimate decision whether to approve the Scheme should be based on each PayGroup shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

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<sup>5</sup> We understand that Mr Philippe Bouaziz (a Director of Deel Guarantor and an associate of Deel pursuant to s12(2)(c) of the Corporations Act) holds 353,229 PayGroup shares (representing a 0.3% interest).

## Basis of assessment

- 42 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111, which, inter alia, provides guidance as to how an expert should assess the merits of a transaction.
- 43 When an IER is prepared for a scheme that involves a change of control (like the proposed Scheme concerning PayGroup), ASIC expects the form of the analysis undertaken by the expert to be substantially the same as for a takeover bid. That is, the expert is required to assess and provide an opinion on whether the scheme is “fair” and “reasonable” to the shareholders of the company which is the subject of the scheme (in addition to the inclusion of a statement as to whether the scheme is “in the best interests” of shareholders, being the opinion required under Part 3 of Schedule 8 of the Corporations Regulations).
- 44 Fairness involves the application of a strict quantitative test that compares the value of the consideration offered against the value of the shares that are the subject of the scheme (assuming 100% ownership of the target company and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length, noting that any special value that may be derived by a particular “bidder” should not be taken into account<sup>6</sup>). A scheme is “fair” if the value of the scheme consideration is equal to, or greater than the value of the shares that are the subject of the scheme. Fairness effectively measures whether shareholders (in the company the subject of the scheme) are being compensated for the actual (or deemed) change of “control” in ownership.
- 45 Reasonableness involves the consideration of other significant quantitative and qualitative factors that shareholders might consider prior to accepting a proposal (e.g. the bidder’s existing shareholding in the company, the likely market price of the company’s shares if the scheme is unsuccessful, the likelihood of a superior alternative offer emerging etc.). A scheme is considered “reasonable” if it is “fair”. A scheme may also be considered “reasonable” if, despite being “not fair”, the expert believes there are sufficient reasons for shareholders to vote in favour of the scheme, in the absence of a superior proposal.
- 46 There is no legal definition of the expression “in the best interests”. However, RG 111 notes that if an expert concludes that a scheme is “fair and reasonable”, or “not fair but reasonable”, then the expert will also be able to conclude that the scheme is “in the best interests” of members of the company.
- 47 Similarly, RG 111 notes that if an expert concludes that a scheme is “not fair and not reasonable”, then the expert would need to conclude that the scheme is “not in the best interests” of members of the company.
- 48 Having regard to the above, our report has therefore considered:

### Fairness

- (a) the market value of 100% of the shares in PayGroup
- (b) the value of the consideration offered by Deel (i.e. A\$1.00 cash per share)

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<sup>6</sup> For example, synergies that are not available to other bidders.

- (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)

**Reasonableness / in the best interests**

- (d) the extent to which a control premium is being paid to PayGroup shareholders
- (e) the extent to which PayGroup shareholders are being paid a share of any synergies likely to be generated if the Scheme is implemented
- (f) the listed market price of PayGroup shares, both prior to and subsequent to the announcement of the proposed Scheme
- (g) the likely market price of PayGroup securities if the proposed Scheme is not implemented (and a comparable or superior proposal does not emerge)
- (h) the value of PayGroup to an alternative offeror and the likelihood of a higher alternative offer being made for PayGroup prior to the date of the Scheme Meeting
- (i) the advantages and disadvantages of the Scheme from the perspective of PayGroup shareholders
- (j) other qualitative and strategic issues associated with the Scheme.

**Limitations and reliance on information**

- 49 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 50 Our report is also based upon financial and other information provided by PayGroup and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 51 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of PayGroup shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 52 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Scheme, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.

- 53 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 54 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 55 In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is not misleading or deceptive (including by omission) in any material respect
  - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the SIA and the terms of the Scheme itself.

### III Profile of PayGroup

#### Overview

56 PayGroup is a provider of a broad range of payroll and HCM solutions to over 2,800 clients across 82 countries predominantly in the APAC region. Through its subsidiaries; PayAsia, Talent Oz, Payroll HQ, Astute Payroll (formerly Astute One) and Integrated Workforce Solutions, PayGroup delivers payroll, compliance, billing, rostering, global payment and various strategic HR solutions to corporate, workforce management and franchise clients.

#### History

57 PayGroup was established in Singapore in 2006 with a focus on supporting multi-national corporates through payroll solutions. The Company listed on the ASX in May 2018 and has since grown to serve over 2,800 clients across 82 countries as of June 2022. Since its initial public offering (IPO), PayGroup has made a number of acquisitions to complement its existing payroll and HCM offering and facilitate continued growth. A summary of these acquisitions is set out below:

PayGroup – acquisitions			
Date <sup>(1)</sup>	Company	Consideration \$m	Operations
Aug 19	Astute One	11.0	The company operated a cloud-based HCM platform that simplified complex compliance, employment and payment processes. During FY19 Astute generated pro-forma ARR of \$6.9 million
Jul 20	Talent Oz	1.2	A Malaysian provider of cloud-based HCM software with payroll modules for Malaysia and India
Nov 20	Payroll HQ	2.5	A Sydney-based company, which offered software-as-a-service (SaaS) payroll outsourcing services to over 100 corporate clients across Australia and New Zealand. Payroll HQ was expected to contribute approximately \$2.25 million in revenue to PayGroup in FY21
Mar 21	Integrated Workforce Solutions (IWS)	15.3	The company operated a cloud-based workforce management platform specialising in solutions for the franchise sector in Australia and New Zealand

**Note:**

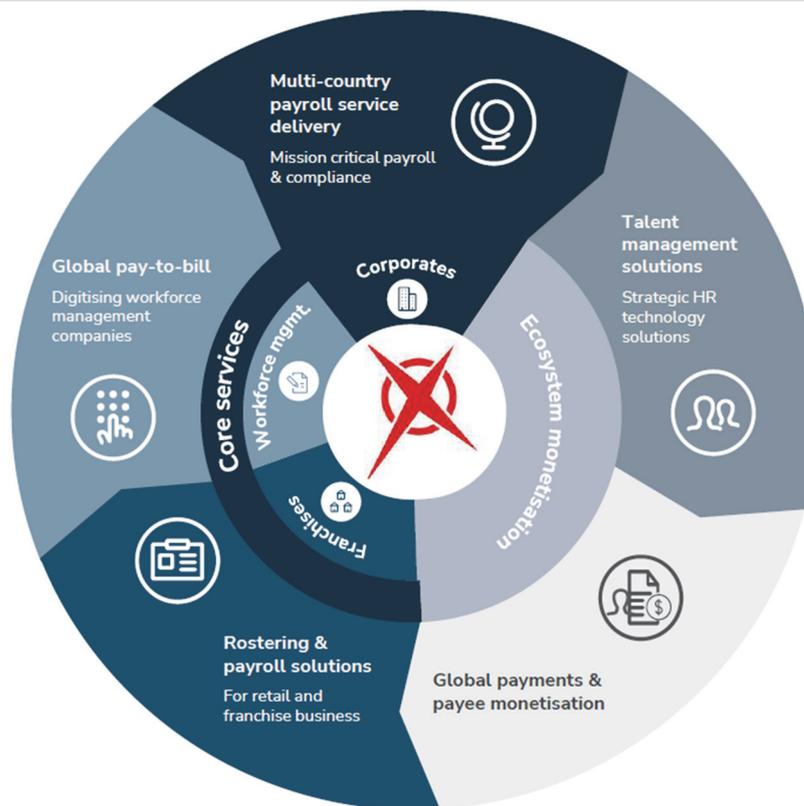
1 Date of transaction announcement.

58 In 2019, PayGroup strengthened its offering with the acquisition of Astute One, a workforce management gross to net solution software platform, which facilitated entry into the Australian and New Zealand markets, with access to payroll solutions involving contractors and a significant increase to its overall SaaS capability. The acquisitions of Talent Oz and Payroll HQ in 2020 further enhanced PayGroup’s payroll offering as well as its operational expansion into the Oceania market. The 2021 acquisition of IWS provided PayGroup with a new client base with IWS’ platform providing solutions in rostering, payroll and financial dashboarding solutions tailored specifically for franchise businesses.

## Current operations

59 PayGroup operates from a Melbourne, Australia corporate head office with an additional head office in Singapore and a regional head office in Bengaluru, India. In total the Company operates out of 14 office locations across the APAC region and employs over 400 staff. The Company offers a broad suite of payroll and HCM solutions servicing the corporate, workforce management and franchise sectors. A diagrammatic overview of PayGroup's operations is set out below:

### PayGroup – operations



60 PayGroup's core product and service offerings are split into three categories as displayed above, multi-country payroll service delivery, global pay-to-bill and rostering and payroll solutions, which are summarised below:

- (a) **multi-country payroll service delivery** – mission critical payroll and compliance solutions for corporate clients, particularly those that operate cross-border. Specific services offered include:
- (i) management of all employee data related to payroll
  - (ii) web-based employee self-service such as e-payslips, e-leave and e-expense claims
  - (iii) gross to net calculations
  - (iv) manager self-service solutions and management reports
  - (v) reporting to meet the requirements of the HR and Finance departments
  - (vi) approval processes to maintain segregation of duties

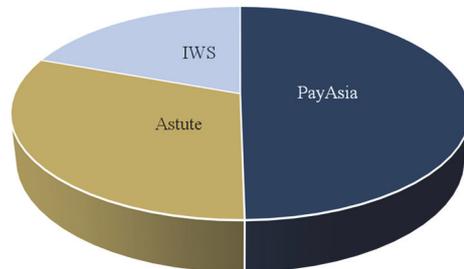
- (vii) lodgement services
- (viii) maintenance of statutory compliances
- (b) **global pay-to-bill** – focused on clients that require contractors and general workforce management solutions, enabling them to streamline and digitise HCM processes including:
  - (i) employee onboarding and self-service
  - (ii) pay and award interpretation
  - (iii) timesheets, expenses and leave
  - (iv) invoicing, payroll and receipting
  - (v) integration with accounting software
  - (vi) invoice fund factoring
- (c) **rostering and payroll solutions** – targeted towards retail and franchise businesses with offerings including:
  - (i) rostering
  - (ii) time and attendance
  - (iii) outsourced payroll
  - (iv) automated award calculation
  - (v) bookkeeping
  - (vi) financial dashboarding.

- 61 In addition to its core product and service offerings, PayGroup seeks to further monetise its existing client ecosystem through complementary services including: strategic HR software, global payments and payee monetisation, which are described below:
- (a) **strategic HR software** – PayGroup’s suite of HR modules are highly complementary to its core payroll solution and there is an opportunity to leverage its existing network of payroll clients by offering them a wide range of HCM solutions
  - (b) **global payments** – reducing complexity for multi-national corporations through cross-border and domestic payment solutions ensuring payees and statutory bodies are paid on time. This service offering is highly complementary to core payroll services, is high margin and deepens customer relationships, potentially unlocking additional monetisation opportunities
  - (c) **payee monetisation** – providing payees high value, complementary services including access to earned wages without waiting until pay day and a chance to select their super fund of choice while onboarding through the PayGroup platform.
- 62 PayGroup has established a network of global partners through its Global Partner Program (GPP), which enables the Company to access markets it does not serve directly and service multi-national corporations needing specific APAC expertise.
- 63 The Company derived most of its FY22 revenue from Australia, with almost all of the remainder coming from the APAC region. Approximately half of all FY22 revenue came

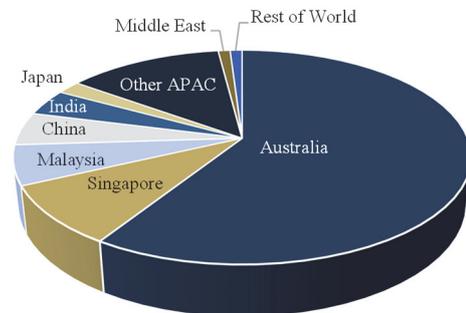
from the PayAsia business (which includes Payroll HQ and Talent Oz), with the remainder split between Astute and IWS, as shown below:

**PayGroup – revenue for the year to 31 March 2022**

**Revenue by segment**



**Revenue by location**



## Financial performance

64 The reported financial performance of PayGroup for the three years ended 31 March 2022, is set out below:

**PayGroup – statement of financial performance<sup>(1)</sup>**

Year ended	31 Mar 20 \$000	31 Mar 21 \$000	31 Mar 22 \$000
Payroll services	7,434	8,497	17,908
SaaS	2,753	7,130	8,324
<b>Total revenue</b>	<b>10,187</b>	<b>15,627</b>	<b>26,233</b>
Operating expenses <sup>(2)</sup>	(10,823)	(13,427)	(26,376)
<b>EBITDA<sup>(3)</sup> before significant items</b>	<b>(636)</b>	<b>2,200</b>	<b>(143)</b>
Depreciation and amortisation	(1,402)	(2,265)	(2,762)
<b>EBIT<sup>(3)</sup> before significant items</b>	<b>(2,039)</b>	<b>(64)</b>	<b>(2,905)</b>
Net interest	(101)	(130)	(157)
Significant items <sup>(4)</sup>	-	(565)	1,151
<b>Profit before tax</b>	<b>(2,140)</b>	<b>(759)</b>	<b>(1,911)</b>
Income tax (expense) / benefit	66	248	1,553
<b>Profit after tax</b>	<b>(2,074)</b>	<b>(511)</b>	<b>(358)</b>

**Note:**

- 1 Rounding differences exist.
- 2 Net of other income.
- 3 Earnings before interest, tax, depreciation and amortisation (EBITDA); earnings before interest and tax (EBIT).
- 4 Significant items include: gain on fair value of contingent consideration (\$0.55 million in FY22), reversal of impairment charge on non-trade receivables (\$0.6 million in FY22), impairment charge related to non-trade receivables (\$0.6 million in FY21).

65 Below is a summary of the factors impacting the annual financial performance of PayGroup in the three years to 31 March 2022.

### **FY20 results**

- 66 Revenue increased 115% to \$10.2 million in FY20, reflecting the first full year of business performance post the Company's ASX listing (compared to 10 months in FY19), organic growth and the significant contribution from the acquisition of Astute One (completed in November 2019), which added over 400 clients, enhanced SaaS capability and provided a much stronger presence in Australia and New Zealand.

### **FY21 results**

- 67 FY21 revenue increased by 53.4% to \$15.6 million, which was primarily driven by the full year contribution of Astute One and the acquisitions of Talent Oz and Payroll HQ (completed in July 2020 and December 2020 respectively) as well as organic growth.

### **FY22 results**

- 68 PayGroup achieved significant revenue growth of 67.9% to \$26.2 million in FY22, reflecting both organic growth driven by high margin monetisation opportunities and the contribution from the acquisition of IWS (completed in May 2021).

### **FY23 outlook**

- 69 On 31 May 2022, PayGroup management provided the following FY23 outlook for the Company:

*“The record results and the significant operational progress achieved over the year sets a strong foundation for growth heading into FY23. The Company anticipates FY23 to be a transformative year, as management focuses on growing revenue, optimising implementation to drive contracts to cash, generating operating leverage and increasing margin to unlock the earnings potential of the PayGroup. The Company also aims to increase value generated from the GPP, with the foundational investment in establishing new geographies and in-country partners largely complete. This early investment to establish a global footprint will lead to increased contribution margins from the GPP.*

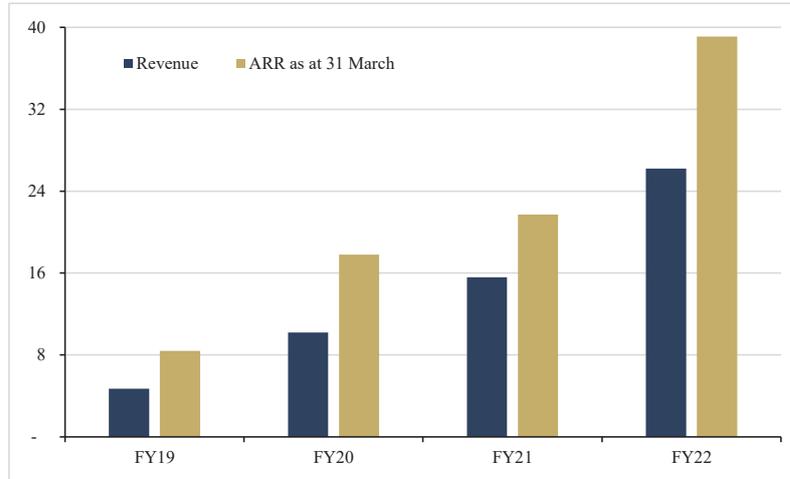
*The Company expects to continue the strong cash flow momentum into FY23 which improved significantly throughout FY22, with net cash outflows reducing from \$(6.2m) in 1Q FY22 to just \$(0.2m) in the final quarter of the year. This improvement in cash from Q1 FY22 to Q4 FY22 highlights the significant evolution in the Company's financial profile towards self-sustainability. PayGroup is well positioned to achieve its strategic objectives, with a cash balance of \$6.2m.”*

### **Annual recurring revenue**

- 70 Annual recurring revenue (ARR) represents the revenue that a company expects to receive based on its existing customers at a point in time, normalised to a one year period. PayGroup's ARR has increased significantly in the four years to 31 March 2022 and provides a reasonable estimate of next year's reportable revenue as displayed in the chart below:

**PayGroup – Annual revenue and ARR as at 31 March<sup>(1)</sup>**

\$m



**Note:**

1 FY21 ARR has been adjusted to exclude IWS, as the acquisition was not completed until May 2021.

- 71 PayGroup's ARR as at 31 March 2022 (including ARR related to contracts awarded but not yet commenced) was \$39.1 million, which given the relatively predictive relationship between ARR and next year's revenue, indicates that PayGroup's FY23 reportable revenue will significantly exceed the level of revenue reported in FY22.

**Financial position**

- 72 The financial position of PayGroup as at 31 March 2021 and 31 March 2022 is set out below:

**PayGroup – statement of financial position<sup>(1)</sup>**

	31 Mar 21 \$000	31 Mar 22 \$000
Cash and cash equivalents <sup>(2)</sup>	12,112	25,313
Debtors, prepayments, contract assets and other current assets <sup>(3)</sup>	4,934	6,802
Creditors, accruals, provisions and contract liabilities	(15,677)	(27,338)
<b>Net working capital (including cash)</b>	<b>1,369</b>	<b>4,776</b>
Property, plant and equipment	251	393
Intangible assets (including goodwill)	18,724	33,097
Deferred tax assets	77	1,190
Non-current receivables	474	845
Non-current contract assets / net of non-current contract liabilities	487	423
Right of use assets / net of associated lease liabilities	(22)	(49)
Non-current provisions	(533)	(703)
<b>Net assets attributable to PayGroup shareholders</b>	<b>20,826</b>	<b>39,973</b>

**Note:**

- 1 Rounding differences may exist.  
2 Refer paragraph 73.  
Other current assets includes income tax recoverable.

**Net cash position**

- 73 PayGroup held \$25.3 million in cash as at 31 March 2022 and had no interest-bearing liabilities. However, \$19.1 million of this cash belonged to clients for the payment of salaries

to their employees<sup>7</sup> (and was only held by PayGroup as part of the payroll processing services provided to clients). Accordingly, PayGroup's company owned cash was \$6.2 million at 31 March 2022 (\$3.1 million as at 31 March 2021).

### Intangible assets

74 The carrying value of PayGroup's intangible assets is set out below:

PayGroup – intangible assets <sup>(1)</sup>		
	31 Mar 21	31 Mar 22
	\$000	\$000
Goodwill	5,491	15,289
Trademark and tradename	143	218
Customer contracts and relationships	1,789	3,784
Software	10,252	10,377
Software under development	1,048	3,430
<b>Total intangible assets</b>	<b>18,724</b>	<b>33,097</b>

**Note:**

1 Rounding differences exist.

75 The majority of PayGroup's intangible assets relate to purchased goodwill from recent acquisitions and capitalised software costs from both acquisition and the capitalisation of development costs. With the material acquisition of IWS, which was completed during FY22, the level of intangible assets increased substantially.

### Share capital

76 As at 23 June 2022 (the date of the SIA), PayGroup had 118.3 million fully paid ordinary shares on issue. The Company also had 2.4 million options on issue at that date, which were exercisable at prices of \$1.10 (50%) and \$1.20 (50%) per share on or before 14 July 2023. These options were subsequently cancelled by agreement with the optionholder for nil consideration.

### Significant shareholders

77 As at 23 June 2022 there were three significant shareholders in PayGroup, which are outlined in the table below:

PayGroup – significant shareholders		
Significant shareholder	Shares held	
	million	% interest
Michele Samlal <sup>(1)</sup>	22.1	18.7
Lawrence Pushpam	7.1	6.0
Salter Brothers Emerging Companies Limited	6.0	5.1

**Note:**

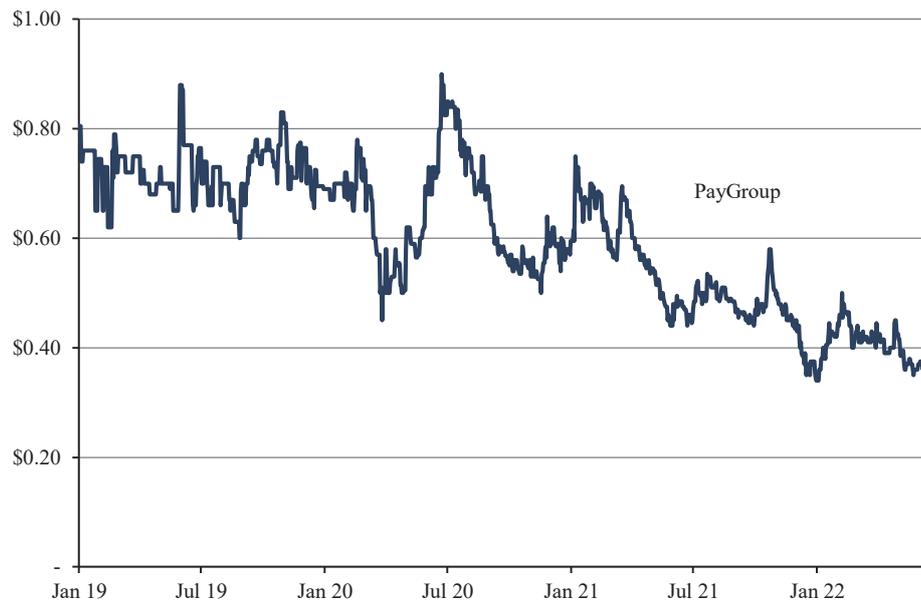
1 Related to the PayGroup CEO, Mr Mark Samlal.

<sup>7</sup> Accordingly a corresponding liability of \$19.1 million was also included in creditors.

## Share price performance

78 The following chart illustrates the movement in the share price of PayGroup from 1 January 2019 to 22 June 2022 (being the last trading day prior to the announcement of the Scheme):

**PayGroup – share price history<sup>(1)</sup>**  
**1 January 2019 to 22 June 2022**



**Note:**

1 Based on closing prices.

Source: Bloomberg and LEA analysis.

79 Whilst the PayGroup share price has generally traded downwards since 1 January 2019, we note that the ARR of the business has increased significantly since the date of the IPO (from around \$7.3 million at the date of the IPO in 2018 to \$39.1 million as at 31 March 2022).

## Liquidity in PayGroup shares

80 The liquidity in PayGroup shares based on trading on the ASX over the 12 month period prior to 23 June 2022 is set out below:

**PayGroup – liquidity in shares**

Period	Start date	End date	No of shares	WANOS <sup>(1)</sup>	Implied level of liquidity	
			traded	outstanding	Period <sup>(2)</sup>	Annual <sup>(3)</sup>
			000	000	%	%
1 month	23 May 22	22 Jun 22	1,705	118,327	1.4	17.3
3 months	23 Mar 22	22 Jun 22	4,148	118,327	3.5	14.0
6 months	23 Dec 21	22 Jun 22	13,526	118,276	11.4	22.9
1 year	23 Jun 21	22 Jun 22	31,991	116,624	27.4	27.4

**Note:**

1 Weighted average number of shares outstanding (WANOS) during relevant period.

2 Number of shares traded during the period divided by WANOS.

3 Implied annualised figure based upon implied level of liquidity for the period.

- 81 As indicated in the table above, total share turnover in PayGroup shares is relatively low, which reflects (in part) the 29.8% of total shares outstanding that were held by significant shareholders as of 23 June 2022.

## IV Industry overview

### Introduction

82 As noted in Section III PayGroup is a provider of business process outsourcing (BPO) payroll services and HCM software products / modules and solutions to corporate, workforce management and franchise clients, primarily in the APAC region.

### BPO payroll services market

83 The BPO payroll services market covers the provision of payroll services to businesses of all sizes. Payroll services are fully or partially outsourced for single or multiple countries. Key participants in the global BPO payroll market include Automatic Data Processing, Ceridian and Paychex.

### Fully outsourced BPO payroll services

84 In a fully outsourced situation the service provider is responsible for all payroll functions whilst meeting payroll-specific performance standards. This includes providing the cloud, staff and payroll experience, lodgement and banking services, whilst giving the client's HR managers and all other employees access to data and analytics through online technology.

85 As the service provider performs most if not all of the client's payroll functions, the client does not need to employ internal payroll staff. The client may want only the service provider to manage the existing cloud environment, or they might require modifications for consistency and efficiency.

### Partially outsourced BPO payroll services

86 In partially outsourced situations the service provider only provides part of the client's payroll function, whilst meeting payroll-specific standards tailored to those chosen outsourced functions. The client entity is responsible for all remaining payroll functions in-house, including the method of integration with the outsourced components from the external provider. During this process, the client's internal payroll function may be standardised with the service provider to streamline operations.

87 Partially outsourced services are generally used when the client wants to retain administrative responsibility of payroll internally for confidentiality reasons, or when some aspects of payroll are required by legislation to be internally administered.

88 Both fully and partially outsourced payroll service agreements are usually structured using a menu-based approach, with a combination of per-transaction, per-activity and flat-rate pricing options.

### Development of BPO payroll services

89 Whilst the BPO market is now mature across North America, Europe and Mature Asia, there has recently been significant growth in the BPO payroll services market in the Emerging Asia Pacific region. In the mature United States of America (US) market the combined HR and payroll software sector experienced annualised revenue growth of 7.1% for the period 2015 to 2020, with the rate of growth expected to slow to 5.2% for the period 2020 to 2025.<sup>8</sup>

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<sup>8</sup> Source: IBISWorld (Dec 2020) *HR & Payroll Software*.

- 90 Today BPO payroll service providers have recognised a need to rely on other than traditional BPO payroll services to generate sustainable growth. Accordingly service providers have commenced the process of transforming their operations through cost optimisation and consolidation.
- 91 Before the introduction of payroll automation technology, BPO service providers would optimise costs by moving service centres to countries with lower labour costs. However, the increased adoption of payroll automation technology allows the service provider to increase its client base without increasing its associated employee head count.
- 92 Industry consolidation enables service providers to expand or focus their coverage. This is typically achieved through a merger or acquisition, however it can also be via strategic alliances.

### HCM software market

- 93 Gartner forecasts the global HCM software market to grow from US\$18.3 billion in 2020 to US\$25.9 billion in 2024, growing at a compound annual growth rate (CAGR) of 9.1% (this represents both cloud-based and on-premise installations).<sup>9</sup>
- 94 The industry proved to be highly resilient in the face of the COVID-19 pandemic in 2020, with revenue growth of 7% over the previous year<sup>10</sup> as the pandemic forced businesses globally to shift from having employees come into office buildings everyday to working from home. This shift had the effect of acceleration in the adoption of cloud-based SaaS applications that enable critical business processes to continue while workforces are geographically distributed. By 2023 SaaS is expected to account for 76% of the HCM software market, up from 57% in 2018.<sup>11</sup>
- 95 The major legacy HCM vendors including SAP, Automatic Data Processing and Oracle control around 25% of the global market, but are steadily losing market share to new cloud-based software companies including Workday, Ceridian and Ultimate Software.<sup>12</sup>

### Overview of HCM software

- 96 The HCM software market includes HR administration functions, expense management, electronic payslips, leave management, workflow and employee updates. These can be deployed in the cloud to businesses of all sizes.
- 97 HCM software products or applications are capable of supporting a range of capabilities for clients including (inter alia):
- (a) **administrative HR** includes organisational and employee data, transactional employee and manager self-service, benefits and payroll administration. It may also include occupational health and safety, grievance tracking, travel expense management, or other areas

<sup>9</sup> Source: hSenid Business Solutions IPO prospectus.

<sup>10</sup> Source: hSenid Business Solutions IPO prospectus.

<sup>11</sup> Source: Conrad Capital Group (July 2021) PayGroup investment summary.

<sup>12</sup> Source: Conrad Capital Group (July 2021) PayGroup investment summary.

- (b) **talent management applications** are composed of recruiting, on-boarding, performance management, compensation planning, career and succession planning, learning and development, and workforce planning
- (c) **workforce management** includes absence management, time and attendance management, task management, budgeting and forecasting, and scheduling
- (d) **HR service delivery** includes direct access to policy and procedure guidance for employees and managers. It may also include case management, knowledge base and digital document management.

### *Cloud software applications*

98 HCM solutions are provided via cloud (internet) software applications. The term “cloud computing” is a method of describing delivery of a software application via SaaS. Cloud software in its most basic configuration is the ability to store and access data / programs over the internet instead of on the client’s hard drive located at the business premises. Cloud delivery has gained increasing acceptance in recent years as clients no longer need to worry about hosting facilities, infrastructure and disaster recovery. There is no requirement to run application or programs on a physical computer at the business premises from downloaded software.

### *On-premise software*

99 By contrast, on-premise software is installed on and operated from a client’s in-house server and related computing infrastructure. It utilises the client’s own computing resources at the client’s business premises. The software is licensed or purchased from an independent software vendor.

### **Asia Pacific market**

100 Gartner forecasts the APAC HCM software market to grow from US\$2.6 billion in 2020 to US\$3.7 billion in 2024, growing at a CAGR of 9.2%.<sup>13</sup>

101 The growth in HCM software in the Emerging Asia Pacific region has previously outperformed both the overall growth in the software market and growth in the enterprise resource planning (ERP) market in the APAC. HCM is a component of ERP.

102 Forrester’s recent forecast for the APAC technology market indicates overall growth of 6.2% in 2022, led by 9.2% growth in software revenue. Technology outsourcing is expected to hold its momentum to grow by 7.7% in 2022 with strong growth in public cloud and private cloud infrastructure services remaining the dominant driver in this category. Technology consulting and systems integration services are expected to grow by nearly 6%, driven by modernisation work, with cloud migration projects accelerating across the region.<sup>14</sup>

### **Trend to industry consolidation**

103 Consolidation, which has been prevalent across the wider software publishing industry, is expected to continue over the next five years. While niche cloud computing companies will continue to drive innovations in HR and payroll software, major operators will increasingly target these businesses for their high growth potential. As a result, merger and acquisition activity will limit growth in the number of operators, despite strong revenue growth. Over the

<sup>13</sup> Source: hSenid Business Solutions IPO prospectus.

<sup>14</sup> Source: eCommerce News website accessed 26 June 2022.

five years to 2025, the total number of industry operators in the US is anticipated to rise at an annualised rate of 10% to over 700 companies. This expansion will not only include new companies but also operators in similar enterprise software industries that will look to this market as an opportunity for growth.<sup>15</sup>

### **Development of HCM software on-premise and cloud**

- 104 On-premise solutions are declining with many providers now offering a cloud solution enabling clients to reduce their IT spend and simplify management. However, providers offering both on-premise and cloud services have a potential market advantage in emerging countries where cloud deployment may have technical issues, such as limited internet access or reliability of internet access / speed.
- 105 HR business functions already have a high adoption rate for SaaS software, but demand for SaaS software is expected to outpace on-premise models over the five years to 2025, with the switch to SaaS dominated by small businesses that are less able to afford on-premise software or infrastructure.<sup>16</sup>

### **HCM software market growth drivers**

- 106 The following trends may sustain and grow the uptake HCM software:
- (a) increases in user licenses and expansion of existing offerings, resulting in new software licenses generating implementation revenue and recurring software license revenue
  - (b) existing maintenance agreement renewals for perpetual licenses
  - (c) innovation of technology and HR practices that require new software.

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<sup>15</sup> Source: IBISWorld (Dec 2020) *HR & Payroll Software*.

<sup>16</sup> Source: IBISWorld (Dec 2020) *HR & Payroll Software*.

## V Valuation of PayGroup

### Valuation approaches

- 107 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 108 In the presentation that accompanied the FY22 results announcement PayGroup advised normalised EBITDA in FY22 of \$3 million. However this figure included:
- (a) \$0.6 million relating to the reversal of a non-trade receivable impairment charge (originally expensed in FY21)
  - (b) one-off items such as the fair value gain on the movement in contingent consideration (\$0.55 million); and
  - (c) the add-back of rental expenses of around \$0.8 million in accordance with the reporting requirements of Australian Accounting Standard AASB 16 – *Leases* (AASB 16) regarding leased property.
- 109 Further, depreciation and amortisation (excluding AASB 16 related amortisation and the amortisation of acquired intangibles) was approximately \$1.6 million. As a result normalised EBIT (excluding the one-off reported gains in paragraph 108) was negative, and accordingly we do not consider the capitalisation of earnings method to be an appropriate valuation approach for PayGroup at this time.
- 110 Consequently, we have considered the market value of PayGroup shares under the following approaches:
- (a) **DCF** – which allows the expected future growth in revenue and improved profitability to be explicitly modelled
  - (b) **revenue multiple approach** – which capitalises the ARR at an appropriate multiple
  - (c) **recent offers** – following the completion of a sales process for the business / Company (which led to the Scheme)

- (d) **PayGroup** share price, adjusted for a control premium.

### **DCF valuation**

111 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value (TV). In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

### **Cash flow projections**

112 Our DCF valuation is based on free cash flow projections derived by LEA having regard to (inter-alia) the Company's detailed financial results and related discussions with management.

113 Whilst LEA considers the assumptions underlying the cash flow projections adopted for valuation purposes to be reasonable and appropriate, it should be noted in respect of these projections that:

- (a) the major assumptions underpinning the projections were formulated in the context of current economic, financial and other conditions (including the impact of the invasion of Ukraine by Russia on equity markets generally)
- (b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions
- (c) future profits and cash flows are inherently uncertain
- (d) the achievability of these projections is not warranted or guaranteed by LEA or PayGroup; and
- (e) actual results may be significantly more or less favourable.

114 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments<sup>17</sup>, capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

115 LEA's free cash flow projections cover the five year period to 31 March 2027. A TV has then been adopted at the end of the forecast period.

116 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underpinning the free cash flow projections.

### **FY23 projected revenue**

117 Whilst PayGroup achieved sales revenue of \$26.2 million in FY22, ARR as at 31 March 2022 (including ARR related to contracts awarded but not yet commenced) was \$39.1 million. As a result, it is reasonable to assume that PayGroup's revenue in FY23 will significantly exceed the level of reported revenue in FY22.

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<sup>17</sup> Also calculated on an ungeared basis.

118 In this regard, we note that historically ARR at year end has been a reasonably reliable estimate of next year's revenue, as shown below:

<b>PayGroup - ARR and revenue comparison<sup>(1)</sup></b>		
	<b>FY21</b>	<b>FY22</b>
	<b>\$m</b>	<b>\$m</b>
Revenue as reported	15.6	26.2
ARR at beginning of year	17.8	27.2 <sup>(2)</sup>
Revenue / ARR at beginning of year	88%	96%

**Note:**

- 1 The comparison for FY20 is not shown due to the timing of acquisitions.
- 2 Includes \$5.5 million of ARR from the acquisition of IWS, which was acquired effective 1 May 2021.

119 Given the above relationship between revenue and ARR we have adopted revenue in FY23 of around \$37.5 million in our Base Case projections.

**Growth in ARR**

120 We set out below the growth in ARR reported by PayGroup since 31 March 2019:

<b>PayGroup - Estimate of organic ARR growth</b>					
	<b>Completion date</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
		<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Reported ARR at year end (31 March)		8.4	17.8	21.7 <sup>(1)</sup>	39.1
Adjustment for ARR added through acquisitions:					
Astute One	1 Nov 19	6.9	-	-	-
TalentOZ	1 Jul 20	-	0.7	-	-
Payroll HQ	1 Dec 20	-	2.25	-	-
IWS	1 May 21	-	-	5.5	-
<b>Adjusted ARR</b>		<b>15.3</b>	<b>20.75</b>	<b>27.2</b>	<b>39.1</b>
"Like for like" organic growth in ARR:					
Adjusted ARR at beginning of year			15.3	20.75	27.2
ARR at year end			17.8	21.7	39.1
Organic growth in ARR			16.3%	4.6%	43.8%
Compound average organic growth in ARR over 3 years to 31 March 2022					<u>20.5%</u>

**Note:**

- 1 PayGroup reported \$27.2 million in ARR as at 31 March 2022. However, this included \$5.5 million from IWS which was acquired effective 1 May 2021.

121 The strong increase in ARR to \$39.1 million in FY22 (up 43.8%) "was driven by the combination of new clients, greater cross-selling and up-selling, growing contribution from the Global Partner Program (GPP) and greater adoption of high margin monetisation and HCM products."

- 122 Notwithstanding the high ARR growth rate in FY22, (as shown above) we note that organic ARR growth over the last 3 years has been variable, with compound annual growth of around 20% achieved over the period.
- 123 For valuation purposes we consider more regard should be had to the compound annual growth in ARR achieved over the three year period rather than in a single year. Further, the rate of ARR growth is likely to decelerate over the medium term as the business grows. Accordingly, our Base Case forecasts assume the following ARR growth rates over the forecast period:

PayGroup – Base Case ARR assumptions						
Year to 31 March	2022	2023	2024	2025	2026	2027
	\$m	\$m	\$m	\$m	\$m	\$m
ARR	39.1	46.9	54.0	60.4	66.5	69.8
Growth in ARR		20%	15%	12%	10%	5%

- 124 We set out in paragraph 140 the sensitivity of our DCF value to changes in the above assumed ARR growth rates. We have also assumed that the ARR growth rate over the forecast period is broadly similar for both the Managed Payroll Services and SaaS businesses.

### Gross margins

- 125 Gross profit margins (as a percentage of revenue) were around 43% and 63% in FY22 for the Managed Payroll Services and SaaS businesses respectively. The higher gross margins for the SaaS business reflect the software nature of this business, together with the higher variable costs associated with the provision of payroll processing services (given the large number of countries in which PayGroup operates).
- 126 The gross profit margin for the Managed Payroll Services business has declined since FY19 due to (inter-alia) the expansion of services into other geographical regions that are serviced by third party payroll delivery partners and the proportionate increase in revenue facilitated through the GPP. In contrast, the gross profit margin of the SaaS business has been relatively consistent over recent years.
- 127 Looking forward, our Base Case projections assume gross profit margins increase to 46% and 66% from FY23 for Managed Payroll Services and the SaaS business respectively. These assumed improvements reflect (inter-alia) initiatives to reduce payroll processing costs and software development costs by undertaking a greater proportion of such work in lower cost regions.
- 128 In paragraph 140 we also set out the sensitivity of our DCF value to changes in assumed gross margins.

### Sales and marketing costs

- 129 Sales and marketing costs represented approximately 9.6% of revenue in FY22, having reduced from around 10.4% of revenue in FY19<sup>18</sup>.

<sup>18</sup> These percentages have been calculated based on pro-forma results which assume all recent acquisitions were owned by PayGroup from the beginning of FY19.

- 130 Our Base Case projections assume that sales and marketing costs as a percentage of revenue fall to around 7.5% in FY23. This principally reflects the significant increase in revenue projected in FY23 of around 39% (due to the increase in ARR discussed above), and reflects a 7.7% increase in sales and marketing costs compared to FY22.
- 131 Our Base Case projections assume that sales and marketing costs (as a percentage of revenue) continue to reduce to around 5.0% of revenue by the end of the forecast period. This is because sales and marketing costs are projected to increase at a lower rate than revenue, reflecting (in part) the inherent leverage in the marketing structure of the business (for example the GPP).

### **Operating costs**

- 132 Due to the fixed or semi-fixed nature of most operating costs, the business is expected to benefit from significant operating leverage as revenues increase. As a result operating expenses (excluding sales and marketing costs and depreciation and amortisation) are expected to decline from around 29% of revenue in FY23 to around 22% of revenue by the end of the forecast period. This is consistent with the level of operating leverage experienced historically. In addition, our DCF valuation reflects public company cost savings of around \$0.5 million per annum (as these would not be incurred by a 100% owner of PayGroup).

### **Capital expenditure**

- 133 Capital expenditure (largely related to product and software development) is projected to be around \$3 million per annum over the forecast period. This is consistent with the expenditure incurred (or expected to be incurred) over the FY21 to FY23 period.

### **Working capital**

- 134 As revenue increases we expect that the business will require a greater investment in net working capital. Consequently, our cash flow forecasts reflect an increase in net working capital consistent with historical performance, whereby the increase in net working capital has been modelled as a percentage of the annual increase in revenue.

### **Taxation**

- 135 We have adopted a corporate tax rate of 25%, which we consider to be a reasonable average tax rate given the tax jurisdictions in which PayGroup operates. Whilst immaterial, we have also taken into account the availability (and expected utilisation) of income tax losses.

### **Discount rate**

- 136 We have adopted a Base Case discount rate of 10.5% per annum (after tax) for the reasons set out in Appendix C. Our assessed discount rate assumes the business is 100% equity financed consistent with the current position.

### **Terminal value**

- 137 The TV of the business at the end of the forecast period (i.e. 31 March 2027) has been derived using the growth in perpetuity formula. Based on the above discount rate, and a growth rate in perpetuity of 3% per annum, our TV for the business represents a FY28 EBIT multiple of 9.7 times (which we consider reasonable).

### Sensitivity analysis and DCF value

- 138 The assumptions set out above reflect the base case assumptions adopted in the financial model developed by LEA. As stated above, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.
- 139 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios or sensitivities, having regard to the respective key valuation drivers of the business being valued.
- 140 In assessing our valuation range for the PayGroup business we have therefore considered the sensitivity of value to changes in the key assumptions (being ARR growth, gross margin and discount rate), as shown below:

PayGroup – Sensitivity of DCF value to ARR growth rate and gross margin assumptions					
Growth in ARR relative to Base Case (% p.a.)	Growth in ARR relative to Base Case (% p.a.)				
	(2.0%)	(1.0%)	Base Case	1.0%	2.0%
Gross margin relative to Base Case	\$m	\$m	\$m	\$m	\$m
(2.0%)	85.9	94.7	103.7	113.1	122.7
(1.0%)	91.1	100.1	109.4	118.9	128.8
Base Case	96.3	105.5	115.0	124.8	134.9
1.0%	101.5	110.9	120.6	130.6	141.0
2.0%	106.7	116.3	126.2	136.5	147.0

PayGroup – Sensitivity of DCF value to discount rate					
Discount rate	Discount rate				
	11.5%	11.0%	10.5%	10.0%	9.5%
	\$m	\$m	\$m	\$m	\$m
DCF value of business	100.6	107.3	115.0	123.8	133.9

- 141 Having regard to the above scenarios, we have assessed the value of the PayGroup business under the DCF method at between \$107 million and \$120 million.

### Revenue multiple approach

- 142 SaaS businesses which are experiencing high revenue and customer growth are often also valued using a revenue multiple approach. This is because:
- unlike traditional software companies which generate upfront licence fees<sup>19</sup>, SaaS businesses charge smaller (monthly or annual) recurring fees for continued access to their software. However, as customer acquisition costs (such as sales and marketing costs) are incurred upfront<sup>20</sup>, SaaS businesses which are experiencing high revenue and customer growth are often unprofitable. Further, such businesses are usually focused on growing revenue and customers rather than short term profitability. As a result, current profitability is not generally a reliable metric to assess the value of a SaaS business which is experiencing high revenue and customer growth

<sup>19</sup> Traditional software companies also usually charge ongoing maintenance or support fees.

<sup>20</sup> Sales and marketing costs are generally not capitalised and amortised over the economic life of a customer.

- (b) notwithstanding the lack of current profitability, SaaS businesses often have high gross profit margins and low customer churn (due, in part, to the high switching costs associated with using a competing software platform). As a result:
  - (i) the present value of the future earnings contribution from new customers (which is largely derived in future years) is well in excess of customer acquisition costs
  - (ii) the high gross margin and low customer churn means that value is more correlated with revenue than current earnings.

143 Whilst SaaS revenues only accounted for approximately 32% of PayGroup's total revenue in FY22, the remaining revenue from managed payroll services is also of a recurring nature (as a result of its typical multi-year contract terms) and has grown strongly over recent years. In our view, a revenue multiple approach is therefore also appropriate for the managed payroll services business.

### **Annual recurring revenue**

144 Under the revenue multiple approach, the revenue of the business is capitalised at an appropriate revenue multiple. Whilst total revenue can be adopted, it is important to note that:

- (a) high gross margin recurring income (such as recurring licence fees) is highly valuable
- (b) one-off revenue (such as revenue associated with implementation services) is generally low margin and does not often contribute significantly to the value of the business.

145 Consequently, when adopting a revenue multiple approach it is preferable to capitalise ARR only.

146 As at 31 March 2022, PayGroup reported ARR of \$39.1 million. This included contracted revenues of \$7.6 million per annum which had not yet commenced, but are expected to commence during the six months to 30 September 2022 (1H22)<sup>21</sup>.

147 The \$39.1 million of ARR comprised \$28.6 million from the provision of managed payroll services and \$10.5 million of SaaS revenue. This distinction is important as SaaS businesses tend to trade on higher revenue multiples due to their higher gross margins (and related higher operating leverage). In this regard we note that:

- (a) PayGroup's SaaS business generated gross margins of around 63% compared to around 43% in the managed payroll business in FY22
- (b) the SaaS business is significantly more profitable due to its higher gross margins.

### **ARR multiples**

#### ***Listed company revenue multiples***

148 There are a number of ASX listed companies which provide payroll and HCM solutions. A brief description of these companies (together with two international companies which we

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<sup>21</sup> An inherent feature of the PayGroup business is that at any point in time there is a level of contracted revenue that has yet to commence.

also consider to be appropriate valuation reference points for PayGroup given the nature and size of their operations) is set out below:

- (a) **ELMO Software Limited** (ELMO) offers cloud-based solutions for small businesses and mid-market organisations to manage people, process, pay and expenses. Spanning across Australia, New Zealand and the United Kingdom, ELMO operates on a SaaS business model, based on recurring subscription revenues
- (b) **ReadyTech Holdings Limited** (ReadyTech) provides SaaS solutions for the education and training, workforce management, government and justice sectors. ReadyTech serves customers in Australia
- (c) **intelliHR Limited** (intelliHR) designs and develops people management software. The company offers a platform that focuses on analytics, organisation design, performance and people management, automation, organisational chart, and record keeping solutions. intelliHR serves customers in Australia and New Zealand and operates a SaaS business model
- (d) **Asure Software, Inc. (Asure Software)** develops and markets workforce management computer software. The company offers HCM services such as payroll and tax, HR, time, attendance, benefits enrolment tracking, pay stubs, expense management, and training software solutions. Asure Software serves small and mid-sized businesses in the US. Approximately 95% of revenue is generated via recurring subscription income
- (e) **Zalaris ASA (Zalaris)** provides HCM and payroll solutions from recruiting and onboarding to compensation, time and attendance, travel expenses and performance management. The company is headquartered in Oslo, Norway, and operates in the Nordics, Baltics, Poland, Germany, Austria, Switzerland, France, India, Ireland, the United Kingdom (UK) and Australia. The company serves more than one million employees each month. Approximately 70% of revenue in the three months to 31 March 2022 was generated from managed services (mainly payroll and HR outsourcing services) with the balance generated from professional services (including implementation fees).

149 The enterprise value (EV) to ARR multiples for these companies (which have been adjusted to reflect a control premium) are summarised below:

Listed company EV / ARR multiples (adjusted for a control premium) <sup>(1)</sup>			
	EV	ARR	EV / ARR
	A\$m	A\$m	A\$m
<b>ASX listed companies</b>			
ReadyTech	455.6	60.6	7.5x <sup>(3)</sup>
ELMO	401.8	101.2	4.0x
intelliHR	29.9	7.8	3.8x
<b>Overseas listed companies</b>			
Asure Software	260.7	92.0 <sup>(4)</sup>	2.0x <sup>(4)</sup>
Zalaris	193.0	87.7	2.2x

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**Note:**

- 1 Based on listed market prices as at 1 June 2022, adjusted for a 32.5% premium for control. Empirical research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)<sup>(2)</sup>.
  - 2 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.
  - 3 Based on annualised subscription revenue for the six months to 31 December 2021 rather than the ARR (which is not disclosed).
  - 4 Based on annualised subscription revenue for the 3 months to 31 March 2022 rather than ARR (which is not disclosed).
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150 Of the above companies, ELMO, ReadyTech, intelliHR and Asure Software generate the large majority of their revenue from recurring subscriptions and licence fees (SaaS revenue), whereas Zalaris' operations are more similar to PayGroup's managed payroll services business.

151 When assessing the appropriate ARR multiple to apply, it is also important to consider the following (inter-alia):

(a) **Revenue growth**

The higher the future revenue growth the higher the appropriate ARR multiple (all other variables held constant). This is consistent with the fact that higher growth companies tend to trade on higher multiples than lower growth companies, and reflects an expectation that higher growth companies will grow earnings and cash flows at a faster rate over the medium to long term

(b) **Scale**

The revenue growth rate must also be considered relative to the size of the company and its level of revenue. For example, a company generating 20% revenue growth on \$500 million in annual revenue (Company A) is prima facie more attractive and valuable than a company generating 20% revenue growth on \$10 million in annual revenue (Company B). Company A has demonstrated "product market fit" (given the size of its revenue) and is likely to trade on a higher revenue multiple (all other variables held constant) than Company B (which is also likely to be growing revenue at a slower pace compared to when Company A was generating a similar level of revenue)

(c) **Profit margins**

Higher profit margins as a percentage of revenue translate to higher revenue multiples as each dollar of revenue is more profitable. However, as noted above, SaaS businesses experiencing strong growth in revenue and customer numbers are often unprofitable (as such businesses are usually focused on growing revenue and customers rather than short term profitability). Accordingly, reported net profit margins are not considered to be a useful reference point when valuing growing SaaS businesses.

However, regard should be had to gross profit margins (as a percentage of revenue). This is because higher gross profit margins translate to higher profitability at scale than businesses with lower gross profit margins (as more revenue is retained to meet operating expenses, invest in research and development (R&D) and marketing activities and provide returns to shareholders). Thus, companies with higher gross profit margins should trade on higher revenue multiples (all other variables held constant).

However it should be noted that the derivation of gross profit margins<sup>22</sup> will vary across companies (and industries), making direct comparisons difficult. Nonetheless, they provide useful information on the profit potential of the companies at scale (i.e. as revenue grows and the business matures)

**(d) Customer churn**

Businesses with higher customer churn will trade on lower revenue multiples than businesses with lower customer churn. This is because higher customer churn means that customers are retained for shorter periods, and thus revenue and profits from the customer base is expected to decline faster (all other variables held constant)

**(e) Customer acquisition costs**

The lower customer acquisition costs are as a percentage of revenue, the higher the revenue multiple (all other variables held constant). This is because lower customer acquisition costs (as a percentage of revenue) mean that a greater proportion of revenue is available to meet operating expenses and provide returns to shareholders.

As the focus should be on the revenue generated from new customers acquired during the year relative to customer acquisition costs during that year, we consider it appropriate to have greater regard to ARR from new customers during the year as a percentage of customer acquisition costs in that year. This comparison measures the efficiency of customer acquisition costs (as a higher ratio implies more revenue is generated per dollar of customer acquisition costs incurred).

However, it should be noted that:

- (i) there is no standard definition of what should be included in customer acquisition costs (e.g. what proportion of sales and marketing relates to new customer acquisition activities?)
- (ii) each company will report customer acquisition costs on a different basis.

Accordingly, comparisons of additional ARR as a proportion of customer acquisition costs should be treated with caution.

152 Given the above, we set out below relevant metrics for each of the listed companies and PayGroup:

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<sup>22</sup> Specifically the extent to which variable or semi-variable costs are allowed for when deriving gross profit.

Key performance metrics – listed companies						
	PayGroup	ReadyTech	ELMO	intelliHR	Asure	Zalaris
<b>EV / ARR multiple (as above)<sup>(1)</sup></b>	<b>na</b>	<b>7.5x</b>	<b>4.0x</b>	<b>3.9x</b>	<b>2.0x</b>	<b>2.2x</b>
ARR growth (last 12 mths) <sup>(2)</sup>	44%	23% <sup>(3)</sup>	33%	101%	20% <sup>(3)</sup>	12%
Scale (ARR in A\$m)	39.1	60.6	101.2	7.8	92.0	87.7
Gross margin	54%	na	85%	na	64%	na
Customer retention	95%	97%	91%	~99%	na	na
Customer acquisition cost efficiency ratio <sup>(4)</sup>	4.8x	4.0x <sup>(5)</sup>	0.8x	4.7x	0.7x <sup>(5)</sup>	na
Sales & marketing (% of revenue)	10%	10%	41%	40%	20%	7% <sup>(10)</sup>
Underlying EBITDA margin (% of revenue)	12% <sup>(7)</sup>	36% <sup>(8)</sup>	3% <sup>(9)</sup>	Loss <sup>(6)(8)</sup>	11% <sup>(9)</sup>	13% <sup>(9)</sup>

**Note:**

- 1 Including a control premium (as discussed above).
- 2 Organic growth excluding impact of acquisitions.
- 3 Organic growth in subscription and licence revenue rather than ARR growth.
- 4 Change in ARR during year, divided by sales and marketing expense.
- 5 Based on change in revenue rather than change in ARR (as ARR not available).
- 6 In part, intelliHR's loss reflects its global expansion into the US, Canada and UK.
- 7 Year ended 31 March 2022 (based on normalised EBITDA as reported by PayGroup).
- 8 Six months ended 31 December 2021.
- 9 Three months ended 31 March 2022.
- 10 Year ended 31 December 2021.

153 In relation to the above we note the following:

- (a) ReadyTech trades on a high EV / ARR multiple, which we attribute primarily to its superior profitability (i.e. high EBITDA margin). Accordingly, we do not consider that ReadyTech's EV / ARR multiple provides an appropriate reference point for determining the value of PayGroup
- (b) whilst ELMO is the largest SaaS HCM business listed on the ASX and has significantly higher gross margins than PayGroup's SaaS business<sup>23</sup> (which indicates that ELMO has the potential for greater profitability at scale), PayGroup's SaaS business appears to have lower customer acquisition costs (as a percentage of revenue), higher ARR growth and higher current EBITDA margins (due, in part, to ELMO's higher level of sales and marketing expenses and R&D expenses)
- (c) Asure Software trades on lower EV / ARR multiples than ELMO and intelliHR, which we attribute to its lower growth and gross margins
- (d) as stated above, Zalaris' operations are more similar to PayGroup's managed payroll services business. However, we note that:

<sup>23</sup> 85% for ELMO versus 63% for PayGroup's SaaS business.

- (i) PayGroup’s managed payroll services business has achieved higher ARR growth than Zalaris in recent years
- (ii) Zalaris has achieved 11% EBITDA margins, whereas PayGroup’s managed payroll services business is significantly less profitable (at the EBITDA line)
- (e) the significantly higher gross margins of PayGroup’s SaaS business (63% compared to 43% for PayGroup’s managed payroll services<sup>24</sup>) means that the SaaS business should trade on significantly higher EV / ARR multiples due to its significantly higher potential profitability at scale.

### Transaction evidence

154 We have also researched transactions involving companies providing payroll and HCM solutions. Relevant transaction evidence has included the following:

- (a) 7 October 2020 – ELMO announced the acquisition of **Breathe**, a high growth UK based HR platform designed for small businesses. At the date of acquisition, Breathe had more than 6,700 small business customers. Revenue was 100% subscription based and ARR was growing at more than 30%. The acquisition was expected to open up a new market opportunity for ELMO in the Australian and NZ markets
- (b) 16 December 2020 – ELMO announced the acquisition of **Webexpenses**, a cloud based expense management solution. At the date of acquisition, Webexpenses had more than 1,000 customers in the UK, with a small footprint in Australia. 96% of revenue was 100% subscription based, and the business had a high gross profit margin of 90%
- (c) 23 December 2020 – The Access Group (Access) announced the acquisition of **Sage Group’s businesses in Australia and Asia**. The businesses acquired comprised the Australian accounting and compliant payroll solutions businesses, together with the EasyPay payroll solution business in Singapore and the UBS accounting software business in Malaysia. In the 12 months to 30 September 2020 the acquired businesses generated revenue and operating profit before tax of £48 million and £6 million respectively. The transaction completed on 1 March 2021
- (d) 1 February 2021 – Ceridian HCM Holding Inc. (Ceridian) announced the acquisition of **Ascender HCM Pty Ltd** (Ascender) for US\$359.6 million. Ascender is a payroll and human resources solutions provider in the APAC Japan region. At the date of acquisition, Ascender provided payroll and HR capabilities to more than 1,200 global brands. The transaction completed on 1 March 2021
- (e) 31 March 2021 – PayGroup announced the acquisition of **Integrated Workforce Solutions**. As noted in Section III, IWS is a leading cloud-based workforce management platform specialising in rostering and payroll solutions for the franchise sector in Australia and New Zealand. At the date of acquisition IWS had a client base of more than 1,000 customers, for which it processed in excess of 400,000 pay slips per annum. Customer retention was around 94%. IWS was also profitable (EBITDA was \$1.1 million) and free cash flow positive at the date of acquisition.

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<sup>24</sup> Gross margins for year ended 31 March 2022.

155 The EV / revenue multiples implied by these transactions were as follows:

<b>Transaction evidence - EV / revenue multiples</b>				
<b>Target</b>	<b>Date announced</b>	<b>EV<sup>(1)</sup> A\$m</b>	<b>ARR A\$m</b>	<b>EV / ARR A\$m</b>
Breathe	Oct 20	33 <sup>(2)</sup>	7	5.0x
Webexpenses	Dec 20	36 <sup>(2)</sup>	8	4.5x
Sage Group's Australian and Asian business	Dec 20	180	88 <sup>(3)</sup>	2.0x
Ascender	Feb 21	463	118 <sup>(4)</sup>	3.9x
IWS	Mar 21	13 <sup>(2)</sup>	6	2.3x

**Note:**

- 1 Enterprise value.
  - 2 Excludes potential earn-out
  - 3 Revenue for the 12 months to 30 September 2020.
  - 4 Annualised revenue for the 3 months to 30 June 2021.
- Rounding differences exist.

156 We attribute the higher EV / ARR multiples implied for the Breathe and Webexpenses transactions to the SaaS nature of their respective businesses. However, it should also be noted that the values ascribed to SaaS businesses generally have fallen significantly since these transactions were completed.

**Conclusion on EV / ARR multiples**

157 Having regard to the above, we consider that the following EV / ARR multiples should be applied when valuing PayGroup:

- (a) 3.8x to 4.2x for the SaaS business (i.e. around 4.0x)
- (b) 2.0x to 2.4x for the managed payroll services business (i.e. around 2.2x).

**Enterprise value based on revenue multiple approach**

158 Based on the above, the value of the PayGroup business (on a cash and debt free basis) based on the is as follows:

<b>Enterprise value based on revenue multiple approach</b>				
	<b>ARR<sup>(1)</sup> \$m</b>	<b>Multiple x</b>	<b>Enterprise value</b>	
			<b>Low \$m</b>	<b>High \$m</b>
Managed payroll services business	28.6	2.0 – 2.4	57.2	68.6
SaaS business	10.5	3.8 – 4.2	39.9	44.1
<b>Total</b>	<b>39.1</b>		<b>97.1</b>	<b>112.7</b>

**Note:**

- 1 As at 31 March 2022.

**Summary of business values**

159 A summary of our assessed valuation of the PayGroup business under each valuation approach is shown below:

**Enterprise value based on DCF and revenue multiple approach**

Valuation method	Enterprise value	
	Low \$m	High \$m
DCF approach	107.0	120.0
Revenue multiple approach	97.1	112.7
<b>Adopted range<sup>(1)</sup></b>	<b>107.0</b>	<b>118.0</b>

**Note:**

- 1 As we consider the DCF valuation methodology to be more robust (as it explicitly considers revenue growth rates and profit margins etc.) we have placed most reliance on the DCF valuation.

## Surplus cash

- 160 PayGroup held \$25.3 million in cash as at 31 March 2022. However, \$19.1 million of this cash belonged to clients for the payment of salaries to their employees<sup>25</sup> (and was only held by PayGroup as part of the payroll processing services provided to clients). Accordingly, PayGroup's company owned cash was \$6.2 million at 31 March 2022.
- 161 When considering the potential level of surplus cash held by PayGroup (being cash in excess of day to day requirements) we have also considered PayGroup's net working capital position, which is set out below for various dates:

**PayGroup - Net working capital**

	31 Mar 21 \$000	30 Sep 21 \$000	31 Mar 22 \$000
Cash <sup>(1)</sup>	3,096	7,655	6,173
Trade and other receivables	2,883	4,357	4,638
Other current assets	2,051	2,428	2,163
<b>Current assets</b>	<b>8,030</b>	<b>14,440</b>	<b>12,974</b>
Trade and other payables <sup>(1)</sup>	5,452	7,282	5,841
Other current liabilities (ex leases)	1,209	2,200	2,357
<b>Current liabilities</b>	<b>6,661</b>	<b>9,482</b>	<b>8,198</b>
<b>Net working capital (including cash)</b>	<b>1,369</b>	<b>4,958</b>	<b>4,776</b>

**Note:**

- 1 Cash and trade and other payables exclude client funds provided for the payment of employee salaries (which offset each other).

- 162 In our opinion, the large majority of cash held at the above dates was required for working capital purposes (and was therefore not surplus). Accordingly, (based on the reported position as at 31 March 2022) we have adopted surplus cash of \$2 million for valuation purposes.

## Shares on issue

- 163 As at 23 June 2022 (the date of the SIA) PayGroup had 118,327,272 shares on issue.

<sup>25</sup> A corresponding liability of \$19.1 million was reflected in the financial statements of PayGroup.

- 164 We have been advised that pursuant to senior management performance target arrangements in respect of both FY21 and FY22 additional shares of (in total) 1,003,108 are to be issued. Accordingly the number of issued shares the subject of the Scheme is expected to be 119,330,380.
- 165 As noted in Section I, the SIA also includes a recognition of the further potential issue of shares to a third party. We have been advised that this refers to a matter recently the subject of mediation, where a binding decision from the mediator is awaited. In the event of an outcome favourable to the Company no additional shares will be issued. In the event of an adverse outcome, PayGroup will be required to issue new shares to a value of \$1.5 million.
- 166 For valuation purposes we have adopted 119.3 million shares on issue, which reflects an assumption that the outcome of mediation is favourable to the Company. The potential for an adverse outcome is considered in Section VI.

### Valuation of PayGroup shares

- 167 Based on the above we have assessed the value of PayGroup shares on a 100% controlling interest basis as follows:

PayGroup – valuation of shares on a 100% controlling interest basis		
Valuation method	Enterprise value	
	Low \$m	High \$m
Enterprise value	107.0	118.0
Surplus cash	2.0	2.0
Equity value	109.0	120.0
Fully diluted shares on issue	119.3	119.3
<b>Adopted range per share</b>	<b>\$0.91</b>	<b>\$1.01</b>

### Other considerations

#### Sale process

- 168 As a cross-check on our valuation of PayGroup, we have considered the indicative and binding offers received for the company from interested parties following a formal sale process which commenced in early December 2021.
- 169 We have discussed the sale process with the management of PayGroup and its external advisers. In relation to the sale process we note that:
- (a) indicative proposals for 100% of PayGroup were received from a number of parties
  - (b) the offer from Deel (pursuant to the Scheme) is higher than the other indicative and/or definitive proposals received for 100% of PayGroup.
- 170 Our valuation range is broadly consistent with the range of final offers received. Accordingly, in our view, the outcome of the sale process supports our valuation range for PayGroup shares.

### Comparison with share price

171 We have also considered the listed market prices of PayGroup shares up to 22 June 2022 (being the last trading day prior to the announcement of the Scheme). These market prices are shown below:

PayGroup share prices prior to Scheme announcement	
	PayGroup share price A\$
<b>PayGroup share prices prior to Scheme announcement:</b>	
Closing price on 22 June 2022	0.365
VWAP <sup>(1)</sup> for 1 month up to and including 22 June 2022	0.367
VWAP for 3 months up to and including 22 June 2022	0.389

**Note:**

1 Volume weighted average price (VWAP).

172 For the purpose of our share price comparison we have had more regard to the VWAPs rather than the share price on the last trading day before the announcement of the Scheme (notwithstanding the broad consistency in the above share prices). Accordingly, for comparison purposes we have adopted a PayGroup share price of \$0.38 per share.

173 Empirical research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price as appropriate for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover)<sup>26</sup>.

174 Adding a 30% to 35% premium for control to our adopted share price of \$0.38 would therefore result in a theoretical “control” value of \$0.49 to \$0.51 per share. Whilst our assessed valuation of PayGroup shares (on a 100% controlling interest basis) significantly exceeds this theoretical range, we consider that our valuation range is appropriate, noting that:

- (a) in our view, PayGroup shares were significantly undervalued (based on share market trading) prior to the announcement of the Scheme and there was a clear disconnect between the value attributed by share market investors in PayGroup and the inherent value of the Company. In this regard (by way of example), we note that the ARR of the business has increased significantly since the date of the IPO (from around \$7.3 million at the date of the IPO in 2018 to \$39.1 million as at 31 March 2022), yet the PayGroup share price was significantly lower than the IPO price of \$0.50 per share prior to the announcement of the Scheme
- (b) as noted above, our valuation range is broadly consistent with the offers received for PayGroup pursuant to the competitive process conducted as part of the sale process.

<sup>26</sup> LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA’s study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

## VI Evaluation of the Scheme

175 In our opinion, the Scheme is fair and reasonable and in the best interests of PayGroup shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

### Assessment of the Scheme

#### Value of PayGroup

176 As set out in Section V we have assessed the value of PayGroup between \$0.91 and \$1.01 per share. For valuation purposes we have adopted 119.3 million shares on issue, which reflects an assumption that the outcome of the recent mediation (refer paragraph 165) is favourable to the Company. The potential for an adverse outcome is considered in paragraph 180 below.

#### Value of Scheme Consideration

177 As noted above, on the proviso that the number of shares on issue does not exceed 119.8 million (and assuming the Scheme is approved and implemented), PayGroup shareholders will receive \$1.00 in cash for each PayGroup share they hold on the Scheme Record Date. If the number of PayGroup shares on issue exceeds 119.8 million, then the Scheme Consideration per PayGroup share will be adjusted down on a proportional basis<sup>27</sup>. The potential for an adjustment downward in the Scheme Consideration is also considered in paragraph 181 below.

#### Fairness opinion

178 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to, or greater than, the value of the securities the subject of the Scheme. This comparison for PayGroup shareholders is shown below:

Comparison of Scheme Consideration to value of PayGroup			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Scheme Consideration	1.00	1.00	1.00
Value of 100% of PayGroup	0.91	1.01	0.96
Extent to which the Scheme Consideration exceeds (or is less than) the value of PayGroup	0.09	(0.01)	0.04

179 As the Scheme Consideration is consistent with the high end of our assessed valuation range for PayGroup shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to PayGroup shareholders when assessed based on the guidelines set out in RG 111.

#### *Fairness comparison in the event of an adverse mediation decision*

180 We have also assessed the fairness of the Scheme under a scenario where the outcome of the recent mediation gives rise to a decision adverse to the Company. In such circumstances additional PayGroup shares to an aggregate value of \$1.5 million are to be issued. We have been advised that the issue price per share will reflect the prevailing share price at the date of the decision. For the purpose of our report we have adopted an issue price of \$0.94 per share,

<sup>27</sup> The Scheme Consideration (in aggregate) is subject to a maximum equity value of PayGroup of \$119.8 million.

resulting in an additional 1,595,745 PayGroup shares being issued. In an adverse decision scenario (for valuation purposes) we have therefore adopted 120.9 million shares on issue. Our corresponding value of PayGroup reduces to between \$0.90 and \$0.99 per share<sup>28</sup>.

181 As noted above, the Scheme Consideration is subject to a maximum equity value of PayGroup of \$119.8 million and in a scenario where the number of PayGroup shares subject to the Scheme exceeds 119.8 million the Scheme Consideration per PayGroup share will be adjusted down on a proportional basis. Accordingly, based on 120.9 million shares on issue the Scheme Consideration reduces to \$0.99 per share.

182 The fairness comparison for PayGroup shareholders in such circumstances is shown below:

<b>Comparison of Scheme Consideration to value of PayGroup (assuming mediation results in an adverse outcome)</b>			
	<b>Low</b>	<b>High</b>	<b>Mid-point</b>
	<b>\$ per share</b>	<b>\$ per share</b>	<b>\$ per share</b>
Value of Scheme Consideration	0.99	0.99	0.99
Value of 100% of PayGroup	0.90	0.99	0.95
Extent to which the Scheme Consideration exceeds (or is less than) the value of PayGroup	0.09	-	0.04

183 As the Scheme Consideration is equal to the top end of our assessed valuation range for PayGroup shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is also fair to PayGroup shareholders (in an adverse mediation decision scenario) when assessed based on the guidelines set out in RG 111.

### **Reasonableness**

184 Pursuant to RG 111, a transaction is reasonable if it is fair. Accordingly, in our opinion, the Scheme is fair and reasonable.

### **In the best interests**

185 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “in the best interests of the members of the company” if there are sufficient reasons for shareholders to vote in favour of the Scheme in the absence of a higher offer.

186 Generally, in our experience, if a transaction is “fair” and “reasonable” under RG 111 it will also be “in the best interests” of shareholders. This is because, if the Scheme Consideration is fair, shareholders are implicitly receiving consideration for their shares which is consistent with the full underlying value of those shares.

187 We therefore consider that the Scheme is also “in the best interests” of PayGroup shareholders in the absence of a superior proposal.

### **Other considerations**

188 In assessing whether the Scheme is reasonable and in the best interests of PayGroup shareholders LEA has also considered, in particular:

<sup>28</sup> Being \$109 million to \$120 million (refer Section V) divided by 120.9 million shares.

- (a) the extent to which a control premium is being paid to PayGroup shareholders
- (b) the extent to which PayGroup shareholders are being paid a share of any synergies likely to be generated if the Scheme is implemented
- (c) the listed market price of the shares in PayGroup, both prior to and subsequent to the announcement of the proposed Scheme
- (d) the likely market price of PayGroup securities if the proposed Scheme is not implemented (and a comparable or superior proposal does not emerge)
- (e) the value of PayGroup to an alternative offeror and the likelihood of a higher alternative offer being made for PayGroup prior to the date of the Scheme Meeting
- (f) the advantages and disadvantages of the Scheme from the perspective of PayGroup shareholders
- (g) other qualitative and strategic issues associated with the Scheme.

189 These issues are discussed in detail below.

### **Extent to which a control premium is being paid**

190 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares<sup>29</sup> three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price)<sup>30</sup>. This premium range reflects the fact that:

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
- (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

191 Given the above, we have calculated the premium implied by the Scheme Consideration (of \$1.00 per share<sup>31</sup>) by reference to the market prices of PayGroup shares (as traded on the

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<sup>29</sup> After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

<sup>30</sup> LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

<sup>31</sup> There would be no material change to our analysis if a proportionately lower Scheme Consideration of \$0.99 per share was adopted for implied premium calculation purposes.

ASX) for periods up to and including 22 June 2022 (being the last trading day prior to the announcement of the Scheme).

- 192 The implied offer premium relative to the PayGroup share prices up to this date is shown below:

Implied offer premium relative to recent PayGroup share prices <sup>(1)</sup>		
	PayGroup share price	Implied offer premium
	\$	%
Closing share price on 22 June 2022 <sup>(2)</sup>	0.365	174.0
VWAP for 1 month up to and including 22 June 2022	0.367	172.4
VWAP for 3 months up to and including 22 June 2022	0.389	157.2

**Note:**

- 1 Rounding differences may exist.
- 2 Being the closing price on the last day of trading prior to the announcement of the Scheme.

- 193 Based on the above share prices we note that the Scheme Consideration provides PayGroup shareholders with an implied premium that significantly exceeds observed premiums generally paid in comparable circumstances (and an implied premium close to the highest observed by LEA in transactions where we have provided an IER).
- 194 As stated in Section V, this reflects our view that (notwithstanding the relatively low level of share market trading) PayGroup shares were significantly undervalued prior to the announcement of the Scheme and there was a clear disconnect between the value attributed by share market investors in PayGroup and the inherent value of the Company. Subsequent to the IPO in 2018 (which was priced at \$0.50 per share) PayGroup has grown significantly and diversified its business offering, however share market investors have attributed a lower value to the Company than at the time of the IPO (the rationale for which we are unable to offer an explanation).
- 195 As noted above, the Scheme Consideration is at the high end of the range of our valuation of PayGroup shares, and accordingly, in our view, PayGroup shareholders are being fully compensated for the fact that 100% of control of PayGroup will pass to Deel if the Scheme is approved.

**Extent to which PayGroup shareholders are being paid a share of synergies**

- 196 If the Scheme is approved by PayGroup shareholders, Deel will acquire a 100% interest in PayGroup. As PayGroup will be privatised, listed company costs will be eliminated with associated cost savings to the merged group.
- 197 We understand Deel is a global operator in the payroll and HCM services sector and therefore provides some services which are similar and/or complementary to those of PayGroup. The potential therefore exists for operational synergies between the two business operations (which may be of significance). However, we understand that this potential was not a major consideration in negotiations between the parties and to date has not been the subject of detailed review from both a qualitative and quantitative perspective.
- 198 However, as the Scheme Consideration is equal to the top end of our assessed value range of PayGroup (on a 100% controlling interest basis), we are of the view that PayGroup

shareholders are being paid an appropriate share of the value of the synergies which may potentially arise from the acquisition.

### **Recent share prices subsequent to the announcement of the Scheme**

- 199 Shareholders should note that PayGroup shares have traded on the ASX in the range of \$0.90 to \$0.96 per share in the period since the announcement of the Scheme up to 18 August 2022, with around 36.4 million shares (equivalent to some 31% of the issued capital) traded. These share prices are slightly lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.
- 200 PayGroup shareholders considering selling their PayGroup shares on the ASX will need to consider brokerage costs and should note that:
- (a) the PayGroup share price on the ASX is subject to daily fluctuation
  - (b) PayGroup shareholders who sell their PayGroup shares on the ASX will not obtain the benefit of the Scheme or any superior proposal should this eventuate.

### **Likely price of PayGroup shares if the Scheme is not implemented**

- 201 If the Scheme is not implemented we expect that, at least in the short term, PayGroup shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of PayGroup shares on a portfolio basis and their value on a 100% controlling interest basis. In this regard we note that PayGroup shares last traded at \$0.365 per share on 22 June 2022 (being the last trading day prior to the announcement of the Scheme), reflecting a clear disconnect to the inherent value of the Company (as noted above)<sup>32</sup>.
- 202 If the Scheme is not implemented those PayGroup shareholders who wish to sell their PayGroup shares are therefore likely, at least in the short term, to realise a significantly lower price for their shares than will be payable under the Scheme.

### **Likelihood of an alternative offer**

- 203 As noted in Section V, PayGroup and its financial advisers undertook a comprehensive competitive sale process for PayGroup, which included engagement with a significant number of interested parties (based in Australia and overseas), including potential industry and financial buyers. In summary:
- (a) indicative proposals for 100% of PayGroup were received from a number of parties
  - (b) the offer from Deel (pursuant to the Scheme) is higher than the other indicative and/or definitive proposals received for 100% of PayGroup.
- 204 Given the sale process undertaken, in our opinion, it is unlikely that a superior offer to the Scheme will occur prior to the Scheme Meeting.

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<sup>32</sup> Given the Sale Process and subsequent disclosure of the Scheme Consideration we would not expect the PayGroup share price (in the event the Scheme was not approved) to decline to the level at which PayGroup shares were previously trading.

205 Further, we have been advised by the Directors of PayGroup that no alternative offers or approaches from any third parties have been received subsequent to the announcement of the Scheme.

### **Summary of opinion on the Scheme**

206 We summarise below the likely advantages and disadvantages for PayGroup shareholders if the Scheme proceeds.

#### **Advantages**

207 In our opinion, the Scheme has the following benefits for PayGroup shareholders:

- (a) the Scheme Consideration is consistent with the high end of our assessed value range for PayGroup shares on a 100% controlling interest basis
- (b) the Scheme Consideration represents a significant premium to the recent market prices of PayGroup shares prior to the announcement of the Scheme
- (c) furthermore, the premium is well above observed premiums generally paid to target company shareholders in comparable circumstances (reflecting our view that there was a clear disconnect between the value attributed by share market investors in PayGroup prior to the announcement of the Scheme and the inherent value of the Company)
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, PayGroup shares are likely to trade at a significant discount to our valuation and the Scheme Consideration due to, in part, the portfolio nature of individual shareholdings.

#### **Disadvantages**

208 PayGroup shareholders should note that if the Scheme is implemented they will no longer hold an interest in PayGroup. PayGroup shareholders will therefore not participate in any future value created by the Group over and above that reflected in the Scheme Consideration.

209 However, as the high end of the range of our assessed value of PayGroup shares is consistent with the Scheme Consideration, in our opinion, the present value of PayGroup's future potential is adequately reflected in the Scheme Consideration.

#### **Conclusion**

210 Given the above analysis, we consider the acquisition of PayGroup shares under the Scheme is fair and reasonable and in the best interests of PayGroup shareholders in the absence of a superior proposal.

## Appendix A

### Financial Services Guide

#### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

#### Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to PayGroup shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at A\$90,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 27 years and 35 years experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Directors of PayGroup to accompany the Scheme Booklet to be sent to PayGroup shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of PayGroup shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, PayGroup agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of PayGroup which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

## Appendix C

### Assessment of appropriate discount rate

#### Principles

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset or business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset or business. Discount rates for assets or businesses are frequently evaluated using the weighted average cost of capital (WACC) which is a function of the cost of equity and the cost of debt (and related debt to equity levels).

#### WACC

- 3 The generally accepted WACC formula is the post-tax WACC (without adjustment for dividend imputation), as shown below:

##### WACC formula

$$WACC = R_e \frac{E}{V} + R_d(1 - t) \frac{D}{V}$$

where:

- $R_e$  = expected equity investment return or cost of equity in nominal terms
- $R_d$  = interest rate on debt (pre-tax)
- $t$  = corporate tax rate
- $E$  = market value of equity
- $D$  = market value of debt
- $V$  = market value of debt plus equity

- 4 We have used the capital asset pricing model (CAPM) to derive the cost of equity for PayGroup. The formula for deriving the cost of equity using the capital asset pricing model is as follows:

##### Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

where:

- $R_e$  = expected equity investment return or cost of equity in nominal terms
- $R_f$  = risk-free rate of return
- $E(R_m)$  = expected market return
- $E(R_m) - R_f$  = market risk premium (MRP)
- $\beta_e$  = equity beta

- 5 The elements adopted in the calculation of the discount rate for PayGroup using the WACC are detailed as follows.

## Appendix C

### Risk-free rate

- 6 For the purpose of our valuation of PayGroup we have adopted a long-term risk-free rate of 4.0% per annum, which is broadly consistent with the average yield on long term Australian Commonwealth Government Bonds over the 1 month to 13 July 2022.

### Market risk premium

- 7 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well-diversified portfolio of equity securities (i.e. the equity market as a whole). Having regard to academic studies and empirical evidence, as well as the average market risk premium calculated over the longer term, we have adopted a long-term MRP of 6.5%.

### Equity beta

- 8 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1.0 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1.0 suggests that future returns will be less volatile and risky.
- 9 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.
- 10 In determining the appropriate equity beta for PayGroup, we have considered (inter-alia):
- (a) the beta estimates for PayGroup and other listed companies operating in the payroll services and HCM sector
  - (b) the risks associated with the business of PayGroup.

### *Betas for listed companies*

- 11 The equity betas for selected listed companies operating in the payroll services and HCM sectors (including a number of large companies for which more reliable beta estimates are available) are set out below:

Listed company betas					
Company	Market value <sup>(1)</sup> A\$m	Bloomberg beta <sup>(2)</sup>	RSQ <sup>(3)</sup>	SIRCA beta <sup>(4)</sup>	RSQ <sup>(3)</sup>
<b>ASX listed companies</b>					
ReadyTech <sup>(5)</sup>	283	1.91	0.40	1.80	0.26
ELMO Software	245	1.85	0.33	1.56	0.18
PayGroup	44	0.36	0.02	(0.13)	0.00
intelliHR	19	3.17	0.11	3.47	0.13

## Appendix C

Listed company betas					
Company	Market value <sup>(1)</sup> A\$m	Bloomberg beta <sup>(2)</sup>	RSQ <sup>(3)</sup>	SIRCA beta <sup>(4)</sup>	RSQ <sup>(3)</sup>
<b>International companies</b>					
Automatic Data Processing	120,696	0.79	0.40	na	na
Paychex	58,850	0.96	0.52	na	na
Paycom Software	23,019	1.63	0.33	na	na
Paylocity	12,731	1.33	0.26	na	na
Ceridian HCM	9,907	1.50	0.42	na	na
Asure Software	162	0.88	0.11	na	na
Zalaris	111	1.12	0.23	na	na

**Note:**

- 1 Market capitalisation obtained from Bloomberg as at 21 June 2022.
  - 2 Based on four years of monthly returns to 17 June 2022.
  - 3 R-squared (RSQ) measures the reliability of the beta estimate.
  - 4 As at 31 March 2022 (being the most current data available) and based on 47 monthly returns. SIRCA has excluded the share trading in March 2020 given the additional volatility caused by the COVID-19 pandemic.
  - 5 Only 37 monthly returns were available as the company listed in April 2019.
- na – not available.

- 
- 12 The above betas vary widely which reflects (inter-alia) differences in size, leverage and operational risks. None of the other listed companies are directly comparable to PayGroup and some are significantly larger in size.
  - 13 It is also important to consider the related RSQ values shown above, which measure the reliability of the beta estimate. RSQ values range between 0 (not reliable) and 1 (most reliable). On this basis, the above betas are not considered particularly reliable, although the betas for ReadyTech, Automatic Data Processing, Paychex and Ceridian HCM are considered more reliable than the betas for the other listed companies (which should not be relied upon).

***Risk factors of PayGroup***

- 14 Given the above, when assessing the appropriate beta to apply for PayGroup we have placed more weight on our assessment of the risk characteristics of the business. In this regard, we note that the PayGroup business has a number of lower risk characteristics, including:
  - (a) a high level of recurring income
  - (b) the provision of an essential service for clients needing to outsource their payroll functions
  - (c) relatively low customer churn
  - (d) no significant customer concentration.
- 15 The above factors would imply a below average risk level. However, we also note that:
  - (a) the provision of payroll and HCM services is very competitive (i.e. there are a sizeable number of industry participants)

## Appendix C

- (b) PayGroup incurred a loss before tax in FY22
- (c) the cash flow projections adopted in our DCF valuation reflect significant revenue and earnings growth.

16 On balance we therefore consider that a beta of around 1.0 is appropriate for PayGroup.

### Gearing ratio

17 Consistent with the (Company owned) net cash position held by PayGroup since listing in 2018, we have assumed that the business operations of PayGroup are financed by equity capital only (i.e. no net debt).

### WACC

18 Based on the above, the discount rate range for PayGroup is as follows:

PayGroup – assessment of discount rate		
Parameters	Low %	High %
Risk-free-rate	4.0	4.0
MRP	6.5	6.5
Beta	0.9	1.1
<b>Cost of equity</b>	<b>9.9</b>	<b>11.2</b>
Proportion of equity funding (%)	100%	100%
Proportion of debt funding (%)	Nil	Nil
<b>WACC / discount rate (after tax)</b>	<b>9.9</b>	<b>11.2</b>

19 Accordingly, for the purposes of our calculations we have adopted a (post-tax) discount rate of 10.5% per annum (around the midpoint of the discount rate range calculated above).

## Appendix D

### Glossary

Term	Meaning
IH22	The six months to 30 September 2022
AASB 16	Australian Accounting Standard AASB 16 – <i>Leases</i>
Access	The Access Group
AFCA	Australian Financial Complaints Authority
APAC	Asia Pacific
ARR	Annual recurring revenue
Ascender	Ascender HCM Pty Ltd
ASIC	Australian Securities & Investments Commission
Asure Software	Asure Software, Inc.
ASX	Australian Securities Exchange
BPO	Business process outsourcing
CAGR	Compound annual growth rate
CAPM	Capital asset pricing model
Ceridian	Ceridian HCM Holding Inc.
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Corporations Regulations	Corporations Regulations 2001
DCF	Discounted cash flow
Deel	Deel, Inc.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
ELMO	ELMO Software Limited
ERP	Enterprise resource planning
EV	Enterprise value
FSG	Financial Services Guide
FY	Financial year
GPP	Global Partner Program
HCM	Human capital management
HR	Human resources
IER	Independent expert's report
intelliHR	intelliHR Limited
IPO	Initial public offering
IWS	Integrated Workforce Solutions
LEA	Lonergan Edwards & Associates Limited
MRP	Market risk premium
NPV	Net present value
PayGroup / the Company	PayGroup Limited
R&D	Research and development
ReadyTech	ReadyTech Holdings Limited
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
RSQ	R-squared
SaaS	Software-as-a-service
Scheme	Scheme of arrangement between PayGroup and its shareholders to implement the SIA
Scheme Consideration	A\$1.00 cash for each PayGroup share held on the Scheme Record Date
SIA / the Agreement	Scheme Implementation Agreement
TV	Terminal value
UK	United Kingdom
US	United States of America

## Appendix D

<b>Term</b>	<b>Meaning</b>
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding
Zalaris	Zalaris ASA

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## **Annexure C – Scheme Implementation Agreement**

K&L GATES

# Scheme Implementation Agreement

**Paygroup Limited**

ACN 620 435 038

and

**Deel Australia Holdings Pty Ltd**

ACN 660 260 051

and

**Deel, Inc.**

**K&L Gates**  
Melbourne office  
Ref: NM:AG

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**ATO** means the Australian Taxation Office;

**Authorised Officer** means in respect of:

- (a) the Target, any Target Director; and
- (b) the Bidder, Philippe Bouaziz;

**Beneficiary** means, in respect of a Condition, the party listed as the beneficiary of the Condition as set out in Schedule 1;

**Bidder Group** means the Bidder and its Subsidiaries;

**Bidder Indemnified Party** means each member of the Bidder Group and their respective Representatives;

**Bidder Knowledge Parties** means the people listed in Document 0.025.01 in the Data Room;

**Bidder Obligations** means the obligations of the Bidder set out in Schedule 5;

**Bidder Scheme Information** means all information regarding the Bidder Group that:

- (a) is required to be included in the Scheme Booklet under applicable Law, including the Corporations Act, Corporations Regulations and ASIC policies and guidance, including information about the Bidder, the Bidder's arrangements for funding the Scheme Consideration and the Bidder's intentions with respect to the assets, business and employees of the Target if the Scheme is approved and implemented; and
- (b) the Independent Expert requires to prepare the Independent Expert's Report,

but excluding information about the Target Group (except to the extent it relates to any statement of intention relating to the Target Group following the Implementation Date);

**Bidder Warranties** means the representations and warranties of the Bidder set out in Schedule 5;

**Break Fee** means \$1,198,303.80;

**Business** means the business conducted by the Target as at the date of this Agreement;

**Business Day** means a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne;

**Capital Structure Conditions** means the Conditions contained in items 9 (Restructure and Confirmation Steps), 10 (Contingent Target Share Issues) and 11 (Escrowed Target Shares) of Schedule 1;

**Claim** means a claim, notice, demand, action, proceeding, litigation, prosecution, arbitration, investigation, judgment, award, damage, loss, cost, expense or liability however arising, whether present, unascertained, immediate, future or contingent, whether based in contract, tort or statute;

**Competing Proposal** means any proposal, agreement, arrangement or transaction (other than the Scheme and the transactions contemplated by this Agreement) that

would, if completed substantially in accordance with its terms, result in any person or persons (other than the Bidder or its Associates):

- (a) acquiring a Relevant Interest in more than 20% of Target Shares or of the securities of any member of the Target Group;
- (b) directly or indirectly acquiring an interest (including an economic interest) in all or a material part of the business or assets of the Target or the Target Group;
- (c) acquiring Control of the Target or any member of the Target Group; or
- (d) otherwise acquiring, or being acquired by, the Target or any member of the Target Group (including by way of takeover, reverse takeover, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, dual listed company structure or joint venture),

or would otherwise result in the Transaction not being able to be implemented on the basis set out in this Agreement;

**Condition** means a condition set out in Schedule 1;

**Confidentiality Deed** means the Confidentiality Deed Poll granted by the Bidder in favour of the Target;

**Contingent Target Share Issues** means any obligation of the Target to issue Target Shares to Third Parties, whether contingent or otherwise, as set out in Document 1.14.03 and Document 7.09.02 in the Data Room;

**Control** has the meaning given in section 50AA of the Corporations Act;

**Continuing Clauses** means this clause 1, and clauses 8 (Public announcement), 9.3 (Target indemnity), 10.2 (Bidder indemnity), 11 (Release), 13 (Break Fee), 14 (Reverse Break Fee), 16 (Confidentiality), 17 (GST), 21.10 (Costs and expenses), 21.18 (Governing law and jurisdiction), 19.1 (Notices) and any other clause that by its terms survives termination of this Agreement;

**Corporations Act** means the *Corporations Act 2001 (Cth)*;

**Corporations Regulations** means the *Corporations Regulations 2001 (Cth)*;

**Court** means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the parties may agree;

**Court Documents** means the documents required for the purposes of a Court Hearing, including (as applicable) originating process, affidavits, submissions and draft minutes of Court orders;

**Court Hearing** means the First Court Hearing or the Second Court Hearing (as applicable), and Court Hearings means both of them;

**Data Room** means the virtual data room established by the Target and hosted by Ansarada containing information relating to the Target Group and to which the Bidder and its Representatives had access in the Due Diligence Period;

**Deed Poll** means the deed poll substantially in the form of Annexure 3, or such other form agreed in writing by the Target and the Bidder;

**Dispatch Date** means the date the Scheme Booklet is dispatched to Target Shareholders;

**Due Diligence Period** means the period between the date of the Confidentiality Deed and the date that is one Business Day prior to the date of this Agreement;

**Effective** means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme;

**Effective Date** means the date on which the Scheme becomes Effective;

**Encumbrance** means:

- (a) any:
  - (i) legal or equitable interest or power created, arising in or reserved in or over an interest in any property or asset; or
  - (ii) security for payment of money, performance of obligations or protection against default (including a mortgage, bill of sale, charge, lien, pledge, trust, power or retention of title arrangement, right of set-off, assignment of income, garnishee order, monetary claim and flawed deposit arrangement);
- (b) any thing or preferential interest or arrangement of any kind giving a person priority or preference over claims or other persons with respect to any property or asset;
- (c) a PPSA Security Interest; or
- (d) any agreement or arrangement (whether legally binding or not) to grant or create anything referred to in paragraphs (a), (b) or (c);

**Escrowed Target Shares** means any Target Shares which are the subject of voluntary escrow arrangements or other restrictions on disposal;

**Exclusivity Period** means the period from the date of this Agreement to the earlier of:

- (a) the termination of this Agreement;
- (b) the Effective Date; and
- (c) the Sunset Date;

**Fairly Disclosed** means in relation to a matter, event or circumstance, that information about the matter, event or circumstance is disclosed to a sufficient extent and in sufficient detail having made all reasonable enquiries to enable a reasonable person experienced in the industries in which the Target Group and the Bidder Group operate or transactions similar to the Transaction to identify the nature and scope of the relevant matter, event or circumstance;

**First Court Date** means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act, with such hearing being the **First Court Hearing**;

**Government Agency** means ASIC, the Court, the Takeovers Panel and any other government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister and any regulatory organisation established under statute or any stock exchange;

**Headcount Test** means the requirement under section 411(4)(a)(ii)(A) of the Corporations Act that the resolution to approve the Scheme at the Scheme Meeting is passed by a majority in number of Target Shareholders present and voting, either in person or proxy;

**Implementation Date** means, the fifth Business Day after the Record Date, or such other Business Day the parties agree;

**Independent Expert** means Lonergan Edwards & Associates Limited, being the expert engaged by the Target to produce the Independent Expert's Report;

**Independent Expert's Report** means the report from the Independent Expert which includes a statement by the Independent Expert on whether, in its opinion, the Scheme is in the best interests of Target Shareholders;

**Intellectual Property Rights** means all intellectual property rights, including all current and future registered and unregistered rights in respect of copyright, designs, circuit layouts, trade marks, know-how, confidential information, patents, inventions, discoveries, business names and domain names and all other intellectual property as defined in article 2 of the convention establishing the World Intellectual Property Organisation 1967;

**Law** includes:

- (a) any statute, regulation, rule, by-law, ordinance, proclamation, treaty, decree, convention, rule of any applicable stock exchange, or requirement or approval (including any Government Agency);
- (b) any judgement, court order, injunction or rule or principle of common law or equity; and
- (c) that law as amended, consolidated, supplemented, re-enacted or replaced;

**Listing Rules** means the listing rules of ASX;

**Loss** means any loss, Claim, liability (whether contingent or otherwise), damage, charges, payments, cost or expense (whether direct, indirect or consequential and whether accrued or paid) including legal fees and disbursements and costs of investigation, litigation, settlement, judgment, interest and penalties;

**Material Adverse Change** means either:

- (a) any Target Director or senior executive of the Target Group being charged with a criminal offence relating to any financial or corporate matter or being disqualified from managing a corporation under the Corporations Act or any equivalent legislation in another jurisdiction; or
- (b) any Government Agency commences any public action or investigation against a Target Group Member, Target Director or senior executive of the Target Group or publicly announces that it intends to take such action,

in each case, where such event has had, or is reasonably likely to have, a material adverse effect on the reputation of the Target Group, but does not include:

- (c) any matter required to be done or procured, or which is permitted pursuant to this Agreement or the Scheme;
- (d) any matter Fairly Disclosed in the Target Due Diligence Information;
- (e) any matter which would have been disclosed to the Bidder had the Bidder conducted searches 10 Business Days before the date of this Agreement of:
  - (i) the registers maintained by ASIC;
  - (ii) registers maintained by the High Court and the Federal Court of Australia, and the Supreme Courts of the States and Territories in Australia; or
  - (iii) the PPSR; or
- (f) any matter undertaken with the prior written consent of the Bidder;

**PPSA** means the *Personal Property Securities Act 2009 (Cth)*;

**PPSA Security Interest** means a security interest as defined in the PPSA;

**PPSR** means the register maintained pursuant to the PPSA;

**Recommendation** has the meaning given to that term in clause 6.7(a);

**Record Date** means 5.00 pm on the date which is 2 Business Days after the Effective Date, or such other Business Day agreed by the Bidder and the Target;

**Regulatory Approval** means any approval of a Government Agency to the Scheme or any aspect of it which is necessary or desirable for the implementation of the Scheme;

**Related Body Corporate** has the meaning given in the Corporations Act;

**Relevant Interest** has the meaning given to that term in sections 608 and 609 of the Corporations Act, as modified by any legislative instrument issued by ASIC;

**Representative** means in respect of a party:

- (a) a Related Body Corporate of that party; and
- (b) that party's directors, officers, employees, contractors, potential debt or equity financing sources and Advisers (including a director, officer or employee of that Adviser);

**Responsible Party** means, in respect of a Condition, the party listed as the Responsible Party of the Condition as set out in Schedule 1;

**Restructure and Confirmation Steps** means the steps outlined in Document 0.025.02 in the Data Room;

**Reverse Break Fee** means \$1,198,303.80;

**Scheme** means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between the Target and Scheme Participants in respect of the Scheme Shares, substantially in the form set out in Annexure 2, subject to any amendments made under section 411(6) of the Corporations Act and approved in writing by the Bidder;

**Scheme Booklet** means the explanatory booklet to be approved by the Court in respect of the Scheme and to be dispatched to Target Shareholders, and includes the Scheme; a copy of the Deed Poll executed by the Bidder; an explanatory statement as that term is defined in section 412 of the Corporations Act; the Independent Expert's Report; and a notice of meeting and proxy form;

**Scheme Consideration** means the consideration payable by the Bidder for the transfer of Scheme Shares held by a Scheme Participant to the Bidder, being the lesser of:

- (a) \$1.00 per Scheme Share; and
- (b) the amount per Scheme Share calculated in accordance with the following formula:

$$SC = (\text{Maximum Equity Value}/N)$$

where:

**SC** means the consideration payable per Scheme Share;

**Maximum Equity Value** means \$119,830,380; and

**N** means the number of Scheme Shares on issue as at the Record Date;

**Scheme Meeting** means the meeting of Target Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting;

**Scheme Share** means a Target Share on issue as at the Record Date;

**Scheme Participant** means a person who holds one or more Scheme Shares;

**Second Court Date** means the first day on which the application to approve the Scheme under section 411(4)(b) of the Corporations Act is heard by the Court, with such hearing being the **Second Court Hearing**;

**Subsidiary** has the meaning given in the Corporations Act;

**Sunset Date** means 5:00 pm on the date which is 5 months after the date of this Agreement or such other date and time agreed between the Bidder and the Target;

**Superior Proposal** means a bona fide Competing Proposal which the Target Board, acting in good faith in order to satisfy what the Target Board reasonably considers to be its fiduciary or statutory duties and after taking advice from the Target's legal and financial advisers, determines:

- (a) is reasonably likely to be completed in accordance with its terms in a timely fashion taking into account all financial, regulatory and other aspects of such

proposal, including its conditionality and the ability of the proposing party to fund and consummate the transactions contemplated by the Competing Proposal; and

- (b) would, if completed substantially in accordance with its terms, result in a transaction that is more favourable to Target Shareholders than the Transaction, taking into account the terms and conditions of the Competing Proposal;

**Takeovers Panel** means the review body continuing in existence under section 261 of the Australian Securities and Investments *Commission Act 2001 (Cth)* and given powers under Part 6.10 of the Corporations Act;

**Target Board** means the board of directors of the Target as constituted from time to time;

**Target Director** means a director of the Target;

**Target Due Diligence Information** means all written information and materials relating to the Target and Target Shares made available to the Bidder and its Advisers during the Due Diligence Period in the Data Room, including any written answers as contained in the Data Room during the Due Diligence Period in response to requests for further information made by the Bidder and its Representatives;

**Target Group** means the Target, each of its Subsidiaries (as assessed on the basis that each entity in column two of the Restructure and Confirmation Steps is a wholly-owned subsidiary of the Target) and **Target Group Member** means any one of them;

**Target Indemnified Party** means each Target Group Member and their respective Representatives;

**Target Obligations** means the obligations of the Target set out in Schedule 2;

**Target Prescribed Occurrence** means the occurrence of any of the following:

- (a) the Target converts all or any of its shares into a larger or smaller number of shares;
- (b) the Target resolves to reduce its share capital in any way or resolves to re-classify, combine, split, redeem or re-purchase directly or indirectly any of its shares;
- (c) the Target:
- (i) enters into a buy-back agreement under the Corporations Act; or
  - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) any member of the Target Group issues shares, or grants a performance right, a phantom performance right, or an option over its shares, or agrees to make such an issue or grant such a performance right, phantom performance right or an option;
- (e) any member of the Target Group issues, or agrees to issue, convertible notes or any other security convertible to shares;

- (f) the Target declares, pays or distributes any dividend, bonus or other share of its profits or assets by way of dividend, return of capital or otherwise;
- (g) any member of the Target Group creates or agrees to create, any Encumbrance over the whole, or a substantial part, of its business or property, other than in the usual and ordinary course of business consistent with past practice;
- (h) the Target Shares cease to be quoted on ASX;
- (i) the Target or any of its Subsidiaries disposes, or agrees to dispose, of the whole or a substantial part of its business or property; or
- (j) any member of the Target Group becomes Insolvent,

provided that a Target Prescribed Occurrence will not include any matter:

- (k) that has been Fairly Disclosed in the Target Due Diligence Information;
- (l) which was actually known by the Bidder Knowledge Parties as at the date of this Agreement;
- (m) which would have been disclosed to the Bidder had the Bidder conducted searches 10 Business Days before the date of this Agreement of:
  - (i) the registers maintained by ASIC;
  - (ii) the registers maintained by the High Court and the Federal Court of Australia, and the Supreme Courts of the States and Territories in Australia; or
  - (iii) the PPSR;
- (n) required to be done or procured, or which is permitted pursuant to this Agreement or the Scheme;
- (o) required by Law or by an order of a court or Government Agency; or
- (p) which the Bidder has previously approved in writing (which approval must not be unreasonably withheld or delayed);

**Target Scheme Information** means all information included in the Scheme Booklet and the Independent Expert's Report other than the Bidder Scheme Information;

**Target Share** means a fully paid ordinary share in the capital of the Target;

**Target Shareholder** means each person who is registered in the Target register of members as a holder of Target Shares;

**Target Warranties** means the representations and warranties of the Target set out in Schedule 4;

**Third Party** means a person other than Target, the Bidder or their respective Related Bodies Corporate;

**Timetable** means the indicative timetable in relation to the Scheme set out in Annexure 1 with such modifications as may be agreed in writing by the parties;

**Transaction** means the acquisition of the Target by the Bidder through the implementation of the Scheme in accordance with the terms of this Agreement;

**Transaction Costs** means the Target's transaction costs with respect to the Transaction as set out in Document 0.025.09 in the Data Room; and

**Voting Intention** has the meaning given to that term in clause 6.7(a).

## 1.2 Interpretation

In this Agreement unless the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes the other genders;
- (c) the headings are used for convenience only and do not affect the interpretation of this Agreement;
- (d) other grammatical forms of defined words or expressions have corresponding meanings;
- (e) a reference to a document includes the document as modified from time to time and any document replacing it;
- (f) a reference to a party is to a party to this Agreement and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (g) if something is to be or may be done on a day that is not a Business Day then it must be done on the next Business Day;
- (h) the word "person" includes a natural person, partnership, body corporate, association, governmental or local authority, agency and any body or entity whether incorporated or not;
- (i) the word "month" means calendar month and the word "year" means 12 months;
- (j) the words "in writing" include any communication sent by letter, facsimile transmission or email or any other form of communication capable of being read by the recipient;
- (k) a reference to a thing includes a part of that thing;
- (l) a reference to all or any part of a statute, rule, regulation or ordinance (**statute**) includes that statute as amended, consolidated, re-enacted or replaced from time to time;
- (m) wherever "include", "for example" or any form of those words or similar expressions is used, it must be construed as if it were followed by "(without being limited to)";
- (n) money amounts are stated in Australian currency unless otherwise specified;
- (o) a reference to time is to Melbourne, Australia time;

- (p) a reference to any agency or body, if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or functions removed (**defunct body**), means the agency or body which performs most closely the functions of the defunct body;
- (q) any agreement, representation, warranty or indemnity in favour of two or more parties (whether those parties are included in the same defined term or not) is for the benefit of them jointly and severally; and
- (r) any agreement, representation, warranty or indemnity by two or more parties (whether those parties are included in the same defined term or not) binds them jointly and severally.

### **1.3 Best and reasonable endeavours**

Any provision of this Agreement which requires a party to use best endeavours or all reasonable endeavours to procure that something is performed or occurs or does not occur, does not include any obligation:

- (a) to pay any money or to provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application in connection with any Regulatory Approval; or
  - (b) to commence any legal action or proceeding against any person,
- except where that provision expressly specifies otherwise.

### **1.4 Payments**

Unless otherwise expressly provided in this Agreement, where an amount is required to be paid under this Agreement to a party, that amount must be paid in immediately available funds without deduction, withholding or set-off.

## **2. Agreement to implement the Scheme**

The Target and the Bidder must take all reasonable steps to propose and implement the Scheme in accordance with this Agreement.

## **3. Conditions and pre-implementation steps**

### **3.1 Conditions**

Subject to this clause 3, the obligations of the parties in Item 8 of Schedule 2 and Item 6 of Schedule 3 will not become binding and the Scheme will not become Effective, until each of the Conditions are satisfied or waived in accordance with clause 3.2.

### **3.2 Waiver of Condition**

A Condition may only be waived in writing by the Beneficiary (and if more than one, by both Beneficiaries) and will be effective only to the extent specifically set out in that waiver. A party entitled to waive the breach or non-fulfilment of a Condition may do so in its absolute discretion.

### **3.3 Best endeavours**

The parties must use their best endeavours to procure that:

- (a) each Condition for which it is the Responsible Party is satisfied as soon as practicable after the date of this Agreement and continues to be satisfied for the purposes of this Agreement; and
- (b) there is no occurrence within its control which would prevent that Condition being (or remaining) satisfied.

### **3.4 Regulatory Approvals**

Without limiting clause 3.3, each party must:

- (a) promptly apply for all relevant Regulatory Approvals, including taking all steps required of it as part of the approval process, including responding promptly to requests for information from the relevant Government Agency;
- (b) consult with the other party in advance in relation to all material written communications with any Government Agency relating to any Regulatory Approval and take into account such amendments to the communications as the other party reasonably requests;
- (c) promptly provide the other party with all information reasonably requested in connection with Regulatory Approval applications;
- (d) keep the other party informed in relation to the progress of the Regulatory Approval applications;
- (e) promptly provide to the other party (on a confidential basis) copies of all documents provided to, and all correspondence received from, any Government Agency in relation to any Regulatory Approval,

and in the case of clauses 3.4(b) to 3.4(e), to the extent it is reasonable to do so, and the parties acknowledge and agree that neither party is required to disclose commercially sensitive information in relation to the application for a Regulatory Approval to the other party and the party applying for a Regulatory Approval may withhold or redact information or documents from the other party if and to the extent that they are either confidential to a third party or commercially sensitive and confidential to the applicant.

### **3.5 Capital Structure Conditions**

Without limiting clause 3.3, the Target must:

- (a) consult with the Bidder in advance in relation to all material communications with any Third Party relating to any Capital Structure Condition and take into account such amendments to the communications as the Bidder reasonably requests;
- (b) promptly provide the Bidder with all information reasonably requested in connection with the satisfaction of the Capital Structure Conditions;
- (c) keep the Bidder informed in relation to the status of the Capital Structure Conditions; and

- (d) promptly provide to the Bidder (on a confidential basis) copies of all documents provided to, and all correspondence received from, any Third Party in relation to any Capital Structure Condition.

### 3.6 Notices

- (a) Each party must:
  - (i) promptly notify the other of satisfaction of a Condition and provide evidence of the satisfaction of the Condition as may be reasonably requested;
  - (ii) promptly give the other party notice of a failure to satisfy a Condition or of any event that is expected to prevent a Condition being satisfied;
  - (iii) give written notice to the other party as soon as reasonably practicable (and in any event before 5.00 pm on the day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of any Condition notified pursuant to clause 3.6(a)(ii); and
  - (iv) give to:
    - (A) the other (in draft) by 5:00 pm on the day immediately prior to the Second Court Date; and
    - (B) the Court (in final form), on the Second Court Date,
 a certificate signed by an Authorised Officer (in respect of the Conditions of which it is the Responsible Party, other than the Condition 3) which states whether or not those Conditions have been satisfied or waived.

### 3.7 Conditions not satisfied

- (a) If:
  - (i) any of the Conditions are not satisfied, fulfilled or waived by the date specified in this Agreement for their satisfaction; or
  - (ii) the Scheme has not become Effective by the Sunset Date,
 then, on notice by either party, the parties will consult in good faith to try to agree an alternative acceptable to both of them, including any of the following:
  - (iii) determining whether the Scheme may proceed by way of alternative means or methods;
  - (iv) extending the date for satisfaction of the relevant Condition;
  - (v) adjourning or changing the date of an application to the Court; and
  - (vi) extending the Sunset Date.
- (b) If the parties are unable to reach agreement under clause 3.7(a) within 5 Business Days after the date of the notice given under clause 3.7(a), (or any shorter period ending at 5.00 pm on the day before the Second Court Date), then either party may terminate this Agreement in accordance with clause 15.1.

- (c) A party will not be entitled to terminate pursuant to clause 3.7(b) if the relevant occurrence or the failure of the Condition to be satisfied or of the Scheme to become Effective arises out of:
  - (i) a breach of the Agreement by that party; or
  - (ii) a deliberate act or omission by that party for the purpose of frustrating satisfaction of a Condition.

### **3.8 Appealing Court decision**

- (a) If the Court refuses to grant orders directing the Target to convene the Scheme Meeting or approving the Scheme, the Target and the Bidder must promptly consult with each other to decide whether to appeal the Court's decision. If senior counsel representing either party opines that there are reasonable prospects of successfully appealing the Court's decision, then:
  - (i) the Target must appeal the Court's decision within 5 Business Days, the cost of which must be borne equally by the parties; and
  - (ii) the Sunset Date will be extended by a period of 4 weeks, or such other period agreed by the parties to account for the period of determination of the appeal.
- (b) The Target is not required to appeal the Court's decision if the parties agree otherwise.

### **3.9 Scheme voted down because of Headcount Test**

If Condition 2 is not satisfied only because of a failure to obtain the majority required by section 411(4)(a)(ii)(A) of the Corporations Act, then either party may by written notice to the other within 3 Business Days after the date of the conclusion of the Scheme Meeting require the approval of the Court to be sought, pursuant to the Court's discretion in that section, provided the party has in good faith formed the view that the prospect of the Court exercising its discretion in that way is reasonable and if such a notice is provided by either party, the Target must:

- (a) apply for an order of the Court contemplated by section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test and seek Court approval of the Scheme under section 411(4)(b) of the Corporations Act, notwithstanding that the Headcount Test has not been satisfied; and
- (b) make such admissions to the Court and file such evidence as counsel engaged by the Target to represent it in Court proceedings relating to the Scheme, in consultation with the Bidder, considers is reasonably required to seek to persuade the Court to exercise its discretion under section 411(4)(a)(ii)(A) of the Corporations Act by making an order to disregard the Headcount Test.

## **4. Scheme of Arrangement**

### **4.1 The Target to propose the Scheme**

The Target must propose and seek to implement the Scheme in accordance with this Agreement.

## **4.2 Scheme Consideration**

- (a) In consideration of the Scheme Participants transferring their Scheme Shares to the Bidder on the Implementation Date, the Bidder undertakes and warrants to the Target (in its own right and as trustee or nominee for each Scheme Participant), that it will provide the Scheme Consideration to the Target on behalf of each Scheme Participant, in accordance with the terms of the Scheme and the Deed Poll.
- (b) The Target must:
  - (i) receive in a trust account in accordance with the Scheme and as agent for each Scheme Participant, the payment referred to in clause 4.2(a); and
  - (ii) pay to each Scheme Participant such amount as the Scheme Participant is entitled to receive in accordance with the Scheme.

## **4.3 Deed Poll**

The Bidder undertakes to the Target (in its own right and as trustee or nominee for each Scheme Participant) to execute and deliver the Deed Poll prior to the First Court Date and, if the Scheme becomes Effective, to perform the Deed Poll.

## **4.4 No amendment**

The Target must not consent to any modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of the Bidder.

## **5. Scheme Booklet**

### **5.1 Preparation**

The Target must prepare the Scheme Booklet and dispatch the Scheme Booklet to Target Shareholders.

### **5.2 Target compliance**

The Target must take all steps reasonably necessary to ensure that the Scheme Booklet (other than with respect to the Bidder Scheme Information):

- (a) complies with all applicable Laws, including the Corporations Act, the Corporations Regulations, any applicable ASIC policy and guidance and the Listing Rules;
- (b) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission); and
- (c) includes:
  - (i) the Scheme;
  - (ii) a notice of the Scheme Meeting and proxy forms;

- (iii) an explanatory statement for the Scheme prepared in accordance with section 412 Corporations Act and registered by ASIC;
- (iv) the Independent Expert's Report, this Agreement and the executed Deed Poll;
- (v) a statement, which may be subject to no Superior Proposal arising and the Independent Expert's Report concluding that the Scheme is in the best interest of Target Shareholders, that each Target Director considers the Scheme to be in the best interest of Target Shareholders and recommends to Target Shareholders to vote in favour of the Scheme; and
- (vi) a statement, which may be subject to no Superior Proposal arising and the Independent Expert's Report concluding that the Scheme is in the best interest of Target Shareholders, that each Target Director who holds Target Shares, or on whose behalf Target Shares are held, intends to vote those Target Shares in favour of the Scheme.

### **5.3 Bidder compliance**

The Bidder must take all reasonable steps necessary to ensure that the Bidder Scheme Information that it has provided for inclusion in the Scheme Booklet, in the form and context in which it appears in the Scheme Booklet:

- (a) complies with all applicable Laws, including the Corporations Act, the Corporations Regulations, any applicable ASIC policy and guidance and the Listing Rules; and
- (b) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission).

### **5.4 Consultation**

The Target must:

- (a) provide the Bidder with drafts of the Scheme Booklet;
- (b) consult with the Bidder in relation to the content and presentation of the Scheme Booklet;
- (c) give the Bidder a reasonable opportunity to provide input about the content and presentation of the Scheme Booklet and take the comments made by the Bidder into account in good faith when producing a revised draft of the Scheme Booklet;
- (d) implement such changes to those parts of the Scheme Booklet relating to Bidder Scheme Information as reasonably requested by Bidder;
- (e) keep the Bidder informed of any matter raised by ASIC in relation to the Scheme Booklet and use all reasonable endeavours, in cooperation with the Bidder, to resolve such matters; and
- (f) obtain the Bidder's consent to include the Bidder Scheme Information in the form and context in which it appears in the Scheme Booklet.

## 5.5 Verification

Each party must undertake appropriate verification processes for the information supplied by that party for the Scheme Booklet.

## 5.6 Responsibility statements

The Scheme Booklet will include responsibility statements to the following effect:

- (a) that the Target has prepared, and is responsible for, the Target Scheme Information and to the maximum extent possible at law, the Target will not be responsible for any Bidder Scheme Information and will disclaim any liability for Bidder Scheme Information appearing in the Scheme Booklet; and
- (b) that the Bidder has prepared, and is responsible for, the Bidder Scheme Information and to the maximum extent possible at law, the Bidder will not be responsible for any information appearing in the Scheme Booklet other than the Bidder Scheme Information and will disclaim any liability for any information appearing in the Scheme Booklet other than the Bidder Scheme Information.

## 5.7 Disagreement

- (a) If the Target and Bidder disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle an agreed form of the Scheme Booklet.
- (b) If within 2 Business Days of the consultation referred to in clause 5.7(a), the parties are still unable to agree:
  - (i) if the disagreement relates to the contents of the Bidder Scheme Information, the Target must make such amendments as the Bidder reasonably requires; and
  - (ii) if the disagreement relates to the form or content of any other part of the Scheme Booklet, the Target will, acting reasonably, decide the final form of the content or content of the disputed part of the Scheme Booklet.

## 5.8 New information

- (a) The Target must provide to the Bidder all such further or new information of which the Target becomes aware that arises after the Dispatch Date to the date of the Scheme Meeting where this is or may be necessary to ensure that the Scheme Booklet continues to comply with the Corporations Act, the Corporations Regulations, any applicable ASIC policy and guidance and the Listing Rules and is not misleading or deceptive in any material respect (whether by omission or otherwise).
- (b) The Bidder must provide to the Target all such further or new information of which the Bidder becomes aware that arises after the Dispatch Date to the date of the Scheme Meeting where this is or may be necessary to ensure that the Bidder Scheme Information continues to comply with the Corporations Act, the Corporations Regulations, any applicable ASIC policy and guidance and the Listing Rules and is not misleading or deceptive in any material respect (whether by omission or otherwise).

## 6. Implementation of Scheme of Arrangement

### 6.1 General obligation to co-operate

The Target and the Bidder must each:

- (a) execute all documents and do all acts and things as may be reasonably necessary or desirable, including contributing all reasonable resources; and
- (b) procure that its officers and advisers work in good faith and in a timely and co-operative fashion with the other party, including by attending meetings and providing such information which may reasonably be required,

to implement the Scheme substantially in accordance with the Timetable and in any event before the Sunset Date.

### 6.2 Target's obligations

The Target must comply with the Target Obligations and must take all steps reasonably necessary to propose and implement the Scheme substantially in accordance with the Timetable and in any event before the Sunset Date.

### 6.3 Bidder's obligations

The Bidder must comply with the Bidder Obligations and must take all steps reasonably necessary to assist the Target to implement the Scheme substantially in accordance with the Timetable and in any event before the Sunset Date.

### 6.4 Bidder Nominee

- (a) The Bidder may by notice to the Target, not later than 3 Business Days before the Second Court Date, nominate:
  - (i) an entity of which at least 90% of the interests in that entity are directly or indirectly owned by the Bidder;
  - (ii) an entity which is at least 90% owned (directly or through one or more wholly owned subsidiaries) by the partners of a partnership of which:
    - (A) the Bidder is the general partner; or
    - (B) the general partner of that partnership is a wholly-owned subsidiary of the Bidder,

(the **Nominee**) to pay the Scheme Consideration and to be the entity to which Scheme Shares will be transferred in accordance with this Agreement, if the Scheme becomes Effective.

- (b) From the date of receipt by the Target of the notice referred to in clause 6.4(a) (Notification Date), the Bidder must procure that the Nominee complies with this Agreement as if the Nominee were a party to it.
- (c) Notwithstanding any of the above provisions, the Bidder will continue to be bound by all of the obligations of the Bidder under this Agreement and will not be released from any obligations or liabilities under this Agreement.

- (d) The Target agrees that any obligation of the Bidder fully discharged by the Nominee will be taken to have been fully discharged by the Bidder.

## 6.5 Existing financing and security

The Target must cooperate with, and undertake all steps reasonably required or requested by the Bidder in connection with any repayment of existing debt of the Target Group and the discharge of any Encumbrances over the assets of the Target Group as may be required in connection with the Transaction, including:

- (a) liaising with the Bidder in good faith in relation to using the existing cash reserves of the Target for this purpose; and
- (b) using all reasonable endeavours to procure:
- (i) deeds of release, discharges of real property mortgages and registrations on the PPSR (or any other relevant security register in other jurisdictions as applicable) from secured parties in relation to any Encumbrance granted by a member of the Target Group in favour of that party and procuring the return of any title documents held by a secured party; and
  - (ii) the termination or replacement of any letters of credit, bank guarantees, financial undertakings or similar instruments outstanding in connection with such repayment, discharge or termination,

subject always to the Target not being required to actually effect such repayment until the Implementation Date.

## 6.6 Obligations of the Target Board

- (a) The Target must, on the date of this Agreement, make a public announcement, in a form agreed between Bidder and the Target, (on the basis of written statements made to it by each of the Target Directors) that each Target Director:
- (i) considers the Scheme to be in the best interests of Target Shareholders
  - (ii) recommends to Target Shareholders to vote in favour of the Scheme; and
  - (iii) intends to vote any Target Shares which they hold or control in favour of the Scheme,

subject to no Superior Proposal emerging and the Independent Expert's Report concluding that the Scheme is in the best interests of Target Shareholders.

- (b) The Target must ensure that the Scheme Booklet includes:
- (i) a statement, which may be subject to no Superior Proposal arising and the Independent Expert's Report concluding that the Scheme is in the best interest of Target Shareholders, that each Target Director considers the Scheme to be in the best interest of Target Shareholders and recommends to Target Shareholders to vote in favour of the Scheme; and
  - (ii) a statement, which may be subject to no Superior Proposal arising and the Independent Expert's Report concluding that the Scheme is in the best interest of Target Shareholders, that each Target Director who holds

Target Shares, or on whose behalf Target Shares are held, intends to vote those Target Shares in favour of the Scheme.

- (c) The Target represents and warrants to the Bidder that as at the date of this Agreement, each Target Director has confirmed to the Target that he or she will act in accordance with clauses 6.6(a) and 6.6(b).

## 6.7 Withdrawal or change of recommendation

- (a) The Target must procure that each Target Director does not:
- (i) change, qualify or withdraw their recommendation of the Scheme (**Recommendation**) or voting intention in respect of the Scheme (**Voting Intention**); or
  - (ii) make any public statement or take any other action that is inconsistent with their Recommendation or Voting Intention,

in each case except where:

- (iii) the Target receives a Competing Proposal and, after complying with its obligations in clauses 12.5 and 12.6 in circumstances where the Bidder elects not to submit a Matching Offer, Target Board determines that the Competing Proposal constitutes a Superior Proposal; or
  - (iv) the Independent Expert does not conclude in the Independent Expert's Report that the Scheme is in the best interests of Target Shareholders, or initially concludes that it is in the best interests of Target Shareholders but subsequently changes its conclusion.
- (b) The Target represents and warrants to the Bidder that each Target Director has confirmed their Recommendation and Voting Intention and their agreement not to do anything inconsistent with their Recommendation and Voting Intention (including withdrawing, changing or in any way qualifying their Recommendation or Voting Intention) other than in the circumstances referred to in clause 6.7(a).
- (c) Without limiting clause 12, if circumstances arise which may lead to one or more Target Directors changing, withdrawing or modifying his or her Recommendation as permitted under this Agreement or if the Target receives notice from a Target Director that he or she proposes to withdraw, change or modify his or her Recommendation to vote in favour of the Scheme:
- (i) the Target must promptly notify the Bidder in writing; and
  - (ii) the parties must consult in good faith for 2 Business Days after the date on which the notification in clause 6.7(c) is received by the Bidder (**Consultation Period**) to consider and to determine whether there are any steps that can be taken to avoid such withdrawal, change or modification (as applicable). The Recommendation cannot be withdrawn, changed or modified under clause 6.7(a) until the end of the Consultation Period.

## 6.8 Appointment of directors

On the Implementation Date, the Target must, subject to completion of the transfer of the Scheme Shares to the Bidder in accordance with the Scheme:

- (a) take all action necessary to cause the appointment of each person nominated by the Bidder as a director of the Target and a director of each Subsidiary of the Target (including, for the avoidance of doubt, PayAsia Malaysia), subject to receipt of signed consents to act from those persons; and
- (b) ensure that the resigning directors of the Target Board resign from the Target Board and that the resigning directors of each Subsidiary of the Target (including, for the avoidance of doubt, PayAsia Malaysia) resign from their office, in each case, with such resignation to confirm that the outgoing directors have no claim against any member of the Target Group.

## **7. Conduct of business before the Implementation Date**

### **7.1 No change in conduct of the Target's business**

From the date of this Agreement up to and including the Implementation Date, the Target must (and must procure that each of its Subsidiaries):

- (a) conduct its business:
  - (i) in the ordinary and usual course of business and consistent with past practice; and
  - (ii) substantially in accordance with the budget for the Target Group in respect of the financial year ending 31 March 2023 a copy of which is included in the Target Due Diligence Information; and
- (b) use reasonable endeavours to:
  - (i) maintain and preserve its business and assets and relationships with all customers, contractors, suppliers and others having material business dealings with any member of the Target Group; and
  - (ii) retain the services of all officers and employees;
- (c) manage its working capital requirements in the ordinary course consistent with past practice, including ensuring that there is no material decrease in the amount of cash in the Target Group other than in the ordinary course of business and consistent with budgets and projections Fairly Disclosed to the Bidder prior to the date of this Agreement;
- (d) comply in all material respects with all material contracts to which a member of the Target Group is a party, and with all Laws, authorisations and licences applicable to each member of the Target Group;
- (e) maintain such policies of insurance as are appropriate to the Target Group's operations, property and assets, in such amounts and against such risks as are customarily carried and insured against by owners of comparable businesses and assets; and
- (f) keep the Bidder informed of any material developments concerning the Target Group.

## 7.2 Specific conduct

Without limiting clause 7.1, from the date of this Agreement up to and including the Implementation Date, the Target must not and must procure that each of its Subsidiaries do not:

- (a) **Employees:** either:
  - (i) increase the remuneration of (including with regard to superannuation benefits) or benefits provided to or pay any bonus (other than in accordance with existing arrangements and in the ordinary course) or otherwise materially vary the employment agreements with, any of its directors or employees;
  - (ii) accelerate the rights of any of its directors or employees to benefits of any kind;
  - (iii) pay a director, executive or employee a termination or retention payment;
  - (iv) hire or terminate (other than for cause) any employee or contractor (excluding suppliers in the ordinary course of business) with a base salary of \$150,000 or higher;
- (b) **Issue shares:** issue or agree to issue any Target Shares or any options, securities or other rights, whether convertible or exchangeable into Target Shares or otherwise;
- (c) **Dividends:** declare, pay or distribute any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise;
- (d) **Business assets:** acquire or dispose of any interest in an asset, business, real property, entity or undertaking, that would require expenditure or the foregoing of revenue (or in the case of a disposal, with a book value) of an amount which exceeds \$500,000 in aggregate, other than in the ordinary course of business;
- (e) **Material contracts:** either:
  - (i) enter into any contract or commitment involving revenue or expenditure of more than \$300,000 over the term of the contract or commitment or which cannot be terminated on less than 12 months' notice except to the extent budgeted or provisioned for in the FY23 PYG budget set out in Document 1.08.03.01 in the Data Room;
  - (ii) enter into any contract or commitment restraining any member of the Target Group from competing with any person or conducting activities in any market;
  - (iii) terminate or amend in a material manner any contract material to the conduct of the Target Group's business or which involves revenue or expenditure of more than \$300,000 over the term of the contract;
  - (iv) waive any third party default under any material contract; or
  - (v) accept as a settlement or compromise of a material matter (relating to an amount in excess of \$150,000) less than the full compensation due to it;

- (f) **Capital Structure Conditions:** enter into any arrangement, agreement or understanding with a Third Party in connection with a Capital Structure Condition which would result in the Target Group incurring a liability or assuming an obligation not in existence as at the date of this Agreement including, accelerating any Contingent Target Share Issues, paying cash in lieu of issuing shares in connection with any Contingent Target Share Issues, or otherwise varying the terms of any Contingent Target Share Issues;
- (g) **Capital expenditure:** make any capital expenditure, or incur any obligations or liabilities in connection therewith, except pursuant to existing contracts or that, in the aggregate, would not exceed \$200,000 during any fiscal quarter;
- (h) **Debt:** incur any additional financial indebtedness (except for draw-downs on existing banking facilities), or guarantee or indemnify the obligations of any person other than a member of the Target Group, other than in the usual and ordinary course of business and consistent with past practice;
- (i) **Transaction costs:** pay, incur or agree to pay or incur transaction costs (being any investment banking, financial adviser, legal, accounting, share registry and other costs payable to other advisers or third party service providers, and any payments to employee that relate to the Transaction such as deal or retention bonuses) other than the Transaction Costs;
- (j) **Financial benefit:** give or agree to give a financial benefit to any of the Scheme Participants or to another related party of the Target;
- (k) **Related party arrangements:** enter into or resolve to enter into a transaction with any related party of the Target as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the Listing Rules;
- (l) **Constitution:** amend its constitution;
- (m) **Accounting policies:** alter in any material respect any accounting policy of the Target Group;
- (n) **Tax:** other than in the ordinary course of business or in respect of existing tax obligations as at the date of this Agreement, make any tax election (including any change of residence) or settle or compromise any liability relating to tax, unless that election, settlement or compromise is required by tax law, is supported by an opinion of the Target Group's tax advisers, or is in the ordinary course of business and is consistent with past practices;
- (o) **Proceedings:** either:
  - (i) settle any legal proceedings, claim, investigation, arbitration or other like proceedings where the amount claimed exceeds \$250,000; or
  - (ii) commence any legal proceeding, claim or arbitration;
- (p) **Prescribed Occurrence:** take any action that would be or give rise to a Target Prescribed Occurrence; or
- (q) **Agreement:** agree to do any of the matters set out above.

### **7.3 Activities which are permitted**

The restrictions in clauses 7.1 and 7.2 do not apply in respect of any matter, and do not restrict any Target Group Member from, doing or omitting to do, any of the following:

- (a) anything which the Target Group reasonably determines in good faith as urgent or critical to the continued operations of the Business;
- (b) anything required under a contract or commitment to which an entity in the Target Group is bound and that has been Fairly Disclosed in the Target Due Diligence Information;
- (c) anything required to be done pursuant to this Agreement or the Scheme;
- (d) anything required by Law or by an order of a court or Government Agency;
- (e) anything required to reasonably or prudently respond to an emergency or a disaster (including a situation giving rise to a risk of personal injury or damage to property); or
- (f) anything which the Bidder has approved in writing (which approval must not be unreasonably withheld or delayed).

### **7.4 Provision of information and access**

From the date of this Agreement up to and including the earlier of the Implementation Date or the date this Agreement is terminated, the Target must:

- (a) on request from the Bidder, provide the Bidder and its Representatives with reasonable access during usual business hours to:
  - (i) the books, documents, records, management accounts, financial statements and other information (subject to any existing confidentiality obligations owed to third parties, and applicable Laws including privacy laws) of any member of the Target Group; and
  - (ii) the Target's executive directors, senior executive officers and Advisers, for the purposes of:
    - (A) understanding the Target's financial position and trading performance;
    - (B) applying for the Regulatory Approvals;
    - (C) implementing the Scheme;
    - (D) preparing for carrying on the business of the Target following implementation of the Scheme; and
    - (E) any other purpose which is agreed by the parties,

provided in every case that such access is reasonably necessary to the Bidder and does not cause unreasonable disruption to the Target's business or place an unreasonable burden on the Target's ability to run its business;

- (b) provide the Bidder with copies of the following materials, promptly following the relevant meeting at which the relevant materials are considered:
  - (i) the minutes of the Target Board held between the date of this Agreement and the Implementation Date; and
  - (ii) any reports of the Chief Executive Officer and the Chief Financial Officer provided to the Target Board,

provided that the Target has no obligation under this clause 7.4(b) to provide the Bidder with, and may redact or withhold in its entirety, any information about, or otherwise in connection with the Target Board's consideration of the Transaction, any advice provided to the Target Board in connection with the Transaction and information in connection with any Competing Proposal.

## **7.5 Business updates**

From the date of this Agreement up to and including the Implementation Date, the Target must use reasonable endeavours to notify the Bidder in writing of any of the following matters of which the Target becomes aware:

- (a) events, facts, matters or circumstances which have had, or are reasonably likely to have, a material adverse effect on:
  - (i) the financial or operational performance of, or the reputation of, the Target Group (taken as a whole); or
  - (ii) the Target Group's relationships with Government Agencies or the counterparties to material contracts;
- (b) developments in relation to discussions with potential new customers or existing customers in relation to extensions of existing contracts;
- (c) proposed or potential changes to the composition of the Target's executive management team;
- (d) the resignation of any employee of the Target Group with a base salary of \$150,000 or higher;
- (e) any Target Prescribed Occurrence; and
- (f) any material breach of this Agreement by the Target.

## **7.6 Change of control**

- (a) As soon as practicable after the date of this Agreement, the parties must seek to identify any change of control or similar provisions in leases and material contracts to which the Target or a member of the Target Group is a party which may be triggered by the implementation of the Scheme.
- (b) In respect of any lease or material contract identified under clause 7.6(a), the parties agree that:
  - (i) the Target and the Bidder will agree upon a proposed course of action and then jointly initiate contact with the relevant landlord or counterparty and request that they provide any consents required;

- (ii) neither the Bidder nor its Representatives may contact any landlord or counterparty without the Target's express written approval; and
- (iii) each party must cooperate with, and provide reasonable assistance to, the other party to obtain such consents as expeditiously as possible, including by:
  - (A) promptly providing any information reasonably required by landlords or counterparties; and
  - (B) making its Representatives available, where necessary, to meet with landlords or counterparties to deal with issues arising in relation to the change of control of the Target.
- (c) For the avoidance of doubt, a failure by a member of the Target Group to obtain any landlord or third party consent will not constitute a breach of this Agreement by the Target and, together with any consequences that arise, will be disregarded when assessing the operation of any other provision of this Agreement.

## **8. Public announcement**

### **8.1 Announcement of the Scheme**

Immediately after the execution of this Agreement, the Target must issue a public announcement of the Transaction in a form previously agreed with the Bidder.

### **8.2 Public announcements**

- (a) Subject to clauses 8.1 and 8.3, neither party may make a public announcement in connection with this Agreement (including any termination of this Agreement), the Scheme Booklet or the Scheme except in a form approved by both parties (acting reasonably).
- (b) Each party must use all reasonable endeavours to approve a public announcement in connection with this Agreement (including any termination of this Agreement) as soon as practicable.

### **8.3 Required disclosure**

Where a party is required by applicable Law or the Listing Rules to make any announcement or disclosure relating to this Agreement or the Scheme, it may do so only after it has, to the fullest extent the circumstances allow, given as much prior notice to the other party as possible, and consulted with the other party and its Advisers about the form and content of the announcement or disclosure.

### **8.4 Statements on termination**

The parties must use all reasonable endeavours to issue an agreed statement or announcement regarding any termination of this Agreement.

## **9. Target Warranties and indemnities**

### **9.1 Warranties**

- (a) The Target represents and warrants to the Bidder that each of the Target Warranties is true and correct in all material respects as at the date of this Agreement and at 8:00 am on the Second Court Date.
- (b) Where a Target Warranty is expressed to be made only at a particular date it is given only at that date.

### **9.2 Disclosure material**

The Target Warranties are subject to, and the Target is not liable in respect of any Loss incurred by the Bidder related to a breach of a Target Warranty, to the extent the Loss arises from, or in connection with, any fact, matter or circumstance:

- (a) which has been Fairly Disclosed in the Target Due Diligence Information;
- (b) which would have been disclosed to the Bidder had the Bidder conducted searches 10 Business Days before the date of this Agreement of:
  - (i) the registers maintained by ASIC;
  - (ii) the registers maintained by the High Court and the Federal Court of Australia, and the Supreme Courts of the States and Territories in Australia;
  - (iii) the PPSR; or
- (c) which was actually known by the Bidder Knowledge Parties as at the date of this Agreement.

### **9.3 Target indemnity**

The Target indemnifies each Bidder Indemnified Party from and against all Loss that a Bidder Indemnified Party suffers or incurs by reason of any breach of clause 9.1.

### **9.4 Notification of breach**

The Target must promptly advise the Bidder in writing if it becomes aware of any fact, matter or circumstance which constitutes or is reasonably expected to constitute a breach of any of the representations or warranties given by it under this clause 9.

### **9.5 No other warranties**

The parties acknowledge that, except as expressly stated in this Agreement, the Bidder has not relied on any representation or warranty of any kind made by or on behalf of the Target in relation to the subject matter of this Agreement.

## **10. Bidder Warranties**

### **10.1 Bidder Warranties**

- (a) The Bidder represents and warrants to the Target that each of the Bidder Warranties is true and correct in all material respects as at the date of this Agreement and at 8:00 am on the Second Court Date.
- (b) Where a Bidder Warranty is expressed to be made only at a particular date it is given only at that date.

### **10.2 Bidder indemnity**

The Bidder indemnifies each Target Indemnified Party from and against all Loss that a Target Indemnified Party suffers or incurs by reason of any breach of clause 10.1.

### **10.3 Notification of breach**

The Bidder must promptly advise the Target in writing if it becomes aware of any fact, matter or circumstance which constitutes or is reasonably expected to constitute a breach of any of the representations or warranties given by it under this clause 10.

## **11. Release**

### **11.1 Release of Representatives**

Each party:

- (a) releases its rights against, and will not make any Claim against, any past or present Representative of any other party in relation to any act or omission in connection with the Scheme, any transaction contemplated by or representation or warranty given in this Agreement, any information provided to it by another party or in relation to its execution or delivery this Agreement, to the extent that the past or present Representative has acted in good faith and has not engaged in any wilful misconduct. Nothing in this clause 11.1(a) excludes any liability that may arise from wilful misconduct or bad faith on the part of any person; and
- (b) holds the releases in clause 11.1(a) in respect of its past and present Representatives as trustee for those Representatives.

## **12. Exclusivity**

### **12.1 Termination of existing discussions**

- (a) The Target represents and warrants that, as at the date of this Agreement the Target Group is not (including through its Representatives) in any current negotiations or discussions with any person in respect of any Competing Proposal, and it has ceased any existing negotiations or discussions, in respect of any Competing Proposal with any Third Party.
- (b) Unless otherwise agreed by the Bidder, the Target must:
  - (i) promptly enforce the terms of any confidentiality agreement, deed or undertaking (or similar document) entered into with a person other than the

Bidder or its Associates in the 18 months prior to the date of this Agreement in relation to any potential Competing Proposal; and

- (ii) not waive, and must promptly enforce, any standstill obligations of any such person (other than to the extent necessary to facilitate the Transaction).

## **12.2 No shop restriction**

During the Exclusivity Period, the Target must not and must procure that its Representatives do not, directly or indirectly:

- (a) solicit, invite, initiate, facilitate or encourage any enquiries, negotiations or discussions with a view to obtaining an expression of interest, proposal or offer from any Third Party in relation to a Competing Proposal or which may be reasonably be expected to lead to an actual or potential Competing Proposal; or
- (b) communicate any intention to do any of the above things.

## **12.3 No talk restriction**

Subject to clause 12.7, during the Exclusivity Period, the Target must not and must procure that its Representatives do not, directly or indirectly:

- (a) facilitate, enter into or otherwise participate (including by way of responding) in any negotiations or discussions with any Third Party:
  - (i) in relation to a possible Competing Proposal;
  - (ii) which may reasonably be expected to encourage or lead to an actual or potential Competing Proposal; or
  - (iii) which may otherwise lead to the Transaction not being completed, even if not directly or indirectly solicited, invited, encouraged or initiated by the Target or its Representatives, or that person has publicly announced the Competing Proposal;
- (b) enter into any agreement, arrangement or understanding with any Third Party:
  - (i) regarding a Competing Proposal;
  - (ii) which may reasonably be expected to lead to a Competing Proposal; or
  - (iii) which may otherwise lead to the Transaction not being completed;
- (c) communicate to any person an intention to do any of the things referred to in clause 12.3(a) or clause 12.3(b); or
- (d) approve or recommend a Competing Proposal.

## **12.4 No due diligence**

- (a) Subject to clause 12.7, during the Exclusivity Period, the Target must not and must procure that its Representatives do not, directly or indirectly, make available to any Third Party or permit any Third Party to receive (in the course of due

diligence investigations or otherwise) any non-public information relating to it or its business or operations (or those of its Subsidiaries), for the purpose of assisting that Third Party to make a Competing Proposal.

- (b) If the Target proposes that any non-public information relating to the business or operations of the Target Group which has not been provided to the Bidder be provided to a Third Party while validly relying on the exception in clause 12.7 then the Target must promptly, and in any event within 2 Business Days after providing it to the Third Party, provide a copy of such information to the Bidder.

## 12.5 Notification of Competing Proposal

- (a) During the Exclusivity Period, if the Target receives or becomes aware of any approach or attempt to initiate discussions or negotiations by a Third Party regarding a Competing Proposal or that could reasonably be expected to lead to a Competing Proposal, the Target must promptly (and in any event, no later than 48 hours of becoming so aware) notify the Bidder in writing.
- (b) Subject to clause 12.5(c), a notice given under clause 12.5(a) must be accompanied by all relevant details of the relevant approach, including the identity of the person that made the approach and the material terms and conditions of the Competing Proposal (including proposed price or implied value, conditions, timing and details of any break fee) to the extent known to the Target.
- (c) Clause 12.5(b) does not apply if the Target Board has determined, in good faith and acting reasonably, that complying with clause 12.5(b) would cause the Target Board to breach fiduciary or statutory obligations to which it or the Target is subject. Nothing in this clause 12.5(c) limits or relieves the Target of its obligation to comply with clause 12.5(a).

## 12.6 Matching right

- (a) During the Exclusivity Period, the Target must not enter, and must procure that no member of the Target Group enters, into any legally binding agreement, arrangement or understanding pursuant to which a Third Party or the Target proposes to undertake or give effect to a Competing Proposal, unless:
  - (i) the Competing Proposal was not encouraged, solicited, invited or initiated by the Target (or any of its Representatives) in contravention of clause 12.2;
  - (ii) the Target Board acting in good faith and in order to satisfy what the Target Board considers to be its statutory or fiduciary duties (having consulted with its Advisers), determines that the Competing Proposal is a Superior Proposal;
  - (iii) the Target has provided the Bidder with the material terms and conditions of the Competing Proposal, including price, conditions, details of any break fee and the identity of the party making the proposal; and
  - (iv) the Target has given the Bidder 5 Business Days after the provision of the information referred to in clause 12.6(a)(iii) to provide a matching or superior proposal (**Matching Offer**) to the terms of the Competing Proposal.

- (b) This clause 12.6 has repeating applications so that if any further proposal which constitutes a Competing Proposal is made after the Bidder has made a Matching Offer, the Target must comply with clause 12.6 of this clause in respect of any new Competing Proposal.
- (c) The Target Board must consider the Matching Offer and if it determines, acting in good faith, that the Matching Offer would provide an outcome that is at least as favourable to Target Shareholders as the relevant Competing Proposal, the Target and the Bidder must use their best endeavours to:
  - (i) agree any amendments to this Agreement and the contents of the Scheme Booklet which are reasonably necessary to reflect the Matching Offer; and
  - (ii) enter into an appropriate amending agreement to give effect to those amendments and to implement the Matching Offer,
 in each case, as soon as reasonably practicable.

### **12.7 Fiduciary exception**

- (a) The restrictions and obligations in clauses 12.3 and 12.4 do not apply to the extent they restrict the Target or the Target Board from taking, or require the Target or the Target Board to take, any action with respect to a Competing Proposal (in relation to which there has been no contravention of this clause 12) provided that:
  - (i) the Competing Proposal is bona fide and is made in writing by or on behalf of a person that the Target Board considers is of reputable commercial standing; and
  - (ii) the Target Board has determined in good faith, after consulting with the Target's Advisers, that:
    - (A) the Competing Proposal is, or is reasonably likely to become, a Superior Proposal; and
    - (B) taking or failing to take the action with respect to the Competing Proposal would, or would be reasonably likely to, involve a breach of the fiduciary or statutory obligations of any Target Director.
- (b) If the Target proposes that any non-public information be provided to a Third Party while relying on the exception in clause 12.7(a), then:
  - (i) before the Target provides such information, the Third Party must enter into an agreement which contains obligations on the recipient that are no less onerous in any respect than the obligations imposed on the Bidder and the Target in connection with this Transaction; and
  - (ii) any non-public information provided to that Third Party must also be provided to the Bidder.

### **12.8 Normal provision of information**

Nothing in this clause 12 prevents the Target from:

- (a) providing information in the ordinary course to rating agencies, any Government Agency or its auditors acting in that capacity; or
- (b) continuing to make presentations to, and to respond to enquiries from, shareholders, investors and other stakeholders in the ordinary course, in relation to the Scheme or its business generally.

## **13. Break Fee**

### **13.1 Background**

This clause 13 has been agreed in circumstances where:

- (a) the Target and the Bidder believe that the Scheme will provide significant benefits to the Target, the Bidder and their respective shareholders, and the Bidder and the Target acknowledge that, if they enter into this Agreement and the Scheme is subsequently not implemented, the Bidder will incur significant costs, including those set out in clause 13.5;
- (b) the Bidder requested that provision be made for the Break Fee, without which the Bidder would not have entered into this Agreement;
- (c) the Target believes it is appropriate for it to agree to the payment referred to in this clause to secure the Bidder's entry into this Agreement and participation in the Scheme; and
- (d) both parties have received legal advice on this Agreement and the operation of this clause.

### **13.2 Payment by the Target to the Bidder**

Subject to clauses 13.3, 13.4 and 13.5, the Target agrees to pay the Break Fee to the Bidder without withholding or set off if:

- (a) a Competing Proposal is announced during the Exclusivity Period and, within 12 months of such announcement, the proponent of that Competing Proposal (or any of its Associates):
  - (i) completes or otherwise implements a Competing Proposal of a kind referred to in paragraphs (b) or (c) of the definition of "Competing Proposal"; or
  - (ii) otherwise acquires a Relevant Interest in, or an economic interest in, 50% or more of the Target Shares or Control of the Target and that acquisition is unconditional;
- (b) during the Exclusivity Period, any Target Director fails to recommend the Scheme or withdraws, adversely changes or adversely qualifies his or her Recommendation or otherwise makes a public statement indicating that he or she no longer supports the Scheme, except where:
  - (i) the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Scheme is not in the best interest of Target Shareholders (other than where the reason for the

Independent Expert's conclusion is due wholly or partly to the existence of a Competing Proposal); or

- (ii) the Target is entitled to terminate this Agreement pursuant to clause 15.1 and has given the appropriate termination notice to the Bidder; or
- (c) the Bidder validly terminates this Agreement in accordance with clause 15.1(a).

### **13.3 Modifications required to Break Fee**

If it is finally determined following the exhaustion of all reasonable avenues of appeal to the Takeovers Panel or a Court that all or any part of the amount payable under clause 13.2:

- (a) is unlawful;
- (b) involves a breach of the duties of the Target Board; or
- (c) constitutes unacceptable circumstances within the meaning of the Corporations Act,

**(Impugned Amount),**

then the Target's obligation to pay the Break Fee does not apply to the extent of the Impugned Amount and if the Bidder has received any part of the Impugned Amount it must refund it within 10 Business Days of such final determination.

### **13.4 No amount payable if Scheme becomes Effective**

No amount is payable by the Target under clause 13.2 if the Scheme becomes Effective and if any amount has already been paid under clause 13.2 it must be refunded by the Bidder within 10 Business Days after the Scheme becomes Effective.

### **13.5 Timing of payment**

- (a) A demand by the Bidder for payment of the Break Fee under clause 13.2 must:
  - (i) be in writing;
  - (ii) be made after the occurrence of the event in that clause giving rise to the right to payment;
  - (iii) state the circumstances which give rise to the demand; and
  - (iv) nominate an account into which the Target must pay the Break Fee.
- (b) The Target must pay the Break Fee to the Bidder under clause 13.2 without withholding or set-off within 10 Business Days of receipt by the Target of a valid demand for payment from the Bidder under clause 13.5(a).

### **13.6 Nature of payment**

- (a) The Break Fee is an amount to compensate the Bidder for:
  - (i) advisory costs (including costs of advisers other than success fees);

- (ii) costs of management and directors' time;
  - (iii) out-of-pocket expenses;
  - (iv) damage to the Bidder's reputation associated with a failed transaction and the implications of that damage to the Bidder's business; and
  - (v) reasonable opportunity costs incurred by the Bidder in pursuing the Transaction or in not pursuing other alternative acquisitions or initiatives.
- (b) The parties agree that the costs incurred are and will be of a nature that they cannot be accurately quantified and that a genuine pre-estimate of the costs would equal or exceed the amount payable under clause 13.2.

### **13.7 Limitation of liability**

Notwithstanding any other provision of this Agreement, the parties acknowledge and agree that:

- (a) the maximum liability of the Target to the Bidder under or in connection with this Agreement including in respect of any breach of this Agreement will be the Break Fee and in no event will the aggregate liability of the Target under or in connection with a breach of this Agreement exceed an amount equal to the Break Fee; and
- (b) the payment by the Target of the Break Fee represents the sole and absolute amount of liability of the Target to the Bidder under or in connection with this Agreement and no further damages, fees, expenses or reimbursements of any kind will be payable by the Target to the Bidder in connection with this Agreement,

provided that nothing in this clause 13.7 impacts the Bidder's ability to seek and obtain the remedy of specific performance.

### **13.8 Survival**

Any accrued obligations under this clause survive termination of this Agreement.

## **14. Reverse Break Fee**

### **14.1 Background**

This clause 14 has been agreed in circumstances where:

- (a) the Target and the Bidder believe that the Scheme will provide significant benefits to the Target, the Bidder and their respective shareholders, and the Bidder and the Target acknowledge that, if they enter into this Agreement and the Scheme is subsequently not implemented, the Target will incur significant costs, including those set out in clause 14.6;
- (b) the Target requested that provision be made for the Reverse Break Fee, without which the Target would not have entered into this Agreement;
- (c) the Bidder believes it is appropriate for it to agree to the payment referred to in this clause to secure the Target's entry into this Agreement and participation in the Scheme; and

- (d) both parties have received legal advice on this Agreement and the operation of this clause.

#### **14.2 Payment by the Bidder to the Target**

- (a) Subject to clauses 14.3, 14.4 and 14.5, the Bidder agrees to pay the Reverse Break Fee to the Target without withholding or set off if the Scheme does not become Effective because:
- (i) the Agreement is terminated by the Target under clause 15.1(a); or
  - (ii) the Bidder does not pay the aggregate Scheme Consideration when it is required to do so in accordance with the terms and conditions of this Agreement, the Scheme and the Deed Poll.

#### **14.3 Modification required to Reverse Break Fee**

If it is finally determined following the exhaustion of all reasonable avenues of appeal to the Takeovers Panel or a Court that all or any part of the amount payable under clause 14.2:

- (i) is unlawful;
- (ii) involves a breach of the duties of the Bidder's board; or
- (iii) constitutes unacceptable circumstances within the meaning of the Corporations Act,

**(Impugned Amount),**

then the Bidder's obligation to pay the Reverse Break Fee does not apply to the extent of the Impugned Amount and if the Target has received any part of the Impugned Amount it must refund it within 10 Business Days of such final determination.

#### **14.4 No amount payable if Scheme becomes Effective**

No amount is payable by the Bidder under clause 14.2 if the Scheme becomes Effective and if any amount has already been paid under clause 14.2 it must be refunded by the Target within 10 Business Days after the Scheme becomes Effective.

#### **14.5 Timing of payment**

- (a) A demand by the Target for payment of the Reverse Break Fee under clause 14.2 must:
- (i) be in writing;
  - (ii) be made after the occurrence of the event in that clause giving rise to the right to payment;
  - (iii) state the circumstances which give rise to the demand; and
  - (iv) nominate an account into which the Bidder must pay the Reverse Break Fee.

- (b) The Bidder must pay the Reverse Break Fee to the Target under clause 14.2 without withholding or set-off within 10 Business Days of receipt by the Bidder of a valid demand for payment from the Target under clause 14.5(a).

#### **14.6 Nature of payment**

- (a) The Reverse Break Fee is an amount to compensate the Target for:
  - (i) advisory costs (including costs of advisers other than success fees);
  - (ii) costs of management and directors' time;
  - (iii) out-of-pocket expenses;
  - (iv) damage to the Target's reputation associated with a failed transaction and the implications of that damage to the Target's business; and
  - (v) reasonable opportunity costs incurred by the Target in pursuing the Transaction or in not pursuing other alternative acquisitions or initiatives.
- (b) The parties agree that the costs incurred are and will be of a nature that they cannot be accurately quantified and that a genuine pre-estimate of the costs would equal or exceed the amount payable under clause 14.2.

#### **14.7 Limitation of liability**

Notwithstanding any other provision of this Agreement, the parties acknowledge and agree that:

- (a) the maximum liability of the Bidder to the Target under or in connection with this Agreement including in respect of any breach of this Agreement will be the Reverse Break Fee and in no event will the aggregate liability of the Bidder under or in connection with a breach of this Agreement exceed an amount equal to the Reverse Break Fee; and
- (b) the payment by the Bidder of the Reverse Break Fee represents the sole and absolute amount of liability of the Bidder to the Target under or in connection with this Agreement and no further damages, fees, expenses or reimbursements of any kind will be payable by the Bidder to the Target in connection with this Agreement,

provided that nothing in this clause limits the Bidder's liability under the Deed Poll.

#### **14.8 Survival**

Any accrued obligations under this clause survive termination of this Agreement.

### **15. Termination**

#### **15.1 Termination by either party**

Without prejudice to any other rights of termination in this Agreement, this Agreement may be terminated by either party by written notice to the other at any time prior to 8.00 am on the Second Court Date if:

- (a) the other party (**Breaching Party**) is in material breach of this Agreement (including any material breach of any Target Warranty or Bidder Warranty); and
  - (i) the non-Breaching Party has given written notice to the Breaching Party setting out the relevant circumstances and stating an intention to terminate; and
  - (ii) the relevant circumstances have continued to exist for 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time such notice is given;
- (b) it is permitted to do so under clause 3.7(b);
- (c) if the Scheme is not Effective by the Sunset Date;
- (d) Target Shareholders do not approve the Scheme;
- (e) the Court refuses to grant orders directing the Target to convene the Scheme Meeting or approving the Scheme, and either an appeal made pursuant to clause 3.8 is not successful or no appeal is made in accordance with clause 3.8;
- (f) a Court or other Government Agency has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;
- (g) the other party is Insolvent; or
- (h) it is agreed to in writing by the parties.

## **15.2 Termination following withdrawal of Recommendation or Superior Proposal**

Without prejudice to any other rights of termination in this Agreement:

- (a) the Bidder may terminate this Agreement by giving written notice to the Target at any time prior to 8.00 am on the Second Court Date if any member of the Target Board fails to make the Recommendation, withdraws their Recommendation, adversely changes or qualifies their Recommendation, or otherwise makes a public statement indicating that he or she no longer supports the Scheme (excluding a statement that no action should be taken by the Target Shareholders pending the assessment of a Competing Proposal by the Target Board); and
- (b) either party may terminate this Agreement by giving written notice to the other party at any time prior to 8.00 am on the Second Court Date if the Target Board determines that a Competing Proposal is a Superior Proposal and communicates that determination to the Target Shareholders, and provided that the Competing Proposal was not solicited or facilitated by the Target or its Representatives in breach of the Target's obligations in clause 12.2.

## **15.3 Effect of termination**

- (a) Subject to clause 15.3(b), if this Agreement is terminated by a party, or this Agreement otherwise terminates in accordance with its terms, then all obligations of the parties under this Agreement immediately cease to be of further effect.
- (b) The termination of this Agreement will not affect:

- (i) any other rights the parties have against one another at Law;
- (ii) the Continuing Clauses, which survive termination of this Agreement; or
- (iii) a right or claim which arises before termination.

#### **15.4 Damages**

Subject to the limitations in clauses 13.7 and 14.7, and in addition to the right of termination under clause 15.1, where there is no appropriate remedy for the breach in this Agreement (other than termination), the non-Breaching Party is entitled to damages for Losses suffered by it and expenses incurred by it as a result of the breach of the terms of this Agreement.

#### **16. Confidentiality Deed**

The parties agree and acknowledge that they are bound by the terms of the Confidentiality Deed except that the terms of this Agreement will prevail over the Confidentiality Deed to the extent of any inconsistency.

#### **17. GST**

##### **17.1 Interpretation**

In this clause 17:

- (a) terms or expressions which have a defined meaning in the *A New Tax System (Goods and Services Tax) Act 1999 (Cth)* (**GST Act**) have the same meaning as in the GST Act; and
- (b) any reference to a party includes the representative member of a GST group of which that party is a member.

##### **17.2 Consideration excludes GST**

Unless otherwise expressly stated, all consideration to be paid or provided under this Agreement is expressed exclusive of GST.

##### **17.3 Payment of GST**

- (a) If GST is payable on any supply made under this Agreement, the recipient must pay to the supplier an additional amount (**GST Amount**) equal to the GST payable on that supply at the same time as the consideration for the supply is to be paid or provided.
- (b) Clause 17.3(a) does not apply to the extent that:
  - (i) the consideration for the supply is stated to include GST; or
  - (ii) GST on the supply is reverse charged and payable by the recipient.

##### **17.4 Tax invoice**

The recipient need not pay the GST Amount until it has received a tax invoice or adjustment note, as the case may be.

### 17.5 Adjustment events

If an adjustment event arises in relation to a supply made under this Agreement, the GST Amount must be adjusted to reflect that adjustment event. A corresponding payment must be made by the supplier to the recipient or by the recipient to the supplier, as the case may be.

### 17.6 Calculation of amounts

If this Agreement requires an amount to be calculated by reference to another amount (**Reference Amount**) that will be:

- (a) received for a taxable supply; or
- (b) paid for a creditable acquisition,

then the Reference Amount must be reduced so as to exclude any part of the Reference Amount paid or received on account of GST, as the case may be.

### 17.7 Reimbursement and indemnity payments

If this Agreement requires a party to reimburse or indemnify another party for a cost or expense, the amount of the cost or expense must be reduced by an amount equal to any input tax credit to which the party being reimbursed or indemnified is entitled for that cost or expense.

### 17.8 Survival

This clause 17 will survive and continue to apply following the termination or completion of this Agreement.

## 18. Withholding tax

- (a) If the Bidder is required by Subdivision 14-D of Schedule 1 of the *Taxation Administration Act 1953* (Cth) (**Subdivision 14-D**) to pay amounts to the ATO in respect of the acquisition of Target Shares from certain Target Shareholders, the Bidder is permitted to deduct the relevant amounts from the payment of the Scheme Consideration to those Target Shareholders, and remit such amounts to the ATO. The aggregate sum payable to Target Shareholders shall not be increased to reflect the deduction and the net aggregate sum payable to those Target Shareholders shall be taken to be in full and final satisfaction of the amounts owing to those Target Shareholders.
- (b) The Target agrees that the Bidder may approach the ATO to obtain clarification as to the application of Subdivision 14-D to the Transaction and will provide all information and assistance that the Bidder reasonably requires in making that approach.
- (c) The Bidder agrees:
  - (i) to provide the Target a reasonable opportunity to review the form and content of all materials to be provided to the ATO, to take into account the Target's comments on those documents and more generally in relation to the Bidder's engagement with the ATO and to participate in any

discussions and correspondence between the Target and the ATO in connection with the application of Subdivision 14-D to the Transaction; and

- (ii) not to contact any Target Shareholders in connection with the application of Subdivision 14-D to the Transaction without the Target's prior written consent.
- (d) The parties agree to consult in good faith as to the application of Subdivision 14-D, including taking into account any clarification provided by the ATO following the process specified above in this clause 18. The parties agree to take all actions that they agree (each acting reasonably) are necessary or desirable following that consultation which may include, without limitation, making amendments to this Agreement and the Scheme) to ensure that relevant representations are obtained from the Target Shareholders.

## 19. Notices

### 19.1 Notices

- (a) Any notice or other communication to or by a party under this Agreement:
  - (i) unless stated otherwise, must be given by letter or email;
  - (ii) must be in writing and in English and must be legible;
  - (iii) must be in writing, legible and in English addressed (depending on the manner in which it is given) as shown below:

(A) If to the Target:

Address: Level 1, 325 Flinders Lane, Melbourne 3000  
 Attention: Mr Mark Samlal  
 Email: [mark.samlal@paygrouplimited.com](mailto:mark.samlal@paygrouplimited.com)

with a copy to:

Address: K&L Gates, Level 25, 525 Collins St, Melbourne VIC 3000  
 Attention: Andrew Gaffney  
 Email: [Andrew.Gaffney@klgates.com](mailto:Andrew.Gaffney@klgates.com)

(B) If to the Bidder or the Guarantor:

Address: 425 1<sup>st</sup> Street, Unit 1502, San Francisco, California 94105, USA  
 Attention: Dor Barda  
 Email: [dor@deel.com](mailto:dor@deel.com)

with a copy to:

Address: Level 13, Collins Arch, 447 Collins Street, Melbourne, Victoria 3000  
 Attention: Vaughan Petherbridge and Jol Rogers

Email: [Vaughan.Petherbridge@gadens.com](mailto:Vaughan.Petherbridge@gadens.com) and  
[Jol.Rogers@gadens.com](mailto:Jol.Rogers@gadens.com)

or addressed in accordance with any updated details last notified by the party to the sender by notice given in accordance with this clause; and

- (iv) subject to clause 19.1(d), must be signed by or on behalf of the sender and, where the sender is a corporation, must be signed on behalf of the sender:
  - (A) in the case of a corporation registered in Australia, by the appropriate office holders of that corporation under section 127 of the Corporations Act; or
  - (B) in the case of a corporation registered outside Australia, by a person duly authorised by that corporation under the laws governing the place of registration of that corporation.
- (b) Any notice or other communication given under this Agreement in accordance with clauses 19.1(a) and 19.1(d) is deemed to be given by the sender and received by the addressee:
  - (i) if delivered in person, when delivered to the addressee;
  - (ii) if posted, at 9.00 am on the third Business Day after the date of posting or, if posted to or from a place outside Australia, on the seventh Business Day after the date of posting, whether delivered or not; or
  - (iii) if by way of email, as specified in clause 19.1(e).
- (c) If any notice or other communication would be deemed by clauses 19.1(b) or 19.1(e) to be delivered or received on a day which is not a Business Day or is after 4.00 pm (addressee's time), it is deemed to have been received at 9.00 am on the next Business Day.
- (d) If any notice or other communication is to be given under this Agreement by email:
  - (i) it may be given by email or attached (as an electronic scanned version of that notice or communication) to an email;
  - (ii) where it is given by email, the email must be signed in accordance with clause 19.1(a)(iv) by typing the signatory's name following the main substantive text of the email;
  - (iii) where it is attached to an email, the notice or other communication must be signed in accordance with clause 19.1(a)(iv) but the covering email does not itself need to be signed;
  - (iv) the subject line of the email must contain the following words or words to a similar effect:
  - (v) "Notice to [Full name of addressee party] under the Notices clause 19.1 of the Scheme Implementation Agreement between PayGroup Limited, Deel Australia Holdings Pty Ltd and Deel, Inc.";

- (vi) the email must be in an appropriate and commonly used format; and
  - (vii) any attached file must be a pdf, jpeg, tiff or other appropriate and commonly used format.
- (e) For the purposes of clause 19.1(b)(iii), any notice or other communication given under this Agreement by email in accordance with clauses 19.1(a) and 19.1(d) is deemed to be delivered and received on the earlier of:
- (i) the sender receiving a delivery confirmation message from the recipient's information system; and
  - (ii) 4 hours after the time the email is sent to the relevant email address unless the sender receives an automatic notification (other than an out of office greeting) that the email has not been delivered.

## **20. Guarantee & Indemnity**

- (a) In consideration of the Target entering into this Agreement with the Bidder at the request of the Guarantor, the Guarantor:
- (i) unconditionally and irrevocably guarantees to the Target on demand, the due and punctual performance of the Bidder's obligations under this Agreement; and
  - (ii) agrees to indemnify the Target against all Loss incurred by the Target arising from any failure by the Bidder to perform any of its obligations under this Agreement.
- (b) This clause is a continuing obligation and remains in force for as long as the Bidder has any liability or obligation to any other party under this Agreement and until all of those liabilities and obligations have been fully discharged.
- (c) The Guarantor's obligations and the Target's rights under this guarantee and indemnity are not affected by anything which might otherwise affect them at Law.
- (d) The Guarantor's liability under this clause 20 in respect of any claim against the Bidder or the Guarantor will not exceed the Bidder's liability in respect of that claim.

## **21. General**

### **21.1 Entire understanding**

- (a) This Agreement and the Confidentiality Deed contain the entire understanding between the parties concerning the subject matter of this Agreement and supersede, terminate and replace all prior agreements and communications between the parties.
- (b) Each party acknowledges that, except as expressly stated in this Agreement, it has not relied on any representation, warranty, undertaking or statement made by or on behalf of another party in relation to this Agreement or its subject matter.

**21.2 No adverse construction**

No provision of this Agreement is to be construed to the disadvantage of a party solely because that party was responsible for preparing or proposing this Agreement or the provision.

**21.3 Further assurances**

A party, at its own expense and within a reasonable time of being requested by another party to do so, must do all things and execute all documents that are reasonably necessary to give full effect to this Agreement.

**21.4 No waiver**

- (a) A failure to exercise, a delay in exercising or partially exercising any power, right or remedy conferred on a party by or in respect of this Agreement does not operate as a waiver by that party of the power, right or remedy.
- (b) A single or partial exercise of any power, right or remedy does not preclude a further exercise of it or the exercise of any other power, right or remedy.
- (c) A waiver of a breach does not operate as a waiver of any other breach.

**21.5 Remedies cumulative**

Except as set out in this Agreement, the powers, rights and remedies under this Agreement are cumulative with and not exclusive of any powers, rights and remedies provided by law independently of this Agreement.

**21.6 Severability**

Any provision of this Agreement which is invalid in any jurisdiction must, in relation to that jurisdiction be:

- (a) read down to the minimum extent necessary to achieve its validity, if applicable; and
- (b) severed from this Agreement in any other case,

without invalidating or affecting the remaining provisions of this Agreement or the validity of that provision in any other jurisdiction.

**21.7 No assignment**

A party cannot assign or otherwise transfer the benefit of this Agreement without the prior written consent of the other party.

**21.8 Consents and approvals**

Unless this Agreement provides otherwise, where anything depends on the consent or approval of a party, then that consent or approval may be given conditionally, unconditionally or withheld, in the absolute discretion of that party.

### **21.9 No variation**

This Agreement cannot be amended or varied except in writing signed by the parties.

### **21.10 Costs**

Each party must pay its own legal costs of and incidental to the preparation, negotiation and execution of this Agreement and in connection with the implementation of the Scheme and the transaction contemplated by it.

### **21.11 Duty**

Any duty (including related interest or penalties) payable in respect of this Agreement or any instrument created in connection with it must be paid by the Bidder.

### **21.12 Conflicting provisions**

If there is any conflict between the main body of this Agreement and any schedules or annexures comprising it, then the provisions of the main body of this Agreement prevail.

### **21.13 No merger**

Unless otherwise provided in this Agreement, the representations, undertakings, warranties and indemnities of the parties in, or the rights and remedies of the parties under, this Agreement will not merge on the completion of any transaction contemplated by this Agreement but will survive and remain enforceable to the fullest extent.

### **21.14 Operation of indemnities**

Unless this Agreement expressly provides otherwise:

- (a) each indemnity in this Agreement is a continuing obligation and survives the completion, expiry or termination of this Agreement;
- (b) each indemnity given by a party in this Agreement is an additional, separate and independent obligation of the party and no one indemnity limits the operation of any other indemnity; and
- (c) a party may enforce and recover a payment under an indemnity in this Agreement before it incurs any expense or makes the payment in respect of which the indemnity is given.

### **21.15 No right of set-off**

Unless this Agreement expressly provides otherwise, a party has no right of set-off against a payment due to another party.

### **21.16 Relationship of parties**

Unless this Agreement expressly provides otherwise, nothing in this Agreement may be construed as creating a relationship of partnership, of principal and agent or of trustee and beneficiary.

### **21.17 Counterparts**

If this Agreement consists of a number of signed counterparts, each is an original and all of the counterparts together constitute the same document. A party may sign a counterpart by executing a signature page and electronically transmitting a copy of the signed page to each other party or their authorised representative.

### **21.18 Governing law and jurisdiction**

- (a) This Agreement is governed by and must be construed in accordance with the laws in force in Victoria.
- (b) The parties submit to the exclusive jurisdiction of the courts of that State and the Commonwealth of Australia in respect of all matters arising out of or relating to this Agreement, its performance or subject matter.
- (c) Each party waives any rights to:
  - (i) object to the venue of any proceedings; or
  - (ii) claim that the proceedings have been brought in an inconvenient forum or that the courts of another place are a more convenient forum,

if the proceedings have been brought in a court referred to in clause 21.18(b).

## Schedule 1 - Conditions

	Condition	Beneficiary	Responsible Party
1.	<b>Orders convening Scheme Meeting:</b> The Court orders the convening of the Scheme Meeting under section 411(1) of the Corporations Act.	None	Target
2.	<b>Target Shareholder approval:</b> The Scheme being approved by Target Shareholders by the requisite majorities under section 411(4)(a) of the Corporations Act.	None	Target
3.	<b>Court approval of Scheme:</b> The Court approves the Scheme under section 411(4)(b) of the Corporations Act and a copy of those orders is lodged with ASIC as contemplated in section 411(10) of the Corporations Act.	None	Bidder and Target
4.	<b>No restraints:</b> No Court or Government Agency issues or takes steps to issue a restraining order, preliminary or permanent injunction or other material legal restraint or prohibition preventing the Scheme or requiring a material change to the terms of the Scheme, which remains in force at 8.00 am on the Second Court Date.	Bidder and Target	Bidder and Target
5.	<b>No Target Prescribed Occurrences:</b> No Target Prescribed Occurrence has occurred between the date of this Agreement and 8.00 am on the Second Court Date, which has not been remedied as at 8.00 am on the Second Court Date.	Bidder	Target
6.	<b>No Material Adverse Change:</b> No Material Adverse Change has occurred between the date of this Agreement and 8.00 am on the Second Court Date.	Bidder	Target
7.	<b>Target Warranties:</b> Each of the Target Warranties are true and correct in all material respects on the date those representations are given.	Bidder	Target
8.	<b>Bidder Warranties:</b> Each of the Bidder Warranties are true and correct in all material respects on the date those representations are	Target	Bidder

	given.		
9.	<b>Restructure and Confirmation Steps:</b> The Restructure and Confirmation Steps being completed to the Bidder's reasonable satisfaction before 8.00 am on the Second Court Date.	Bidder	Target
10.	<b>Contingent Target Share Issues:</b> Before 8.00 am on the Second Court Date, the Target has taken all actions required to ensure that no Third Party has any entitlement to be issued Target Shares on or after the Effective Date, including in relation to any Contingent Target Share Issues.	Bidder	Target
11.	<b>Escrowed Target Shares:</b> Before 8.00 am on the Second Court Date, the Target has taken all actions required to enable all Escrowed Target Shares to be acquired by the Bidder under the Scheme.	Bidder and Target	Target

## Schedule 2 - Target Obligations

	<b>Obligation</b>
1.	<p><b>Independent Expert</b></p> <ul style="list-style-type: none"> <li>(a) Appoint an Independent Expert to provide the Independent Expert's Report and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report.</li> <li>(b) On receipt, provide the Bidder with a copy of any draft or final Independent Expert Report.</li> </ul>
2.	<p><b>Scheme Booklet</b></p> <ul style="list-style-type: none"> <li>(a) Prepare the Scheme Booklet pursuant to clause 5.</li> <li>(b) As soon as reasonably practicable after the date of this Agreement: <ul style="list-style-type: none"> <li>(i) provide an advanced draft of the Scheme Booklet to ASIC for its review and approval; and</li> <li>(ii) liaise with ASIC during the period of its review of the draft Scheme Booklet and keep the Bidder reasonably informed of any matters raised by ASIC in relation to the Scheme Booklet and use reasonable endeavours, in consultation with the Bidder, to resolve any such matters (provided that, where any matters relate to Bidder Scheme Information, the Target must not take any steps to address them without the prior written consent of the Bidder, such consent not to be unreasonably withheld or delayed).</li> </ul> </li> <li>(c) As soon as reasonably practicable after the conclusion of ASIC's review of the Scheme Booklet, procuring that a meeting of the Target Board is held to consider and if thought fit, approve the Scheme Booklet as suitable for dispatch to Target Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act.</li> </ul>
3.	<p><b>ASIC</b></p> <ul style="list-style-type: none"> <li>(a) Apply to ASIC for a written statement that ASIC does not intend to appear before the Court at the First Court Hearing and under section 411(17)(b) Corporations Act that ASIC has no objection to the Scheme.</li> <li>(b) Request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act.</li> </ul>
4.	<p><b>Court Proceedings</b></p> <ul style="list-style-type: none"> <li>(a) Consult with the Bidder in relation to the form and content of the</li> </ul>

	<p>Court Documents required for the Court Hearings held for the purpose of sections 411(1) and 411(4)(b) of the Corporations Act in relation to the Scheme and consider in good faith, for the purpose of amending drafts of those Court Documents, reasonable comments from the Bidder.</p> <p>(b) Engage suitable counsel to represent the Target in all Court proceedings related to the Scheme.</p> <p>(c) Apply to the Court for orders under section 411(1) of the Corporations Act directing the Target to convene the Scheme Meeting.</p>
5.	<p><b>Scheme Booklet Dispatch</b></p> <p>(a) Send the Scheme Booklet to Target Shareholders as soon as practicable after the Court orders the Target to convene the Scheme Meeting.</p> <p>(b) Ensure that the Target Scheme Information is not false, misleading or deceptive in any material respect (whether by omission or otherwise) at the Dispatch Date.</p> <p>(c) Provide to Target Shareholders such further or new Target Scheme Information as may arise after the Dispatch Date as may be necessary to ensure that the Target Scheme Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (whether by omission or otherwise).</p>
6.	<p><b>Scheme Meeting</b></p> <p>Convene and hold the Scheme Meeting in accordance with any orders made by the Court.</p>
7.	<p><b>Certificate</b></p> <p>(a) Provide the certificates required under clause 3.6(a)(iv).</p> <p>(b) Before commencement of the hearing by the Court of the application for the order under section 411(4)(b) of the Corporations Act, give to the Bidder a certificate signed by the Target stating whether or not each representation or warranty given by the Target is true and correct in all material respects as at the time it is given or made under clause 9.</p>
8.	<p><b>Implementation</b></p> <p>(a) Apply to the Court for an order approving the Scheme under sections 411(4)(b) and 411(6) of the Corporations Act.</p> <p>(b) Lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act.</p>

	<ul style="list-style-type: none"> <li>(c) Pay the Transaction Costs as and when they are due and payable.</li> <li>(d) Provide the Scheme Consideration to each Scheme Participant, in accordance with the terms of the Scheme.</li> <li>(e) Execute proper instruments of transfer and register the transfer of the Scheme Shares to the Bidder on the Implementation Date.</li> <li>(f) Do all other things necessary to give effect to the Scheme and the Court orders approving the Scheme.</li> </ul>
9.	<p><b>Proxy Information</b></p> <p>Upon request of the Bidder made before the commencement of the Scheme Meeting, inform the Bidder of the total number of proxy votes in respect of which the appointment for the Scheme Meeting specified that:</p> <ul style="list-style-type: none"> <li>(a) the proxy is to vote in favour of the Scheme;</li> <li>(b) the proxy is to vote against the Scheme;</li> <li>(c) the proxy is to abstain on the Share Scheme Resolution; and</li> <li>(d) the proxy may vote at the proxy's discretion.</li> </ul>
10.	<p><b>Quotation and listing of Target Shares</b></p> <ul style="list-style-type: none"> <li>(a) Apply to ASX to suspend trading in Target Shares with effect from the close of trading on the Effective Date.</li> <li>(b) Take all reasonable steps to maintain the Target's listing on ASX, notwithstanding any suspension of the quotation of Target Shares, up to and including the Implementation Date, including making appropriate applications to ASX and ASIC, and take any action as reasonably requested by the Bidder to obtain the approval of ASX to the de-listing of the Target following implementation of the Scheme.</li> </ul>

### Schedule 3 - Bidder Obligations

	Obligation
1.	<p><b>Scheme Booklet</b></p> <ul style="list-style-type: none"> <li>(a) Assist in the preparation of the Scheme Booklet in accordance with clause 5.</li> <li>(b) Provide to the Target such Bidder Scheme Information that the Target reasonably requires, and in a form suitable for inclusion in the Scheme Booklet and in accordance with all applicable Laws, including the Corporations Act, Corporations Regulations and ASIC policies and guidance.</li> <li>(c) Procure that a meeting of the Bidder's Board of Directors is held to consider and if thought fit, approve those sections of the draft Scheme Booklet that relate to the Bidder as suitable for provision to ASIC for its review.</li> <li>(d) Subject to item 1.1(c), confirming in writing to the Target that: <ul style="list-style-type: none"> <li>(i) it consents to the inclusion of the Bidder Scheme Information in the Scheme Booklet, in the form and context in which the Bidder Scheme Information appears; and</li> <li>(ii) the Bidder Scheme Information is accurate and not false, misleading or deceptive in any material respect (whether by omission or otherwise).</li> </ul> </li> </ul>
2.	<p><b>Deed Poll</b></p> <p>Execute the Deed prior to the First Court Date.</p>
3.	<p><b>Scheme Booklet Dispatch</b></p> <ul style="list-style-type: none"> <li>(a) Approve those sections of the draft Scheme Booklet that relate to the Bidder as suitable for dispatch to Target Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act.</li> <li>(b) Ensure that the Bidder Scheme Information is not false, misleading or deceptive in any material respect (whether by omission or otherwise) at the Dispatch Date.</li> <li>(c) If, after the Dispatch Date, it becomes aware that any of the Bidder Scheme Information is misleading or deceptive in any material respect (whether by omission or otherwise) having regard to applicable disclosure requirements, providing all necessary and appropriate information to the Target to enable it to provide that information to Target Shareholders.</li> </ul>

4.	<p><b>Court Proceedings</b></p> <p>(a) Provide any assistance or information reasonably requested by the Target or its Representatives in connection with the preparation of the Court Documents, including reviewing the drafts of the Court Documents prepared by the Target and providing comments in a timely manner on those drafts.</p> <p>(b) Procure that the Bidder is represented by counsel at the Court hearings convened in relation to the Scheme for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act and, if requested by the Court, undertake (through its counsel) to do all things and take all steps within its power that may be necessary to fulfil its obligations under the Scheme.</p>
5.	<p><b>Independent Expert</b></p> <p>Subject to the Independent Expert agreeing to reasonable confidentiality restrictions, promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report for inclusion in the Scheme Booklet.</p>
6.	<p><b>Implementation</b></p> <p>(a) If the Scheme becomes Effective, pay the Scheme Consideration to the Target on behalf of each Scheme Participant in accordance with clause 4.2.</p> <p>(b) If the Scheme becomes Effective, accept the transfer of the Scheme Shares.</p> <p>(c) Do all other things necessary to give effect to the Scheme and the Court orders approving the Scheme.</p>
7.	<p><b>Certificate</b></p> <p>(a) Provide the certificates required under clause 3.6(a)(iv).</p> <p>(b) Before commencement of the hearing by the Court of the application for the order under section 411(4)(b) of the Corporations Act, give to the Target a certificate signed by the Bidder stating whether or not each representation or warranty given by the Bidder is true and correct in all material respects as at the time it is given or made under clause 10.</p>

## Schedule 4 - Target Warranties

### 1. Power and Authority

- 1.1 Each member of the Target Group is a validly existing corporation registered under the laws of its place of incorporation.
- 1.2 The Target has has taken all necessary action to authorise its entry into and performance of this Agreement and to carry out the transactions contemplated by this Agreement.
- 1.3 The Target has the power to enter into and perform its obligations under this Agreement and to carry out the transactions contemplated by this Agreement.
- 1.4 The obligations of the Target under this Agreement constitute legal, valid and binding obligations on the Target and enforceable against the Target in accordance with their terms.
- 1.5 The entry into and performance of this Agreement by the Target does not and will not result in a contravention of its constitution, or any Law, judgment, ruling, order, decree or authorisation binding on it.

### 2. Information

- 2.1 The Target Due Diligence Information was prepared and provided in good faith for the purpose of informing the Bidder about the Target Shares, the Target Group and its Business and as at the date of this Agreement is not misleading or deceptive in any material respect (whether by omission or otherwise).
- 2.2 The Target Scheme Information included in the Scheme Booklet:
  - (a) was prepared in good faith and on the understanding that the Bidder would rely on that information for the purposes of preparing the Bidder Scheme Information and approving and implementing the Scheme; and
  - (b) as at the Dispatch Date, will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, applicable ASIC guidance and the Listing Rules and will not, having regard to applicable disclosure requirements, be misleading or deceptive in any material respect (including because of any material omission).
- 2.3 The Target will, as a continuing obligation (but in respect of Bidder Scheme Information only to the extent the Bidder provides the Target with updates to the Bidder Scheme Information), ensure that the Scheme Booklet is updated or supplemented to include all further or new information which arises and the Target becomes aware of after the Dispatch Date until the date of the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive (including by way of omission).
- 2.4 The Target as at the date of this Agreement is not in breach of its continuous or periodic financial disclosure obligations under the Listing Rules or the Corporations Act and, subject to the announcement of the Scheme, as at the date of this Agreement the Target is not relying on Listing Rule 3.1A to withhold any information from disclosure under the Listing Rules.

### 3. Compliance with law

- 3.1 To the best of the Target's knowledge and belief, each member of the Target Group as at the date of this Agreement has complied in all material respects with all Australian and foreign laws and regulations applicable to it and orders of Australian and foreign governmental agencies having jurisdiction over it and has all material licenses, permits and authorisations necessary for it to conduct its respective businesses as presently being conducted.

### 4. Financial statements

- 4.1 As far as the Target is aware, as at the date of this Agreement, there has not been any event, change, effect or development that would require the Target to restate the Target's financial statements as disclosed to ASX.

### 5. Intellectual property

- 5.1 A member of the Target Group is the sole and exclusive owner of, or has a valid and enforceable right to use, all Intellectual Property Rights necessary for the Target Group to conduct its business as currently conducted.
- 5.2 No member of the Target Group has received notice from any person alleging that the business of the Target Group infringes or otherwise violates any Intellectual Property Rights of a third party.
- 5.3 So far as the Target is aware after making due enquiries, no person has infringed or otherwise violated the Intellectual Property Rights of the Target Group.

### 6. Material contracts

- 6.1 As at the date of this Agreement, neither the Target nor any member of the Target Group is in default under any material contract binding on it nor has anything occurred which is, or would with the giving of notice or lapse of time, constitute an event of default or give another party a termination right under any such material contract.

### 7. Litigation and investigations

- 7.1 There is no material litigation or regulatory investigation commenced or threatened against any member of the Target Group of any nature.

### 8. Target

- 8.1 The Target has provided the Bidder complete and accurate information relating to the level of financial indebtedness of the Target as at the date of this Agreement.
- 8.2 The issued capital of the Target as of the date of this Agreement is as follows and it has not issued any other securities or instruments which are still outstanding and may convert into Target securities:

Number	Class
118,327,272	Ordinary Shares

2,411,290	<p>options to purchase Target Shares (<b>Options</b>) with the exercise prices of:</p> <p>1.2m Options with the exercise price of \$1.10 per Target Share, and</p> <p>1.2m Options with the exercise price of \$1.20 per Target Share</p>
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8.3 All the issued securities of each Target Group Member (other than the Target) are held by either the Target or another Target Group Member that is directly or indirectly wholly-owned by the Target.

8.4 With the exception of the Contingent Target Share Issues, no Target Group Member has issued or granted (or agreed to issue or grant) any other securities, options, warrants, performance rights or other instruments which are still outstanding and may convert into shares and no Target Group Member is under any obligation to issue or grant, and no person has any right to call for the issue or grant of, any shares, options, warrants, performance rights or other securities or instruments in a Target Group Member.

## 9. Solvency

9.1 No Target Group Member is Insolvent.

## Schedule 5 - Bidder Warranties

1. It is a validly existing corporation registered under the laws of its place of incorporation.
2. It has taken all necessary action to authorise its entry into and performance of this Agreement and to carry out the transactions contemplated by this Agreement.
3. It has the power to enter into and perform its obligations under this Agreement and to carry out the transactions contemplated by this Agreement.
4. The obligations of the Bidder under this Agreement constitute legal, valid and binding obligations on the Bidder and enforceable against the Bidder in accordance with their terms.
5. The entry into and performance of this Agreement by it does not and will not result in a contravention of its constitution, or any Law, judgment, ruling, order, decree or authorisation binding on it.
6. It has obtained (or will have obtained prior to 8.00 am on the Second Court Date) all necessary consents and approvals to enable it to enter into and perform its obligations under this Agreement.
7. To the best of the Bidder's knowledge, as at the date of this Agreement, it has completely and accurately disclosed all information known to it which has been reasonably requested by the Target for the purposes of conducting due diligence on the Bidder and implementing the Scheme, and it has not knowingly concealed any information which would reasonably be expected to be material to the Target or Target Shareholders.
8. The Bidder Scheme Information:
  - (a) was prepared in good faith and on the understanding that the Target would rely on that information for the purposes of preparing the Scheme Booklet and implementing the Scheme; and
  - (b) as at the Dispatch Date, will comply in all material respects with the requirements of the Corporations Act, Corporations Regulations, applicable ASIC guidance and the Listing Rules and will not, having regard to applicable disclosure requirements, be misleading or deceptive in any material respect (including because of any material omission).
9. The Bidder will, as a continuing obligation, provide to the Target all further or new information which arises after the Dispatch Date until the date of the Scheme Meeting which is necessary to ensure that the Bidder Scheme Information is not misleading or deceptive in any material respect (including by way of omission).
10. It is not insolvent.
11. It has (or has access to) the necessary funds, upon the Scheme becoming Effective, to satisfy its payment obligations under the Scheme and the Deed Poll.

**Executed** as an agreement

**Signed** for and on behalf of **Paygroup Limited** )  
ACN 620 435 038 in accordance with Section )  
127(1) of the *Corporations Act 2001 (Cth)*: )  
)

.....  
Signature of Director

.....  
Signature of Director/ Secretary

.....  
Name of Director (please print)

.....  
Name of Director/Secretary (please print)

**Signed** for and on behalf of **Deel Australia** )  
**Holdings Pty Ltd** ACN 660 260 051 in )  
accordance with Section 127(1) of the )  
*Corporations Act 2001 (Cth)*: )  
)

.....  
Signature of Sole Director/Secretary

.....  
Name of Sole Director/Secretary (please print)

**Signed** for and on behalf of **Deel, Inc.** in )  
accordance with its Constitution, By-Laws and )  
applicable laws: )  
)

.....  
Signature of authorised representative

.....  
Name of authorised representative (please print)

## Annexure 1 - Timetable

Event	Indicative Date
Announcement and signing of Scheme Implementation Agreement	Date of this Agreement ( <b>Start Date</b> )
Provide Scheme Booklet to ASIC for review	30 days from the Start Date
First Court Hearing	50 days from the Start Date
Dispatch Scheme Booklet to Target Shareholders	55 days from the Start Date
Scheme Meeting	90 days from the Start Date
Second Court Hearing	105 days from the Start Date
Effective Date (lodge office copy of Court order approving Scheme with ASIC)	106 days from the Start Date
Record Date for Scheme	5.00pm on the second Business Day following the Effective Date
Implementation Date	Seven Business Days following the Effective Date

**Annexure D – Deed Poll**

**K&L GATES**

**Deed Poll**

**Deel Australia Holdings Pty Ltd**  
ACN 660 260 051

and

**Deel, Inc.**

in favour of each Scheme Participant

**K&L Gates**  
Melbourne office  
Ref: NZM:AXG

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## Deed Poll

**Date**            **2 August 2022**

## Parties

This Deed Poll is made by:

**Deel Australia Holdings Pty Ltd** ACN 660 260 051 of 51A Sheahans Road, Bulleen, Victoria 3105 (**Bidder**)

AND

**Deel, Inc.** of 425 1<sup>st</sup> Street, Unit 1502, San Francisco, California 94105, USA (**Guarantor**)

in favour of:

Each registered holder of fully paid ordinary shares in Paygroup Limited ACN 620 435 038 as at 5.00pm on the Record Date (each a **Scheme Participant**).

## Background

- A. On 23 June 2022, the Bidder, the Guarantor and Paygroup Limited ACN 620 435 038 (**Target**) entered into a scheme implementation agreement with respect to the Scheme (as defined below) and associated matters (**Scheme Implementation Agreement**).
- B. In the Scheme Implementation Agreement, the Bidder agreed (among other things) to provide the Scheme Consideration to the Target on behalf of the Scheme Participants, subject to the satisfaction of certain conditions.
- C. The Bidder and the Guarantor are entering into this Deed Poll to covenant in favour of the Scheme Participants that the Bidder will perform all actions attributed to it under the Scheme and the Guarantor will guarantee to each of the Scheme Participants that the Bidder will perform all such actions attributed to the Bidder under the Scheme.

## Agreed terms

### 1. Defined terms and interpretation

#### 1.1 Defined terms

In this Deed Poll, unless otherwise defined:

**First Court Date** means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act; and

capitalised words and phrases have the same meaning as given to them in the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between the Target and Scheme Participants in respect of all Scheme Shares (**Scheme**).

## **1.2 Interpretation**

The provisions of clause 1.2 of the Scheme form part of this Deed Poll as if set out at length in this Deed Poll, except that references to "this Scheme" are to be read as references to "this Deed Poll".

## **1.3 Nature of deed poll**

The parties acknowledge that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms, even though the Scheme Participant is not party to it; and
- (b) each Scheme Participant irrevocably appoints the Target and each of its directors and officers (jointly and severally) as its agent and attorney to enforce this Deed Poll against the parties on behalf of that Scheme Participant.

## **2. Condition precedent and termination**

### **2.1 Condition precedent to obligations of the Scheme**

The obligations of the parties under this Deed Poll are subject to the Scheme becoming Effective.

### **2.2 Termination**

The obligations of the parties under this Deed Poll will automatically terminate, and the terms of this Deed Poll will be of no force or effect, if:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the Sunset Date,

unless the parties and the Target agree in writing otherwise, with the approval of the Court, if required.

### **2.3 Consequences of termination**

If this Deed Poll is terminated under clause 2.2:

- (a) the parties are released from their obligations to further perform this Deed Poll, except those obligations under clause 7.5; and
- (b) in addition and without prejudice to any other rights, powers or remedies available to them, each Scheme Participant retains the rights it has against the parties in respect of any breach of this Deed Poll which occurs before it is terminated.

### **3. Scheme obligations**

#### **3.1 Undertaking Scheme obligations**

Subject to clause 2, the Bidder covenants in favour of each Scheme Participant to perform all actions attributed to it under, and otherwise comply with, the Scheme as if it were a party to the Scheme, and the Guarantor covenants in favour of each Scheme Participant to procure that all obligations of the Bidder under this Deed Poll and the Scheme are met.

#### **3.2 Provision of Scheme Consideration**

Subject to clause 2, the Bidder undertakes in favour of each Scheme Participant to provide the Scheme Consideration to the Trust Account on behalf of each Scheme Participant subject to and in accordance with the terms of the Scheme.

#### **3.3 Payment of Scheme Consideration**

The Bidder's obligation to provide the Scheme Consideration to the Target on behalf of each Scheme Participant is satisfied by the Bidder, no later than 2 Business Days before the Implementation Date, depositing in Immediately Available Funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account, except that the amount of any interest on the amount deposited (less bank fees and other charges) will be to the Bidder's account.

### **4. Representations and warranties**

The Bidder and the Guarantor each represent and warrant in favour of each Scheme Participant that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (c) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (d) the obligations of the Bidder and the Guarantor under this Deed Poll constitute legal, valid and binding obligations on the Bidder and the Guarantor and are enforceable against the Bidder and the Guarantor in accordance with their terms,
- (e) neither the Bidder nor the Guarantor is insolvent, and
- (f) the Bidder has (or has access to) the necessary funds, upon the Scheme becoming Effective, to satisfy its payment obligations under the Scheme and this Deed Poll.

## 5. Continuing obligations

This Deed Poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) the parties have fully performed their obligations under this Deed Poll; or
- (b) the earlier termination of this Deed Poll under clause 2.

## 6. Notices

Any notice or other communication to the Bidder or the Guarantor in respect of this Deed Poll:

- (a) must be given in accordance with this clause 6;
- (b) may be given by personal service, post or email;
- (c) must be in writing, legible and in English addressed (depending on the manner in which it is given) as shown below:

Address: 425 1<sup>st</sup> Street, Unit 1502, San Francisco, California  
94105, USA  
Attention: Dor Barda  
Email: dor@deel.com

with a copy to:

Address: Level 13, Collins Arch, 447 Collins Street, Melbourne,  
Victoria 3000  
Attention: Vaughan Petherbridge and Jol Rogers  
Email: [Vaughan.Petherbridge@gadens.com](mailto:Vaughan.Petherbridge@gadens.com) and  
[Jol.Rogers@gadens.com](mailto:Jol.Rogers@gadens.com)

or addressed in accordance with any updated details last notified by the Bidder or Guarantor;

- (d) must be signed by the sender (if an individual) or by that party's authorised officer, agent or representative:
  - (i) in the case of a corporation registered in Australia, by any authorised representative or by the appropriate office holders of that corporation under section 127 of the Corporations Act; or
  - (ii) in the case of a corporation registered outside of Australia, by a person duly authorised by the sender in accordance with the laws governing the place of registration of that corporation; and
- (e) if sent by email
  - (i) the email itself (whether or not a notice is attached to it) must be signed by typing the signatory's name after the substantive text of the email and any notice attached to the email must be signed in accordance with clause 6(d); and

- (ii) any attached file must be a .pdf, .jpeg, .tiff or other appropriate and commonly used format, and
- (f) is deemed to be given by the sender and received by the addressee:
- (i) if delivered in person, when delivered to the addressee;
  - (ii) if posted, at 9.00 am on the third Business Day after the date of posting to the addressee or, if posted to or from a place outside Australia, on the seventh Business Day after the date of posting to the addressee, whether delivered or not; or
  - (iii) if sent by email, 1 hour after the time the email is sent to the party's email address set out in clause 6(c) above, unless the sender receives, within that time period, an automatic notification (other than an out of office message) indicating that the email has not been delivered.

but if the delivery or receipt is on a day which is not a Business Day or is after 4.00 pm (addressee's time), it is deemed to have been received at 9.00 am on the next Business Day.

## **7. General**

### **7.1 Waiver**

- (a) A failure to exercise, a delay in exercising or partially exercising any power, right or remedy conferred on a Scheme Participant by this Deed Poll does not operate as a waiver by that party of the power, right or remedy.
- (b) A single or partial exercise of any power, right or remedy does not preclude a further exercise of it or the exercise of any other power, right or remedy under this Deed Poll.
- (c) A waiver of a breach does not operate as a waiver of any other breach.

### **7.2 Variation**

This Deed Poll may not be varied unless:

- (a) if before the First Court Date, the variation is agreed to in writing by the parties and the Target; or
- (b) if on or after the First Court Date, the variation is agreed to in writing by the parties and the Target and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event the parties must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation.

### **7.3 Remedies cumulative**

The powers, rights and remedies of the parties and the Scheme Participants under this Deed Poll are cumulative with and not exclusive of any powers, rights or remedies provided by law independently of this Deed Poll.

#### **7.4 No assignment**

The rights created by this Deed Poll are personal to the parties and each Scheme Participant and may only be assigned with the prior written consent of the parties.

#### **7.5 Stamp duty**

The Bidder must pay any stamp duties and any related fines and penalties in respect of this Deed Poll, the performance of this Deed Poll and each transaction effected by or made under or pursuant to this Deed Poll.

#### **7.6 Further assurances**

The Bidder must, at its own expense, promptly do all things necessary or expedient to be done by it in connection with the matters referred to in this Deed Poll and to implement the Scheme.

#### **7.7 Governing law**

- (a) This Deed Poll is governed by and must be construed in accordance with the laws in force in the State of Victoria.
- (b) The parties irrevocably, generally and unconditionally submit to the exclusive jurisdiction of the courts of that State and the Commonwealth of Australia in respect of all matters arising out of or relating to this Deed Poll, its performance or subject matter.
- (c) The parties irrevocably waive any objection to the venue of any legal process in any court referred to in this clause and agree not to make any application to stay proceedings on the basis that the process has been brought in an inconvenient forum.

Executed as a deed poll.

Signed for and on behalf of **Deel Australia** )  
**Holdings Pty Ltd** ACN 660 260 051 in )  
accordance with Section 127(1) of the )  
*Corporations Act 2001 (Cth)*: )



.....  
Signature of Sole Director/Secretary

HARRY PAPADOPOULOS

.....  
Name of Sole Director/Secretary (please print)

Signed for and on behalf of **Deel, Inc.** in )  
accordance with its Constitution, By-Laws and )  
applicable laws: )  
)



.....  
Signature of authorised representative

ALEXANDER BOUAZIZ

.....  
Name of authorised representative (please print)

## **Annexure E – Scheme of Arrangement**

K&L GATES

# Scheme of arrangement

**Paygroup Limited**

ACN 620 435 038

and

Scheme Participants

**K&L Gates**  
Melbourne office  
Ref: AXG

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# Scheme of arrangement

## Date

## Parties

1. **Paygroup Limited** ACN 620 435 038 of Level 1, 325 Flinders Lane, Melbourne 3000 (**Target**)
2. The holders of fully paid ordinary shares in the capital of Target as at the Record Date (each a **Scheme Participant**)

## Background

- A. The Target, the Bidder and the Guarantor have entered into a Scheme Implementation Agreement pursuant to which the Target has agreed to propose the Scheme to Scheme Participants.
- B. The Bidder and the Guarantor have executed a Deed Poll pursuant to which the Bidder covenants in favour of Scheme Participants to perform certain obligations to give effect to the Scheme and the Guarantor covenants in favour of Scheme Participants to procure that such obligations of the Bidder are met.

## Agreed terms

### 1. Definitions and interpretation

#### 1.1 Definitions

In this Scheme:

**Accrued Interest** has the meaning given to that term in clause 5.2(b);

**ASIC** means the Australian Securities and Investments Commission;

**ASX** means ASX Limited or Australian Securities Exchange, as appropriate;

**Bidder** means Deel Australia Holdings Pty Ltd ACN 660 260 051 of 51A Sheahans Road, Bulleen, Victoria 3105;

**Business Day** means a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne;

**CHES** means the Clearing House Electronic Subregister System of share transfers operated by ASX Settlement Pty Limited ACN 008 504 532;

**Corporations Act** means the *Corporations Act 2001 (Cth)*;

**Court** means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the Bidder and Target may agree;

**Deed Poll** means the deed poll dated 2 August 2022 executed by the Bidder and the Guarantor substantially in the form of Annexure 3 of the Scheme Implementation

Agreement or such other form agreed in writing by the Target and the Bidder under which the Bidder covenants in favour of each Scheme Participant to perform its obligations under this Scheme;

**Effective** means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme;

**Effective Date** means the date on which the Scheme becomes Effective;

**Encumbrance** means:

- (a) any:
  - (i) legal or equitable interest or power created, arising in or reserved in or over an interest in any property or asset; or
  - (ii) security for payment of money, performance of obligations or protection against default (including a mortgage, bill of sale, charge, lien, pledge, trust, power or retention of title arrangement, right of set-off, assignment of income, garnishee order, monetary claim and flawed deposit arrangement);
- (b) any thing or preferential interest or arrangement of any kind giving a person priority or preference over claims or other persons with respect to any property or asset;
- (c) a PPSA Security Interest; or
- (d) any agreement or arrangement (whether legally binding or not) to grant or create anything referred to in paragraphs (a), (b) or (c);

**Government Agency** means ASIC, the Court, the Takeovers Panel and any other government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister and any regulatory organisation established under statute or any stock exchange;

**Guarantor** means Deel, Inc. of 425 1<sup>st</sup> Street, Unit 1502, San Francisco, California 94105, USA;

**Immediately Available Funds** means a bank cheque or other form of cleared funds acceptable to the Target;

**Implementation Date** means, the fifth Business Day after the Record Date, or such other Business Day the parties agree;

**Nominee** means the person nominated by the Bidder no later than 3 Business Days before the Second Court Date which is:

- (a) an entity of which at least 90% of the interests in that entity are directly or indirectly owned by the Bidder; or

- (b) an entity which is at least 90% owned (directly or through one or more wholly owned subsidiaries) by the partners of a partnership of which:
- (i) the Bidder is the general partner; or
  - (ii) the general partner of that partnership is a wholly-owned subsidiary of the Bidder;

**PPSA** means the *Personal Property Securities Act 2009 (Cth)*;

**PPSA Security Interest** means a security interest as defined in the PPSA;

**Record Date** means, 5.00 pm on the date which is the second Business Day after the Effective Date, or such other Business Day agreed by the Bidder and the Target;

**Register** means the register of members of the Target maintained by or on behalf of the Target in accordance with section 168(1) of the Corporations Act;

**Registered Address** means the address of a Scheme Participant shown in the Register;

**Registry** means the share registry of the Target, being Computershare Investor Services Pty Limited;

**Scheme** means this scheme of arrangement pursuant to Part 5.1 of the Corporations Act between the Target and Scheme Participants in respect of the Scheme Shares, subject to any amendments made under section 411(6) of the Corporations Act and approved by the Bidder;

**Scheme Consideration** means the consideration payable by the Bidder for the transfer of Scheme Shares held by a Scheme Participant to the Bidder, being the lesser of:

- (a) \$1.00 per Scheme Share; and
- (b) the amount per Scheme Share calculated in accordance with the following formula:

$$SC = (\text{Maximum Equity Value}/N)$$

where:

**SC** means the consideration payable per Scheme Share;

**Maximum Equity Value** means \$119,830,380; and

**N** means the number of Scheme Shares on issue as at the Record Date;

**Scheme Implementation Agreement** means the scheme implementation agreement dated 23 June 2022 between the Bidder, the Guarantor and the Target;

**Scheme Meeting** means the meeting of Target Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme;

**Scheme Share** means a Target Share on issue as at the Record Date;

**Scheme Transfer** means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares;

**Second Court Date** means the first day on which the application to approve the Scheme under section 411(4)(b) of the Corporations Act is heard by the Court;

**Separate Account** has the meaning given to that term in clause 5.3(c);

**Sunset Date** means 5:00 pm on the date which is 5 months after the date of the Scheme Implementation Agreement or such other date and time agreed between the Bidder and the Target;

**Takeovers Panel** means the review body continuing in existence under section 261 of the *Australian Securities and Investments Commission Act 2001 (Cth)* and given powers under Part 6.10 of the Corporations Act;

**Target Share** means a fully paid ordinary share in the capital of the Target;

**Target Shareholder** means each person who is registered in the Register as a holder of Target Shares;

**Trust Account** means the trust account operated by or on behalf of the Target to hold the Scheme Consideration on trust for the purpose of paying the Scheme Consideration to the Scheme Participants in accordance with clause 5.3 of this Scheme; and

**Unclaimed Money Act** means the *Unclaimed Money Act 2008 (Vic)*.

## 1.2 Interpretation

In this Scheme unless the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes the other genders;
- (c) headings are used for convenience only and do not affect the interpretation of this Scheme;
- (d) other grammatical forms of a defined word or expression have a corresponding meanings;
- (e) a reference to a document is to that document as amended, novated, supplemented, extended or restated from time to time;
- (f) a reference to a party is to a party to this Scheme and includes that party's executors, administrators, successors, permitted assigns and permitted substitutes;
- (g) if something is to be or may be done on a day that is not a Business Day then it must be done on the next Business Day;

- (h) "person" includes a natural person, partnership, body corporate, association, joint venture, governmental or local authority, and any other body or entity whether incorporated or not;
- (i) "month" means calendar month and "year" means 12 consecutive months;
- (j) a reference to all or any part of a statute, rule, regulation or ordinance (**statute**) is to that statute as amended, consolidated, re-enacted or replaced from time to time;
- (k) "include", "for example" and any similar expressions are not used, and must not be interpreted, as words of limitation;
- (l) money amounts are stated in Australian currency unless otherwise specified;
- (m) a reference to time is to Melbourne, Australia time;
- (n) a reference to any agency or body that ceases to exist, is reconstituted, renamed or replaced, or has its powers or functions removed (**defunct body**) is to the agency or body that performs most closely the powers or functions of the defunct body;
- (o) any provision in this Scheme which is in favour of more than one person benefits all of them jointly and each of them severally; and
- (p) any provision in this Scheme which binds more than one person binds all of them jointly and each of them severally.

## 2. Preliminary

### 2.1 Target

The Target is a public company limited by shares, incorporated and registered in Victoria, Australia.

- (a) The Target is admitted to the official list of the ASX and Target Shares are officially quoted on the securities market conducted by ASX.
- (b) As at the date of the Scheme Implementation Agreement, the Target had the following securities on issue:

Number	Class
118,327,272	Ordinary Shares
2,411,290	Options to purchase Target Shares ( <b>Options</b> ), with the exercise prices of: 1.2m Options with the exercise price of \$1.10 per Target Share, and 1.2m Options with the exercise price of \$1.20 per Target Share

## 2.2 Bidder

The Bidder is proprietary company limited by shares, incorporated and registered in Victoria, Australia.

## 2.3 Consequences of this Scheme becoming Effective

If the Scheme becomes Effective, on the Implementation Date:

- (a) the Bidder will, in consideration of the transfer of each Scheme Share to the Bidder or its Nominee, provide or procure the provision of the Scheme Consideration to Scheme Participants in accordance with the terms of this Scheme and the Deed Poll;
- (b) all the Scheme Shares held by Scheme Participants, and all the rights and entitlements attaching to them, will be transferred to the Bidder or its Nominee; and
- (c) the Target will enter the Bidder's or its Nominee's name in the Register in respect of the Scheme Shares held by Scheme Participants in accordance with the terms of this Scheme.

## 2.4 Scheme Implementation Agreement and Deed Poll

- (a) The Bidder and the Target have agreed, by executing the Scheme Implementation Agreement, to implement the terms of this Scheme.
- (b) This Scheme attributes actions to the Bidder but does not itself impose an obligation on the Bidder to perform those actions. The Bidder has agreed by executing the Deed Poll to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration to Scheme Participants. The Guarantor has executed the Deed Poll for the purpose of covenanting in favour of each Scheme Participant to procure that all obligations of the Bidder under the Deed Poll and the Scheme are met.

## 3. Conditions, Effective Date and Sunset Date

### 3.1 Conditions to the Scheme

The Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions (each a **Condition**):

	<b>Condition</b>
1.	<b>Scheme Implementation Agreement Conditions:</b> All the conditions set out in Schedule 1 of the Scheme Implementation Agreement (other than the condition in Item 3 of Schedule 1 of the Scheme Implementation Agreement) <sup>1</sup> have been satisfied or waived in accordance with the terms of the Scheme Implementation

<sup>1</sup> Being the condition relating to Court approval of the Scheme.

	<b>Condition</b>
	Agreement by 8.00 am on the Second Court Date.
2.	<b>No termination:</b> As at 8.00 am on the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms.
3.	<b>Court approval:</b> The Court having approved the Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are agreed to in writing between the Target and the Bidder.
4.	<b>Additional Conditions:</b> Such other conditions made or required by the Court under section 411(6) of the Corporations Act (and agreed to by the Target and the Bidder) have been satisfied or waived.
5.	<b>Court orders effective:</b> The Court orders made under section 411(4)(b), and if applicable section 411(6) of the Corporations Act approving the Scheme come into effect pursuant to section 411(10) of the Corporations Act, on or before the Sunset Date.

### 3.2 Certificates

The Bidder and the Target must each give to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge), whether or not all of the Conditions set out in Item 1 and Item 2 of clause 3.1 have been satisfied or waived as at 8.00 am on the Second Court Date.

### 3.3 Effective Date

Subject to clause 3.4, the Scheme will take effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

### 3.4 Sunset Date

The Scheme will lapse and be of no further force or effect, and each of the Bidder and the Target are released from any further obligation to take steps to implement the Scheme, if:

- (a) the Effective Date does not occur on or before the Sunset Date; or
- (b) the Scheme Implementation Agreement or Deed Poll are terminated in accordance with their terms,

unless the Target and the Bidder agree in writing otherwise, with the approval of the Court, if required.

## **4. Implementation of the Scheme**

### **4.1 Lodgement**

The Target must lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act, on or before 5.00 pm on the next Business Day after the Court approves the Scheme or such later time as the Target and the Bidder agree in writing.

### **4.2 Transfer of Scheme Shares**

On the Implementation Date, subject to the payment of the Scheme Consideration in accordance with clauses 5.1 to 5.3 of this Scheme:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to the Bidder or its Nominee, without the need for any further act by any Scheme Participant (other than acts performed by the Target as attorney and agent for Scheme Participants under clause 7.1 of this Scheme) by:
  - (i) the Target delivering to the Bidder a duly completed and executed Scheme Transfer executed on behalf of the Scheme Participants; and
  - (ii) the Bidder or its Nominee duly executing the Scheme Transfer and delivering it to the Target for registration; and
- (b) as soon as practicable after receipt of the executed Scheme Transfer, the Target must enter, or procure the entry of, the name of the Bidder or its Nominee in the Register as the holder of the Scheme Shares.

### **4.3 Entitlement to Scheme Consideration**

On the Implementation Date, in consideration for the transfer to the Bidder or its Nominee of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of their Scheme Shares in accordance with clause 5 of this Scheme.

### **4.4 Title and rights in Target Shares**

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 5 of this Scheme, on and from the Implementation Date, the Bidder or its Nominee will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by the Target of the Bidder or its Nominee in the Register as the holder of the Scheme Shares.

### **4.5 Scheme Participants' agreements**

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme.

### **4.6 Transfer free of Encumbrances**

To the extent permitted by law, all Target Shares (including any rights and entitlements attaching to those shares) which are transferred to the Bidder or its

Nominee under this Scheme will, at the date of the transfer of them to the Bidder or its Nominee, vest in the Bidder or its Nominee free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

## 5. Scheme Consideration

### 5.1 Consideration under the Scheme

On the Implementation Date, the Target must procure the Bidder to pay (or procure the payment of) the Scheme Consideration to the Scheme Participants in accordance with clauses 5.2, 5.3 and 5.4 of this Scheme.

### 5.2 Satisfaction of obligations and interest accruing

- (a) The obligation of the Target to procure payment of the Scheme Consideration pursuant to clause 5.1 of this Scheme will be satisfied by the Target using its best endeavours to procure the Bidder, no later than 2 Business Days before the Implementation Date, deposits (or procures the deposit) in Immediately Available Funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account, such amount to be held by the Target on trust for Scheme Participants for the purposes of paying the Scheme Consideration to the Scheme Participants in accordance with clause 5.3(a).
- (b) The amount of any interest (less any bank fees and other charges) on the amount deposited in the Trust Account will be to the Bidder's account (**Accrued Interest**).

### 5.3 Payment of Scheme Consideration

- (a) On the Implementation Date, subject to receipt of the Scheme Consideration from the Bidder in accordance with clause 5.2 of this Scheme, the Target must pay or procure payment to each Scheme Participant from the Trust Account an amount equal to the Scheme Consideration for each Scheme Share transferred to the Bidder or its Nominee on the Implementation Date by that Scheme Participant.
- (b) Unless otherwise directed by a Scheme Participant before the Record Date, the amounts referred to in clause 5.3(a) of this Scheme must be paid by:
  - (i) electronic funds transfer to an account nominated by the Scheme Participant prior to the Record Date; or
  - (ii) sending a cheque drawn on an Australian bank in Australian currency on the Implementation Date to the Scheme Participant by pre-paid regular post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to their Registered Address as at 5.00 pm on the Record Date (or in the case of joint holders, in accordance with clause 5.7).
- (c) In the event that:
  - (i) either:

- (A) a Scheme Participant does not have a Registered Address; or
- (B) the Target as trustee for the Scheme Participants believes that a Scheme Participant is not known at the Scheme Participant's Registered Address,

and no account has been notified in accordance with clause 5.3(b)(i) or a deposit into such account is rejected or refunded; or

- (ii) a cheque issued under this clause 5.3 has been cancelled in accordance with clause 5.4(a),

the Target as the trustee for the Scheme Participants may credit the amount payable to the relevant Scheme Participant to a separate bank account of the Target (**Separate Account**) to be held until the Scheme Participant claims the amount or the amount is dealt with in accordance with the Unclaimed Money Act. To avoid doubt, if the amount is not credited to a Separate Account, the amount will continue to be held in the Trust Account until the Scheme Participant claims the amount or the amount is dealt with in accordance with the Unclaimed Money Act. Until such time as the amount is dealt with in accordance with the Unclaimed Money Act, the Target must hold the amount on trust for the relevant Scheme Participant, but any interest or other benefit accruing from the amount will be to the benefit of the Bidder. An amount credited to the Separate Account or Trust Account (as applicable) is to be treated as having been paid to the Scheme Participant when credited to the Separate Account or Trust Account (as applicable). The Target must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (d) To the extent that there is a surplus in the amount held by the Target as the trustee for the Scheme Participants in the Trust Account, that surplus may be paid by the Target as the trustee for the Scheme Participants to the Bidder following the satisfaction of the Target's obligations as the trustee for the Scheme Participants under this clause 5.3.
- (e) The Target must pay any Accrued Interest to any account nominated by the Bidder following satisfaction of the Target's obligations under this clause 5.3.

#### **5.4 Unclaimed monies**

- (a) The Target may cancel a cheque issued under clause 5.3 of this Scheme if the cheque:
  - (i) is returned to the Target; or
  - (ii) has not been presented for payment within 6 months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Participant to the Target, the Target must reissue a cheque that was previously cancelled under clause 5.4(a).
- (c) The Unclaimed Money Act will apply in relation to any Scheme Consideration which becomes "unclaimed money" (as defined in section 3 of the Unclaimed Money Act).

- (d) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of the Bidder.

## 5.5 Orders of a court or Government Agency

In the case of notice having been given to the Target (or the Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 5.3 of this Scheme, then the Target must procure that payment is made in accordance with that order or direction; or
- (b) which would prevent the Target from dispatching payment to any particular Scheme Participant in accordance with clause 5.3 of this Scheme, or such payment is otherwise prohibited by applicable law, the Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration until such time as payment in accordance with clause 5.3 of this Scheme is permitted by that order or direction or otherwise by law,

and the payment or retention by the Target (or the Registry) will constitute the full discharge of the Target's obligations under clause 5.3(a) with respect to the amount so paid or retained until, in the case of clause 5.5(b), it is no longer required to be retained.

## 5.6 Withholding

- (a) If the Bidder determines, having regard to legal advice, that the Bidder is either:
  - (i) required by law to withhold any amount from a payment to a Scheme Participant; or
  - (ii) liable to pay an amount to the Commissioner of Taxation under section 14-200 of Schedule 1 to the *Taxation Administration Act 1953* (Cth) (amounts required to be paid for CGT non-resident withholding) in respect of the acquisition of Scheme Shares from a Scheme Participant,

then the Bidder is entitled to withhold the relevant amount before making the payment to the Scheme Participant (and payment of the reduced shall be taken to be full payment of the relevant amount for the purposes of this Scheme, including clause 5.3).

- (b) The Bidder must pay any amount so withheld to the relevant taxation authority within the time permitted by law, and, if requested in writing by the relevant Scheme Participant, provide a receipt or other appropriate evidence (or procure the provision of such receipt or other evidence) of such payment to the relevant Scheme Participant.

## **5.7 Joint holders**

In the case of Scheme Shares held in joint names the Scheme Consideration is payable to and must be forwarded to the holder whose name appears first in the Register as at 5.00 pm on the Record Date.

## **5.8 Fractional entitlements**

Where the calculation of the aggregate amount of the Scheme Consideration to be provided to a Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

# **6. Dealings in Scheme Shares**

## **6.1 Determination of Scheme Participants**

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by the Target if:

- (a) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before 5.00 pm on the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00 pm on the Record Date at the place where the Register is kept.

## **6.2 Register**

The Target must register any registrable transmission application or transfers of the Scheme Shares received in accordance with clause 6.1(b) of this Scheme on or before 5.00 pm on the Record Date.

## **6.3 No disposals after Record Date**

- (a) If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect.
- (b) The Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after 5.00 pm on the Record Date (except a transfer to the Bidder or its Nominee pursuant to this Scheme and any subsequent transfer by the Bidder, its Nominee or its successors in title).

## **6.4 Maintenance of Target Register**

For the purpose of determining entitlements to the Scheme Consideration, the Target must maintain the Register in accordance with the provisions of this clause 6 until the Scheme Consideration has been paid to the Scheme Participants and the Bidder or its Nominee has been entered in the Register as the holder of all the Scheme Shares.

The Register in this form will solely determine entitlements to the Scheme Consideration.

## **6.5 Effect of certificates and holding statements**

- (a) Subject to provision of the Scheme Consideration and registration of the transfer to the Bidder or its Nominee contemplated in clauses 4.2 and 5.3 of this Scheme, any statements of holding in respect of Scheme Shares (other than statements of holding in favour of the Bidder, its Nominee or their successors in title) will cease to have effect after 5.00 pm on the Record Date as documents of title in respect of those shares.
- (b) After 5.00 pm on the Record Date, each entry current on the Register as at 5.00 pm on the Record Date (other than entries in respect of the Bidder, its Nominee or their successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

## **6.6 Details of Scheme Participants**

As soon as practicable after the Record Date, and in any event within one Business Day of the Record Date, the Target must ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 5.00 pm on the Record Date, are available to the Bidder in such form as the Bidder reasonably requires.

## **6.7 Quotation of Target Shares**

- (a) The Target must apply to ASX to suspend trading on ASX in Target Shares with effect from the close of trading on ASX on the Effective Date.
- (b) After the Scheme has been fully implemented, the Target must apply:
  - (i) for termination of the official quotation of Target Shares on ASX; and
  - (ii) to have itself removed from the official list of the ASX.

## **7. General Scheme provisions**

### **7.1 Appointment of agent and attorney**

Each Scheme Participant, without the need for any further act, irrevocably appoints the Target as its agent and attorney for the purpose of:

- (a) executing any document or form or doing any other act necessary to give effect to the terms of this Scheme including, without limitation, the Scheme Transfer and the giving of the Scheme Participant's consent under clause 7.8; and
- (b) enforcing the Deed Poll against the Bidder and the Guarantor,

and the Target accepts such appointment. The Target, as agent of each Scheme Participant, may sub-delegate its functions, authorities or powers under this clause 7.1 to all or any of its directors and officers (jointly, severally or jointly and severally).

## **7.2 Appointment of Bidder as sole proxy**

On the provision of the Scheme Consideration for the Scheme Shares in accordance with clause 5.3 of this Scheme and until the Target registers the Bidder or its Nominee as the holder of all Scheme Shares in the Register, each Scheme Participant:

- (a) irrevocably appoints the Bidder as its attorney and agent (and directs the Bidder in such capacity) to appoint an officer or agent nominated by the Bidder as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of the Target, exercise the votes attaching to the Scheme Shares registered in its name and sign any shareholders' resolution;
- (b) undertakes not to attend shareholders' meetings, exercise the votes attaching to Scheme Shares registered in its name or sign or vote on any resolution (whether in person, by proxy or by corporate representative) other than pursuant to clause 7.2(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as the Bidder reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 7.2(a), the Bidder and an officer or agent nominated by the Bidder under clause 7.2(a) may act in the best interests of the Bidder as the intended registered holder of Scheme Shares.

## **7.3 Alterations to Scheme or condition**

The Target may, by its counsel or solicitors, and with the consent of the Bidder (which cannot be unreasonably withheld), consent on behalf of all persons concerned, including a Scheme Participant, to any alteration or condition to the Scheme which the Court thinks fit to impose. Each Scheme Participant agrees to any such variation, alteration or condition.

## **7.4 Binding effect of Scheme**

This Scheme binds the Target and all Scheme Participants (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or who voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of the Target.

## **7.5 Further action by the Target**

The Target must execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

## **7.6 No liability when acting in good faith**

Neither the Target, the Bidder nor its Nominee, nor any of their respective officers, employees and advisers (as applicable), will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

## 7.7 Enforcement of Deed Poll

The Target undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against the Bidder and the Guarantor on behalf of and as agent and attorney for the Scheme Participants.

## 7.8 Scheme Participants' consent

Each Scheme Participant irrevocably:

- (a) agrees to the transfer of their Scheme Shares together with all rights and entitlements attaching to those Scheme Shares in accordance with this Scheme;
- (b) consents to the Target and the Bidder or its Nominee doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of the Scheme;
- (c) agrees to any variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;
- (d) agrees to, on the direction of the Target, destroy any holding statements or share certificates relating to their Scheme Shares;
- (e) acknowledges that the Scheme binds the Target and all of the Scheme Participants (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme); and
- (f) agrees to any alteration or condition to the Scheme which the Court thinks fit to impose.

## 7.9 Warranty by Scheme Participants

- (a) Each Scheme Participant warrants to the Bidder, and is deemed to have authorised the Target as its agent and attorney to warrant to the Bidder, that:
  - (i) all their Scheme Shares (including any rights and entitlements attaching to those shares) will, at the date of their transfer to the Bidder, be fully paid and free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
  - (ii) they have full power and capacity to sell and to transfer their Scheme Shares together with any rights and entitlements attaching to such shares; and
  - (iii) they have no existing right to be issued any Target Shares, options exercisable into Target Shares, convertible notes convertible into Target Shares or any other securities issued by the Target.
- (b) The Target undertakes that it will provide the warranties in clause 7.9(a) to the Bidder as agent and attorney of each Scheme Participant on the Implementation Date.

- (c) To the extent permitted by law, Scheme Shares transferred under the Scheme will be transferred free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise.

## **8. General**

### **8.1 Notices**

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to the Target, it will be deemed to be received on the date (if any) on which it is actually received at the Target's registered office, and will not be deemed to be received on any other date.

### **8.2 Nature of obligations**

Each obligation imposed on a party by this Scheme in favour of another is a separate obligation. Unless specified otherwise, the performance of one obligation is not dependent or conditional on the performance of any other obligation.

### **8.3 No variation**

This Scheme cannot be amended or varied except in writing signed by the parties.

### **8.4 Duty**

Any duty (including related interest or penalties) payable in respect of this Scheme or any instrument created in connection with it must be paid by the Bidder.

### **8.5 Further assurances**

A party, at its own expense and within a reasonable time of being requested by another party to do so, must do all things and execute all documents that are reasonably necessary to give full effect to this Scheme.

### **8.6 Governing law and jurisdiction**

- (a) This Scheme is governed by and must be construed in accordance with the laws in force in Victoria.
- (b) The parties submit to the exclusive jurisdiction of the courts of that State and the Commonwealth of Australia in respect of all matters arising out of or relating to this Scheme, its performance or subject matter.

**Annexure F – Notice of Scheme Meeting**

# NOTICE OF SCHEME MEETING

## Paygroup Limited

ACN 620 435 038

Notice is given that by an order of the Federal Court of Australia made on 23 August 2022 pursuant to section 411(1) of the *Corporations Act 2001 (Cth)* (**Corporations Act**) a meeting of the holders of ordinary shares in Paygroup Limited ACN 620 435 038 (**Paygroup**) will be held on 30 September 2022 at 11:00 am (Melbourne time) at the offices of K & L Gates, Level 25, 525 Collins Street, Melbourne, Victoria (**Scheme Meeting**).

Paygroup Shareholders wishing to vote, or their attorneys or in the case of a Paygroup Shareholder or proxy which is a corporation, corporate representatives, must attend these offices of K & L Gates at this time to participate in the Scheme Meeting.

The Court has also directed that Mr Ian Bassor or, if he is unable or unwilling to participate in the Scheme Meeting, Mr David Fagan, act as Chairman of the meeting.

### PURPOSE OF MEETING

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without modification) to be made between Paygroup and Paygroup's ordinary shareholders to effect the acquisition of 100% of the issued shares of Paygroup by Deel Australia Holdings Pty Ltd ACN 660 260 051 (**Deel**).

To enable you to make an informed voting decision, further information about the Scheme is set out in the accompanying explanatory statement (for the purposes of section 412(1) of the *Corporations Act*) which, together with this Notice of Meeting, forms part of this Scheme Booklet.

### BUSINESS OF THE MEETING

#### Resolution – Approval of the Scheme of Arrangement

To consider, and if thought fit, to pass the following Resolution:

*“That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth):*

- (a) the scheme of arrangement proposed between Paygroup Limited and the holders of its fully paid ordinary shares (**Scheme**), the terms of which are contained and more particularly described in the Scheme Booklet (of which this Notice of Scheme Meeting forms part) is approved (with or without any modifications, alterations or conditions agreed in writing between Paygroup and Deel and approved by the Federal Court of Australia or any modifications, alterations or conditions as thought just by the Federal Court of Australia and to which Paygroup and Deel agree in writing); and*
- (b) the Board of Directors of Paygroup Limited are authorised, subject to the terms of the Scheme Implementation Agreement:*
  - (i) to agree to any modifications, alterations or conditions with Deel;*

- (ii) *to agree to any modifications, alterations or conditions as are thought just by the Federal Court of Australia; and*
- (iii) *subject to approval of the Scheme by the Federal Court of Australia, to implement the Scheme with any such modifications, alterations or conditions.”*

**By order of the Board**

---

**Company Secretary**  
Mr Oliver Carlton

## EXPLANATORY NOTES

**These notes should be read in conjunction with this Notice of Scheme Meeting.**

### 1. Terminology

- (a) Capitalised terms which are defined in the Scheme Booklet which accompanies this Notice of Scheme Meeting have the same meaning when used in this Notice (including these notes) unless the context requires otherwise.
- (b) This Notice of Scheme Meeting should be read in conjunction with the entire Scheme Booklet of which this Notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the proposed resolution. The Scheme Booklet includes a copy of the Scheme (refer to Annexure E) and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme (the explanatory statement being all Sections of this Scheme Booklet, other than this Annexure F).

### 2. Quorum

The constitution of Paygroup provides that the quorum for a meeting of the Company's members is 5 members (in person or by proxy, attorney or representative).

### 3. Chairman

The Court has directed that Mr Ian Basser act as Chairman of the Scheme Meeting or, failing him, Mr David Fagan.

### 4. Voting intentions

The Paygroup Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme at the Scheme Meeting. Each Paygroup Director who holds Paygroup Shares, or on whose behalf Paygroup Shares are held, intends to vote, or cause to be voted, all Paygroup Shares they hold or control in favour of the Scheme at the

Scheme Meeting, in the absence of a Superior Proposal.

### 5. Majority required

In accordance with section 411(4)(a)(ii) of the Corporations Act, for the Scheme of Arrangement to become Effective the Scheme Resolution must be passed by:

- (a) a majority in number (more than 50%) of Paygroup Shareholders present and voting (whether personally, by proxy, attorney or, in the case of a Paygroup Shareholder or a proxy who is a corporation, by corporate representative) at the Scheme Meeting; and
- (b) at least 75% of the total number of Paygroup Shares voted at the Scheme Meeting (whether personally, by proxy, attorney or, in the case of a Paygroup Shareholder or a proxy who is a corporation, by corporate representative).

The vote of the Scheme Meeting will be conducted by poll.

### 6. Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme of Arrangement (with or without any modifications or conditions agreed between Paygroup and Deel or any modifications or conditions required by the Court to which Paygroup and Deel agree) must be approved by an order of the Federal Court of Australia and an office copy of the orders must be lodged with ASIC. If the Scheme Resolution is approved at the Scheme Meeting by the Requisite Majorities and the conditions precedent in the Scheme of Arrangement are satisfied or waived (as applicable), Paygroup will apply to the Court for the necessary orders to give effect to the Scheme of Arrangement.

7. **Entitlement to vote**

The Court has ordered that, for the purposes of the Scheme Meeting, Paygroup Shares will be taken to be held by the persons who are registered as Paygroup Shareholders at 7:00 pm (Melbourne time) on 28 September 2022. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

8. **Voting at the meeting**

You may vote by participating in the Scheme Meeting or by appointing an attorney or corporate representative to participate in the Scheme Meeting and vote for you. Alternatively, Paygroup Shareholders who are entitled to vote at the Scheme Meeting may vote by appointing a proxy to participate and vote on their behalf, using the Proxy Form accompanying this notice or by appointing a proxy online.

**(a) Jointly held Paygroup Shares**

If more than one shareholder votes in respect of jointly held Paygroup Shares, only the vote of the shareholder whose name appears first in the Paygroup Register will be counted whether the vote is given personally, by attorney or proxy.

**(b) Voting**

Paygroup Shareholders wishing to vote, or their attorneys or in the case of a Paygroup Shareholder or proxy which is a corporation, corporate representatives, must attend the office of K & L Gates, Level 25, 525 Collins Street, Melbourne, Victoria at 11:00 am (Melbourne time) on 30 September 2022.

**(c) Voting by proxy**

Paygroup Shareholders wishing to appoint a proxy to vote on their behalf at the Scheme Meeting must either complete and sign the

personalised Proxy Form which accompanies this Notice of Meeting or lodge their proxy online. A person appointed as a proxy may be an individual or a body corporate.

Completed Proxy Forms must be received by the Paygroup Share Registry by 11:00 am (Melbourne time) on 28 September 2022 in any of the following ways:

- (i) **By mail** in the enclosed reply-paid envelope (or the self-addressed envelope, for Paygroup Shareholders whose registered address is outside Australia) mailed to the Paygroup Share Registry at:  
  
Paygroup Share Registry at  
PayGroup Limited C/-  
Computershare Investor  
Services Pty Limited GPO  
Box 242 Melbourne VIC  
3001
- (ii) **By fax** to the PayGroup Share Registry on 1800 783 447 within Australia or +61 3 9473 2555 outside Australia
- (iii) **Online** if you wish to appoint your proxy online, you should do so by visiting  
[www.investorvote.com.au](http://www.investorvote.com.au)  
OR for Intermediary Online subscribers (custodians) go to  
[www.intermediaryonline.com](http://www.intermediaryonline.com) by following the instructions in the enclosed Proxy Form. Online appointments of proxies must be done by 11:00 am (Melbourne time) 28 September 2022
- (iv) **By Hand:**  
To Computershare Investor Services Pty Limited 452 Johnston

Street, Abbotsford VIC  
3067.

A proxy need not be a Paygroup Shareholder.

If you appoint a proxy and subsequently wish to attend the meeting yourself, the proxy will retain your vote and you will be unable to vote yourself unless you notify the Paygroup Share Registry of the revocation of your proxy appointment before the commencement of the Scheme Meeting. You may notify PayGroup on 1300 034 140 within Australia or +61 3 9415 4688 outside Australia.

If a proxy appointment is signed by a Paygroup Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman will act as proxy.

You are entitled to appoint up to two proxies to participate in the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. Replacement Proxy Forms can also be obtained from the Paygroup Share Registry.

If you hold Paygroup Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.

**(d) Undirected proxies**

If a Paygroup Shareholder nominates the Chairman of the Scheme Meeting as that Paygroup Shareholder's proxy, the person acting as Chairman of the Scheme Meeting must act as proxy under the appointment in respect of any or all items of business to be considered at the Scheme Meeting.

If a proxy appointment is signed or validly authenticated by that Paygroup Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman of the Scheme Meeting will act as proxy in respect of any or all items of business to be considered at the Scheme Meeting.

Proxy appointments in favour of the Chairman of the Scheme Meeting, the Company Secretary or any Paygroup Director which do not contain a direction as to how to vote will be voted in favour of the Scheme Resolution at the Scheme Meeting (in the absence of a Superior Proposal from another party prior to the date of the Scheme Meeting).

The Chairman intends to vote undirected proxies of which he is appointed as proxy in favour of the Scheme Resolution (in the absence of a Superior Proposal from another party prior to the date of the Scheme Meeting).

**(e) Voting by attorney**

If you wish to appoint an attorney to vote at the Scheme Meeting the original or a certified copy of the power of attorney under which the attorney has been appointed must be received by the Paygroup Share Registry no later than 11:00 am (Melbourne time) on 28 September 2022 (or if the Scheme Meeting is adjourned or postponed, no later than 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting).

Any power of attorney granted by a Paygroup Shareholder will, as between Paygroup and that Paygroup Shareholder, continue in force and may be acted on, unless express notice in writing of its revocation or the death of the relevant Paygroup Shareholder is

received by the Paygroup Share Registry by 11:00 am (Melbourne time) on 28 September 2022.

Your appointment of an attorney does not preclude you from attending, participating and voting at the Scheme Meeting. The appointment of your attorney is not revoked merely by your participation and taking part in the Scheme Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.

**(f) Voting by corporate representative**

To vote by corporate representative at the Scheme Meeting, a Paygroup Shareholder or proxy who is a corporation should obtain a *Certificate of Appointment of Corporate Representative* from the Paygroup Share Registry, complete and sign

the form in accordance with the instructions on it. The completed appointment form should be lodged with the Paygroup Share Registry before 11:00 am (Melbourne time) on 28 September 2022.

The appointment of a representative may set out restrictions on the representative's powers. The appointment must comply with section 250D of the Corporations Act.

The original *Certificate of Appointment of Corporate Representative*, a certified copy of the *Certificate of Appointment of Corporate Representative*, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

## Need assistance?



**Phone:**  
1300 034 140 (within Australia)  
+61 3 9415 4688 (outside Australia)



**Online:**  
[www.investorcentre.com/contact](http://www.investorcentre.com/contact)

PYG

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## PayGroup Limited Scheme Meeting

The PayGroup Limited Scheme Meeting will be held on Friday, 30 September 2022 at 11.00 am (Melbourne time). You are encouraged to participate in the meeting using the following options:



### MAKE YOUR VOTE COUNT

To lodge a proxy, access the Notice of Meeting and other meeting documentation visit [www.investorvote.com.au](http://www.investorvote.com.au) and use the below information:



**Control Number: 999999**  
**SRN/HIN: I9999999999**  
**PIN: 99999**

For Intermediary Online subscribers (custodians) go to [www.intermediaryonline.com](http://www.intermediaryonline.com)

For your proxy appointment to be effective it must be received by 11:00 am (Melbourne time) Wednesday, 28 September 2022.



### ATTENDING THE MEETING IN PERSON

The meeting will be held at:  
The offices of K & L Gates, Level 25, 525 Collins Street, Melbourne VIC 3000

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

PYG

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Need assistance?

 **Phone:**  
1300 034 140 (within Australia)  
+61 3 9415 4688 (outside Australia)

 **Online:**  
[www.investorcentre.com/contact](http://www.investorcentre.com/contact)



## YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **11:00 am (Melbourne time) Wednesday, 28 September 2022.**

# Proxy Form - Scheme Meeting

## How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

### APPOINTMENT OF PROXY

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

## SIGNING INSTRUCTIONS FOR POSTAL FORMS

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## PARTICIPATING IN THE MEETING

### Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at [www.investorcentre.com/au](http://www.investorcentre.com/au) and select "Printable Forms".

## Lodge your Proxy Form:

**XX**

### Online:

Lodge your vote online at [www.investorvote.com.au](http://www.investorvote.com.au) using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



**Control Number: 999999**

**SRN/HIN: I999999999**

**PIN: 99999**

For Intermediary Online subscribers (custodians) go to [www.intermediaryonline.com](http://www.intermediaryonline.com)

### By Mail:

Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne VIC 3001  
Australia

### By Fax:

1800 783 447 within Australia or  
+61 3 9473 2555 outside Australia



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

## Proxy Form

Please mark  to indicate your directions

### Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of PayGroup Limited hereby appoint

the Chairman of the Meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of PayGroup Limited to be held at the offices of K & L Gates, Level 25, 525 Collins Street, Melbourne, Victoria on Friday, 30 September 2022 at 11:00 am (Melbourne time) and at any adjournment or postponement of that meeting.

### Step 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for the item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution Approval of the Scheme of Arrangement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on the resolution, in which case an ASX announcement will be made.

### Step 3 Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1  Securityholder 2  Securityholder 3  / /  
Sole Director & Sole Company Secretary Director Director/Company Secretary Date

#### Update your communication details *(Optional)*

Mobile Number  Email Address   
By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically



## **CORPORATE DIRECTORY**

### **COMPANY**

PayGroup Limited  
ACN 620 435 038

Telephone: +61 3 8692 7248  
Website: [www.paygrouplimited.com](http://www.paygrouplimited.com)

### **REGISTERED OFFICE**

Level 1 325 Flinders Lane, MELBOURNE,  
VIC, AUSTRALIA, 3000

### **DIRECTORS**

Mr Ian Basser - Independent Chair  
Mr Mark Samlal - Managing Director  
Mr Franck Neron-Bancel - Executive Director  
Mr David Fagan - Independent Director  
Mr Shane Gild - Independent Director

### **COMPANY SECRETARY**

Mr Oliver Carton

### **PAYGROUP SHARE REGISTRY**

COMPUTERSHARE INVESTOR SERVICES  
PTY LIMITED

### **LEGAL ADVISER**

K&L GATES  
Level 25  
Rialto South Tower  
525 Collins Street  
Melbourne, VIC 3000

### **INDEPENDENT EXPERT**

Lonergan Edwards & Associates Limited

