

Business Overview

- Founded in 2006, PayGroup Limited (“PYG” or the “Group”) is a leading provider of payroll and Human Capital Management (HCM) software solutions for multinational companies (MNCs) and workforce management companies (WMCs) operating in the Asia-Pacific region
- PYG operates on an Annual Recurring Revenue (“ARR”) model with implementation fees and recurring subscription revenues with contract terms of 3 years
- The Group process more than 4.7 million payslips per annum on behalf of 780 clients across the Asia-Pacific region
- The Group Employs 183 staff located across 11 countries and service their clients in 25 countries

Key Investment Highlights

- Attractive financial and cashflow profile supported by recurring revenues, 95%+ customer retention and multi-year customer contracts
- SaaS business model with existing recurring revenues and sticky clients growing at 14%+ YOY
- Diverse client base spread across 26 countries and 13 industries
- Technology investment has provided the infrastructure (software platform) to scale efficiently
- Strong board and management team with the requisite skills and expertise
- PYG specialises in payroll, the most critical and sticky of outsourced HCM functions
- Trades at an 80% discount to its listed peers on a forward PE basis and our valuation of \$1.72 per share represents an increase of 153% to the current share price
- Well funded post the recent capital raise which allows the company to focus on technology integration and ramping sales efforts

Growth Drivers

- **Astute Acquisition;** improved scale and service module offering, and ARR growth
- **Leveraging client base and strategic partnerships;** service module expansion, geographical expansion and increased client penetration
- **Software platform development;** significant operational and cost efficiencies to drive margin expansion
- **Additional revenue sources;** Implementation of treasury solutions launched in Q4 CY2019 with promising uptake

Pro Forma Valuation (\$m)

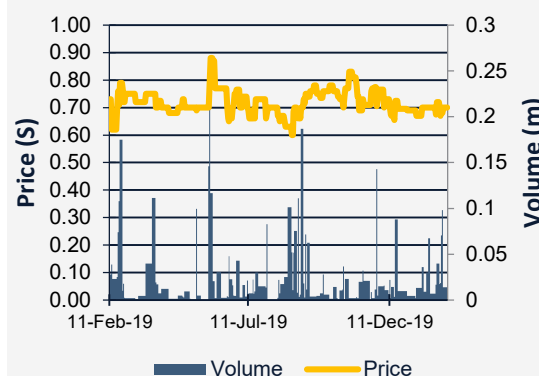
Total Shares Outstanding	68.9
Share Price	\$0.68
Market Cap	46.9
Cash	1.6
Debt	0
Enterprise Value	45.3

Financial Highlights (\$m)¹

	FY19A	FY20F	FY21F	FY22F
Revenue Contribution				
SwaaS	8.9	10.3	11.5	12.9
SaaS	6.4	7.2	7.9	8.8
Treasury	0.1	0.1	0.4	0.8
Revenue	15.4	17.6	19.8	22.4
EBITDA				
EBITDA	4.0	5.6	7.0	8.7
EBITDA Margin %	25.7%	32.0%	35.4%	38.9%
NPAT				
NPAT	3.6	4.8	6.0	6.7
NPAT Margin %	23.1%	27.3%	30.0%	29.8%
FCF				
FCF	3.4	4.6	5.2	
FCF Margin	19.1%	23.2%	23.0%	
P/E	12.4x	9.7x	7.9x	7.0x
EV/EBITDA	11.5x	8.0x	6.5x	5.2x
EV/ Sales	2.9x	2.6x	2.3x	2.0x

¹Financials presented on a normalised pro forma basis

Price Volume



Source: Pitchbook as at 11/02/2020

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Business Overview

PayGroup Overview

PYG is a leading provider of outsourced payroll (SaaS) and cloud based HCM software solutions for MNCs in 25 countries across Asia Pacific. PYG was incorporated as the holding company for the Singaporean domiciled PayAsia group of companies. PayAsia was formed in 2006 to service the gap in payroll and compliance solutions available to MNCs operating in the Asia Pacific region. The accelerated globalisation of corporations has been met with growing country compliance and increased government scrutiny on MNCs. Similarly, there is a sustained trend for the increasing use of outsourcing by MNCs with more companies seeking to transfer the responsibility for non-core business functions to expert third parties. Reasons for this trend include compliance, enhanced risk management and improved expense, performance and control. PYG's software platform allows its clients to remain compliant and mitigate country specific risks through process and technology driven regional solutions so they can focus on their core business interests.

Following Acquisition of Astute on 14 November 2019 PYG employs 183 staff spanning 11 countries and processes 4.7 million payslips on behalf of 780 client entities.

PYG performs the most critical of outsourced HCM processes for its client's employees including; banking, treasury, lodgment of statutory submissions including taxation, superannuation, pension, provident funds, and other social benefits. PYG in recent years has expanded its service offering to provide a SaaS HCM software product that provides employee and manager self service around critical functions such as payroll, as well as leave management and expense management. PYG's Cloud HCM product suite complements the delivery of its payroll solutions to its clients. PYG's services are critical for companies to remain licensed and operate in their relevant jurisdictions. The embedded trust that customers place in PYG for the delivery of such critical functions provides PYG with a competitive advantage over other HCM providers. PayGroup is also the only group who can provide a single view of a workforce across 25 countries in the Asia-Pacific region and its client implementation process can be completed in as quickly as six weeks, versus up to 6 months for some of its competitors. PayGroup's global partnership agreements with North American Based Ultimate Software (Sold for USD\$11.0B) and CloudPay demonstrate the complexities of the Asia-Pacific market and the quality of PYG's regional solutions.

PayGroup's Solutions

PYG provides clients with a centralised view of their workforce to manage their HCM and regulatory requirements across the Asia-Pacific region via the following service offerings (non-exhaustive):

SaaS – HR Online services



Cloud-based workflow solutions
E-Leave solution
E-Claim solution

SaaS - Managed Services



HR/Payroll
In-country Payroll and statutory reports
Outsourcing Services

Global Treasury Services



Client Payroll Foreign Exchange and Payments

PYG offers a combination of its complementary software (HR Online) and Treasury services to meet the requirements of its clients. Companies can outsource and streamline payroll processing, HR administration, Banking, Treasury and Statutory Lodgment (including Superannuation, Pensions and Social Benefits) to improve service delivery and to provide consistency and accuracy to the payroll process through the use of PayGroup's software. The adoption of PayGroup's services eliminates the expense and risk of hiring and maintaining an in-house team. PYG eliminates the time, complexities, costs and risks allowing the clients to focus on its core functions

Business Overview

Board of Directors



Ian Basser Non-Executive Chairman

Ian has over 28 years experience in starting, running and building service companies around the world. Prior to joining PYG, Ian was CEO and MD of Chandler Macleod Group



David Fagan Non-Executive Director

David Chair's the Audit and Risk Committee of PYG. David has over 38 years experience in law practice including 30 years with Clayton Utz including 9 years as the National Chief Executive Partner.



Mark Samlal Managing Director

Mark co-founded PayAsia in 2006 and was appointed Executive Chairman and Managing Director in 2015. Mark has 22 years experience in leadership roles throughout the Asia Pacific which included time as an Executive Director of Automatic Data Processing.



Franck Neron-Bancel Executive Director

Franck has over 21 years industry experience in global HCM and payroll services with global leader, Automatic Data Processing (NASDAQ.ADP). Franck is currently based in New York.

PayGroup Technology

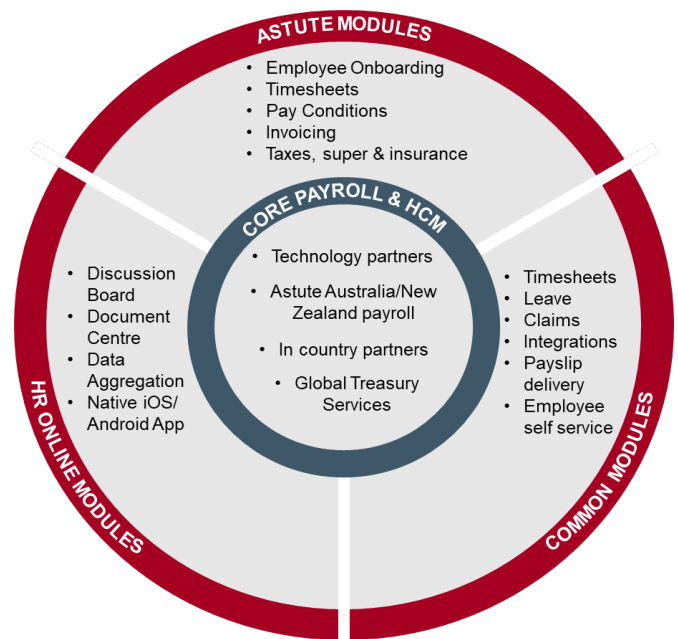
PYG's services are provided using a proprietary cloud-based portal, HROnline, where clients are able to conduct daily payroll activities including expenses, leave, timesheets, workflow & electronic pay slip delivery. The portal is built on a multi-tenant architecture and written in Java with Microsoft SQL Server. The technology is hosted in Amazon Web Services Singapore (AWS) and is complemented by native mobile applications for both iOS and Android allow are available. Payroll is conducted on a combination of the Group's and partner technology. The PYG technology platform will be enhanced and integrated with Astute following the completion of the acquisition. .

Astute's 100% owned cloud-based system integrates with a wide range of Recruitment Management Systems and General Ledger Accounting Systems to deliver an end to end solution. Astute's platform provides the technology to manage all back office processes, including new employee on-boarding, ongoing workforce management (timesheets, leave and expenses), pay interpretation, payroll and billing.

Astute supports white-labelling to provide a link between clients, their permanent and contingent workforce, their suppliers, and their clients.

PYG and Astute's technology ecosystem and delivery is outlined in Figure 1:

Figure 1: Product Technology Mix and Delivery



Growth Drivers

Astute Acquisition

In line with its stated acquisition strategy, PYG recently completed the \$11m scrip-based acquisition of Astute, payable in PYG shares at 85 cents per share, escrowed for 24 months. An earn-out consideration of up to \$1.5m is payable subject to Astute revenue and earnings hurdles for the period up to 30 September 2020. Similarly, a claw-back mechanism is in place if Astute does not meet its revenue and earnings targets. PYG achieved ARR of \$8.4m on a standalone basis in FY19. The combined group is on track to deliver ARR of \$17.6m in FY20 (+110% vs FY19).

The Astute business is highly complementary to PYG. PYG provides best-practice payroll services for the permanent staff of MNCs primarily outside of ANZ, and Astute is leading SaaS provider of contingent Workforce Management Solutions in ANZ. Astute currently services more than 330 clients, including 50 recruitment agencies that manage payroll and invoicing for 3,500 employees. The acquisition enhances PYG's SaaS service offering and product suite, and delivers immediate scale in Australia and New Zealand. PYG currently provides Payroll and SaaS solutions to MNCs operating in the Asia Pacific region focusing on the full-time employee (FTE) component of their workforce. Astute's 100% owned software platform will provide PYG with an immediate foothold in ANZ and unlock the large and growing contractor (temporary workforce) segment of the broader HCM market within Asia, a segment PYG were previously unable to service.

Key Metrics of the Combined Group

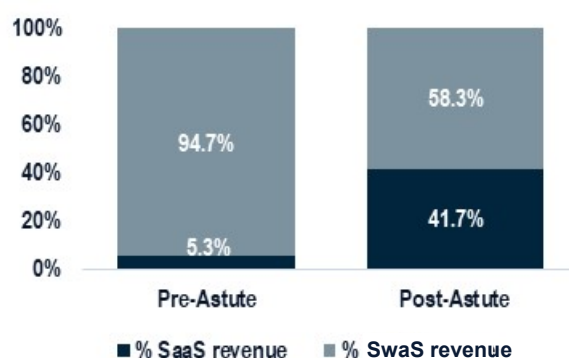
The impact of the acquisition on PYG's key metrics are listed below. It is likely that PYG will gain several revenue and cost synergies following the acquisition, including cross selling opportunities and savings in the area of payroll platform licensing and ongoing development costs for new modules. Revenue and cost synergies are not included in our model.

Metric	Based on pro-forma FY20F earnings		
	FY20 Stand alone	Post-Astute	% improvement
Revenue (\$m)	\$10.1	\$17.6	75.5%
NPAT (\$m)	\$3.1	\$4.8	54.1%
EPS	\$0.06	\$0.07	23.2%
P/E Ratio	11.4x	9.3x	2.2x
% Revenue from SwaS	94.7%	58.3%	
% Revenue from SaaS	5.26%	41.7%	
EV/Revenue	3.4x	2.5x	0.9x
Forward EV/EBITDA	8.7x	7.8x	0.9x
Clients (FY19)	450	780	73.3%

Note: excludes impact of capital raise in November 2019

- We estimate the acquisition to be EPS accretive by 23.2% in year one on a pro forma basis
- Based on our estimates PYG is on track to deliver pro forma ARR for FY20 in excess of \$17.6m, representing an increase of 110% on FY19 and 75% on FY20 on a standalone basis
- PYG is currently trading on a forward PE multiple of 9.3x on a pro forma basis, representing an 82% discount to its listed peers

Figure 2: Revenue Split



Growth Drivers

Leveraging Existing Client Base

PYG want to expand its offering to its clients by broadening the offering of services that come under the HCM umbrella through a set of software modules. The Group now offers 16 modules to its clients across Asia, Australia and New Zealand. By adding additional HCM “modules” PYG can increase penetration amongst its existing client base to increase revenue and profitability on a “per employee” basis.

PYG’s scalable cloud platform provides the opportunity to service clients globally from existing operations without the need to invest in operations or sales teams in new countries. PYG can extend the provision of HCM cloud services to existing clients to more countries without further third-party technology reliance or investing in sales resources. PYG’s geographic expansion continues to drive additional revenue opportunities and its technology platform allows PYG to execute this strategy at a lower operating cost. PYG has now expanded into 25 countries (18 at the time of IPO).

Global partnerships

PYG is also broadening its market share through partnering (through mutual referral agreements) with leading North American and European payroll providers who don’t have the expertise or experience to address fast-growing multi-country client demand in the Asia-Pacific region. These payroll providers do not have operations within the region and need to partner in order service their global clients. PYG currently has mutual referral agreements in place with North American Based Ultimate Software and CloudPay. These partnerships now deliver more than 10% of total payslip volume for PYG and will continue to assist in driving growth. It is telling that these large corporations partner with PYG. It demonstrates the complexity of the Asia-Pacific market and the significant moat around PYG’s business.

Software Platform Development (Investment in Technology)

PayGroup is well advanced in the transition of its “Back-end” core technology platform from its incumbent to the newly developed Sunfish product from Data On. PYG currently has invested in its core technology suite over the last 12 months and we have estimated PYG will spend \$750,000 on technology in FY20. The transition to Sunfish is estimated to increase the processing capacity of each service (payroll processing) employee by close to 200%. The infrastructure is now in place to handle significant increases in payslip volume without the need to employ further staff. The high degree of operating leverage in the business will allow for healthy bottom line growth as the company increases its payslip processing volume as we expect.

Figure 2 outlines the impact of the implementation of Sunfish on the processing capacity per employee. We have assumed that capacity increases from 633 pay slips per employee per month to 1,500 per month by 2022. There are currently 60 service staff and based on our growth estimates no additional service staff are required until 2028 when non-Astute pay slip volumes reach +96,000 per month.

Employee Productivity	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Payslips per month	37,978	44,162	49,461	55,397	62,044	68,249	75,074	82,581	87,536	92,788	98,355	104,257
Productivity / Employee	633	1,000	1,000	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Operations Staff	60	60	60	60	60	60	60	60	60	62	66	70
Growth	-	0%	0%	0%	0%	0%	0%	0%	0%	3%	6%	6%
Avg Cost / Operations Staff (\$)	30,611	30,611	30,611	30,611	30,611	30,611	30,611	30,611	30,611	30,611	30,611	30,611
Operations Staff Cost (\$)	1,836,661	1,836,661	1,836,661	1,836,661	1,836,661	1,836,661	1,836,661	1,836,661	1,836,661	1,893,560	2,007,173	2,127,604

Growth Drivers

Treasury Services Revenue

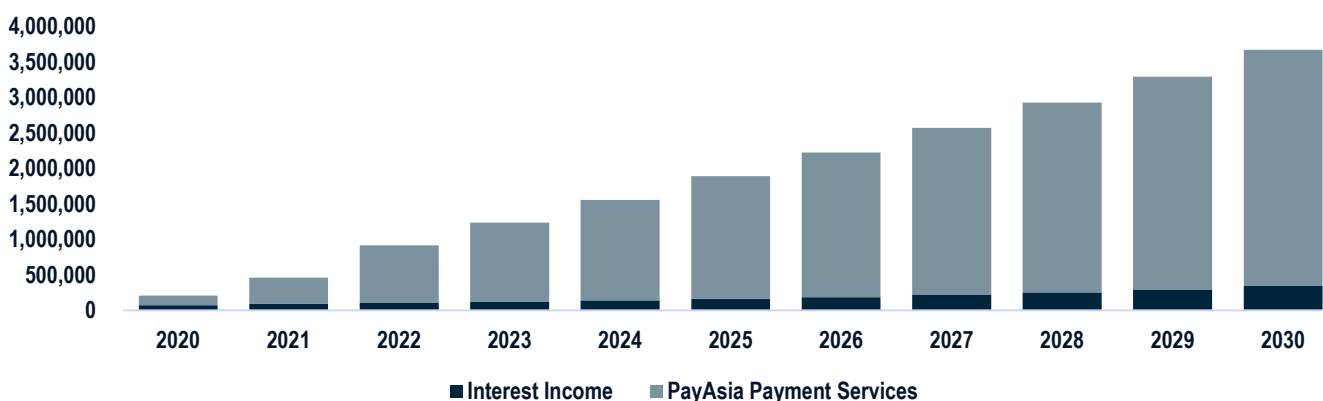
PYG has expanded and improved its treasury functions for clients following its IPO. Treasury Income is derived from the handling of client's funds as an extension of providing payroll services. Treasury revenue is earned from a combination of interest income received from holding client funds in a term deposit and through the newly launched PayAsia Payment services. Following its launch in September 2019, PayAsia Payment Services has already delivered 8 new client entities with 1,373 employees. PayAsia Payment Services provides MNCs with a treasury function that facilitates faster transaction processing and reduced transaction and foreign exchange fees. Clients only need to transfer employee payment funds into PYG's Singapore trust account, rather than every country where they have employees. The function generates significant cost and time savings for clients and is a high margin revenue source for PYG as the function requires no additional operational staff resources to deliver (increased client penetration).

The treasury revenue model and our assumptions used in our model are outlined below. Interest income is calculated as the average interest earned on holding client funds "on float". PayAsia Payment services income is derived from a flat rate of \$150 per month per client entity plus a rate of \$2.25 per client employee per month.

Treasury Services Revenue Model

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Implied Advances of Client Monies	\$	4,918,616	5,833,910	6,783,671	7,888,052	9,172,227	10,665,466	12,401,804	14,420,817	16,768,526	19,498,442	22,672,789
Interest Income (1.5%)	\$	73,779	87,509	101,755	118,321	137,583	159,982	186,027	216,312	251,528	292,477	340,092
PayAsia Payment Services												
Client entities	#	25	100	250	350	450	550	650	750	850	950	1,050
Client employees	#	2,000	10,000	25,000	35,000	45,000	55,000	65,000	75,000	85,000	95,000	105,000
Rate/ entity	\$	150	150	150	150	150	150	150	150	150	150	150
Rate / Client employee	\$	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Chargeable months	#	12	12	12	12	12	12	12	12	12	12	12
PayAsia Payment Services	\$	57,750	285,000	712,500	997,500	1,282,500	1,567,500	1,852,500	2,137,500	2,422,500	2,707,500	2,992,500
Total Treasury Income	\$	131,529	372,509	814,255	1,115,821	1,420,083	1,727,482	2,038,527	2,353,812	2,674,028	2,999,977	3,332,592

PYG Treasury Services Revenue Projections



Financial Review & Valuation

A discounted cash flow model has been implemented to value PYG. PYG's contracted ARR model allows investors to model the business assumptions with a relative degree of visibility.

Revenue

Revenue has been broken down into SwaS, SaaS and Treasury income for PayGroup and SaaS income for Astute. The Assumptions are outlined in the table below:

Revenue Assumptions	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PYG											
SaaS Revenue PEPM growth											
SaaS Client Growth (%)	12.0%	12.0%	12.0%	10.0%	10.0%	10.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Payslips per Employee per month (#)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
SaaS Revenue PEPM growth (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SaaS											
SaaS % of payroll Employees (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
SaaS revenue PEPM (\$)	1.50	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Treasury											
Interest income (%)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Client entities (#)	25	100	250	350	450	550	650	750	850	950	1,050
Client Employees / Entity (#)	100	100	100	100	100	100	100	100	100	100	100
Rate/ entity (\$)	150	150	150	150	150	150	150	150	150	150	150
Rate / Client employee (\$)	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Astute											
SaaS											
SaaS Revenue Growth (%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Client Growth (%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
SaaS revenue PEPM (\$)	1.48	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Operating Expenses

- Salaries Expense & Subcontractors (Corporate staff, operational staff and contractors operating in China, Korea and Taiwan) – 5% growth p.a. taking into consideration the technology driven increase in operating efficiency per employee
- Hosting Services (“The Cloud” ie cost of Amazon Web Services hosting) – 3% growth p.a.
- Licensing Fees (SQL licensing for third party technology) – 3% growth per annum
- Travel Expense (Currently \$6,000 / month) - 10% growth p.a. driven by Global partnership sales
- Rent Expense (Melbourne, Singapore & India offices) – 5% growth p.a.

DCF Valuation

Risk Free Rate	0.8%
Beta	0.95
Market Risk Premium	7.0%
Smallcap risk adjustment	4.0%
Cost of Equity	10.66%
Cost of debt	7%
Tax rate	28%
WACC	10.37%

PV FCF	A\$	57,760,738
Terminal Growth Rate	%	1%
Terminal Value	A\$	60,548,559
Indicative Equity Value	A\$	118,309,297
Shares on Issue	A\$	68,898,354
Indicative Equity Value per Share	A\$	1.72

Indicative share price: \$1.72 (153% from pro forma share price of \$0.68)

Comparable Analysis

A review of publicly listed Payroll and HCM software companies operating in Asia Pacific, U.S. and Europe has revealed that PYG trades at a significant discount relative to its peers. The comparable analysis supports our pro forma DCF valuation of \$1.72 per share.

CODE	Company	Stock Exchange	Mkt Cap (A\$m)	Price (\$)	P/E		EV/EBITDA		EV/REV	
					FY19A	FY20F	FY19A	FY20F	FY19A	FY20F
ADP	Automatic Data Processing	U.S.	113,346	175.92	30.4x	28.5x	21.0x	20.2x	5.1x	5.1x
WDAY	Workday	U.S.	66,827	194.70	N/A	108.4x	N/A	59.5x	11.0x	10.7x
CDAY	Ceridian	U.S.	16,735	77.89	254.8x	120.2x	48.1x	53.8x	7.1x	9.4x
PAYX	Paychex	U.S.	47,214	88.28	30.0x	28.4x	19.9x	18.6x	7.9x	7.7x
PAYC	Paycom	U.S.	29,434	337.74	52.5x	79.1x	40.8x	51.0x	17.3x	17.3x
PCTY	Paylocity	U.S.	11,959	149.76	84.8x	84.5x	56.9x	48.4x	11.0x	10.5x
CSOD	Cornerstone on Demand	U.S.	5,487	60.56	N/A	39.0x	27.9x	22.1x	6.2x	5.9x
HUMAN	Humanica PCL	SET	246	7.55	41.9x	28.2x	33.1x	18.5x	11.9x	11.9x
ZAL	Zalaris	OSL	104	31.80	N/A	16.9x	8.1x	8.0x	1.0x	1.1x
LVH	LiveHire	ASX	63	0.21	N/A	N/A	N/A	N/A	16.9x	33.4x
SIQ	Smartgroup	ASX	877	6.66	19.0x	10.8x	12.5x	7.4x	6.0x	4.5x
ELO	Elmo Software	ASX	540	7.20	N/A	N/A	N/A	N/A	11.1x	11.1x
IHR	Intellihr Holdings	ASX	17	0.09	N/A	N/A	N/A	N/A	21.2x	21.2x
RDY	ReadyTech	ASX	172	2.15	N/A	21.9x	19.1x	11.7x	4.3x	4.3x
DTC	Damstra	ASX	148	1.08	N/A	N/A	109.4x	34.6x	10.8x	N/A
Mean					73.3x	51.4x	29.8x	29.0x	9.8x	11.0x
Median					41.9x	28.5x	27.9x	20.2x	9.4x	9.9x
High					254.8x	120.2x	56.9x	59.5x	21.2x	33.4x
PYG	PayGroup (proforma)	ASX	49	0.68	12.7x	10.2x	11.3x	7.9x	2.9x	2.5x

Source: Bloomberg 6/02/2020.

On a forecast (FY20) PE basis, PayGroup currently trades at a 81% discount to listed international Payroll and HCM Software providers who trade at an average forward PE multiple of 51.4x. A significant discount of 72% and 77% is also present on a forward EV / EBITDA and EV / Revenue basis respectively.

Multi-country payroll provider, Ascender is seeking an ASX listing in the first half of 2020 at a \$750 million valuation equal to 7.5x revenue (<https://www.afr.com/street-talk/ms-macquarie-score-juicy-payroll-software-mandate-20191105-p537gj>)

We expect the stock to re-rate closer to its peers as PYG continues to transition to a software platform and deliver more services to its customers via SaaS distribution and build critical mass to accelerate market share.

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