

**BELL FINANCIAL GROUP LIMITED**  
**ACN 083 194 763**

**NOTICE OF ANNUAL GENERAL MEETING**  
**EXPLANATORY STATEMENT**  
**INDEPENDENT EXPERT'S REPORT**

**For the Annual General Meeting to be held at  
Level 29, 101 Collins Street, Melbourne, Victoria, 3000  
on Wednesday 30 May 2018 at 11:00am (Melbourne time)**

**This is an important document. Please read it carefully.**

The matters raised in this document will affect your shareholding in Bell Financial Group. If you are unable to attend the AGM, please complete the enclosed proxy form and lodge it online at [www.investorvote.com.au](http://www.investorvote.com.au) or return it by post or fax following the directions on the form.

Proxies must be received no later than  
**11:00am (Melbourne time) on Monday 28 May 2018.**

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## Key Dates

Due date for lodgment of proxy forms	11:00am (Melbourne time) on 28 May 2018
AGM	11:00am (Melbourne time) on 30 May 2018

## Important Information

This Notice of Meeting is dated 30 April 2018 and has been lodged with ASIC and the ASX. Neither ASIC nor the ASX takes any responsibility for its content.

In preparing this Notice of Meeting, Bell Financial Group has not taken into account your individual investment objectives, financial situation or needs. You should read this Notice of Meeting, including the Explanatory Statement and Independent Expert's Report, carefully before making any decision on how to vote on the resolutions, and seek professional advice from a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser if required.

Bell Financial Group reserves the right to vary the above dates, subject to the Corporations Act, the ASX Listing Rules and any other applicable laws.

## Corporate Directory

### Directors

Colin Bell	Executive Chairman
Alastair Provan	Managing Director
Craig Coleman	Non-Executive Director
Graham Cubbin	Non-Executive Director
Brian Wilson AO	Non-Executive Director
Brenda Shanahan	Non-Executive Director

### Group General Counsel & Company Secretary

Cindy-Jane Lee

### Independent Directors

Brian Wilson AO  
Graham Cubbin  
Brenda Shanahan

### Registered Office

Level 29, 101 Collins Street  
Melbourne VIC 3000  
Tel: +61 3 9256 8700

### Share Registry

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne VIC 3001  
Tel: 1300 850 505 or +61 3 9415 4000

### Independent Expert

PKF Melbourne Corporate Pty Ltd  
Level 12, 440 Collins Street  
Melbourne VIC 3000

## 1. Invitation from the Chairman

30 April 2018

Dear Shareholder,

I am pleased to invite you to attend the 2018 Annual General Meeting (**AGM**) of Bell Financial Group Limited (**Bell Financial Group**). The meeting will be held at 11:00am on Wednesday 30 May 2018 at our offices at Level 29, 101 Collins Street, Melbourne.

Enclosed is the Notice of Meeting setting out the business of the AGM. For further details on the resolutions proposed at the AGM please refer to the Explanatory Statement. Please read this material carefully before voting on the proposed resolutions.

One of the items of business is to seek Shareholder approval for Bell Financial Group to increase its ownership of Third Party Platform Pty Ltd (**TPP**) from 56.63% to 100%. TPP owns and operates an online broking business, including the 'Bell Direct' and 'Desktop Broker' brands. If Shareholders approve the acquisition, Bell Financial Group will pay cash consideration of \$36.86 million to acquire the remaining 43.37% of TPP that it does not own, to be funded substantially through a fully underwritten, renounceable pro-rata rights issue. Because some of the shares in TPP are owned by certain Bell Financial Group Directors and management, a committee of Independent Directors was formed to consider whether to recommend this to Shareholders. A letter from the Independent Directors follows.

Thank you for your continued support of Bell Financial Group. I hope that you are able to attend the AGM. If you are unable to attend in person, I encourage you to appoint a proxy to attend and vote on your behalf. Lodgement is available online at [www.investorvote.com.au](http://www.investorvote.com.au) or alternatively you can complete and return the enclosed proxy form.

I look forward to seeing you at the meeting.

Yours faithfully,



Colin Bell  
Executive Chairman

## 2. Letter from the Independent Directors

30 April 2018

Dear Shareholder,

In 2006, Bell Financial Group Limited (**Bell Financial Group**) and others partnered with an experienced Perth-based technology team to build a new online broking platform. Third Party Platform Pty Ltd (**TPP**) was established and the online broking platform was launched in November 2007.

TPP's online broking platform is used by retail clients (the 'Bell Direct' brand), financial planners (the 'Desktop Broker' brand) and financial institutions. The technology is 'white labelled' by HSBC Online Share Trading and Macquarie Online Trading for their clients. We believe that TPP is unique in the marketplace as the only online broker with its own proprietary end-to-end technology. Bell Direct has won numerous awards, including the *AFR Smart Investor* Blue Ribbon Award for Best Online Broker in 2013, 2014 and 2015, and in addition, has been awarded number one in Overall Client Satisfaction in online broking by Investment Trends for the last five years running.

The Board considers that now is the time to acquire the remaining 43.37% of TPP that Bell Financial Group does not own, taking its ownership to 100% of TPP (**Transaction**). The acquisition of the 43.37% of TPP is to be satisfied wholly by the payment of cash consideration.

We consider the Transaction to be important for Bell Financial Group for the following reasons:

- Investment in technology and platforms is a core strategy that we believe provides us with a competitive advantage, and will enable the building of Shareholder wealth by diversifying and growing non-traditional, recurring revenue streams.
- The proprietary software that has been developed is arguably the best of its type. Core platform development expenditure is largely complete and the business is now sustainably profitable. It is highly scalable, without the need for further significant growth in expenditure, resulting in a material profit margin on incremental revenues.
- There is the potential to release at least \$4 million in regulatory and working capital from TPP in the medium term under full BFG ownership.
- There is the potential to realize \$3 million to \$4 million per annum in recurring operational synergies through integration and use of TPP's technologies across all of BFG's businesses.
- TPP has tax losses in excess of \$17 million, the full benefit of which may become available under full BFG ownership.
- TPP has a high degree of operating leverage, is growing strongly, and we anticipate will be an important source of profit growth for BFG.
- Full ownership of TPP should remove any barriers to releasing the inherent value in the intellectual property that has been developed.

It is intended to raise approximately \$30 million to \$35 million through a fully underwritten, renounceable rights issue to substantially fund the Transaction. Funding through a renounceable rights issue provides Shareholders with an equal right to participate and to avoid being diluted. Shareholders who choose not to participate can sell their entitlements and still receive fair value.

The Transaction will only proceed if the resolution in item 4 of the enclosed Notice of Meeting (**Transaction Resolution**) is passed by Shareholders. Similarly, the rights issue will only proceed if the Transaction Resolution is passed by Shareholders. Further information on the Transaction Resolution and the Transaction is contained in the accompanying Explanatory Statement.

Because some of the shares in TPP to be acquired are owned by certain Bell Financial Group Directors and management, a committee of Independent Directors was formed. The Independent Directors appointed PKF Corporate (**Independent Expert**) as an independent expert to review the Transaction. A copy of the Independent Expert's Report is enclosed.

The Independent Expert concluded that the Transaction is **both fair and reasonable** to Non-Associated Shareholders.

We consider that the Transaction is in the best interests of Shareholders.

**Recommendation:**  
**The Independent Directors unanimously recommend that you vote in favour of the Transaction.**

Please ensure that you read the Notice of Meeting, Explanatory Statement and the Independent Expert's Report carefully before deciding on how to vote.

Yours faithfully,



**Brian Wilson AO**  
Director



**Graham Cubbin**  
Director



**Brenda Shanahan**  
Director

### 3. Notice of Meeting

Notice is given that the Annual General Meeting (**AGM**) of Bell Financial Group Limited (**Bell Financial Group**) will be held at Level 29, 101 Collins Street, Melbourne, Victoria, 3000 on Wednesday 30 May 2018 at 11:00am (Melbourne time).

Capitalised terms used in this document are defined in the Glossary (Section 5).

#### BUSINESS

##### 1 Bell Financial Group financial report

To receive the financial statements, Directors' report and auditor's report for Bell Financial Group and its controlled entities for the year ended 31 December 2017.

##### 2 Election of Director

To elect Brian Wilson AO, who retires by rotation and offers himself for re-election as a Director of Bell Financial Group.

##### 3 Remuneration report

To adopt the remuneration report for the year ended 31 December 2017.

*Note: This resolution is advisory only and does not bind Bell Financial Group or the Directors. The Directors will consider the outcome of the vote and comments made by the Shareholders.*

##### 4 Acquisition of TPP shares from related parties

To approve, in accordance with ASX Listing Rule 10.1, and for the purpose of Chapter 2E of the Corporations Act, and for all other purposes, Bell Financial Group Limited or its controlled entity acquiring the shares in Third Party Platform Pty Ltd (TPP) held by Bell Group Holdings Pty Limited (BGH), Colin Bell, Alastair Provan, Bell Direct Holdings Pty Limited (BDH) and Craig Coleman, when Bell Financial Group Limited or its controlled entity acquires all the shares in TPP that it does not own or control, on the terms set out in the Explanatory Statement.

#### Voting exclusion statement

Bell Financial Group will disregard any votes cast in favour of the resolution by or on behalf of TPP shareholders and their Associates.

However, Bell Financial Group need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the AGM as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it. Further information, including an analysis of why the proposed Transaction is fair and reasonable to the Non-Associated Shareholders, is contained in the attached Independent Expert's Report. PKF Corporate has consented to the use of the Independent Expert's Report in the form and context used in the Explanatory Statement.

## Eligibility to vote

A person's entitlement to vote at the AGM will be determined by reference to the number of fully paid ordinary shares in Bell Financial Group registered in the name of that person (reflected in the register of members) as at 7:00pm (Melbourne time) on Monday 28 May 2018.

## Voting in person

To vote in person, attend the AGM on the date and at the place set out above.

## Proxies

A Shareholder entitled to attend and vote at the meeting may appoint one or two proxies to attend and vote instead of the Shareholder. A proxy does not have to be a Shareholder of Bell Financial Group.

If a Shareholder appoints the Chairman as their proxy in relation to item 3 (Adoption of the remuneration report) but does not complete any of the boxes 'For', 'Against' or 'Abstain' opposite the resolution on the proxy form, the Shareholder is expressly authorising the Chairman to exercise their proxy, and the Chairman intends to vote in favour of item 3. If the Shareholder wishes to appoint the Chairman as proxy with a direction to vote against or abstain from voting on the resolution in item 3, they should specify this by completing the 'Against' or 'Abstain' boxes on the proxy form.

If a Shareholder appoints two proxies, each proxy must be appointed to represent a specified number or proportion of the Shareholder's voting rights. If a number or proportion is not specified, then each proxy is entitled to exercise half of the voting rights.

A body corporate which is a Shareholder or which has been appointed as a proxy may appoint an individual to act as its representative at the meeting, in accordance with section 250D of the Corporations Act. Where a body corporate appoints a representative, written proof of the representative's appointment must be lodged with, or presented to, Bell Financial Group before the meeting.

## Delivery of proxy forms

You can lodge your completed proxy form with Bell Financial Group's share registry, Computershare, as follows:

- *Online* – [www.investorvote.com.au](http://www.investorvote.com.au)
- *By post* – Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne, Victoria, 3001, Australia
- *By fax* – 1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)
- *In person* – Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067, Australia
- *Intermediary Online* – for subscribers (institutions/custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

To submit your proxy form online, you can either log in to [www.investorvote.com.au](http://www.investorvote.com.au) using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and your allocated Control Number as shown on your proxy form, or you can use your mobile device to scan the QR code on the front of your proxy form.

By order of the Board



Cindy-Jane Lee  
General Counsel & Company Secretary  
30 April 2018

## 4. Explanatory Statement

This Explanatory Statement is provided to Shareholders of Bell Financial Group to explain the resolutions set out in the Notice of Meeting. It contains material information for your review and consideration.

### 1 Bell Financial Group financial report

The Corporations Act requires Bell Financial Group's financial report, Directors' report and auditor's report for the last financial year to be tabled at the meeting. These reports are contained in Bell Financial Group's 2017 Annual Report, which is available at [www.bellfg.com.au](http://www.bellfg.com.au).

Whilst no resolution is required in relation to this item, Shareholders will have the opportunity to ask questions and make comments. Bell Financial Group's auditor, KPMG, will be present at the meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the audit and the auditor's report.

### 2 Re-election of Brian Wilson AO

Article 10.3 of Bell Financial Group's Constitution requires that there must be an election of Directors at each AGM. A Director must retire from office (but is eligible to stand for re-election) at the AGM if they have held office without re-election: (i) beyond the third AGM following the Director's appointment or last election; or (ii) for at least three years, whichever is the longer period. Brian Wilson AO is retiring by rotation and, being eligible, offers himself for re-election.

Candidate for re-election:

#### **Brian Wilson AO**

MCom (Hons), Hon DUniv

Mr Wilson was appointed as a Non-Executive Director in October 2009 and is an independent Director. He is a Senior Advisor to The Carlyle Group, a member of the Payments System Board of the Reserve Bank of Australia and Deputy Chancellor of University of Technology Sydney. Mr Wilson is the former Chairman of the Foreign Investment Review Board. He was a member of the Commonwealth Government Review of Australia's Superannuation System and a member of the ATO Superannuation Reform Steering Committee. Mr Wilson retired in 2009 as a Managing Director of the global investment bank Lazard, after co-founding the firm in Australia in 2004 and prior to that was a Vice-Chairman of Citigroup Australia and its predecessor companies.

#### **Board recommendation**

The Board (other than Mr Wilson in relation to his own re-election) recommends that Shareholders vote in favour of the resolution.

### 3 Remuneration report

The Directors' report for the year ended 31 December 2017 contains a remuneration report which sets out the policy for the remuneration of the key management personnel (**KMP**) of Bell Financial Group and its controlled entities. The Corporations Act requires that a resolution be put to the vote at the AGM that the remuneration report be adopted. The Corporations Act expressly provides that the vote is advisory only and does not bind the Directors or Bell Financial Group. Shareholders attending the meeting will be given a reasonable opportunity to ask questions about, or make comments on, the remuneration report.



If 25% or more of votes cast on this resolution are voted against it (the 'first strike'), a resolution on whether to hold a further meeting to spill the Board would be put to Shareholders if a 'second strike' occurs at the 2019 AGM. This spill resolution would be included in the 2019 Notice of Meeting.

The Corporations Act restricts KMP and their closely related parties from voting in relation to item 3 in certain circumstances.

Bell Financial Group will disregard any votes cast on the proposed resolution in item 3:

- (a) by or on behalf of members of the KMP whose remuneration details are included in the remuneration report, or their closely related parties; and
- (b) by a member of the KMP or their closely related parties as proxy,

unless the vote is cast as a proxy on behalf of a person entitled to vote on this resolution, and that vote has been cast as specified on the proxy form, or where there is no specified voting direction on the proxy form, the vote is cast by the Chairman of the meeting as proxy and the form expressly authorises the Chairman to vote in favour of this resolution even though it is connected with the remuneration of KMP.

**Board recommendation**

The Board recommends that Shareholders vote in favour of this resolution.

## 4 Acquisition of TPP shares from related parties

### 4.1 Summary of the proposed Transaction

Bell Financial Group was one of the key founders of TPP before listing on the ASX in 2007. Over the years, Bell Financial Group has increased its shareholding in TPP, as the online share broking business is considered a key component in the future strategy of Bell Financial Group. Bell Financial Group currently holds 56.63% of TPP. It is proposed that Bell Financial Group now acquires the remaining 43.37% of TPP that it does not own, taking its shareholding to 100% of TPP (**Transaction**).<sup>1</sup>

The acquisition price for 43.37% of TPP is to be satisfied by Bell Financial Group paying cash consideration of \$36.86 million (43.37% of the \$85 million value attributed TPP) to the TPP shareholders.

If the resolution in item 4 (**Transaction Resolution**) is approved, Bell Financial Group will proceed with a fully underwritten, renounceable rights issue to substantially fund the Transaction.

The independent expert has concluded that the Transaction is **both fair and reasonable** to Non-Associated Shareholders.

### 4.2 Key advantages and disadvantages of the Transaction

The advantages to Bell Financial Group from the Transaction that may be relevant to a Shareholder's decision on how to vote on the Transaction Resolution include:

- (a) *A core part of Group strategy* – Owning 100% of the TPP business is core to the Bell Financial Group strategy of developing a scalable, complete end-to-end proprietary technology and platform solution that is able to meet the needs of Retail, Institutional, Intermediary and Wholesale client segments.

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<sup>1</sup> The Company holds its TPP shares through its wholly-owned subsidiary, Global U & I Management Pty Ltd.

- (b) *Synergies* – Integration of certain key elements of the proprietary TPP technology across other Bell Financial Group businesses has the potential to create recurring cost savings for the Group of \$3 million to \$4 million per annum. In addition, it is estimated that in excess of \$4 million in regulatory and working capital can be released with full ownership of TPP by BFG.
- (c) *Tax losses* – TPP has tax losses in excess of \$17 million, the full benefit of which may become available under full BFG ownership.
- (d) *New product opportunities* – TPP is well progressed with development of a Managed Portfolio technology solution. Bell Financial Group will benefit from the recurring revenue stream that delivery of this product across both the TPP and Bell Potter networks will generate.

Owning the intellectual property to a complete end-to-end broking technology solution may provide an opportunity to enter the third party clearing market. The technology will initially be used to execute, clear and settle for the TPP and Bell Potter businesses.

- (e) *High degree of operating leverage* – TPP is growing strongly in all market segments and is profitable on a standalone basis. Revenue has grown at an average rate of 18% per annum over the past three years. Client numbers and sponsored holdings have grown by 20% and 39% respectively over the same period, and EBITDA has grown at an average rate of 72% per annum over the past three years.

Core platform development expenditure is complete therefore the business is now significantly de-risked. The business model has a high degree of operating leverage with approximately 80% of incremental revenue falling to the bottom line.

- (f) *Management expertise* – The TPP management and development team have a great depth of experience in the Australian online broking industry. Key original employees remain with TPP.
- (g) *Award-winning online broker* – Bell Direct has won numerous awards, including the *AFR Smart Investor* Blue Ribbon Award for Best Online Broker in 2013, 2014 and 2015. Bell Direct has been awarded number one in Overall Client Satisfaction in 2013, 2014, 2015, 2016 and 2017 in the *Investment Trends* Online Broking Report. These awards evidence:
  - (i) the attractiveness of Bell Direct's client proposition;
  - (i) TPP's ability to develop innovative technology and bring it to market with speed; and
  - (ii) the expertise and ability of the TPP management team.

The disadvantages to Bell Financial Group from the Transaction that may be relevant to a Shareholder's decision on how to vote on the Transaction Resolution include:

- (a) Shareholders' interests in Bell Financial Group may be diluted if they choose not to participate in the proposed rights issue to fund the Transaction.
- (b) The purchase will initially be earnings dilutive for Shareholders as TPP's earnings are relatively lower than Bell Financial Group's at present, and, furthermore, TPP may not be as profitable as BFG anticipates if there are unanticipated changes to the business of TPP or to its operating environment.
- (c) The major Shareholder, BGH, as a shareholder of TPP, will receive a financial benefit from the Transaction, and may also increase its percentage shareholding in Bell Financial Group as underwriter to the proposed rights issue.

- (d) There may be a lost opportunity cost if a more attractive opportunity were to present itself which Bell Financial Group may not then be able to pursue as a result of undertaking the Transaction.
- (e) Bell Financial Group is further committing to its technology development and platforms strategy and the commitment of funds to that strategy may not be consistent with the objectives of all Shareholders.
- (f) It may not be possible to release the full value of the TPP intellectual property even after full ownership by BFG.
- (g) Key personnel within TPP may leave, which impacts on the performance or profitability of TPP.

### 4.3 History and overview of TPP

In 2006, Bell Financial Group and others partnered with an experienced Perth-based technology team to build a new online broking platform. Third Party Platform Pty Ltd (**TPP**) was incorporated on 14 August 2006. The company trades under the business names 'Bell Direct' and 'Desktop Broker'. The TPP online share trading platform was launched in November 2007. TPP has three wholly owned subsidiaries, including a Malaysian company (Third Party Platform Sdn Bhd). The business has approximately 80 employees operating out of offices in Sydney, Perth and Kuala Lumpur. The key employees involved in developing the platform remain with TPP.

Arnie Selvarajah was appointed as the Chief Executive Officer in May 2008. Mr Selvarajah has over 30 years' experience in the financial services and fast-moving consumer goods sectors. He was previously at Commonwealth Bank, where he headed local business banking in NSW and the ACT, and prior to that was Executive Manager at CommSec with responsibility for the overall operations of the retail share broking business. Before that Mr Selvarajah was at Bankers Trust where he was involved in the development and launch of the BT Wrap investment platform.

#### Key events

Date	Event
November 2006	Commencement of design and build of the technology platform
November 2007	Launch of TPP's retail online broking platform
November 2007	Commencement of trading as an ASX market participant
May 2009	Launch of 'Desktop Broker', targeting financial planners
June 2012	First 'white label' client platform goes live – HSBC
June 2013	Achieved breakeven for the first time
May 2014	Second 'white label' client platform goes live – Macquarie Online Trading
June 2015	Appointed default broker for Super Concepts – AMP SMSF Administration Business
June 2016	Renew HSBC 'white label' agreement for a further three years
October 2017	Renew Macquarie 'white label' agreement for a further three years

#### TPP operates across three broad channels

- (a) *Wholesale* – [www.desktopbroker.com.au](http://www.desktopbroker.com.au) is an online portal for financial planners and financial intermediaries who trade on behalf of their clients. This is the fastest growing segment of the business, with revenues having grown 27% per annum on average over the past three years. This is also the largest distribution channel for TPP reaching an estimated 1,000 financial planners and 250,000 clients.
- (b) *White label* – TPP's technology and platform is branded or 'white labelled' by financial institutions. HSBC Online Share Trading was launched in 2012 using TPP's platform and in April 2014, the Macquarie Banking and Financial Services Group selected TPP for its online share trading platform. Both 'white label' partners have recently signed agreements for a further 3 year term.

- (c) *Retail* – [www.belldirect.com.au](http://www.belldirect.com.au) Bell Direct has consistently grown market share in the Retail segment and approximately 8% of Australian clients now use Bell Direct as either their primary or their secondary broker. TPP has 46,000 active retail clients and is targeting to further increase its market share in this area.

TPP currently has 145,000 client accounts, 115,000 of which are active, with sponsored holdings exceeding \$15 billion, and client cash holdings exceeding \$105 million.

#### **4.4 Future business strategy**

Owning TPP, and the intellectual property associated with its proprietary technology platform, enables a number of strategies to be pursued:

##### **(a) Continue to grow the core TPP businesses**

With the majority of core platform development expenditure having already been incurred and the business profitable, TPP is now leveraged to revenue growth with approximately 80% of net revenue dropping to the bottom line (before tax). The business has a highly experienced management team, is growing strongly and aims to achieve future growth through a number of strategies:

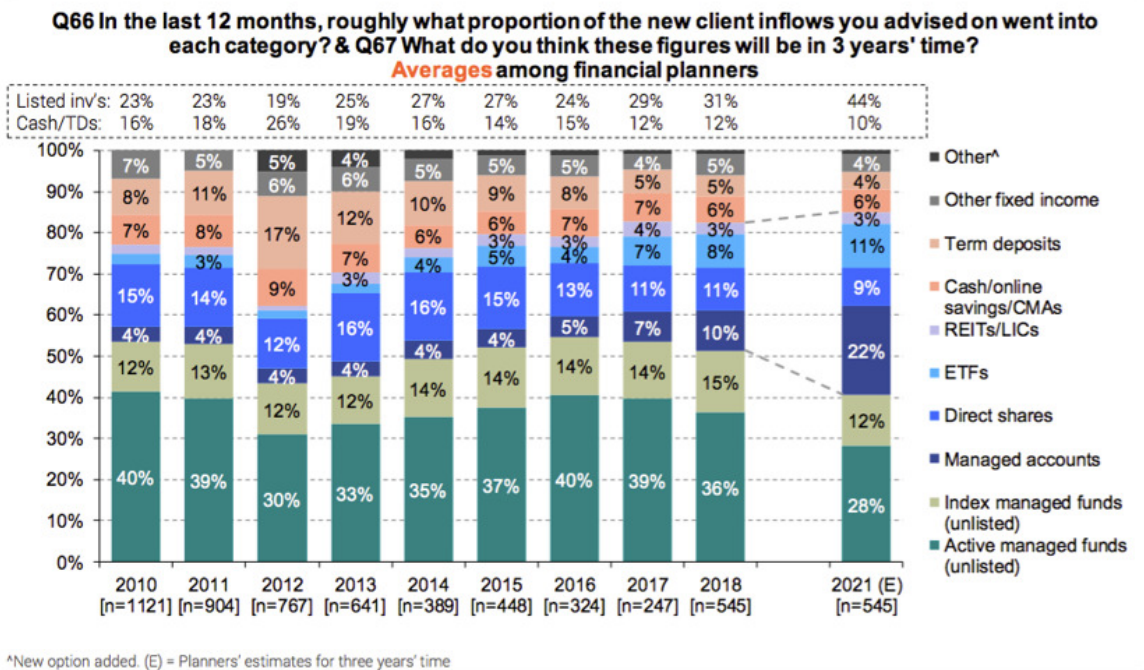
- (i) *Wholesale* – TPP has a competitive advantage in this space through its technology and platform. This segment of the business will continue to grow with active marketing to dealer groups and innovative development of the platform.
- (ii) *White label* – TPP will work with its 'white label' partners to assist them in growing their businesses, and is actively seeking out opportunities to enter into additional 'white label' arrangements.
- (iii) *Retail* – The business has developed a substantial and loyal client base through research and development into the needs of its clients. TPP will leverage off its superior platform and technology by continuing to deliver an online broking product that meets and exceeds the expectation of clients.

##### **(b) New product opportunities**

TPP is well progressed with development of a Managed Portfolio technology solution. Bell Financial Group will benefit from the recurring revenue stream that delivery of this product across both the TPP and Bell Potter networks will generate.

The Managed Portfolio industry currently has \$57 billion in funds under management, grew 20% in size over the past 6 months, and is one of the fastest growing segments in wealth management as independent Advisers allocate a greater percentage of client assets to managed accounts and listed products, including exchange traded funds (ETFs). This is demonstrated clearly in the analysis undertaken by Investment Trends, shown in the table that follows.

**Industry wide, the share of new client inflows captured by managed accounts rose to 10%. Planners expect this will more than double over the next three years**



(Source: *Investment Trends February 2018 Planner Direct Equities & Managed Accounts Report*)



**(c) Technology**

TPP owns the intellectual property for the only complete end-to-end broking administration platform in the Australian market that enables execution, clearing and settlement.

Bell Potter Securities Ltd has built and continues to develop 'FUSION', our proprietary client relationship and compliance management platform, that consolidates our products and services into one system, greatly assisting Advisers and their efficiency.

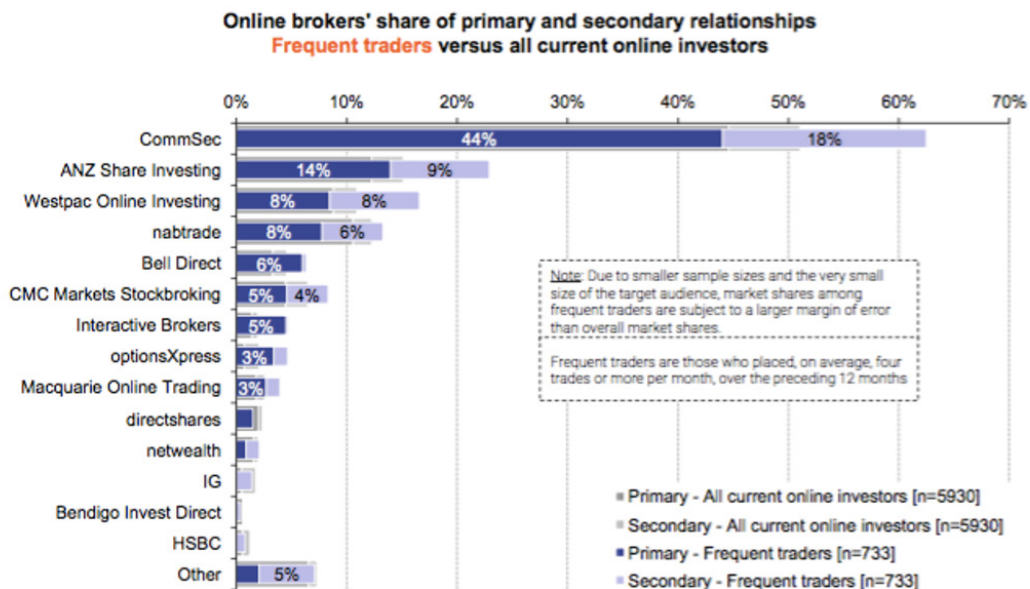
It is intended to continue developing in-house proprietary technology which both differentiates us from competitors, provides a competitive advantage, and facilitates cost synergies.

The combination of the technology that resides in TPP and Bell Potter Securities Ltd will initially be used to execute, clear and settle for the TPP and Bell Potter Securities Ltd businesses. The technology also provides Bell Financial Group with the opportunity to potentially enter the third party clearing market in the future.

The TPP Opportunity					
CLIENT SEGMENT	<b>RETAIL</b> Clients: 46,000 Sponsored Holdings: \$2.3b	<b>WHITE LABEL (Macquarie, HSBC)</b> Clients: 47,000 Sponsored Holdings: \$7.6b	<b>INTERMEDIARY Financial Planners &amp; Advisers</b> Clients: 24,000 Sponsored Holdings: \$5.7b	<b>CORPORATE</b>	
PRODUCTS	<b>AUSTRALIAN EQUITIES</b>	<b>INTERNATIONAL EQUITIES</b>	<b>EXCHANGE TRADED OPTIONS</b>	<b>MANAGED PORTFOLIOS</b>	
	<b>3rd PARTY CLEARING</b>		<b>MARGIN LENDING</b>	<b>CASH</b>	
TECHNOLOGY	<b>EQUITIES EXECUTION PLATFORM</b>	<b>EQUITIES, SETTLEMENTS, CLEARING &amp; ADMINISTRATION SYSTEM</b>	<b>MANAGED PORTFOLIOS</b>	<b>CLIENT RELATIONSHIP &amp; COMPLIANCE MANAGEMENT SYSTEM (FUSION)</b>	
 New opportunity created with 100% ownership of TPP.  Existing Clients, Products and Technology.					

#### 4.5 Some general information about the online broking industry

The diagram below shows the market share for online brokers in Australia. TPP has consistently grown its share of the overall online broking market, and now executes approximately 6% of all online trades by volume traded. Within the retail client sub segment, approximately 8% of clients now use TPP as either their primary or secondary broker, with an additional 7% of clients executing with TPP's 'white label' partners.



(Source: Investment Trends 2017 First Half Australian Online Broking Report)

The online broking industry in Australia is relatively mature, with the main players fitting into two broad categories:

- (a) *Bank-owned* – The four major Australian banks all have a presence in the online broking sector, led by CommSec who was one of the first to market, followed by E\*Trade (ANZ), NAB and Westpac. The bank-owned online broking business model is based on leveraging the banks' wider client base and product cross-selling.
- (b) *Independent* – TPP operates in the non-bank owned or independent segment of the market. TPP is the largest of the Australian independent online brokers, and is currently ranked 5th in overall market share.

Of the main online brokers, Bell Financial Group believes that TPP is the only one with its own proprietary end-to-end technology. This technology makes it unique in the market, providing cost, innovation and speed-to-market competitive advantages.

#### 4.6 TPP share capital

There are 234,586 ordinary shares in TPP held by nine shareholders (including Bell Financial Group and the founding management team). If the Transaction is completed, then cash consideration will be paid to the shareholders of TPP as set out in the following table.

Name of TPP shareholder	Number of TPP shares	%	\$ cash consideration
Global U & I Management Pty Ltd <sup>1</sup>	132,840	56.63%	0
Bell Group Holdings Pty Limited <sup>2</sup> (BGH)	38,529	16.42%	\$13,960,616
Bell Direct Holdings Pty Limited <sup>3</sup> (BDH)	26,000	11.08%	\$9,420,852
Colin Bell	16,620	7.08%	\$6,022,099
Alastair Provan	16,620	7.08%	\$6,022,099
Dean Davenport	1,799	0.77%	\$651,850
Rocky Zangari	900	0.38%	\$326,106
Craig Coleman	639	0.27%	\$231,536
Lionel McFadyen	639	0.27%	\$231,536
<b>TOTAL</b>	<b>234,586</b>	<b>100%</b>	<b>\$36,866,694</b>

1. Bell Financial Group holds its TPP shares through its wholly-owned subsidiary, Global U & I Management Pty Ltd.
2. The shareholders of BGH are Colin Bell (24.2%), Alastair Provan (24.2%), Lewis Bell (24.2%), Andrew Bell (9.2%), Carstairs Pastoral Pty Ltd (**Carstairs**) (9.1%) and Mildridge Pty Ltd (**Mildridge**) (9%). Carstairs is owned by Colin, Alastair, Lewis, Andrew and Mildridge. Mildridge is a company associated with Andrew.
3. The shareholders of BDH are BGH (50%), Colin (23.5%), Alastair (23.5%), Craig Coleman (1.5%) and Lionel McFadyen (1.5%). BDH's sole asset is its TPP shares.

Below is a separate table showing the cash consideration that the Directors of Bell Financial Group (Colin Bell, Alastair Provan and Craig Coleman) will receive if the Transaction is completed, from TPP shares they hold individually (directly) and from TPP shares held by companies (BGH and BDH) in which the Directors are shareholders (indirectly):

Name of Director	Direct cash consideration (\$)	Indirect cash consideration (\$)	Total (\$)
Colin Bell	\$6,022,091	\$7,163,099	\$13,185,190
Alastair Provan	\$6,022,091	\$7,163,099	\$13,185,190
Craig Coleman	\$231,535	\$141,313	\$372,848

#### 4.7 Purchase price

The Independent Expert has valued 100% of the TPP business in a range of \$82.7 million and \$88.1 million. The proposed purchase price falls within that range. In addition to the stand alone business valuation the following additional factors are considered relevant to Bell Financial Group as purchaser:

- (a) Bell Financial Group has been a shareholder of TPP since 2007 and is very familiar with all aspects of the business. The operations of TPP are core to Bell Financial Group's strategies of developing its platforms and products capability, and to diversify and to continue to build recurring revenue streams.
- (b) The primary asset of TPP is the intellectual property in its end-to-end broking technology platform which operates in three customer segments: retail or direct; intermediary; and institutional. TPP's business is scalable, growing, profitable, and enjoys significant operating leverage.
- (c) As a wholly-owned subsidiary, TPP would be reported in the future as a key operating segment of the Group and 100% ownership will potentially enable material synergies to be realised, as well as unlocking any discount inherent in a non-wholly owned subsidiary.
- (d) 100% ownership may enable recurring operational cost synergies, estimated at \$3 million to \$4 million per annum, to be achieved through the integration and use of TPP component technologies within the broader Bell Financial Group. It may also enable the release of in excess of \$4 million in regulatory and working capital over the medium term.
- (e) Product plans leveraging the technology and the full distribution network of the Group are well progressed and this should enable new (recurring) revenue opportunities.
- (f) TPP has tax losses in excess of \$17 million, the full benefit of which may become available under full BFG ownership.

#### 4.8 Funding – fully underwritten, renounceable rights issue

If Shareholder approval is obtained to proceed with the Transaction, it is intended to conduct a fully underwritten, renounceable rights issue to raise funding of approximately \$30 million to \$35 million. Any required balance will be funded from existing cash reserves in BFG.

Funding via a renounceable rights issue provides Shareholders with an equal right to participate and to avoid being diluted. Entitlements will trade on the ASX and can be sold if a Shareholder does not wish to take up their entitlement to ordinary shares.

The rights issue will be fully underwritten by Bell Financial Group's major Shareholder, Bell Group Holdings Pty Limited (**BGH**).



## **4.9 Share Sale Deed**

### **(a) Background**

Under the terms of the Share Sale Deed, Bell Financial Group has agreed to acquire the Sale Shares from the Vendors for cash consideration of \$36.86 million. The cash consideration would be substantially funded by Bell Financial Group through a rights issue.

### **(b) Timing for Completion**

It is anticipated that Completion will occur on or around 2 July 2018.

Completion of the acquisition of the Sale Shares will not occur unless and until the conditions precedent to the Transaction have been satisfied or waived in accordance with the terms of the Share Sale Deed.

### **(c) Conditions Precedent**

Completion under the Share Sale Deed is conditional on satisfaction or waiver of the following conditions precedent:

- (i) the Shareholders passing the Transaction Resolution; and
- (ii) Bell Financial Group conducting a rights issue which raises funds of at least \$30 million.

### **(d) Interests held following Completion**

Following Completion of the Transaction of the Sale Shares as contemplated by the Share Sale Deed, Bell Financial Group will hold 100% of TPP.

## **4.10 Consequences if Transaction does not proceed**

The disadvantages to Bell Financial Group in the event that the Transaction does not proceed include the following:

- (a) The loss of opportunity to fully benefit from the technology and platform strategy that is being pursued within the Group.
- (b) The loss of being able to fully participate in the upside profit growth of the online business.
- (c) The loss of the full synergy benefits from the integration of TPP's technologies across the Group.
- (d) The loss of the full benefit from the potential regulatory capital release in TPP.
- (e) The opportunity may not again be available to acquire 100% of the online broking business.
- (f) The loss of any Group enterprise valuation discount on earnings derived from TPP, where it is a non-wholly owned subsidiary.

## **4.11 Risks**

BFG as the current majority Shareholder of TPP has a strong understanding of the TPP businesses, however as with any acquisition, there are risks, which include:

- (a) The risk that there is a change in the regulatory environment that impacts the business.
- (b) Adverse market conditions or events resulting in lower online broking volumes.

- (c) The risk that TPP does not achieve its growth projections or cost savings.
- (d) New entrants to the online broking market affecting market share or margins.
- (e) The risk a material white label contract is not renewed on completion.

#### 4.12 Independent Directors' recommendation

The Independent Directors note that the Independent Expert has concluded that the transaction is **both fair and reasonable** to Non-Associated Shareholders. The Independent Directors unanimously support the Transaction and recommend that Shareholders vote in favour of the Transaction Resolution for the following reasons:

- (a) Investment in technology and platforms is a core strategy that we believe provides us with a competitive advantage, and will enable the building of Shareholder wealth by diversifying and growing non-traditional, recurring revenue streams.
- (b) The proprietary software that has been developed is arguably the best of its type. Core platform development expenditure is largely complete and the business is now sustainably profitable. It is highly scalable, without the need for further significant growth in expenditure, resulting in a material profit margin on incremental revenues.
- (c) There is the potential to release at least \$4 million in regulatory and working capital from TPP in the medium term under full BFG ownership.
- (d) There is the potential to realize \$3 million to \$4 million per annum in recurring operational synergies through integration and use of TPP's technologies across all of BFG's businesses.
- (e) TPP has tax losses in excess of \$17 million, the full benefit of which may become available under full BFG ownership.
- (f) TPP has a high degree of operating leverage, is growing strongly, and we anticipate will be an important source of profit growth for BFG.
- (g) Full ownership of TPP should remove any barriers to releasing the inherent value in the intellectual property that has been developed.

#### 4.13 Proposed timetable

Subject to the ASX Listing Rules and Corporations Act requirements, including obtaining Shareholder approval, Bell Financial Group anticipates completion of the Transaction in accordance with the following indicative timetable (which is subject to change by Bell Financial Group in consultation with its advisers).

<b>Monday 30 April 2018</b>	Dispatch of Notice of Annual General Meeting and Explanatory Statement
<b>11:00am (Melbourne time) Monday 28 May 2018</b>	Time by which proxy forms for the AGM must be received
<b>11:00am (Melbourne time) Wednesday 30 May 2018</b>	AGM
<b>Monday 2 July 2018</b>	Completion of Transaction

#### 4.14 ASX Listing Rule 10.1

ASX Listing Rule 10.1 requires Shareholder approval before a company acquires a substantial asset from, or disposes of a substantial asset to:

- (a) a related party of the company;
- (b) a child entity of the company;
- (c) a substantial holder in the company, being a person who, together with the person's associates, has a relevant interest (or had a relevant interest at any time in the six months before the relevant transaction), in at least 10% of the total votes attached to the voting shares in the company;
- (d) an associate of a person referred to in paragraphs (a), (b) or (c); or
- (e) a person whose relationship to the company or a person referred to in paragraphs (a) to (d) is such that, in ASX's opinion, the transaction should be approved by Shareholders.

There is no arm's length exception under ASX Listing Rule 10.1.

An asset is substantial if its value, or the value of the consideration paid or given for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to the ASX under the ASX Listing Rules.

A '*related party*' includes:

- (a) an entity that controls a public company;
- (b) directors of the public company and directors of any entity that controls the public company, and their spouses;
- (c) parents and children of the persons in paragraphs (a) and (b);
- (d) an entity controlled by a related party referred to in paragraphs (a), (b) or (c).

An entity is a related party if it has come within the above classifications at any time with the previous six months, or if the entity believes or has reasonable grounds to believe that it is likely to become a related party at any time in the future.

As noted above, under section 50AA of the Corporations Act, 'control' is defined very broadly to mean the capacity to determine the outcome of decisions about the financial and operating policies of Bell Financial Group. As BGH has a 45.44% shareholding in Bell Financial Group, for the purposes of the Transaction Resolution and the Corporations Act, it is considered that BGH has practical or effective control over Bell Financial Group.

Shareholder approval is required under ASX Listing Rule 10.1 as the Transaction would involve the acquisition of a **substantial asset** by Bell Financial Group from the following related parties:

- (a) BGH – as an entity that controls Bell Financial Group;
- (b) BDH – as an entity controlled by BGH;
- (c) Colin Bell and Alastair Provan – as Directors of Bell Financial Group and as 'substantial Shareholders' of Bell Financial Group. (Colin Bell and Alastair Provan each have voting power in BGH above 20% and so are deemed to have BGH's relevant interest in shares in Bell Financial Group); and
- (d) Craig Coleman – as a Director of Bell Financial Group.

ASX Listing Rule 10.10 requires that a report on the Transaction be obtained from an independent expert stating whether the Transaction is fair and reasonable to the holders of ordinary securities whose votes are not to be disregarded (**Non-Associated Shareholders**). The Independent Expert's Report was prepared having regard to ASX Listing Rule 10.1 and concluded that the Transaction was **both fair and reasonable** to the Non-Associated Shareholders.

#### **4.15 Chapter 2E of the Corporations Act**

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party unless the benefit falls within an exception or the company obtains Shareholder approval. The meaning of 'related party' is stated above. A 'financial benefit' includes the company buying an asset from a related party. Any consideration which is given for the financial benefit is to be disregarded and unlike for ASX Listing Rule 10.1, there is no threshold substantial value that must be exceeded before Chapter 2E applies. The financial benefit being received by each of the related parties is the acquisition by Bell Financial Group of their TPP shares.

While there is an exception to the requirement to obtain Shareholder approval if the benefit is on arm's length terms, the Directors have determined to seek Shareholder approval for the purpose of Chapter 2E of the Corporations Act, to avoid any doubt as to whether or not an exception applies. The fact that Shareholder approval is being sought should not be taken to imply that the financial benefits are unreasonable or that the parties are not dealing at arm's length.

The following information is required to be provided to Shareholders under the Corporations Act in relation to the proposed financial benefits under the Transaction Resolution.

(a) **Related parties to whom financial benefits would be given**

- (i) BGH – as an entity that controls Bell Financial Group;
- (ii) BDH – as an entity controlled by BGH;
- (iii) Colin Bell, Alastair Provan and Craig Coleman – as Directors of Bell Financial Group.

(b) **Nature of the financial benefits**

The financial benefits being given by Bell Financial Group to the related parties is buying an asset from the related parties, being the acquisition of their TPP shares. (See further Section 4.6.)

(c) **Potential costs and benefits**

The potential costs and benefits from an economic and commercial point of view from giving the financial benefits are stated in Section 4, including at Section 4.2 (Key advantages and disadvantages of the Transaction), Section 4.10 (Consequences if Transaction does not proceed) and Section 4.11 (Risks).

(d) **Independent Directors' recommendation**

The Independent Directors recommend that Shareholders vote in favour of the proposed Transaction. (See Section 4.12.)

## 5. Glossary

In the Notice of Meeting and Explanatory Statement, unless the context or subject matter otherwise requires the following words have the following meanings:

<b>ASIC</b>	Australian Securities and Investments Commission.
<b>Associate</b>	Has the meaning given to that term in Part 1.2, Division 2 of the Corporations Act.
<b>ASX</b>	ASX Limited ACN 008 624 691 or the stock exchange it operates, as the context requires.
<b>ASX Listing Rules</b>	The rules and procedures issued and enforced by ASX and ASIC, as amended from time to time, including all guidance notes and appendices.
<b>BDH</b>	Bell Direct Holdings Pty Limited ACN 121 227 923.
<b>TPP</b>	Third Party Platform Pty Ltd ACN 121 227 905.
<b>BGH</b>	Bell Group Holdings Pty Limited ACN 004 845 710.
<b>Bell Financial Group or BFG</b>	Bell Financial Group Limited ACN 083 194 763.
<b>Completion</b>	The acquisition of 43.37% of TPP in accordance with the terms and conditions of the Share Sale Deed.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth).
<b>Director</b>	A director of Bell Financial Group Limited.
<b>Group</b>	Bell Financial Group Limited and its related bodies corporate.
<b>Independent Director</b>	A director who has no interest in the Transaction other than in his or her capacity as a Shareholder of Bell Financial Group.
<b>Non-Associated Shareholders</b>	Shareholders of Bell Financial Group Limited whose votes are not to be disregarded under the Voting Exclusion Statement.
<b>PKF Corporate</b>	PKF Melbourne Corporate Pty Ltd ACN 063 564 045 AFSL 222050.
<b>Sale Shares</b>	43.37% of the issued share capital of TPP.
<b>Share Sale Deed</b>	The share sale deed dated 11 April 2018 between Bell Financial Group Limited and the Vendors in relation to the acquisition of the Sale Shares by Bell Financial Group Limited, details of which are set out in Section 4.9.
<b>Shareholder</b>	Holder of Shares.
<b>Shares</b>	Ordinary shares in Bell Financial Group Limited.
<b>Transaction</b>	The acquisition of the Sale Shares from the Vendors in accordance with the terms and conditions of the Share Sale Deed.
<b>Transaction Resolution</b>	The resolution set out in item 4 of the Notice of Meeting.
<b>Vendors</b>	BGH, BDH, Colin Bell, Alastair Provan, Craig Coleman, Dean Davenport, Lionel McFadyen and Rocky Zangari.

## **6. Independent Expert's Report**



- 1.3 On 11 April 2018 BFG entered into an agreement with the other TPP shareholders to acquire their shares. This share acquisition is subject to shareholder approval at BFG's Annual General Meeting to be held on 30 May 2018.
- 1.4 The independent directors of BFG have requested PKF Corporate Pty Ltd ("PKF Corporate") to prepare an independent expert's report in respect of the proposed transaction set out in Section 2 below to independently assess whether the proposed transaction is fair and reasonable to the non-associated shareholders.
- 1.5 PKF Corporate previously prepared an independent valuation of TPP for use of BFG. The previous valuation was dated 6 February 2018 and resulted in a valuation of TPP of \$82.6 million to \$88.1 million. The difference between the 6 February 2018 valuation and this report is due to a slight reduction in the final result of TPP for the 2017 financial year, which in turn slightly increased the available tax losses carried forward by TPP. Further information in relation to this earlier report is included in Section 12.6 of this report.

## 2. The Proposed Transaction

### 2.1 Summary of the proposed transaction

The shareholders are being asked to vote on the following ordinary resolution:

#### Resolution 4

*"To approve, in accordance with ASX Listing Rule 10.1, and for the purpose of Chapter 2E of the Corporations Act, and for all other purposes, Bell Financial Group Limited or its controlled entity acquiring the shares in Third Party Platform Pty Ltd (TPP) held by Bell Group Holdings Pty Limited (BGH), Colin Bell, Alastair Provan, Bell Direct Holdings Pty Ltd (BDH) and Craig Coleman, when Bell Financial Group Limited or its controlled entity acquires all the shares in TPP that it does not own or control, on the terms set out in the Explanatory Statement."*

We refer to the transaction contemplated by Resolution 4 as "the Proposed Transaction" in the balance of this report.

The Proposed Transaction is permitted by the Australian Securities Exchange ("ASX") ("Listing Rule 10.1"), provided that the transaction is approved by a resolution passed at a general meeting of shareholders, other than those involved in the proposed transaction or persons associated with such persons (i.e. "the Non-Associated Shareholders").

The independent expert's report is to be prepared in accordance with the Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111 – Content of expert reports.

### 2.2 Impact of the Proposed Transaction

BFG is to acquire all of the shares in TPP that it currently does not own for the cash consideration of \$36,866,693.

The vendors of the shares and the consideration payable to each vendor are set out below:

Shares to be Acquired		
Shareholder	Number of Shares	Consideration
		\$
Bell Group Holdings Pty Limited	38,529	13,960,616
Bell Direct Holdings Pty Ltd	26,000	9,420,852
Colin Bell	16,620	6,022,099
Alastair Provan	16,620	6,022,099
Dean Davenport	1,799	651,850
Rocky Zangari	900	326,106
Lionel McFadyen	639	231,536
Craig Coleman	639	231,536
	<b>101,746</b>	<b>36,866,693</b>



BFG is proposing to fund the acquisition by way of a rights issue. As the rights issue will be open to all shareholders, the impact of the rights issue on the current shareholding and voting power in BFG depends on the rate of take-up of their rights by BFG's shareholders.

### 3. Summary Opinion

#### Fairness

In Section 8.7 of this report we concluded that the value of TPP is in a range of \$82.7 million to \$88.1 million. As TPP has 234,586 shares on issue and the Proposed Transaction will result in BFG acquiring 101,746 TPP shares, the value of the shares to be acquired is set out below:

Value of shares to be acquired			
	Low	Mid-Point	High
Value of TPP	\$ 82,700,000	\$ 85,400,000	\$ 88,100,000
No of shares on issue	234,586	234,586	234,586
Value per share	\$ 352.54	\$ 364.05	\$ 375.56
No of shares to be acquired	101,746	101,746	101,746
<b>Value of shares to be acquired</b>	<b>\$ 35,869,123</b>	<b>\$ 37,040,183</b>	<b>\$ 38,211,243</b>

*Source: PKF Corporate analysis*

As can be seen from the above table, the value of the shares to be acquired is in a range of \$35,869,123 to \$38,211,243, with a mid-point of \$37,040,183.

As the cash consideration payable (\$36,866,693) is below the mid-point of our valuation range (\$37,040,183), we have concluded that **the Proposed Transaction is fair**.

#### Reasonableness

In Section 10 we identified a number of other factors that shareholders should consider. The more significant factors are:

- As the Proposed Transaction is fair it is also considered to be reasonable.
- The Proposed Transaction will result in TPP becoming a wholly owned subsidiary of BFG. This will simplify BFG's corporate structure and unlock potential synergy benefits, including the ability of BFG to access TPP's accumulated tax losses and the reduction in certain overhead costs, such as the need for TPP to prepare separate audited financial statements. BFG's management believes that the potential synergy benefits may result in annual cost savings in the order of \$3 to \$4 million. No value of synergy benefits has been factored into the valuation of TPP. As such no part of the consideration payable by BFG is on account of synergy benefits.

After reviewing the results of our assessment of the fairness of the Proposed Transaction set out in Section 9 and after evaluating the other considerations set out in Section 10, we consider that **the Proposed Transaction is fair and reasonable to Non-Associated shareholders**.

#### 4. Structure of this Report

This report is divided into the following Sections:

<u>Section</u>		<u>Page</u>
5	Purpose of the Report	4
6	BFG - Key Information	6
7	TPP – Key Information	10
8	Assessment of the Value of TPP	13
9	Assessment as to Fairness of the Proposed Transaction	22
10	Other Significant Considerations	23
11	Related Party – Financial Benefits	23
12	Financial Services Guide	24
<u>Appendix</u>		
A	Discount Rates	26
B	Sources of Information	30
C	Declarations, Qualifications and Consents	31

#### 5. Purpose of the Report

This report has been prepared to meet the following regulatory requirements:

- **ASX - Listing Rules 10.1 and 10.2**

Listing Rules 10.1 and 10.2 require a company to obtain shareholder approval at a general meeting when the sale or acquisition of an asset, which has a value in excess of 5% of the shareholders' funds as set out in the latest financial statements given to the ASX under the listing rules, is to be made to or from:

- (i) a related party;
- (ii) a subsidiary;
- (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;
- (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above; or
- (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

As

- BGH is an entity that controls the Company and is a shareholder in TPP;
- Messrs. Colin Bell and Alastair Provan are substantial shareholders of the Company as they have voting power in excess of 20% in BGH and as each of them is disposing of an asset with a value in excess of 5% of the shareholders' funds of BFG as set out in the 31 December 2017 financial statements given to the ASX (5% of \$201,850,000 = \$10,092,500),

Listing Rule 10.1 will apply to the Proposed Transaction.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

## **RG 111 – Content of Expert Reports (“RG111”)**

RG 111.55 Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is ‘fair and reasonable’ from the perspective of non-associated members.

- **General**

The terms “fair” and “reasonable” are not defined in the Corporations Act 2001 (“the Act”), however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

Fairness - the Proposed Transaction is “fair” if the value of the 101,746 shares in TPP that are being acquired is equal to or greater than the consideration payable by BFG of \$36,866,693.

Reasonableness -the Proposed Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, we consider that the advantages of proceeding with the Proposed Transaction outweigh the disadvantages of proceeding.

In determining whether the Proposed Transaction is fair, we have:

- valued TPP and then determined the value of the 101,746 shares in TPP that are to be acquired by BFG; and
- compared the value of the consideration with the value of the shares being acquired.

In determining whether the Proposed Transaction is reasonable we have analysed other significant factors, which shareholders should consider prior to accepting or rejecting the Proposed Transaction.

- **Corporations Act 2001 – Chapter 2E**

Section 208 of the Act states that a public company must obtain approval from the company’s members if it gives a financial benefit to a related party unless the benefit falls within the scope of an exception to the Act as set out in Sections 210 to 216 of the Act.

Section 210 of the Act states that member approval is not needed to give a financial benefit on terms that:

- (a) would be reasonable in the circumstances if the public company or entity and the related party were dealing at arm’s length; or
- (b) are less favourable to the related party than the terms referred to in paragraph (a) above.

Section 211 of the Act states that member approval is not needed to give a financial benefit if:

- (a) the benefit is remuneration to a related party as an officer or employee;
- (b) to give the remuneration would be reasonable.

Section 228 of the Act defines 'related parties' as:

- (a) directors of the public company;
- (b) directors (if any) of an entity that controls the public company;
- (c) if the public company is controlled by an entity that is not a body corporate – each of the persons making up the controlling entity;
- (d) spouses and de facto spouses of the persons referred to in paragraphs (a) to (c) above.

The consideration payable to Messrs. Colin Bell, Alastair Provan and Craig Coleman to acquire their shares in TPP is permitted by the Act, however Section 208 provides that prior shareholder approval is required before a public company can provide a financial benefit to a related party, unless it is on arms length terms or another relevant exemption applies. Shareholders must be provided with all the information that is reasonably required in order for them to decide whether or not it is in the company's interests to approve the giving of the financial benefit.

Section 229(1)(c) of the Act states that in determining whether a financial benefit is given you must *disregard any consideration that is or may be given for the benefit, even if the consideration is adequate.*

The ASIC media release issued on 10 August 2004 has expressed the view that the financial benefit must be adequately valued. ASIC has gone on to state:

“An adequate valuation requires the basis of the valuation and the principal assumptions behind the valuation to be disclosed, and in some circumstances it may be necessary to provide a valuation by an independent expert.”

The Directors of BFG have requested PKF Corporate to independently assess the value of this financial benefit.

## **6. BFG - Key Information**

### **6.1 Background**

BFG is an ASX listed financial services company that provides broking, investment and financial advisory services.

BFG, through its wholly owned subsidiary Bell Potter Securities Limited (“Bell Potter”), provides full service stock broking and financial advice to private, institutional and corporate investors. The business has 320 private client advisers and 13 offices nationally as well as offices in London and Hong Kong.

Bell Potter traces its history to 1970, when it began business as a commodities and futures broker, before expanding into share broking in 1988.

Bell Potter acquired Johnson Taylor Potter in July 2001 and in September 2008 acquired Southern Cross Equities, which significantly expanded its capabilities.

Bell Potter is a Member Participant of the Australian Securities Exchange.

Bell Potter Capital Limited is also a wholly owned subsidiary of BFG, offering margin lending and cash management services.

TPP is a 56.63% owned subsidiary that provides online share trading services. Further information in respect to TPP is set out in Section 7.

## 6.2 BFG's Directors

The table below details BFG's Board of Directors.

BFG's Directors	
Mr Colin Bell	Executive Chairman
Mr Alastair Provan	Managing Director
Mr Craig Coleman	Non Executive Director
Mr Brian Wilson AO	Non Executive Director
Mr Graham Cubbin	Non Executive Director
Ms Brenda M Shanahan	Non Executive Director

Source: BFG's 2017 Annual Report

## 6.3 Share Capital

As at 2 March 2018, BFG had on issue 267,286,480 fully paid ordinary shares.

The 10 largest shareholders of BFG's ordinary shares as at that date were as follows:

BFG Top 10 Shareholders		
	Number of Shares	% of Voting Power
Bell Group Holdings Pty Limited	117,967,345	44.14%
Equitas Nominees Pty Limited <PB-600761 A/C>	17,000,000	6.36%
National Nominees Limited	5,259,493	1.97%
Bell Potter Nominees Ltd <BB Nominees A/C>	4,561,588	1.71%
HSBC Custody Nominees (Australia) Limited	4,446,007	1.66%
Citicorp Nominees Pty Ltd	4,308,647	1.61%
Mr Anand Selvarajah	3,660,477	1.37%
Mr Lee William Muco	2,897,776	1.08%
Mr James Gordon Maxwell Moffatt	2,450,000	0.92%
Colin Bell Pty Ltd	2,345,522	0.88%
	<b>164,896,855</b>	<b>61.69%</b>

Source: BFG share register as at 2 March 2018

At the date of this report BFG had no options on issue.

## 6.4 Financial Position

BFG's net assets and total equity as at 31 December 2014, 2015, 2016 and 2017 were as follows:

<b>Consolidated Statement of Financial Position</b>				
	<b>31-Dec-14</b>	<b>31-Dec-15</b>	<b>31-Dec-16</b>	<b>31-Dec-17</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
<b>Assets</b>				
Cash and cash equivalents	143,539	112,333	189,830	197,976
Trade and other receivables	67,843	170,313	71,358	101,360
Prepayments	710	586	685	737
Financial assets	288	2,120	3,015	3,812
Derivative assets	-	-	-	102
Loans and advances	171,383	234,519	227,398	286,188
Deferred tax assets	9,462	10,065	9,604	9,492
Property, plant and equipment	1,258	894	745	731
Goodwill	130,413	130,413	130,413	130,413
Intangible assets	3,513	5,423	7,076	8,738
<b>Total assets</b>	<b>528,409</b>	<b>666,666</b>	<b>640,124</b>	<b>739,549</b>
<b>Liabilities</b>				
Trade and other payables	146,886	219,786	131,280	185,850
Deposits and borrowings	176,786	228,094	288,967	317,380
Current tax liabilities	1,366	2,265	725	2,682
Derivative liabilities	60	17	48	24
Employee benefits	20,896	25,721	22,986	31,463
Provisions	150	550	750	300
<b>Total liabilities</b>	<b>346,144</b>	<b>476,433</b>	<b>444,756</b>	<b>537,699</b>
<b>Net assets</b>	<b>182,265</b>	<b>190,233</b>	<b>195,368</b>	<b>201,850</b>
<b>Equity</b>				
Contributed equity	164,284	167,886	167,886	167,886
Other equity	1,806	1,806	1,806	1,806
Reserves	(550)	(33)	699	(693)
Non controlling interests	4,478	4,491	5,018	5,826
Retained earnings	12,247	16,083	19,959	27,025
<b>Total equity</b>	<b>182,265</b>	<b>190,233</b>	<b>195,368</b>	<b>201,850</b>

Source: BFG's 2015, 2016 and 2017 Annual Reports

## 6.5 Financial Performance

BFG's Statements of Comprehensive Income for the year ended 31 December 2014, 2015, 2016 and 2017 were as follows:

	Financial Year Ended			
	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
	Audited \$000's	Audited \$000's	Audited \$000's	Audited \$000's
Rendering of services	140,154	162,891	169,359	191,598
Finance income	13,483	13,399	14,445	16,226
Net fair value gains/(losses)	(253)	674	2,124	(106)
Other income	1,915	791	815	860
<b>Total revenue</b>	<b>155,299</b>	<b>177,755</b>	<b>186,743</b>	<b>208,578</b>
Employee expenses	(101,526)	(110,185)	(115,482)	(128,262)
Depreciation and amortisation expenses	(1,091)	(1,109)	(1,346)	(1,523)
Occupancy expenses	(13,382)	(11,689)	(11,470)	(11,528)
Systems and communication expenses	(15,163)	(15,522)	(16,691)	(18,044)
Professional expenses	(2,546)	(2,953)	(2,348)	(2,962)
Finance expenses	(4,210)	(4,145)	(4,204)	(4,585)
Other expenses	(8,829)	(9,314)	(10,027)	(10,515)
<b>Total expenses</b>	<b>(146,747)</b>	<b>(154,917)</b>	<b>(161,568)</b>	<b>(177,419)</b>
<b>Profit/(loss) before income tax</b>	<b>8,552</b>	<b>22,838</b>	<b>25,175</b>	<b>31,159</b>
Income tax (expense)/benefit	(2,600)	(6,439)	(8,270)	(9,716)
<b>Profit/(Loss) for the year</b>	<b>5,952</b>	<b>16,399</b>	<b>16,905</b>	<b>21,443</b>
Other comprehensive income net of tax	81	323	(112)	(165)
<b>Total comprehensive profit (loss) for the year</b>	<b>6,033</b>	<b>16,722</b>	<b>16,793</b>	<b>21,278</b>
<b>Attributable to:</b>				
Equity holders of the Company	5,869	16,173	16,266	20,470
Non-controlling interests	164	549	527	808
	<b>6,033</b>	<b>16,722</b>	<b>16,793</b>	<b>21,278</b>

Source: BFG's 2015, 2016 and 2017 Annual Reports

## 6.6 Cash Flows

BFG's Consolidated Statements of Cash Flows for the years ended 31 December 2014, 2015, 2016 and 2017 were as follows:

	<b>Consolidated Statement of Cash Flows</b>			
	<b>Financial Year Ended</b>			
	<b>31-Dec-14</b>	<b>31-Dec-15</b>	<b>31-Dec-16</b>	<b>31-Dec-17</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
<b>Cash flows from operating activities</b>				
Cash receipts from customers and clients	158,465	246,188	278,635	257,480
Cash paid to suppliers and employees	(147,007)	(258,028)	(258,617)	(206,502)
Dividends received	-	3	2	7
Interest received	13,489	13,380	14,478	16,171
Interest paid	(4,210)	(4,145)	(4,204)	(4,585)
Income taxes paid	(2,853)	(6,145)	(9,364)	(7,647)
<b>Net cash from/(used in) operating activities</b>	<b>17,884</b>	<b>(8,747)</b>	<b>20,930</b>	<b>54,924</b>
<b>Cash flows from investing activities</b>				
Net proceeds from sale of investments	817	1,157	1,496	402
Acquisition of property, plant and equipment	(113)	(100)	(189)	(298)
Sale of property, plant and equipment	2	-	-	-
Acquisition of other investments	(370)	(2,287)	(232)	(1,309)
<b>Net cash from/(used in) investing activities</b>	<b>336</b>	<b>(1,230)</b>	<b>1,075</b>	<b>(1,205)</b>
<b>Cash flows from financing activities</b>				
Dividends paid	(3,852)	(8,948)	(12,502)	(15,196)
On market share purchases	(1,678)	(453)	-	-
Deposits/(withdrawals) from client cash balances	(1,038)	5,308	121,873	28,413
(Drawdown)/repayment of margin loans	313	(63,136)	7,121	(58,790)
Drawdown/(repayment) of borrowings	(14,724)	46,000	(61,000)	-
<b>Net cash from/(used in) financing activities</b>	<b>(20,979)</b>	<b>(21,229)</b>	<b>55,492</b>	<b>(45,573)</b>
<b>Net increase in cash held</b>	<b>(2,759)</b>	<b>(31,206)</b>	<b>77,497</b>	<b>8,146</b>
Cash at beginning of financial period	146,298	143,539	112,333	189,830
<b>Cash at end of financial period</b>	<b>143,539</b>	<b>112,333</b>	<b>189,830</b>	<b>197,976</b>

Source: BFG's 2015, 2016 and 2017 Annual Reports

## 7. TPP – Key Information

### 7.1 Background

TPP was incorporated on 14 August 2006 and shortly after incorporation TPP commenced developing an online share-trading platform.

TPP began trading under the banner "Bell Direct" in November 2007. At the time this was the first new online trading platform launched in Australia in approximately 10 years.

Since its launch TPP has grown its market share to approximately 4% of all ASX online trades.

In June 2012 TPP signed an agreement with HSBC to provide online broking for HSBC's clients. This is a 'White Label' arrangement whereby TPP provides the online trading platform and HSBC applies its own branding to the service offering.



In May 2014 TPP signed an agreement with Macquarie to also provide a White Label broking service to Macquarie's clients.

The online broking industry is dominated by bank-owned brokers, with the largest participant being Commonwealth Securities Limited ("CommSec") (owned by the CBA Bank), which commands a market share estimated at 44%. The second largest participant with an estimated market share of 15% is ANZ Bank owned E\*Trade. Westpac Online and nabtrade have market shares estimated at 8% and 6% respectively. As such the bank owned brokers have a combined market share of approximately 73%.

Most of the remaining participants, including TPP, have a broking heritage.

TPP believes that it has a number of competitive advantages. These include:

#### **Proprietary technology**

TPP owns and operates the only complete end-to-end online broking solution in Australia, including its own web user interface, client record keeping engine and its communication engine to the ASX. All other brokers use third party software in the design and operation of their online broking platform. This provides TPP with a cost advantage as well as the ability to innovate and leverage its technology across multiple segments.

#### **Awards and reputation**

Bell Direct won the AFR Smart Investor "Blue Ribbon Award" for 2013, 2014 and 2015 Best Online Broker. Although we note that in recent years competitors have improved their service offering and as a result Bell Direct now has more competition.

#### **Expertise and experience**

The core senior management team at TPP has been formed from experienced senior personnel from CommSec, IWL and E\*Trade. This collection of expertise is rare in the online broking industry with many of the other major providers now linked or owned by banks. In addition, the stockbroking heritage of BFG means there is deep and specific understanding of this market.

#### **Independence**

TPP is an independently owned online broker. In the current environment where clients are questioning the efficacy of vertically integrated large banks, many independent financial advisers are reluctant to deal with the large financial institutions. TPP's business model is not threatening to the independent financial advisers and this point of difference has assisted TPP in winning new business.

TPP has a wholly owned subsidiary, Third Party Platform Sdn. Bhd domiciled in Malaysia. The subsidiary provides back office services to TPP, for which it charges a management fee. The subsidiary has no other sources of revenue.

## **7.2 TPP Directors**

The table below details TPP's Board of Directors.

### **TPP's Directors**

Mr Craig Coleman *	Chairman
Mr Anand Selvarajah	Chief Executive Officer
Mr Alastair Provan *	Director
Mr Colin Bell*	Director
Mr Lee Muco	Director
Mr Malcolm Spry	Director

*Source: Bell Direct's 2017 Annual Report*

\* also a director of BFG

### 7.3 Share Capital

As at the date of this report TPP had 234,586 fully paid ordinary shares on issue.

The holders of TPP's ordinary shares are:

TPP Shareholders		
	Number of Shares	% of Voting Power
Global U & I Management Pty Ltd <sup>1</sup>	132,840	56.63%
Bell Group Holdings Pty Limited	38,529	16.42%
Bell Direct Holdings Pty Ltd <sup>2</sup>	26,000	11.08%
Colin Bell	16,620	7.08%
Alastair Provan	16,620	7.08%
Dean Davenport	1,799	0.77%
Rocky Zangari	900	0.38%
Lionel McFadyen	639	0.27%
Craig Coleman	639	0.27%
	<b>234,586</b>	<b>100.00%</b>

1. Global U & I Management Pty Ltd ACN 071 339 805 is a wholly-owned subsidiary of Bell Financial Group Limited.

2. The shareholders of Bell Direct Holdings Pty Ltd ACN 121 227 923 are Bell Group Holdings Pty Limited, Colin Bell, Alastair Provan, Lionel McFayden and Craig Coleman.

### 7.4 Financial Position

TPP's consolidated statements of financial position as at 31 December 2014, 2015, 2016 and 2017 were as follows:

Balance sheet				
	FY14	FY15	FY16	FY17
\$ 000s	Mgt Acc *	Mgt Acc*	Mgt Acc*	Mgt Acc*
<b>Assets</b>				
Cash and cash equivalents	5,221	7,100	8,709	10,783
Trade and other receivables	28,036	42,766	22,580	18,695
Financial assets	3	3	3	8
Prepayments	87	149	162	132
PPE	83	79	151	73
Deferred tax asset	6,318	6,318	5,537	4,753
Intangibles	2,652	3,859	4,997	6,097
	42,400	60,274	42,139	40,541
<b>Liabilities</b>				
Trade and other payables	(30,331)	(45,878)	(26,417)	(24,580)
Subordinated loan	(2,000)	(3,000)	(3,000)	(1,000)
Provisions	(887)	(1,040)	(1,152)	(1,458)
	(33,218)	(49,918)	(30,569)	(27,038)
<b>Net assets</b>	<b>9,182</b>	<b>10,356</b>	<b>11,570</b>	<b>13,503</b>
<b>Equity</b>				
Contributed equity	26,000	26,000	26,000	26,000
Accumulated losses	(16,818)	(15,644)	(14,430)	(12,497)
<b>Total equity</b>	<b>9,182</b>	<b>10,356</b>	<b>11,570</b>	<b>13,503</b>

Source: Management information

\* TPP is not required to prepare audited consolidated financial statements incorporating its Malaysian subsidiary, which provides services to the parent entity at a profit margin. As such consolidated management information has been used, however this has been reconciled to the underlying audited financial statements.

## 7.5 Financial Performance

TPP's consolidated income statements for the financial years ended 31 December 2014, 2015, 2016 and 2017 were as follows:

<b>Income statement</b>				
	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
<b>\$ 000s</b>	<b>Mgt Acc*</b>	<b>Mgt Acc*</b>	<b>Mgt Acc*</b>	<b>Mgt Acc*</b>
<b>Revenue (net)</b>	<b>8,584</b>	<b>10,108</b>	<b>12,403</b>	<b>14,235</b>
Employment costs	(3,245)	(3,338)	(3,592)	(4,209)
ASX charges	(1,106)	(1,369)	(1,806)	(1,889)
Marketing and sales	(1,049)	(999)	(1,500)	(1,321)
Occupancy	(437)	(586)	(568)	(564)
Telecommunications	(423)	(358)	(389)	(387)
Research and content	(746)	(809)	(498)	(598)
Professional fees	(194)	(155)	(139)	(389)
Systems and other	(715)	(806)	(1,284)	(1,490)
	(7,915)	(8,420)	(9,776)	(10,847)
<b>EBTDA</b>	<b>669</b>	<b>1,688</b>	<b>2,627</b>	<b>3,388</b>
Depreciation	(91)	(71)	(103)	(87)
Amortisation - Development Staff	(218)	(414)	(512)	(625)
	(309)	(485)	(615)	(712)
<b>Net profit/(loss) before tax</b>	<b>360</b>	<b>1,203</b>	<b>2,012</b>	<b>2,676</b>
Tax expense	(23)	(30)	(798)	(813)
<b>Net profit/(loss) after tax</b>	<b>337</b>	<b>1,173</b>	<b>1,214</b>	<b>1,863</b>

*Source: Management information*

\* TPP is not required to prepare audited consolidated financial statements incorporating its Malaysian subsidiary, which provides services to the parent entity at a profit margin. As such consolidated management information has been used, however this has been reconciled to the underlying audited financial statements.

## 8. Assessment of the Value of TPP

### 8.1 Value Definition

PKF Corporate's valuation of TPP has been made on the basis of fair market value, defined as the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length.

### 8.2 Valuation Premise and Valuation Methodologies

TPP has been trading profitably and there has been considerable growth in revenue over the past few years. Based on this and discussions with management we are not aware of any reason that TPP is not going to continue in business. Consequently, this valuation has been prepared on the premise of a going concern.

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- asset-based methods;
- capitalisation of future maintainable earnings;
- net present value of future cash flows; and
- comparable market transactions.

### **8.3 Share Price History**

The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the proposed transaction.

TPP's shares are not listed and there is no market for its shares. However, we note there has been one transaction in recent years whereby TPP's shares changed hands.

According to BFG's 2015 financial report and the Appendix 3B and Cleansing Notice lodged by BFG with the ASX, on 21 October 2015 BFG issued 7,663,431 fully paid ordinary shares as consideration for acquiring 13,868 shares in TPP. The shares were sold by three senior TPP staff members, being Anand Selvarajah, Lee Muco and Mark Pomfret. Management stated the purchase of shares in TPP and the number of shares issued in BFG was based on the following factors:

- The acquisition of the TPP shares and the issue of BFG shares as consideration was agreed by the board of BFG on 15 October 2015.
- According to management, a value of \$70 million had been agreed between BFG and the sellers of the shares. This market value was based on a valuation prepared by DMR Corporate in November 2014, now PKF Corporate, (the "Prior Valuation") and also the strike price of some share options which expired before the transfer.
- A BFG share price of \$0.54 was assumed, although we note the share price on 21 October 2015 according to Yahoo Finance was \$0.47; furthermore, that the share price had ranged between \$0.43 and \$0.47 in the preceding three weeks. Management stated that the BFG share price assumed in the deal was determined by taking a price between the market price at the time and the share price determined in the Prior Valuation.
- Management also confirmed that the sale was not on an open market basis.

We do not believe that this purchase is an appropriate indicator of value as a result of a series of factors including that the transaction was not conducted on an open market basis whereby the shares are offered to the broader market, and also that it represents a relatively small proportion of the total shares on issue in a company which was already controlled by BFG. As a result of these factors, we have not used this information in assessing the current value of TPP.

### **8.4 Asset Based Methods**

8.4.1 Asset based methodologies determine the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

#### **(a) Net Assets**

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses. The net assets on a going concern basis methodology does not take account of realisation costs.

**(b) Orderly Realisation of Assets**

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs.

**(c) Liquidation of Assets**

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

**8.4.2 Net Assets**

The consolidated net assets of TPP as at 31 December 2017, per the management accounts, were \$13,433,000, including \$6,097,000 relating to intangible assets.

These values have been determined for financial reporting purposes using the Australian Accounting Standards, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Act. In particular intangible assets merely reflect the amortised software development costs.

The net assets of \$13,433,000 represent a value of \$57.26 per share, however this is not a value that shareholders should necessarily expect to receive for their shares.

**8.4.3 Orderly Realisation of Net Assets / Liquidation of Assets**

TPP is profitable and has substantial net assets. In these circumstances we have not adopted the orderly realisation of net assets or the liquidation of assets methodology as these methodologies may understate the in-use values of TPP's assets.

**8.5 Capitalization of Future Maintainable Earnings**

**8.5.1 Introduction to the Methodology**

This methodology involves capitalising the estimated future maintainable earnings of a business at a multiple that reflects its business risks and its ability to earn future profits.

There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax – Price Earnings or PE. Another common method is to use earnings before interest, tax, depreciation and amortisation (“EBITDA”). One advantage of using EBITDA is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. This is important as different owners of the same business may use different funding strategies and these strategies should not alter the fundamental value of the underlying business.

Consistent with the majority of valuations of entities in the financial sector, we have selected capitalisation of earnings after tax (PE) in valuing TPP. The key reason for choosing earnings after tax in valuing TPP is that many of the comparable companies are full service brokerage houses with additional financial services, thus interest income and interest expense are an integral part of their profit generation.

A valuation based on capitalised earnings requires the following key assessments to be made:

- the level of future maintainable after tax earnings; and
- the selection of an appropriate capitalization multiple, which reflects the risks facing the business as well as the growth potential of the business.

The appropriate multiples to be applied to the selected level of earnings are sourced from empirical evidence such as that derived from stock market trading in comparable companies or from past transactions involving comparable companies.

### **8.5.2 Assessment of maintainable earnings after tax**

The consolidated historical income statements of TPP are set out in Section 7.5 above.

The income statements show that revenue continues to grow strongly, though at a reducing rate of growth. The income statements also reveal that all of the major expenses are reducing as a percentage of income, suggesting that many of TPP's expenses are of a fixed nature. Whilst expenses have been increasing in total, the rate of increase is below the rate of increase in revenue.

We have been advised by management that during the 2017 financial year TPP incurred one-off expenses of approximately \$170,000 in relation to a transaction that ultimately did not proceed.

After reviewing TPP's results since 1 January 2014 and considering the level of revenue generated, the relationship of employment expenses to revenue, the level of other operating costs and the average income tax rate, we have assessed TPP's maintainable after tax earnings to be in a range of \$1.9 million to \$2.0 million.

### **8.5.3 Multiples**

In selecting an appropriate multiple to apply to the maintainable after tax profit we had regard to the following:

- the business has been operating for multiple years and has been growing, with revenue increasing year on year;
- the business does not rely on any one customer to any significant degree;
- TPP has medium term contracts in place regarding the white label services and a good relationship to further extend these contracts in the future;
- the traditional stockbroking business has faced significant regulatory changes in the past, these changes have seen the demise of many small independent brokers;
- there is increasing competition in the online broking sector, with an increasing trend in using white label options; and
- profitability is dependent on the general level of economic activity, trading volumes and capital raising activity.

Valuation multiples can be derived from multiples at which shares in comparable listed companies trade and also those which comparable companies have recently been acquired at.

#### ***Comparable listed companies***

The comparable listed companies are listed below.

Trading multiples				
Reported currency (millions)	Country listed in	Market capitalisation	P/E multiple	
			Last financial year	Last twelve months
Bell Financial Group Limited	Australia	207.5	12.1	10.1
CMC Markets Plc	UK	458.0	9.4	9.3
E*TRADE Financial Corporation	US	15,220.1	23.3	26.6
Global Brokerage, Inc.	US	3.4	0.6	0.1
NEX Group plc	UK	2,491.1	50.1	34.8
Sequoia Financial Group Limited	Australia	32.9	28.7	20.1
Vertex Securities Limited	India	185.0	35.0	32.8
TD Ameritrade Holding Corporation	US	34,620.9	30.5	34.8
BGC Partners, Inc.	US	4,238.4	32.4	83.5
Average			27.7	24.1
Median			28.7	26.6
<b>Mid point</b>			<b>28.2</b>	<b>25.3</b>

Source: Capital IQ

Please note: figures shaded in grey are considered outliers and have been excluded from the calculation of the average, but included in the median.

### Comparable transactions

Valuation multiples can also be derived from transaction multiples at which comparable businesses have been bought and sold. Our research identified a number of transactions in the brokerage and finance sector in the recent past. This research is summarised below:

Comparable transactions				
Target	Acquirer	Date	PE	
<b>Australian finance sector</b>				
Blackswan Equities Limited	Euroz Limited	14 May 2014	11.8	
Centuria Capital Group	ESR Pte. Ltd	10 Oct 2017	62.1	
Equity Trustees Limited	IOOF Holdings Ltd	18 Sep 2013	17.2	
Matrix Holdings Limited	ClearView Wealth Limited	29 Aug 2014	9.2	
SFG Australia Limited	IOOF Holdings Ltd	16 May 2014	20.2	
<b>Asian broker sector</b>				
CASH Financial Services Group	Celestial Asia Securities Holdings Ltd.	21 May 2007	9.9	
Sun Hung Kai Financial Ltd	Everbright Securities Financial Holdings	2 Feb 2015	33.6	
GMO CLICK Holdings, Inc.	Daiwa Securities Group Inc.	30 Oct 2015	16.2	
GuocoCapital Limited	Mason Innovation Investment Company	25 Nov 2015	71.7	
Monex Group, Inc.	The Shizuoka Bank, Ltd.	2 Apr 2014	12.1	
Niigata Securities Co., Ltd.	The Daishi Bank, Ltd.	8 May 2015	10.7	
	Average		15.7	
	Median		16.2	
	<b>Mid point</b>		<b>16.2</b>	

Source: Capital IQ

Please note: figures shaded in grey are considered outliers and have been excluded from the calculation of the average, but included in the median.

### Control premium

As the trading multiples are based on company values derived from minority trades on a public stock exchange, these do not include a control premium, whereas the comparable transaction multiples include a control premium.

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. The actual control premium paid is transaction specific and depends on a range of factors, such as the level of synergies available to the purchaser, the level of competition for the assets and the strategic importance of the assets.

To determine the premium applicable to a controlling interest we have referred to the “Control Premium Study” by Mergerstat, 3<sup>rd</sup> quarter 2016. The report analyses the premium paid where greater than 50% of a company was acquired in deals around the world. The report shows that over the prior three years, the median premium paid has ranged between 26% and 37% with the median of this range being 29%. Using this data, we consider a 29% control premium to be appropriate.

#### 8.5.4 Maintainable earnings valuation

<b>Maintainable earnings valuation</b>			
		<b>Low</b>	<b>High</b>
<b>Maintainable earnings</b>	<b>\$ 000s</b>	<b>1,900</b>	<b>2,000</b>
<b>Listed company multiple basis</b>			
Trading multiples		25.3	28.2
Control premium		29.0%	29.0%
Listed multiple with control premium		32.6	36.4
<b>Valuation - listed company multiple basis</b>	<b>\$ 000s</b>	<b>62,010</b>	<b>72,756</b>
<b>Comparable transactions basis</b>			
Transaction multiples		15.9	15.9
<b>Valuation - comparable transactions basis</b>	<b>\$ 000s</b>	<b>30,210</b>	<b>31,800</b>

*Source: PKF Corporate analysis*

As can be seen from the above table, based on the capitalisation of maintainable earnings methodology we have assessed the value of TPP to be in a range of \$30,210,000 to \$72,756,000.

#### 8.6 Net Present Value of Future Cash Flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure, the costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

This methodology is applicable to a developing business such as TPP.

##### 8.6.1 Assessment of Future Cash Flows

We have been provided with revenue and expense projections for TPP through to 31 December 2022, as prepared by management. The projections provided by management include a high level summary of assumptions and a forecast income statement; they do not include an integrated balance sheet or cash flow but do include an estimation of net cash flow. The projections were received by us on a “commercial-in-confidence” basis and we are not at liberty to disclose the details of these projections. We conducted a review of the projections and our comments in respect of various assumptions are set out below:



## Revenue

As can be seen from paragraph 7.5, TPP generated double digit growth in revenue in each of the past three financial years, though the annual growth rate in sales is declining.

The revenue projections are based on a series of assumptions in respect of a number of integers that together determine the level of revenue. These include separate assumptions in respect of the retail, white label and wholesale businesses.

The key points identified by management as primary drivers behind achieving revenue growth are as follows:

- TPP continuing to increase its overall market share by volume of trades;
- Continued growth in the size of the overall contestable market as more clients move to trading online; and
- Continued penetration into the wholesale and financial intermediary segments of the market with the Desktop Broker brand gaining traction.

The white label service is being provided to HSBC and Macquarie. According to management both are contracted until 2020, but due to the existing relationship with each bank and the quality of service provided by TPP, management expect these agreements to continue throughout the forecast period. In addition, management are currently in discussion with a number of prospective white label customers and the forecasts assume that one of these is converted to a customer during the 2019 calendar year.

Retail and white label revenue assumptions include the number of retail accounts, the number of transactions per retail account per month and the average brokerage per transaction. The wholesale revenue assumptions include the number of contract notes per day and the average brokerage per contract note. We have compared each of the above assumptions with the actual historical results for each of these integers for the past seven financial years as well as the actual results through to 31 December 2017.

Management also forecast recurring income to increase. This revenue stream relates to fees received from margin lending and funds held in client cash accounts. Management forecast this to increase in line with retail income.

We have conducted a review of each of these assumptions and discussed the reasoning behind the assumptions with the Chief Executive Officer of TPP. The assumptions include the number of new clients expected to be gained and the frequency of trading by TPP's client base, which is significantly influenced by the client profile and market sentiment.

Our review of the assumptions did not identify any errors of logic or inconsistencies in their application. The assumed rate of acquisition of new clients exceeds recent rates and our expectation of the increase in the overall market, which means that TPP is projecting to increase its market share. The risk of not achieving an increase in market share has been incorporated in the discount rate.

## Expenses

The major variable costs are ASX fees and these are forecast to remain constant as a percentage of brokerage fees earned. We believe that only limited commercial risks attach to this assumption.

Employment costs represent TPP's major expense. Management forecast this to increase by 4% per annum, reflecting inflation growth in salaries and also a small increase in staff numbers. Such costs are forecast to increase at a slower rate than revenue as the software has been up and running for multiple years with many users having also used it for multiple years, thus the cost and staff intensity required for each customer is reducing.

As part of the employment costs, management estimate that each year approximately \$1.6 million will be spent on employing staff to develop new and improve existing parts of the service offering. These costs are to be capitalised as part of an intangible asset and amortised accordingly. This is consistent with the costs incurred in prior years and we understand from management is part of their business plan in maintaining and potentially increasing TPP's market share.

The other major costs are estimated by management to remain relatively consistent with prior year actual costs, with appropriate inflation also allowed for. We understand that these costs are relatively "fixed" and thus believe that limited commercial risk attaches to these costs.

### Profit before tax

After considering the above comments regarding forecast revenues and expenses, we believe that the critical assumptions that contain the largest degree of commercial risk are the number of new accounts (retail, white label and wholesale) and the number of transactions per client.

### Income tax

We note from TPP's audited financial statements that TPP has approximately \$17.4 million in available tax losses. This means that TPP will not be paying tax until these losses are exhausted. The utilisation of these losses has been factored into TPP's forecast cash flows.

### Working capital

TPP's business model does not require significant working capital. The historical statements of net assets are presented in Section 7.4 of this report. These disclose that TPP has significant receivable and payable balances, but they tend to net off with payables exceeding the receivables. We have therefore concluded that no allowance for working capital is required.

### Capital expenditure

We have been advised by management that existing equipment is sufficient to meet current trading volumes and that the forecast capital expenditure of \$100,000 per annum is expected to be sufficient to ensure this remains the case.

### Comparison of historical management accounts to budgets

Set out below is a comparison of TPP's recent actual performance against budgets:

Comparison of actual historical results to budgets				
	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17
	\$ 000s	\$ 000s	\$ 000s	\$ 000s
<b>EBTDA</b>				
Actual results	669	1,688	2,627	3,388
Budgeted	889	1,897	3,070	3,685
<b>Variance to actual - Note 1</b>	<b>(220)</b>	<b>(209)</b>	<b>(443)</b>	<b>(297)</b>
<b>Percentage variances</b>	<b>-33%</b>	<b>-12%</b>	<b>-17%</b>	<b>-9%</b>

Source: Management accounts and audited financial statements

Note 1 - Management account figures have been used as they have been prepared on a consistent basis to the budgets.

### Terminal value

Terminal value represents the net present value of the expected future cash flows beyond the period of the forecasts. We have calculated the terminal value using the following formula:

$$\text{Terminal value} = (\text{FCFF} \times (\text{WACC} - g))$$

Where:

FCFF = free cash flows in the last year of the forecast period

WACC = weighted average cost of capital - refer Section 8.6.2 below

g = expected long term growth in free cash flows beyond the forecast period. We have assumed a growth rate of 4%.

### 8.6.2 Discount Rate

In order to derive the net present value of the projected future cash flows to equity holders, the cash flows need to be discounted by an appropriate discount rate. The generally acceptable methodology for assessing the appropriate discount rate is the capital asset pricing model (“CAPM”) and we have determined that the discount rate should be in a range of 10.85% to 11.35%. Detailed explanations as to how the discount rate was arrived at are provided in Appendix A.

### 8.6.3 Conclusion

A valuation of TPP based on the net present value of future cash flows methodology can be summarised as follows:

Net present value		
\$ 000s	Low	High
Discount rate	11.35%	10.85%
Free cash flows	22,315	22,584
Terminal value	58,578	63,727
Net cash and surplus assets (Dec 2017)	1,779	1,779
TPP equity value	82,672	88,090
<b>Equity value rounded to</b>	<b>\$ 82.7 million</b>	<b>\$ 88.1 million</b>

Source: PKF Corporate analysis

As can be seen from the above table, based on the net present value of future cash flows methodology we have assessed the value of TPP to be in a range of \$82,700,000 to \$88,100,000.

It should be noted that future cash flows are inherently uncertain and the results actually achieved by TPP may vary materially from those that have been forecast. PKF Corporate does not give any assurance that the forecast results will be achieved.

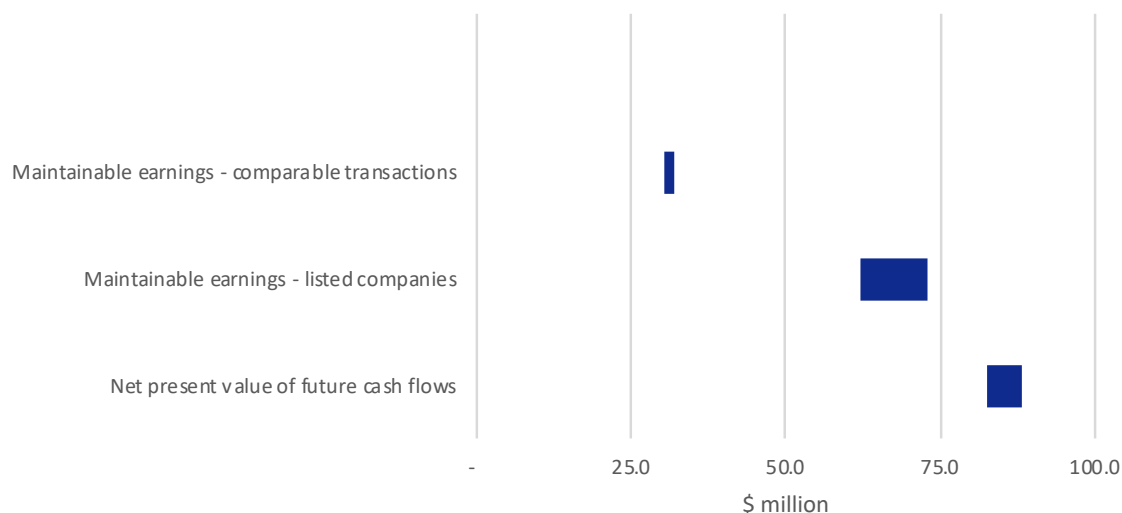
### 8.7 Conclusion

We have considered multiple valuation methods in this report. Those identified as applicable are summarized below:

Valuation conclusion		
	Low \$000's	High \$000's
Net present value of future cash flows	82,700	88,100
Maintainable earnings		
Listed company multiples	62,010	72,756
Comparable transactions	30,210	31,800

Source: PKF Corporate analysis

The valuation results for the methods have been graphed below.



The multiples based approach is most appropriate for stable profitable businesses, but does not tend to take into consideration growth potential. As can be seen from Section 7.5, TPP has been experiencing strong growth with profit after tax increasing by approximately 50% for 2017 in comparison to the previous year. In fact TPP has achieved a compound growth in net profit after tax of 76.8% over the past four financial years, whereas the after tax profits of the comparable listed companies used in the multiples based approach grew at an average of approximately 29%. In our opinion the multiples based approach does not adequately capture the impact of this growth on the value of TPP, given that it is growing considerably faster than the comparator group. For this reason we have preferred the net present value of future cash flows methodology in valuing TPP.

The other method applied in the assessment of the value of TPP was a net present value of forecast future cash flows. The benefit of this method is that it takes into account the forecast growth of an organisation.

After considering the results of the applicable valuation methodologies and the results generated by each, we consider the net present value of future cash flows to be the most appropriate methodology to apply in the valuation of TPP at its current stage of development. As such we consider an appropriate valuation to be in the range of \$82.7 million to \$88.1 million.

## 9. Assessment as to Fairness of the Proposed Transaction

In Section 8.7 above we concluded that the value of TPP is in a range of \$82.7 million to \$88.1 million. As TPP has 234,586 shares on issue and the Proposed Transaction will result in BFG acquiring 101,746 TPP shares, the value of the shares to be acquired is set out below:

Value of shares to be acquired			
	Low	Mid-Point	High
Value of TPP	\$ 82,700,000	\$ 85,400,000	\$ 88,100,000
No of shares on issue	234,586	234,586	234,586
Value per share	\$ 352.54	\$ 364.05	\$ 375.56
No of shares to be acquired	101,746	101,746	101,746
<b>Value of shares to be acquired</b>	<b>\$ 35,869,123</b>	<b>\$ 37,040,183</b>	<b>\$ 38,211,243</b>

Source: PKF Corporate analysis

As can be seen from the above table, the value of the shares to be acquired is in a range of \$35,869,123 to \$38,211,243, with a mid-point of \$37,040,183.

As the cash consideration payable (\$36,866,693) is below the mid-point of our valuation range (\$37,040,183), we have concluded that **the Proposed Transaction is fair**.

## 10. Other Significant Considerations

Prior to deciding whether to approve or reject the Proposed Transaction the BFG shareholders should also consider the following factors:

- In Section 9 above we concluded that the Proposed Transaction is fair. As the Proposed Transaction is fair it is also considered to be reasonable.
- The Proposed Transaction will result in TPP becoming a wholly owned subsidiary of BFG. This will simplify BFG's corporate structure and unlock potential synergy benefits, including the ability of BFG to access TPP's accumulated tax losses and the reduction in certain overhead costs, such as the need for TPP to prepare separate audited financial statements. BFG's management believes that the potential synergy benefits may result in annual cost savings in the order of \$3 to \$4 million. No value of synergy benefits has been factored into the valuation of TPP. As such no part of the consideration payable by BFG is on account of synergy benefits.
- There is a substantial upside in the TPP business and the acquisition of the remaining shares will ensure that 100% of the upside is available to all BFG shareholders.

After reviewing the results of our assessment of the fairness of the Proposed Transaction set out in Section 9 and after evaluating the other considerations set out above, we consider that **the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders**.

## 11. Related Party – Financial Benefits

As explained in the Notice of Meeting to which this report is an attachment, the Directors of BFG have determined to seek shareholder approval for the purpose of Chapter 2E of the Corporations Act to avoid any doubt as to whether or not the financial benefit given is on an arms length basis. In view of the above, we have prepared an assessment of the value of the financial benefit as if the arms length exemption was not applicable.

Section 229(1)(c) of the Act states that in determining whether a financial benefit is given, the consideration that is given for the benefit (in this case the shares in TPP), is to be disregarded. This means that the benefit given is equal to the cash consideration paid, without taking into account the value of the TPP shares given in return.

The total consideration payable by BFG to acquire the 101,746 TPP shares that it does not presently own is \$36,866,693, or \$362.34 per share.

### **Messrs Colin Bell and Alastair Provan**

Each of Messrs Colin Bell and Alastair Provan hold individually 16,620 TPP shares and will receive consideration of \$6,022,091.

Messrs Colin Bell and Alastair Provan also have an interest in the TPP shares held by BGH and BDH. They each therefore have an indirect shareholding in TPP of 19,769 shares valued at an additional \$7,163,099 each, or a direct and indirect interest of \$13,185,190.

## **Mr Craig Coleman**

Mr Craig Coleman holds individually 639 TPP shares and will receive consideration of \$231,535.

Mr Coleman also has an interest in the TPP shares held by BDH. He therefore has an additional indirect shareholding in TPP of 390 shares valued at an additional \$141,313. Mr Coleman therefore has a direct and indirect interest of \$372,848.

## **12. Financial Services Guide**

### **12.1 Financial Services Guide**

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

### **12.2 PKF Corporate**

PKF Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

### **12.3 Financial Services Offered by PKF Corporate**

PKF Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by PKF Corporate are provided by the Entity to its members.

All reports prepared by PKF Corporate include a description of the circumstances of the engagement and of PKF Corporate's independence of the Entity commissioning the report and other parties to the transactions.

PKF Corporate does not accept instructions from retail investors. PKF Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. PKF Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

### **12.4 General Financial Product Advice**

In the reports, PKF Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

### **12.5 Independence**

At the date of this report, none of PKF Corporate, Mr Steven Perri nor Mr Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with BFG, TPP or their associates.

Drafts of this report were provided to and discussed with the Chief Financial Officer of BFG. There were no alterations to the methodology, valuations or conclusions that have been formed by PKF Corporate.

PKF Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

PKF Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

## 12.6 Remuneration

PKF Corporate is entitled to receive a fee of approximately \$22,000 plus GST for the preparation of this report. With the exception of the above, PKF Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report or the Proposed Transaction.

PKF Corporate previously prepared an independent valuation of TPP for the use of BFG. This valuation is set out in a report dated 6 February 2018. PKF Corporate received a fee of \$32,000 plus GST for the preparation of that report.

## 12.7 Complaints Process

As the holder of an Australian Financial Services Licence, PKF Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement PKF Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act. PKF Corporate is also required to have a system for handling complaints from persons to whom PKF Corporate provides financial services. All complaints must be in writing and sent to PKF Corporate at the above address.

PKF Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

**PKF Melbourne Corporate Pty Ltd**



**Paul Lom**  
Director



**Steven Perri**  
Director

**Discount Rates**

1. The generally acceptable methodology for assessing the appropriate discount rate is the capital asset pricing model (“CAPM”). The CAPM makes separate calculations of the cost of equity and the cost of debt. The cost of capital and the cost of debt are then combined to calculate the weighted average cost of capital (“WACC”).

2. The CAPM expresses the cost of equity by the following formula:

$$K_e = R_f + (\beta \times R_p)$$

Where:

- Ke = cost of equity
- Rf = risk free rate of interest
- Rp = market risk premium
- β = beta of the investment being valued

The CAPM expresses the cost of debt by the following formula:

$$K_d = i \times (1 - t)$$

Where:

- i = interest cost
- t = corporate tax rate

3. Set out below are our comments in respect of each of the inputs into the calculations of cost of equity and cost of debt.

4. *Risk free rate of return*

The risk free rate of return should be for a period that corresponds to the cash flows being valued.

The current 10-year Commonwealth government bond rate is approximately 2.75%

5. *Market risk premium*

This is the difference between the return that investors require from an investment in equity and the return investors accept from a risk free investment. The market risk premium needs to be observed over an extended period of time.

We have used two sources to assess the market risk premium, summarised in the table below.

Market risk premium	
New York University, Stern School of Business (Jan 2018)	5.08%
Credit Suisse, Global Investment Returns Yearbook 2017	5.00%
<b>Mid point</b>	<b>5.04%</b>

The New York University, Stern School of Business on an annual basis calculates the market risk premium for stock exchanges around the world. In January 2018 it published its latest report showing that the equity risk premium for Australia to be 5.08%.

Credit Suisse also publishes on an annual basis investment returns, the latest report was released in February 2017 and showed the equity risk premium for Australia to be 5.00%.

We have taken the mid-point and used this as the market risk premium for this valuation.



**6. Beta**

Beta measures the sensitivity of the share price to fluctuations of the market as a whole. A beta greater than one indicates greater volatility, and a beta of less than one indicates lower volatility, than the market. The volatility of the overall market is 1.0.

We have reviewed the betas for a number of Australian and Internationally listed companies that provide online brokerage and/or brokerage solutions and services. Details of the companies selected are set out below.

<b>Listed comparable companies - beta</b>					
<b>Reported currency (millions)</b>	<b>Country listed in</b>	<b>Enterprise value</b>	<b>Net debt / (cash)</b>	<b>Beta - levered</b>	<b>Beta - unlevered</b>
Bell Financial Group Limited	Australia	31.3	(159.5)	0.99	0.99
CMC Markets Plc	UK	464.4	(17.8)	1.23	1.18
E*TRADE Financial Corporation	US	14,502.0	1,211.0	1.45	1.27
Global Brokerage, Inc.	US	152.5	149.1	(0.22)	(0.00)
NEX Group plc	UK	2,577.5	320.0	0.04	0.04
Sequoia Financial Group Limited	Australia	29.0	(4.4)	3.80	3.67
Vertex Securities Limited	India	213.4	19.5	(0.96)	(0.74)
TD Ameritrade Holding Corporation	US	19,612.5	(9,857.0)	1.54	1.42
BGC Partners, Inc.	US	6,746.2	2,289.2	1.24	0.77
Investment Technology Group, Inc.	US	479.0	(147.1)	1.36	1.13
Average				1.05	0.97
Median				1.24	1.06
<b>Mid point</b>					<b>1.01</b>

*Source: Capital IQ and PKF Corporate analysis*

*Please note: the enterprise values and net debt figures included in the table above are disclosed in the reported currencies of the respective companies. This does not impact the calculation of Beta*

As can be seen from the above table, a number of the companies are partially debt funded. We have recalculated the betas on an unlevered basis and on this basis the average and median betas are reduced to 0.97 and 1.06 respectively. We have taken the mid-point of these betas being 1.01.

**7. Gearing**

The cost of debt and the cost of equity must be combined in the proportion in which these are expected to contribute to the funding of the business. This is commonly referred to as gearing. The gearing is determined based on the market value of debt and equity.

The gearing ratio should reflect an appropriate long term funding mix and not necessarily the mix currently used by the entity being valued.

The selection of an appropriate gearing ratio is subjective and the typical ratios differ between industries and within industries over time as market conditions change. For example, during the global economic crisis reduced market capitalisations resulted in significantly higher gearing of many companies.

We have assessed the gearing ratios using the same companies as in the assessment of beta, this is shown in the table below.

<b>Listed comparable companies - gearing</b>				
<b>Reported currency (millions)</b>	<b>Country listed in</b>	<b>Market capitalisation</b>	<b>Net debt / (cash)</b>	<b>Gearing</b>
Bell Financial Group Limited	Australia	190.8	(159.5)	(83.6%)
CMC Markets Plc	UK	482.3	(17.8)	(3.7%)
E*TRADE Financial Corporation	US	13,291.0	1,211.0	9.1%
Global Brokerage, Inc.	US	3.4	149.1	4334.0%
NEX Group plc	UK	2,257.5	320.0	14.2%
Sequoia Financial Group Limited	Australia	33.4	(4.4)	(13.2%)
Vertex Securities Limited	India	193.9	19.5	10.1%
TD Ameritrade Holding Corporation	US	29,469.5	(9,857.0)	(33.4%)
BGC Partners, Inc.	US	4,457.1	2,289.2	51.4%
Investment Technology Group, Inc.	US	626.2	(147.1)	(23.5%)
Average				(8.1%)
Median				2.7%
<b>Mid point</b>				<b>(2.7%)</b>

Source: Capital IQ and PKF Corporate analysis

Please note: the market capitalisations and net debt figures included in the table above are disclosed in the reported currencies of the respective companies, this does not impact the calculation of gearing.

The gearing figure shaded grey is considered to be an outlier, thus has been excluded from the calculation of the average, but has been used in calculating the median.

The table above shows that the gearing of the listed comparable companies varies greatly. The gearing has been calculated as net debt to the market value of equity. As some entities have a net cash position their gearing ratio has been calculated as a negative number. The average has been calculated to be (8.1%) (excluding the outlying result shaded grey) and the median at 2.7%, giving a mid-point of (2.7%), therefore indicating that the industry on average has a net cash position.

According to the financial reports and management accounts, TPP has a relatively small amount of debt, which is less than the cash it holds, thus has a net cash position.

Therefore, as the comparable listed companies on average, tend to have a low level of gearing (or a net cash position) and as TPP also has a net cash position, we consider it appropriate to assume that TPP will continue to trade without net debt. Based on this assumption, we have not assessed the debt components which would impact the calculation of WACC.

8. *Company Specific Risk*

The beta is based on the listed companies selected which are generally larger than TPP. Due to the size difference, a risk premium has been added to reflect this. In addition, TPP has a project which we understand is in the implementation stages, thus additional risk has been added to reflect this. We also note that for FY14 to FY17, TPP has tended to budget more optimistic results than ultimately achieved, this is also reflected here. Based on the above factors a risk premium of 3.0% – 3.5% has been applied.

9. *Conclusion*

The above inputs have been summarised in the table below.

<b>WACC summary</b>		
	<b>Low</b>	<b>High</b>
<b>Cost of equity</b>		
Risk-free rate of return	2.76%	2.76%
Beta	1.01	1.01
Market risk premium	5.04%	5.04%
Cost of equity - pre company risk	7.85%	7.85%
Company risk premium	3.00%	3.50%
<b>Cost of equity</b>	<b>10.85%</b>	<b>11.35%</b>
Cost of debt	n/a	n/a
Tax rate	27.5%	27.5%
<b>After tax cost of debt</b>	<b>n/a</b>	<b>n/a</b>
Equity	100%	100%
Debt	0%	0%
<b>WACC</b>	<b>10.85%</b>	<b>11.35%</b>

Source: PKF Corporate analysis

### Sources of Information

- BFG's annual consolidated financial statements for the years ended 31 December 2015, 2016 and 2017;
- TPP's audited financial statements for the years ended 31 December 2015, 2016 and 2017;
- TPP's management accounts for the years ended 31 December 2015, 2016 and 2017;
- Agreements between BFG and the other shareholders of TPP dated 11 April 2018;
- Information on [www.bellfg.com.au](http://www.bellfg.com.au);
- ASX releases by BFG;
- ASIC company extracts for TPP, BDH, BGH and Carstairs Pastoral Pty Ltd;
- Financial projections for TPP prepared by management of TPP;
- Research material from Capital IQ;
- Discussions with the Chief Operating Officer of BFG and the Chief Executive Officer of TPP; and
- Draft copy of the Notice of Meeting and Explanatory Memorandum.

## Declarations, Qualifications and Consents

### 1. Declarations

This report has been prepared at the request of the Independent Directors of BFG pursuant to Chapter 10 of ASX listing rules and Chapter 2E of the Act. 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 Proposed Transaction is fair and reasonable and to express an opinion as to the financial benefits to be received by Messrs Bell, Provan and Coleman.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

### 2. Qualifications

Mr Paul Lom, director of PKF Corporate prepared this report. He has been responsible for the preparation of expert reports and is involved in the provision of advice in respect of valuations, takeovers, capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 40 years' experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Steven Perri, a director of PKF Corporate reviewed this report. Mr Perri is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist).


### 3. Consent

PKF Corporate consents to the inclusion of this report in the form and context in which it is included in an ASX announcement or Notice of Meeting.

# BELL FINANCIAL GROUP

ABN 59 083 194 763

## Lodge your vote:

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BFG

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## Proxy Form

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### Vote and view the annual report online

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### Your access information that you will need to vote:

**Control Number: 999999**

**SRN/HIN: I9999999999 PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

 **For your vote to be effective it must be received by 11:00am (Melbourne time) Monday 28 May 2018**

### 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.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form** →

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 Bell Financial Group 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 Annual General Meeting of Bell Financial Group Limited to be held at Level 29, 101 Collins Street, Melbourne, Victoria on Wednesday 30 May 2018 at 11:00am (Melbourne time) and at any adjournment or postponement of that Meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Item 3 (except where I/we have indicated a different voting intention below) even though Item 3 is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Item 3 by marking the appropriate box in step 2 below.

### STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an 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
Item 2	Re-election of Director - Brian Wilson AO	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4	Acquisition of TPP shares from related parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

### SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

/ /

BFG

999999A

Computershare



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# BELL FINANCIAL GROUP

ABN 59 083 194 763

BFGRM

MR RETURN SAMPLE  
123 SAMPLE STREET  
SAMPLE SUBURB  
SAMPLETOWN VIC 3030

Dear Securityholder,

We have been trying to contact you in connection with your securityholding in Bell Financial Group Limited. Unfortunately, our correspondence has been returned to us marked "Unknown at the current address". For security reasons we have flagged this against your securityholding which will exclude you from future mailings, other than notices of meeting.

Please note if you have previously elected to receive a hard copy Annual Report (including the financial report, directors' report and auditor's report) the dispatch of that report to you has been suspended but will be resumed on receipt of instructions from you to do so.

We value you as a securityholder and request that you supply your current address so that we can keep you informed about our Company. Where the correspondence has been returned to us in error we request that you advise us of this so that we may correct our records.

You are requested to include the following;

- > Securityholder Reference Number (SRN);
- > ASX trading code;
- > Name of company in which security is held;
- > Old address; and
- > New address.

Please ensure that the notification is signed by all holders and forwarded to our Share Registry at:

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne Victoria 3001  
Australia

Note: If your holding is sponsored within the CHESS environment you need to advise your sponsoring participant (in most cases this would be your broker) of your change of address so that your records with CHESS are also updated.

Yours sincerely

**Bell Financial Group Limited**