Independent Expert's Report

Sydney, Friday 18 December 2020

Integrated Payment Technologies Ltd (ASX:**IP1**) (Company) lodged its Notice of Annual General Meeting yesterday including the attached Independent Expert's Report in relation to its proposed acquisition of Comply Path Holdings Pty Ltd (Comply Path) (Report).

In response to shareholder requests, the Company is relodging the Report as a separate document.

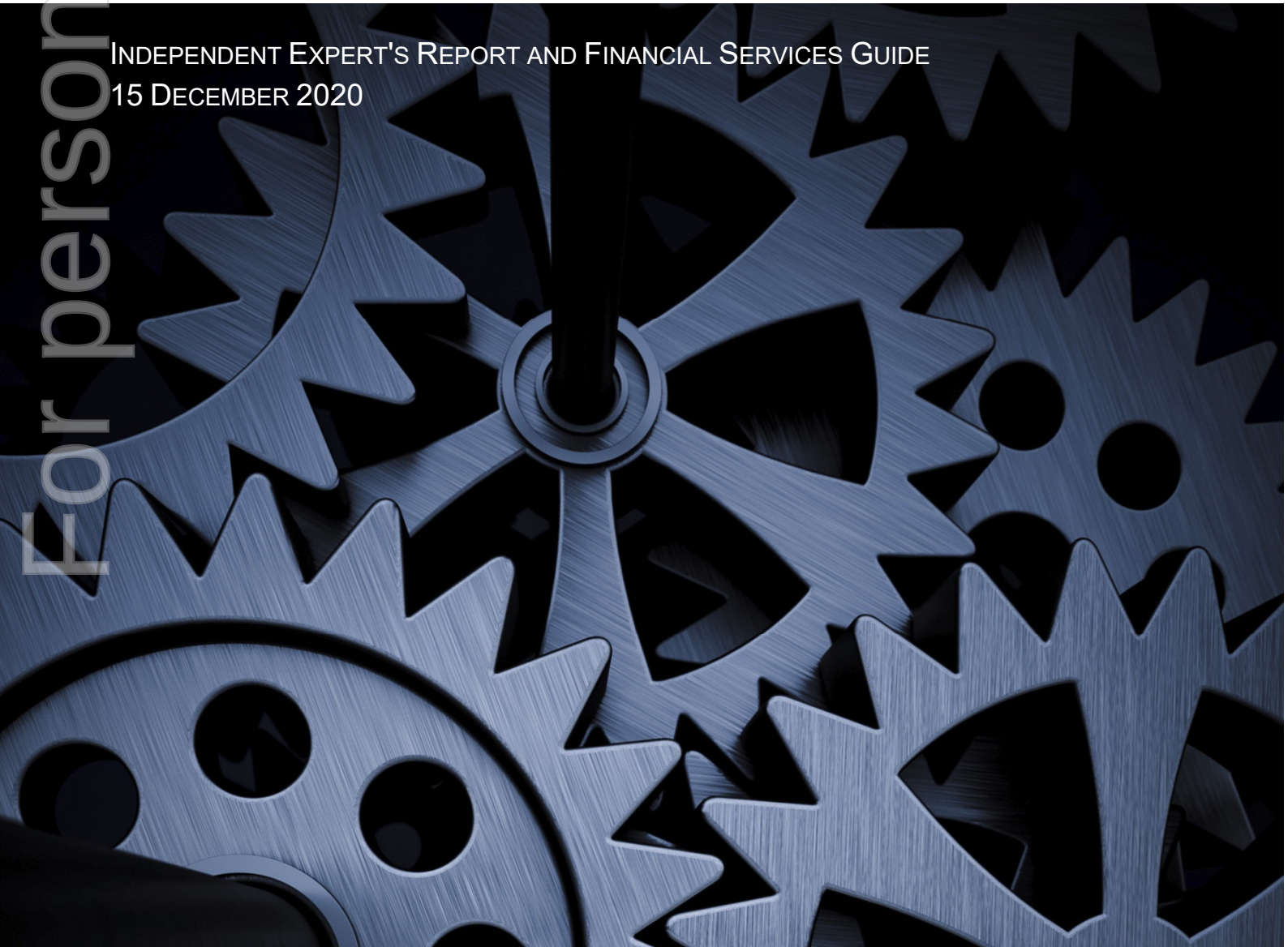
Authorised by:

Don Sharp
Executive Chairman
E: Don.Sharp@inpaytech.com.au
M: 0419 632 315

Now you know
LEADENHALL

INTEGRATED PAYMENT TECHNOLOGIES LTD

PROPOSED ACQUISITION OF COMPLY PATH HOLDINGS PTY LTD



INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE
15 DECEMBER 2020

15 December 2020

The Directors
Integrated Payment Technologies Ltd
c/- Don Sharp – Chairman
Suite 1, Level 5, 28 Margaret Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report for Integrated Payment Technologies Ltd

1. Introduction

Integrated Payment Technologies Ltd ("**InPayTech**") is listed on the ASX and operates as a superannuation clearing house service provider for employers and payroll providers in Australia. It also offers services that facilitate the payment and communication of data between the payer and payee as well as integrating with cloud-based accounting software.

InPayTech has recently acquired Tips Go Pty Ltd ("**TipsGo**") which owns an 'Open Banking' and 'Marketplace' platform that can be leveraged for building a range of digital employee and member engagement products. Following the acquisition, TipsGo is due to be rebranded under the ClickVu name.

Comply Path Holdings Pty Ltd ("**Comply Path**") is a privately-owned Australian company that, together with its subsidiaries, offers regulatory compliance technology solutions. Comply Path has a proprietary regulatory technology platform, Bond, which was acquired by PwC Digital Consulting in 2013. In July 2020, PwC Australia divested Comply Path to Mr Trent Lund and Mr Joe Brasacchio for an undisclosed amount.

On 17 November 2020, InPayTech and Comply Path entered into the Merger Agreement whereby InPayTech agreed to acquire 100% of the shares in Comply Path for a total consideration of 573.3 million shares in InPayTech, equivalent to a 50% interest in InPayTech ("**Proposed Transaction**"). Half of these shares will be held in voluntary escrow for 12 months, with the remaining half held in voluntary escrow for 24 months. We have defined the combined InPayTech and Comply Path after the Proposed Transaction as the ("**Proposed Merged Entity**").

Further details of the Proposed Transaction are set out in Section 1 of our detailed report.

2. Purpose of the report

If the Proposed Transaction is approved, Mr Trent Lund, Mr Joe Brasacchio and Clinton Capital Partners (collectively the "**vendors of Comply Path**") will acquire a 50% interest in InPayTech. An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited, except in certain circumstances. One of the exceptions is if the acquisition is approved at a general meeting of the target company. The approval of the Proposed Transaction is therefore being sought at a general meeting of InPayTech's shareholders ("**Shareholders**").

In order to assist Shareholders evaluate the Proposed Transaction, the directors of InPayTech have engaged Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report ("**IER**") assessing whether the Proposed Transaction is fair and reasonable. This report is to be included in the notice of meeting that will be sent to Shareholders regarding the Proposed Transaction.

Further information regarding our scope and purpose is set out in Section 2 of our detailed report.

3. Basis of evaluation

In order to assess whether the Proposed Transaction is fair and reasonable we have:

- Assessed it as fair if the value of a share in the Proposed Merged Entity is greater than or equal to the value of an InPayTech share before the Proposed Transaction.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of our detailed report.

4. The Proposed Transaction is not fair

Assessed value of InPayTech before the Proposed Transaction

We have assessed the fair market value of an InPayTech share (on a control basis) using the discounted cash flow method. Our valuation is summarised in the following table:

Table 1: Assessed value of an InPayTech share before the Proposed Transaction

Equity value (control basis) ($'000)		
	Low	High
Enterprise value	**12,251**	**14,747**
Surplus assets	1,730	1,845
Surplus cash	1,575	1,575
Equity value	**15,556**	**18,167**
Allocation to options	(117)	(162)
Value allocated to ordinary shares	**15,439**	**18,005**
Ordinary shares on issue ('000)	573,260	573,260
Assessed value per ordinary share on a control basis ($)	**0.027**	**0.031**

Source: Leadenhall analysis

The enterprise value is based on a cash flow model prepared by InPayTech management (which does not include any revenue or expense projections for TipsGo). We reviewed the assumptions for reasonableness and have adjusted certain assumptions to provide what we consider to be reasonable cash flow projections. We applied a discount rate of between 14.0% and 16.0% to the projected cash flows to obtain the enterprise value.

We undertook a sensitivity analysis to highlight which assumptions had the greatest impact on the valuation conclusion. The value is most sensitive to the revenue growth assumption for InPayTech's core product ClickSuper. We have compared the components of ClickSuper revenue to their respective historical averages and held discussions with InPayTech management to understand the drivers of and expectations for revenue growth. Based on this analysis, we consider these assumptions to be reasonable.

Any alternative reasonable set of forecast assumptions would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

Further details of our valuation of InPayTech before the Proposed Transaction are provided in Section 8 of our detailed report.

Assessed value of the Proposed Merged Entity

Our assessment of the value of a share in the Proposed Merged Entity (on a minority basis) was also based on the discounted cash flow method. Our valuation is summarised in the following table:

Table 2: Assessed value of a share in the Proposed Merged Entity

Equity value (minority basis) ($'000)		
	Low	**High**
Calculated enterprise value on a control basis	**32,206**	**39,491**
Surplus assets	2,128	2,225
Non-operating liabilities	(400)	(400)
Surplus cash	1,725	1,725
Assessed equity value on a control basis	**35,659**	**43,041**
Discount for lack of control (25%)	(8,915)	(10,760)
Equity value on a liquid minority basis	**26,744**	**32,280**
Allocation to options	(84)	(127)
Value allocated to ordinary shares	**26,660**	**32,153**
Ordinary shares on issue ('000)	1,146,521	1,146,521
Assessed value per ordinary share on a minority basis ($)	**0.023**	**0.028**

Source: Leadenhall analysis

The enterprise value is based on aggregated cash flow projections that include InPayTech (as described in Section 8.3), Comply Path and the expected synergies from the Proposed Transaction. The cash flow projections of Comply Path were prepared by Comply Path management and reviewed by InPayTech management. We reviewed the assumptions for reasonableness and have adjusted certain assumptions to provide what we consider to be reasonable cash flow projections. We applied a discount rate of between 13.0% and 15.0% to the projected cash flows to obtain the enterprise value.

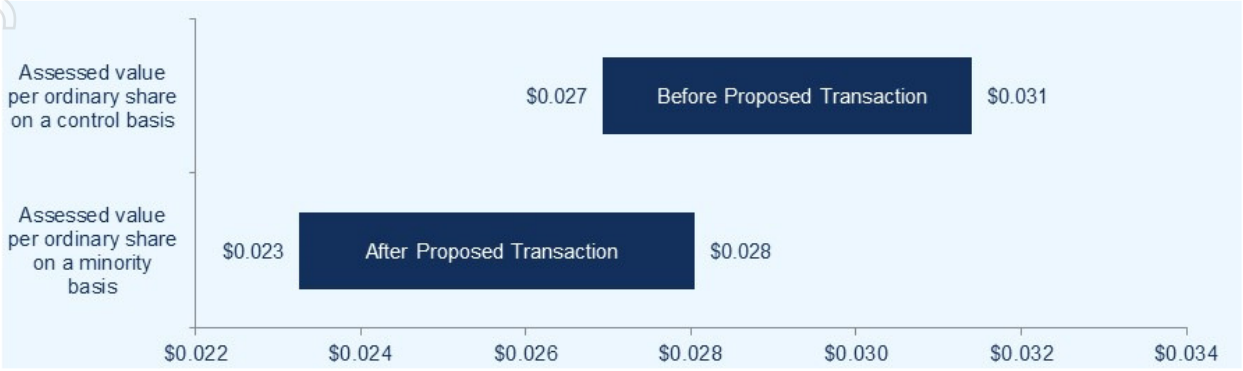
A discount for lack of control ("**DLOC**") is applied to reflect that market trading in the shares of the Proposed Merged Entity would be on a non-controlling basis.

Further details of our valuation of the Proposed Merged Entity are provided in Section 9 of our detailed report.

Conclusion on fairness

The following figure shows a comparison of our assessed value of an InPayTech share before the Proposed Transaction and our assessed value of a share in the Proposed Merged Entity:

Figure 1: Assessment of fairness



Source: InPayTech and Leadenhall analysis

Our assessed value range of a share in the Proposed Merged Entity (on a minority basis) partially overlaps our assessed value range of an InPayTech share before the Proposed Transaction (on a control basis). Given the assets have been valued on the same basis, we consider it appropriate to compare the upper end of the value range of a share in the Proposed Merged Entity with the upper end of the value range of an InPayTech share (and vice versa). We have therefore assessed the Proposed Transaction as being not fair.

5. The Proposed Transaction is reasonable

In accordance with ASIC guidelines, we have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

Advantages

The main advantages of the Proposed Transaction are:

- **Increased value on a minority basis**: While the Proposed Transaction does not generate a full control premium for Shareholders, based on our analysis it will lead to an increased value per share on a minority basis. Specifically, if we apply our selected discount for lack of control to the pre-transaction value of an InPayTech share it would be in the range of between 2.0 cents and 2.4 cents. At the mid-point, this is 0.4 cents below the assessed value after the Proposed Transaction.
- **Accelerates the development of ClickVu and associated cost savings**: The Proposed Transaction accelerates the development and rollout of InPayTech's ClickVu product which is expected to help generate an increase in ClickSuper transactions and attract new customers. In addition, leveraging on the already developed Bond platform of Comply Path reduces development costs to be incurred by InPayTech of approximately $1.0 million over the next twelve months.
- **Potential synergies**: Our valuation of the Proposed Merged Entity does not allow for the expected revenue synergies from cross-selling opportunities to the existing clients of both InPayTech and Comply Path. If these revenue synergies are achieved, that may represent upside to Shareholders relative to our assessed value.
- **Growth potential**: Comply Path has a number of new clients in the pipeline which have not been fully included in the valuation of the Proposed Merged Entity. Therefore, if the Proposed Transaction is completed, Shareholders will be exposed to a company with significant growth expectations, which may in time lead to share price appreciation.

- **Scale and liquidity**: If the Proposed Transaction is completed, Shareholders will hold shares in the Proposed Merged Entity which has the potential to be a significantly larger business than InPayTech standalone. This should lead to increased liquidity in InPayTech shares as well as a potential market re-rating. This additional scale may also make the enlarged group a more attractive takeover target, thereby increasing the probability that Shareholders will realise a full control premium at some point in the future.
- **Potential to realise an optimal capital structure**: InPayTech currently operates on a less than optimal capital structure due to the lack of asset backing and ongoing losses limiting access to debt capital. The Proposed Merged Entity is expected to generate significantly greater profits in the medium term than the standalone business which may allow the use of additional leverage to realise an optimal capital structure.
- **Complementary activities**: As InPayTech and Comply Path operate in similar parts of the RegTech industry in Australia, the Proposed Transaction would not only provide an opportunity for both businesses to consolidate but may reduce competition in some areas.

Disadvantages

The main disadvantages of the Proposed Transaction are:

- **Loss of control**: If the Proposed Transaction is approved, the vendors of Comply Path would acquire practical control of InPayTech with a combined holding of 50%. This would include the ability to control the assets, the strategic direction of the company, and the decision of when to pay dividends. The vendors of Comply Path may not always act in the best interests of Shareholders, subject to compliance with relevant laws and regulations. This limits the ability to consider a takeover offer without the support of the vendors of Comply Path (to the extent they are aligned) which may reduce the potential for Shareholders to receive a control premium in the future.
- **Risks of achieving revenue growth and synergies**: Our assessed value of the Proposed Merged Entity includes significant revenue growth projections and synergies. There is a risk that these expectations will not be realised (or fully valued by the market), in which case the value of the Proposed Merged Entity may decline or fail to trade at levels implied by our assessed value. However, InPayTech on a standalone basis faces similar risks.
- **Comply Path's financial statements are unaudited**: Comply Path has not had its financial statements audited. Despite the commission of extensive due diligence on Comply Path there is an increased risk of material error in its financial statements than if it was audited.
- **Potential non-renewal of contracts for Comply Path**: Our assessed value of the Proposed Merged Entity includes expectations that Comply Path's sales contracts will be renewed, or if not, there are adequate alternative revenue sources which can replace the loss of contracted revenue. There is a risk of both scenarios failing to materialise, in which case, the value of the Proposed Merged Entity may decline or fail to trade at levels implied by our assessed value.
- **Shareholders will receive a smaller share of the upside than Vendors**: While there is a significant increase in the enterprise value if the Proposed Transaction proceeds (due largely to expected synergies), Shareholders are receiving a smaller share of this upside than the vendors of Comply Path.

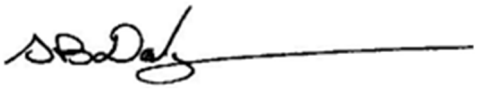
Conclusion on reasonableness

In considering the reasonableness of the Proposed Transaction, we consider the advantages outweigh the disadvantages, in particular the increased value on a minority basis. In the absence of a higher value alternative, we have therefore assessed the Proposed Transaction as being reasonable.

6. Opinion

In our opinion, the Proposed Transaction is not fair but reasonable to Shareholders. This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully



Richard Norris
Director

Simon Dalgarno
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.
Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that We May Receive

We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $60,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Australian Financial Complaints Authority ("**AFCA**"). The AFCA will then be able to advise you as to whether or not they can assist in this matter. The AFCA can be contacted at the following address:

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

Website: www.afca.org.au
Email: info@afca.org.au
Telephone: 1800 931 678 (free call)

Leadenhall's AFCA membership number is 12224

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

15 December 2020

CONTENTS

1 THE PROPOSED TRANSACTION

1.1 Acquisition of Comply Path

InPayTech is listed on the ASX and operates as a superannuation clearing house service provider for employers and payroll providers in Australia. In addition, InPayTech has a service offering that facilitates the payment and communication of data between the payer and payee, integrated with cloud-based accounting software. Further details of InPayTech's operations are provided in Section 4 of this report.

Comply Path is a privately-owned Australian company that offers regulatory compliance technology solutions. Comply Path has a proprietary regulatory technology platform, Bond, which was originally developed at Intunity Pty Ltd and was then acquired by PwC Digital Consulting in 2013. In 2018, Bond was subsequently established as a platform venture in PwC Australia to improve the engagement between its employees, superannuation funds and the tax office. In July 2020, PwC Australia divested Comply Path to Mr Trent Lund and Mr Joe Brasacchio for an undisclosed amount. Further details of Comply Path's business are provided in Section 5 of this report.

On 17 November 2020, InPayTech and Comply Path entered into the Merger Agreement whereby InPayTech agreed to acquire 100% of the shares in Comply Path for a total consideration of 573.3 million InPayTech shares, equivalent to 50% of the shares that will be on issue after the Proposed Transaction. The vendors of Comply Path have agreed to place half of the consideration shares in voluntary escrow for 12 months, with the remaining half held in voluntary escrow for 24 months.

1.2 Board and Management

If the Proposed Transaction is approved, Mr Joe Brasacchio, the Chief Executive Officer of Comply Path, will be appointed the Chief Technology Officer of InPayTech. The Board of the Proposed Merged Entity is expected to be comprised of two nominees from Comply Path and two nominees from InPayTech, with an Independent Non-executive Chairperson to be mutually agreed and appointed within six months of the Proposed Transaction being approved by Shareholders.

1.3 Conditions

The Proposed Transaction is subject to a number of conditions including:

- Approval by InPayTech shareholders
- Comply Path providing InPayTech a voluntary escrow deed in respect of the consideration shares.

2 SCOPE

2.1 Purpose of the report

If the Proposed Transaction is approved, the vendors of Comply Path will acquire a 50% interest in InPayTech. An acquisition of securities that enables a shareholder to increase its relevant interests in a listed company from below 20% to above 20% is prohibited under Section 606 of the Corporations Act 2001 ("**s606**"), except in certain circumstances.

One of the exceptions to s606 is where the acquisition is approved at a general meeting of the target company (in this case, InPayTech) in accordance with item 7 ("**Item 7**") of Section 611 of the Corporations Act 2001 ("**s611**"). Approval for the Proposed Transaction is therefore being sought at a general meeting of InPayTech's shareholders in accordance with Item 7.

Item 7 requires shareholders to be provided with all of the information known to the company and to the potential acquirer that is material to the shareholders' decision. *Regulatory Guide 74: Acquisitions Approved by Members* ("**RG74**") issued by the Australian Securities and Investment Commission ("**ASIC**") provides additional guidance on the information to be provided to shareholders. RG74 states that the directors of the target company should provide shareholders with an independent expert's report or a detailed directors' report in relation to transactions to be approved under Item 7. *Regulatory Guide 111: Content of Expert Reports* ("**RG111**") issued by ASIC requires an independent expert assessing a transaction that has a similar effect to a takeover bid to assess whether the transaction is fair and reasonable.

The directors of InPayTech have therefore requested Leadenhall to prepare an independent expert's report assessing whether the Proposed Transaction is fair and reasonable to Shareholders. This report has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction.

2.2 Basis of evaluation

Introduction

RG111.25 requires an independent expert to evaluate an issue of securities under s611 that has a similar effect to a takeover offer as if it was a takeover offer. As the vendors of Comply Path will collectively hold a 50% stake in InPayTech should the Proposed Transaction be approved, we have assessed the Proposed Transaction as a control transaction. RG111 requires a separate assessment of whether a control transaction under s611 is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately. The basis of assessment selected and the reasons for that basis are discussed below.

Fairness

RG111.11 defines a takeover offer as being fair if the value of the consideration is equal to, or greater than, the value of the securities subject to the offer. Accordingly, we have assessed whether the Proposed Transaction is fair by comparing the value of an InPayTech share before the Proposed Transaction with the consideration offered to Shareholders. As Shareholders would retain their InPayTech shares if the Proposed Transaction proceeds (as opposed to exchanging them for cash or the acquirer's scrip as in a takeover offer) the effective consideration is the continued ownership of an InPayTech share, which will become a share in the Proposed Merged Entity.

The value of an InPayTech share before the Proposed Transaction has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

After the Proposed Transaction, an InPayTech share will effectively be a share in the Proposed Merged Entity (i.e. InPayTech and Comply Path combined). This has been assessed on a minority interest basis (i.e. excluding a control premium) as Shareholders would own a minority stake in the Proposed Merged Entity should the Proposed Transaction occur.

We have assessed the values of an InPayTech share and a share in the Proposed Merged Entity at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

While there is no explicit definition of value in RG111, this definition of fair market value is consistent with basis of value described at RG111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuations of InPayTech and the Proposed Merged Entity do not include any special value.

Reasonableness

In accordance with RG111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered whether the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.13:

- The size of existing shareholding blocks in InPayTech
- The liquidity of the market in InPayTech's shares
- Any special value of InPayTech to the vendors of Comply Path
- The likely market price of InPayTech shares if the Proposed Transaction is rejected
- The value of InPayTech to an alternative bidder and the likelihood of an alternative offer.

We have also considered other significant advantages and disadvantages to Shareholders of the Proposed Transaction.

2.3 Individual Circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the Proposed Transaction on their specific financial circumstances.

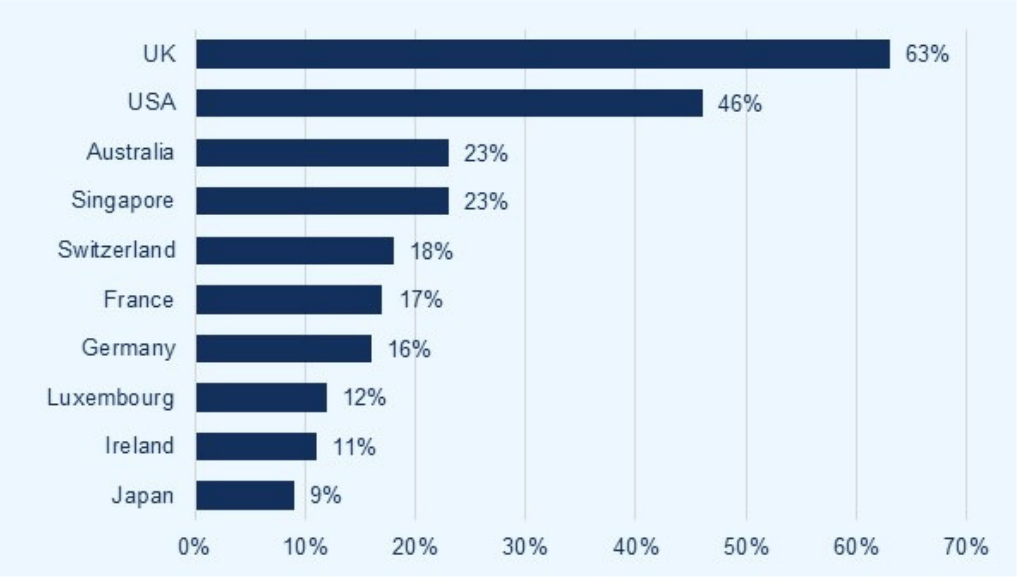
3 INDUSTRY ANALYSIS

3.1 Overview of the RegTech Industry

InPayTech and Comply Path are both in the regulatory technology ("**RegTech**") industry. RegTech is sector agnostic and relates to the use of new technology in regulatory monitoring, reporting and compliance. RegTech companies typically use a software-as-a-service ("**SaaS**") model to help businesses comply with regulations in an efficient and cost-effective manner.

According to the Global RegTech Industry Benchmark Report 2019 prepared by the Cambridge Centre for Alternative Finance ("**CCAF**"), the global RegTech industry is estimated to have employed 44,000 people and generated USD 4.9 billion in revenue annually in 2018. It is a highly globalised industry with fewer than a third of RegTech vendors active in just a single market based on a survey of over a hundred RegTech firms. Approximately two-thirds of the RegTech vendors have a physical presence in the United Kingdom and nearly half in the United States. The breakdown of the top 10 RegTech markets is as follows:

Figure 2: Top 10 RegTech markets



Source: The Global RegTech Industry Benchmark Report 2019 prepared by CCAF
Note: By percentage of firms active in the market

3.2 Market Segments

The main uses of RegTech solutions can be divided into five segments as below:

Table 3: RegTech market segments

Segment	Activity of vendors in the segment	Percentage of firms by activity volume	Percentage of firms by funds raised
Profiling and due diligence	Collect or integrate data from multiple sources to build a profile of a person, entity or counterparty, confirm their identity, or categorise them according to regulatory requirements or business rules.	21%	31%
Reporting and dashboards	Collect information from multiple sources within a firm in order to build standardised reports for management or compliance purposes.	25%	6%
Risk analytics	Use big data to assess the risk of fraud, market abuse or other misconduct at the transaction level.	20%	14%
Dynamic compliance	Facilitate and monitor regulatory change, ensuring that policies and controls adapt flexibly to changing requirements.	18%	41%
Market monitoring	Match market-level adverse outcomes to regulatory or business rules, including poor product performance, adverse market conditions or market manipulation, by sourcing data from diverse external sources.	16%	8%

Source: CCAF Global RegTech Survey

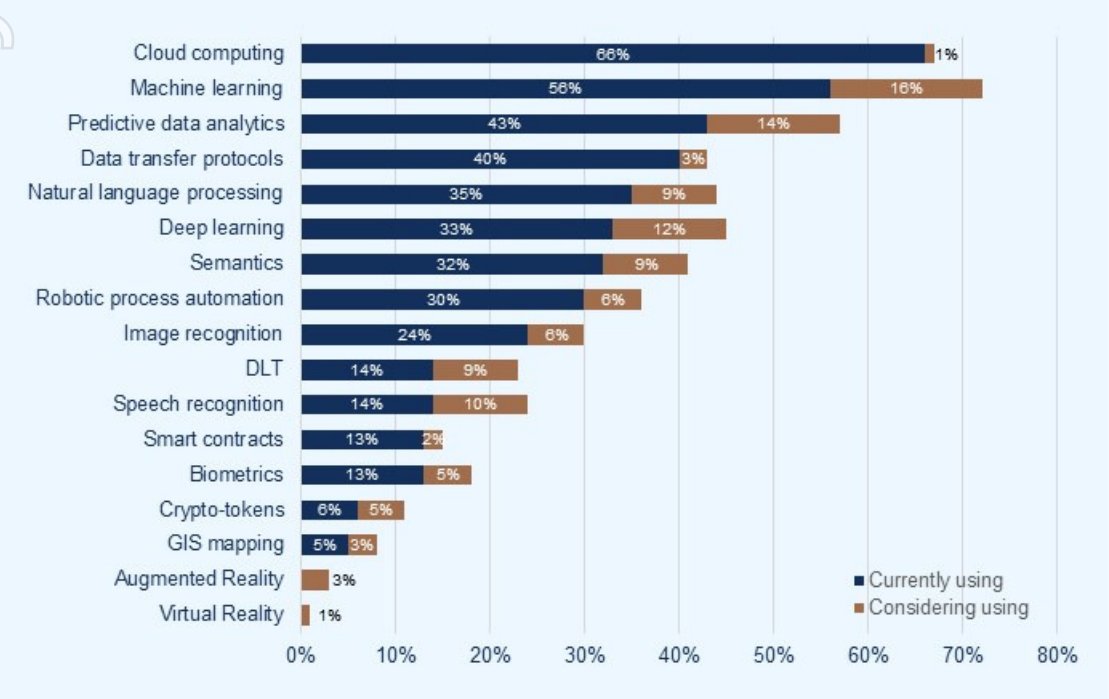
The bulk of investor funds flowing into the RegTech industry are attracted to activities associated with profiling and due diligence (31%) and dynamic compliance applications (41%). Both segments benefit from stringent regulatory requirements around anti-money laundering or data protection which have significant non-compliance costs hence leading to an increased demand for compliance technology.

The financial services sector, in particular banks and insurers, dominates demand for RegTech solutions with currently between 89% and 94% of the surveyed vendors offering solutions tailored to the needs of the banking sector. However, the focus of RegTech firms is gradually expanding towards non-financial services industries (i.e. real estate, software, governments, and utilities). Product offerings targeted at the non-financial services industries use a significantly wider range of technologies than that of the financial services sector, with emphasis on image recognition, deep learning, privacy and data protection.

3.3 Available Technologies

The common tools and technologies involved in RegTech solutions include:

Figure 3: Technologies and tools commonly used by RegTech firms



Source: CCAF Global RegTech Survey

Delivery of over-the-cloud services is common across the RegTech industry with over two-thirds of the firms offering SaaS solutions. The less common technologies and tools used are smart contracts and biometrics (i.e. voice and image recognition) while spatial mapping is still at an early stage of adoption. It is expected that the usage of machine learning and data analytics will increase significantly in the near term.

3.4 Opportunities and Challenges

RegTech services a wide variety of industries from government organisations to financial institutions and retail. With this level of outreach, RegTech has the ability to:

- **Restore trust and bring financial resilience**: RegTech enables corporations to automatically monitor and respond to changing regulation hence allowing them to become more flexible and customer centric. In addition, RegTech enables regulators to keep up with the growing threat of financial crime, systemic risks, financial and non-financial risks and in monitoring corporate activities. Therefore, consumers and governments benefit from the increased financial resilience and meeting their expectations for trust.
- **Bring widespread economic benefits**: RegTech supports the transformation of all regulated industries through a facilitation of transparency, productivity and in reducing compliance-related costs. Accordingly, this allows corporations to invest in growing their business, creating more jobs and developing new products and markets.
- **Underpin a significant export opportunity for Australia**: The RegTech Association believes there is a significant opportunity for economic growth driven by the high export potential of RegTech. The abundant and diverse RegTech sector in Australia has been nurtured by Australia's strong regulatory track record and consistent efforts in RegTech product development and innovation. Therefore, Australia can capitalise on its strategic advantage to act as a pivot for the evolution of global regulation.

Key challenges facing the RegTech industry include:

- **Lack of capital and cash flow**: RegTech is currently inhibited by a subdued investment capital environment and a long sales cycle of an average of approximately 14 months (and in some cases, depending on the complexity of the technology deployment, can reach up to two years). The RegTech Association conducted research which found that the bulk of RegTech founder-led members are self-funded with minimal investments from venture capitalists. It is understood that venture capitalists prefer speedier returns and RegTech by its nature requires a more patient style of investment. In contrast, as reported by Accenture that in 2019, Financial Technology ("**FinTech**") companies in Australia raised $400 million in six months.
- **Focus on remediation rather than transformation**: The commitment in financial services to prioritise remediation over transformation stifles RegTech's potential. There has been a focus within the financial services industry on addressing past issues as opposed to reimagining the way businesses can be transformed. This notion was alluded to by the Australian Banking Association which has conceded capacity constraints as a result of remediation work associated with the Banking Royal Commission.

3.5 Outlook

According to Juniper Research, global RegTech spending is forecast to exceed USD 127 billion by 2024 driven by a significant increase in the automation of resource-intensive tasks, e.g. know-your-customer ("**KYC**") checks and the use of artificial intelligence in transaction monitoring. Cost savings for KYC checks in the banking and real estate sectors globally are likely to reach USD 1 billion by 2024. In addition, considerable opportunities for RegTech will arise from the Western Europe region, with potentially divergent and complex regulatory rules mandated by the United Kingdom and the European Union following Brexit.

In Australia, the impact of the COVID-19 pandemic had raised concerns on the vulnerability and survivability of many RegTech businesses, in particular start-ups which are still operating pre-revenue. Consequently, the economic fall-out associated with the pandemic has led to a significant contraction in workforce within the sector in Australia. Furthermore, The RegTech Association highlighted that 40% of its members surveyed in July 2020 indicated a retraction in trials with some reporting cancellation of their entire forward sales pipeline. This therefore presents near-term challenges for policymakers and the private sector on ensuring the RegTech sector can survive through the crisis. The Australian Government has responded with actions taken to reduce the economic impact of the pandemic, with many RegTech companies eligible for government funding through JobKeeper, the Structured Finance Support Fund and the Coronavirus SME Guarantee Scheme.

4 PROFILE OF INPAYTECH

4.1 Background

InPayTech is an ASX-listed company with a market capitalisation of approximately $20 million as at 17 November 2020. InPayTech provides superannuation clearing house services for employers and payroll providers in Australia. It also offers services that facilitate the payment and communication of data between the payer and payee, integrated with cloud-based accounting software.

In July 2016, InPayTech was established to acquire the business and assets of Payment Adviser Group, consisting of Click Super Pty Ltd ("**ClickSuper**") and Payment Adviser Pty Ltd ("**Payment Adviser**"). Payment Adviser Group is an Australian company which launched a proprietary service in 2008 that simplifies the way data and payments are issued and processed by linking transaction data to an electronic banking payment. Patents over this service have been granted in the United States, Japan, China, Hong Kong, Singapore, New Zealand and South Africa and are pending in Canada and Australia. The Australian patent has been approved and is expected to be granted by the end of calendar year 2020.

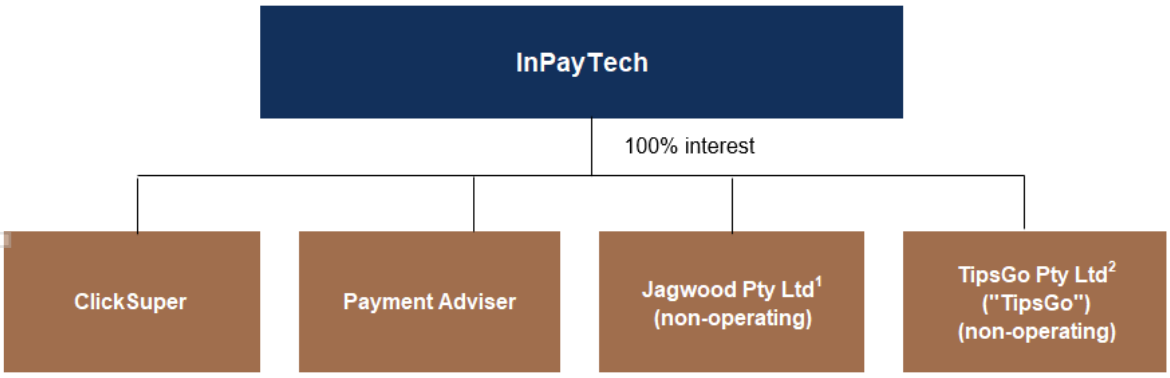
In May 2009, the Minister for Superannuation and Corporate Law announced the Super Review into the governance, efficiency, structure and operation of Australia's superannuation system, known as the Cooper Review. The review was initiated in recognition of the potential scale of the superannuation system which would present significant administrative and other associated costs for superannuation administrators at a time when the back offices of administrators were dominated by manual transactions. A package of measures called SuperStream was recommended as an outcome of the Cooper Review and called for the use of technology to automate all elements of the superannuation transaction process and workflow.

In response to the release of the Cooper Review, Payment Adviser Group launched the ClickSuper service in 2010. The service leverages on the patented Payment Adviser service, with a focus on the payment of superannuation contributions and transmission of data concerning the contributions. ClickSuper now processes superannuation contributions and Single Touch Payroll ("**STP**") reports on behalf of more than 45,000 employers throughout Australia.

4.2 Corporate Structure

The existing corporate structure of InPayTech is set out as follows:

Figure 4: InPayTech corporate structure



Source: InPayTech
Notes:
1. Jagwood Pty Ltd owns the patents and makes the underlying intellectual property available to Payment Adviser.
2. TipsGo was recently acquired by InPayTech in October 2020 for a total consideration comprising of a $30,000 cash, 30 million ordinary shares in InPayTech to the vendors of TipsGo and 3 million ordinary shares in InPayTech to a third party associated with TipsGo for the assignment of intellectual property rights to TipsGo.

4.3 Overview of Operations

InPayTech operates only in Australia and is managed as one operating segment primarily through ClickSuper and to a much lesser extent, Payment Adviser. At present, ClickSuper generates 99% of InPayTech's total revenue. Further information of the respective product lines is provided below.

ClickSuper

ClickSuper provides a complete, turnkey solution to SuperStream and STP compliance for superannuation funds, payroll, accounting and enterprise resource planning software providers. ClickSuper simplifies employer-to-fund processing and fund-to-fund processing, with auto-reconciliation and customisable validation hence providing customers an efficient and fully automated online system. ClickSuper utilises the patented Payment Adviser service, with the technology embedded in many payroll providers' systems and used by their employer clients. Data is securely stored in high security data centres operated by third-party providers. Benefits of using the ClickSuper service include:

- An easy application process with the ability to start using ClickSuper on the same day. Once activated, employee superannuation records can be validated against ClickSuper's database.
- Integration with Australia's top payroll providers hence all workflow is driven from a centralised location.
- Automatic deduction of employee contributions from the registered accounts and remission of the funds and accompanying employee remittance advice to the nominated recipients.
- Addresses current and future compliance needs as ClickSuper is a signatory to the Superannuation Data and Gateway Service Standards.

ClickSuper generates almost all of InPayTech's income from the following sources:

- **Facility fees**: Clients are typically charged a monthly fee for each employee the employer is paying superannuation contributions on behalf of.
- **Transaction fees**: Transaction fees are charged on a per employee basis with the amount payable being calculated by reference to the number of transactions for each employee.
- **Float income**: While the funds are held in the ClickSuper trust account awaiting clearance (which is typically three days before they are paid to the specified superannuation fund), interest (called 'float income') is earned on the cash rate less a margin charged by the bank.
- **Return fees**: ClickSuper payments to superannuation funds can be returned if the employee does not have an account with the superannuation fund. ClickSuper charges an additional fee for returning the funds to the employer.

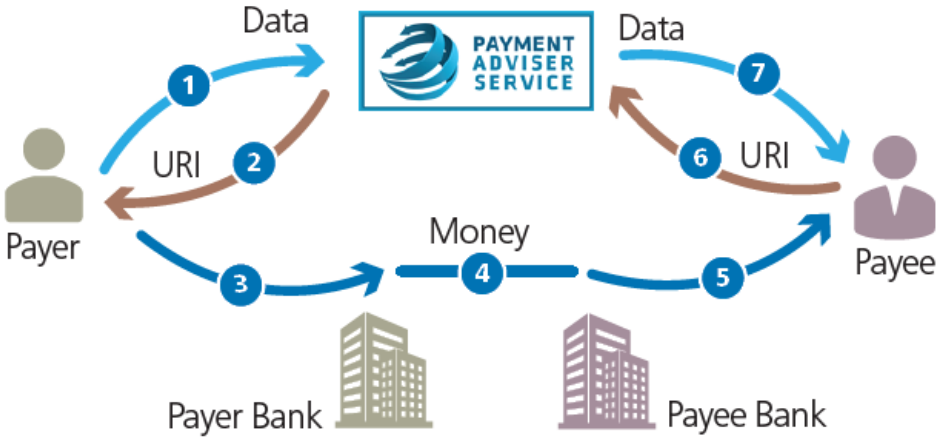
Customers of ClickSuper are small and medium-sized enterprises, Federal and State governments and payroll solutions providers such as Payroll Metrics Pty Ltd, Ceridian Australia Pty Ltd and ReadyTech Holdings Ltd.

In the near term, InPayTech is expected to reposition ClickSuper from a commoditised compliance payment solutions provider to a digital platform provider with the ClickVu service that is currently under development. ClickVu uses payment and employment data and provides a platform to help facilitate regular and ongoing engagement between employers, employees and their superannuation funds. For example, when a member changes employer, the superannuation fund would be notified of the change via ClickVu. Subsequently, the superannuation fund could use current information to guide members during the transition phase or any resulting changes, i.e. insurance cover requirements. In addition, ClickVu enables members to receive targeted and specific financial advice as part of raising the financial literacy of the Australian population.

Payment Adviser

Payment Adviser was established to commercialise the patented Payment Adviser service, marketing to businesses and government sectors. Payment Adviser currently generates income from providing consulting services to external organisations that use the patented Payment Adviser service. The diagram below illustrates the operational steps of this patented service:

Figure 5: Process of the patented service



Source: InPayTech
Notes:
1. Payer uploads extended remittance data to Payment Adviser Service.
2. Payment Adviser Service returns the unique 16 character payment reference to the payer.
3. Payer makes a payment to the payee with the unique 16 character payment reference.
4. Payment clears through the banking system.
5. Payee bank adds a credit to the bank account.
6. Payee gets the payment reference from the bank statement and enters the unique 16 character payment reference into a browser.
7. Payment Adviser Service verifies the payee and downloads the extended remittance data.

PayVu

PayVu is a service focusing on the automated payment of invoices that was internally developed and launched in July 2020. PayVu provides bookkeepers and accountants a complete and scalable business payment solution, eliminating low-value contact between stakeholders in payment process such that business owners can easily approve and reject recommended payments on their smart phones. PayVu uses the patented Payment Adviser service to process payments for customers. The system is capable of integrating with a wide range of cloud-based accounting systems.

Over the past twelve months, PayVu completed its major development phase upon finalising an accounts payable integration agreement with Xero. The integration enhances the speed and reliability of PayVu's existing functions in delivering its accounts payable solutions to customers at reduced development costs.

TipsGo

TipsGo owns an 'Open Banking' and 'Marketplace' platforms that can be leveraged for building a range of digital employee and member engagement products. Open Banking gives consumers the ability to share banking data with third parties (such as other banks and financial institutions) which have been accredited by the Australian Competition and Consumer Commission.

TipsGo Marketplace platform allows providers (i.e. banks, superannuation funds and employers) to combine both banking and non-banking services that help consumers with their overall lifestyle needs. An example of a non-banking service using the TipsGo Marketplace platform includes providing cashflow and payroll management services to small and medium businesses on a mobile application, combining it with business loans that allow consumers to access finance when necessary.

Although TipsGo is currently a non-operating business, InPayTech management believes the intellectual property held by TipsGo is complementary to InPayTech's growth strategy. The integration of TipsGo's application programming interfaces ("**APIs**") with payroll data from ClickSuper's integrated payroll network is expected to help accelerate the development of ClickVu. Following the acquisition, TipsGo is due to be rebranded under the ClickVu name.

4.4 Competitive Position

The table below sets out the strengths, weaknesses, opportunities and threats analysis for InPayTech:

Strengths	Weaknesses
♦ Experienced management and board with industry-specific knowledge, in particular on superannuation technologies. ♦ Strong focus on innovation leading to the creation of a number of proprietary software systems that address market needs. ♦ Established brand in ClickSuper since 2010.	♦ Loss-making position limits access to capital and results in a heavy reliance on shareholders for funds. Therefore, growth may be inhibited if major shareholders withdraw support. ♦ ClickSuper's solution is not as well developed as some of its larger competitors' solutions for large enterprise customers. ♦ PayVu currently has no in-app support for failed and incomplete payments.
Opportunities	**Threats**
♦ InPayTech has recently developed a new product platform, ClickVu, which is complementary to the existing services of ClickSuper. Therefore, there are opportunities for cross-selling and in attracting new customers and superannuation funds. A proof of concept is currently being developed with two large cloud-based payroll services. ♦ The recent acquisition of TipsGo and subsequent integration of its APIs help accelerate the development of ClickVu.	♦ Payroll and superannuation compliance solutions technology is constantly evolving which poses a threat of new entrants with superior technology and features to InPayTech. ♦ Changes to the regulatory regime which can be disruptive to InPayTech's operations if not properly addressed and managed, i.e. the threat of Open Banking. ♦ Reliability, usability and on-boarding issues in releases of new software and updates as in the case of earlier PayVu versions.

Source: InPayTech and Leadenhall analysis

4.5 Key Personnel

The board and senior management team of InPayTech include:

Table 4: Key personnel of InPayTech

Directors	Experience
Donald Sharp Executive Chairman	Mr Sharp is a qualified accountant and an experienced leader in the financial services sector. He co-founded Bridges Financial Services Pty Ltd, an industry leader in financial services known for establishing one of the first platform solutions for portfolio management in Australia. He is the former chairman of Investors Mutual, Global Value Investors and Premium Investors Ltd and a former director of Countplus Ltd and Treasury Group Ltd. He is also currently serving as a non-executive director of Xplore Wealth Ltd.
Paul Collins Non-executive Director	Mr Collins has extensive experience with publicly listed technology companies. Over the last 20 years, he has been involved in the start-up and subsequent ASX listing of two FinTech companies. Prior to his role at InPayTech, he was an executive director of IWL Ltd and the co-founder and executive director of Xplore Wealth Ltd. He is also currently serving as a director of ReadCloud Ltd.
Sandra Barns Non-executive Director	Ms Barns is an experienced executive manager and has held several executive roles as Chief Technology Officer and Chief Information Security Officer in the financial services, superannuation and FinTech sectors. She was a former non-executive director of Health Ability, Nilumbik Health and IWFCI. She was also the Chief Technology Officer and Chief Information Security Officer of VicSuper.
Dean Martin Chief Executive Officer	Mr Martin is an experienced executive with over 12 years of experience in payments, superannuation and finance. He was involved in innovation that drives efficiency in superannuation, payments and banking. He has held senior sales and marketing roles at Macquarie Bank, Cuscal Ltd, The Corporate Executive Board Company and Telstra Ltd.

Source: InPayTech

4.6 Financial Performance

The financial year ("**FY**") for InPayTech is a twelve-month period ending 30 June. The audited consolidated statements of financial performance for FY18, FY19, FY20 and unaudited consolidated statement of financial performance for the period ended 30 September 2020 (three months) are set out in the table below.

Table 5: InPayTech's financial performance

$'000	FY18	FY19	FY20	Q1FY21
Revenue	**1,775**	**1,795**	**1,494**	**330**
Other income	-	-	100	75
Transaction costs	(456)	(450)	(495)	(115)
Gross margin	**1,319**	**1,346**	**1,099**	**290**
Gross margin %	*74%*	*75%*	*74%*	*88%*
Operating expenses				
Employment benefit expense	(1,174)	(1,469)	(1,755)	(358)
Consulting fees	(153)	(277)	(348)	(100)
Conference and marketing	(276)	(272)	(218)	(14)
Premises expense	(98)	(102)	(77)	(18)
Other operating expenses	(825)	(482)	(456)	(97)
EBITDA	**(1,207)**	**(1,255)**	**(1,755)**	**(296)**
Depreciation and amortisation expense	(1,933)	(2,070)	(1,848)	(213)
Impairment loss	-	(9,668)	(50)	-
EBIT	**(3,140)**	**(12,993)**	**(3,653)**	**(509)**
Other non-operating expenses	-	-	-	(112)
Interest income	54	25	5	1
Interest expenses	(1)	(1)	(24)	(1)
Loss before tax	**(3,087)**	**(12,969)**	**(3,672)**	**(621)**
Income tax benefit / (expense)	533	(53)	6	-
Loss after tax	**(2,554)**	**(13,022)**	**(3,666)**	**(621)**

Source: InPayTech

In relation to the historical financial performance of InPayTech set out above:

- InPayTech has sustained operating losses in each of the periods presented above, largely attributable to a high fixed cost base and declining revenue due to lower interest rates over the period which had a negative impact on float income.
- Transaction costs have increased slightly in FY20 due to an increase in platform and server hosting fees in line with the contractual terms.
- Other income relates to government grants received from the Australian Government as part of its cash flow boosts scheme in response to the COVID-19 pandemic.
- Employment benefit expenses have increased significantly from FY18 as a result of an increase in the number of employees (full time and casual) from 12 in FY18 to 18 in FY20 with the development (and finalisation) of PayVu.
- Consulting fees are incurred in relation to the development of PayVu and ClickVu.
- Other operating expenses include insurance premiums, compliance costs, accounting and audit fees.
- Depreciation and amortisation expenses predominantly pertain to the amortisation of intangible assets such as patents, capitalised software development costs (including PayVu) and acquired client relationships. Software development costs and acquired client relationships are amortised on a straight-line basis over a period of five years and four years respectively.
- The significant impairment loss in FY19 relates to the impairment of goodwill ($6.8 million) that arose from the acquisition of the Payment Adviser Group in July 2016, as well as impairment of other intangible assets of the Payment Adviser Group.

4.7 Financial Position

The audited statements of financial position as at 30 June 2018, 30 June 2019, 30 June 2020 and unaudited statement of financial position as at 30 September 2020 are set out in the table below.

Table 6: InPayTech's financial position

$'000	30-Jun-18	30-Jun-19	30-Jun-20	30-Sep-20
Current assets				
Cash and cash equivalents	1,956	1,460	991	1,603
Trade and other receivables	544	264	246	364
Total current assets	**2,500**	**1,724**	**1,237**	**1,967**
Non-current assets				
Plant and equipment	27	32	23	23
Deferred tax assets	893	564	-	-
Intangible assets	14,073	3,547	2,611	2,509
Total non-current assets	**14,993**	**4,142**	**2,635**	**2,532**
Total assets	**17,493**	**5,866**	**3,871**	**4,498**
Current liabilities				
Trade and other payables	(159)	(244)	(488)	(411)
Borrowings	-	-	(750)	(28)
Employee benefits	(169)	(223)	(187)	(203)
Redundancy provision	-	-	(179)	-
Deferred revenue	(271)	(68)	(68)	-
Total current liabilities	**(598)**	**(535)**	**(1,672)**	**(642)**
Non-current liabilities				
Deferred tax liabilities	(845)	(564)	-	-
Deferred revenue	-	(135)	(68)	-
Total non-current liabilities	**(845)**	**(699)**	**(68)**	**-**
Total liabilities	**(1,444)**	**(1,233)**	**(1,740)**	**(642)**
Net assets	**16,049**	**4,633**	**2,131**	**3,856**
Other information				
Net working capital balance	(54)	(271)	(497)	(250)
Debt to equity ratio	n/a	n/a	0.35	0.01

Source: InPayTech

In relation to the historical financial position of InPayTech set out above:

- Cash balances have decreased in FY19 and FY20 as InPayTech has not generated cash from its continuing operations and used approximately $2.2 million, on average, for its operations which include funding for the developments of PayVu and ClickVu. The cash outflows are financed by issues of shares and from shareholder loans. The increase in cash balance as at 30 September 2020 is attributable to proceeds from the recent entitlement offer, partially offset by operating cash outflows and repayment of shareholder loans.
- Deferred tax assets predominantly relate to tax losses. Deferred tax assets were derecognised in FY20 as it is uncertain if future taxable profits in the short term will be sufficient to utilise these losses.
- Intangible assets as at 30 June 2020 largely relate to capitalised software development costs and patents, customer relationships and trademarks acquired.
- Borrowings as at 30 June 2020 pertain to shareholder loans from entities associated with Mr Don Sharp, Mr Paul Collins and Mr Colin Scully at an interest rate of 8% per annum. The shareholder loans were subsequently paid on 15 July 2020 using proceeds from the recent entitlement offer which raised $3.5 million. The balance as at 30 September 2020 relates to the insurance premium funding facility with Westlawn Finance at an interest rate of 5.05% per annum, with the interest and loan repayable on monthly instalments. The last instalment date is expected to be in February 2021.

4.8 Capital Structure and Shareholders

As at 17 November 2020, InPayTech had a total of 573,260,447 ordinary shares on issue. In addition, there are a total of 16.85 million share options on issue as follows:

- 15 million share options exercisable at 3.5 cents per share expiring 3 November 2023.
- 1.85 million share options exercisable at 3.5 cents per share expiring 15 October 2022.

We note the Proposed Transaction does not trigger a conversion of the options into ordinary shares.

The following table sets out details of InPayTech's substantial shareholders as at that date, prior to conversion of the share options:

Table 7: InPayTech's substantial shareholders

Shareholder	No. of shares held	% substantial ownership
Colin Scully and related entities[1]	139,529,435	24.3%
Donald Sharp and related entities[1]	101,717,177	17.7%
Starmay Superannuation Pty Ltd	59,726,909	10.4%
Paul Collins and related entities	42,083,374	7.3%
Andrew Blair and related entities	30,000,000	5.2%
Substantial shareholders	**373,056,895**	**65.1%**

Source: InPayTech
Note 1: We note Mr Colin Scully and Mr Donald Sharp are beneficiaries of Starmay Superannuation Pty Ltd. Accordingly, we have included their proportionate interest in Starmay Superannuation Pty Ltd as required under the Corporations Act.

We note while there are no controlling shareholders, the top five shareholders hold approximately 65% interest in InPayTech.

4.9 Share Trading

The following chart shows the share market trading of InPayTech shares for the past two years:

Figure 6: Share price performance of InPayTech shares

Source: InPayTech
Note: Actual volume traded on 20 August 2020 was 82,905,790 shares.

In relation to the trading of InPayTech shares over the last two years, we note the following:

- Over the period before 4 June 2020, InPayTech shares traded with an average daily volume of approximately 0.6 million shares. There were also a number of periods of several days in which there were no trades and the daily market trading of InPayTech shares was often under $100,000. The trading price ranged between 0.3 cents and 4.6 cents with a volume-weighted average price ("**VWAP**") of approximately 2.3 cents.
- From 4 June 2020, InPayTech shares have traded with an average daily volume of approximately 14.4 million shares. The average daily market trading of InPayTech shares was approximately $0.5 million which was significantly higher than over the period before June 2020. The trading price has ranged between 1.5 cents and 5.3 cents with a VWAP of approximately 3.1 cents.
- There was a significant increase in share price from 2.4 cents to 3.3 cents on 8 February 2019 followed the announcement of a strategic review whereby InPayTech announced the release of PayVu on 21 February 2019 with associated early adopter commitment to the product. However, there was a subsequent sharp decrease in share price from 3.6 cents to 2.7 cents on 22 February 2019. This was likely attributable to the combination of InPayTech's former substantial shareholder, Acorn Capital Ltd, reducing its shareholding interest from 8.5% to 6.3% and the delayed announcement of the official PayVu release (which came on 25 February 2019).
- Over the period 29 July 2019 to 1 August 2019, there was a significant increase in trading activity, with the share price increasing sharply from 2.2 cents to close at 3.7 cents. InPayTech management announced that they were neither aware of any information concerning the business that had not been announced to the market nor had an explanation for the movement.
- From June 2020, there was a significant increase in trading volume which led to a general upward trend in share price due to the announcement of the following key matters:
  - Successful placement of 77 million new shares at 1.5 cents per share on 16 June 2020
  - A non-renounceable rights issue to raise up to approximately $2.3 million with 1 share offered for each 2 shares held at 1.5 cents per share which was completed on 15 July 2020
  - Proposed acquisition of TipsGo which was ultimately executed on 17 August 2020 and approved by InPayTech shareholders on 8 October 2020
  - Appointment of InPayTech's Chief Innovation Officer on 13 July 2020 whose role will focus on the deployment of ClickVu
  - Increase in shareholding by its substantial shareholder, Mr Colin Scully, from 23.2% to 25.8% on 21 July 2020
  - A decision in favour of granting InPayTech's patent application in Australia which led to the increase in share price from 3.0 cents to 4.0 cents on 20 August 2020
  - The issue of InPayTech's annual report for FY20 on 26 August 2020, with losses after tax significantly lower than in prior year. Following this announcement, the share price increased from 4.3 cents to 5.3 cents.

5 PROFILE OF COMPLY PATH

5.1 Background

Comply Path is a privately-owned Australian company that offers regulatory compliance technology solutions which include SuperStream and STP solutions. Comply Path has a proprietary RegTech platform, Bond, which was originally developed at Intunity Pty Ltd (co-founded by the current Chief Executive Officer and founder of Comply Path) and was then acquired by PwC Digital Consulting in 2013. In 2018, Bond was subsequently established as a platform venture in PwC Australia to improve the engagement between its employees, superannuation funds and the tax office. After a strategic review of its digital ventures, PwC Australia divested Comply Path in July 2020 to Mr Trent Lund and Mr Joe Brasacchio for an undisclosed amount. All rights to the intellectual property of the Bond platform were assigned to Comply Path.

Comply Path is currently the digital platform supplier to a number of large superannuation funds in Australia. Key features of the Bond platform include:

- Allowing different parties with alternate data flows, standards and formats to communicate securely under defined business rules and logic.
- Connecting to external authoritative registers (i.e. including tax file number register and self-managed super fund register) to aid verification and error management.
- Helps customers manage and control payment processing, validation and reconciliation.
- Instant data transmission to regulatory bodies, such as the Australian Taxation Office ("**ATO**") and ASIC, for reporting compliance obligations.
- The ability to access real-time audit and logging in compliant with the Consumer Data Right and General Data Protection Regulation.
- Providing customers with the flexibility to deploy the Bond platform on their cloud of choice, i.e. Azure, Amazon Web Services or Google.

5.2 Corporate Structure

The existing corporate structure of Comply Path is set out as follows:

Figure 7: Comply Path corporate structure

Source: Comply Path
Note 1: Comply Path Holdings Pty Ltd is a non-operating entity which holds the intellectual property and makes it available for the operations of Comply Path Pty Ltd.

5.3 Overview of Operations

The Bond platform provides the following solutions:

- **Worker Onboarding**: Digitally streamlines the onboarding process on a real-time basis by removing complexities associated with identity verifications, visa checks, tax and superannuation compliance. For casual employees, information such as start and end dates, certifications, licenses and payroll rates are stored and verified conveniently in a single place. The compliance system is easily integrated with existing human resource and accounts payable systems hence providing a single view of the entire workforce which highlights compliance issues to ensure they resolved in a timely manner.
- **Payroll Compliance**: Helps improve the efficiency in processing superannuation and reporting pay to the ATO. The Bond platform's clearing house solution is integrated with a number of leading payroll platforms and is Superstream compliant. The Bond platform's STP solution can be white-labelled and is deployable as an integrated or standalone portal.
- **Superannuation Compliance**: Allows superannuation funds to integrate more closely with regulators, payroll providers, employers and superannuation members. Solutions include member registration, contributions and member reporting to the ATO.
- **Business Compliance**: Helps simplify small and medium business compliance management digitally. It offers 'compliance-in-a-box' solutions covering registration, tax, superannuation and worker onboarding and is flexible as a standalone solution or integrated with existing business management software.
- **Tax Practice Automation**: Assists tax agents in digitally streamlining compliance and administration processes. The Bond platform provides a real-time connection to the ATO hence allowing the ATO to instantly verify data and ensuring compliance with changing regulatory obligations. The Bond platform's standard business reporting engine can real-time access more than 300 digital services to securely retrieve clients' details, submit returns and fulfill client obligations.
- **E-Invoicing**: Australia has recently adopted the Pan-European Public Procurement OnLine ("**PEPPOL**") interoperability framework for e-invoicing to increase opportunities for businesses to integrate with the global trading environment. Businesses can now digitally exchange invoices using the same format which the ATO estimates will lead to a significant reduction in the cost of processing an invoice. The Bond platform's access point and service metadata provider solutions that help to enable businesses to start sending and receiving e-invoices under the PEPPOL framework.

Comply Path's revenue streams are:

- **SaaS**: Comply Path offers customers SaaS-based software licences that are charged on a per user and per transaction basis. Revenue from SaaS-based software licencing currently forms approximately 34% of year-to-date total revenue which is expected to increase in the near-term as Comply Path moves toward becoming more SaaS dominant.
- **Managed Services**: The Bond platform currently supports a number of clients with ongoing support and management services which include DevOps infrastructure (i.e. secure infrastructure environments that abide with regulatory, security and data privacy frameworks) and the Bond platform powered applications residing on the infrastructure. Revenue from managed services forms approximately 51% of year-to-date total revenue.
- **Consulting**: Comply Path provides consulting services to customers who require customisation of the Bond platform and integration with existing systems. Consulting service allows Comply Path to deliver a more effective solution offering for customers. Revenue from consulting forms approximately 15% of year-to-date total revenue.

5.4 Competitive Position

The table below sets out the strengths, weaknesses, opportunities and threats analysis for Comply Path:

Strengths	Weaknesses
♦ Experienced management team with industry-specific knowledge, in particular on superannuation and emerging technologies. ♦ The Bond platform has no natural, direct competitor as its API architecture is versatile across a series of domains from worker onboarding and superannuation compliance to e-invoicing and tax practice automation. ♦ Established brand in the Bond platform.	♦ Comply Path currently has limited access to capital which may inhibit its growth.
Opportunities	**Threats**
♦ Comply Path is in the process of upgrading its operations to the SaaS model which would generate additional opportunities and revenue. ♦ Opportunities exist to commercialise the Bond platform internationally to Singapore, Hong Kong, the United Kingdom and the United States. ♦ Westpac currently has approximately a 50% Australian market share in providing clearing house and other administrative services to the superannuation industry. There are opportunities for Comply Path to increase its market share from 15% to 40% given the uncertainties (in terms of risk tolerance) Westpac is facing due to recent regulatory actions taken against it. ♦ Opportunities for Comply Path to capitalise on the strength of the Bond platform around real-time verifications in onboarding workers, filling the different gaps of large and small businesses.	♦ As a start-up technology company, there is a heavy reliance on key personnel. Loss of key personnel could cause material disruption to the business' activities and operations in the short to medium term. ♦ Payroll and superannuation compliance solutions technology is constantly evolving which poses a threat of new entrants with superior technology and features to Comply Path. ♦ Changes to the regulatory regime can be disruptive to Comply Path's operations if not properly addressed and managed, i.e. the threat of Open Banking. ♦ Risk of non-renewal of contracts, in particular due to the amalgamation of superannuation funds.

Source: Comply Path and Leadenhall analysis

5.5 Key Personnel

The senior management team of Comply Path includes:

Table 8: Key personnel of Comply Path

Directors	Experience
Joe Brasacchio Founder and Chief Executive Officer	Mr Brasacchio is the founder of the Bond platform at Comply Path. Over the last 20 years, he has been involved in many high profile digital and business transformation projects in Australia. Prior to Comply Path, he was a co-founder of Intunity Pty Ltd, an agile and mobile software development company that was acquired by PwC Australia. He is an active member of the SuperStream standards industry working groups and continues to be involved in the ATO working groups that include the digital service providers strategic working group and SuperStream standards technical committee. He is also currently serving as a director of GJB Consulting Pty Ltd.
Trent Lund Non-executive Director	Mr Lund is the Chief Executive Officer of Unlocked Ventures Pty Ltd, a major shareholder of Comply Path. Prior to this role, he was the lead partner for Innovation & Ventures at PwC Australia where he helped organisations leverage emerging technologies to innovate new business models. He co-designed the PwC Global Innovation & Ventures model and led the development of more than 8 technology platforms and 30 products. He is on the board of the Australian Centre for Robotic Vision and on the advisory board of the Centre of Future Business at Queensland University of Technology He is also currently serving as a director of PaidRight Holdings Pty Ltd, Accelerate Compliance Holdings Pty Ltd and XportID Holdings Pty Ltd.
Jean-Paul Seow Commercial Director	Mr Seow has more than 15 years of experience in the Strategy & Ventures sector. Prior to this role, he was a director in PwC Australia's Strategy & Ventures team and was responsible for driving development and commercialisation of new ventures in the Australian market. In particular, he was the commercial lead for the Bond platform prior to it being divested from PwC Australia. He was also a founding member of PwC Australia's strategy consulting practice which focuses on developing growth strategies for some of Australia's largest corporations.

Source: Comply Path

5.6 Financial Performance

The FY for Comply Path is a twelve-month period ending 30 June. The unaudited statements of financial performance for the periods ended FY18, FY19, FY20 and for the period ended 30 September 2020 (three months) are set out in the table below.

Table 9: Comply Path's financial performance

$'000	FY18	FY19	FY20	Q1FY21
Revenue				
License and support	601	676	1,186	572
Consulting	4,073	757	328	100
Total revenue	**4,674**	**1,433**	**1,514**	**672**
Cost of sales	-	-	-	(40)
Gross margin	**4,674**	**1,433**	**1,514**	**633**
Operating expenses				
Employment benefit expense	(1,177)	(1,318)	(1,441)	(237)
Consulting fees	(2,933)	-	-	-
Other operating expenses	(290)	(329)	(360)	(46)
EBIT (operating)	**274**	**(214)**	**(287)**	**350**
Other non-operating expenses	-	-	-	(667)
Profit / (Loss) before and after tax	**274**	**(214)**	**(287)**	**(317)**
EBIT (operating) margin	**6%**	**nmf**	**nmf**	**52%**

Source: Comply Path
Note: Comply Path only commenced operations on a standalone basis in FY21 hence the historical figures presented are based on Comply Path management's best representation of earnings while Comply Path was owned by PwC Australia.

In relation to the historical financial performance of Comply Path set out above:

- The figures presented above are unaudited. The reliability of the financial information is therefore lower than if they had been audited or independently reviewed.
- License and support revenue predominantly relates to SaaS-based software licences which are charged on a per user and per transaction basis. Another portion of which pertains to 'claw back' fees charged to customers who fail to meet the minimum SaaS-based software licences volume. The significant increase in license and support revenue in FY20 is attributable to new payroll and business compliance product related licenses (including maintenance and support).
- The significant amounts of consulting revenue and expenses in FY18 pertain to the initial platform configurations and customisations for product licenses to be deployed specifically for a superannuation fund. The completion of platform configurations and customisations work led to a decrease in consulting revenue and fees, with a corresponding increase in license and support revenue.
- Employee expense forms the largest component of operating expenses. There are currently seven full-time employees, five of which have been with Comply Path for more than four years.
- Other non-operating expenses relate to advisory costs incurred in relation to a potential capital raising exercise.

5.7 Financial Position

As Comply Path only commenced operations on a standalone basis in July 2020, historical statements of financial position are not available. The unaudited statement of financial position as at 30 September 2020 is set out in the table below.

Table 10: Comply Path's financial position

$'000	30-Sep-20
Current assets	
Cash and cash equivalents	550
Trade receivables	367
Other current assets	9
Total current assets	**926**
Plant and equipment	3
Total assets	**929**
Current liabilities	
GST payable	(40)
Employee benefits	(160)
Deferred revenue	(192)
Other current liabilities	(18)
Total current liabilities	**(411)**
Non-current provisions	(193)
Total liabilities	**(604)**
Net assets	**326**
Other information	
Net working capital balance	(35)

Source: Comply Path

In relation to the historical financial position of Comply Path set out above:

- The figures presented above are unaudited. The reliability of the financial information is therefore lower than if they had been audited or independently reviewed.
- Trade receivables are current based on invoices issued monthly in arrears with credit terms of 30 days.
- Deferred revenue relates to service obligations to customers which are not yet satisfied at the end of the reporting period. Comply Path receives upfront cash payments at the point of sales, for which revenue is recognised over time.

5.8 Capital Structure and Shareholders

As at 17 November 2020, Comply Path had a total of 88,889 ordinary shares on issue. The following table sets out details of Comply Path's substantial shareholders as at that date:

Table 11: Comply Path's substantial shareholders

Shareholder	No. of shares held	% Total shares
Trent Lund and related entities	40,000	45.0%
Joe Brasacchio and related entities	40,000	45.0%
Clinton Capital Partners Pty Ltd and related entities	8,889	10.0%
Total	**88,889**	**100.0%**

Source: Comply Path

We note while there are no controlling shareholders, Mr Trent Lund and Mr Joe Brasacchio hold a combined 90% interest in Comply Path.

6 PROFILE OF PROPOSED MERGED ENTITY

6.1 Introduction

The Proposed Merged Entity will consist of the enlarged group comprising InPayTech and Comply Path following the Proposed Transaction and will remain listed on the ASX. A significant amount of revenue and cost synergies, which represent a key part of the strategic rationale for the transaction, are expected to be realised through the merger. These synergies originate from the streamlining of IT functions in transferring ClickSuper to the Bond platform, the cross-selling of solutions to existing clients and accelerating the rollout of ClickVu.

6.2 Overview of Operations

The Proposed Transaction would increase the scale of operations and provide the Proposed Merged Entity with added capabilities to deliver a more comprehensive set of solutions, targeted at larger enterprise customers. The Proposed Merged Entity would have a greater market share on a combined basis and an increased competitiveness for future opportunities.

6.3 Rationale for Proposed Transaction

The Proposed Transaction is supported by the complementary nature of InPayTech and Comply Path. The strategic rationale according to InPayTech management includes:

- Providing scale and diversification of revenue streams with complementary customer base and solution offerings that provide a point of differentiation and a platform for future growth.
- Leveraging the Bond platform for InPayTech's ClickSuper service which allows for further IT cost savings, i.e. reduced support or maintenance costs and licence fees.
- The integration of InPayTech's patented payment technology into the Bond platform creates an improved platform with a unique breed of messaging and payment functions.
- Enhancing the development of ClickVu using the acquired intellectual property rights to Comply Path's employee and superannuation fund member onboarding functionalities.
- Potential cross-selling opportunities to existing clients of both InPayTech and Comply Path.
- Providing Comply Path with increased liquidity from the Proposed Merged Entity being listed on the ASX.
- InPayTech having an Australian Financial Services Licence and a SaaS client support service allows the Bond Platform to be commercialised directly under a SaaS model.

6.4 Key Personnel

The proposed board and senior management team of the Proposed Merged Entity comprise:

Table 12: Proposed Merged Entity directors and senior management team

Directors	Experience
Don Sharp Executive Chairman	Current Executive Chairman of InPayTech
Paul Collins Non-executive Director	Current Non-executive Director of InPayTech
Trent Lund Non-executive Director	Current Non-executive Director of Comply Path
Randolf Clinton Non-executive Director	Mr Clinton is the founder and Chief Executive Officer of Clinton Capital Partners, a venture capital investment and advisory business that focuses on early-stage technology companies. Prior to this role, he had over 30 years of leadership experience in global investment banking and financial markets, having worked in London, Singapore, Hong Kong and Australia; and for companies such as JPMorgan Chase & Co., Credit Suisse Group, ABN Amro Bank N.V. and Royal Bank of Scotland.
Dean Martin Chief Executive Officer	Current Chief Executive Officer of InPayTech
Joe Brasacchio Chief Technology Officer	Current Founder and Chief Executive Officer of Comply Path

Source: InPayTech and Comply Path

6.5 Post-merger Capital Structure

If the Proposed Transaction is approved, there would be 1,146,520,894 ordinary shares on issue. The following table summarises the major shareholdings in the Proposed Merged Entity after the Proposed Transaction:

Table 13: Proposed Merged Entity's substantial shareholders

Shareholder	No. of shares held	% Total shares
Trent Lund and related entities	257,966,879	22.5%
Joe Brasacchio and related entities	257,966,879	22.5%
Colin Scully and related entities[1]	139,529,435	12.2%
Donald Sharp and related entities[1]	101,717,177	8.9%
Starmay Superannuation Pty Ltd	59,726,909	5.2%
Clinton Capital Partners Pty Ltd and related entities	57,326,690	5.0%
Paul Collins and related entities	42,083,374	3.7%
Andrew Blair and related entities	30,000,000	2.6%
Substantial shareholders	**946,317,342**	**82.5%**

Source: InPayTech and Comply Path
Note 1: We note Mr Colin Scully and Mr Donald Sharp are beneficiaries of Starmay Superannuation Pty Ltd. Accordingly, we have included their proportionate interest in Starmay Superannuation Pty Ltd as required under the Corporations Act.

6.6 Proforma Financial Performance

The historical, proforma statement of financial performance for the combined InPayTech and Comply Path for the three months ending 30 September 2020, as prepared by InPayTech management is as follows:

Table 14: Proforma statement of financial performance of the Proposed Merged Entity

$'000	InPayTech	Comply Path	Proforma adjustments	Proposed Merged Entity
Revenue	**330**	**672**	**540**	**1,542**
Cost of sales	(115)	(40)	(80)	(234)
Employment benefit expense	(358)	(237)	125	(470)
Other operating expenses	(228)	(46)	-	(274)
Depreciation and amortisation expense	(213)	-	-	(213)
Adjusted EBIT	**(509)**	**350**	**585**	**425**
Other income	75	-	-	75
Other non-operating expenses	(112)	(667)	779	-
(Loss) / Profit before tax	**(546)**	**(317)**	**1,364**	**500**
Income tax expense[1]	-	-	-	(150)
(Loss) / Profit after tax	**(546)**	**(317)**	**1,364**	**350**

Source: InPayTech and Comply Path
Note 1: Based on a notional corporate tax of 30% applied to the profit before tax of the Proposed Merged Entity.

The above proforma adjustments relate to:

- Revenue and cost synergies expected to arise from the Proposed Transaction. One-off costs of achieving these synergies are not included.
- Non-operating expenses associated with non-recurring costs incurred by InPayTech in acquiring TipsGo and the entitlement offer, as well as advisory costs incurred by Comply Path.

Synergy analysis

Should the Proposed Transaction proceed, InPayTech and Comply Path management have estimated synergies from the Proposed Transaction to be approximately $2.3 million per annum (or $0.6 million per quarter) on a conservative basis in the near-term. The estimates were based on an analysis of revenue and costs to identify overlapping areas which can be consolidated or considered to be synergistic in nature. While the breakdown of revenue and cost synergies is not presented due to it being commercially sensitive, we note the following:

- Additional revenue is anticipated from the accelerated development of ClickVu which is expected to attract new clients with the added worker onboarding functionality. This also leads to an increase in transaction fee revenue for the ClickSuper service.
- Cost savings from a reduction in headcount with the migration of InPayTech's ClickSuper service onto the Bond platform. Estimates were based on InPayTech's current IT staff costs.
- Analysis of potential cost synergies is ongoing.

In addition, InPayTech and Comply Path management have estimated the potential additional revenue available to the Proposed Merged Entity through cross-selling opportunities of solution offering between the two businesses to be in the order of $2.5 million. However, further analysis needs to be undertaken on the level and extent of these additional revenue synergies.

6.7 Proforma Financial Position

The proforma, historical statement of financial position for the combined InPayTech and Comply Path as at 30 September 2020 is set out below:

Table 15: Proforma statement of financial position of the Proposed Merged Entity

$'000	InPayTech	Comply Path	Proforma adjustments	Proposed Merged Entity
Current assets				
Cash and cash equivalents	1,603	550	(400)	1,753
Trade and other receivables	364	376	-	739
Total current assets	**1,967**	**926**	**(400)**	**2,493**
Non-current assets				
Plant and equipment	23	3	-	27
Intangible assets	2,509	-	19,165	21,674
Total non-current assets	**2,532**	**3**	**19,165**	**21,700**
Total assets	**4,498**	**929**	**18,765**	**24,193**
Current liabilities				
Trade and other payables	(411)	(58)	-	(469)
Borrowings	(28)	-	-	(28)
Employee benefits	(203)	(160)	-	(364)
Deferred revenue	-	(192)	-	(192)
Total current liabilities	**(642)**	**(411)**	**-**	**(1,053)**
Non-current liabilities				
Non-current provisions	-	(193)	-	(193)
Total non-current liabilities	**-**	**(193)**	**-**	**(193)**
Total liabilities	**(642)**	**(604)**	**-**	**(1,246)**
Net assets	**3,856**	**326**	**18,765**	**22,947**

Source: InPayTech and Comply Path

The above proforma adjustments relate to:

- Transaction costs of $0.4 million relating to the Proposed Transaction.
- Provisional accounting entries relating to the goodwill implied by the terms of the Proposed Transaction.

7 VALUATION METHODOLOGY

To estimate the fair market value of InPayTech and the Proposed Merged Entity (inclusive of Comply Path), we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method
- The capitalisation of future maintainable earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

7.1 Selected Methodology – InPayTech

In selecting an appropriate valuation methodology for InPayTech, we have considered the following:

Table 16: Consideration of methodologies

Method	Considerations	Approach
Discounted cash flow	♦ InPayTech's revenue and costs are expected to change significantly in the foreseeable future which is best evaluated with a discounted cash flow method. ♦ We have been provided with financial projections to FY26 prepared by InPayTech management. We have used the projections as a basis for our own cash flow model.	Selected
Capitalisation of earnings	♦ There are a limited number of transactions (market trading and M&A) involving companies with comparable businesses to InPayTech. ♦ InPayTech has experienced operating losses historically with a volatile earnings profile expected in the near-to-mid-term due to significant changes in the business model. Therefore, the capitalisation of earnings method is not appropriate.	Not considered
Asset approaches	♦ InPayTech is neither an asset-based business nor an investment holding company. Asset approaches are generally not appropriate for operating businesses as they ignore the value of most internally generated intangible assets. ♦ Although InPayTech has a history of operating losses, we consider it to be a going concern as the business has been able to obtain additional capital from its shareholders when required. Therefore, an asset approach is not appropriate.	Not considered
Share trading	♦ Share market trading in InPayTech shares has been moderately liquid, with periods where no shares have been traded. Therefore, an analysis of share market trading is not as reliable as the discounted cash flow method as a primary valuation methodology in assessing the intrinsic value of an InPayTech share.	Cross-check

7.2 Selected Methodology – Proposed Merged Entity

In selecting an appropriate valuation methodology for the Proposed Merged Entity, we have considered the following:

Table 17: Consideration of methodologies

Method	Considerations	Approach
Discounted cash flow	♦ While it would be possible to assess the value of the Proposed Merged Entity by aggregating the value of InPayTech with our assessed value for Comply Path, this approach would not reliably capture estimated synergies, transaction costs, diversification and scale benefits of the merged business. Thus, we believe it is appropriate to value the Proposed Merged Entity as a single, combined business. ♦ A detailed financial model has been prepared for Comply Path. This can be aggregated with the cash flow model for InPayTech, with adjustments made for expected synergies and transaction costs, to derive a cash flow model for the Proposed Merged Entity. This aggregated model provides a reasonable basis for a discounted cash flow analysis.	Selected
Capitalisation of earnings	♦ There are a limited number of transactions (market trading and M&A) involving companies with comparable businesses to the Proposed Merged Entity for the reasons discussed above. This limits the reliability of the capitalisation of earnings method as a primary valuation methodology in assessing the intrinsic value of a share in the Proposed Merged Entity. ♦ Synergies from the Proposed Transaction are expected to drive profitability of the Proposed Merged Entity in the near term. Therefore, we have analysed multiples implied by our assessed value as a broad cross-check.	Cross-check
Asset approaches	♦ The Proposed Merged Entity would not be an asset-based business nor an investment holding company. It is also considered to be a going concern, thus an asset approach is not appropriate.	Not considered
Share trading	♦ No announcement of the Proposed Transaction has been made to the market as at the date of our report. Therefore, observations in relation to the market's assessment of the value of the Proposed Merged Entity are not available. ♦ Due to the terms of the confidentiality agreement between Comply Path and PwC Australia, we are unaware of the price paid to acquire Comply Path from PwC Australia in July 2020. Therefore, we have not been able to consider the acquisition price as a cross-check in the sum of the parts valuation.	Not considered

8 VALUATION OF INPAYTECH

8.1 Background

We have assessed the fair market value of InPayTech using the discounted cash flow method, with a cross-check based on an analysis of recent share market trading in InPayTech shares. This assessment has been made on a control basis as required by RG111.

8.2 Discounted Cash Flow Method

In order to determine the value of an InPayTech share using the discounted cash flow method, we have:

- Determined suitable cash flow projections for InPayTech.
- Determined an appropriate discount rate.
- Assessed the long-term growth rate beyond the forecast period.
- Calculated the enterprise value based on the preceding assumptions.
- Assessed the value of any non-operating assets and liabilities.
- Allocated value to the options.
- Obtained the number of shares on issue before the Proposed Transaction.
- Calculated the value of an InPayTech share (equity value) based on the preceding analysis.

8.3 Cash Flow Projections

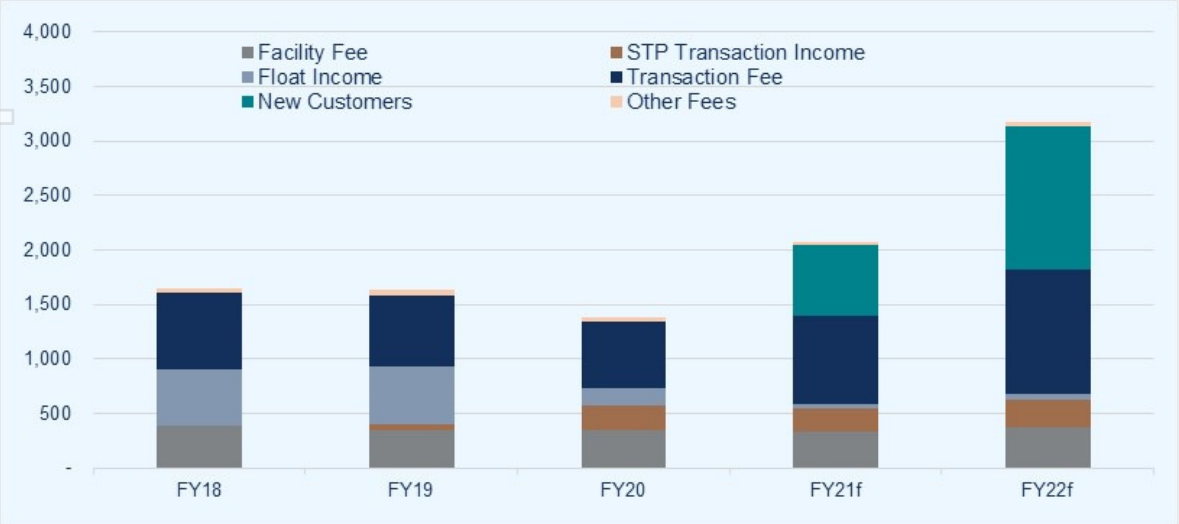
We have used the projections prepared by InPayTech management for the period to FY26 as the basis for our own cash flow model. We have undertaken a detailed analysis of the forecasts and have discussed the key assumptions behind the forecast with InPayTech's management. We have considered supporting information to determine the reasonableness of the cash flow projections and considered the residual risks associated with achieving the forecast. Certain assumptions have been adjusted to provide what we consider to be reasonable cash flow projections.

The detailed projections of InPayTech are not included in this report due to commercial sensitivity. However, the key assumptions underpinning the projections and the information considered in assessing the reasonableness of these assumptions are discussed below.

ClickSuper revenue

ClickSuper revenue forms the largest component of InPayTech's revenue projections. The breakdown of the actual and forecast revenue sources of ClickSuper is summarised in the following chart:

Figure 8: Actual and forecast revenue sources of ClickSuper



Source: InPayTech management

In relation to the forecast assumptions and breakdown to FY22 above, we note:

- Facility fees are expected to remain in line with historical levels and subsequent to FY22, will increase in line with the number of new customers.
- STP transaction income is forecast to be consistent with FY20 and will increase in line with the number of new customers from FY22.
- Due to successive reductions in Reserve Bank of Australia's ("**RBA**") cash rate since May 2019 from 1.5% to 0.25%, float income has decreased significantly in FY20. Accordingly, InPayTech management does not expect a significant amount of float income in the medium term.
- As an offset against the loss of float income, InPayTech management intends to increase the transaction fee prices in phases by approximately 20% in FY21 and 30% in FY22. Therefore, revenue from transaction fees is expected to increase significantly from prior years. Despite the increase, the revised transaction fee prices will remain below those charged by InPayTech's competitors.
- The bulk of the increase in forecast revenue is expected to arise from new customers, in particular from superannuation funds. InPayTech is currently in negotiations for an STP offering (among others such as the ClickVu service) with four superannuation funds. The projections are based on the assumption of one additional superannuation fund in FY21, representing a proposal-to-conversion ratio of 25%. Given the stage of negotiations with the various funds, we consider this to be a reasonable assumption.

Based on discussions with InPayTech management, we have assumed ClickSuper's revenue to increase at a declining rate from 40% in FY23 to 5% by FY26. Revenue growth is expected to be driven by the rollout of ClickVu, targeted at existing payroll solutions customers. At present, InPayTech offers superannuation solutions to approximately 5% of its existing payroll solutions customers. With ClickVu, InPayTech management expects an uptake of the service to 30% of its existing payroll solutions customers based on informal discussions with the customers. Based on our understanding of the product, we do not consider this assumption to be unreasonable.

Other revenue components

Other revenue components mainly include fees from providing consulting services to external organisations that use the patented Payment Adviser service (which form approximately 1% of total revenue). As this revenue stream is not the key business focus of InPayTech, InPayTech management has assumed nominal revenue growth in line with inflation.

Cost of sales

Cost of sales mainly consists of platform and server hosting fees. InPayTech management has assumed nominal cost of sales growth in line with inflation due to the available capacity in its IT infrastructure. However, we have assumed a constant cost of sales at 25% of revenue which is consistent with the historical gross margins and which we consider to be a reasonable assumption.

Employee costs

Employee costs is the largest cost component of InPayTech. Employee costs are expected to decrease in FY21 as a result of reduced headcount from the recent redundancy of staff and InPayTech's drive for higher productivity. Subsequent to FY21, wages are assumed to increase by 3% which is marginally higher than the projected inflation rate of 2.5%.

Other operating expenses

Other components of operating expenses include administration and consulting expenses. Consulting expenses mainly pertain to fees paid to an external consultant. Other operating expenses are assumed to increase in line with inflation.

EBIT margin

Based on the cash flow projections, InPayTech is expected to achieve a long-term EBIT margin of slightly more than 40% as the business matures in FY26. This is slightly beyond the high end of the range of near-term forecast EBIT margins of the comparable companies set out in Appendix 4 (and in Table 26). We note the bulk of these companies are in a similar growth phase as InPayTech. InPayTech is expected to generate EBITDA and EBIT margins of 25% and 11% respectively in FY22 that is within the range of the near-term forecast margins of these companies. The long-term EBIT margin of slightly more than 40% is in line with technology-related businesses in their maturity stage that offer similar enterprise software and cloud-based SaaS platforms.

We consider the long-term EBIT margin to be reasonable and sustainable as expenses are largely fixed and InPayTech management expects significant revenue growth from new and larger customers with the roll out of ClickVu, which is highly scalable. In addition, InPayTech has a proven history of continually reinvesting into its business and products that address market needs, i.e. the recent development of PayVu and ClickVu.

Capital expenditure

Capital expenditure relates to the capitalised employee costs of developing and enhancing new products like ClickVu and PayVu. Estimates of costs capitalised are based on the staff involved and time spent on the products. Other maintenance-related costs are incurred as expenses hence ongoing capital expenditure is not expected to be significant.

Taxation

We have applied the Australian corporate tax rate of 30%. Tax losses are assessed separately as a surplus asset.

Working capital

We have assumed a constant level of working capital as a proportion of revenue, based on historical working capital levels of the business. Movements in working capital are projected to be small.

Projected free cash flows

The projected free cash flows of InPayTech resulting from the assumptions described above are summarised in the chart below:

Figure 9: Forecast free cash flows of InPayTech

Source: Leadenhall analysis

In summary, we note:

- The capital outlay in relation to software development leads to a marginal, negative free cash flow in FY21.
- The increase in free cash flows from FY22 is attributed to new revenue from the ClickVu service and an expansion of customer base targeting superannuation funds while costs are kept largely unchanged.
- No income or expense projections for TipsGo were included.

Reasonableness of assumptions

Based on the above analysis, in our opinion the overall cash flow projections are reasonable.

8.4 Discount Rate

We have applied a discount rate of between 14.0% and 16.0% (nominal, post-tax, weighted average cost of capital ("**WACC**")) to the projected cash flows. We calculated the discount rate using the capital asset pricing model ("**CAPM**") based on the assumptions set out in Appendix 3.

8.5 Terminal Growth

The terminal value represents the value of the cash flows beyond the forecast period. Terminal values are commonly calculated based on the discount rate and the expected long-term growth rate of future cash flows. We have used a terminal growth rate of 2.5% being the midpoint of the long-term RBA inflation target, which we consider is a reasonable estimate of long-term growth in cash flows for InPayTech.

8.6 Non-operating Assets and Liabilities

In order to assess the equity value of InPayTech, it is necessary to identify any non-operating assets and liabilities not used in generating the enterprise value. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity. We have not identified any material non-operating liabilities owed by InPayTech.
- **Surplus cash**: comprising of surplus cash held by the company, less debt used to fund a business.

Each of these factors are considered below.

Surplus assets

As at 30 September 2020, InPayTech had carried forward tax losses of approximately $10.1 million. By extending the cash flow projections based on the terminal growth rate, we note the tax losses will be fully utilised in approximately six years. The present value of the tax credits at the discount rate of between 14.0% and 16.0% is between $1.7 million and $1.8 million.

Surplus cash

The surplus cash position for InPayTech as at 30 September 2020 is set out in the table below:

Table 18: Surplus cash summary

Description ($'000)	
Cash	1,603
Borrowings[1]	(28)
Surplus cash	**1,575**

Source: Leadenhall analysis
Note 1: We have assumed book value is representative of fair market value for all borrowings.

8.7 Value Attributable to Options

The following table provides a summary of the assessed value of the options:

Table 19: InPayTech options

Description	Number	Value range	Low ($'000)	High ($'000)
Options[1]	15,000,000	$0.007 - $0.010	107	147
Options[2]	1,850,000	$0.005 - $0.008	10	14
Total	**16,850,000**		**117**	**162**

Source: Leadenhall analysis
Notes:
1. Options with an exercise price of $0.035 expiring on 3 November 2023.
2. Options with an exercise price of $0.035 expiring on 15 October 2022.

We have analysed the value of the options using the Black-Scholes option pricing model. Key assumptions used in the Black-Scholes option pricing model were a 0% dividend yield and volatility of 50% (based on a volatility analysis on the comparable companies set out in Appendix 4).

8.8 Assessed Value Before the Proposed Transaction

Summary

The preceding analysis leads to an assessed value of an InPayTech share before the Proposed Transaction, on a control basis, of between 2.7 cents and 3.1 cents as set out in the following table:

Table 20: Assessed value of an InPayTech share before the Proposed Transaction

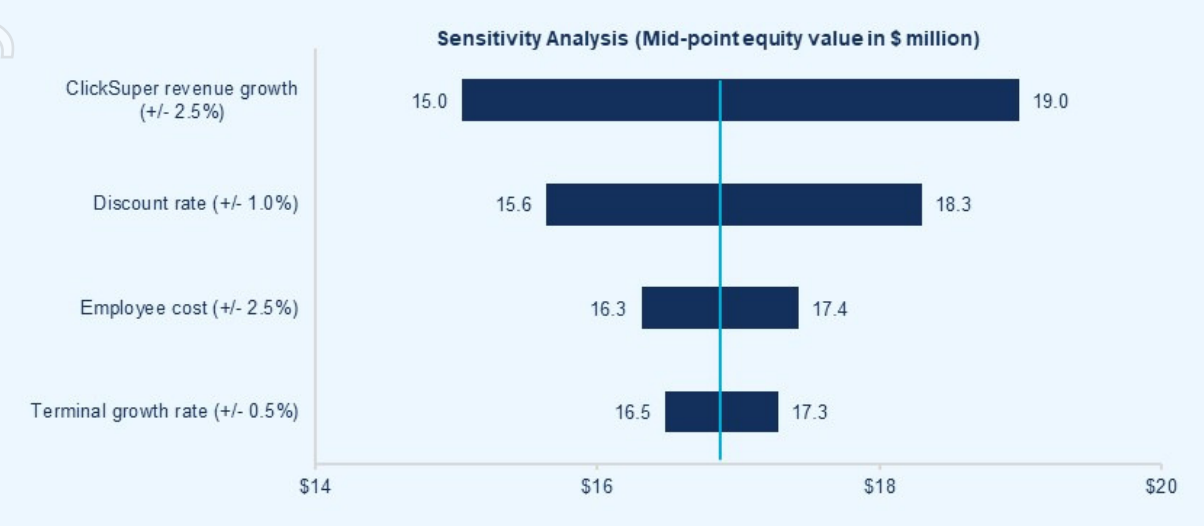
Equity value (control basis) ($'000)		
	Low	High
Enterprise value	**12,251**	**14,747**
Surplus assets	1,730	1,845
Surplus cash	1,575	1,575
Equity value	**15,556**	**18,167**
Allocation to options	(117)	(162)
Value allocated to ordinary shares	**15,439**	**18,005**
Ordinary shares on issue ('000)	573,260	573,260
Assessed value per ordinary share on a control basis ($)	**0.027**	**0.031**

Source: Leadenhall analysis

Sensitivity analysis

This valuation is sensitive to a number of key assumptions as set out in the following figure:

Figure 10: Sensitivity analysis of equity value (in $ million)



Source: Leadenhall analysis

Any alternative reasonable assessment of the factors above individually would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

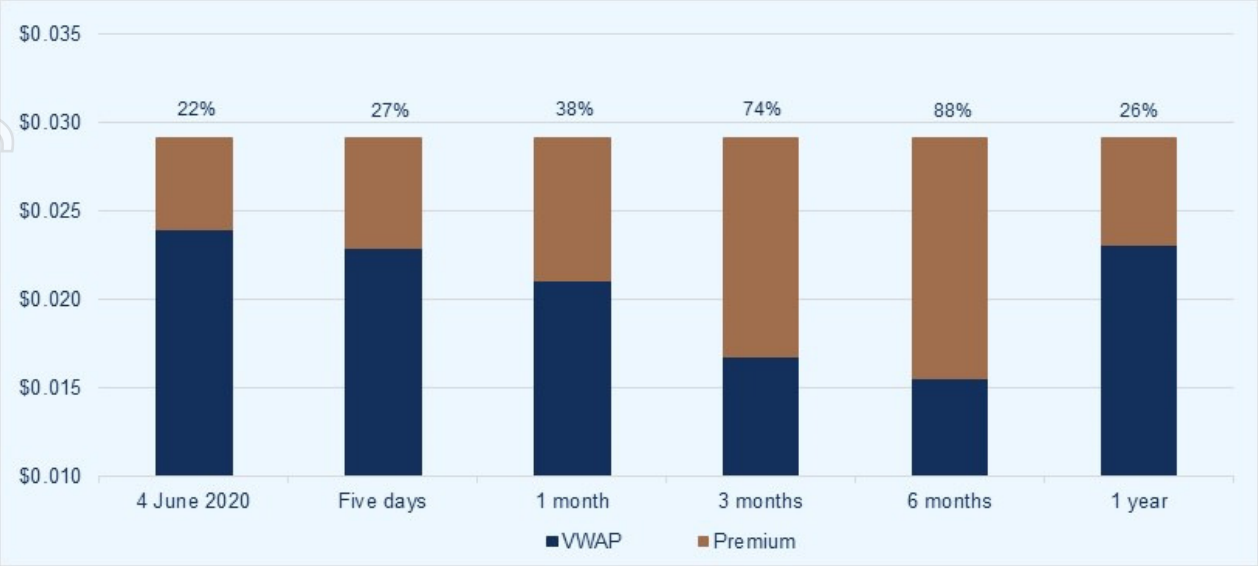
8.9 Analysis of Share Trading Cross-Check

Market trading in InPayTech shares provides an indication of the market's assessment of the value of InPayTech on a minority basis. We have presented an analysis of recent trading in InPayTech shares in Section 4.9 above. When assessing market trading, it is necessary to consider whether the market is informed and liquid. In this regard, we note:

- InPayTech is a listed company with continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably informed about its activities. However, InPayTech has sustained operating losses in each of the periods since becoming listed on the ASX. Investing in InPayTech may therefore be perceived as speculative.
- InPayTech shares are reasonably widely held. However, InPayTech shares traded with an average daily volume of approximately 0.6 million and the daily market trading was often under $100,000 over the period before 4 June 2020. This level is below the level at which many institutional investors may wish to trade and may be seen as a deterrent for other significant investors. Since 4 June 2020, InPayTech shares have traded with an average daily market trading of $0.5 million.
- Based on discussions with InPayTech management and as set out in Section 4.9, the significant increase in trading volume from 4 June 2020 is attributable to a number of announcements which are likely to have led to the speculative trading of InPayTech shares. Therefore, we have focussed our analysis of market trading in InPayTech shares before 4 June 2020.

As a result of these factors, we consider the market trading to be reasonably well-informed but only moderately liquid. We have therefore undertaken only a high level analysis of share market trading by assessing the level of control premium implied by our mid-point valuation range compared to the VWAP of an InPayTech share over the year leading up to 4 June 2020, as set out in the following figure.

Figure 11: Implied control premium to market trading prices



Source: S&P Capital IQ and Leadenhall analysis

The generally observed range for control premiums is between 20% and 40%. In addition, the average takeover premium observed for transactions in the information technology sector in Australia between 2007 and 2017 ranged from 1% to 100%. Further information on observed control premiums and takeover premiums is included in Appendix 5.

The control premium implied by our assessed value of an InPayTech share is within the generally observed range as well as transaction premiums observed in the information technology sector. This provides support for our primary discounted cash flow value of InPayTech before the Proposed Transaction.

8.10 Conclusion on Value Before the Proposed Transaction

Based on our discounted cash flow analysis and share trading cross-check, we have selected a valuation range for a share in InPayTech of between 2.7 cents and 3.1 cents, on a control basis.

9 VALUATION OF PROPOSED MERGED ENTITY

9.1 Background

We have assessed the fair market value of the Proposed Merged Entity using the discounted cash flow method, with an implied multiple cross-check. This assessment has been made on a minority interest basis (i.e. excluding a control premium) as Shareholders would be minority shareholders in the Proposed Merged Entity if the Proposed Transaction is completed.

9.2 Discounted Cash Flow Method

In order to determine the value of a share in the Proposed Merged Entity on a minority basis using the discounted cash flow method, we have:

- Determined suitable cash flow projections for the Proposed Merged Entity.
- Determined an appropriate discount rate.
- Assessed the long-term growth rate beyond the forecast period.
- Calculated the enterprise value based on the preceding assumptions.
- Assessed the value of any non-operating assets and liabilities.
- Assessed a discount for lack of control as Shareholders would own a minority stake in the Proposed Merged Entity should the Proposed Transaction proceed.
- Allocated value to the options.
- Calculated the number of shares expected to be on issue after the Proposed Transaction.
- Estimated the value of a share in the Proposed Merged Entity (equity value) based on the preceding analysis.

9.3 Cash Flow Projections

We have been provided with an aggregated cash flow projections that include InPayTech (as described in Section 8.3), Comply Path and the expected synergies from the Proposed Transaction (both discussed below) for the period to FY26. The cash flow projections of Comply Path were prepared by Comply Path management and reviewed by InPayTech management. We have used the aggregated cash flow projections as the basis for our own cash flow model. We have undertaken a detailed analysis of the forecasts and have discussed the key assumptions behind the forecast with InPayTech and Comply Path's management. We have considered supporting information to determine the reasonableness of the cash flow projections and considered the residual risks associated with achieving the forecast. Certain assumptions have been adjusted to provide what we consider to be reasonable cash flow projections.

The detailed projections of Comply Path are not included in this report due to commercial sensitivity. However, the key assumptions underpinning the projections and the information considered in assessing the reasonableness of these assumptions are discussed below.

Contracted revenue

Contracted revenue, which consists of SaaS-based software licences, ongoing support and management services and consulting, forms the largest component of Comply Path's revenue projections. Comply Path has existing contracts with a number of large superannuation funds in Australia and a contract with a payroll solutions provider that is currently a competitor to InPayTech. The tenure of the contracts ranges up to five years. Comply Path management expects the contracts to be renewed upon expiry.

We have assessed the probability of contract renewals upon expiry based on discussions with Comply Path management, noting:

- Most of the existing customers have been using the Bond platform since it was acquired by PwC Australia in 2013. In addition, Comply Path has not had any customer attrition and some features of the Bond platform were developed in conjunction with inputs from the customers. Therefore, customers are likely to be highly 'sticky' in nature having had their systems customised for the Bond platform hence there are significant costs that the customers would incur in changing providers. As a result, Comply Path management do not expect existing customers to change providers for the foreseeable term.

- As one of its longstanding superannuation fund customers is currently undergoing a merger with another superannuation fund, there is a risk of non-renewal of the existing contract (payroll and business compliance service) which is due to expire in July 2021. In consideration of significant replacement costs and time required to recreate the bespoke platform (which takes approximately 18 months), Comply Path management is confident of sustaining the revenue in the medium term and has assumed a 100% renewal probability in the projections. In the event of a non-renewal of the existing contract, Comply Path management expects to leverage its existing relationship to secure a superannuation compliance service contract with the merged superannuation fund. The enlarged Proposed Merged Entity would also be able to offer a more extensive solution and additional services beyond superannuation compliance which can potentially generate more revenue (and at higher margins) that has not been included in the projections.
- With the Proposed Transaction, there is a potential conflict of interests with one of Comply Path's existing customers that is a payroll solutions provider. Comply Path management is in regular contact with the customer and has proposed a number of alternatives on the agreed arrangement going forward. In consideration of the remaining tenure of the existing contract (two years), the significant amount of investments (approximately $8 million) and time spent in developing the Bond platform together with Comply Path, Comply Path management is optimistic of a favourable outcome in continuing the services and subject to remaining compliant with relevant laws and regulations. Therefore, Comply Path management has assumed a 100% renewal probability in the projections.

Based on the above, we do not consider the assumption to be unreasonable.

Pipeline revenue

Comply Path has identified approximately $35 million of potential future revenue in its sales pipeline at varying stages, i.e. target, qualification and proposal. Of which, approximately $13 million of revenue is in the proposal phase. Comply Path management risk-weighted the pipeline by assessing the probability and timing of the revenue and included an insignificant fraction of the pipeline in the projections in FY21.
No pipeline revenue subsequent to FY21 was included in the projections of the Proposed Merged Entity as further analysis of the pipeline conversion is required due to uncertainties associated with the impact of the Proposed Transaction. We consider this to be a reasonable assumption.

Other revenue components

Other revenue components mainly include fees from providing consulting services in relation to initial platform configurations and customisations for product licenses. An insignificant amount of consulting revenue is expected to be generated in FY21. As Comply Path converts its customer pipeline into contracted revenue, it is expected to generate approximately $0.9 million of consulting revenue in FY22 which is in line with historical consulting revenue.

Employee costs

Employee costs are the largest cost component of Comply Path. Employee costs are expected to increase in FY21 and FY22 as a result of an increase in headcount as the business grows. This is consistent with the start-up nature of Comply Path. Subsequent to FY22, wages are assumed to increase by 3% which is marginally higher than the projected inflation rate of 2.5%.

Other operating expenses

Other components of operating expenses include administration and insurance expenses which are assumed to increase in line with inflation.

Capital expenditure

Capital expenditure relates to the capitalised employee costs of developing and enhancing the Bond platform. Estimates of costs capitalised are based on the staff involved and time spent. Other maintenance related costs are incurred as expenses hence ongoing capital expenditure is not expected to be significant.

Taxation

We have applied the Australian corporate tax rate of 30%.

Working capital

As set out in Section 5.7, Comply Path operates with a negligible working capital balance. Therefore, projected movements in working capital are insignificant.

Synergies

Based on our discussions with the management of both InPayTech and Comply Path and the analysis of synergies set out in Section 6.6, we do not consider estimates of the synergies to be unreasonable because:

- Both parties have performed an independent review of the synergy estimates to reach a consensus based on their experience and professional judgement.
- The identified revenue synergy from the accelerated development of ClickVu is qualitatively consistent with previous market announcements (in particular the rationale for acquiring TipsGo).
- The cost savings from a reduction in headcount is consistent with the salary expenses of the identified personnel.

Accordingly, we have included $0.3 million and $2.2 million of revenue synergies (and associated cost of sales) in FY21 and FY22 respectively. We note potential revenue synergies from cross-selling opportunities to the existing clients of both InPayTech and Comply Path of approximately $2.5 million have not been included in the projections. Beyond FY22, we have assumed the revenue synergies to grow in line with ClickSuper revenue.

For the cost savings, we have excluded $0.1 million of employee costs in FY21 (to be implemented from April 2021) and the full impact of $0.5 million from FY22 onwards. The realisation of the cost savings requires approximately $0.1 million of termination costs to be incurred which are taken up in the FY21 cash flow projections.

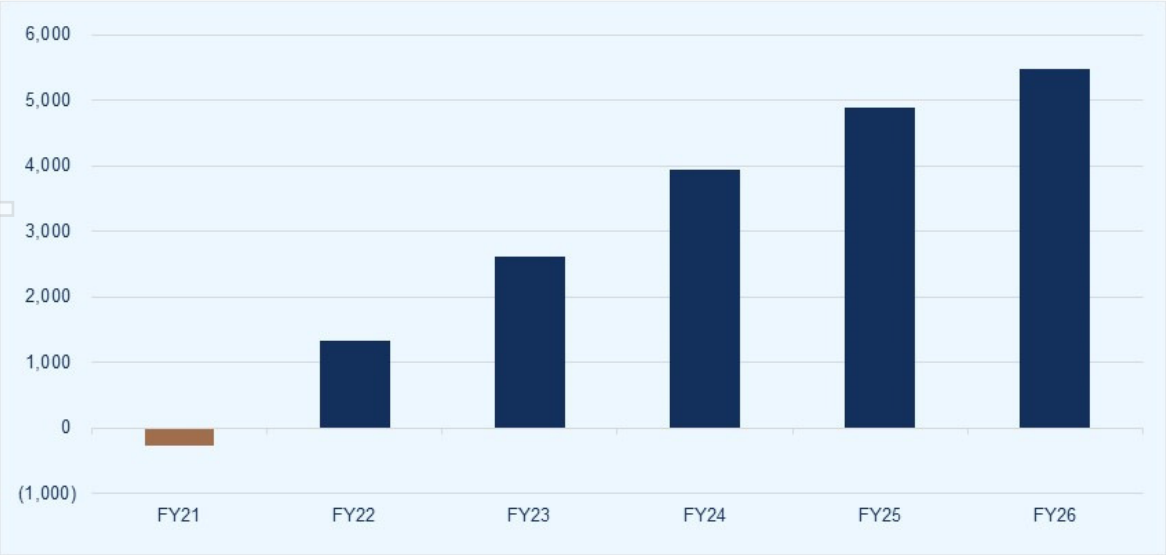
EBIT margin – Proposed Merged Entity

Similar to InPayTech on a standalone basis, the Proposed Merged Entity is expected to achieve a long-term EBIT margin of slightly more than 40% as the business matures in FY26. We do not consider this to be unreasonable for the reasons discussed in Section 8.3. In addition, we note Comply Path currently operates on an EBIT margin of 52% as set out in Section 5.6.

Proposed Merged Entity projected free cash flows

The aggregated projected free cash flows of the Proposed Merged Entity resulting from the assumptions described above are summarised in the chart below:

Figure 12: Forecast free cash flows of the Proposed Merged Entity



Source: Leadenhall analysis

In summary, we note:

- The capital outlay in relation to software development leads to a marginal, negative free cash flow in FY21.
- The increase in free cash flows from FY22 is attributed to the accelerated revenue from the ClickVu service and the full year trading impact of Comply Path while costs are largely unchanged.
- No income or expense projections for TipsGo were included.

Reasonableness of assumptions

Based on the above analysis, in our opinion the overall cash flow projections are reasonable.

9.4 Discount Rate

We have applied a discount rate of between 13.0% and 15.0% (nominal, post-tax WACC) to the projected cash flows of the Proposed Merged Entity. We calculated the discount rate using the CAPM based on the assumptions set out in Appendix 3.

9.5 Terminal Growth

The terminal value represents the value of the cash flows beyond the forecast period. Terminal values are commonly calculated based on the discount rate and the expected long-term growth rate of future cash flows. We have used a terminal growth rate of 2.5% being the midpoint of the long-term RBA inflation target, which we consider is a reasonable estimate of long-term growth in cash flows for the Proposed Merged Entity.

9.6 Non-operating Assets and Liabilities

In order to assess the equity value of the Proposed Merged Entity, it is necessary to identify any non-operating assets and liabilities not used in generating the enterprise value. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity.
- **Surplus cash**: comprising of surplus cash held by the company, less debt used to fund a business.

Each of these factors are considered below.

Surplus assets

As at 30 September 2020, InPayTech had carried forward tax losses of approximately $10.1 million. According to InPayTech management, the Proposed Merged Entity is expected to satisfy conditions of the business continuity test. Based on the projected earnings of the Proposed Merged Entity, we note the tax losses will be fully utilised in approximately four years. The present value of the tax credits at the discount rate of between 13.0% and 15.0% is between $2.1 million and $2.2 million.

Non-operating liabilities

As at 30 September 2020, the Proposed Merged Entity has approximately $0.4 million of non-operating liabilities pertaining to expected transaction costs.

Surplus cash

The surplus cash position for the Proposed Merged Entity as at 30 September 2020 is set out in the table below:

Table 21: Surplus cash summary

Description ($'000)	
Cash	2,033
Borrowings[1]	(28)
Surplus cash	**2,005**

Source: Leadenhall analysis
Note 1: We have assumed book value is representative of fair market value for all borrowings.

9.7 Discount for Lack of Control

Shareholders would continue to own a minority stake in the Proposed Merged Entity if the Proposed Transaction proceeds. Consistent with the requirements of RG 111, the value of the consideration must be determined on a minority interest basis. In order to estimate the value of a minority interest it is necessary to apply a DLOC to the value of a 100% equity interest in the business. This discount takes into account the lack of control that a minority shareholder has over the affairs of a company and is described in more detail in Appendix 5.

A DLOC is effectively the inverse of a control premium. Australian studies have indicated that control premiums generally range from 20% to 40%. This implies a range for DLOC of approximately 17% to 29%. In selecting a suitable DLOC, we have considered:

Table 22: Factors affecting DLOC

DLOC considerations	
Factors indicative of lower DLOC	**Factors indicative of higher DLOC**
♦ The Board of the Proposed Merged Entity shall comprise of an Independent Chairman, two non-executive directors associated with InPayTech and two non-executive directors associated with Comply Path. The existence of independent directors would tend to reduce the level of DLOC. ♦ Shares of the Proposed Merged Entity are reasonably widely dispersed over a large number of holders.	♦ The Proposed Merged Entity is not expected to pay dividends, at least in the medium term. A low dividend pay-out typically produces a higher DLOC. ♦ The Proposed Merged Entity has a lower than optimal level of debt in its proposed capital structure. A company that is not optimally geared may increase the DLOC.

Source: Leadenhall analysis

As a result of these considerations, we have selected a DLOC of 25%.

9.8 Value Attributable to Options

As the Proposed Transaction does not trigger a conversion of the existing InPayTech options into ordinary shares, we have assessed the value of the options of the Proposed Merged Entity. The following table provides a summary of the assessed value of the options:

Table 23: Proposed Merged Entity options

Description	Number	Value range	Low ($'000)	High ($'000)
Options[1]	15,000,000	$0.005 - $0.008	77	117
Options[2]	1,850,000	$0.004 - $0.006	7	11
Total	**16,850,000**		**84**	**127**

Source: Leadenhall analysis
Notes:
1. Options with an exercise price of $0.035 expiring on 3 November 2023.
2. Options with an exercise price of $0.035 expiring on 15 October 2022.

We have analysed the value of the options using the Black-Scholes option pricing model. Key assumptions used in the Black-Scholes option pricing model were a 0% dividend yield and volatility of 50% (based on a volatility analysis on the comparable companies set out in Appendix 4).

9.9 Assessed Value After the Proposed Transaction

Summary

The preceding analysis leads to an assessed value of a share in the Proposed Merged Entity (on a minority basis) of between 2.3 cents and 2.8 cents as set out in the following table:

Table 24: Assessed value of a share in the Proposed Merged Entity

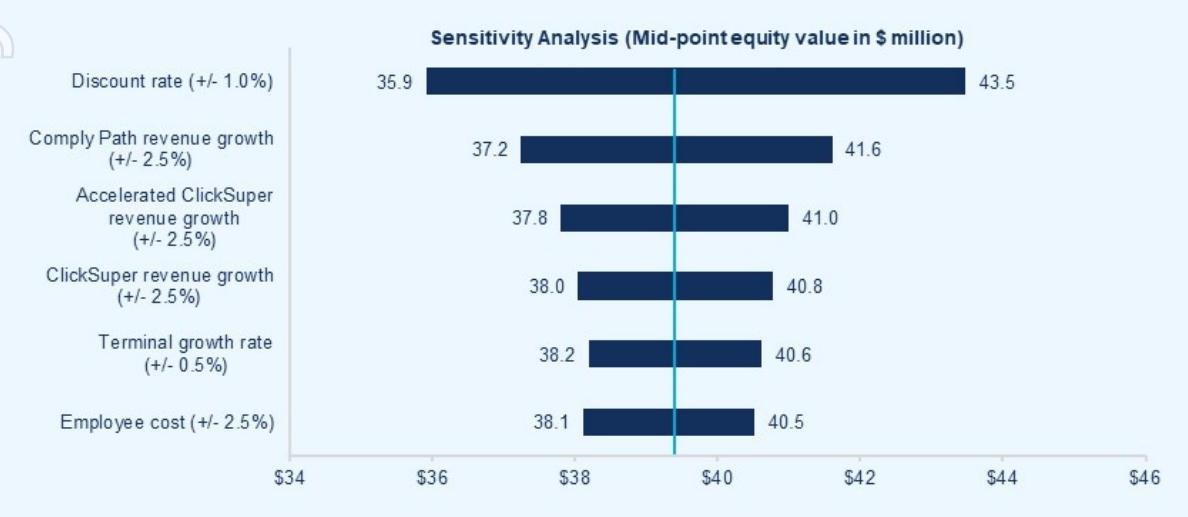
Equity value (minority basis) ($'000)		
	Low	High
Calculated enterprise value on a control basis	**32,206**	**39,491**
Surplus assets	2,128	2,225
Non-operating liabilities	(400)	(400)
Surplus cash	1,725	1,725
Assessed equity value on a control basis	**35,659**	**43,041**
Discount for lack of control (25%)	(8,915)	(10,760)
Equity value on a liquid minority basis	**26,744**	**32,280**
Allocation to options	(84)	(127)
Value allocated to ordinary shares	**26,660**	**32,153**
Ordinary shares on issue ('000)	1,146,521	1,146,521
Assessed value per ordinary share on a minority basis ($)	**0.023**	**0.028**

Source: Leadenhall analysis

Sensitivity analysis

This valuation is sensitive to a number of key assumptions as set out in the following figure:

Figure 13: Sensitivity analysis of equity value (in $ million)



Source: Leadenhall analysis

Any alternative reasonable assessment of the factors above individually would not impact our conclusion on the fairness and reasonableness of the Proposed Transaction.

9.10 Implied Multiples Cross-Check

As a cross-check to our valuation, we have conducted an analysis of public company trading multiples to determine if the implied multiples using the discounted cash flow approach are reasonable. The metrics implied by our discounted cash flow valuation are set out in the table below:

Table 25: Implied multiples

Implied multiples cross-check summary		
	Low	**High**
Calculated enterprise value on a control basis	**32,206**	**39,491**
Discount for lack of control (25%)	(8,051)	(9,873)
Enterprise value on a minority basis	**24,154**	**29,618**
Implied EBITDA multiple		
FY21 (Current)	nmf	nmf
FY22 (Forecast)	12.8x	15.6x
Implied EBIT multiple		
FY21 (Current)	nmf	nmf
FY22 (Forecast)	17.2x	21.1x

Source: Leadenhall analysis

We have identified multiples implied by market trading prices of public companies with similar businesses to the Proposed Merged Entity set out in Appendix 4 and compared these implied multiples to those calculated for the Proposed Merged Entity in the table above. It should be noted that the multiples set out below are based on market trading and consequently do not include the impact of a control premium.

Table 26: Comparable company market trading multiples

Company	Country	Market Cap (A$m)	EBITDA multiple Current	EBITDA multiple Forecast	EBIT multiple Current	EBIT multiple Forecast	EBITDA margin	EBIT margin	EBIT growth
Australian Comparable Companies									
Technology One Limited	Australia	2,535	24.6x	21.1x	29.7x	26.5x	35%	28%	12%
Link Administration Holdings Limited	Australia	1,982	10.3x	8.8x	19.2x	14.7x	25%	15%	31%
IRESS Limited	Australia	1,825	15.2x	14.1x	20.4x	18.5x	23%	17%	11%
Bravura Solutions Limited	Australia	840	13.3x	11.6x	16.3x	14.2x	21%	17%	14%
ReadyTech Holdings Limited	Australia	155	10.2x	9.1x	25.4x	19.9x	39%	18%	28%
Reckon Limited	Australia	96	4.5x	4.5x	12.1x	12.5x	39%	14%	-3%
PayGroup Limited	Australia	43	8.7x	6.0x	14.3x	8.3x	25%	18%	72%
Average			**12.4x**	**10.8x**	**19.6x**	**16.4x**	**30%**	**18%**	**24%**
Median			**10.3x**	**9.1x**	**19.2x**	**14.7x**	**25%**	**17%**	**14%**
International Comparable Companies									
Intuit Inc.	United States	119,139	26.2x	23.5x	28.2x	24.9x	38%	36%	13%
Automatic Data Processing, Inc.	United States	83,643	19.1x	16.4x	21.8x	18.3x	24%	22%	18%
Broadridge Financial Solutions, Inc.	United States	21,206	16.8x	15.8x	19.5x	17.9x	22%	19%	9%
The Sage Group plc	Great Britain	14,209	17.0x	17.3x	19.3x	19.3x	25%	22%	0%
Cornerstone OnDemand, Inc.	United States	3,264	15.6x	12.9x	26.8x	19.7x	33%	22%	36%
Bottomline Technologies (de), Inc.	United States	2,628	18.4x	16.0x	25.7x	21.5x	22%	17%	20%
EQS Group AG	Germany	266	nmf	22.3x	nmf	nmf	18%	7%	nmf
Asure Software, Inc.	United States	167	15.6x	13.5x	nmf	nmf	15%	-19%	-7%
Gresham Technologies plc	Great Britain	136	16.7x	16.3x	nmf	nmf	16%	6%	-12%
EASY SOFTWARE AG	Germany	129	10.1x	9.1x	nmf	nmf	14%	3%	34%
Issuer Direct Corporation	United States	104	16.6x	13.0x	27.3x	19.5x	24%	16%	40%
Average			**17.2x**	**16.0x**	**24.1x**	**20.2x**	**23%**	**14%**	**15%**
Median			**16.8x**	**16.0x**	**25.7x**	**19.5x**	**22%**	**17%**	**16%**

Source: S&P Capital IQ as at 30 September 2020
Note: Comparable companies with unavailable or non-meaningful implied multiples data are not presented in the table above. We have not validated the data of the comparable companies but have confirmed the treatment of AASB 16 Leases has been applied consistently across.

In respect of the above analysis, we note:

- The implied forecast EBITDA and EBIT multiples for the international comparable companies are higher than that for the Australian comparable companies as the international comparable companies are generally larger in size. All other things being equal, larger companies trade on higher multiples.
- While the Proposed Merged Entity is smaller than the majority of the comparable companies, FY22 EBIT growth of the Proposed Merged Entity is expected to be significantly higher than the comparable companies. In addition, the Proposed Merged Entity is expected to generate EBITDA and EBIT margins of approximately 22% and 17% respectively in FY22 which is in line with the average and median margins of the comparable companies.
- The implied forecast EBITDA and EBIT multiple of the Proposed Merged Entity ranges between 12.8x and 15.6x and between 17.2x and 21.1x respectively, which is within the range of the comparable companies. The implied forecast multiples of the Proposed Merged Entity are broadly similar to that of IRESS Limited which is operating on similar margins as the Proposed Merged Entity. In terms of size and operations, PayGroup Ltd is considered broadly similar to the Proposed Merged Entity and is trading on an implied forecast EBITDA and EBIT multiple of 6.0x and 8.3x. As the Proposed Merged Entity is expected to generate a significantly higher EBIT growth in the near-term, it is not unreasonable for the Proposed Merged Entity to trade at larger EBITDA and EBIT multiples.

Based on the above analysis, we consider that the cross-check provides broad support for our assessed value under the discounted cash flow approach.

9.11 Conclusion on Value After the Proposed Transaction

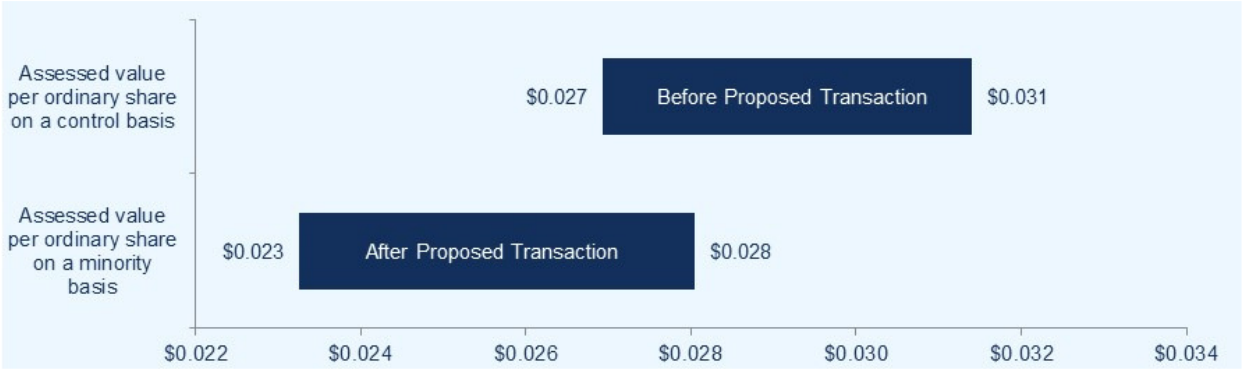
Based on our discounted cash flow analysis and implied multiples cross-check, we have selected a valuation range for a share in the Proposed Merged Entity of between 2.3 cents and 2.8 cents, on a minority basis.

10 EVALUATION

10.1 Fairness

We have assessed the Proposed Transaction as fair if the fair market value of an InPayTech share before the Proposed Transaction on a control basis is less than or equal to the fair market value of a share in the Proposed Merged Entity after the Proposed Transaction on a minority basis. This comparison is shown in the following figure:

Figure 14: Assessment of fairness



Source: InPayTech and Leadenhall analysis

Our assessed value range of a share in the Proposed Merged Entity (on a minority basis) partially overlaps our assessed value range of an InPayTech share before the Proposed Transaction (on a control basis). Given the assets have been valued on the same basis, we consider it appropriate to compare the upper end of the value range of a share in the Proposed Merged Entity with the upper end of the value range of an InPayTech share (and vice versa). We have therefore assessed the Proposed Transaction as being not fair.

10.2 Reasonableness

In accordance with ASIC guidelines, we have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, the advantages to Shareholders outweigh the disadvantages. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

Advantages

Increased value on a minority basis

While the Proposed Transaction does not generate a full control premium for Shareholders, based on our analysis it will lead to an increased value per share on a minority basis. Specifically, if we apply our selected discount for lack of control to the pre-transaction value of an InPayTech share it would be in the range of between 2.0 cents and 2.4 cents. At the mid-point, this is 0.4 cents below the assessed value after the Proposed Transaction.

Accelerates the development of ClickVu and associated cost savings

The Proposed Transaction accelerates the development and rollout of InPayTech's ClickVu product which is expected to help generate an increase in ClickSuper transactions and attract new customers. In addition, leveraging on the already developed Bond platform of Comply Path reduces development costs to be incurred of approximately $1.0 million over the next twelve months.

Potential synergies

Our valuation of the Proposed Merged Entity does not allow for the expected revenue synergies from cross-selling opportunities to the existing clients of both InPayTech and Comply Path. If these revenue synergies are achieved, that may represent upside to Shareholders relative to our assessed value.

Growth potential

Comply Path has a number of new clients in the pipeline which have not been fully included in the valuation of the Proposed Merged Entity. Therefore, if the Proposed Transaction is completed, Shareholders will be exposed to a company with significant growth expectations, which may in time lead to share price appreciation.

Scale and liquidity

If the Proposed Transaction is completed, Shareholders will hold shares in the Proposed Merged Entity which has the potential to be a significantly larger business than InPayTech standalone. This should lead to increased liquidity in InPayTech shares as well as a potential market re-rating. This additional scale may also make the enlarged group a more attractive takeover target, thereby increasing the probability that Shareholders will realise a full control premium at some point in the future.

Potential to realise an optimal capital structure

InPayTech currently operates on a less than optimal capital structure due to the lack of asset backing and ongoing losses limiting access to debt capital. The Proposed Merged Entity is expected to generate significantly greater profits in the medium term than the standalone business which may allow the use of additional leverage to realise an optimal capital structure.

Complementary activities

As InPayTech and Comply Path operate in similar parts of the RegTech industry in Australia, the Proposed Transaction would not only provide an opportunity for both businesses to consolidate but may reduce competition in some areas.

Disadvantages

Loss of control

If the Proposed Transaction is approved, the vendors of Comply Path would acquire practical control of InPayTech with a combined holding of 50%. This would include the ability to control the assets, the strategic direction of the company, and the decision of when to pay dividends. The vendors of Comply Path may not always act in the best interests of Shareholders, subject to compliance with relevant laws and regulations. This limits the ability to consider a takeover offer without the support of the vendors of Comply Path (to the extent they are aligned) which may reduce the potential for Shareholders to receive a control premium in the future.

Risks of achieving revenue growth and synergies

Our assessed value of the Proposed Merged Entity includes significant revenue growth projections and synergies. There is a risk that these expectations will not be realised (or fully valued by the market), in which case the value of the Proposed Merged Entity may decline or fail to trade at levels implied by our assessed value. However, InPayTech on a standalone basis faces similar risks.

Comply Path's financial statements are unaudited

Comply Path has not had its financial statements audited. Despite the commission of extensive due diligence on Comply Path there is an increased risk of material error in its financial statements than if it was audited.

Potential non-renewal of contracts for Comply Path

Our assessed value of the Proposed Merged Entity includes expectations that the Comply Path's sales contracts will be renewed, or if not, there are adequate alternative revenue sources which can replace the loss of contracted revenue. There is a risk of both scenarios failing to materialise, in which case, the value of the Proposed Merged Entity may decline or fail to trade at levels implied by our assessed value.

Shareholders will receive a smaller share of the upside than Vendors

While there is a significant increase in the enterprise value if the Proposed Transaction proceeds (due largely to expected synergies), Shareholders will receive a smaller share of this upside than the vendors of Comply Path.

Conclusion on reasonableness

In considering the reasonableness of the Proposed Transaction, we consider the advantages outweigh the disadvantages, in particular the increased value on a minority basis. In the absence of a higher value alternative, we have therefore assessed the Proposed Transaction as being reasonable.

10.3 Opinion

The Proposed Transaction is not fair but reasonable to Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own particular circumstances. If in doubt, the shareholder should consult an independent financial adviser.

APPENDIX 1: GLOSSARY

Term	Meaning
AFCA	Australian Financial Complaints Authority
API	Application Programming Interface
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
ATO	Australian Taxation Office
AUD	Australian Dollar
CAPM	Capital Asset Pricing Model
CCAF	Cambridge Centre for Alternative Finance
ClickSuper	Click Super Pty Ltd
Comply Path	Comply Path Holdings Pty Ltd and its subsidiaries
Corporations Act	The Corporations Act 2001
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FinTech	Financial Technology
FSG	Financial Services Guide
FY	Financial year
InPayTech	Integrated Payment Technologies Ltd
Item 7	Item 7 of Section 611 of the Corporations Act
KYC	Know your customer
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
NPAT	Net profit after tax
Payment Adviser	Payment Adviser Pty Ltd
PBT	Profit before tax
PEPPOL	Pan-European Public Procurement Online
Proposed Transaction	The proposed acquisition of Comply Path with the issue of shares equivalent to 50% interest in InPayTech
Proposed Merged Entity	The combined InPayTech and Comply Path after the Proposed Transaction
RBA	Reserve Bank of Australia
RegTech	Regulatory technology industry
RG111	Regulatory Guide 111: Content of Expert Reports
RG74	Regulatory Guide 74: Acquisitions Approved by Members
s606	Section 606 of the Corporations Act 2001
s611	Section 611 of the Corporations Act 2001
SaaS	Software-as-a-service
Shareholders	InPayTech's shareholders
STP	Single Touch Payroll
Tips Go	Tips Go Pty Ltd
Vendors of Comply Path	Collectively Mr Trent Lund, Mr Joe Brasacchio and Clinton Capital Partners
VWAP	Volume-weighted average price
WACC	Weighted Average Cost of Capital

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

A level of future maintainable earnings
An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

- **Revenue** – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.
- **EBITDA** - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.
- **EBITA** - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.
- **EBIT** - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).
- **NPAT** - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: DISCOUNT RATE

The selected discount rates applied in our discounted cash flow analysis for InPayTech and the Proposed Merged Entity have been determined using the weighted average cost of capital. We have estimated the cost of equity component with the capital asset pricing model.

Post-tax cost of equity (K_e)

The CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk-free investments (such as government bonds). The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta \times (R_m - R_f) + \alpha$$

The components of the CAPM formula are:

Table 27: Components of CAPM

Input	Definition
K_e	The required post-tax return on equity
R_f	The risk-free rate of return
R_m	The expected return on the market portfolio
EMRP	The market risk premium ($R_m - R_f$)
β	The beta, the systematic risk of a stock (this is an equity or levered beta)
α	The specific company risk premium

Each of the components in the above equation is discussed below.

Risk-free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically over a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. We have selected a risk-free rate of 0.84%, being the yield on 10-year Australian Government bonds as at 30 September 2020.

Equity market risk premium (EMRP)

The EMRP ($R_m - R_f$) represents the additional return that investors expect from an investment in a well-diversified portfolio of assets (such as a market index). It is the excess return above the risk-free rate that investors demand for their increased exposure to risk, when investing in equity securities.

Leadenhall undertakes a review of the EMRP at least every six months, taking account of market trading levels and industry practice at the time. Our most recent analysis of the implied EMRP in Australia was 7.25% to 7.75% as at September 2020.

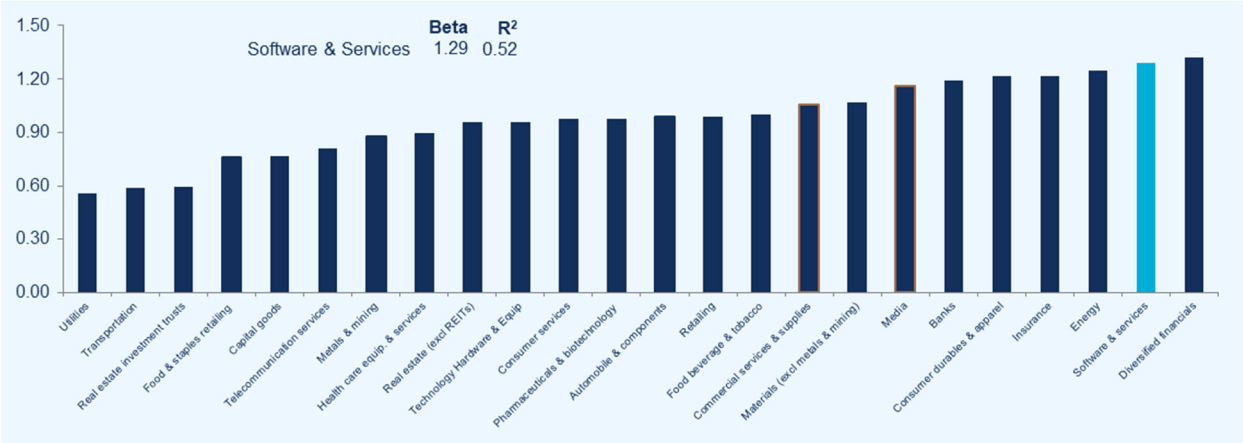
Beta estimate (β)

Description

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of assets. The only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or uninsurable risk.

Beta is a measure of the relative riskiness of an asset in comparison to the market as a whole – by definition the market portfolio has an equity beta of 1.0. The equity betas of various Australian industries listed on the Australian Stock Exchange are reproduced below. Given the significant unusual market movements driven by COVID-19 in early 2020, we have based our industry beta estimates on data up to December 2019.

Figure 15: Industry betas



Source: SIRCA as at 31 December 2019

Betas derived from share market observations represent equity betas, which reflect the degree of financial gearing of the company. In order to eliminate the impact of differing capital structures, analysts often 'unlever' observed betas to calculate an asset beta. The selected asset beta is then 'relevered' with a target level of debt. The asset betas of companies comparable to InPayTech are included in the following table.

Table 28: Comparable company betas

Company	Country	Market Cap (A$m)[1]	Gearing D/EV[2]	Asset Beta SIRCA	Asset Beta LH[3]	Asset Beta LH[4]	R^2 SIRCA	R^2 LH[3]	R^2 LH[4]
Integrated Payment Technologies Ltd	Australia	19	-30%	6.47	nmf	3.60	0.25	0.00	0.20
Australian Comparable Companies									
Xero Ltd	Australia	17,171	-1%	0.91	1.40	0.83	0.25	0.20	0.24
Technology One Ltd	Australia	2,756	-5%	0.35	0.73	0.25	0.04	0.06	0.02
Link Administration Holdings Ltd	Australia	2,615	19%	1.41	0.49	1.28	0.47	0.05	0.43
IRESS Ltd	Australia	1,860	8%	0.85	1.16	0.88	0.32	0.22	0.34
Bravura Solutions Ltd	Australia	808	-9%	0.98	0.50	0.95	0.18	0.02	0.16
Elmo Software Ltd	Australia	557	-15%	2.03	0.85	1.96	0.42	0.04	0.40
Bigtincan Holdings Ltd	Australia	460	-33%	2.36	0.99	2.01	0.37	0.03	0.28
LiveTiles Ltd	Australia	213	-10%	2.09	1.69	2.05	0.22	0.06	0.22
ReadyTech Holdings Ltd	Australia	179	20%	n/a	nmf	1.74	n/a	0.28	0.57
Reckon Ltd	Australia	92	26%	0.84	0.83	0.86	0.18	0.07	0.22
intelliHR Ltd	Australia	62	-11%	2.74	1.66	2.72	0.23	0.02	0.16
PayGroup Ltd	Australia	38	-30%	n/a	nmf	0.68	n/a	0.00	0.06
Kyckr Ltd	Australia	30	-29%	1.68	0.75	1.67	0.06	0.00	0.07
Average (excluding outliers[5]) - Australian			**-5%**	**0.90**	**0.89**	**0.91**			
Median (excluding outliers[5]) - Australian			**-9%**	**0.88**	**0.84**	**0.87**			
International Comparable Companies									
Intuit Inc.	United States	128,637	-3%	n/a	0.80	1.03	n/a	0.27	0.54
Automatic Data Processing Inc.	United States	103,454	0%	n/a	0.88	0.75	n/a	0.34	0.33
Workday Inc.	United States	73,662	-3%	n/a	1.36	1.33	n/a	0.19	0.30
Paycom Software Inc.	United States	30,125	0%	n/a	1.45	1.41	n/a	0.21	0.30
Broadridge Financial Solutions Inc.	United States	23,322	8%	n/a	0.59	0.80	n/a	0.15	0.37
Ceridian HCM Holding Inc.	United States	19,662	17%	n/a	1.36	1.26	n/a	0.39	0.48
Avalara Inc.	United States	18,223	-7%	n/a	0.38	0.63	n/a	0.01	0.07
Paylocity Holding Corporation	United States	13,875	-3%	n/a	1.34	1.39	n/a	0.14	0.27
The Sage Group plc	Great Britain	13,382	7%	n/a	0.73	0.69	n/a	0.16	0.32
BlackLine, Inc.	United States	8,314	-7%	n/a	0.85	0.82	n/a	0.07	0.12
Workiva Inc.	United States	4,761	-7%	n/a	1.11	1.51	n/a	0.11	0.37
Cornerstone OnDemand, Inc.	United States	3,721	-2%	n/a	1.48	1.39	n/a	0.30	0.39
Bottomline Technologies (de) Inc.	United States	2,727	1%	n/a	1.16	1.26	n/a	0.21	0.40
EQS Group AG	Germany	280	7%	n/a	0.43	0.53	n/a	0.07	0.15
Asure Software Inc.	United States	158	27%	n/a	1.09	1.00	n/a	0.07	0.11
Gresham Technologies plc	Great Britain	153	-9%	n/a	2.21	1.32	n/a	0.15	0.14
EASY SOFTWARE AG	Germany	135	10%	n/a	0.55	0.78	n/a	0.04	0.07
Issuer Direct Corporation	United States	110	-30%	n/a	1.09	1.19	n/a	0.08	0.15
Average (excluding outliers[5]) - International			**0%**	**n/a**	**0.92**	**0.96**			
Median (excluding outliers[5]) - International			**-1%**	**n/a**	**0.98**	**0.91**			
Average (excluding outliers[5]) - Overall			**-2%**	**0.90**	**0.96**	**0.95**			
Median (excluding outliers[5]) - Overall			**-3%**	**0.88**	**0.88**	**0.87**			

Source: Leadenhall analysis as at 31 December 2019 and 17 November 2020; SIRCA as at 30 June 2020
Notes:
1. Market capitalisation as at 17 November 2020
2. Gearing levels represent the five-year average gearing levels.
3. Leadenhall beta as at 31 December 2019
4. Leadenhall beta as at 17 November 2020
5. The outliers are highlighted in grey and have been excluded from the average and median calculations.

Selected beta (β)

In selecting an appropriate beta for InPayTech and the Proposed Merged Entity, we have considered the following:

- The outbreak of COVID-19 in early 2020 has introduced significant noise into beta estimation. The impact of the pandemic varies across industries and there is presently no reason to expect underlying beta has changed for any specific industry. We have therefore used both pre-COVID data as at 31 December 2019 and current data as at 17 November 2020 for our estimation.
- The industry equity beta for the Australian Software and Services industry was 1.29 as at 31 December 2019 and 1.30 as at 30 June 2020. The industry equity beta represents the broader Software and Services industry and therefore is less directly relevant to InPayTech.
- The asset betas implied by the regression analysis of InPayTech's share returns on market returns are not meaningful for our analysis due to anomalies in InPayTech's market trading.
- The average asset betas (excluding outliers) for broadly comparable Australian companies are between 0.89 and 0.91 and the median asset betas for the dataset are between 0.84 and 0.88.
- The average asset betas (excluding outliers) for broadly comparable International companies are between 0.92 and 0.96 and the median asset betas for the dataset are between 0.91 and 0.98.
- The overall average asset betas (excluding outliers) are between 0.90 and 0.96 and the overall median asset betas (excluding outliers) are between 0.87 and 0.88.
- InPayTech and the Proposed Merged Entity provide an overlay service and assist users in their payroll administration and superannuation compliance functions. Due to the lack of directly comparable RegTech companies in Australia, we have included the ASX-listed financial administration software providers (IRESS Ltd, Bravura Solutions Ltd and Link Administration Holdings) in the list of broadly comparable companies. In terms of geography, size and the industry it operates in, Kyckr Ltd is considered broadly similar to InPayTech and the Proposed Merged Entity. However, we note Kyckr Ltd provides KYC solutions for anti-money laundering, anti-tax evasion and anti-fraud.
- The International comparable companies' dataset includes companies providing regulatory and compliance technology solutions. These comprise Broadridge Financial Solutions Inc., Bottomline Technologies (de) Inc., Workiva Inc., Avalara Inc., EQS Group AG and Issuer Direct Corporation. Whilst these companies provide technology regulatory and/or compliance solutions, they are significantly larger in size and generally have more diversified operations than InPayTech and the Proposed Merged Entity. Accordingly, InPayTech and the Proposed Merged Entity inherently have a higher systematic risk profile than the broadly comparable companies.
- In addition, we note a number of the broadly comparable companies are human capital management and/or payroll software providers (i.e. Automatic Data Processing Inc., Intuit Inc., The Sage Group Plc, Ceridian HCM Holding Inc., Paylocity Holding Corporation, Technology One Ltd and BlackLine Inc.). However, they are significantly larger in size and scale of operations than InPayTech and the Proposed Merged Entity. Accordingly, InPayTech and the Proposed Merged Entity inherently have a higher systematic risk profile than the broadly comparable companies.
- We note the R-squared for several listed comparable companies are lower than 0.10, which indicates a wide range of potential underlying betas for these stocks.
- As a result of these considerations we have selected an asset beta between 1.00 and 1.10 for both InPayTech and for the Proposed Merged Entity which equates to an equity beta of 1.08 to 1.19 after applying our selected gearing levels of 10%. Our selected gearing level takes into consideration InPayTech and the Proposed Merged Entity's long-term need for leverage to fund its growth and maximise returns to shareholders, constrained by the lack of ability to support significant levels of debt given its poor profitability and cash flow generation. The selected gearing levels are within the range of the comparable companies' gearing levels.

Specific company risk premium (α)

Size premium

The size premium is the additional return that investors require for the risks of investing in small businesses. To date, whilst it has not been possible to isolate the specific causes of size premiums (other than simply size), many factors have been suggested, including:

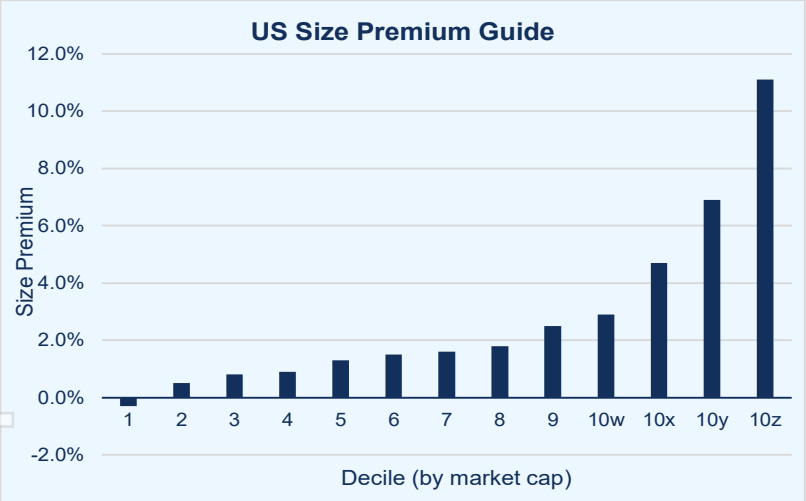
- Depth of management
- Reliance on key personnel
- Weak market position
- Reliance on key customers
- Reduced access to capital
- Deeper pool of investors for larger companies
- Reliance on key suppliers
- Lack of geographic diversification
- Limited access to technology
- Absence of broker analysis
- Supplier concentration
- Investors in large companies often more diversified

The size premium can be observed in earnings multiples of listed companies, with large companies trading on higher multiples than small companies, all else being equal. Size premiums are observed consistently across time, across different markets and across a very wide range of company values.

A number of studies have been undertaken attempting to measure the size premium, in particular in the US. The Duff & Phelps Cost of Capital Navigator is an online application that provides guidance in estimating cost of capital. It contains calculations of the size premium for each decile of market capitalisation. As the size premium is most significant for very small companies, the tenth decile is then further divided into four equal segments.

The following chart summarises the size premium data from the Duff & Phelps Cost of Capital Navigator.

Table 29: Evidence of size premium



Source: Duff & Phelps Cost of Capital Navigator, data through 31 December 2018
Note: The first decile represents the largest companies while the 10z decile represents the smallest companies by market capitalisation.

As mentioned above, the existence of the size premium has been well documented. However, there are limited studies setting out the appropriate bands of size premium and the quantum of size premium applicable to each band. For this reason, the above table should be taken as broad support for the size effect and not an exact guide to the extent of any particular discount or premium that should be applied.

Although there is considerable evidence from the US, in the Australian context, the relatively small size of the Australian equity market makes it more difficult to observe the existence of this phenomenon.

Leadenhall and others have conducted a number of high-level studies which have confirmed the existence of the size effect in the Australian market. However, we are not aware of any Australian studies that have been performed with the same detail and rigour as the US studies, such as the Duff & Phelps data presented above. Based on the evidence from US studies and our knowledge of prices actually paid in Australian transactions, from which a discount rate can be implied, we believe the size premium ranges in the below table are appropriate. This table should be taken as a guide to the appropriate size premium for a given business and needs to be considered in conjunction with the specific circumstances of a particular business.

Table 30: Leadenhall size premium bandings

Size Premium Guide for Australia				
Size	**Mkt Cap Range (AU$m)**		**Size Premium**	
	Low	***High***	***Low***	***High***
Largest	4,000	Above	-	-
Large	1,000	4,000	-	1.0%
Mid-cap	300	1,000	1.0%	2.0%
Low-cap	100	300	2.0%	3.0%
Small-cap	50	100	3.0%	5.0%
Micro-cap	10	50	5.0%	8.0%
Medium private [1]	*5*	*10*	*8.0%*	*11.0%*
Small private [1]	*2*	*5*	*11.0%*	*15.0%*
Smallest [1]	-	*2*	*15.0%*	*20.0%*

Source: Leadenhall analysis
Note 1: We do not generally consider the CAPM model to be reliable for entities of this size as they often do not meet the background assumptions underpinning the CAPM. In particular, investors are often not diversified, and it is rarely possible to lend or borrow stock of entities this size (i.e. a market for shorting these stocks). These suggested size premiums are therefore presented as an approximate guide only as alternate models, studies and rules of thumb are commonly utilised for these type of companies.

Based on its market capitalisation of $16 million as at 30 September 2020, InPayTech would be considered a micro-cap public company and as such a size premium of between 5% and 8% would generally apply. Accordingly, we have selected a size premium of 6.5% to 7.5% for InPayTech and a slightly lower premium 5.5% to 6.5% for the Proposed Merged Entity.

Other company specific risks

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as reliance on key customers, reliance on key suppliers, existence of contingent liabilities etc that are not already factored into the size premium. We consider that these factors are reflected in either the cash flow forecasts or adjustments to size premium discussed above for InPayTech and the Proposed Merged Entity. We have therefore not applied a specific risk premium for the Proposed Transaction valuation.

Dividend Imputation

Since July 1987, Australia has had a dividend imputation system in place, which aims to remove the double taxation effect of dividends paid to investors. Under this system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is now not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added to any analysis of value.

However, in our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive. There are diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Due to the uncertainty surrounding the extent to which acquirers of assets factor in dividend imputation, we have not factored in dividend imputation.

Conclusion on cost of equity

The following table sets out our cost of equity estimate for InPayTech and the Proposed Merged Entity based on the assumptions and inputs discussed above:

Table 31: Estimated cost of equity for InPayTech and the Proposed Merged Entity

Discount Rate Summary				
	In Pay Tech		Proposed Merged Entity	
	Low	High	Low	High
Risk free rate (R_f)	0.84%	0.84%	0.84%	0.84%
Asset beta (β_A)	1.00	1.10	1.00	1.10
Equity beta (β_E)	1.08	1.19	1.08	1.19
Equity market risk premium (EMRP)	7.25%	7.75%	7.25%	7.75%
Size premium (α_{size})	6.5%	7.5%	5.5%	6.5%
Specific risk premium (α_c)	0.0%	0.0%	0.0%	0.0%
Assessed cost of equity (k_e)	**15.2%**	**17.5%**	**14.2%**	**16.5%**

Source: Leadenhall analysis

Post-tax weighted average cost of capital (WACC)

WACC reflects the rate of return expected for an asset, adjusted for its underlying funding structure, such as relative components of debt and equity, calculated as follows:

$$WACC = (K_e \times E/V) + (K_d \times D/V + (1- t_c))$$

The components of the WACC formula are:

Table 32: Components of WACC

Input	Definition
WACC	The post-tax weighted average cost of capital
K_e	The required post-tax return on equity
t_c	The corporate tax rate
K_d	The required pre-tax return on debt
D	The market value of debt
E	The market value of equity
V	The market value of business, where V = D + E

Each of the components in the above equation is discussed below.

Cost of equity (K_e)

The required post-tax return on equity as assessed in the preceding section.

Corporate tax rate (t_c)

The corporate tax rate in Australia is 30% and we have adopted this rate in calculating the WACC for InPayTech and the Proposed Merged Entity.

Cost of debt capital (K_d)

The cost of borrowing is the expected future borrowing cost of the relevant project and/or business. We have assessed the cost of debt capital for InPayTech and the Proposed Merged Entity to be between 5.5% and 6.5%, based on current indicative lending rates for businesses of similar size as InPayTech and the Proposed Merged Entity.

Debt and equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset. We have selected a debt to enterprise value of 10% as the optimal capital structure for InPayTech and the Proposed Merged Entity. This takes into consideration InPayTech and the Proposed Merged Entity's long-term need for leverage to fund its growth and maximise returns to shareholders, constrained by the lack of ability to support significant levels of debt given its poor profitability and cash flow generation. The selected gearing level is within the range of the comparable companies' gearing levels.

Calculation of WACC

The table below summarises the post-tax, nominal discount rate we have derived for InPayTech and the Proposed Merged Entity, based on the assumptions and inputs discussed above.

Table 33: Estimated WACC for InPayTech and the Proposed Merged Entity

Discount Rate Summary				
	In Pay Tech		Proposed Merged Entity	
	Low	High	Low	High
Assessed cost of equity (k_e)	**15.2%**	**17.5%**	**14.2%**	**16.5%**
Cost of debt (K_d)	5.5%	6.5%	5.5%	6.5%
Gearing (D/V)	10.0%	10.0%	10.0%	10.0%
Tax rate (t)	30.0%	30.0%	30.0%	30.0%
Calculated WACC	**14.0%**	**16.2%**	**13.1%**	**15.3%**
Selected WACC	**14.0%**	**16.0%**	**13.0%**	**15.0%**

Source: Leadenhall analysis

We have used a slightly wider range of discount rates than normal as we consider InPayTech and the Proposed Merged Entity to be early-stage companies with a wider range of potential outcomes.

APPENDIX 4: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by S&P Capital IQ.

Company	Description
Asure Software, Inc.	Asure Software, Inc. provides cloud-based human capital management and workspace management solutions worldwide.
Automatic Data Processing Inc.	Automatic Data Processing, Inc. provides cloud-based human capital management solutions worldwide.
Avalara, Inc.	Avalara, Inc., together with its subsidiaries, provides cloud-based solutions for transaction tax compliance worldwide.
Bigtincan Holdings Limited	Bigtincan Holdings Limited, a software development company, provides software as a services application platform.
BlackLine, Inc.	BlackLine, Inc. provides financial accounting close solutions delivered primarily as Software as a Service in the United States and internationally.
Bottomline Technologies (de), Inc.	Bottomline Technologies (de), Inc. provides various solutions for the banking, financial services, insurance, healthcare, technology, retail, communications, education, media, manufacturing, and government industries.
Bravura Solutions Limited	Bravura Solutions Limited provides enterprise software and software-as-a-service (SaaS) to the wealth management, life insurance, and funds administration markets in Australia, New Zealand, the United Kingdom, and internationally.
Broadridge Financial Solutions, Inc.	Broadridge Financial Solutions, Inc. provides investor communications and technology-driven solutions for the financial services industry worldwide.
Ceridian HCM Holding Inc.	Ceridian HCM Holding Inc. operates as a human capital management (HCM) software company in the United States, Canada, and internationally.
Cornerstone OnDemand, Inc.	Cornerstone OnDemand, Inc., together with its subsidiaries, provides learning and people development solutions through software-as-a-service model worldwide.
EASY SOFTWARE AG	EASY SOFTWARE AG develops and provides software solutions worldwide.
Elmo Software Limited	Elmo Software Limited provides software-as-a-service, cloud-based human resource (HR) and payroll solutions for organizations in Australia, New Zealand, and the United Kingdom.
EQS Group AG	EQS Group AG provides regulatory technology for corporate compliance and investor relations in Germany and internationally.
Gresham Technologies plc	Gresham Technologies plc, a software and services company, provides solutions for data integrity and control, banking integration, and payments and cash management in the United Kingdom, Europe, the Middle East, Africa, the United States, North America, Australia, and the Asia Pacific.
intelliHR Limited	intelliHR Limited, together with its subsidiaries, develops and commercializes cloud based people management platform in Australia and internationally.

Company	Description
Intuit Inc.	Intuit Inc. provides financial management and compliance products and services for consumers, small businesses, self-employed, and accounting professionals in the United States, Canada, and internationally.
IRESS Limited	IRESS Limited provides market data, trading, compliance, order management, portfolio and wealth management, mortgages and related tools in Australia, New Zealand, Asia, North America, Europe, South Africa, and the United Kingdom.
Issuer Direct Corporation	Issuer Direct Corporation provides shareholder communications and compliance platforms, technologies, and services in North America and Europe.
Kyckr Limited	Kyckr Limited provides data and technology solutions in Australia, Ireland, and internationally.
Link Administration Holdings Limited	Link Administration Holdings Limited provides technology-enabled administration solutions trustees in Australia, New Zealand, the United Kingdom, Channel Islands, and internationally.
LiveTiles Limited	LiveTiles Limited develops and sells digital workplace software.
Paycom Software, Inc.	Paycom Software, Inc. provides cloud-based human capital management (HCM) software service for small to mid-sized companies in the United States.
PayGroup Limited	PayGroup Limited provides payroll and human capital management solutions in the Asia Pacific and the Middle East. The company provides software-as-a-service payroll solutions and cloud based human capital management platform, HROnline, for data aggregation, reporting, and critical workflows.
Paylocity Holding Corporation	Paylocity Holding Corporation provides cloud-based payroll and human capital management software solutions for medium-sized organizations in the United States.
ReadyTech Holdings Limited	ReadyTech Holdings Limited provides mission-critical people management software for educators, employers, and facilitators of career transitions in Australia.
Reckon Limited	Reckon Limited provides software solutions in Australia, the United States, and internationally.
Technology One Limited	Technology One Limited researches, develops, markets, sells, implements, and supports integrated enterprise business software solutions worldwide.
The Sage Group plc	The Sage Group plc, together with its subsidiaries, provides technology solutions and services.
Workday, Inc.	Workday, Inc. provides enterprise cloud applications worldwide.
Workiva Inc.	Workiva Inc., together with its subsidiaries, provides connected reporting and compliance platform worldwide.
Xero Limited	Xero Limited, together with its subsidiaries, operates as a software as a service company worldwide.

Source: S&P Capital IQ

APPENDIX 5: CONTROL PREMIUM

The outbreak of COVID-19 and the consequential general decline in share prices is likely to have an impact on implied control premiums in the current environment. Although there is anecdotal evidence from previous economic downturns of control premiums being higher than the long-term average in times of economic distress, it is difficult to quantify the impact of the current environment on long-term estimates based on currently available data. We have therefore presented our analysis of control premiums prior to the outbreak of COVID-19 noting that any reasonable range of control premiums does not impact our conclusion on the Proposed Transaction.

Background

The difference between the control value and the liquid minority value of a security is the control premium. The inverse of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including the ability to:

- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the company
- Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- Set the financial structure of the company (debt / equity mix)
- Block any or all of the above actions

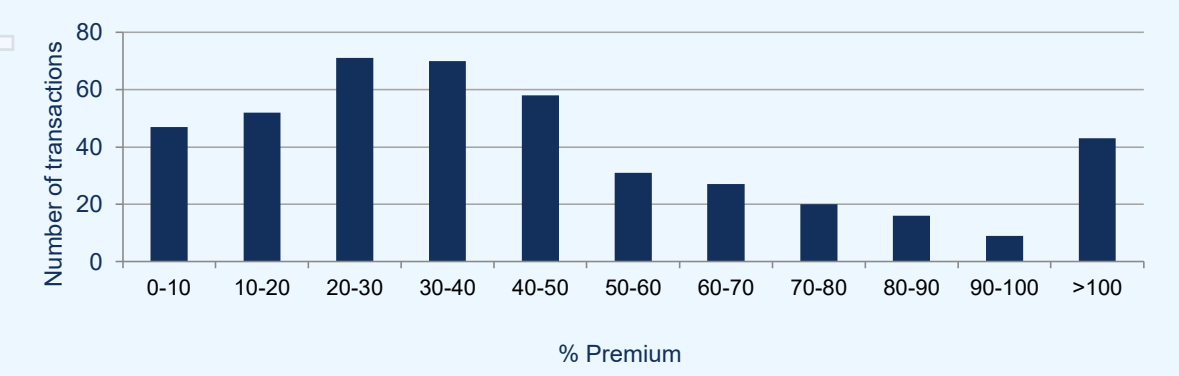
The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2007 and 2017. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

Figure 16: Takeover premium by size



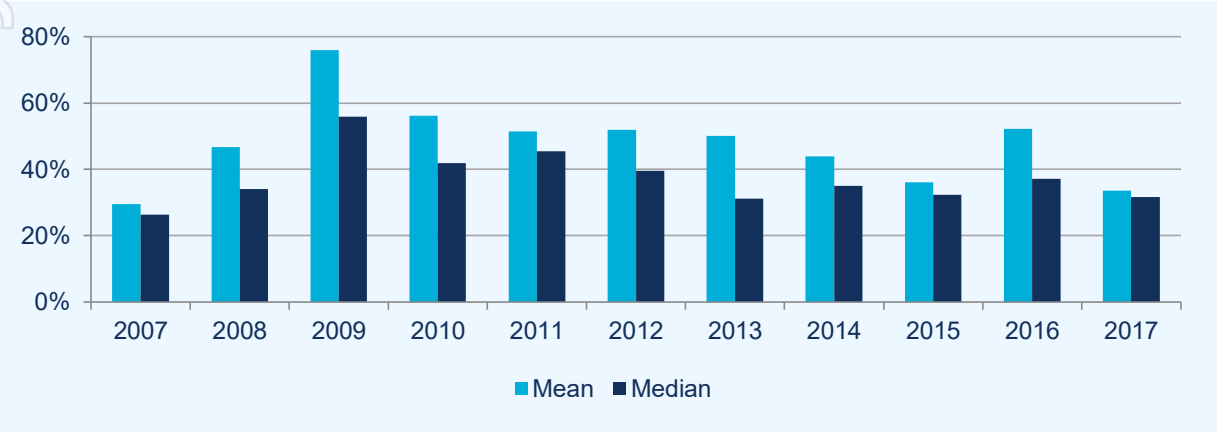
Sources: S&P Capital IQ, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premiums are in the range of 20% to 40%, with approximately 65% of all premiums falling in the range of 0% to 50%.

Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

Figure 17: **Average takeover premium (1 month)**



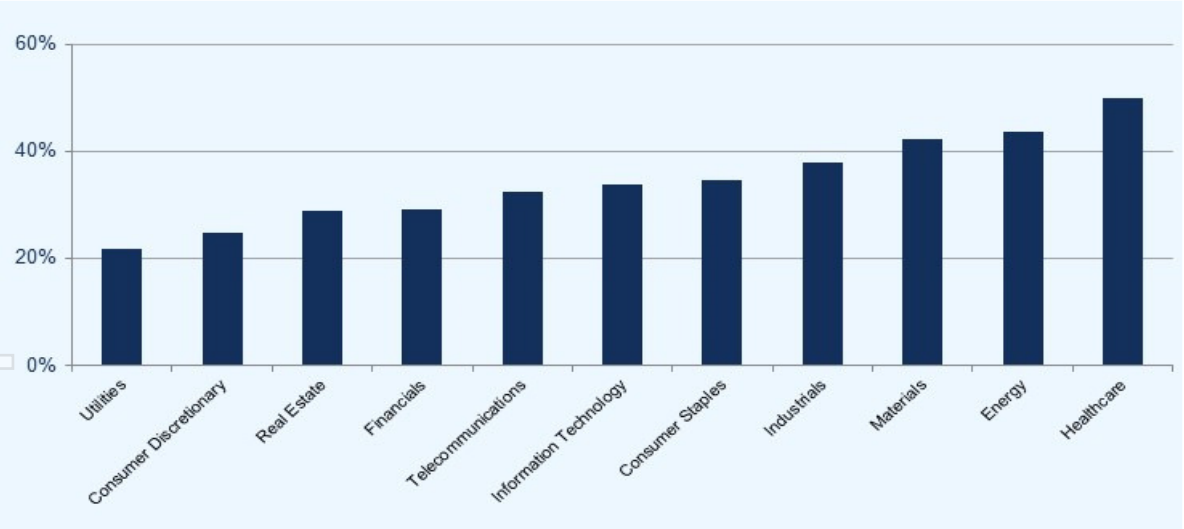
Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 40%.

Figure 18: Average takeover premium (2007 to 2017)



Sources: S&P Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude specific transactions with implied control premiums below zero or over 100% which we consider to be outliers.

Key factors that generally lead to higher premiums being observed include:

- Competitive tension arising from more than one party presenting a takeover offer.
- Favourable trading conditions in certain industries (e.g. recent mining and tech booms).
- Significant synergistic special or strategic value.
- Scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- Grant Samuel - 20% to 35%
- KPMG - 25% to 35%
- Lonergan Edwards - 30 to 35%
- PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature on the topic.

Alternative View

Whilst common practice is to accept the existence of a control premium in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate view point to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. Those practitioners agree that the reason we see some takeovers at a premium is that if a company is not well run, there is a premium related to the difference in value between a hypothetical well-run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership/strategic stakes will confer different degrees of control and rights as shown below.

- 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- 75% - power to pass special resolutions
- > 50% - gives control depending on the structure of other interests (but not absolute control)
- > 25% - ability to block a special resolution
- 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- < 20% - generally has only limited influence

Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

> 50%

For all practical purposes, a 50% interest confers a similar level of control to holdings of greater than 50%, at least where the balance of the shares are listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.

Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

< 20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.

As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium, Aswath Damodaran notes "the value of controlling a firm has to lie in being able to run it differently (and better)". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

Key factors in determining a reasonable control premium

Key factors to consider in determining a reasonable control premium include:

- **Size of holding** – generally, larger stakes attract a higher control premium
- **Other holdings** – the dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- **Industry premiums** – evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- **Size** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- **Dividends** – a higher dividend pay-out generally leads to a lower premium for control
- **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- **Board** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- **Shareholders' agreement** - the existence and contents of a shareholder's agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium.

APPENDIX 6: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for InPayTech's shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by InPayTech and Comply Path being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards (unless otherwise stated) and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to InPayTech and Comply Path's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of InPayTech and Comply Path's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for InPayTech and Comply Path, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of InPayTech and Comply Path referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by InPayTech and Comply Path and their officers, employees, agents or advisors, InPayTech has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by InPayTech and Comply Path and their officers, employees, agents or advisors or the failure by InPayTech and Comply Path and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin; Simon Dalgarno, B.Ec, FCA, F.FINSIA; Dave Pearson, BCom., CA, CFA, CBV; and Bruce Li, BCom., CA, CA BV Specialist.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard.

Independence

Leadenhall and its related entities do not have at the date of this report, and have not had within the previous five years (other than those disclosed below), any business or professional relationship with InPayTech, Comply Path or any other related entities or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

We advise that in the previous five years we have undertaken the following engagements in respect of InPayTech:

- In July 2016, we were engaged to prepare a purchase price allocation report for financial reporting purpose in relation to InPayTech's acquisition of Payment Adviser Group.
- In July 2017, we were engaged to perform an impairment analysis of the carrying value of InPayTech's goodwill arising from the acquisition of Payment Adviser Group in 2016.

The fees for the above engagements were not material in the context of Leadenhall group revenue over the last five financial years.

Leadenhall was not involved in the setting the terms of, or any negotiations leading to, the Proposed Transaction. Our only role has been in the preparation of this report.

Leadenhall has acted independently of InPayTech and Comply Path. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.