



VICTORY OFFICES LIMITED

Financial Services Guide and Independent Expert's Report

22 April 2021

FINANCIAL SERVICES GUIDE

22 April 2021

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 ("RSM Corporate Australia Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client 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 services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide 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 various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

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

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination. If a complaint is received in advance of a shareholder meeting or other key date where shareholders or investors may be making decisions which are influenced by our report, we will make all reasonable efforts to respond to complaints prior to that date.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstances expires.

Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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22 April 2021

The Directors
Victory Offices Limited
Level 2, 420 Collins Street,
Melbourne, VIC 3000

Dear Directors

INDEPENDENT EXPERT'S REPORT ("REPORT")

1. Introduction

1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of Victory Offices Limited ("VOL" or "the Company") to be held on or around 1 June 2021, at which shareholder approval will be sought for ("Proposed Transaction"):

- The issue of 59,746,674 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to Victory Group Holdings Pty Ltd ("VGH") (a company associated with the Company's Managing Director - Mr Dan Baxter) to raise \$15m in cash;
- The issue of 8,168,370 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to VGH to convert loans of circa \$2.05m owing by the Company to VGH; and
- The issue of 8,132,972 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to Victory Petroleum Pty Ltd ("VPL") to convert loans of circa \$2.04m owing by the Company to VPL (Collectively VGH and VPL are referred to in this IER as "VGH and associates").

1.2 The Independent Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the Proposed Transaction is fair and reasonable to shareholders not associated with the Proposed Transaction ("Non-Associated Shareholders").

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RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847

- 1.3 The request for approval of the Proposed Transaction is included as Resolutions 1, 2 & 3 in the Notice as set out below.

Resolution 1: Approval for issue of shares to Victory Group Holdings Pty Ltd (a company associated with the Company's Managing Director - Mr Dan Baxter)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to Resolutions 2 and 3 being passed and for the purposes of section 611, item 7 of the Corporations Act 10.11 and for all other purposes, shareholders approve and authorise the Company to issue 59,746,674 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share (being the 10-day VWAP as at close of trade 20 April 2021) to Victory Group Holdings Pty Ltd ACN 169 888 359 (a company associated with the Company's Managing Director and Chief Executive Officer) which at the date of this Notice is a substantial shareholder holding 48% of the Company's total issued capital, on the terms and conditions described in the Explanatory Statement."

Resolution 2: Approval for conversion to equity of (\$2,050,751) loans owing to Victory Group Holdings Pty Ltd (a company associated with the Company's Managing Director - Mr Dan Baxter)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to Resolutions 1 and 3 being passed and for the purposes of section 611, item 7 of the Corporations Act 10.11 and for all other purposes, shareholders approve and authorise the Company to issue 8,168,370 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share (being the 10-day VWAP as at close of trade 20 April 2021 to Victory Group Holdings Pty Ltd ACN 169 888 359 (a company associated with the Company's Managing Director and Chief Executive Officer which at the date of this Notice is a substantial shareholder holding 48% of the Company's total issued capital, in conversion of \$2,050,751 loans outstanding on the terms and conditions described in the Explanatory Statement."

Resolution 3: Approval for conversion to equity of (\$2,041,864 million) loans owing to Victory Petroleum Pty Ltd (a company associated with the Company's Managing Director - Mr Dan Baxter)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to Resolutions 1 and 2 being passed and for the purposes of section 611, item 7 of the Corporations Act 10.11 and for all other purposes, shareholders approve and authorise the Company to issue 8,132,972 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share (being the 10-day VWAP as at close of trade 20 April 2021 to Victory Group Holdings Pty Ltd ACN 169 888 359 (a company associated with the Company's Managing Director and Chief Executive Officer which at the date of this Notice is a substantial shareholder holding 48% of the Company's total issued capital, in conversion of \$2,041,864 loans outstanding on the terms and conditions described in the Explanatory Statement."

- 1.4 Each of Resolutions 1, 2 and 3 are subject to the approval of each of the other Resolutions 1, 2 or 3 inclusive (as applicable) in the Notice. We have, therefore, in our assessment of the Proposed Transaction assessed the fairness and reasonableness of Resolutions 1, 2 and 3 in their entirety as the transaction being approved under each resolution cannot complete without the completion of the transactions being approved under the other resolutions.

- 1.5 The ultimate decision whether to approve the Proposed Transaction should be based on each Non-Associated Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Non-Associated Shareholders should seek independent professional advice.

2. Summary and conclusion

Opinion

2.1 In our opinion, and for the reasons set out in Sections 9 and 10 of this Report, and for the purposes of section 611 item 7 of the Corporations Act, the Proposed Transaction is **not fair but reasonable** to the Non-Associated Shareholders of VOL.

Approach

2.2 In assessing whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – *Content of Expert Reports* (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.

2.3 Where an issue of shares by a company otherwise prohibited under section 606 of the Act is approved under item 7 of section 611, and the effect on the company shareholding is comparable to a takeover bid, such as the Proposed Transaction, RG 111 states that the transaction should be analysed as if it was a takeover bid.

2.4 Therefore, we have considered whether or not the Proposed Transaction is “fair” to the Non-Associated Shareholders by assessing and comparing:

- The Fair Value of a Share in VOL on a control basis prior to the Proposed Transaction, taking into account the total interest in VOL held by Non-Associated Shareholders prior to the Proposed Transaction; with
- The Fair Value of a Share in VOL on a minority basis immediately post completion of the Proposed Transaction,

and, considered whether the Proposed Transaction is “reasonable” to the Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.

2.5 Whilst VGH and associates already own a 48% interest in VOL, the Proposed Transaction results in VGH and associates increasing their level of control from below 50% to 73.1%. Therefore, post the Proposed Transaction, VGH and associates will have the ability to pass ordinary resolutions without other shareholder approval. VGH and associates will not have the guaranteed ability to pass special resolutions of the Company, but practically, it is likely that VGH and associates would also be able to ensure special resolutions are passed. Prior to the Proposed Transaction, VGH and associates only have the guaranteed ability to veto the passing of special resolutions and effectively block any takeover bids for the Company.

2.6 Therefore, as a result of the Proposed Transaction, there will be a change in the level of control held in the Company by VGH and associates and a corresponding reduction in the level of control held collectively by Non-Associated Shareholders.

2.7 Accordingly, in assessing the Fair Value of a Share in VOL on a control basis prior to the Proposed Transaction, we have assessed the Fair Value of a 52% controlling interest rather than a 100% controlling interest to reflect the level of control held by Non-Associated Shareholders prior to the Proposed Transaction and the level of control that is being collectively foregone as a result of the Proposed Transaction.

2.8 Further information of the approach we have employed in assessing whether the Proposed Transaction is “fair” and “reasonable” is set out at Section 4 of this Report.

Fairness

2.9 Our assessed values of a VOL Share prior to and immediately after the Proposed Transaction are summarised in the table and figure below.

	Low	High	Preferred
Fair Value per Share (Control basis)* immediately prior to the transaction	\$0.270	\$0.305	\$0.270
Fair Value per Share (on a non-control basis) immediately following the Proposed Transaction	\$0.249	\$0.256	\$0.252

Source: RSM analysis

*Control basis is assessed based on a 52% total interest in VOL Prior to the Proposed Transaction

Table 1: Assessed values of a VOL Share pre and post the Proposed Transaction

2.10 We have summarised the values included in the table above in the chart below.



Source: RSM analysis

*Control basis is assessed based on a 52% total interest in VOL Prior to the Proposed Transaction

Figure 1: VOL Share valuation graphical representation

2.11 The chart above indicates that the range of Fair Values post the Proposed Transaction (non-control basis) are less than the range of values prior to the Proposed Transaction (52% control basis).

2.12 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of Section 611, Item 7 of the Act, we consider the Proposed Transaction to be **not fair** to the Non-Associated Shareholders of VOL.

Reasonableness

2.13 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- The future prospects of the Company if the Proposed Transaction does not proceed; and
- Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

2.14 If the Proposed Transaction does not proceed, the Directors will continue with the previously announced funding strategy of obtaining a \$15 million lending facility from entities associated with Mr Dan Baxter (on terms no less favourable to the Company than arm's length market terms).

2.15 The key advantages of the Proposed Transaction are:

Advantage	Details
Strengthening of VOL cash reserves and balance sheet	<p>As at 28 February 2021 VOL disclosed cash reserves of \$2.8m and disclosed losses after tax of \$21.2 for PE21. VOL management is expecting VOL to continue to be loss making in the short to medium term. Consequently, VOL requires cash funding to enable it to continue operating whilst its business locations recover from the detrimental impact of COVID-19 and occupancy rates recover back towards pre COVID-19 levels.</p> <p>The Proposed Transaction provides VOL with access to cash reserves to fund these ongoing working capital needs.</p> <p>Whilst, in the absence of the Proposed Transaction, entities associated with Dan Baxter have committed to provide \$15m of funding via a commercial loan arrangement, the loan will incur interest (at a rate at or below a commercial arm's length rate) and will require servicing by VOL through the future repayment of interest and capital, which will place pressure on VOL's cash flows in the future. The higher level of debt gearing may also be viewed negatively by VOL's creditors and impair VOL's future ability to obtain favourable credit terms.</p>
The Proposed Transaction would be fair in the absence of the application of a control premium	<p>In accordance with RG 111 we have applied a control premium in our assessment of the Fair Value of a VOL share prior to the Proposed Transaction with the control premium assessed based on the 52% shareholding held in VOL by Non-Associated Shareholders prior to the Proposed Transaction.</p> <p>However, given that the 52% shareholding is held by a wide range of VOL shareholders and VGH holds 48% of the total ordinary shares in VOL, we do not consider that the Proposed Transaction results in any effective change in control. Whilst VGH cannot guarantee the passing of ordinary resolutions of the Company, in practical terms nearly all Non-Associated Shareholders would need to vote against VGH to prevent VGH from ensuring an ordinary resolution is passed.</p> <p>We have assessed the Fair Value of a VOL share prior to the Proposed Transaction on a minority basis to be in the range of \$0.245 to \$0.265.</p> <p>Therefore, in the absence of the application of a control premium in our assessment of the Fair Value of a VOL share prior to the Proposed Transaction, the Proposed Transaction would have been assessed as fair.</p> <p>The Proposed Transaction is being undertaken based on the 10 day VWAP of VOL shares. We consider it likely that, were VOL to seek \$15m of equity investment from third party investors, such investment would need to be priced at a significant discount to the recent VWAP of VOL shares.</p>

Table 2: Advantages of the Proposed Transaction

2.16 The key disadvantages of the Proposed Transaction are:

Disadvantage	Details
The Proposed Transaction is not fair	The Proposed Transaction is not fair to the Non-Associated Shareholders.
Dilutionary impact	<p>Non-Associated Shareholders will, collectively, be diluted from a 52.0% ownership interest in VOL to a 26.9% in VOL. This will reduce Non-Associated Shareholders' ability to influence decisions such as the composition of the Board and the acquisition and disposal of assets.</p> <p>Of significance, with an ownership interest in VOL of over 50% post the Proposed Transaction, VGH and associates will have the ability to pass ordinary resolutions without other shareholder approval.</p> <p>VGH and associates will not have the guaranteed ability to pass special resolutions of the Company, but practically it is likely that VGH and associates would also be able to ensure special resolutions are passed.</p>
Potential reduction in liquidity	Whilst the Proposed Transaction will increase the total number of VOL shares on issue, the existence of a single group of associated shareholders owning 73.1% of the Company may result in reduced market interest in the acquisition of VOL shares and less liquidity for Non-Associated Shareholders.

Table 3: Disadvantages of the Proposed Transaction

- 2.17 We are not aware of any alternative proposals which may provide a greater benefit to the Non-Associated Shareholders of VOL at this time.
- 2.18 In our opinion, the position of the Non-Associated Shareholders of VOL if the Proposed Transaction is approved is more advantageous than if the Proposed Transaction is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of VOL.

3. Summary of Proposed Transaction

Overview

- 3.1 On 26 February 2021, VOL released its half year results for the six months ended 31 December 2020 and at the same time announced that VOL had arranged a new \$15m lending facility from entities associated with Mr Dan Baxter, the Company's founding shareholder, chief executive officer and managing director.
- 3.2 Subsequent to the above announcement, the Company has reached an alternative agreement for VGH to subscribe for \$15m of new ordinary shares in VOL at an issue price of \$0.25106 per share (being the 10-day VWAP as at close of trade on 20 April 2021)
- 3.3 Furthermore, VGH and associates have agreed to convert approximately \$4 million of existing loans into ordinary shares at the same issue price of \$0.25106 per share ("**Debt Conversion**").
- 3.4 Completion of the Proposed Transaction is subject to and conditional upon approval by Non-Associated Shareholders.

Rationale for the Proposed Transaction

- 3.5 The financial performance and financial position of VOL has been significantly adversely impacted by COVID-19 and COVID-19 lock-downs, resulting in VOL recording losses after income tax of \$8.1m and \$17.7m during the year ended 30 June 2020 and six months ended 31 December 2020, respectively. In July 2020, VOL completed an entitlement offer which raised approximately \$15.3m, however, losses incurred since July 2020 have resulted in VOL requiring further funding to continue to operate.
- 3.6 The Board of VOL considers that the Proposed Transaction represents the optimal form of capital raising available to the Company at the date of this report to strengthen the cash reserves and balance sheet of the Company and manage the ongoing impacts of COVID-19.

Impact of Proposed Transaction on VOL's Capital Structure

- 3.7 The table below sets out a summary of the capital structure of VOL prior to and post the Proposed Transaction.

Capital Structure Pre and Post the Proposed Transaction	No. of Ordinary Shares (Undiluted)	% Ownership
Capital structure prior to the Proposed Transaction		
VGH and associates	39,300,376	48.0%
Non-Associated Shareholders	42,499,624	52.0%
Total ordinary shares prior to the Proposed Transaction	81,800,000	100%
Capital structure after the Proposed Transaction		
VGH and associates	115,348,392	73.1%
Non-Associated Shareholders	42,499,624	26.9%
Total ordinary shares after the Proposed Transaction	157,848,016	100.0%

Source: RSM Calculations

Table 4: VOL Capital Structure prior to and post the Proposed Transaction

4. Scope of the Report

Corporations Act

4.1 Section 606 of the Act prohibits:

- a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition results in that person's voting interest in the company increasing from a starting point that is below 20% to an interest that is above 20%; or
- a person from increasing a relevant interest in the issued voting shares of a public company from a starting point that is above 20% and below 90%. Item 9 of Section 11 of the Act provides an exemption to this prohibition if the acquisition results in the person holding a voting interest in the company no more than 3% higher than the voting interest they had 6 months before the acquisition.

4.2 Completion of the Proposed Transaction will result in VGH and associates increasing their interest in VOL from 48.0% to 73.1%.

4.3 Under Item 7 of Section 611 of the Act, the prohibition contained in Section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the company.

4.4 Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolutions 1, 2 & 3 under Item 7 of Section 611 of the Act.

4.5 Section 611(7) of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. ASIC Regulatory Guide 111 ("RG 111") advises the requirement to commission an Independent Expert's Report in such circumstances and provides guidance on the content.

Basis of evaluation

4.6 In determining whether providing the Proposed Transaction is "fair" and "reasonable" we have given regard to the views expressed by the ASIC in RG 111.

4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.

4.8 RG 111 states that the expert's report should focus on:

- The issues facing the security holders for whom the report is being prepared; and
- The substance of the transaction rather than the legal mechanism used to achieve it.

4.9 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.

4.10 RG 111 applied the fair and reasonable test as two distinct criteria in the circumstance of a takeover offer, stating:

- A takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- A takeover is considered "reasonable" if it is fair, or where the offer is "not fair" it may still be reasonable if the expert believes that there are sufficient reasons for security holders to accept the offer.

4.11 Consistent with the guidelines in RG 111, in determining whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, the analysis undertaken is as follows:

- A comparison of the fair value of an ordinary Share in VOL prior to (on a control basis taking into account the total interest in VOL held by Non-Associated Shareholders prior to the Proposed Transaction) and immediately following (on a non-control basis) the Proposed Transaction – fairness; and
- A review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction – reasonableness.

4.12 Whilst VGH and associates already own a 48% interest in VOL, the Proposed Transaction results in VGH and associates increasing their level of control from below 50% to 73.1%. Therefore, post the Proposed Transaction, VGH and associates will have the ability to pass ordinary resolutions without other shareholder approval. VGH and associates will not have the guaranteed ability to pass special resolutions of the Company, but practically, it is likely that VGH and associates would also be able to ensure special resolutions are passed. Prior to the Proposed Transaction, VGH and associates only have the guaranteed ability to veto the passing of special resolutions and effectively block any takeover bids for the Company.

4.13 Therefore, as a result of the Proposed Transaction, there will be a change in the level of control held in the Company by VGH and associates and a corresponding reduction in the level of control held collectively by Non-Associated Shareholders.

4.14 Accordingly, in assessing the Fair Value of a Share in VOL on a control basis prior to the Proposed Transaction, we have assessed the Fair Value of a 52% controlling interest rather than a 100% controlling interest to reflect the level of control held by Non-Associated Shareholders prior to the Proposed Transaction and the level of control that is being collectively foregone as a result of the Proposed Transaction.

4.15 The other significant factors to be considered include:

- Other prospects of the Company if the Proposed Transaction does not proceed; and
- any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

4.16 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of Victory Offices Limited

Background

5.1 Founded in 2013, VOL is an Australian ASX listed public company operating in the flexible workspace industry in Australia. VOL is focused on providing high quality flexible workplace and coworking spaces as an alternative to traditional office spaces to a diverse range of customers.

5.2 VOL provides a suite of services in addition to the workspace provided including:

- Virtual offices;
- Meeting rooms;
- Day suites
- Training rooms
- Hot desking; and
- Comprehensive business support services.

5.3 The Company provides services and facilities on flexible licence terms, including no lock in contracts, as well as continuous onsite administrative and technological support.

5.4 As at the date of this report, VOL's current portfolio consists of 24 locations across 5 States and Territories, as summarised in the table below.

State	City	Location	Opened	Floor Space (square metres)
VIC	Melbourne CBD	420 Collins St	Aug-14	750
VIC	Melbourne CBD	35 Collins St	Apr-15	1,682
VIC	Melbourne CBD	567 Collins St	May-18	351
VIC	Melbourne CBD	600 Bourke Street	July-16	1,392
NSW	Sydney CBD	200 George St	Dec-16	1,239
VIC	Chadstone	Chadstone Shopping Centre	Dec-16	1,742
VIC	Box Hill	990 Whitehorse Rd	May-17	1,573
VIC	Melbourne CBD	727 Collins St	Jul-17	2,630
NSW	Sydney CBD	300 Barangaroo Ave	Aug-17	2,328
QLD	Brisbane CBD	175 Eagle St	Nov-17	994
VIC	Melbourne CBD	333 Collins St	Dec-17	2,363
WA	Perth CBD	2 The Esplanade	Jul-18	1,041
VIC	Dandenong	311 Lonsdale St	Jul-18	1,013
VIC	Melbourne CBD	416 Collins St (Lounge)	Sep-18	263
VIC	Melbourne CBD	418 Collins St	Sep-18	400
VIC	Sunshine	12 Clarke St	Oct-18	1,793
VIC	Box Hill	988 Whitehorse Rd	Dec-18	2,451
NSW	Sydney CBD	420 George St	Mar-19	1,421
VIC	Chadstone	Chadstone Shopping Centre (Lounge)	Mar-19	778
VIC	St Kilda	180 St Kilda Road	Aug-19	2,952
QLD	Brisbane CBD	900 Ann St	Oct-19	1472
ACT	Canberra	73 Northbourne	Apr-20	1,020
NSW	North Sydney	100 Mount Street	May-20	2,402
NSW	Sydney CBD	85 Castlereagh Street	July-20	1,089

Source: VOL

Table 5: VOL Location Summary

Directors and management

5.5 The directors and key management of VOL are summarised in the table below.

Name	Title	Experience
Hon Steve Bracks AC	Non-Executive Chairman	Hon. Steve Bracks AC was Premier of Victoria for eight years. He now advises several Australian finance and service sector corporations. Mr Bracks also holds two major honorary positions: as an Adviser to the Prime Minister of Timor- Leste and Honorary Chair of The Union Education Foundation. He is Chairman of the superannuation fund Cbus; a non-executive Director of Jardine Lloyd Thomson Australia and Bank of Sydney Limited. Former Chairman of AFL Sports Ready; Former Chairman of the Kardinia Park Stadium Trust; and a member of the Monash Business School's Business Advisory Board (BAB); The Australian Republican Movement's Republican Advisory Panel (RAP), and the West Melbourne Alliance Board.
Dan Baxter	Managing Director/ Co-Chief Executive Officer	Dan is the founder of Victory Offices with more than 20 years of senior management experience. As the Victory Group Holdings Executive Director, Dan has also led Victory Aluminium to be one of the largest exporters of aluminium from Australia. Dan is a current member of AICD, with academic qualifications in Engineering and Business Management.
Manisha Angirish	Co-Chief Executive Officer	Ms Angirish is a Co-founder of VOL and brings 13 years' experience in the senior management team as the current Chief Operating Officer of Victory. In her role as COO Ms Angirish led the development and execution of Victory's key operational controls, procedures and systems.
Alan Jones	Non-Executive Director	Mr Jones has over 35 years' experience in various management roles within the private and public sector. Alan is currently the Managing Director of AML Advisory, a Melbourne based advisory firm established in 2003, delivering capital project equipment support and commercial services. Alan has also held senior roles on committees and boards with not for profit organisations. Alan's commercial career follows a career serving within the Australian Defence Force specialising in operational and strategic logistical support. He holds graduate and post graduate qualifications in logistics, asset management, administration and strategic studies.
Ted Chwasta	Non-Executive Director	Ted is a career retailer with over 37 years' experience with public and private companies, including The Brash Group and The Good Guys. Ted previously served as the State Chairman for The Good Guys Victoria and has held positions in various National Advertising Committees.
Claire Newstead-Sinclair	Interim Chief Financial Officer and Company Secretary	<p>Claire is an experienced finance and company secretarial professional with over 18 years' experience in senior financial roles within public and private entities across biotechnology, insurance and public practice sectors, including over nine years ASX-Listed experience as CFO and Company secretary at Cogstate Ltd (ASX code: CGS). Prior to her time at Cogstate, Claire worked for a subsidiary of Wesfarmers Group and began her career with seven years at Pitcher Partners.</p> <p>Claire holds a Bachelor of Business (Accounting) and is a member of the Institute of Chartered Accountants of Australia and New Zealand and a member of the Governance Institute of Australia.</p>

Source: VOL financial statements and ASX announcements

Table 6: VOL Directors and management

Financial information of Victory Office Limited

5.6 The information in the following section provides a summary of the financial performance of VOL for the year ended 30 June 2018 ("FY18"), 30 June 2019 ("FY19") and 30 June 2020 ("FY20"), extracted from the audited financial statements of the Company, the six months ended 31 December 2020 ("HY21"), extracted from the reviewed financial statements of the Company, and the eight months ended 28 February 2021 ("PE21"), extracted from the unaudited management accounts of the Company.

Financial performance

5.7 The following table sets out a summary of the financial performance of VOL for FY18, FY19, FY20, HY21 and PE21.

VOL	FY18	FY19	FY20	HY21	PE21
\$'000	Audited	Audited	Audited	Reviewed	Unaudited
Revenue from continuing activities	29,403	47,003	42,310	6,597	9,059
Service charges	2,106	584	-	-	-
Other revenue	-	-	1,433	2,180	2,303
Total income	31,509	47,587	43,743	8,777	11,362
Operating expenses					
Employee benefits expense	(4,751)	(6,899)	(7,554)	(2,749)	(3,558)
Other administration expenses	(3,296)	(3,846)	(4,662)	(2,310)	(2,627)
Occupancy costs	(2,034)	(3,201)	(4,264)	(2,179)	(3,002)
Impairment of receivables	-	-	(3,900)	(2,757)	(2,757)
Impairment of assets	-	-	(8,525)	(3,924)	(3,924)
Reversal of impairment of assets	-	-	-	966	966
Total operating expenses	(10,080)	(13,945)	(28,905)	(12,954)	(14,902)
EBITDA	21,429	33,642	14,838	(4,177)	(3,540)
EBITDA margin %	68.0%	70.7%	33.9%	-47.6%	-31.2%
Depreciation and amortisation expense	(7,897)	(12,904)	(17,528)	(11,111)	(14,859)
EBIT	13,532	20,737	(2,691)	(15,288)	(18,399)
EBIT margin %	42.9%	43.6%	-6.2%	-174.2%	-161.9%
Interest expense, net	(5,325)	(7,257)	(8,883)	(5,602)	(7,493)
Profit/(Loss) before tax	8,206	13,480	(11,574)	(20,890)	(25,892)
Income tax (expense) / benefit	(2,464)	(3,884)	3,505	3,208	4,706
Profit/(Loss) after tax	5,743	9,596	(8,069)	(17,682)	(21,186)

Source: VOL Statutory accounts and management accounts

Table 7: Historical Financial Performance

5.8 VOL disclosed a profit after tax of \$5.7m and \$9.6m in FY18 and FY19, respectively. As discussed in the analysis below, VOL's financial performance was significantly impacted by COVID-19 from March 2020 onwards, resulting in VOL disclosing a loss after tax of \$8.1m, \$17.7m and \$21.2m in FY20, HY21 and PE21, respectively.

Revenue

5.9 VOL generates revenue from the following services:

Service	Description
Serviced Offices	Serviced private offices, typically 12-18 months.
Virtual Office Services	Provision of virtual receptionist services, including telephony services, mail handling and business address usage
Coworking	Space in coworking areas on typically 12-18 month term
Day Suites	Single use licence fee for private offices
Meeting and Training Rooms	Single use licence fee for meeting and training facilities
Hot Desks	Licensing of desks in coworking areas
Lounge Membership	Members of the Victory Lounge can utilise meeting and entertaining facilities
Shared Services	Dedicated desks in a private office with like-minded individuals
Additional Services	Reception and administration services; marketing and printing; professional (legal, financial, accounting, HR); finance administration (e.g. bookkeeping and payroll); chauffeur; concierge; health and wellbeing; interpreter; and office furniture hire. (above is not exhaustive)

Table 8: VOL Summary of services

5.10 Total revenue of \$31.5m and \$47.6m was disclosed in FY18 and FY19, representing year-on-year growth of 51.0% driven by the opening of new locations throughout FY19 and increases in occupancy in newly opened locations.

5.11 COVID-19 was officially declared a pandemic on 11 March 2020 and social distancing rules were subsequently imposed and State Governments started to close non-essential services and restrict people's movements shortly thereafter. Whilst most restrictions across Australia subsequently started to ease from May onwards, Victoria had a spike in community transmitted cases of COVID-19 in June 2020 which resulted Victoria being placed back into lock-down until late September 2020 with restrictions only slowly being eased, thereafter.

5.12 As a result of the above, a large proportion of VOL's customer base moved to working from home during the lock-down and VOL's revenue reduced significantly from March 2020 onwards. VOL disclosed revenue of \$43.7m, \$8.8m and \$11.4m for FY20, HY21 and PE21, respectively. Revenue for FY20, HY21 and PE21, included other income related to COVID-19 stimulus income such as cash flow boost, JobKeeper and rental concessions.

Operating Expenses

5.13 VOL's main operating expenses comprise of employment costs, occupancy costs and amortisation and finance costs related to the leases for each VOL location, which under AASB 16 – Leases, are accounted for as right-to-use assets and associated lease liabilities with associated right-of-use amortisation costs and lease interest costs.

5.14 In FY19, and for the initial three quarters of FY20, VOL's operating costs increased in line with the expansion in operating locations.

5.15 In response to the COVID-19 impact on VOL's operations, the following measures were implemented:

- Employee costs were reduced by over 40% (prior to JobKeeper) with all employees and executives agreeing to a voluntary 40% reduction in wages from April 2020 onwards;
- 13 casual employees who had been with VOL for less than 12 months were made redundant in April 2020;
- Marketing costs were reduced to minimal levels during the initial lockdown period;
- Cost saving initiatives were rolled out with a focus on reducing consumables and utilities costs; and
- VOL negotiated rent reductions and rent abatements with landlords in accordance with applicable COVID-19 rental legislation.

5.16 The above measures resulted in a reduction in operating expenses in the last quarter of FY20 and HY21/PE21.

5.17 In addition, as a result of the impact of COVID-19, VOL undertook an impairment assessment of its assets and trade receivables at both 30 June 2020 and 31 December 2020, which resulted in:

- the recognition of impairment of assets expenses of \$8.5m and \$3.9m in FY20 and HY21, respectively; and
- the recognition of impairment of receivables expense of \$3.9m and \$2.8m in FY20 and HY21, respectively.

Financial position

5.18 The table below sets out a summary of the financial position of VOL as at 30 June 2019, 30 June 2020, 31 December 2020 and 28 February 2021.

VOL \$'000	30 Jun 2019 Audited	30 Jun 2020 Audited	31 Dec 2020 Reviewed	28 Feb 2021 Unaudited
Current assets				
Cash and cash equivalents	3,199	671	4,423	2,752
Trade and other receivables	1,080	4,619	2,933	2,698
Other financial assets	20,136	2,042	2,042	2,042
Total current assets	24,415	7,331	9,398	7,491
Non current assets				
Other financial assets	10,795	28,904	30,317	28,904
Deferred tax assets	35,420	11,321	14,529	14,529
Plant and equipment	139,452	180,640	193,773	191,800
Total non current assets	185,667	220,865	238,619	235,233
Total assets	210,082	228,196	248,016	242,724
Current liabilities				
Trade and other payables	2,926	4,393	4,293	6,062
Provisions	337	324	325	325
Borrowings	-	-	713	-
Other liabilities	2,912	3,207	2,910	2,755
Lease liabilities	5,888	12,372	16,099	18,253
Current tax liabilities	157	2,599	2,599	1,100
Total current liabilities	12,220	22,894	26,939	28,496
Non current liabilities				
Trade and other payables	11,098	13,160	13,160	13,160
Provisions	1,047	2,403	2,555	2,559
Borrowings	-	2,566	1,918	2,653
Other liabilities	355	302	251	-
Lease liabilities	110,634	150,257	169,597	165,763
Deferred tax liabilities	30,045	-	-	-
Total non current liabilities	153,179	168,689	187,481	184,135
Total liabilities	165,399	191,582	214,419	212,631
Net (liabilities)/assets	44,683	36,614	33,597	30,093
Equity				
Issued capital	28,165	28,165	42,830	42,830
Retained earnings	16,519	8,449	(9,233)	(12,737)
Total equity	44,683	36,614	33,597	30,093

Source: VOL Statutory accounts and management accounts

Table 9: Historical Financial Position

5.19 VOL disclosed net assets of \$44.7m, \$36.6m, \$33.6m and \$30.1m at 30 June 2019, 30 June 2020, 31 December 2020 and 28 February 2021, respectively. The reduction in net assets is attributable to the loss incurred during each financial period offset by the Entitlement Offer of \$15.3m that was completed during HY21.

5.20 Current assets comprise of cash and cash equivalents, trade and other receivables (net of bad debt provisions) and other financial assets which relates to term deposits.

5.21 Non current assets comprise of:

- Other financial assets relating to term deposits to cash back bank guarantees related to VOL's leases
- Deferred tax assets relating to temporary differences primarily related to right to use assets and lease liabilities;
- Plant and Equipment which, as at 31 December 2020, comprised of:
 - right-of-use assets of \$146.2m;
 - leasehold improvements of \$32.3m;
 - office Furniture of \$5.8; and
 - other plant and equipment of \$9.5m

5.22 Current liabilities comprise of trade and other payables, provisions, current borrowings (related party borrowings), other liabilities (client deposits and contract liabilities), current lease liabilities and tax liabilities.

5.23 Non current liabilities comprise of:

- Trade and other payables which as at 31 December 2020 and 28 February 2021 comprised of:
 - a \$2.1m related party payable due to VGH related to tax liabilities when VOL was part of the Victory Group Holdings tax consolidated group;
 - a \$2.0m loan from Victory Petroleum relating to working capital; and
 - a \$9.1m loan from Dan Baxter related to funding of bank guarantees prior to the ASX listing of VOL.
- Provisions for long service leave and lease make good;
- Borrowings relating to a loan from a related party which has a coupon of 5% per annum capitalising until repayments commence. Quarterly repayments of this loan are due to commence on 1 July 2021 over 24 months; and
- The non-current portion of lease liabilities.

Capital structure

5.24 VOL has 81,800,000 ordinary shares on issue. The top 20 shareholders of VOL as at 15 April 2021 are set out below.

Shareholder	Ordinary Shares	% Ownership
1 Victory Group Holdings Pty Ltd	39,233,334	48.0%
2 Sandhurst Trustees Ltd <Collins St Value Fund A/C>	6,400,000	7.8%
3 Swb Holdings Pty Ltd	4,000,000	4.9%
4 Bnp Paribas Noms(Nz) Ltd <Drp>	3,929,188	4.8%
5 Bnp Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <Drp A/C>	2,306,489	2.8%
6 R & R Brown Pty Ltd <Rrtb Family A/C>	818,000	1.0%
7 Ndpm Pty Ltd <Morris Family Super Fund A/C>	730,000	0.9%
8 Citicorp Nominees Pty Limited	722,546	0.9%
9 Mr Gregory Wayne Brown	674,275	0.8%
10 Seno Management Pty Ltd <Seno Super Fund A/C>	605,000	0.7%
11 Larnpace Pty Ltd <Sammut Retirement Fund A/C>	500,000	0.6%
12 Aquatrail Pty Ltd <Crawford Sf A/C>	400,000	0.5%
13 Bnp Paribas Noms Pty Ltd <Uob Kay Hian Priv Ltd Drp>	383,000	0.5%
14 Bnp Paribas Nominees Pty Ltd <Ib Au Noms Retailclient Drp>	357,520	0.4%
15 Morgans Investments (Nsw) Pty Ltd	350,000	0.4%
16 Mr Tyler John Mcmillan	309,000	0.4%
17 Mr Craig Graeme Chapman <Nampac Discretionary A/C>	300,000	0.4%
18 Mr Hongzhi Wu	287,206	0.4%
19 Official Intelligence Pty Ltd	266,000	0.3%
20 Black Snakebyte Pty Ltd <Bell Family A/C>	265,017	0.3%
Total Top 20 Shareholders	62,836,575	76.8%
Other shareholders	18,963,425	23.2%
Total shares on issue	81,800,000	100.0%

Source: VOL Share Register

Table 10: VOL Top 20 Shareholders

Share price performance

5.25 The figure below sets out a summary of VOL's closing share prices and traded volumes for the period 1 January 2020 to 21 April 2021.

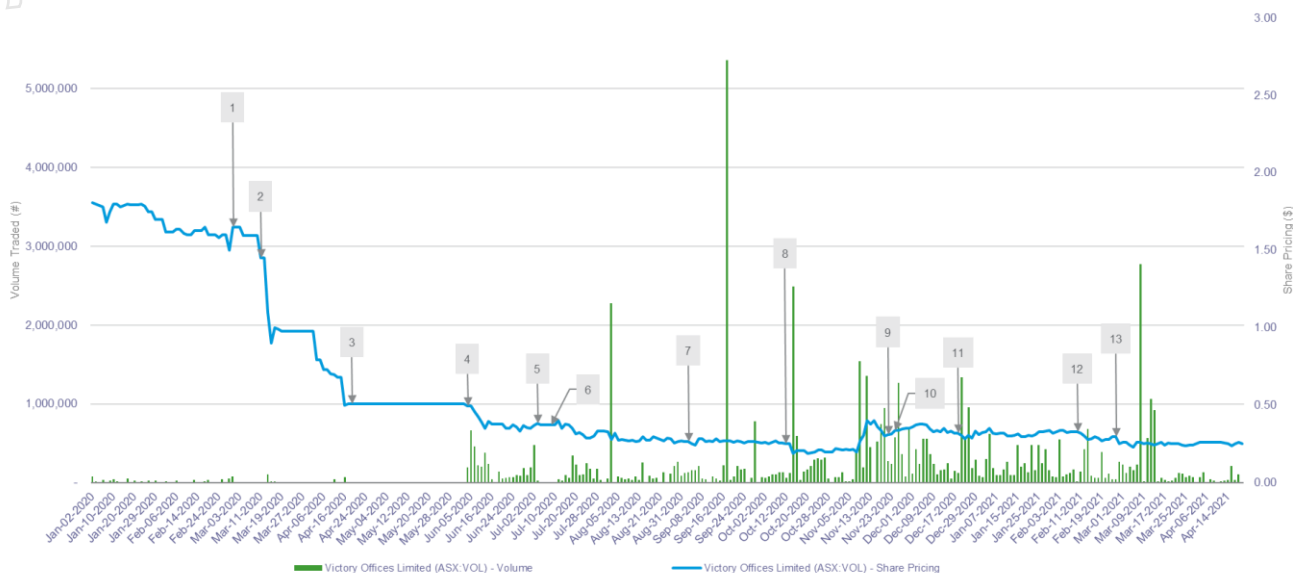


Figure 2: VOL recent share trading history

5.26 VOL's shares traded over the above period between a maximum of \$1.81 on 2 January 2020 and a minimum of \$0.19 on 20 October 2020. The share price dropped significantly from 11 March 2020 due to the market's reaction to the COVID-19 pandemic and the associated impact to the financial performance and position of the Company.

5.27 We make the following comments with regard to VOL's recent share price performance and ASX announcements:

Share Price Chart Reference	Date	Comment
1	28 February 2020	VOL released its half year financial report for the six months ended 31 December 2019 and associated half year results presentation.
2	11 March 2020	COVID-19 was declared a worldwide pandemic by the World Health Organisation.
3	17 April 2020	VOL's shares were put into a trading halt and subsequently on 23 April 2020 were put into voluntary suspension.
4	4 June 2020	VOL announced a \$15.3m Entitlement Offer.
5	3 July 2020	VOL announced the successful completion of the Entitlement Offer to raise circa \$15.3m.
6	10 July 2020	Trading in VOL's shares was reinstated.
7	30 September 2020	VOL released its annual report the year ended 30 June 2020 and associated full year results presentation.
8	14 October 2020	VOL announced the resignation of its CFO and Company Secretary, Geoff Hollis.

Share Price Chart Reference	Date	Comment
9	23 November 2020	VOL held its Annual General Report with the resolutions of the adoption of the remuneration report and the re-election of Ted Chwasta as a director both carried.
10	24 November 2020	VOL announced the appointment of Mrs Claire Newstead-Sinclair as Interim Chief Financial Officer and Company Secretary
11	18 December 2020	VOL released a business update, reporting an increase in Victorian average occupancy rates to above 40% from a low of 20% during lockdown and average occupancy rates of 55%, 54% and 48% in New South Wales, Western Australia and Queensland, respectively.
12	12 February 2021	VOL announced the appointment of Ms Manisha Angirish as Co-Chief Executive Officer (alongside CEO Dan Baxter) and the resignation of Shane Tanner as Non-Executive Director.
13	26 February 2021	VOL released its half year financial report for the six months ended 31 December 2020 and associated half year results presentation.

Table 11: VOL Comments on Share Price Performance and ASX Announcements

5.28 VOL's share price performance is discussed in more detail in Paragraphs 7.15 to 7.21.

6. Valuation approach

Basis of evaluation

- 6.1 The valuation of VOL prior to and post the Proposed Transaction has been prepared on the basis of Fair Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation methodologies

- 6.2 In assessing the Fair Value of an ordinary VOL Share prior to and immediately following the Proposed Transaction, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

- 6.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

Market based methods

- 6.4 Market based methods estimate the Fair Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;

- the quoted price for listed securities; and
- industry specific methods.

- 6.5 The recent quoted price for listed securities method provides evidence of the Fair Value of a company's securities where they are publicly traded in an informed and liquid market.

- 6.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the Fair Value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the Fair Value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 6.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:

- discounted cash flow;
- capitalisation of future maintainable earnings.

6.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

6.9 The capitalisation of future maintainable earnings is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

6.10 Asset based methodologies estimate the Fair Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method;
- liquidation of assets method; and
- net assets on a going concern basis.

6.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.

6.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method and is appropriate for companies in financial distress or where a company is not valued on a going concern basis.

6.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of valuation methodologies

Valuation of a VOL Share pre the Proposed Transaction (control basis)

6.14 VOL disclosed losses after tax of \$8.1m for FY20 and \$21.2m for PE21. Consequently, we do not consider it appropriate to value VOL utilising an earnings multiple methodology.

6.15 Whilst we have been provided with financial forecasts prepared by VOL for the remainder of the year ending 30 June 2021 and the year ending 30 June 2022, the financial forecasts do not cover a sufficient period to project the recovery of VOL from the adverse impact of COVID-19 and, therefore, we do not consider it appropriate to value VOL based on these forecasts using either a discounted cash flow or earnings multiple methodology.

6.16 We have, therefore, utilised the net assets on a going concern methodology as our primary methodology to assess the Fair Value of a VOL Share prior to the Proposed Transaction (control basis). We note that, at 31 December 2020, as part of the preparation of its reviewed financial statements for the six months ended 31 December 2020, VOL undertook an impairment assessment of its assets and impaired its assets to the assessed value in use of the assets in accordance with AASB 136 – Impairment of Assets.

- 6.17 We have utilised the quoted market price for listed VOL shares as a secondary primary methodology. VOL's shares are listed on the ASX which means there is a regulated and observable market for its shares.

Valuation of a VOL Share post the Proposed Transaction (non-control basis)

- 6.18 We have valued a VOL Share post the Proposed Transaction utilising our assessment of the Fair Value of a VOL Share prior to the Proposed Transaction (control basis) and adjusting this valuation for:

- the impact of the Proposed Transaction; and
- an appropriate minority discount.

7. Valuation of VOL share prior to the Proposed Transaction

7.1 As stated at paragraph 6.16, we have assessed the value of a VOL Share prior to the Proposed Transaction using the Net Assets on a Going Concern methodology as our primary method and the Listed Quoted Market Price as our secondary method. In both valuations, we have included a premium for control based on the assessed premium for control that we consider applies to a 52% controlling interest.

Primary valuation

7.2 We have assessed the value of a VOL Share on a 52% controlling interest to be \$0.270 to \$0.305 per Share , prior to the Proposed Transaction, based on the net asset on a going concern valuation methodology, as summarised in the table below.

VOL			
Valuation prior to the Proposed Transaction (\$'000)	Ref	Low	High
Reported net assets at 28 February 2021	Table 9	30,093	30,093
Adjustments			
Estimated losses after tax between 1 March and 22 April 2021	7.4	(3,000)	(3,000)
Adjusted net assets		27,093	27,093
Number of shares on issue (#)	Table 10	81,800,000	81,800,000
Assessed Fair Value per share (100% controlling basis) (\$)		0.331	0.331
Minority Discount (portfolio interest)	7.5 to 7.11	(26.0%)	(20.0%)
Assessed Fair Value per share (non-controlling basis) (\$)		0.245	0.265
Control premium (52% controlling interest basis)	7.12 to 7.13	10.0%	15.0%
Assessed Fair Value per share (52% controlling basis) (\$)		0.270	0.305

Source: RSM Calculations

Table 12: Assessed Fair Value of a VOL Share

7.3 Our assessment has been based on the unaudited management accounts of VOL for PE21. As previously noted, at 31 December 2020, as part of the preparation of its reviewed financial statements for the six months ended 31 December 2020, VOL undertook an impairment assessment of its assets and impaired its assets to the assessed value in use of the assets in accordance with AASB 136 – Impairment of Assets. We, therefore, consider that the reported assets and liabilities of VOL would be reflective of Fair Value.

7.4 In order to calculate the current market value of VOL's Shares, we have adjusted the carrying value of VOL's net assets as at 28 February 2021 for the estimated losses expected to be incurred between 1 March 2021 and 22 April 2021 based on VOL's current budget for the remainder of the year ending 30 June 2021. Given the short-term nature of this estimate, and the fact that VOL management is continually updating the VOL budgets to manage cash flows, we consider that there are reasonable grounds to rely on VOL's budgets for this adjustment.

Minority discount / control premium adjustments

7.5 The Fair Value of the adjusted assets of VOL assessed under the net assets on a going concern methodology reflects a 100% controlling interest in VOL.

7.6 Therefore, to assess the Fair Value of a VOL Share prior to the Proposed Transaction on a 52% control basis, we have applied the following adjustments:

- applied a minority discount to assess the Fair Value of a VOL Share on a minority basis; and
- applied a control premium at the level we consider applies for a 52% controlling interest in VOL.

7.7 RSM has undertaken a survey of control premiums paid over a 5-year period to 30 June 2016 in 463 successful takeovers and schemes of arrangements of companies listed on the ASX ("RSM Control Premium Study 2017"). The findings are summarised in the table below, showing the average control premiums paid 20, 5 and 2 days prior to announcement of a transaction, which are applied at the equity level.

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium - all industries	463	34.5%	28.3%	26.4%

Source: RSM Control Premium Study 2017

Table 13: Control Premium Study

7.8 Our study concluded that on average, control premiums in takeovers and schemes of arrangements involving Australian companies was in the range of 25% to 35% at the equity level.

7.9 The control premium is calculated based on each entities' equity value. Therefore, assessment of the control premium for a particular entity must have regard to that entity's net cash or net debt position.

7.10 We have assessed an appropriate premium for control prior to the Proposed Transaction to be in the range of 25% to 35%, having regard to the VOL's gearing structure and net debt position.

7.11 The resulting corresponding minority discount range based on said control premiums is between 20% and 26%.

7.12 In assessing the control premium that would apply to a 52% controlling interest in a Company, we have considered the rights that would attached to this level of voting power, including:

- the power to control general meetings of the Company and pass ordinary resolutions;
- not able to guarantee the passing of special resolutions; and
- not able to act in an oppressive manner towards minority shareholders.

7.13 Having regard to the above, we have applied a control premium in relation to a 52% controlling interest in the range of 10% to 15%. We note that this is consistent with the mean and median control premium applied by Australian Valuation practitioners for a 51% to 74% equity stake, as set out in the KPMG Valuation Practices Survey 2017.

Quoted price of listed securities (secondary method)

7.14 In order to provide a comparison to our valuation of VOL utilising the Net Asset on a Going Concern Methodology, we have considered the recent quoted market price for VOL shares on the ASX.

Analysis of recent trading in VOL Shares

7.15 The figure below sets out a summary of the closing VOL Share price and volume of VOL Shares traded in the 12 months to 21 April 2021.

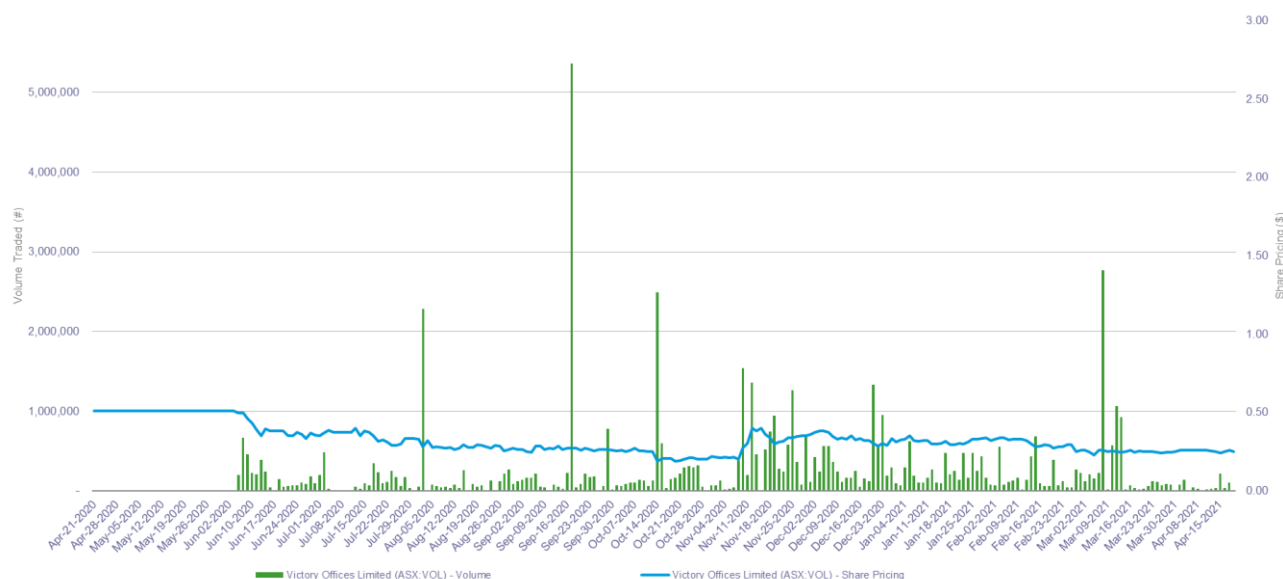


Figure 3: VOL daily closing Share price and traded volumes

Source: S&P Capital IQ/ ASX

7.16 During the 12 month period prior to 21 April 2021, VOL shares traded at a high of \$0.51 on 22 April 2020 (until cessation of suspension of 4 June 2020) and a low of \$0.19 on 20 October 2020. As at 21 April 2021 VOL shares closed at \$0.25.

7.17 RG 111.69 indicates that, in order for the quoted market share price methodology to represent a reliable indicator of Market Value, there needs to be an active and liquid market for the securities. The following characteristics may be considered to be representative of a liquid and active market:

- regular trading in the company's securities;
- approximately 1% of a company's securities traded on a weekly basis;
- the bid/ask spread of a company's shares must not be so great that a single majority trade can significantly affect the market capitalisation of the company; and
- there are no significant but unexplained movements in the share price.

7.18 To provide further analysis of the quoted market prices for VOL's Shares, we have considered the VWAP over a number of trading day periods prior to 16 April 2021. An analysis of the volume in trading in VOL's Shares for the 1, 10, 30, 60, 90, and 180 day trading periods prior to 21 April 2021 is set out in the table below:

Calendar days	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital * %
5 days	0.250	0.260	2	106,640	27,686	0.260	0.25%
10 days	0.240	0.260	7	428,130	106,180	0.248	1.01%
30 days	0.240	0.260	18	1,177,110	294,280	0.250	2.77%
60 days	0.230	0.295	39	8,217,210	2,091,671	0.255	19.30%
90 days	0.230	0.340	59	12,745,970	3,511,586	0.276	29.94%
120 days	0.230	0.350	78	17,810,100	5,103,172	0.287	41.84%
180 days	0.200	0.400	120	33,884,350	10,312,418	0.304	79.60%

Source: Capital IQ and RSM analysis

* Excludes shares held by VGH

Table 14: VWAP of VOL's shares

7.19 As set out in the table above, the VWAP of VOL's shares fluctuated between \$0.248 and \$0.304 over the past 180 days and between \$0.248 and \$0.255 in the past 60 days.

7.20 During the 180 days leading up to 21 April 2021, 79.60% of the issued capital of VOL, excluding the issued capital held by VGH, a significant portion of which are subject to voluntary escrow, was traded, and in the 30 days leading up to 21 April 2021, 2.77% of the issued share capital of VOL, excluding the issued capital held by VGH, was traded.

7.21 Of the 122 trading days in the 180 calendar days leading up to 21 April 2021, shares in VOL were traded on 121 of the days.

7.22 VOL also complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of VOL.

Value of a VOL Share on a non-control minority basis

7.23 In our opinion, the weighted average share price of VOL over the last 10 to 60 days is reflective of the underlying value of a VOL Share. As such, we consider a range of values of between \$0.248 and \$0.255 reflects the quoted market price valuation of a VOL Share on a minority basis prior to the Proposed Transaction.

Value of a VOL Share on a control basis

7.24 Our valuation of a VOL Share, on the basis of the recent quoted market price including a premium for control is between \$0.273 and \$0.293, as summarised in the table below.

	Ref	Low	High
Quoted market price (non-controlling basis) (\$)	7.23	0.248	0.255
Control premium (%)	7.25	10.0%	15.0%
Value of a VOL Share (52% control basis) (\$)		0.273	0.293

Source: RSM Calculations

Table 15: Assessed value of a VOL Share – quoted price of listed securities

Key assumptions

Control Premium

7.25 As set out in paragraphs 7.12 to 7.13, we have assessed a control premium in relation to a 52% controlling interest to be in the range of 10% to 15%.

Valuation summary and conclusion

7.26 A summary of our assessed values of an ordinary VOL Share on a control basis prior to the Proposed Transaction, derived under the two methodologies, is set out in the table below.

VOL Valuation Summary (\$)	Ref	Low	High	Preferred
Primary Methodology - Net Assets on a Going Concern	Table 12	0.270	0.305	0.287
Secondary Methodology - Quoted Listed Market Price	Table 15	0.273	0.293	0.283

Source: RSM Calculations

Table 16: VOL Share valuation summary

7.27 In our opinion, given the low liquidity of VOL's shares during the past 60 days, we consider that the net asset on a going concern valuation methodology provides a better indicator of the Fair Value of a VOL Share. However, we note the valuation range derived utilising the quoted listed market price methodology is broadly consistent with the assessed valuation range derived utilising the net assets on a going concern methodology.

7.28 Therefore, in our opinion, the Fair Value of a VOL Share prior to the Proposed Transaction is between \$0.270 and \$0.305 on a controlling basis, with the controlling basis based on a 52% ownership interest in VOL.

8. Valuation of VOL after the Proposed Transaction

8.1 We summarise our valuation of a VOL Share after the Proposed Transaction on control and a non-control basis in the table below.

	Ref	Low \$'000	High \$'000	Preferred \$'000
Adjusted Net Assets Prior to the Proposed Transaction	Table 12	27,093	27,093	27,093
Add:				
Cash received from issue of Shares to VPG		15,000	15,000	15,000
Increase in net assets as result of conversion of VPG loan		2,051	2,051	2,051
Increase in net assets as result of conversion of Victory Petroleum Pty Ltd		2,042	2,042	2,042
Adjusted Net Assets immediately following the Proposed Transaction		46,186	46,186	46,186
Number of shares on issue immediately following the Proposed Transaction (#)	Table 4	157,848,016	157,848,016	157,848,016
Assessed Fair Value per share (control basis) (\$)		0.293	0.293	0.293

Source: RSM Calculations

Table 17: Assessed value of a VOL Share post the Proposed Transaction (100% control basis)

	Ref	Low \$	High \$	Preferred \$
Fair Value of a VOL Share post the Proposed Transaction (controlling basis)	Table 17	0.293	0.293	0.293
Discount for lack of control	8.4	(15.0%)	(12.5%)	(13.8%)
Fair Value of a VOL Share post the Proposed Transaction (non-control basis)		0.249	0.256	0.252

Source: RSM Calculations

Table 18: Assessed value of a VOL Share post the Proposed Transaction (non-control basis)

8.2 We consider that the minority value of a VOL Share post the Proposed Transaction is between \$0.249 and \$0.256.

8.3 We have adjusted VOL's asset value and Shares on issue for the impact of each of the transactions included with the Proposed Transaction.

Minority interest discount

8.4 In selecting a minority discount we have given consideration to our control premium applied in Paragraph 7.10, where we established a range for a control premium of between 25% and 35%. The resulting corresponding minority discount range based on said control premiums is between 20% and 26%. We have then adjusted this minority discount range to reflect the change in VOL's gearing ratio as a result of the Proposed Transaction. Given that the Proposed Transaction will result in VOL having a net cash position, we have assessed that the minority discount will reduce, accordingly, to between the range of 12.5% and 15%.

9. Is the Proposed Transaction Fair to VOL Non-Associated Shareholders?

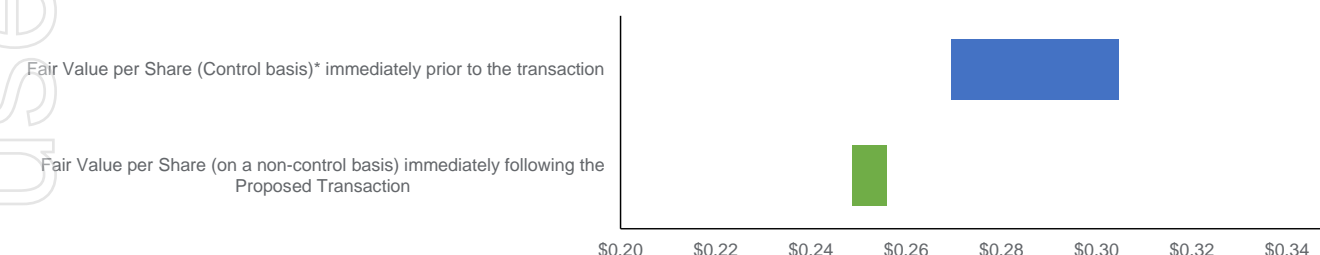
9.1 Our assessed values of a VOL Share prior to and immediately after the Proposed Transaction, are summarised in the table and figure below.

	Low	High	Preferred
Fair Value per Share (Control basis)* immediately prior to the transaction	\$0.270	\$0.305	\$0.270
Fair Value per Share (on a non-control basis) immediately following the Proposed Transaction	\$0.249	\$0.256	\$0.252

Source: RSM analysis

* Control basis is assessed based on a 52% total interest in VOL Prior to the Proposed Transaction

Table 19 Assessed values of a VOL Share pre and post the Proposed Transaction



Source: RSM analysis

* Control basis is assessed based on a 52% total interest in VOL Prior to the Proposed Transaction

Figure 4: VOL Share valuation graphical representation

9.2 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of complying with s611 of the Act, we consider the Proposed Transaction to be **not fair** to the Non-Associated Shareholders of VOL as the value of a VOL Share post the Proposed Transaction (non-control basis) is less than the value of a VOL Share pre the Proposed Transaction (52% control basis).

10. Is the Proposed Transaction Reasonable to Non-Associated Shareholders?

10.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Proposed Transaction, we have given consideration to:

- The future prospects of VOL if the Proposed Transaction does not proceed; and
- Other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

Future prospects of VOL if the Proposed Transaction does not proceed

10.2 If the Proposed Transaction does not proceed, the Directors will continue with the previously announced funding strategy of obtaining a \$15 million lending facility from entities associated with Mr Dan Baxter (on terms no less favourable to the Company than arm's length market terms).

Advantages and disadvantages

10.3 In assessing whether the Non-Associated Shareholders are likely to be better off if the Proposed Transaction proceed, than if it does not, we have also considered various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

Advantages of approving the Proposed Transaction

10.4 The key advantages of the Proposed Transaction are:

Advantage	Details
Strengthening of VOL cash reserves and balance sheet	<p>As at 28 February 2021 VOL disclosed cash reserves of \$2.8m and disclosed losses after tax of \$21.2 for PE21. VOL management is expecting VOL to continue to be loss making in the short to medium term. Consequently, VOL requires cash funding to enable it to continue operating whilst its business locations recover from the detrimental impact of COVID-19 and occupancy rates recover back towards pre COVID-19 levels.</p> <p>The Proposed Transaction provides VOL with access to cash reserves to fund these ongoing working capital needs.</p> <p>Whilst, in the absence of the Proposed Transaction, entities associated with Dan Baxter have committed to provide \$15m of funding via a commercial loan arrangement, the loan will incur interest (at a rate at or below a commercial arm's length rate) and will require servicing by VOL through the future repayment of interest and capital, which will place pressure on VOL's cash flows in the future. The higher level of debt gearing may also be viewed negatively by VOL's creditors and impair VOL's future ability to obtain favourable credit terms.</p>
The Proposed Transaction would be fair in the absence of the application of a control premium	<p>In accordance with RG 111 we have applied a control premium in our assessment of the Fair Value of a VOL share prior to the Proposed Transaction with the control premium assessed based on the 52% shareholding held in VOL by Non-Associated Shareholders prior to the Proposed Transaction.</p> <p>However, given that the 52% shareholding is held by a wide range of VOL shareholders and VGH holds 48% of the total ordinary shares in VOL, we do not consider that the Proposed Transaction results in any effective change in control. Whilst VGH cannot guarantee the passing of ordinary resolutions of the Company, in practical terms nearly all Non-Associated Shareholders would need to vote against VGH to prevent VGH from ensuring an ordinary resolution is passed.</p> <p>We have assessed the Fair Value of a VOL share prior to the Proposed Transaction on a minority basis to be in the range of \$0.245 to \$0.265.</p> <p>Therefore, in the absence of the application of a control premium in our assessment of the Fair Value of a VOL share prior to the Proposed Transaction, the Proposed Transaction would have been assessed as fair.</p> <p>The Proposed Transaction is being undertaken based on the 10 day VWAP of VOL shares. We consider it likely that, were VOL to seek \$15m of equity investment from third party investors, such investment would need to be priced at a significant discount to the recent VWAP of VOL shares.</p>

Table 20: Advantages of the Proposed Transaction

Disadvantages of approving the Proposed Transaction

10.5 The key disadvantages of the Proposed Transaction are:

Disadvantage	Details
The Proposed Transaction is not fair	The Proposed Transaction is not fair to the Non-Associated Shareholders.
Dilutionary impact	<p>Non-Associated Shareholders will, collectively, be diluted from a 52.0% ownership interest in VOL to a 26.9% in VOL. This will reduce Non-Associated Shareholders' ability to influence decisions such as the composition of the Board and the acquisition and disposal of assets.</p> <p>Of significance, with an ownership interest in VOL of over 50% post the Proposed Transaction, VGH and associates will have the ability to pass ordinary resolutions without other shareholder approval.</p> <p>VGH and associates will not have the guaranteed ability to pass special resolutions of the Company, but practically it is likely that VGH and associates would also be able to ensure special resolutions are passed.</p>
Potential reduction in liquidity	Whilst the Proposed Transaction will increase the total number of VOL shares on issue, the existence of a single group of associated shareholders owning 73.1% of the Company may result in reduced market interest in the acquisition of VOL shares and less liquidity for Non-Associated Shareholders.

Table 21: Disadvantages of the Proposed Transaction

Alternative proposal

10.6 We are not aware of any alternative proposal at the current time which might offer the Non-Associated Shareholders of VOL a greater benefit than the Proposed Transaction.

Conclusion on Reasonableness

10.7 In our opinion, the position of the Non-Associated Shareholders if the Proposed Transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of VOL.

10.8 An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD



Andrew Clifford
Director



Glyn Yates
Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Andrew Clifford and Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Andrew Clifford and Glyn Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of Victory Offices Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Clifford, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$20,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Victory Offices Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for VOL for the years ended 30 June 2018, 30 June 2019 and 30 June 2020;
- Reviewed interim financial statements of VOL for the six months ended 31 December 2020;
- Unaudited management accounts of VOL for the period 1 July 2020 to 28 February 2021;
- VOL financial forecasts for the year ending 30 June 2021 and the year ending 30 June 2022;
- ASX announcements of VOL;
- IBISWorld;
- S&P Capital IQ database; and
- Discussions with Directors and Management of VOL.

C. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian dollar
Act	Corporations Act 2001 (Cth)
AFCA	Australian Financial Complaints Authority
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
Company	Victory Offices Limited
Control basis	As assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Debt Conversion	VGH and associates agreement to convert approximately \$4 million of existing loans into ordinary shares at the same issue price of \$0.2504 per share
Directors	Directors of the Company
Explanatory Statement	The explanatory statement accompanying the Notice
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
FME	Future Maintainable Earnings
FSG	Financial Services Guide
FY18	Financial Year Ended 30 June 2018
FY19	Financial Year Ended 30 June 2019
FY20	Financial Year Ended 30 June 2020
HY21	Six Months ended 31 December 2020
IER	This Independent Expert Report
Non-Associated Shareholders	VOL Shareholders who are not a party, or associated to a party, to the Proposed Transaction
Notice	The notice of meeting to vote on, inter alia, the Proposed Transaction
PE21	8 Months ended 28 February 2021
Proposed Transaction	Collectively: <ul style="list-style-type: none"> the issue of 59,746,674 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to VGH to raise \$15m in cash; the issue of 8,168,370 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to VGH to convert loans of circa \$2.05m owing by the Company to VGH; and the issue of 8,132,972 fully paid ordinary shares in the Company at an issue price of \$0.25106 per share to Victory VPL to convert loans of circa \$2.04m owing by the Company to VPL.

Term or Abbreviation	Definition
Report	This Independent Expert's Report prepared by RSM dated [insert]
Resolution	The resolutions set out in the Notice
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ	An entity of Standard and Poors which is a third party provider of company and other financial information
Share or VOL Share	Ordinary fully paid share in the capital of the Company
Shareholder	A holder of Share
VGH	Victory Group Holdings Pty Ltd
VGH and associates	Collectively VGH and VPL
VOL or the Company	Victory Offices Limited
VPL	Victory Petroleum Pty Ltd
VWAP	Volume weighted average share price

D. INDUSTRY OVERVIEW

VOL is a provider of flexible space solutions for all business types, as well as open plan coworking environments, events, meeting rooms and other additional services. Therefore, VOL operates within a subset of the Office Property Operators industry. Refer to the industry's trends in the Office Property Operators industry and Share Office Spaces segment are discussed below.

Office Property¹

Operating conditions in the industry have been volatile over the past five years. Industry revenue is expected to decline at an annualised 2.8% over the five years through 2020-21, to \$35.8 billion. The COVID-19 pandemic has sharply decreased rental income and demand for office property over the two years through 2020-21. Most office facilities have not been fully operational, causing tenants to either renegotiate rental payments or end lease agreements to save costs. Additionally, tenants have moved from premium-grade offices towards A-grade and B-grade offices due to rising rental costs. Furthermore, the popularity of hot desking and shared office spaces has reduced the amount of floorspace demanded over the period, constraining industry expansion.

As work from home and social distancing measures are being lifted, industry revenue is forecast to grow at an annualised 3.2% over the five years through 2025-26, to \$41.9 billion. Rental yields are forecast to rebound to pre-COVID-19 levels over the period, as lease agreements are adjusted once businesses return to offices. However, a shift towards more flexible working arrangements is anticipated to reduce demand for office space.

Shared Office Spaces

Firms that provide shared office spaces have decreased the amount of floorspace required by tenants over past five years, which has constrained industry demand and revenue. The popularity and cost effectiveness of shared office spaces are likely to threaten industry expansion over the five years through 2025-26.

Tenants are aware of the costs and risks associated with leasing office premises. Demand for shorter leases is growing and more tenants are engaging advisers for new lease negotiations, rent reviews, planning accommodation requirements and disputes with landlords. Tenants will likely seek more flexible arrangements from lessors over the next five years. These demands are anticipated to create new types of office operators who provide temporary or shared office space for companies across different Australian cities.

¹ IBISWorld Industry Report L6712a – Office Property Operators in Australia, August 2020

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