

Segment Valuation Model

Victoria

	Units	Comments		
Segment Input Data				
Segment Parameters				
Total Value	\$m	20.0		
Number of Loans	#	100.0		
Average Age of Loans	Years	4.0		
Average Interest Rate	%	7.00%		
Critical Interest Rate	%	7.00%		
Run-off Modelling Parameters				
Run-off Assumptions (at fair interest rate)				
Best Case	%	9.0%		
Average	%	15.0%		
Worst Case	%	18.0%		
Run-off Profile				
Critical Loan Age (Peak Run-off)	Years	6.0		
Sharpness (Left of Peak)	#	3.0		
Sharpness (Right of Peak)	#	0.5		
Modelled Run-off Profile (corrected for interest rate)				
Low	%	9.0%	Parameter 3.0	If segment average interest rate is greater than critical interest rate then run-off bounds are increased linearly. Parameter controls the sensitivity of run-off to variance between segment and critical interest rate
High	%	18.0%	3.0	See above
Commission Assumptions				
Segment trailing commission	%	0.25%		
Re-work commissions				
Same institution				
Initial commission	%	-		
Trailing commission	%	0.15%		
Different institution				
Initial commission	%	0.65%		
Trailing commission	%	0.17%		
Re-work Assumptions				
Assumed re-work conversion (at fair interest rate)	%	20.0%		Re-work as percentage of run-off available for re-work. Set with consideration to average loan size
Assumed re-work conversion (corrected for interest rate)	%	20.0%	Parameter 2.0	If segment average interest rate is greater than critical interest rate then re-work conversion is increased linearly. Parameter controls the sensitivity to variance between segment and critical interest rate
Re-work split				
% same institution	%	50.0%		
% different institution	%	50.0%		

Valuation Assumptions

Discount Rate	%	10%	
Terminal growth rate	%	(11%)	Fed from final year free cash flow growth
Exit multiple (of annuity)	%	2.0 x	
Tax rate	%	30%	

Year >>>

Segment Portfolio Modelling

Average Age of Loans													
at start of year	Years		4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0
at end of year	Years	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0
at mid-year	Years		4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5

Segment Run-off	%		14.1%	17.5%	18.0%	17.9%	17.6%	17.3%	16.8%	16.3%	15.7%	15.1%	14.4%
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Segment value (excluding re-work)

Opening	\$m		20.0	17.2	14.2	11.6	9.6	7.9	6.5	5.4	4.5	3.8	3.2
Run-off	\$m		(2.8)	(3.0)	(2.5)	(2.1)	(1.7)	(1.4)	(1.1)	(0.9)	(0.7)	(0.6)	(0.5)
Closing	\$m	20.0	17.2	14.2	11.6	9.6	7.9	6.5	5.4	4.5	3.8	3.2	2.8

Re-work Modelling

Component of Run-off available for Re-work	%		5.1%	8.5%	9.0%	8.9%	8.6%	8.3%	7.8%	7.3%	6.7%	6.1%	5.4%
Re-work	%		1.0%	1.7%	1.8%	1.8%	1.7%	1.7%	1.6%	1.5%	1.3%	1.2%	1.1%

Segment run-off after re-work	%		13.1%	15.8%	16.2%	16.1%	15.9%	15.6%	15.3%	14.8%	14.4%	13.9%	13.4%
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Re-work

Same institution	\$m		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Different institution	\$m		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total Re-work	\$m		0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0

Re-work portfolio

Opening Balance	\$m			0.2	0.5	0.7	0.8	0.9	0.9	0.9	0.9	0.8	0.7
New Re-work	\$m			0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Run-off (assume nil in year 1)													
% of opening balance	%			9.1%	9.1%	9.3%	9.8%	10.8%	12.5%	14.8%	16.9%	18.0%	18.0%
Value	\$m			(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Closing Balance	\$m		0.2	0.5	0.7	0.8	0.9	0.9	0.9	0.9	0.8	0.7	0.6
Average Age (at mid-year)	Years		0.5	0.9	1.4	1.9	2.5	3.1	3.7	4.3	4.9	5.6	6.2
Average Age (for purpose of run-off)	Years			1.5	1.9	2.4	2.9	3.5	4.1	4.7	5.3	5.9	6.6

Segment Bridge

Opening Segment Balance	\$m		20.0	17.4	14.7	12.3	10.4	8.8	7.5	6.3	5.4	4.6	3.9
Run-off	\$m		(2.8)	(3.0)	(2.5)	(2.1)	(1.7)	(1.4)	(1.1)	(0.9)	(0.7)	(0.6)	(0.5)
Closing Segment Balance before Re-work	\$m		17.2	14.4	12.1	10.2	8.7	7.4	6.4	5.5	4.7	4.0	3.5
Re-work													
Same institution	\$m			0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Different institution	\$m			0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total Re-work	\$m			0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Additional Run-off from Re-work Portfolio	\$m			-	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Closing Segment Balance	\$m	20.0	17.4	14.7	12.3	10.4	8.8	7.5	6.3	5.4	4.6	3.9	3.4

		0	1	2	3	4	5	6	7	8	9	10	11
Discounted Cash Flow Valuation													
Free Cash Flow													
Revenue													
Commission from initial portfolio	\$k		46.5	39.2	32.3	26.5	21.8	18.0	14.9	12.4	10.4	8.8	7.5
Commission from re-work													
Same institution													
Opening	\$k		-	-	-	-	-	-	-	-	-	-	-
Trailing	\$k		0.2	0.5	0.9	1.1	1.3	1.4	1.4	1.3	1.2	1.1	1.0
Total same institution	\$k		0.2	0.5	0.9	1.1	1.3	1.4	1.4	1.3	1.2	1.1	1.0
Different institution													
Opening	\$k		0.7	0.9	0.8	0.7	0.5	0.4	0.3	0.3	0.2	0.2	0.1
Trailing	\$k		0.2	0.6	1.0	1.3	1.5	1.6	1.6	1.5	1.4	1.3	1.1
Total new institution	\$k		0.8	1.5	1.8	2.0	2.0	2.0	1.9	1.8	1.6	1.4	1.2
Total Commission from re-work	\$k		1.0	2.0	2.7	3.1	3.3	3.4	3.3	3.1	2.8	2.5	2.2
Total Revenue	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
Incremental SG&A													
Customer service	\$k												
IT	\$k		-	-	-	-	-	-	-	-	-	-	-
Management	\$k		-	-	-	-	-	-	-	-	-	-	-
Other	\$k		-	-	-	-	-	-	-	-	-	-	-
Total Incremental SG&A	\$k		-	-	-	-	-	-	-	-	-	-	-
EBITDA	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
EBIT	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
Tax	\$k		(14.2)	(12.4)	(10.5)	(8.9)	(7.5)	(6.4)	(5.5)	(4.7)	(4.0)	(3.4)	(2.9)
Total Free Cash Flow	\$k		33.2	28.9	24.5	20.7	17.6	15.0	12.8	10.9	9.3	7.9	6.8
YoY change	%			(13.1%)	(15.2%)	(15.4%)	(15.1%)	(14.9%)	(14.7%)	(14.6%)	(14.7%)	(14.7%)	(14.4%)
Terminal Value													
Method 1 - Terminal Growth Rate	\$k												
Method 2 - Multiple of Exit Revenue	\$k												
Discount factor	#		0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47	0.42	0.39	0.35
Discounted Cash Flow													
Method 1 - Terminal Growth Rate	\$k		30.2	23.8	18.4	14.1	10.9	8.4	6.5	5.1	3.9	3.1	2.4
Method 2 - Multiple of Exit Revenue	\$k		30.2	23.8	18.4	14.1	10.9	8.4	6.5	5.1	3.9	3.1	2.4
Net Present Value - Method 1 - Terminal Growth Rate													
Forecast period (yrs 1 - 20)	\$k	134.8	<u>% of total</u>										
Terminal Value	\$k	1.3	99.1%										
Total NPV	\$k	136.0	0.9%										
x present annuity (before rework)	#	2.93											
x present EBITDA	#	2.87											
Net Present Value - Method 2 - Multiple of Exit Revenue													
Forecast period (yrs 1 - 20)	\$k	134.8	<u>% of total</u>										
Terminal Value	\$k	0.9	99.4%										
Total NPV	\$k	135.6	0.6%										
x present annuity (before rework)	#	2.92											
x present EBITDA	#	2.86											

0 1 2 3 4 5 6 7 8 9 10 11

OPTION B: Purchase price treated as "one-off" cost on P&L

Profit & Loss

Revenue	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
SG&A	\$k		-	-	-	-	-	-	-	-	-	-	-
One-offs	\$k		-	-	-	-	-	-	-	-	-	-	-
EBIT	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
Interest	\$k		-	-	-	-	-	-	-	-	-	-	-
Tax	\$k		(14.2)	(12.4)	(10.5)	(8.9)	(7.5)	(6.4)	(5.5)	(4.7)	(4.0)	(3.4)	(2.9)
NPAT	\$k		33.2	28.9	24.5	20.7	17.6	15.0	12.8	10.9	9.3	7.9	6.8

Free Cash Flow (excl purchase price)

YoY change	%			(13.1%)	(15.2%)	(15.4%)	(15.1%)	(14.9%)	(14.7%)	(14.6%)	(14.7%)	(14.7%)	(14.4%)
Discounted Free Cash Flow	\$k		30.2	23.8	18.4	14.1	10.9	8.4	6.5	5.1	3.9	3.1	2.4

Net Present Value - Terminal Growth Rate Method

			<u>% of total</u>
Forecast period (yrs 1 - 20)	\$k	134.8	99.1%
Terminal Value	\$k	1.3	0.9%
Total NPV	\$k	136.0	
x present annuity (before rework)	#	2.93	

Carried Forward Loss Book

Opening Balance	\$k	-	-	-	-	-	-	-	-	-	-	-	-
New Losses	\$k	-	-	-	-	-	-	-	-	-	-	-	-
Losses Used	\$k	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	\$k	-	-	-	-	-	-	-	-	-	-	-	-

Tax Calculation

Profit before Tax	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
Losses used	\$k		-	-	-	-	-	-	-	-	-	-	-
Profit before Tax (after carried fwd losses)	\$k		47.5	41.2	34.9	29.6	25.1	21.4	18.2	15.6	13.3	11.3	9.7
Tax	\$k		(14.2)	(12.4)	(10.5)	(8.9)	(7.5)	(6.4)	(5.5)	(4.7)	(4.0)	(3.4)	(2.9)

Debt book

Opening	\$k	-	-	-	-	-	-	-	-	-	-	-	-
Paydown	\$k	-	-	-	-	-	-	-	-	-	-	-	-
Closing	\$k	-	-	-	-	-	-	-	-	-	-	-	-

Sensitivity Analysis

Sensitivity of Valuation (Unlevered) to Discount Rate

Model Vals	Discount Rate >>											
	10.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
	136.0	172.0	163.3	155.4	148.4	141.9	136.0	130.6	125.7	121.0	116.8	112.8

Sensitivity of Valuation (Unlevered) to Run-off Rate

Model Vals	Percentage Point Change to Run-off Range >>											
	-	(5.0%)	(4.0%)	(3.0%)	(2.0%)	(1.0%)	-	1.0%	2.0%	3.0%	4.0%	5.0%
	136.0	173.6	164.6	156.4	149.0	142.2	136.0	130.3	125.1	120.2	115.6	111.4

Sensitivity of Valuation (Unlevered) to Critical Age

Model Vals	Critical Loan Age >>											
	6.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
	136.0	175.3	160.2	145.4	137.6	134.6	136.0	139.3	143.0	146.5	149.8	152.7

Sensitivity of Valuation (Unlevered) to Re-work Conversion

Model Vals	Re-work Conversion											
	20.0%	10.0%	12.0%	14.0%	16.0%	18.0%	20.0%	22.0%	24.0%	26.0%	28.0%	30.0%
	136.0	129.2	130.6	132.0	133.3	134.7	136.0	137.4	138.8	140.1	141.5	142.9