

15 October 2013

**By delivery**

Registrar of Companies  
Level 18, ASB Centre  
135 Albert Street

**TARGET COMPANY STATEMENT PURSUANT TO RULE 46 OF THE TAKEOVERS CODE**

1. We refer to the Notice of Dispatch given today by Holliday Group Holdings (ICT Investments) Limited (**Holliday Group**) to Finzsoft Solutions Limited (**Finzsoft**) pursuant to Rule 45 of the Takeovers Code.
2. Pursuant to Rule 46(1)(b)(i) of the Takeovers Code, we **enclose** a copy of the Target Company Statement and accompanying Independent Adviser's Report obtained by Finzsoft in accordance with Rule 21 of the Takeovers Code, and Independent Adviser's Report on Fairness Between Classes obtained by Holliday Group in accordance with Rule 22 of the Takeovers Code.

Yours sincerely



Brent Impey  
Independent Chairman

**Finzsoft Solutions**

Australia: P +61 2 8079 5812    Malaysia: P +65 9185 4799    New Zealand: P +64 9 571 6800    Singapore: P +65 9185 4799

E: info@finzsoft.com    W: www.finzsoft.com

Level 3-1 Jamison Street, Sydney, NSW 2000, Australia / Level 11, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, 50470 Kuala Lumpur /

Level 1, Building C, Millennium Centre, 602 Great South Road, Greenlane, Auckland 1051, New Zealand

PO Box 2, Shortland Street, Auckland 1140, New Zealand / 8 Cross Street, #10-00 PWC Building, Singapore 048424

## Target Company Statement

The following information has been prepared by Finzsoft Solutions Limited under Rule 46 of the Takeovers Code in response to a takeover offer made by Holliday Group Holdings (ICT Investments) Limited.

In this target company statement:

**Board** means the board of directors of the Company;

**Closing Date** means 13 November 2013, or such later date as the closing date for the takeover offer may be extended to in accordance with the Takeovers Code;

**Equity Securities** means the Shares and the Options;

**Finzsoft** or the **Company** means Finzsoft Solutions Limited, being the target company in respect of the Offer;

**Holliday Group** means Holliday Group Holdings (ICT Investments) Limited;

**ICT Investments** means ICT Investments (FS) Limited;

**Listing Rules** means the NZX Listing Rules;

**Lock-Up Agreement** means the conditional lock-up agreement dated 6 September 2013 between (among others) Holliday Group and ICT Investments;

**Options** means the unlisted options which have been issued to certain employees of Finzsoft under an employee share option plan;

**Shares** means ordinary shares in Finzsoft which are listed on the NZX Main Board; and

**Takeovers Code** means the Takeovers Code Approval Order 2000.

### 1. Date

1.1 The date of this target company statement is 7 October 2013.

### 2. Offer

2.1 The offer to which this target company statement relates (**Offer**) is a full offer under the Takeovers Code made by Holliday Group for all of the Equity Securities of Finzsoft. Finzsoft's Equity Securities comprise the Shares and the Options.

2.2 Holliday Group has offered to acquire all of the Equity Securities under the Offer on the following key terms:

(a) The consideration offered for each Share is \$0.4546 in cash.

- (b) The consideration offered for each Option ranges from \$0.0746 to \$0.2546 per Option in cash, depending on the date of the terms of issue of the relevant Option. However, the Options are personal to the Option holders and are not transferrable. As such, any acceptances received in respect of the Options will not be accepted for transfer by the Board. Options holders should refer to paragraphs 17.3 to 17.7 below and to the schedule to this target company statement for further information regarding the Options and how the Offer affects them.
- (c) The Offer is for 100% of the Equity Securities. Holders of Equity Securities may accept the Offer in respect of all or any of their Equity Securities. However, as indicated above, the Options are not transferrable and as such will not be accepted for transfer by the Board.
- (d) The Offer is conditional on the receipt by Holliday Group of acceptances which confer on Holliday Group 51% or more of the voting rights in Finzsoft. As detailed further in section 7 below, ICT Investments has agreed to accept the Offer under the terms of the Lock-Up Agreement. ICT Investments holds approximately 63.61% of the voting rights in Finzsoft. Accordingly, the 51% acceptance condition to the Offer will be satisfied once ICT Investments accepts the Offer.
- (e) The Offer closes at 5pm on 13 November 2013 (being the Closing Date), unless extended in accordance with the Takeovers Code.
- (f) Holders of Equity Securities who accept the Offer will be paid the consideration for their Equity Securities in New Zealand dollars within seven days of the later of the date on which their acceptance is received by Holliday Group and the date on which the Offer is declared or becomes unconditional.
- (g) There will be no brokerage costs payable by security holders of Equity Securities who accept the Offer.
- (h) If the consideration for acceptance of the Offer is not paid within the requisite period set out in sub-paragraph (f) above to any person who has accepted the Offer, that person may withdraw acceptance of the Offer by providing notice in writing to Holliday Group but only after the expiration of seven days written notice to Holliday Group of that person's intention to do so.
- (i) The Offer may only be withdrawn with the consent of the Takeovers Panel or if the Offer lapses as a result of the condition as to minimum acceptances (referred to in sub-paragraph (d) above) not being satisfied by the Closing Date.
- (j) Other than in respect of the circumstances contemplated in sub-paragraphs (h) and (i) above, acceptances once received by Holliday Group are irrevocable and any person who accepts the Offer will not be entitled to withdraw their acceptance, irrespective of whether the Offer may be or has been varied by Holliday Group.

The full terms of the Offer are set out in the offer document dated 14 October 2013 which was sent to shareholders by Holliday Group together with this target company statement.

### 3. Target company

3.1 The name of the target company is Finzsoft Solutions Limited.

### 4. Directors of the target company

4.1 The names of the directors of the target company are Brent Graham Impey (Independent Chairman), Andrew Alexander Holliday (Managing Director), and Paul Renny Cook (Independent Non-Executive Director).

4.2 Ian John Massy Wills resigned as a director of the Company and from his position as joint managing director on 6 September 2013.

### 5. Ownership of equity securities of the target company

5.1 The table below sets out the number, designation and percentage of Equity Securities of any class of the Company held or controlled by:

- (a) each director of the Company;
- (b) each senior officer of the Company;
- (c) any associate of each director or senior officer of the Company; and
- (d) any other person holding or controlling 5% or more of any class of Equity Securities (to the knowledge of the Company).

Name	Description	Number of Equity Securities held or controlled	Type of Equity Security	Percentage of class
ICT Investments (FS) Limited	Person holding or controlling more than 5% of a class of equity securities <sup>1</sup>	5,279,630	Shares	63.61%

<sup>1</sup> As well as being a person holding more than 5% of a class of equity securities of Finzsoft, ICT Investments is an associate of Andrew Holliday for the purposes of the Takeovers Code as it is a party to the Lock-Up Agreement. Andrew Holliday is a director of Finzsoft.

Name	Description	Number of Equity Securities held or controlled	Type of Equity Security	Percentage of class
Rubik Finance Limited	Person holding or controlling more than 5% of a class of Equity Securities	1,659,960	Shares	20%
Andrew Holliday <sup>2</sup>	Director of Finzsoft and person holding or controlling more than 5% of a class of Equity Securities	5,279,630	Shares	63.61%
Rebekah Holliday <sup>3</sup>	Associate of a director of Finzsoft and person holding or controlling more than 5% of a class of Equity Securities	5,279,630	Shares	63.61%

<sup>2</sup> These Shares are held by ICT Investments. Andrew Holliday is a director of ICT Investments and holds 1% of the shares in ICT Investments' holding company, Pi Capital Investments Limited in his personal name and, jointly with Rebekah Holliday as trustee of the Holliday & Sons Family Trust, holds 49% of the shares in Pi Capital Investments Limited.

<sup>3</sup> These Shares are held by ICT Investments. Rebekah Holliday holds 49% of the shares in ICT Investments' holding company, Pi Capital Investments Limited, jointly with Andrew Holliday as trustee of the Holliday & Sons Family Trust. Rebekah Holliday is an associate of Andrew Holliday for the purposes of the Takeovers Code as she is a party to the Lock-Up Agreement in her capacity as a trustee of the Holliday & Sons Family Trust.

Name	Description	Number of Equity Securities held or controlled	Type of Equity Security	Percentage of class
Ian Wills <sup>4</sup>	Associate of Andrew Holliday and person holding or controlling more than 5% of a class of Equity Securities	5,279,630	Shares	63.61%
Christine Wills <sup>5</sup>	Associate of Andrew Holliday and person holding or controlling more than 5% of a class of Equity Securities	5,279,630	Shares	63.61%
Tim Hurring <sup>6</sup>	Senior officer of the Company (Senior Technical Officer)	130,000	Shares	1.6%
Tim Hurring	Senior officer of the Company (Senior Technical Officer) and person holding more than 5% of	65,867	Options	22%

<sup>4</sup> These Shares are held by ICT Investments. Ian Wills is a director of ICT Investments and holds 1% of the shares in ICT Investments' holding company, Pi Capital Investments Limited, in his own name. He also holds 49% of the shares in Pi Capital Investments Limited jointly with Christine Wills as trustee of the Wills & Daughters Family Trust.

<sup>5</sup> These Shares are held by ICT Investments. Christine Wills holds 49% of the shares in ICT Investments' holding company, Pi Capital Investments Limited, jointly with Ian Wills as trustee of the Wills & Daughters Family Trust. Christine Wills is an associate of Andrew Holliday for the purposes of the Takeovers Code as she is a party to the Lock-Up Agreement in her capacity as a trustee of the Wills & Daughters Family Trust.

<sup>6</sup> These Shares are held by Timothy James Hurring and Susan Jane Hurring as trustees of the Hurring Family Trust.

Name	Description	Number of Equity Securities held or controlled	Type of Equity Security	Percentage of class
	a class of Equity Securities			
Zinka Matulic	Senior officer of the Company (Head of Operations)	40,000	Shares	0.004%
Zinka Matulic	Senior officer of the Company (Head of Operations) and person holding more than 5% of a class of Equity Securities	65,867	Options	22.62%
Alan Blair	Senior officer of the Company (Global Head of Sales) and person holding more than 5% of a class of Equity Securities	32,666	Options	11.22%

- 5.2 Except as set out in the table above, no other directors or senior officers of Finzsoft or their associates hold or control any Equity Securities.
- 5.3 No Shares have been issued to the directors or senior officers of Finzsoft or their associates during the two year period ending on the date of this target company statement.
- 5.4 No director of Finzsoft has, during the two year period ending on the date of this target company statement, obtained a beneficial interest in any equity securities of Finzsoft under any employee share scheme or other remuneration arrangement.
- 5.5 The table below sets out the number, designation and percentage of Equity Securities in which senior officers of Finzsoft or their associates have, during the two year period ending on the date of this target company statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement.

Name	Number of equity securities issued	Type of equity security
Tim Hurring	18,667	Options
Zinca Matulic	18,667	Options
Alan Blair	18,666	Options

5.6 There is no consideration payable for the issue of an Option. The exercise price payable upon conversion of each Option referred to in the table above to a Share in accordance with the Option terms is \$0.38 per Option.

**6. Trading in target company equity securities**

6.1 None of the directors or senior officers of Finzsoft, or their associates, or any other person holding or controlling 5% or more of any class of Equity Securities has, during the six month period ending on 4 October 2013 (being the last practicable date before the date of this target company statement) acquired or disposed of any Equity Securities.

**7. Acceptance of offer**

7.1 As indicated at paragraph 2.2 above, ICT Investments entered into the Lock-Up Agreement on 6 September 2013 with Holliday Group, Andrew Holliday, Ian Wills, Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust), and Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust) under which ICT Investments has agreed to accept the Offer in respect of all of its 5,279,630 Shares.

**8. Ownership of equity securities of offeror**

8.1 Finzsoft does not hold or control any equity securities of Holliday Group.

8.2 All of the equity securities of Holliday Group (being 100 ordinary shares) are held by Andrew Alexander Holliday and Rebekah May Holliday as trustees of the Holliday & Sons Family Trust.

**9. Trading in equity securities of offeror**

9.1 Andrew Alexander Holliday and Rebekah May Holliday, as trustees of the Holliday & Sons Family Trust, acquired 100 ordinary shares of Holliday Group upon its incorporation on 2 September 2013. These shares were issued for nil consideration upon incorporation.



**10. Arrangements between offeror and target company**

10.1 Finzsoft is a related company of ICT Investments as over 50% of the Shares are held by ICT Investments. As described in paragraph 7.1 above, ICT Investments, Holliday Group, Andrew Holliday, Ian Wills, Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust), and Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust) are parties to the Lock-Up Agreement. For the purposes of the Takeovers Code, the parties to the Lock-Up Agreement are associates.

10.2 Except for the Lock-Up Agreement, there are no agreements or arrangements (whether legally enforceable or not) made, or proposed to be made, between Holliday Group or any associates of Holliday Group, and Finzsoft or any related company of Finzsoft, in connection with, in anticipation of, or in response to, the Offer.

**11. Relationship between offeror, and directors and officers of target company**

11.1 The following agreements or arrangements have been made, or are proposed to be made, between Holliday Group as the offeror or any of its associates, and any of the directors or senior officers of Finzsoft or any of its related companies:

- (a) As indicated at section 7 of this Target Company Statement above, Holliday Group, ICT Investments, Andrew Holliday, Ian Wills, Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust), and Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust) have entered into the Lock-Up Agreement.
- (b) Ian Wills agreed to resign as a director and joint managing director of Finzsoft upon entry into the Lock-Up Agreement by all of the parties to that agreement. As indicated at paragraph 4.2 above, this resignation took effect from 6 September 2013. Ian Wills is a director of ICT Investments and Pi Capital Investments Limited, each of which are related companies of Finzsoft.
- (c) In addition to resigning as a director of Finzsoft, Ian Wills agreed to cease providing any services to Finzsoft upon the date of entry by the parties to the Lock-Up Agreement. Notice of termination of provision of services was given on 12 September 2013, with effect from 6 September 2013. Prior to this notice of termination, Ian had provided various services to Finzsoft under an independent contractors agreement between Wills Capital Investments Limited and Finzsoft dated 12 March 2010 (as amended on 31 March 2011 and 1 August 2012). Ian Will's notice of termination of provision of services to Finzsoft was given on the basis that reinstatement of his position as a director of Finzsoft in the circumstances described in paragraph 11.1(d) below will also include reinstatement of his role and provision of services under the independent contractors agreement.
- (d) Andrew Holliday, Ian Wills and ICT Investments agreed to take all necessary steps to procure that Ian Wills is immediately reappointed as a director and joint managing director of Finzsoft if for any reason the Offer is withdrawn, lapses or the

consideration due to ICT Investments following acceptance of the Offer is not paid when due in accordance with the Offer terms. In addition, the independent directors of Finzsoft have advised Ian Wills that, if the Offer does not proceed, they will immediately take steps to reappoint Ian Wills as a director and joint managing director of Finzsoft. No payment or other benefit was or is proposed to be made or given to Ian Wills in respect of the matters referred to in this paragraph and sub-paragraph (c) above.

- (e) Andrew Holliday is a director of Finzsoft, ICT Investments and Pi Capital Investments Limited (as noted in paragraph (b) above, each are related companies of Finzsoft). Andrew Holliday and Ian Wills have agreed that, upon ICT Investments receiving the consideration for the sale of its Shares to Holliday Group pursuant to the Offer, the consideration would be advanced to the ultimate shareholders of ICT Investments and any debts between Andrew Holliday and Ian Wills or any associated entity satisfied and steps taken to liquidate ICT Investments.
  - (f) Andrew Holliday is also a trustee of the Holliday & Sons Family Trust. Andrew Holliday and Rebekah Holliday (as the trustees of the Holliday & Sons Family Trust) have agreed to provide finance to Holliday Group to enable it to satisfy the consideration payable on full acceptance of the Offer and to pay any debts incurred in connection with the Offer, including any debts which may arise under Rule 49 of the Takeovers Code.
- 11.2 Except as set out above, there is no agreement or arrangement (whether legally enforceable or not) made, or proposed to be made between Holliday Group or any associates of Holliday Group, and any of the directors or senior officers of Finzsoft or any related company of Finzsoft in connection with, in anticipation of, or in response to, the Offer.
- 11.3 Andrew Alexander Holliday is a director of Finzsoft. He is also a director of Holliday Group, ICT Investments, and Pi Capital Investments Limited (being the sole shareholder of ICT Investments).
- 12. Agreement between target company, and directors and officers**
- 12.1 Andrew Holliday is a director of Finzsoft and is also the managing director of the Company. Finzsoft has agreed with Andrew Holliday that, subject to:
- (a) Ian Wills resigning from his positions with the Company (as described in paragraphs 11.1(b) and 11.1(c) above);
  - (b) ICT Investments accepting the Offer under the arrangements provided by the Lock-Up Agreement (as described in paragraph 7.1); and
  - (c) the Offer becoming unconditional,

Andrew Holliday will enter into a new contract with Finzsoft relating to his position as interim managing director of the Company. Under the proposed contractual arrangements, Andrew will be entitled to the following remuneration arrangements:

- (d) an annual salary of \$300,000;
- (e) annual directors' fees of \$50,000; and
- (f) a retention payment of \$100,000.

Mr Holliday's annual salary and director's fees will not be increased under the proposed arrangements. The \$100,000 retention payment represents an additional amount to Mr Holliday's remuneration as at the date of this target company statement and will be payable in twelve equal monthly instalments during the period following resignation of Ian Wills as a director of the Company (i.e., from 6 September 2013). The purpose of this retention payment is to ensure continuity of senior leadership of the Company following the resignation of Ian Wills. If Andrew Holliday resigns or has his position terminated by the Company during the twelve month period following completion of the takeover, Finzsoft will be entitled to recover all monies paid to him under this retention arrangement.

- 12.2 As noted in paragraph 11.1(b) above, Ian Wills agreed to resign from his position as a director and joint managing director of Finzsoft upon entry into the Lock-Up Agreement by all of its parties. In addition, Andrew Holliday, Ian Wills and ICT Investments have agreed to take all necessary steps to procure that Ian Wills is immediately reappointed as a director and joint managing director of Finzsoft if the Offer is withdrawn, lapses, or the consideration due to ICT Investments following its acceptance of the Offer is not paid when due. In addition, the independent directors of Finzsoft have advised Ian Wills that, if the Offer does not so proceed, they will immediately take steps to reappoint Ian Wills as a director and joint managing director of Finzsoft. As also indicated at paragraph 11.1(c) above, such reinstatement will also include reinstatement of Ian Wills' role and provision of services under the independent contractors agreement referred to at paragraph 11.1(c) above. No payment or other benefit has been or is proposed to be made or given to Ian Wills in respect of these arrangements.
- 12.3 Other than with respect to the matters described in the preceding paragraphs of this section 12, there are no agreements or arrangements (whether legally enforceable or not) made, or proposed to be made between Finzsoft or any related company of Finzsoft, and any of the directors or senior officers or their associates of Finzsoft or its related companies, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.
13. **Interests of directors and officers of target company in material contracts of offeror or related company**
- 13.1 As indicated above, Andrew Holliday, Ian Wills, Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust) and Ian Wills and Christine Wills (as trustees of

the Wills & Daughters Family Trust) and ICT Investments are parties to the Lock-Up Agreement, together with Holliday Group. Each of those persons is an associate of Andrew Holliday for the purpose of the Takeovers Code and, together with Andrew Holliday, has an interest in the Lock-Up Agreement, being a contract to which Holliday Group is a party.

- 13.2 As indicated at paragraph 7.1 above, under the Lock-Up Agreement ICT Investments has agreed to accept the Offer in respect of all of its 5,279,630 Shares. Upon acceptance of the Offer in accordance with the Lock-Up Agreement and the terms of the Offer, ICT Investments will receive \$2,400,119.80 in cash, being the consideration offered by Holliday Group in respect of all of ICT Investments' Shares on the basis of the Offer price of \$0.4546 per Share. As indicated at paragraph 11.1(e) above, the consideration for ICT Investments' Shares, once received from Holliday Group, is to be advanced to the ultimate shareholders of ICT Investments and any debts between Andrew Holliday and Ian Wills or any associated entities are to be satisfied.
- 13.3 Andrew Holliday, jointly with Rebekah Holliday, holds all of the shares in Holliday Group. Holliday Group is a party to the Lock-Up Agreement and upon payment of the consideration for ICT Investments' Shares (as described in paragraph 13.2 above), Holliday Group will be entitled to receive the transfer of all of ICT Investments' 5,279,630 Shares. On the basis of the Offer price of \$0.4546 per Share, the monetary value of Holliday Group's interest in the Lock-Up Agreement is \$2,400,119.80.
- 13.4 Andrew Holliday and Ian Wills each own 1% of the shares in Pi Capital Investments Limited, ICT Investment's holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Andrew Holliday and Ian Wills are indirectly interested in the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.
- 13.5 Andrew Holliday and Rebekah Holliday, as trustees of the Holliday & Sons Family Trust, jointly own 49% of the shares in Pi Capital Investments Limited, ICT Investments' holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust) are indirectly interested in the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.
- 13.6 Ian Wills and Christine Wills, as trustees of the Wills & Daughters Family Trust, jointly own 49% of the shares in Pi Capital Investments Limited, ICT Investments' holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust) are indirectly interested in the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.
- 13.7 Other than in respect of the interests in the Lock-Up Agreement described above, no director or senior officer of Finzsoft or their associates has any interest in any contract to which Holliday Group, or any related company of Holliday Group, is a party.

**13A. Interests of target company's substantial security holders in material contracts of offeror or related company**

- 13A.1 As indicated in paragraphs 7 and 10 above, each of Andrew Holliday, Ian Wills, Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust), Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust), ICT Investments and Holliday Group are parties to the Lock-Up Agreement. Each of the parties to the Lock-Up Agreement are persons known to the directors of Finzsoft who hold or control 5% or more of any class of Equity Securities. Each of these persons has an interest in the Lock-Up Agreement.
- 13A.2 Holliday Group's interest in the Lock-Up Agreement consists in it being able to acquire all of ICT Investments' Shares upon ICT Investments' acceptance of the Offer in accordance with the terms of the Lock-Up Agreement. Control of the exercise of the voting rights attaching to ICT Investments' Shares will pass to Holliday Group at the point in time at which ICT Investments' Shares are transferred to Holliday Group in accordance with the Offer terms. The monetary value of Holliday Group's interest in the Lock-Up Agreement consists in the value of ICT Investments' 5,289,630 Shares based on the Offer price of \$0.4546 per Share, being \$2,400,119.80.
- 13A.3 ICT Investments' interest in the Lock-Up Agreement consists in its ability to sell all of its Shares to Holliday Group pursuant to the Offer. Unless the Offer is withdrawn with the consent of the Takeovers Panel or otherwise lapses as a result of the condition as to minimum acceptances not being satisfied by the requisite date, ICT Investments will receive the consideration payable to it by Holliday Group under the Offer in accordance with the Offer terms. The monetary value of ICT Investments' interest in the Lock-Up Agreement is the value of its 5,289,630 Shares based on the Offer price of \$0.4546 per Share, being \$2,400,119.80.
- 13A.4 Andrew Holliday and Ian Wills each own 1% of the shares in Pi Capital Investments Limited, ICT Investment's holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Andrew Holliday and Ian Wills are indirectly interested in the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.
- 13A.4 Andrew Holliday and Rebekah Holliday, as trustees of the Holliday & Sons Family Trust, jointly own 49% of the shares in Pi Capital Investments Limited, ICT Investments' holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Andrew Holliday and Rebekah Holliday (as trustees of the Holliday & Sons Family Trust) are indirectly interested in the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.
- 13A.5 Ian Will and Christine Wills, as trustees of the Wills & Daughters Family Trust, jointly own 49% of the shares in Pi Capital Investments Limited, ICT Investments' holding company. ICT Investments is a party to the Lock-Up Agreement and accordingly, each of Ian Wills and Christine Wills (as trustees of the Wills & Daughters Family Trust) are indirectly interested in

the Lock-Up Agreement by virtue of their shareholding interests in Pi Capital Investments Limited.

13A.6 Other than the interests described in the preceding paragraphs of this section 13, there are no persons who, to the knowledge of the directors or the senior officers of Finzsoft, hold or control 5% or more of any class of Equity Securities, and who have an interest in any material contract to which Holliday Group, or any related company of Holliday Group, is a party.

#### 14. Additional Information

14.1 In the opinion of the directors of the Company, no additional information within the knowledge of the Company is required to make the information in Holliday Group's takeover offer document correct or not misleading.

#### 15. Recommendation

15.1 The independent directors of the Company have considered the Offer in light of the independent advisor's report on the merits of the Offer prepared by Kordamentha Limited. As indicated at paragraph 19.1 below, a copy of Kordamentha's report accompanies this target company statement.

15.2 Although Holliday Group's offer price for the Shares represents a premium of 8% to the volume weighted average price per Share during the three month period preceding the Offer, it is nonetheless at a considerable discount to Kordamentha's assessed valuation range of \$0.74 to \$0.91 per Share. Given this and other relevant factors addressed in this section 15 below, the independent directors of the Company recommend that shareholders and option holders should not accept the Offer.

15.3 Despite their recommendation that shareholders and options holders should not accept the Offer, the independent directors draw shareholders' and option holders' attention to the following matters which may be relevant to any decision as to whether to accept the Offer:

- (a) The Offer price is between 38.5% and 50% lower than Kordamentha's assessed valuation range of \$0.74 to \$0.91 per Share. This valuation takes account of the potential value of the Company's Asian business which is yet to achieve a sale. Shareholders and option holders should weigh this potential value against the risks associated with the Company's Asian business strategy.
- (b) In their report, Kordamentha have emphasised the potential for the Company's Asian sales opportunities to lift the turnover and value of the Company and its business. While the independent directors hope that this strategy will be successful, there are no guarantees in this regard. Even if the Company's current expansion efforts in Asia yield sales in the short term, it could take some time for this part of the Company's business to deliver stable returns.

- (c) Holliday Group has stated in the information which accompanies its takeover offer document that its intentions for the Company include:
    - (i) requesting that the Board undertake a review of the Company's mid to long-term business strategy, with the possible consequence of sales of non-core assets;
    - (ii) increasing the Company's focus on growth opportunities in Australia and Asia; and
    - (iii) supporting the Company in the event that it decides to raise capital to fund growth in international markets.
  - (d) Holliday Group has also stated that it does not intend to change the Company's existing dividend policy by commencing payment of dividends.
  - (e) As indicated at paragraph 2.2(d) above, the Offer is conditional on the receipt by Holliday Group of acceptances which confer on Holliday Group 51% or more of the voting rights in the Company. Under the Lock-Up Agreement, ICT Investments has agreed to accept the Offer in respect of all of its 5,279,630 Shares. ICT Investments holds approximately 63.61% of the voting rights in Finzsoft. Accordingly, the 51% acceptance condition to the Offer will be satisfied once ICT Investments accepts the Offer and the Offer will accordingly be able to be declared unconditional once this occurs.
  - (f) Given the arrangements under the Lock-Up Agreement, Holliday Group does not need to increase the Offer price to ensure that the condition relating to minimum acceptances is satisfied. If Holliday Group were to increase the Offer price, it would have to pay any such higher price to ICT Investments for its Shares. In the circumstances and absent a competing takeover offer from another party, the independent directors are of the view that it is unlikely that Holliday Group will increase the Offer price.
  - (g) The Shares are relatively illiquid for a listed company. Share trading has historically been very limited. Depending on the number of shareholders (other than ICT Investments) who accept the Offer, the tradability of the Shares may be further limited by the corresponding decrease in the available free float of Shares. The dilutory effect of possible future capital raisings by the Company should also be borne in mind in considering whether to accept the Offer.
  - (h) Shareholders who wish to liquidate their investment in the Company may wish to take advantage of the Offer. You will not pay any brokerage fees if you accept the Offer.
- 15.4 The directors advised shareholders at the Company's last Annual General Meeting that capital restructuring would be required within the first few months of the coming financial year. Holliday Group's Offer represents the first step in this process. Despite the recommendation at paragraph 15.2 above, the independent directors are generally in support

of the Offer being made as they consider it is in the Company's interests to have a cornerstone shareholder which is prepared to support the Company's international growth plans. While the independent directors do not recommend that shareholders accept the Offer on the basis of its value, they are nonetheless of the view that the change of ownership which will result from the takeover will be of benefit to the Company going forward.

15.5 Andrew Holliday is the managing director of the Company. He is also the sole director and a shareholder of Holliday Group and as such is interested in the Offer. Accordingly, he has excused himself from the Board in relation to the Board's consideration of the Offer. Andrew Holliday makes no recommendation in relation to the Offer.

15.6 As indicated at paragraph 4.2 above, Ian Wills resigned as a director and from his position as joint managing director of the Company on 6 September 2013.

#### 16. **Actions of target company**

16.1 Other than as disclosed in this Target Company Statement, there are no material agreements or arrangements (whether legally enforceable or not) of Finzsoft and its related companies that have been entered into as a consequence of, in response to, or in connection with, the Offer.

16.2 As indicated at paragraph 11.1(e) above, Andrew Holliday and Ian Wills have agreed that, upon ICT Investments receiving the consideration for the sale of its Shares to Holliday Group pursuant to the Offer, the consideration is to be advanced to the ultimate shareholders of ICT Investments and any debts between Andrew Holliday and Ian Wills or any associated entities satisfied and steps taken to liquidate ICT Investments.

16.3 Other than in respect of the matters referred to in paragraph 16.2 above, there are no negotiations underway as a consequence of, or in response to, or in connection with, the Offer that relate or could result in:

- (a) an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving Finzsoft or any of Finzsoft's related companies; or
- (b) the acquisition or disposition of material assets by Finzsoft or any of its related companies; or
- (c) an acquisition of equity securities by, or of, Finzsoft or any related company of Finzsoft; or
- (d) any material change in the equity securities on issue, or policy relating to distributions, of Finzsoft.

#### 17. **Equity securities of target company**

17.1 Finzsoft has 8,300,000 ordinary shares on issue as at the date of this target company statement.



17.2 The rights of shareholders in respect of capital, distributions and voting are as follows:

- (a) the right to an equal share with other shareholders in dividends authorised by the Board;
- (b) the right to an equal share with other shareholders in the distribution of surplus assets on liquidation of Finzsoft; and
- (c) subject to any relevant prohibitions contained in the NZSX Listing Rules and Finzsoft's constitution, the right to cast one vote on a show of hands or the right to cast one vote for each share held on a poll, in each case at a meeting of shareholders on any resolution, including a resolution to:
  - (i) appoint or remove a director or auditor;
  - (ii) alter Finzsoft's constitution;
  - (iii) approve a major transaction;
  - (iv) approve an amalgamation of Finzsoft; and
  - (v) place Finzsoft into liquidation.

17.3 In addition to the Shares, a number of Options have been issued to selected eligible employees of the Company. The terms of the Options are set out in the registered prospectus and investment statement dated 25 June 2010 issued by the Company. The number of Options issued to each eligible employee, the exercise price and exercise date of the Options are as set out in the offer letters provided by the Company to each eligible employee at the time the Options were offered.

17.4 Even though Holliday Group has offered to acquire the Options (Holliday Group is required to do so by the Takeovers Code), the Options are personal to each Option holder and are not transferable. As indicated at paragraph 2.2(b) above, acceptances received in respect of the Options will not be accepted for transfer by the Board. Option holders whose Options have matured and who wish to take advantage of the Offer may exercise their Options prior to the Closing Date and accept the Offer in respect of all or any of the Shares issued to them. Option holders who wish to do so should ensure that their Option exercise notice and payment of the option exercise price in full is provided to the Company as soon as practicable and, if possible, by not later than ten working days prior to the Closing Date of the Offer (i.e., 30 October 2013). This is so as to allow the Company sufficient time to issue new Shares pursuant to the exercise of the Options within the five working day period applicable under the option terms (refer paragraph 5 of the schedule to this target company statement) and for Option holders to accept the Offer in respect of such Shares. If an option exercise notice and payment are received later than this suggested date, then unless Holliday Group extends the Closing Date in accordance with the Takeovers Code, the Company cannot guarantee that it will be able to issue new Shares to any relevant Option holders in sufficient time to enable them to accept the Offer in respect of such Shares. The Company will take all practicable

steps to ensure all option holders who are entitled to exercise the Options and who wish to participate in the Offer are afforded the opportunity to do so. The Offer terms will apply to any Shares issued pursuant to the exercise of the Options.

- 17.5 Option holders for whom the option exercise date has arisen may exercise their Options by following the process described in paragraph 4 of the schedule to this target company statement. The minimum number of Options which may be exercised must be equivalent to the minimum holding level determined in accordance with the Listing Rules, provided that, under the Option terms, an option holder may exercise all of his or her Options notwithstanding that they may number less than the minimum holding level prescribed by the Listing Rules.
- 17.6 As noted in paragraph 11 of the schedule to this target company statement, if Holliday Group receives acceptances of 90% or more from holders of Equity Securities and the Offer is otherwise unconditional, the exercise date for all Options shall be brought forward. Options holders will then have 15 business days to exercise their Options, failing which they will lapse. If 90% acceptances are achieved in respect of the Offer and the exercise date of the Options is brought forward as a result of any compulsory acquisition of the Equity Securities under the Takeovers Code due to dominant ownership, the Company will notify option holders that this has occurred and will advise option holders how to exercise their Options in these circumstances.
- 17.7 A summary of the material terms of the Options is set out in the schedule to this target company statement.
- 18. Financial information**
- 18.1 Shareholders are entitled to obtain from Finzsoft a copy of Finzsoft's most recent annual report for the period ended 31 March 2013 by making a written request to Finzsoft Solutions Limited, PO Box 2, Shortland Street Auckland 1140, New Zealand.
- 18.2 Other than in relation to the matters described in section 24 below, there have been no known material changes in the financial or trading position, or prospects, of Finzsoft since the date of the Company's 31 March 2013 annual report
- 19. Independent advice on merits of the offer**
- 19.1 Kordamantha Limited has prepared an independent advisors' report on the merits of the Offer under Rule 21 of the Takeovers Code. A copy of this report accompanies this target company statement.
- 19A. Different classes of securities**
- 19A.1 Lonergan Edwards & Associates Limited, as independent adviser, has prepared a report pursuant to Rule 22 of the Takeovers Code on whether the consideration and terms offered for the options are fair and reasonable in comparison to the consideration in terms offered for the Shares. A copy of its full report accompanies this target company statement.

**20. Asset valuation**

20.1 None of the information provided in this target company statement refers to a valuation of any asset.

**21. Prospective financial information**

21.1 None of the information provided in this target company statement refers to prospective financial information.

**22. Sales of unquoted equity securities under Offer**

22.1 The Options which are the subject of the Offer are not quoted on a stock exchange. No Options have been disposed of in the 12 month period ending on 7 October 2013, being the last practicable date before the date on which this target company statement is sent to holders of Equity Securities by Finzsoft.

**23. Market price of target company shares**

23.1 The Shares which are the subject of the Offer are quoted on NZSX, the main board equity security market operated by NZX Limited.

23.2 The closing price on NZSX of the Shares subject to the Offer on:

- (a) 4 October, being the latest practicable working day before the date on which this target company statement is sent to holders of Equity Securities, was \$0.42.
- (b) 16 September 2013, being the last day on which the NZSX was open for business before the date on which Finzsoft received Holliday Group's Takeover Notice was \$0.42.

23.3 The highest and lowest closing market prices on NZSX of the Shares subject to the Offer, and the relevant dates of such prices, during the six months before 17 September 2013, being the date on which Finzsoft received Holliday Group's Takeover Notice, were as follows:

- (a) the highest closing market price was \$0.42 per Share between 31 May 2013 and 4 October 2013;
- (b) the lowest closing market price was \$0.37 per Share between 13 May 2013 and 30 May 2013.

23.4 There have been no issues of Equity Securities, changes in the Equity Securities on issue, or any distributions that could have affected the market prices referred to in this paragraph 23.

23.5 There is no other information about the market price of any Equity Securities that would reasonably be expected to be material to the making of a decision by the holders of Equity Securities as to whether or not to accept or reject the Offer.

## 24. Other information

- 24.1 On 4 September 2013, Finzsoft received a letter from its bankers, ANZ Bank New Zealand Limited (ANZ) advising Finzsoft of a breach of the debt to EBITDA covenant contained in the Company's ANZ revolving credit facility. This covenant requires the Company's debt to EBITDA ratio to be no greater than 1:1 on scheduled quarterly test dates. The actual ratio on the 30 June 2013 test date was 1.53:1.
- 24.2 The independent directors, as well as Andrew Holliday and Paul Mens, Finzsoft's interim Chief Financial Officer, spoke with representatives of the ANZ as soon as practicable following receipt of the Bank's 4 September 2013 letter. During the course of these discussions, representatives of the ANZ indicated that the Bank viewed the matter as one of technical non-compliance and that the Bank had no underlying concerns in relation to Finzsoft's cash flow position or profitability generally.
- 24.3 The directors have queried the appropriateness of this "snapshot" debt-to-EBITDA ratio covenant given the cash flow characteristics of the Company's business. The representatives of the ANZ with whom members of the Board have spoken acknowledged that this particular covenant is inappropriate and are receptive to reviewing the covenants which apply under the Company's current banking facilities with a view to implementing a more appropriate set of covenants. The Board intends to progress this matter with the Bank as soon as practicable.
- 24.4 As at the date of this target company statement, there is an overall net credit position within the Company's ANZ facilities. The Company does not currently expect any material change in this position before the next debt to EBITDA ratio test date which will occur on 30 September 2013. This will result in compliance by the Company with the covenant on that date.
- 24.5 Except as set out in the preceding paragraphs of this section 24, in the Company's annual report referred to at paragraph 18.1 above and in the Independent Advisers' Reports referred to at sections 19 and 19A above, there is no other information not required to be disclosed elsewhere in this target company statement that could reasonably be expected to be material to the making of a decision by the holders of Equity Securities to accept or reject the Offer.

## 25. Approval of target company statement

- 25.1 As Andrew Holliday has an interest in the Offer, he has excused himself from the Board in relation to the Board's consideration of the Offer. However, under the Takeovers Code, Andrew is required to sign the certificate in this target company statement below as he is fulfilling the role of Chief Executive Officer of the Company.
- 25.2 The contents of this target company statement have been approved by the board of directors of Finzsoft. Although Andrew Holliday has approved the contents of this target company statement, as indicated in paragraph 25.1 above, he has not been involved in the Board's

consideration of the Offer. Accordingly, Andrew makes no recommendation in relation to the Offer for the purpose of clause 15 of Schedule 2 of the Takeovers Code.

## 26. Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by the target company under the Takeovers Code.



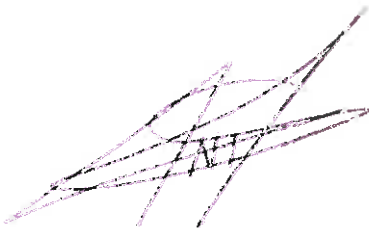
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**Brent Graham Impey**  
Independent Chairman



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**Paul Renny Cook**  
Independent non-executive director



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**Andrew Alexander Holliday**  
Managing Director (fulfilling the position of Chief Executive Officer)



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**Paul Mens**  
Interim Chief Financial Officer

## SCHEDULE

### SUMMARY OF OPTION TERMS (Referred to in paragraph 17.7)

1. Three tranches of Options have been issued by Finzsoft on 30 June 2010, 30 June 2011 and 30 June 2012.
2. Options issued on 30 June 2010 have an exercise price of \$0.20 per Option. Options issued on 30 June 2011 have an exercise price of \$0.33 per Option. Options issued on 30 June 2012 have an exercise price of \$0.38 per Option.
3. Options are non-transferable and may not be exercised until on or after the exercise date. The exercise date is the first to occur of:
  - (a) the date advised in each Option holder's offer letter;
  - (b) the date on which a full takeover offer for all of the equity securities of Finzsoft achieves 90% acceptance under the Takeovers Code and is unconditional; or
  - (c) the date on which an Option holder:
    - (i) dies;
    - (ii) is incapacitated while still employed in the service of Finzsoft;
    - (iii) is made redundant; or
    - (iv) retires.

In such circumstances, if Finzsoft agrees, the Board may declare the exercise date to be the date of death, incapacitation, redundancy or retirement so as to allow the eligible employee or the trustees of the deceased eligible employee's estate the benefit of relevant the Option holder's Options.
4. When the exercise date occurs, an Option holder becomes entitled to exercise their Options at any time by written notice to Finzsoft's secretary of the number of Options the holder wishes to exercise (subject to minimum holding levels as determined in accordance with the NZX Listing Rules or as otherwise determined by the Board) and payment of an amount equal to the exercise price multiplied by the number of Options being exercised.
5. An equivalent number of Shares to the number of Options being exercised must be allotted by Finzsoft by no later than the fifth business day after receipt of the Option holder's exercise notice and payment by the Option holder of the exercise price. Shares allotted pursuant to exercise of an Option rank equally in all respects with all existing Shares on issue with effect from the date of issue.
6. The Options lapse immediately upon:

- (a) termination of the Option Holder's employment (otherwise than by reason of death, redundancy, ill health or retirement);
- (b) the Option holder disposing or granting a security interest over any Options in contravention of the restrictions set out in the Finzsoft employee share option plan, prospectus and investment statement dated 25 June 2010; or
- (c) the Option holder giving notice to Finzsoft requesting that their Options lapse.

The Board has discretion to resolve that Options shall not lapse on the occurrence of any of these events and on terms and conditions as the Board thinks fit.

- 7. Options carry no voting rights and no right to dividends or other distributions declared by Finzsoft.
- 8. Option holders are entitled to be sent all documents, reports, notices and communications which are sent by Finzsoft to the holders of Shares at the same time that such information is sent to the holders of Shares.
- 9. The Options are not listed on the NZX market or any other securities exchange.
- 10. The Options carry no right to participate in any rights issue or bonus issues of securities which may be undertaken by Finzsoft.
- 11. If at any time a full takeover offer is made pursuant to the Takeovers Code for all of the equity securities of Finzsoft, and such takeover offer receives acceptances of 90% or more and is declared unconditional, then the exercise date for all Options falls due and all holders of Options have 15 business days to exercise their Options failing which they lapse.





KordaMentha

## Independent Adviser's Report

in relation to a full takeover offer for Finzsoft Solutions Limited

October 2013

KordaMentha confirms that it:

- (a) has no conflict of interest that could affect its ability to provide an unbiased report; and
- (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

KordaMentha has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.



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## Glossary of key terms

<b>Finzsoft or the Company</b>	Finzsoft Solutions Limited
<b>Budget</b>	Finzsoft's budget for the year ending 31 March 2014
<b>DCF</b>	Discounted cash flow
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>Finzsoft Options</b>	all of the options to acquire Finzsoft Shares
<b>Finzsoft Shares</b>	all of the ordinary shares in Finzsoft
<b>FY</b>	Financial year
<b>GFC</b>	Global financial crisis
<b>Holliday Group</b>	Holliday Group Holdings (ICT Investments) Limited
<b>ICT</b>	ICT Investments (FS) Limited
<b>IT</b>	Information technology
<b>NZ Bureau</b>	NZ Bureau Limited, an entity 50% owned by Finzsoft
<b>NZX Main Board</b>	The market on which Finzsoft's shares are traded
<b>the Offer</b>	Cash offer for 100% of the Finzsoft Shares at \$0.4546 each
<b>the Report</b>	This independent advisor's report
<b>Sovereign</b>	Finzsoft's core product suite
<b>SSG</b>	Systems Support Group Limited
<b>Trans-Tasman</b>	<b>New</b> Zealand and Australia
<b>VWAP</b>	Volume weighted average price
<b>YTD14</b>	Financial year-to-date for the four months ended 31 July 2013

## 1 Introduction

Finzsoft Solutions Limited ('Finzsoft' or 'the Company') is a listed company traded on the NZX Main Board, which provides financial software, primarily for financial institutions. Finzsoft is a Code company, and therefore subject to the rules set out in the Takeovers Code.

On 17 September 2013, Holliday Group Holdings (ICT Investments) Limited ('Holliday Group') announced its intention to make a full takeover offer for 100% of Finzsoft at an offer price of \$0.4546 cash per ordinary share ('the Offer').

The independent directors of Finzsoft (who are not associated with Holliday Group) have appointed KordaMentha to prepare an independent adviser's report on the Offer in accordance with Rule 21 of the Takeovers Code ('the Report'). Our appointment was subsequently approved by the Takeovers Panel.

The Report has been prepared to assist Finzsoft shareholders to consider the merits of the Offer.

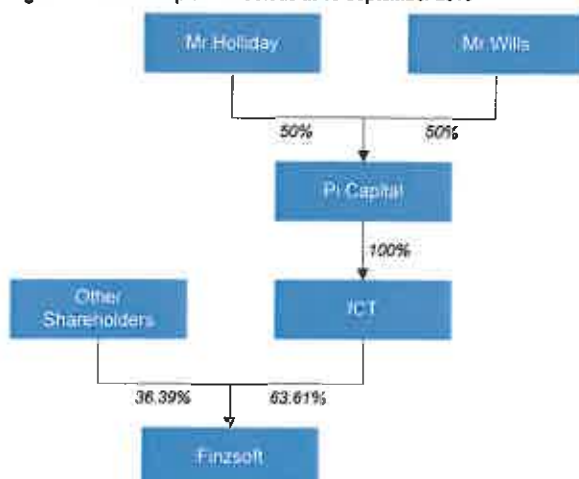
### 1.1 Background to the Offer

On 17 September 2013, Holliday Group announced its intention to make a cash offer for 100% of Finzsoft, including all of the ordinary shares in Finzsoft ('Finzsoft Shares') and all of the options to acquire Finzsoft Shares ('Finzsoft Options').

The consideration offered for each Finzsoft Share is \$0.4546 in cash. The consideration for each Finzsoft Option ranges from \$0.0746 to \$0.2546 in cash, depending on the date and terms of the issue of the relevant option.

Figure 1.1 shows the ownership structure for Finzsoft prior to the Offer. Andrew Holliday and Ian Wills each hold a 50% ownership interest in ICT Investments (FS) Limited ('ICT') via their ownership interests in Pi Capital Investments Limited ('Pi Capital')<sup>1</sup>.

Figure 1.1: Ownership of Finzsoft as at 16 September 2013



Source: Management information

ICT owns approximately 63.6% of Finzsoft. Therefore, Messrs Holliday and Wills each have an effective ownership interest in Finzsoft of approximately 31.8%.

Holliday Group was incorporated on 2 September 2013 and is owned and controlled by Mr Holliday<sup>2</sup>.

<sup>1</sup> Mr Holliday, jointly with Rebekah Holliday, holds 49% of the shares of Pi Capital. Mr Wills, jointly with Christine Wills, holds 49% of the shares of Pi Capital. Messrs Holliday and Wills also each hold 1% of the shares of Pi Capital.



KordaMentha

On 6 September 2013, ICT conditionally agreed to accept the Offer (the 'Lock-Up Agreement'). When taken together, the effect of the Offer, Lock-Up Agreement and Finzsoft's current ownership structure is that Mr Wills is selling a 31.8% interest in Finzsoft to Mr Holliday at the Offer price.

## **1.2 Offer terms and conditions**

The Offer is conditional on Holliday Group receiving sufficient acceptances to give it 51% or more of the voting rights in Finzsoft. This condition is required by the Takeovers Code and cannot be waived. However, given ICT owns 63.6% of Finzsoft and ICT's commitment under the Lock-Up Agreement, this condition will be met.

Accepting Shareholders and Optionholders will not be able to withdraw their acceptance unless the Offer is withdrawn (with the consent of the Takeovers Panel) or the Offer lapses as a result of conditions not being met.

## **1.3 Other**

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this Report.

This Report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of the Report.

References to '\$' are to New Zealand dollars, unless specified otherwise. References to years, financial years or 'FY' mean Finzsoft's financial year end 31 March unless specified otherwise. Please note tables may not add due to rounding.

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<sup>2</sup> Mr Holliday is the sole director of Holliday Group and, jointly with Rebekah Holliday, holds 100% of the shares of Holliday Group.

## 2 Merits of the Offer

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Offer and in doing so to take into consideration issues wider than just our valuation. In this section we consider the fundamentals of Finzsoft; pricing and valuation; potential outcomes of the Offer; and the likelihood of alternative offers.

The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merit', it suggests that merits include both positives and negatives in respect of an offer.

### 2.1 Finzsoft fundamentals

Finzsoft operates within the Information Technology ('IT') and software industry, focusing on developing, licensing and maintaining its core product suite ('Sovereign'). Sovereign is a range of software applications used by companies in the finance and banking industry.

Finzsoft currently has 13 clients which are all based in New Zealand and Australia ('Trans-Tasman').

Finzsoft intends to grow new sales in the Asia region, with a current focus on Malaysia. To this end, over the past three years, Finzsoft has invested a significant portion of its available cash into developing and promoting its software in Asia.

Finzsoft began a series of significant improvements to its software in FY12. In particular, the Sovereign loan origination module has received a high level of investment.

If Finzsoft is successful in Asia it will transform its business. Finzsoft has two projects in Asia which it considers have a high likelihood of proceeding but are still in a protracted process of vendor selection. If these projects proceed, Finzsoft estimates it will earn approximately \$10.2 million in revenue from these two projects and will need to expand the existing staffing base to deliver the required services. Together, these projects are larger than Finzsoft's total FY13 revenue of \$8.8 million.

Finzsoft pays no dividends.

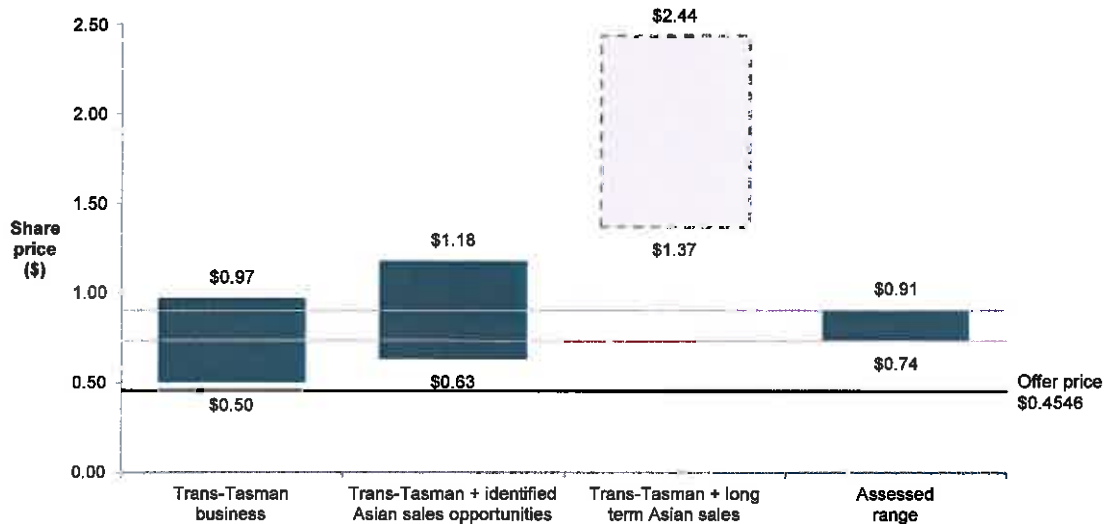


## 2.2 Pricing and valuation

The Offer price of \$0.4546 represents a premium of 8% to the volume weighted average price ('VWAP') per Finzsoft Share in the three months prior to the Offer.

Our valuation results are summarised in Figure 2.1.

Figure 2.1: Valuation summary



We value the existing Trans-Tasman business in a relatively wide range of \$0.50 to \$0.97 per share. The key driver of this relatively wide range is the uncertainty concerning Finzsoft's maintainable earnings before interest, tax, depreciation and amortisation ('EBITDA'). Finzsoft's adjusted EBITDA in FY14 is forecast by management to be \$1.5 million but over the period FY10 to FY13, EBITDA has been significantly less. Our valuation assumes an EBITDA range of \$1.0 million to \$1.5 million.

After taking account of the additional value attributable to the probability weighted identified Asian sales opportunities, we have assessed the value of Finzsoft in a range between \$0.63 and \$1.18 per share. This analysis relies on management's assessed likelihood of success for the identified sales opportunities.

For the purpose of the Report, we have assessed a valuation range for Finzsoft's equity between \$0.74 and \$0.91 per share, with a mid-point of \$0.82 per share. Our range has been determined as follows:

- low-end of the range: is based on the midpoint of our valuation of Finzsoft's Trans-Tasman business as a standalone entity. This includes an adjustment to exclude costs associated with sales and marketing in Asia. In our view, it is appropriate to exclude these costs because, unless sales can be generated, which more than offset these costs, we would expect them to be discontinued; and
- high-end of the range: is based on the midpoint of our valuation of Finzsoft's Trans-Tasman business plus identified Asian sales opportunities.

Figure 2.1 also highlights the potential value of Finzsoft in the event that its identified Asian sales opportunities help to transform Finzsoft's business and establish a sustainable business in Asia. Based on our high-level analysis, the value of Finzsoft could increase to a range between \$1.37 and \$2.44 per share. Although this analysis is indicative only and in our opinion it is unlikely Finzsoft will trade at these levels at the current time, it does highlight that the value of Finzsoft could be materially higher in the event it is successful with the Asian sales opportunities.



### 2.3 Holliday Group's intentions

As is our practice when preparing independent adviser's reports, KordaMentha requested comment from Holliday Group regarding the Offer, its views on Finzsoft's future prospects and what Holliday Group would do if another party made a higher competing offer. Holliday Group declined to discuss the Offer.

Holliday Group's stated intentions are set out in the Offer and include:

- requesting that the Finzsoft board undertake a review of the Company's mid-to-long term business strategy, which could lead to the disposal of non-core assets;
- increasing Finzsoft's focus on growth opportunities in Australia and Asia;
- supporting Finzsoft in the event it raises capital to help fund growth in international markets; and
- having no intention to change Finzsoft's policy to pay no dividends.

### 2.4 Potential outcomes of the Offer

#### Holliday Group secures 90% or more of the Finzsoft Shares

Holliday Group already controls 63.6% of Finzsoft Shares via its existing shareholding and the Lock-Up Agreement with ICT.

In the event that Holliday Group receives acceptances for 90% of the Finzsoft Shares, Holliday Group has stated its intention is to enact the compulsory acquisition provisions under the Takeovers Code.

#### Holliday Group secures between 51% and 90% of the Finzsoft Shares

When taken with the Lock-Up Agreement, the Offer, in its current form, could result in Holliday Group receiving acceptances to take its shareholding between 63.6% and 90% of Finzsoft Shares.

It is possible that Holliday Group could take its stake in Finzsoft above 75% but not reach 90%. Such a stake would provide it with a sufficient majority to pass special resolutions and would allow it to exert more control than a simple majority shareholding.

Whether Rubik Financial Limited accepts the Offer in respect of its 20% shareholding will be a key determinant as to whether Holliday Group achieves a shareholding in excess of 75%.

Irrespective of its ability to pass special resolutions, a shareholding between 63.6% and 90% would give Holliday Group effective control over the day-to-day operations of Finzsoft. The Companies Act and NZSX Listing Rules provide some level of protection to minority shareholders, however Holliday Group would be entitled to appoint directors to the Board of Finzsoft and, as a result of its majority shareholding, would control the outcome of any ordinary resolution put to shareholders.

Holliday Group intends for Finzsoft to focus on growth opportunities in Australia and Asia. This does not appear materially different from Finzsoft's current strategy.

#### The Offer fails

Due to the Lock-Up Agreement, the Offer will not fail unless the Offer is withdrawn (with the consent of the Takeovers Panel).

### 2.5 Liquidity

Trading of Finzsoft Shares has historically been extremely limited. To the extent that the Holliday Group receives acceptances from shareholders other than ICT, the remaining free float of Finzsoft Shares will decrease following the Offer. This may further limit the liquidity of trading in Finzsoft Shares.



## **2.6 Likelihood of Holliday Group increasing its Offer price**

Due to the Lock-Up Agreement, Holliday Group does not need to increase the Offer price to reach a 51% shareholding in Finzsoft.

Under the Lock-Up Agreement, if Holliday Group increases the Offer price, it will need to pay the higher price to ICT. If Holliday Group is not satisfied by the level of acceptances it receives in the Offer, then it could increase its shareholding in Finzsoft, without paying the higher price to ICT, by one or more of the following methods:

- purchasing shares on-market using the 'creep' provisions in the Takeovers Code;
- having Finzsoft undertake a capital raising (some capital raising methods will have the effect of increasing Holliday Group's shareholding in Finzsoft); and/or
- by making a follow on takeover offer at some point in the future.

### **Follow on offers**

The Takeovers Code allows serial offers without timing or pricing restrictions. Therefore, Holliday Group will be able to make additional takeover offers to purchase some or all of the remaining shares in Finzsoft. Holliday Group would be free to offer more or less than the current Offer price.

## **2.7 Prospect of alternative takeover offers**

Due to the Lock-Up Agreement, any future takeover offer needs the support of Holliday Group to succeed.

We would consider it unlikely that an alternative takeover offer would be made for Finzsoft without the support of Holliday Group, as any party wishing to acquire more than 20% would either require Holliday Group to sell its existing shareholding or need approval from shareholders, which could be blocked by Holliday Group.

There is no need for shareholders to accept the Holliday Group's Offer early and shareholders do not need to do anything in relation to the Holliday Group Offer until close to its closing date of 13 November 2013.

## **2.8 Prospect of an investor acquiring a strategic shareholding less than 20%**

It is possible, that an investor could acquire a strategic shareholding of less than 20% of Finzsoft. It is also possible that any acquisition of a strategic shareholding could be made at a premium to the Offer price of \$0.4546.



## 2.9 Summary

The key positives of the Offer for minority shareholders are that it offers liquidity at a price 8% higher than the VWAP in the three months preceding the announcement of an impending Offer. The alternative to acceptance is to continue to hold a minority interest in a non-dividend paying company where there is potential for a need for an enforced capital raising in the short to medium term and there are risks concerning Finzsoft's Asian expansion strategy, which is currently generating significant losses.

The key negatives of the Offer are:

- our valuation range for Finzsoft is \$0.74 to \$0.91 per share, with a mid-point of \$0.82. This analysis relies on management's assessed likelihood of success for the identified sales opportunities in Asia. We also note that this represents our estimate of value for 100% of the Company and therefore includes a premium for control. We would not expect minority parcels of shares to trade at this level (in the absence of a takeover offer);
- the Offer price of \$0.4546 is below our valuation range;
- Finzsoft's current performance is affected by costs being incurred in developing sales in Asia, which are yet to generate any sales. However, management consider there is a high likelihood of generating sales in the short term at a level which would transform Finzsoft's business and make it significantly more profitable; and
- the Offer price is also below our valuation range for Finzsoft's existing Trans-Tasman business, excluding the Asian growth opportunities, after making an adjustment to exclude costs associated with sales and marketing in Asia. In our view, it is appropriate to exclude these costs because, unless sales can be generated, which more than offset these costs, we would expect them to be discontinued.

Because the Offer price for Finzsoft shares is below our valuation range, the consideration offered for each Finzsoft option is also below our assessment of value.

### Acceptance or rejection of the Offer

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

The closing date for the Offer is 13 November 2013. Holding out until near the time the Offer lapses could provide Shareholders and Optionholders with additional information on which they can base their decision.

Accepting Shareholders and Optionholders will not be able to withdraw their acceptance unless the Offer is withdrawn (with the consent of the Takeovers Panel) or the Offer lapses as a result of conditions not being met.

If Holliday Group increases the Offer price while the Offer is still open, the increased price will be available to all Finzsoft shareholders, even those that have already accepted the Offer.



## 3 Industry analysis

### 3.1 Overview

Finzsoft operates within the IT and software industry. It focuses on developing, licensing and maintaining Sovereign, its core product suite. Sovereign is a range of software applications used by companies in the finance and banking industry.

The finance and banking industry is a sub-segment of the wider financial services industry that includes banks, building societies, credit unions and finance companies. Processes in the finance and banking industry have historically been labour intensive. However, companies in this industry have increased efficiency and reduced the labour intensiveness through automation and streamlining processes.

The IT and software industry provides a range of consultancy services, systems analysis, design and programming, data processing and support services. Software development and support can often be categorised as one or a blend of the following:

- 'Bespoke' software: software which has been developed for a specific user. Bespoke software can be developed either internally or with the assistance of external consultants. This type of software is generally owned by the company which uses it.
- 'Off-the-shelf' software: software which is capable of being used by a number of users and provides a template solution. A key advantage of off-the-shelf software is the reduced upfront cost due to the development cost of the software being spread over a number of users. This type of software is generally owned by the software developer and licenced to users.

Specialised industry specific software can be either an off-the-shelf product which is then customised for clients' particular requirements or a completely bespoke product.

Finzsoft's core product, Sovereign, is primarily an off-the-shelf product. However, Finzsoft also customises Sovereign to meet individual client requirements.

Software typically has a relatively short life cycle, requiring constant updates or upgrades. Therefore, software development companies generally incur ongoing research and development costs. These costs represent a real day-to-day cost to software development businesses. The relatively short product life cycle for software also provides an opportunity for repeat business with existing clients.

### 3.2 Demand for finance and banking software

The demand for finance and banking software is driven by the following factors:

- government policies and regulation affecting the financial services industry;
- increasing complexity of new financial products;
- cost effectiveness of various software solutions;
- ability for financial records and transactions to be stored and used electronically; and
- the size and complexity of the financial organisations using finance and banking software.

The global financial crisis ('GFC') had a significant impact on finance and banking companies. During the GFC, a large number of finance companies exited the New Zealand market, with many investors who previously deposited funds at finance companies, switching to deposit funds at banks. This switch from smaller finance companies to larger banks has disadvantaged those software companies which had a large number of finance company customers, including Finzsoft.

### 3.3 Software companies

Companies which operate in the IT and software industry generally focus on either providing:

- pure advisory services (e.g. a computer systems support company); or
- a software solution (e.g. Sovereign products suite).

Companies which develop software tend to have lower volumes and operate at higher margins than other companies which provide pure advisory services. This is largely due to their comparatively higher start-up costs and other barriers to entry.

The major cost of designing and maintaining software is wages. Companies which can attract and keep talented employees have a significant advantage to their competitors.

New Zealand is a small market, particularly for companies which produce specialised software. Therefore, successful New Zealand based software companies typically sell high volumes overseas. Finzsoft currently has a significant portion of its revenue from Australia and plans to grow in Asia.

### 3.4 Barriers to entry

The barriers to entry for software companies which supply the finance and banking industry are generally considered to be high, reflecting the following factors:

- financial and banking organisations strongly favour software suppliers which are trusted, whereas new software companies do not have a strong product history and reputation;
- software companies need to attract and retain a highly skilled and talented workforce;
- the switching costs for finance and banking entities are generally high, due to the large amount of data stored in existing software applications;
- financial software typically has a high cost of development, which new participants need to fund;
- software development companies typically make losses in early years, and therefore often require external funding for product development and sales staff;
- entry into the market requires sound knowledge of finance and banking entities and their regulatory requirements in order to meet customer requirements; and
- established players in the industry benefit from economies of scale, past experience, in-depth technical knowledge and an understanding of client requirements.

### 3.5 Key competing products

There are a number of companies which produce software for the finance and banking industry in New Zealand and Australia, albeit, these products are often not directly comparable to Sovereign. Key financial software providers, which target finance companies in Australia and New Zealand include:

- finPOWER, New Zealand based, made by Intersoft Systems;
- Finesse Finance, New Zealand based, made by Ashburton Computer Associates; and
- Argos, United States based, made by Argos Inc.

However, despite the above products, the largest competitive pressure for a business such as Finzsoft is often potential clients developing their own software in-house.



## 4 Company profile

Finzsoft's main product is the Sovereign finance and banking software suite. Sovereign is modular and is capable of being used for a full range of finance and banking entities processes.

Finzsoft has approximately 45 employees and contractors. Its head office is located in Auckland, New Zealand and it has representatives in Sydney, Australia and Singapore.

### 4.1 History

Systems Support Group Limited ('SSG') was formed in 1986, providing skilled staff for external customer's software projects and other advisory services. In the 1990s, SSG shifted its focus to creating its own finance and banking software. SSG began developing 'Sovereign' in 1992.

Finzsoft was incorporated in November 2000. It became a New Capital Markets issuer in December 2000 following a public issue of 1,200,000 shares at \$0.50 per share. The \$0.6 million capital raised was used in a 'Key Transaction' to acquire SSG.

Finzsoft signed its first overseas customer in 2000 (Ceylinco Savings Bank, Sri Lanka) and its first Australian customer in 2005 (St George Bank).

In 2007, Pi Capital announced a partial takeover for 63.61% of Finzsoft at \$1.30 per share. The 2007 offer was oversubscribed and scaled back.

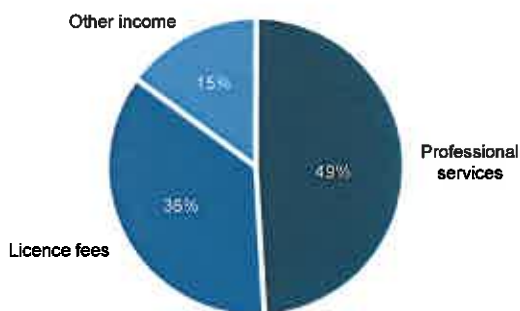
### 4.2 Business model

The majority of Finzsoft's business is project revenue based on the sale and support of its software. Projects can include both module sales and upgrades.

Project based revenue tends to have long lead times and is often deemed discretionary spending by clients. This makes it difficult for Finzsoft to forecast revenue and can be significantly impacted by the economic environment.

Finzsoft categorises its revenue into three broad categories: professional services, licence fees and other income. Figure 4.1 shows that 49% of Finzsoft's revenue was from professional services in FY13.

Figure 4.1: FY13 revenue by client type



Source: Annual financial statements

Generally, professional services are related to the time employees' work on projects and licence fees relate to Finzsoft's already developed software. Licence fees can be either 'initial' fees paid to use a software module, or 'renewal' fees which tend to be ongoing in nature.

Finzsoft has historically, derived a relatively low proportion of its income from ongoing annuity-type sources. However, its current strategy is to increase the portion of income which is recurring.

The majority of Finzsoft's costs are related to its employees.

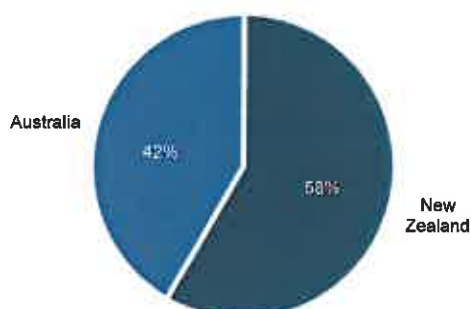
## Clients

The Sovereign software product suite is mainly targeted at larger regional finance and banking institutions, which are not multi-nationals.

While the GFC slowed Finzsoft's expansion, it is currently looking to expand its presence in Australia and several key growth opportunities in Asia.

Finzsoft currently has 11 Trans-Tasman clients. Figure 4.2 shows 58% of Finzsoft's revenue in FY13 was received from clients based in New Zealand, with the remaining 42% received from Australian clients.

Figure 4.2: FY13 revenue by client location



Source: Annual financial statements

Finzsoft's revenue is concentrated across a core group of customers, which is typical for small to medium sized software companies. The revenue earned from each of Finzsoft's clients is confidential. However, based on FY13 data, its four largest customers:

- each account for between 14% and 25% of Finzsoft's revenue; and
- together account for 75% of Finzsoft's revenue.

Prior to the GFC, a significant portion of Finzsoft's clients were finance companies that focused on property developments. Finance companies of this nature are typically exposed to a small number of highly geared property development projects. The risky nature of property development lending, combined with a reliance on retail deposits, made these companies vulnerable to financial distress during the GFC.

The financial distress experienced by some of Finzsoft's clients during the GFC negatively impacted on Finzsoft's financial performance and growth.

Finzsoft's current clients still include a significant portion of finance companies. However, its current clients primarily provide consumer finance. Consumer finance is considered lower risk than property development lending, primarily due to increased diversity in lending and smaller amounts lent.



### 4.3 Finzsoft's strategy

Finzsoft considers the Sovereign 'loan origination' module will provide it with a competitive advantage in the Asian market.

Finzsoft intends to grow new sales in the Asia region, with a current focus on Malaysia. Finzsoft also plans to increase the portion of its income which it derives from licence fees. To this end, over the past three years, Finzsoft has invested a very significant portion of its available cash into developing its software and promoting its software in Asia.

Finzsoft began a series of significant improvements to its software in FY12. In particular, the Sovereign loan origination module has received a high level of investment.

Finzsoft maintains a 'sales pipeline report' which details potential projects for the next 12 months, which are yet to be agreed. The sales pipeline report shows potential projects for both existing and new clients. It includes the likely size of each project and the estimated probability of the project proceeding.

Due to Messrs Holliday and Will's management and board positions at Finzsoft, Holliday Group and ICT (being the parties to the Lock-Up Agreement) have a detailed knowledge of Finzsoft's sales pipeline. However, due to its confidential nature, we are unable to include the full sales pipeline report in this Report. Instead, we include a summarised version of it at Table 4.1.

Table 4.1: Summary of Finzsoft Sales Pipeline Report as at 21 August 2013

Client	Probability of proceeding <sup>1</sup>	Number of projects	Estimated revenue (\$ thousand)	
			Total <sup>2</sup>	Probability weighted
New clients based in Asia	High	2	10,176	8,141
	Medium	4	3,500	2,100
	Low	8	1,629	226
	<b>Total</b>	<b>14</b>	<b>15,305</b>	<b>10,467</b>
New clients based in Australia and New Zealand	High	–	–	–
	Medium	4	2,900	1,160
	Low	12	6,797	1,050
	<b>Total</b>	<b>16</b>	<b>9,697</b>	<b>2,210</b>
Existing clients	High	7	2,380	2,088
	Medium	11	2,776	1,525
	Low	7	1,340	228
	<b>Total</b>	<b>25</b>	<b>6,496</b>	<b>3,841</b>
<b>Total (all unconfirmed projects)</b>		<b>55</b>	<b>31,499</b>	<b>16,517</b>

The sales pipeline report only includes potential sales which are unconfirmed as at the date of the report. When considering valuation, we consider it unlikely that any purchaser would ascribe material value to those projects with a 'low' probability of proceeding.

Table 4.1 illustrates Finzsoft's focus on Asia. Finzsoft has two projects in Asia which it considers have a high probability of proceeding (80% probability). If these projects proceed, Finzsoft estimates it will earn approximately \$10.2 million in revenue from these two projects. Together, these projects are larger than Finzsoft's FY13 revenue of \$8.8 million. Finzsoft notes that, if these projects proceed, it may need to scale back its Trans-Tasman sales in the short-term while it focuses on its Asian projects.

<sup>1</sup> Finzsoft assigns a probability of proceeding to each project. Table 4.1 categorises projects as low probability (<40%), medium probability (40% to 70%), and high probability (>70%).

<sup>2</sup> Some projects, often those with low probability, do not include an estimate of project revenue.



#### 4.4 Shareholders

Finzsoft currently has 8,300,000 fully paid ordinary shares. The 20 largest ordinary shareholders as at 23 September 2013 are listed in Table 4.2.

Table 4.2: Top 20 Shareholders as at 23 September 2013

	Shares	Percentage
ICT	5,279,630	63.6%
Rubik Financial Limited	1,659,960	20.0%
D Hattaway, B Everett	200,000	2.4%
D Campbell	159,600	1.9%
J Martin	156,250	1.9%
T Hurring, S Hurring	130,000	1.6%
Investment Custodial Services Limited	52,000	0.6%
Z Matulic	40,000	0.5%
FNZ Custodians Limited	36,449	0.4%
M Witt	33,872	0.4%
N Dickey	31,800	0.4%
Y Zhu	30,000	0.4%
Open Business Software Limited	29,700	0.4%
R Scott	25,000	0.3%
Pact 2086 Trust	24,000	0.3%
J McCallum, R McCallum	23,673	0.3%
D Biddlecombe	18,000	0.2%
L Dare	15,000	0.2%
R Search	11,000	0.1%
W Aldridge, G Aldridge	10,500	0.1%
Top 20	7,966,434	96.0%
Remaining shareholders	333,566	4.0%
Total	8,300,000	100.0%

Source: Finzsoft management

Finzsoft's substantial security holders are ICT and Rubik Financial Limited.

Table 4.2 shows Finzsoft Shares are relatively closely held. 20 shareholders own 96.0% of Finzsoft Shares and the remaining 4.0% are held by shareholders which own less than 10,500 Finzsoft Shares each.

Trading of Finzsoft Shares over the three months prior to the announcement of the Lock-Up Agreement is summarised in Table 4.3, which shows that approximately 0.72% of Finzsoft Shares were traded over this period. This highlights relatively low liquidity in the market for Finzsoft Shares.

Table 4.3: Share trading prior to 6 September 2013

Period	Share Price (\$)			Cumulative volume	Percentage of issued capital
	Low	High	VWAP		
1 week	0.4200	0.4200	0.4200	5,000	0.06%
1 month	0.4200	0.4200	0.4200	55,000	0.66%
3 months	0.4200	0.4200	0.4200	60,000	0.72%
12 months	0.2400	0.4200	0.3876	181,050	2.18%

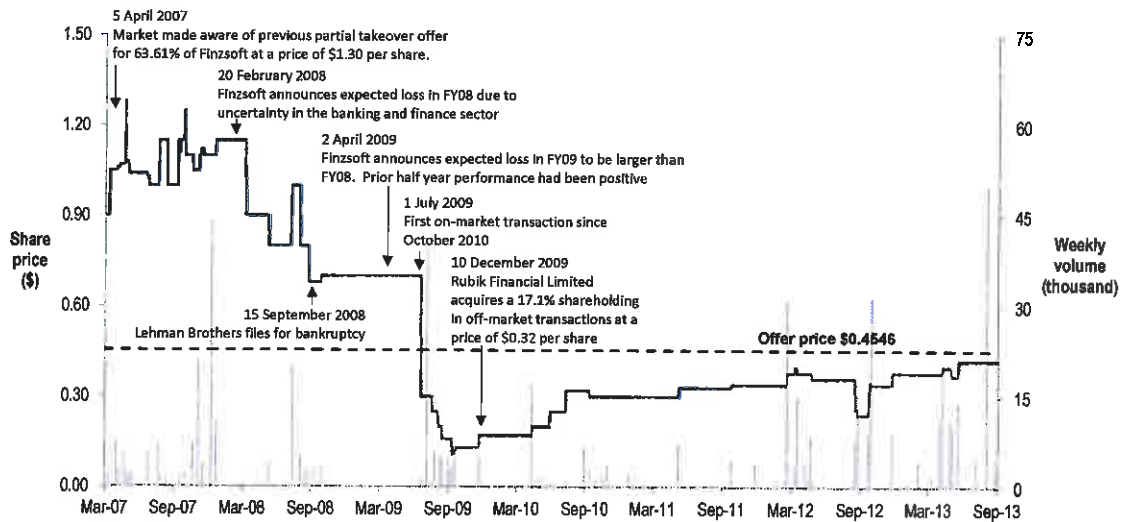
Source: Capital IQ and management information



#### 4.5 Share price performance

Finzsoft Shares are traded on the NZX Main Board. Figure 4.3 illustrates the share price of Finzsoft and the volume of share trades between 12 March 2007 and 13 September 2013.

Figure 4.3: Finzsoft's share price performance



Source: Capital IQ

In the period 23 March 2007 to 20 February 2008, Finzsoft's share price tended to trade in a range between \$1.00 and \$1.15.

On 20 February 2008, Finzsoft announced that it expected to make an after-tax loss of between \$250,000 and \$350,000. This compared with a profit of \$183,000 in the previous corresponding period. Finzsoft Shares next traded on 20 March 2008 at \$0.90 per share.

Following the announcement that Lehman Brothers had filed for bankruptcy, Finzsoft Shares next traded on 16 September 2008 at \$0.68 per share.

On 2 April 2009, Finzsoft announced that it expected to make an after-tax loss in the vicinity of \$750,000. Finzsoft Shares next traded three months after this announcement at \$0.30 per share. The share price then reduced to a low of \$0.11 on 22 September 2009.

Between 10 December 2009 and 30 December 2009, Rubik Financial Limited acquired a 20.0% shareholding in a series of off-market transactions at a price of \$0.32 per share. Subsequent to these transactions, Finzsoft's share price recovered to \$0.32 over the seven months to 23 July 2010.

Since July 2010, Finzsoft's share price has tended to trade between \$0.32 and \$0.42 per share.

Since Holliday Group's announcement that it intended to make a full takeover offer, Finzsoft's shares have traded at \$0.42 per share in the period to 23 September 2013.

Figure 4.4: Offer premium summary

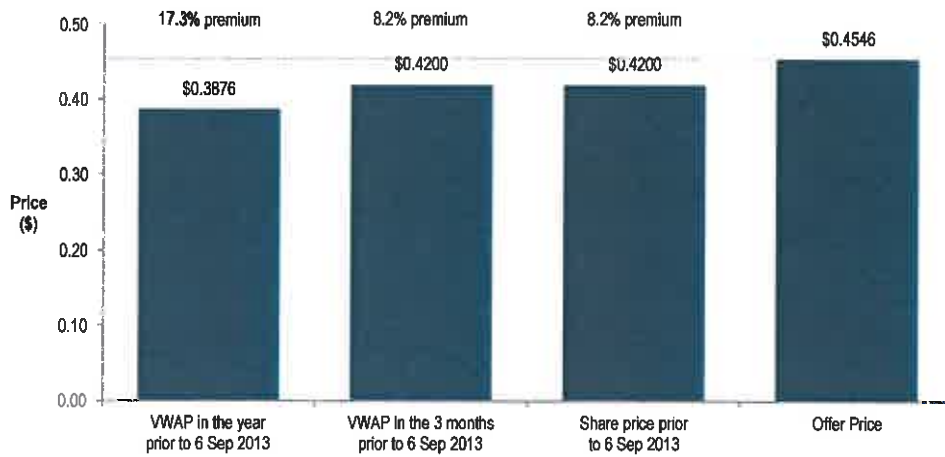


Figure 4.4 shows that the Offer Price represents a:

- 17.3% premium to the VWAP in the one year prior to the Lock-Up Agreement being announced;
- 8.2% premium to the share price and VWAP in the three months prior to the Lock-Up Agreement being announced.



## 5 Financial analysis

### 5.1 Financial performance

As a result of the GFC in late 2008 and the impact the GFC had on New Zealand finance companies, Finzsoft's business has been affected by subdued demand.

Table 5.1: Financial performance summary (\$ thousand)

	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Forecast
Revenue	7,216	6,743	7,605	8,807	9,701
Development, servicing and direct costs	(4,270)	(3,708)	(4,510)	(5,640)	(5,695)
Sales and marketing expenses	(482)	(766)	(1,251)	(801)	(655)
Corporate expenses	(456)	(261)	(440)	(404)	(521)
Occupancy expense	(316)	(240)	(293)	(291)	(334)
Other operational expenses	(967)	(947)	(961)	(828)	(928)
<b>EBITDA</b>	<b>725</b>	<b>821</b>	<b>151</b>	<b>844</b>	<b>1,568</b>
Capitalised software development costs	(168)	(320)	(698)	(761)	(600)
<b>Normalised EBITDA</b>	<b>557</b>	<b>502</b>	<b>(547)</b>	<b>83</b>	<b>968</b>

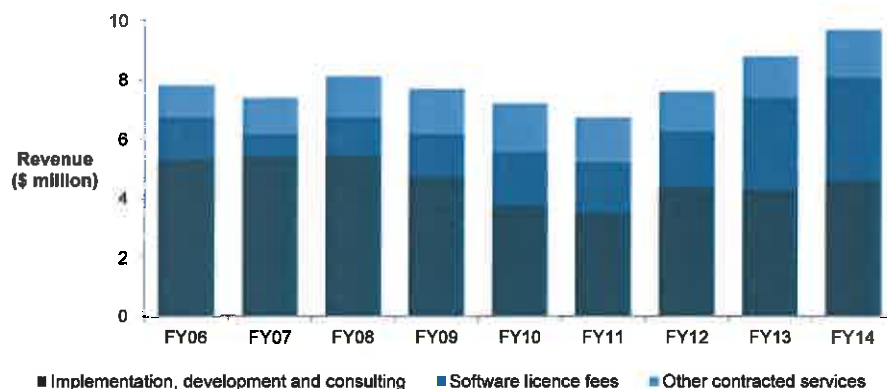
Source: Annual reports and management accounts

Table 5.1 shows a summary of Finzsoft's financial performance from FY10 to FY13 and forecast for FY14 (prepared by management on 3 September 2013). The financial performance excludes non-operating returns, such as interest, gains/losses on the sale of equipment and impairments.

### Revenue

Figure 5.1 illustrates the historical and FY14 forecast revenue of Finzsoft since FY06. It shows that 'implementation, development and consulting' revenue declined during the GFC.

Figure 5.1: Finzsoft revenue by type



Since FY11, Finzsoft has experienced significant growth in software licence fees, while broadly maintaining all other sources of revenue at similar levels. This is consistent with Finzsoft's strategy to increase the portion of its revenue from recurring sources.

## Expenses

Development, servicing and direct costs predominantly relate to wages, which are in turn related to general business activity.

Sales and marketing expenses peaked in FY12 due to Finzsoft incurring significantly increased marketing costs in Asia. Since FY12, Finzsoft has continued to incur costs in Asia but reduced the number of Australia based sales and marketing employees in FY13.

Corporate expenses are forecast to be 29% higher in FY14, primarily as a result of increases in consulting costs associated with pursuing opportunities in Asia (including drafting new agreements).

## Capitalised software development costs

Software development companies often capitalise a portion of their software development costs, particularly when those costs are incurred to create new software modules. The effect of capitalising software development costs is to create a software asset, reduce the development expenses in the current year and increase software amortisation in future years.

Not all software development companies capitalise software development costs and even among those that do, there is variance in what costs are capitalised.

Valuation professionals typically note that software development costs are a real expense incurred to maintain the market position of software products, even if a portion is used for new modules. As a result, valuation professionals often deduct development costs from a company's earnings when analysing software companies' performance, to assist in making financial results comparable.

Since FY12, due to Finzsoft's focus on developing its software, the portion of development costs which are capitalised has increased. Finzsoft says that its current level of software development does not represent costs to just maintain the current business operations; rather, these costs have been incurred to grow the business.

## FY14 Forecast

Finzsoft's management prepare an up-to-date FY14 forecast for internal purposes only (i.e. not intended to be disclosed to the market or to third parties) throughout the financial year. Due to the project-nature of Finzsoft's business, the key driver of the financial forecast is management's assessment of the probability of sales being made. We have necessarily relied on management's assessments and forecast.

Finzsoft updated its FY14 forecast on 3 September 2013. This forecast is based on:

- actual financial performance for the four months ended 31 July 2013 ('YTD14'); and
- Finzsoft's best estimate of financial performance for the eight months ended 31 March 2014.

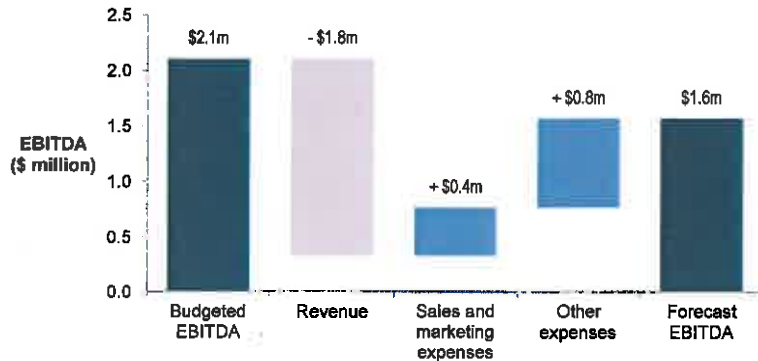
The Finzsoft forecast does not include the impact of potential new sales in Asia (see below).

Finzsoft is forecasting significantly improved financial performance in the current financial year. It forecasts EBITDA of approximately \$1.6 million in FY14 (before adjusting for capitalised software), which is based on a 10% increase in revenue and a significant increase in EBITDA margin from 10% to 16%.



Figure 5.2 shows that for FY14, Finzsoft had initially budgeted \$2.1 million EBITDA. The lower new forecast EBITDA is due to reduced revenue, partially offset by reduced expenses.

Figure 5.2 Forecast and Budget EBITDA reconciliation



Source: Management accounts and Budget

Finzsoft is forecasting revenue to be \$1.8 million less than initially budgeted. Of this reduction, approximately \$0.7 million has already been incurred in the year to date, with the residual expected in the remaining eight months of FY14.

Sales and marketing expenses were initially budgeted to be \$1.1 million and are now forecast to be \$0.7 million, a reduction of \$0.4 million. This reduction primarily occurs in the remaining eight months of FY14 and is due to a reduction in New Zealand based marketing staff and a delay to the start of a marketing consultancy agreement.

Other expenses were initially budgeted to be \$8.3 million and are now forecast to be \$7.5 million, a reduction of \$0.8 million. Of this reduction, approximately \$0.3 million has already been incurred in the year to date.

### New Asia sales

We note because Finzsoft is yet to make any sales into Asia, it does not consolidate the expected financial performance from Asia into its group budget and forecast. Therefore, while Finzsoft's group financial performance, as set out in Table 5.1, includes the costs associated with marketing in Asia, the FY14 group forecast does not include the financial performance which would result from any potential new sales in Asia (sales less the costs associated with the increased staffing necessary to service this market).

Finzsoft has budgeted for an EBITDA margin of 27% on new Asia sales in FY14. The EBITDA margin includes an adjustment for the New Zealand and Australian sales which would be delayed should there be a substantial contract signed and undertaken in Asia. Based on Finzsoft management's estimated sales and the EBITDA margin it is budgeting on Asia sales, it would earn approximately \$2.8 million EBITDA if the projects it considers have a high probability of occurring proceed.

If both of these projects proceed, then Finzsoft will be in a much stronger position to make additional sales in Asia.

## 5.2 Financial position

Table 5.2 shows Finzsoft's balance sheet at financial year ended 31 March 2013 and 31 July 2013.

Table 5.2: Balance sheet summary (\$ thousand)

	31 March 2013	31 July 2013
Accounts receivable	728	801
Accounts payable and provisions	(1,319)	(932)
Unearned revenue	(354)	(643)
<b>Working capital</b>	<b>(945)</b>	<b>(773)</b>
Property and equipment	149	144
Capitalised software	1,698	1,710
Goodwill	1,610	1,610
<b>Other operating assets</b>	<b>3,457</b>	<b>3,464</b>
<b>Net operating assets</b>	<b>2,512</b>	<b>2,691</b>
Cash and cash equivalents	35	48
Bank and other loans	(80)	(350)
Finance leases	(53)	(46)
<b>Net cash/(debt)</b>	<b>(99)</b>	<b>(349)</b>
Investments in jointly controlled entity	303	303
<b>Net assets</b>	<b>2,716</b>	<b>2,645</b>

Source: Annual reports and management accounts

### Working capital

Finzsoft has negative working capital. This is typical of software development companies which often receive fees in advance.

Finzsoft's working capital fluctuates, primarily due to the variable nature of consulting services income and the timing of licence income.

### Property and equipment

Finzsoft has minimal property and equipment requirements. The property and equipment it does have is primarily computer hardware and office equipment.

The Finzsoft Auckland property lease expires 31 December 2013 and it plans to move to new premises at a cost similar to the existing lease. Finzsoft will need to incur fitout costs. Finzsoft does not anticipate any other significant changes in its property and equipment requirements in the near future.

### Goodwill and capitalised software

Goodwill and capitalised software both relate to Finzsoft's software assets.

Goodwill arose in 2000 as part of the Key Transaction by Finzsoft to acquire SSG. The goodwill is the portion of the purchase consideration which was ascribed to the Sovereign software and contracts. In accordance with accounting practices at the time, Finzsoft amortised the goodwill on a straight line basis to 31 March 2005. Due to its subsequent adoption of NZ IFRS, Finzsoft no longer amortises goodwill and instead tests it annually for impairment.



Finzsoft began capitalising a portion of its software development costs in FY09. Capitalised software relates solely to the portion of costs incurred in designing and testing of identified and unique software products (as opposed to maintaining existing software). Prior to FY09, these costs were expensed.

#### **Net debt**

At 31 July 2013, Finzsoft had bank debt of \$350,000 and finance leases of \$46,000, offset by cash of approximately \$48,000, to give net debt of approximately \$349,000.

Finzsoft's debt covenants require it to have EBITDA greater than bank debt for the prior 12 months.

On 4 September 2013, Finzsoft's bankers acknowledged that the Company had breached its covenants as at 30 June 2013 but that the bank had waived its rights in respect of the breach, but has done so without prejudice to possible future breaches.

We understand that subsequent discussions with the bank have involved acknowledgement from the bank that the Company's cashflow is 'lumpy'; the existing covenant could potentially be modified; and the bank is generally comfortable with the Company and its cashflow.

As at the date of this Report, the Company has a net surplus of funds and based on management's current forecast, Finzsoft expects a positive movement in cashflow throughout the balance of FY14. On this basis, Finzsoft's debt covenants are not expected to be an ongoing issue in FY14. However, Finzsoft's cashflow is affected by its expansion into Asia.

In the event that any capital raising is undertaken, non-participating shareholders will be diluted and may suffer a diminution in the value of their shares if any capital raising is undertaken at a discount and any participation rights are not transferable.

#### **Unearned revenue**

Unearned revenue relates to revenue received by Finzsoft which is unearned as at the date the accounts are prepared. Finzsoft's unearned revenue includes: annual licence fees received in advance, hosting and other fees received in advance; and support fees which clients often pay in advance.

#### **Investment in jointly controlled entity**

Finzsoft owns a 50% equity shareholding in NZ Bureau Limited ('NZ Bureau'). Finzsoft equity accounts its investment in NZ Bureau. The effect of equity accounting its investment is that Finzsoft records 50% of NZ Bureau's equity value on its own balance sheet. As at 31 March 2013, this was equal to \$303,271 (50% of \$606,542).

NZ Bureau is currently budgeted to earn \$26,781 in profit before tax and approximately \$233,000 in normalised EBITDA in FY14. We note that NZ Bureau EBITDA in the four months to 31 July 2013 was 10% below budget.





## 6 Valuation analysis

### 6.1 Valuation methodologies

There are four methodologies commonly used for valuing businesses:

- discounted cash flow ('DCF') analysis;
- capitalisation of earnings;
- estimate of proceeds from an orderly realisation of assets; and
- industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

#### Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions. Notwithstanding these limitations, DCF valuations are appropriate where current earnings are not representative of reasonable expectations of future earnings.

#### Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

#### Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with on-going trading.

#### Industry rules of thumb

In some industries, businesses are valued using well established 'rules of thumb'. Generally these rules of thumb are used as a cross-check for other valuation methodologies.



### **Our valuation approach**

KordaMentha has adopted the capitalisation of earnings as our primary valuation methodology to value Finzsoft's existing Trans-Tasman business, because:

- Finzsoft does not prepare financial forecasts beyond FY14; and
- small businesses of a size comparable to Finzsoft typically trade on the basis of valuation multiples.

We have also considered the value of Finzsoft's Asian opportunities based on DCF analysis and the capitalisation of earnings approach because any uplift in earnings projected to accrue from the investment in Asia is yet to be fully reflected in Finzsoft's earnings.

Any valuation, by its very nature, must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance such as financial projections is vital to the valuation exercise. We have relied on budgets and Asian sales projections prepared by Finzsoft management.

## **6.2 Capitalisation of earnings multiples**

To apply the capitalisation of earnings methodology it is necessary to determine an appropriate EBITDA multiple as well as an estimate of EBITDA to which the multiple is applied.

### **EBITDA multiple**

Comparable earnings multiples are generally derived by using two sources of information:

1. multiples based on the current share price of comparable trading companies; and
2. multiples based upon recent transactions involving acquisitions of comparable companies.

### **Trading multiples**

We have benchmarked Finzsoft against listed software providers. However, most listed companies in our sample are significantly larger and more diversified than Finzsoft.

Observed trading multiples should be adjusted for various factors such as relative size, growth, profitability, risk and return on investment. It is also important to note that trading multiples are based upon trading in small parcels of shares, and exclude a control premium.

Appendix 3 shows EBITDA trading multiples for listed companies that are broadly comparable to Finzsoft. We have adjusted the reported EBITDA of the companies to deduct capitalised research and development costs for those companies which capitalise these costs.

Key results of our analysis at Appendix 3 include that the median EBITDA multiple is:

- 13.0x, for the entire sample, based on historical EBITDA;
- 10.4x, for the entire sample, based on current year forecast EBITDA; and
- 5.7x, for companies with market capitalisations less than \$100 million, based on historical EBITDA.

There are a number of fundamental differences between Finzsoft and many of the comparable companies, including country of operation; the type of software they sell; segments in which they operate; current earnings performance; growth prospects; and size (as evidenced by market capitalisation).

A key determinant of an appropriate multiple for a software business is its recent and expected growth. We note that Finzsoft has achieved sales growth of 14.3% and 1.6% per annum over the last two years and five years respectively. This compares favourably to comparable companies with a

market capitalisation of less than \$100 million over the last two years but is less growth than achieved by the comparable companies over the last five years.

### **Transaction multiples**

Appendix 4 shows the EBITDA multiples derived from our sample of comparable transactions. The details of the transactions are also set out in Appendix 4.

The comparable transactions have forecast EBITDA multiples in a range of 5.4x to 12.9x. The median of all of the transactions is 6.6x forecast EBITDA. Excluding ISS Group, the transactions lie in a range between 5.4x and 7.4x forecast EBITDA.

We consider there is broad support for transaction multiples when acquiring 100% interests in broadly comparable software business in a range of 5.5x to 7.5x forecast EBITDA (albeit most of the transactions are for companies larger than Finzsoft). However, depending on a company's individual circumstances, including growth prospects, there is a range of multiples which could apply.

Transaction multiples typically include a premium for control, which usually reflects expected synergies, as well as the prevailing economic environment and other non-quantifiable factors.

### **Capitalisation of earnings multiple for Trans-Tasman business**

Interpretation of the trading and transaction multiples is inherently subjective. In determining the appropriate multiple to apply to Finzsoft's Trans-Tasman business we have made allowances for the following factors:

- observed trading multiples should be adjusted for various factors such as relative size, growth, profitability, risk and return on investment;
- trading multiples are based upon trading in small parcels of shares, and exclude a control premium; and
- transaction multiples typically include a premium for control, which usually reflects expected synergies, the prevailing economic climate and other non-quantifiable factors.

We have assessed an appropriate forecast EBITDA multiple for Finzsoft's Trans-Tasman business in a range of 5.0x to 6.0x, after taking into account the:

- historical trading multiples for those companies which have a market capitalisation of less than \$100 million have a median of 5.7x. This excludes a premium for control;
- comparable transactions for software companies of a broadly comparable size to Finzsoft typically lie in a range of 5.5x to 7.5x forecast EBITDA. This includes a premium for control;
- relatively poor recent financial performance of Finzsoft (albeit with some improvement forecast in FY14) is likely to influence multiples that a prospective purchaser would be willing to pay for the Company until there is a good track record of earnings growth;
- relative size of Finzsoft to the comparable listed companies and transactions;
- relative recent sales growth of Finzsoft to comparable listed companies and transactions; and
- control premium that would apply to a 100% shareholding in Finzsoft.



### 6.3 Valuation of Trans-Tasman business

#### Adjusted earnings

For the purposes of our valuation analysis, we have made adjustments to Finzsoft's EBITDA as set out in Table 6.1.

Table 6.1: Adjusted EBITDA summary (\$ thousand)

	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Forecast
EBITDA	725	821	151	844	1,568
Deduct: capitalised software development costs	(168)	(320)	(698)	(761)	(600)
Normalised EBITDA	557	502	(547)	83	968
Add back: Asian expansion expenditure	-	-	450	509	520
Adjusted EBITDA (excluding Asia <sup>1</sup> )	557	502	(97)	592	1,488

Source: Annual report, management accounts, management estimates of Asia expansion expenditure

We have adjusted Finzsoft's reported EBITDA by:

- deducting capitalised software development costs, to assist us in comparing Finzsoft to comparable companies and transaction; and
- adding back costs incurred in marketing Finzsoft in Asia. In our view, it is appropriate to exclude these costs because unless sales can be generated, which more than offset these costs, we would expect them to be discontinued. We have separately considered the value of Finzsoft's Asian opportunities later in the Report.

For the purposes of our valuation, we have applied forecast EBITDA multiples to an adjusted EBITDA of \$1.0 million to \$1.5 million. This range is based on the FY14 forecast at the high-end of the range and adjusted at the low end of the range for the prior historical results and Finzsoft's underperformance against budget YTD14.

<sup>1</sup> Asia refers to the current Asian sales opportunities and related expenses.

### Capitalisation of earnings

Applying our assessed EBITDA multiple range of 5.0x to 6.0x to adjusted EBITDA of \$1.0 million to \$1.5 million results in an equity valuation range for the Trans-Tasman business of \$4.3 million to \$8.3 million, as shown at Table 6.2.

Table 6.2: Trans-Tasman business valuation (\$ thousand, unless stated otherwise)

	Low	High
Adjusted FY14 EBITDA	1,000	1,500
EBITDA multiple	5.0x	6.0x
<b>Enterprise value</b>	<b>5,000</b>	<b>9,000</b>
Less: net debt	(349)	(349)
Less: unearned revenue	(643)	(643)
Less: Asia exit costs	(100)	(100)
Plus: 50% of NZ Bureau	303	303
Plus: proceeds from options exercise	89	89
<b>Equity value<sup>1</sup> (rounded)</b>	<b>4,300</b>	<b>8,300</b>
Diluted number of shares (thousands)	8,591	8,591
<b>Equity value</b>	<b>0.50</b>	<b>0.97</b>

Other important elements of our valuation include:

- **Net debt:** we have deducted net debt of \$349,000, based on Finzsoft's net debt balance at July 2013.
- **Adjustment for unearned revenue:** we have deducted unearned revenue of \$643,000, based on Finzsoft's unearned revenue balance at July 2013.
- **Hypothetical exit of Asian opportunity:** we have deducted \$100,000 to allow for a high level estimate of the costs (provided by management) which would be incurred if Finzsoft was to cease its Asia operations and focus on being a solely Trans-Tasman business.
- **Finzsoft's investment in NZ Bureau:** we have added \$303,000 for Finzsoft's 50% equity interest in NZ Bureau based on the book value of this investment. Our assessment of value implies a normalised EBITDA multiple of 2.9x. We consider this multiple broadly reasonable for a small investment of this nature.
- **Finzsoft Options executed:** we have assessed the total value of Finzsoft on the assumption that all Finzsoft Options are exercised. There are 291,068 Finzsoft Options and Finzsoft would receive approximately \$89,000 in cash if they were all exercised. Therefore, on a diluted basis, there are 8,591,068 Finzsoft Shares (8,300,000 plus 291,068).

<sup>1</sup> Equity value assumes all Finzsoft Options are exercised. All Finzsoft Options are 'in-the-money'.



## 6.4 Valuation of Finzsoft's Asian opportunities

Finzsoft currently has no customers in Asia. However, as discussed, in the sales pipeline it has identified a number of opportunities in Asia that management consider have a high probability of success and which would transform Finzsoft's business. The value of these opportunities is highly uncertain. In the event profitable sales contracts are signed then it is likely that Finzsoft's value would increase significantly from its current level.

We have undertaken indicative analysis on the value of the Asian opportunities, which we factor into the high-end of our valuation range, by considering:

- DCF valuation analysis of the identified opportunities probability weighted by management's view on the likelihood of success and discounted at a relatively high post-tax discount rate of 20% to take account of the uncertainty and our view on how a prospective purchaser would value these cash flows, at the current time;
- Capitalisation of earnings, based on management's estimate of probability weighted earnings and recognition that once the identified opportunities are converted to sales this will materially improve Finzsoft's likelihood of generating other sales and recurring income in the region.

### Discounted cash flow of identified Asian opportunities

Key valuation parameters that we have used in our DCF valuation are set out below.

**Forecast earnings:** The DCF valuation is based on Finzsoft's probability weighted sales pipeline and includes only the cash flow attributable to those identified projects that have a management assessed likelihood of success of at least:

- 80% chance of occurring in the low case; and
- 40% chance of occurring in the high case.

An EBITDA margin of 27.2% has been assumed based on the Budget management prepared for new Asia sales.

In addition to the costs implied by the EBITDA margin, we have assumed Finzsoft will continue to incur Asian expansion expenditure of approximately \$520,000 for another 12 months. However, it would not need to incur the \$100,000 in hypothetical exit costs which we included in the Trans-Tasman only valuation.

**Forecast period:** We have assumed EBITDA earned on new sales begins six months after a sales agreement is signed, and is spread evenly over the following six months.

**Capital expenditure:** Based on advice from management we have assumed capital expenditure of \$1 million is required to increase the capacity of Finzsoft. This capital expenditure would include a range of computer hardware, computer software and premises costs.

**Working capital:** Working capital is assumed to be a net liability equal to 10% of new revenue. This is based on Finzsoft's net working capital as at 31 March 2013.

**Valuation date:** 30 September 2013.

**Discount rate:** We have applied a post-tax nominal discount rate of 20% based on our experience with software businesses and similarly uncertain expansion projects. We have recently been involved in two transactions involving New Zealand software businesses where the purchase consideration was equivalent to discounting the vendor management's financial projections at a discount rate of approximately 20%. The details of these transactions are confidential and cannot be disclosed in the Report. We consider a relatively high discount rate is appropriate in these circumstances given the uncertainty surrounding potential cashflows. Because we are valuing only one year of cash flows, the result is not sensitive to the discount rate.

Our indicative DCF valuation approach of the identified Asian opportunities is shown in Table 6.3

Table 6.3: DCF based valuation of Asia expansion (\$ thousand, unless stated otherwise)

	Low	High
Minimum probability of projects included in DCF	80%	40%
<b>Impact on Finzsoft value from Asia expansion</b>	<b>1,136</b>	<b>1,823</b>

Our DCF analysis of the identified Asian opportunities results in net present value of \$1.1 million to \$1.8 million. This analysis relies heavily on Finzsoft management's projections of sales and the assessed likelihood of success. We consider it likely that a hypothetical purchaser of Finzsoft would ascribe some value to these opportunities but until there is a track record of success, the value which would be ascribed is uncertain.

We note that our assessed value of the identified Asian opportunities (midpoint \$1.5 million) is broadly equal to the amount invested in Asia on business development in the last three years. This implies the investment in Asia is value neutral. There is risk that leads will not be converted to sales, in which case the expansion into Asia could prove to be value reducing.

When added to our assessment of the value of the Trans-Tasman business, our assessment of value for the identified Asian opportunities results in a valuation range of \$0.63 to \$1.18 per share.

#### Capitalisation of potential recurring Asian earnings

In the event that Finzsoft makes some sales into Asia then we consider it has an increased likelihood of generating future sales and establishing a sustainable business in that region. Based on the relatively high likelihood of success that Finzsoft management has ascribed to the identified opportunities, it is possible that Finzsoft is close to establishing a sustainable business in Asia. As a result, in order to highlight the potential impact of this on Finzsoft's value we have undertaken indicative analysis of the value of Finzsoft in the event that sales in Asia will be recurring. We note that this analysis is only indicative and a hypothetical purchaser would need to observe a track record of success in Asia before assigning significant value to this opportunity.

Applying our assessed EBITDA multiple range of 5.0x to 6.0x to management's probability weighted EBITDA for the next 12 months results in an indicative valuation range of \$7.5 million to \$12.6 million for the potential Asian business, as shown in Table 6.4.

Table 6.4: Capitalisation based valuation of Asia expansion (\$ thousand, unless stated otherwise)

	Low	High
Minimum probability of projects included in EBITDA	80%	40%
EBITDA adjusted for probability weighting	1,700	2,270
EBITDA multiple	5.0x	6.0x
<b>Enterprise value</b>	<b>8,500</b>	<b>13,620</b>
Less: Initial capital expenditure	(1,000)	(1,000)
<b>Impact on Finzsoft value from Asia expansion</b>	<b>7,500</b>	<b>12,620</b>

The analysis shows that in the event the identified opportunities in Asia happen and this represents a transformation of Finzsoft's business with ongoing recurring earnings, we consider the incremental impact on Finzsoft's value would be in a range between \$7.5 million and \$12.6 million. Clearly, there is a large degree of uncertainty as to whether this transformation of Finzsoft's business will occur but it does highlight that the steps being taken in Asia could have a potentially large impact on Finzsoft's value. If Finzsoft is proven to be as successful in Asia as management is projecting, the value of Finzsoft would be significantly higher than is currently the case.

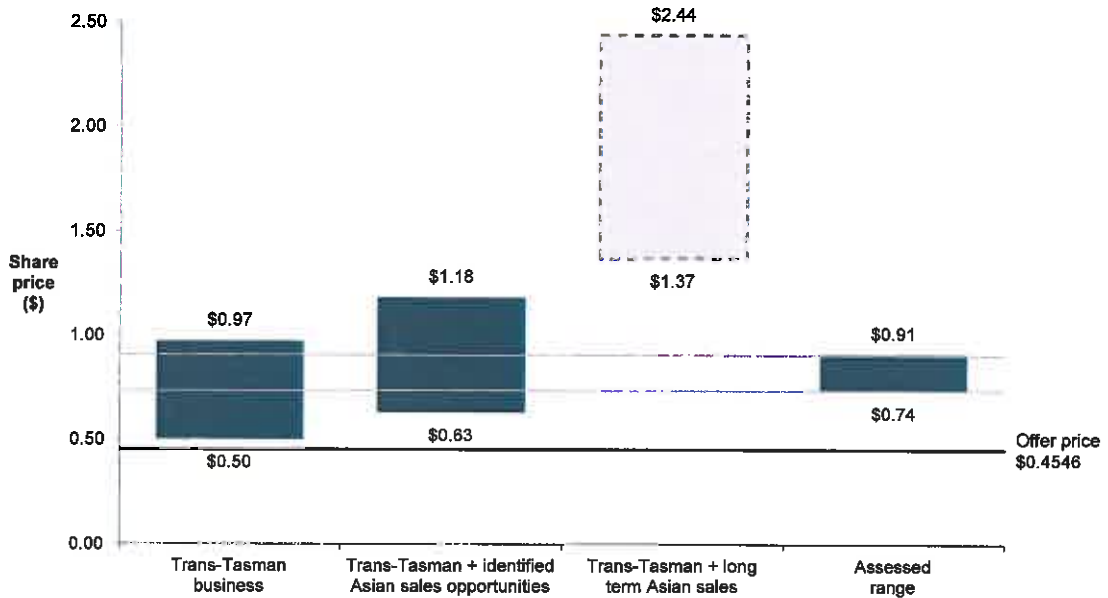
When added to our assessment of the value of the Trans-Tasman business, our assessment of value for potential recurring Asian earnings results in a valuation range of \$1.37 to \$2.44 per share.



### 6.5 Finzsoft valuation summary

Our valuation results are summarised in Figure 6.1.

Figure 6.1: Valuation summary



Source: KordaMentha analysis

We value the existing Trans-Tasman business in a relatively wide range of \$0.50 to \$0.97 per share on the assumption of 100% control. The key driver of this range is the uncertainty concerning Finzsoft’s maintainable EBITDA. Finzsoft’s adjusted EBITDA in FY14 is forecast to be \$1.5 million but over the period FY10 to FY13, EBITDA has been significantly less. Our valuation assumes an EBITDA range of \$1.0 million to \$1.5 million.

After taking account of the additional value attributable to the probability weighted identified Asian sales opportunities, the value of Finzsoft is in a range of between \$0.63 and \$1.18 per share. This analysis relies on management’s assessed likelihood of success for the identified sales opportunities.

For the purpose of the Report, we have assessed a valuation range for Finzsoft’s equity between \$0.74 and \$0.91 per share, with a mid-point of \$0.82 per share. Our range has been determined as follows:

- low-end of the range: is based on the midpoint of our valuation of Finzsoft’s Trans-Tasman business as a standalone entity; and
- high-end of the range: is based on the midpoint of our valuation of Finzsoft’s Trans-Tasman business plus identified Asian sales opportunities.

Figure 6.1 also highlights the potential value of Finzsoft in the event that its identified Asian sales opportunities help to transform Finzsoft’s business and establish a sustainable business in Asia. Based on our high-level analysis, the value of Finzsoft could increase to a range between \$1.37 and \$2.44 per share. Although this analysis is indicative only and in our opinion it is unlikely Finzsoft will trade at these levels at the current time, it does highlight that the value of Finzsoft could be materially higher in the event it is successful with the Asian sales opportunities that it is currently pursuing. Finzsoft management have assessed a high likelihood of the initiatives proceeding.



## Appendix 1: Sources of information

### Documents relied upon

Documents relied upon include, but are not limited to, the following:

- Finzsoft's FY14 Budget;
- Finzsoft's FY14 forecast projections;
- Finzsoft's Annual Report 2011, 2012 and 2013;
- Finzsoft's sales pipeline as at 21 August 2013;
- Finzsoft's shareholder notices;
- Finzsoft's market announcements;
- Finzsoft's website: <http://www.finzsoft.com>;
- Capital IQ website: <http://www.capitaliq.com>;
- NZX website: <http://www.nzx.com>;
- Financial statements of the comparable companies set out in Appendices 3 and 4; and
- Other publicly available information.

We have also had discussion with some of Finzsoft's management executives in relation to the nature of the business operations, and Finzsoft's specific risks and opportunities for the foreseeable future.

### Reliance upon information

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Finzsoft and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Finzsoft. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.



KordaMentha

## Appendix 2: Qualifications and declarations

### Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA), Shane Bongard (BCom (Hons)) and Shaun Hayward (BCom and BProp). All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

### Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion on the proposed transaction. KordaMentha expressly disclaims any liability to any Finzsoft shareholder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

### Indemnity

Finzsoft has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Finzsoft has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

### Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest that could affect its ability to provide an unbiased opinion in relation to the proposed transactions.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the proposed transactions or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to Finzsoft and its legal advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

### Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Finzsoft shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

## Appendix 3: Comparable companies

Table A3.1: Comparable companies listed on the NZX Main Board, ASX Main Board and Unlisted platform as at 18 September 2013

Company	Head office	Software type	Market capitalisation (\$ million)	Normalised EBITDA multiple		Annualised revenue growth	
				Historical <sup>1</sup>	Forecast	Last 2 years	Last 5 years
IRESS	Australia	Financial and trading	1619.7	18.4x	14.6x	7.5%	8.9%
TechnologyOne	Australia	Enterprise solutions	716.4	15.4x	14.8x	11.5%	17.9%
Diligent	United States	Governance	487.6	27.1x	18.9x	129.5%	90.9%
Altium	China	Electronic design	333.4	29.2x	n/a	13.2%	3.2%
Reckon	Australia	Financial and accounting	308.4	11.8x	9.1x	3.5%	11.5%
Infomedia	Australia	Automotive sales	216.7	14.1x	7.7x	5.1%	-1.2%
GBST	Australia	Financial	215.8	12.8x	10.4x	10.5%	6.3%
Bravura	Australia	Financial	192.9	13.2x	12.2x	1.4%	-1.8%
Hansen	Australia	Financial	188.6	12.4x	8.7x	5.3%	10.3%
Integrated Research	Australia	Financial and enterprise	179.2	14.2x	7.2x	4.7%	5.5%
Objective Corporation	Australia	Content and collaboration	55.0	6.3x	n/a	1.3%	4.1%
Corum	Australia	Payments	42.7	5.1x	n/a	-2.0%	1.9%
Adacel	Australia	Aviation	31.4	8.8x	n/a	-8.3%	-3.3%
Prophecy International	Australia	Financial	35.4	15.9x	n/a	19.0%	3.3%
Fronde	New Zealand	Enterprise solutions	17.9	3.4x	n/a	32.4%	13.5%
Stratatec	Australia	Expense management	8.7	3.5x	n/a	-21.7%	10.3%
Median (market capitalisation >\$400 million)				18.4x	14.8x	11.5%	17.9%
Median (market capitalisation \$100 million - \$400 million)				13.2x	8.9x	5.1%	5.5%
Median (market capitalisation <\$100 million)				5.7x	n/a	-0.3%	3.7%
<b>Median</b>				<b>13.0x</b>	<b>10.4x</b>	<b>5.2%</b>	<b>5.9%</b>

Source: Capital IQ, financial statements and announcements, research reports and KordaMentha analysis

### IRESS

IRESS Limited ('IRESS') provides information, trading, compliance, order management, portfolio, financial planning systems, and related tools in Australia, Asia, New Zealand, Canada, South Africa, and the United Kingdom. IRESS's has two primary products: IRESS, a suite of financial market and trading platform products and XPLAN, a suite of financial planning and wealth management tools.

### TechnologyOne

Technology One Limited ('TechnologyOne') provides various enterprise software solutions in Australia, New Zealand, the United Kingdom and Malaysia. Its products include software to assist with: the control and integration of financial information; human resource management systems; inventory control; information management and budgeting. TechnologyOne also provides custom software development services. It serves central and local government agencies, financial services, education, health and community services, utilities and managed services markets.

### Diligent

Diligent Board Member Services, Inc. ('Diligent') engages in the development and sale of an online software application worldwide which is used by board members, management and administrative staff to compile, update, review and archive board materials.

<sup>1</sup> Historical multiples are based on the last 12 months of available data.



KordaMentha

### **Altium**

Altium Limited ('Altium') is a global provider of computer software for the design of electronic products. Its products include electronic design software, design environment solutions, tasking products for embedded software development and software used for building internet applications. Altium also provides training services and hardware products.

### **Reckon**

Reckon Limited ('Reckon') provides financial and accounting software in Australia and internationally. Its products include accounting and business administration software for accountants, businesses and individuals. Reckon also offers a range of online software services on a subscription basis.

### **Infomedia**

Infomedia Limited ('Infomedia') provides electronic parts catalogues and service quoting systems to after sales parts and service sector of automotive industry worldwide. Infomedia's parts solutions enable users to identify various replacement parts manufactured by original equipment companies. It also assists with information management and analysis for Australian automotive and oil industries.

### **GBST**

GBST Holdings Limited ('GBST') provides technology services to the financial services industry. GBST software products include accounting and securities transaction, administration and registry software. GBST also offers web design, support services, consulting services and sells third party products. GBST customers are primarily banks, custodians, fund managers, margin lenders, stockbrokers and other financial institutions.

### **Bravura**

Bravura Solutions Limited ('Bravura') provides transfer agency and wealth management software applications in Australia, the United Kingdom, New Zealand, Asia, Africa, the Middle East and Europe. Bravura's software includes transfer administration applications, wealth management applications, multi-currency investment management systems and various other superannuation and life insurance solutions.

Bravura is currently the subject of a takeover offer by Ironbridge Capital. Therefore, the earnings multiples for it may include a premium for control.

### **Hansen**

Hansen Technologies Limited ('Hansen') provides billing systems software to utility companies in Australasia, North America and Europe. Hansen software solutions include sales and marketing, billing, customer management, revenue management, connection point, meter data management and superannuation administration software. Hansen also offers data centre solutions and IT managed services.

### **Integrated Research**

Integrated Research Limited ('Integrated Research') provides systems and management software for business-critical computing, primarily in Australia, the Americas, Europe and Asia-Pacific regions. It offers an integrated suite of monitoring and management software designed to allow an organisation's technical personnel operational insight into their servers, applications and software environments. Integrated Research also provides communications, payment and infrastructure solutions. Its clients include stock exchanges, banks, credit card companies, telecommunications companies, healthcare and financial service providers.

### **Objective Corporation**

Objective Corporation Limited ('Objective Corporation') provides information technology software and services primarily in the Asia Pacific and Europe. It offers content, collaboration and process management solutions. Objective Corporation serves the public sector, infrastructure industries and various local, state and central governments.

### **Corum**

Corum Group Limited ('Corum') provides dispense and point of sale software applications and hardware to pharmacies in Australia. It also offers e-commerce services, including electronic bill payments, funds transfer and processing services to the real estate and other industries. Corum also provides a range of training services to the real estate industry.

### **Adacel**

Adacel Technologies Limited ('Adacel') provides software applications and services for aviation and defence sectors in the United States, Canada, and Australia. Its products include air traffic management systems, intelligent communications environments and simulators to optimise controller training and reduce dependency on operational 'on-the-job' training. Adacel also provides pilot training products, such as an automated air traffic control environment, military tactical flight environments and a simulation system to train ground personnel.

### **Prophecy International**

Prophecy International Holdings Limited ('Prophecy International') provides a range of computer software and services to organisations. Its primary product, basis2, is a suite of billing and customer information solutions for use in the utilities industry. Prophecy International also provides software which delivers internet technologies for logistics, e-commerce and back office applications.

### **Fronde**

Fronde Systems Group Limited ('Fronde') is an IT services company servicing the government, utilities and finance sectors. Fronde is listed on the Unlisted platform. Fronde is based in Wellington, Auckland and Sydney.

### **Stratatel**

Stratatel Limited ('Stratatel') provides telecommunications expense management, cost recovery and print expense management software solutions. Its products capture and allocate various costs. Stratatel products also monitor telephone systems and related infrastructure.



## Appendix 4: Comparable transactions

Table A4.1: Comparable software company transactions

Target	Acquirer	Primary location of target	Date	Enterprise value (local \$m)	Historical EBITDA multiple	Forecast EBITDA multiple
Bravura	Ironbridge Capital	AUS	underway	188.2	7.8x	7.4x
ISS Group	P2 Energy Solutions	AUS	Aug-13	38.7	13.5x	12.9x
Coin Software	Rubik Financial	AUS	Aug-12	26.8	5.1x	5.4x
Razor Risk Technologies	TMX Australia	AUS	Feb-12	7.9	n/m	n/a
Qmaster	Triple Point Technology	AUS	Nov-11	24.8	12.0x	6.5x
RosterOn	Allocate Software	AUS	Jul-11	3.4	5.7x	n/a
Finzsoft	Pi Capital	NZ	Jun-07	9.1	23.4x	6.6x
<b>Median</b>					<b>9.9x</b>	<b>6.6x</b>

Source: Capital IQ, financial statements and announcements, management information and KordaMentha analysis

### Bravura – Ironbridge Capital

Bravura Solutions Limited ('Bravura') provides transfer agency and wealth management software applications in Australia, the United Kingdom, New Zealand, Asia, Africa, the Middle East and Europe. Bravura offers a suite of components that provide transfer agency administration services for clients, including mutual fund providers. Its Wealth Management segment provides an application suite, which offers solutions for life insurance, pensions, superannuation and investment administration. Bravura also offers life insurance functionality, pensions functionality, group superannuation and pension administration systems. In addition, it provides professional services in consulting, data migration, implementation, software development, support and training areas.

Ironbridge Capital Pty Ltd ('Ironbridge') made a proposal to acquire a 32.88% stake in Bravura from Fisher Funds Management Limited ('Fisher Funds') and others for approximately A\$58.77 million on 27 June 2013. Ironbridge indirectly owns 67.12% of Bravura.

On 17 July 2013, Ironbridge entered into a scheme implementation agreement to acquire the 32.88% stake in Bravura not already owned by it.

### ISS Group – P2 Energy Solutions

ISS Group Limited ('ISS Group'), an information and technology company, develops and markets infrastructure and application software for the oil and gas, minerals, manufacturing, and food and beverage industries worldwide.

P2 Energy Solutions, Inc. ('P2 Energy Solutions') entered into a merger implementation agreement to acquire ISS Group for A\$44.9 million in cash on 4 June 2013.

### Coin Software – Rubik Financial

Coin Software Pty Ltd ('Coin Software') provides financial planning software for financial advisers. Its products include DICE, a client relationship management module to enter, view, report and track client information; STRATEGY, a cash flow and strategic modelling module; ANALYSER to perform portfolio modelling, rebalancing, and reporting assets in client's portfolio; and PYRAMID to graphically illustrate and refine customer's lifestyle and retirement goals. It also offers QUICKPLAN to generate advice documents and track client's investments; INC, a risk comparator for performing insurance needs analysis for customers or conducting standalone research; and tools and calculators to assist with savings, superannuation, taxation, retirement and insurance. In addition, Coin Software provides implementation management, relationship management, helpdesk support and web hosting services as well as professional services.

Rubik Financial Limited ('Rubik'), a 20% shareholder in Finzsoft, signed a conditional agreement to acquire Coin Software for A\$26.8 million in cash on 29 June 2012. Coin's recurring revenue of 85% was expected to increase Rubik's overall recurring revenue base from 45% to 67%.

### **Razor Risk**

Razor Risk Technologies Limited ('Razor Risk') engages in the development and integration of risk management software for the financial sector in Australia and internationally. It offers base architecture module that acts as a pre-requisite for its other modules; credit risk module, which supports the calculation of current and potential exposure using a Mark to Market plus add-on approach; market risk module that provides functionality required for regulatory and internal market risk management, including value at risk reporting, scenario analysis and back testing; and limit management module.

TMX Australia Pty Ltd ('TMX') entered into a takeover bid to acquire Razor Risk on 29 November 2011.

TMX completed the acquisition of Razor Risk on 28 February 2012.

### **Qmastor – Triple Point Technology**

QMASTOR Limited ('Qmastor') provides software and services to the mining, port, power generation, and bulk commodity industries.

Triple Point Technology, Inc. ('Triple Point Technology') made an offer to acquire Qmastor on 23 June 2011.

Triple Point Technology completed the acquisition of Qmastor Ltd on 9 November 2011.

### **RosterOn – Allocate Software**

RosterOn Pty. Ltd ('RosterOn') provides staff rostering, labour/workforce management and time and attendance software, primarily for the healthcare sector in Australia.

Allocate Software plc. ('Allocate Software') acquired RosterOn for A\$4.1 million in cash on 4 July 2011.

### **Finzsoft – Pi Capital**

Pi Capital made a partial takeover offer to acquire a 63.61% stake in Finzsoft \$6.86 million in cash on April 2007. Pi Capital offered \$1.30 per share.

The offer was oversubscribed and became unconditional on 25 June 2007.

## **Independent Adviser's Report**

**16 September 2013**

Prepared Pursuant to Rule 22 of the New Zealand Takeovers Code in Relation a Full Takeover Over  
for Finzsoft Solutions Limited



### **Prepared for**

**Holliday Group Holdings (ICT Investments) Limited**

#### **Purpose of the Report**

- This report is not a report on the merits of the Offer.
- This report has been obtained by the offeror.
- The purpose of this report is solely to compare the consideration and terms offered for the different classes of securities, and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.
- A separate independent adviser's report on the merits of the offer, commissioned by the directors of Finzsoft Solutions Limited, must accompany Finzsoft Solutions Limited's target company statement.
- The Offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the Offer.

#### **Independence**

- Lonergan Edwards & Associates Limited (LEA) confirms that it:
  - has no conflict of interest that could affect its ability to provide an unbiased report
  - has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.
- LEA has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.



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## I Executive summary

### Introduction

- 1 Holliday Group intends to issue a Takeover Notice to Finzsoft indicating its intention to make a full takeover Offer for all the equity securities on issue in Finzsoft.
- 2 Under New Zealand company law, Finzsoft has two classes of equity securities:
  - (a) 8,300,000 issued ordinary shares which are tradeable on the NZSX, being the main board equity security market operated by NZX Limited
  - (b) 291,068 Options which have been issued in three tranches under the ESOP operated by Finzsoft for the benefit of Eligible Employees.
- 3 Each Tranche of Options constitutes a separate class of non-voting securities for the purposes of the Code.
- 4 The Ordinary Shares are voting securities and the Offer for the Ordinary Shares is NZ\$0.4546 cash per share. The Options are non-voting securities and the Option Offer Price for each Option under each Tranche is detailed in the table below:

Tranche	Issue Date	Initial Exercise Date	No. Of Options	Exercise Price <sup>(1)</sup> NZ\$	Option Offer Price <sup>(1)</sup> NZ\$	Offer Value NZ\$
1	Jun-10	Nov-11	96,280	0.2000	0.2546	24,513
2	Jun-11	Nov-12	86,855	0.3300	0.1246	10,822
3	Jun-12	Nov-13	107,933	0.3800	0.0746	8,052
			291,068			43,387

- 5 We note the Option Offer Price is based directly on the underlying Share Offer Price less the Exercise price, in essence representing the intrinsic value of the Option.
- 6 Rule 8(4) of the Code requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities. In this particular case, the Code therefore requires that the consideration and terms offered for:
  - (a) the Options Offer must be fair and reasonable compared to the consideration and terms offered for the Ordinary Shares
  - (b) the offer for each Tranche of Options must be fair and reasonable as between all of the Tranches.
- 7 This report has been prepared based on information provided to us by Holliday Group, Finzsoft, Mr Andrew Holliday (a director of Finzsoft) and the information disclosed in Finzsoft's statutory accounts.

## Summary of opinion

- 8 This report is not required to consider the merits of the Offer for the Ordinary Shares or Options, and we therefore provide no opinion on whether the Share Offer Price of NZ\$0.4546 per share or the Option Offer is fair and reasonable.
- 9 Our role is limited to determining whether the Option Offer Price (offered for each Tranche of Options) is fair and reasonable in comparison to the amount offered for the Ordinary Shares and as between each Tranche.
- 10 Our assessment is therefore based on the following framework:
- (a) the total consideration of NZ\$0.4546 per share for the Ordinary Shares provides the relative benchmark for our assessment (as the value of the Options is dependent on the value of the Ordinary Shares, being the asset which is acquired from exercising each Option). That is, our assessed Option valuation assumes the Ordinary Shares are worth \$0.4546 per share
  - (b) we have used the Black-Scholes option framework as a starting point to value the Options, adjusting for specific aspects that relate to the circumstances of the ESOP
  - (c) our assessment takes into account the current rules that govern the ESOP, with particular emphasis on the rules in relation to the exercise period and the transferability of the Options:
    - (i) the Options automatically expire 15 business days from the date a full takeover becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares
    - (ii) the Options are personal to the eligible employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the employee.
- 11 Given the above the only way value can be realised for the Options (in the absence of the Offer) is by exercising them. Further, if the Offer becomes unconditional and the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares, then the Options will lapse in 15 days from that date.
- 12 Accordingly, in our view, the Options should be valued at their intrinsic value (being the value of the Ordinary Shares less the exercise price). On this basis we have assessed the relative value of the Options for each Tranche as follows:

Tranche	No. of Options	Option Value <sup>(1)</sup>	Option Offer Price <sup>(2)</sup> NZ\$	Price/Value <sup>(2)</sup> Variance
1	96,280	0.2546	0.2546	-
2	86,855	0.1246	0.1246	-
3	107,933	0.0746	0.0746	-
	<u>291,068</u>			

**Note:**

- 1 Being the Share Offer Price less the exercise price (per Option)
- 2 Per Option.

- 13 We therefore certify that in our opinion:
- (a) the consideration and terms offered for the Options is fair and reasonable in comparison with the terms offered for the Ordinary Shares
  - (b) that the terms offered for each Tranche of Options is fair and reasonable as between all of the Tranches.
- 14 Accordingly, we certify that, in our opinion, the Offer complies with rule 8(4) of the Code.

## II Scope and basis of assessment

### Background

- 15 Holliday Group intends to issue a Takeover Notice to Finzsoft in September 2013 indicating its intention to make a full takeover offer for all of the equity securities on issue in Finzsoft.
- 16 There are 8,300,000 Ordinary Shares on issue which are tradable on the NZX, and 291,068 Options currently on issue under the ESOP.
- 17 The Ordinary Shares are considered voting securities and the Options are considered non-voting securities for the purposes of the Code.
- 18 The Options were issued to the Eligible Employees in three Tranches (June 2010, June 2011 and June 2012).
- 19 When issued, Eligible Employees had the right to convert each Option into one Ordinary Share upon payment of an Exercise Price, which was specifically set for each Tranche. The Options in each Tranche have a different Exercise Price and differing Initial Exercise Dates. As such each Tranche therefore represents a separate class of non-voting securities.
- 20 Further details of the terms and conditions of the ESOP are included in Section III.

### Requirements of Takeovers Code

- 21 Finzsoft is a publicly listed company on the NZX and is a “Code Company” as defined by the Code. The takeover process initiated by Holliday Group must therefore comply with the provisions set out in the Code relating to the offer procedure.
- 22 Pursuant to Rule 8 of the Code, a full offer must include offers in respect of all the securities in each class of equity securities of the target company (other than those that are already held by the offeror).
- 23 Rule 8(4) of the Code requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities.
- 24 In this particular case, the Code therefore requires:
  - (a) the consideration and terms offered for the Options must be fair and reasonable compared to the consideration and terms offered for the Ordinary Shares
  - (b) the consideration and terms offered for each Tranche of Options must be fair and reasonable as between all of the Tranches.
- 25 For the purposes of the Code, Finzsoft’s Ordinary Shares are regarded as one class of equity security and each Tranche of the Options is regarded as a separate class of equity security given the different features of each Tranche.

- 26 Holliday Group must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(4).
- 27 This report has been prepared to meet the requirements of Rule 22 of the Code. The appointment of LEA to prepare the Rule 22 report was approved by the Takeovers Panel.

## **Basis of assessment**

### **Relative Option Value**

- 28 In determining whether the Option Offer Price is fair and reasonable relative to the Share Offer Price, we have assessed the relative value of the Option.
- 29 We have initially assessed the value of Options by Tranche using the Black-Scholes option pricing methodology on the basis they are vanilla call options, assuming:
  - (a) normal rights of transferability and exercise
  - (b) an estimated volatility rate for Finzsoft Shares
  - (c) the options are tradeable on a liquid market.
- 30 This determines what the maximum value of the options would have been if they had the full characteristics of tradeable options in a liquid market with a known expiry date.
- 31 We have then considered the characteristics that suppress value that are specific to the Options, including:
  - (a) the Options are not listed on any stock exchange
  - (b) the Options automatically expire 15 business days from the date a full takeover becomes unconditional and holders of 90% of the Ordinary Shares have accepted the Offer, even though the Options have no set Expiry Date
  - (c) the Options cannot be transferred in any way, form or manner.
- 32 These factors have a material impact on the value of the Option. In particular, the inability to assign or transfer the Options means that a value can only be realised for the Options by exercising the Option, which thereby limits the value of the Option to their intrinsic value.

### **Term of the Option**

- 33 One of the critical factors in determining the value of the Option is the time remaining to their Expiry Date. In general terms, the longer the term to expiry, the higher the value of the Option.
- 34 In the circumstances of Finzsoft there is no set Expiry Date and the Option is effectively open ended, with some qualifications.
- 35 A key qualification is the fact that the Option automatically lapses in the event the employment contract with the Eligible Employee is terminated. This implies that the maximum life of the Option is the term of employment. Based on research we note that on average, an employee stays with a company for no more than 10 years.

- 36 Given Eligible Employees generally have been employed by Finzsoft for five years or more, we have assumed that the maximum time remaining to the Expiry Date is 5 years.
- 37 However, the Expiry Date is reduced to 15 business days from the date a full takeover offer becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares. These maximum and minimum expiry dates have been taken into account in determining the relative value of the Option.

### **Limitations and reliance on information**

- 38 In producing this report we have relied on the following sources of information:
- (a) the Finzsoft ESOP Prospectus and Investment Statement (with accompanying notes) dated 25 June 2010
  - (b) the ESOP letter issued to Eligible Employees on issue of Options
  - (c) Finzsoft ESOP summary of current Options and lapsed Options
  - (d) a copy of the draft Takeover Notice
  - (e) the Finzsoft Constitution
  - (f) discussions with Mr Andrew Holliday, a Director of Finzsoft.
- 39 We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 40 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming our opinion. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IAR.
- 41 Our opinions are also based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 42 LEA reserves the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

### III Key terms of the Ordinary Shares and Options

#### Ordinary securities

- 43 There are currently 8,300,000 Ordinary Shares on issue in Finzsoft. Each Ordinary Share provides the owner the right to:
- (a) vote at a meeting of shareholders to one vote on each resolution
  - (b) to an equal share in dividends
  - (c) to an equal share in the distribution of the surplus assets of the Company.
- 44 In accordance with the Takeovers Code Holliday Group has made an Offer to purchase all the Ordinary Shares at NZ\$0.4546 per Share.

#### Options

- 45 Finzsoft has issued 568,997 Options to Eligible employees over the last 3 years in three separate Tranches. 277,929 of these Options have been forfeited in accordance with the terms of their issue.
- 46 In accordance with the Takeovers Code, Holliday Group made an Offer to purchase all the Options for each Tranche at the Option Offer Price as detailed in the table below. We note the Option Offer Price is based directly on the underlying Share Offer Price less the Exercise price, in essence representing the intrinsic (face) value of the Options.
- 47 The details of the 291,068 Options that remain outstanding are as follows:

Tranche	Issue Date	Initial Exercise Date	No. of Options	Exercise Price <sup>(1)</sup> NZ\$	Intrinsic Value <sup>(1)</sup> NZ\$	Option Offer Price <sup>(1)</sup> NZ\$	Offer Value NZ\$
1	Jun-10	Nov-11	96,280	0.2000	0.2546	0.2546	24,513
2	Jun-11	Nov-12	86,855	0.3300	0.1246	0.1246	10,822
3	Jun-12	Nov-13	107,933	0.3800	0.0746	0.0746	8,052
			291,068				43,387

**Note:**

1 Per Option.

- 48 Based on the Initial Exercise date, two Tranches can be exercised at any time in the future and the third Tranche can be exercised from November 2013.
- 49 On conversion, the number of Options can be converted on a one for one basis to Ordinary Shares.

#### Option Terms

- 50 Each Eligible Employee participating in the ESOP has an individual letter setting out the relevant terms and conditions of the Options for each relevant Tranche. This includes full details of the terms and conditions of each Option.



- 51 With the exception of the Exercise Price, the Initial Exercise Date and the specific amount of Options issued to any specific Eligible Employee, the terms of each Tranche and each specific Option are identical.
- 52 The material terms and conditions are summarised as follows:

Material Term	Detail
Exercise Price	Tranche 1 NZ\$0.2000 Tranche 2 NZ\$0.3300 Tranche 3 NZ\$0.3800
Payment Terms	No consideration has been paid for the Options. Following exercise, the applicable Exercise Price must be paid in full on the settlement date
Exercise Date	The Options can be exercised at any time on or after the Exercise Date
Trading	The Options are personal to the Eligible Employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the Eligible Employee
Dividend	The Options attract no dividend rights
Voting	The Options carry no voting rights
Takeover	In the event a full takeover offer is made under the Takeovers Code, all the Options will lapse if they are not exercised within fifteen business days of confirmation that the offer is unconditional in circumstances where the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares.
Forfeiture and Expiry	<p>(a) Options do not have an expiry date but lapse immediately or are forfeited or will be cancelled when the Eligible Employee either:</p> <p>(i) exercises the Option, or</p> <p>(ii) ceases to be employed by (other than as a result of by death, retirement, redundancy or incapacitation whilst still employed), or</p> <p>(iii) disposes or grants a security interest over the Option, or</p> <p>(iv) advises that it would like the Option to lapse.</p> <p>(b) The Board may at its sole discretion, may resolve not to allow the Options to lapse as a result of any of the above events on such terms and conditions it thinks fit.</p> <p>(c) In the event of death, illness, or redundancy the Board of Finzsoft has the discretion to declare the Exercise Date to coincide with the event in question so as to allow the Eligible Employee or their estate to benefit from the ESOP.</p>
Ranking	Any Ordinary Shares allotted on the exercise of an Option rank equally in all respects with other Ordinary Shares on issue.

## IV Assessment

### Option valuation

- 53 As noted in Section I, our role is limited to determining whether the Option Offer Price (offered for each Tranche of Options) is fair and reasonable in comparison to the amount offered for the Ordinary Shares and as between each Tranche.
- 54 Our assessment is therefore based on the following framework:
- (a) the total consideration of NZ\$0.4546 per share for the Ordinary Shares provides the relative benchmark for our assessment (as the value of the Options is dependent on the value of the Ordinary Shares, being the asset which is acquired from exercising each Option). That is, our assessed Option valuation assumes the Ordinary Shares are worth \$0.4546 per share
  - (b) we have used the Black-Scholes option framework as a starting point to value the Options, adjusting for specific aspects that relate to the circumstances of the ESOP
  - (c) our assessment takes into account the current rules that govern the ESOP, with particular emphasis on the rules in relation to the exercise period and the transferability of the Options:
    - (i) the Options automatically expire 15 business days from the date a full takeover becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares
    - (ii) the Options are personal to the eligible employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the employee.
- 55 Given the above the only way value can be realised for the Options (in the absence of the Offer) is by exercising them. Further, if the Offer becomes unconditional and the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares, then the Options will lapse in 15 days from that date.
- 56 Accordingly, in our view, the Options should be valued at their intrinsic value (being the value of the Ordinary Shares less the exercise price). On this basis we have assessed the relative value of the Options for each Tranche as follows:

Tranche	No. of Options	Option Value <sup>(1)</sup>	Option Offer Price <sup>(2)</sup> NZ\$	Price/Value <sup>(2)</sup> Variance
1	96,280	0.2546	0.2546	-
2	86,855	0.1246	0.1246	-
3	107,933	0.0746	0.0746	-
	<u>291,068</u>			

**Note:**

- 1 Being the Offer price less the exercise price (per Option)
- 2 Per Option.

**Conclusion**

- 57 The Option Offer Price is based off the Offer Price for the Ordinary Shares. As such we have determined that the Offer is fair and reasonable between the classes of equity securities.
- 58 We have also assessed the difference between the value of the Options and the Option Offer Price for each of Tranches at nil. As such we have determined that the Option Offer Price is fair and reasonable between the Tranches.
- 59 Accordingly, we certify that, in our opinion, the Offer complies with rule 8(4) of the Code.

Yours faithfully



Craig Edwards  
Director



Wayne Lonergan  
Director

## **Qualifications, Declarations and Consents**

### **Declarations**

- 1 This report has been prepared by LEA at the request of Holliday Group to meet the requirements pursuant to Rule 22 of the Code. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable between the classes of equity securities.

### **Qualifications**

- 2 LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared over 100 independent expert's reports on public company takeovers and other proposals.
- 3 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan, who are each authorised representatives of LEA.
- 4 Mr Lonergan's qualifications include a Bachelor of Economics, and Doctor of Science in Economics. In addition, Mr Lonergan is a Senior Fellow of FINSIA, Life Member of the Securities Institute of Australia, Fellow of the Australian Institute of Company Directors, Fellow of the Australian Property Institute and Associate Member of the Institute of Arbitrators and Mediators. Mr Lonergan has over 35 years experience in the provision of valuation advice.
- 5 Mr Edward's qualifications include a Bachelor of Commerce and Certificate of Public Practice, issued by the Institute of Chartered Accountants in Australia. In addition, Mr Edwards is a Member of the Institute of Chartered Accountants in Australia, and a Senior Fellow of the Financial Services Institute of Australasia. Mr Edwards has over 17 years experience in the provision of valuation advice.

### **Independence**

- 6 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Offer. In addition LEA confirms that it:
  - (a) has no conflict of interest that could affect its ability to provide an unbiased report
  - (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report
  - (c) has not had, and will not have, any involvement in the formulation or structuring of the Offer.

### **Indemnity**

- 7 Holliday Group has agreed to indemnify LEA (to the maximum extent permitted by law) for all claims, proceedings, losses, fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by LEA in relation to the preparation of this

report; except to the extent resulting from negligence, misconduct, or breach of law on the part of LEA or its officers or employees.

- 8 Holliday Group has also agreed to promptly fund LEA for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by LEA of the relevant invoices except where VCCL or its employees or officers are guilty of negligence, misconduct or breach of law.

## Glossary

Abbreviation Code	Definition
	The Takeovers Code
<b>Company</b>	Finzsoft Solutions Limited
<b>Eligible Employee</b>	Any person selected by the board at its discretion who is a director, officer, manager or employee of, or a person (including a body corporate) who provides services (other than as an employee) to Finzsoft
<b>ESOP</b>	The Employee Share Option Plan operated by the Company
<b>Exercise Price</b>	The exercise price for a particular Tranche of Options
<b>Expiry Date</b>	The date at which the Options expire or lapse in accordance with the terms of the ESOP Prospectus and Investment Statement
<b>Initial Exercise Date</b>	The date from which Eligible Employees may exercise the Option in respect of the relevant Tranche
<b>Exercise Price</b>	Being the Exercise Price as advised at the issue date of each Tranche of Options in accordance with the terms of the ESOP Prospectus and Investment Statement
<b>Finzsoft</b>	Finzsoft Solutions Limited
<b>Holliday Group</b>	Holliday Group Holdings (ICT Investments) Limited
<b>LEA</b>	Lonergan Edwards and Associates Limited
<b>NZX</b>	NZX Limited
<b>Offer</b>	The full takeover offer that Holliday Group intends to make for all of the voting and non-voting securities on issue in Finzsoft
<b>Option Offer Price</b>	The cash payment offered by Finzsoft for each Option
<b>Options</b>	The 291,068 options issued and currently outstanding to the Eligible Employees under the ESOP
<b>Ordinary Shares</b>	The 8,300,000 ordinary shares of Finzsoft on issue and which are tradeable on the NZSX
<b>Share Offer Price</b>	A cash payment of NZ\$0.4546 per Ordinary Share offered by Finzsoft
<b>Tranche</b>	Each, or any of, the three tranches of Options issued by Finzsoft, as the context requires