



KordaMentha

Full takeover offer for Finzsoft Solutions Limited

Independent Adviser's Report

February 2015

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 definitions

Finzsoft	Finzsoft Solutions Limited
Finzsoft Shares	8,570,164 shares in Finzsoft
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation and amortisation
Forecast	Financial forecast for the 12 months ending 31 March 2015
FY	Financial year
HGH1	Holliday Group Holdings (ICT Investments) Limited
IT	Information technology
NZ Bureau	NZ Bureau Limited, an entity 50% owned by Finzsoft which is in the process of being liquidated
NZX Main Board	The market on which Finzsoft's shares are traded, operated by NZX Limited
the Offer	An offer by Silverlake HGH's to acquire all the Finzsoft Shares and Sush Entitlements
the Report	This independent adviser's report, prepared in accordance with Rule 21 of the Takeovers Code
SAL	Silverlake Axis Limited
Silverlake HGH	Silverlake HGH Limited (owned by SAL and entities associated with Andrew Holliday)
Sovereign	Finzsoft's flagship product suite
Sush Entitlements	An entitlement to be issued shares in Finzsoft (related to Finzsoft's acquisition of Sush Mobile)
Sush Mobile	A mobile software development business acquired by Finzsoft on 28 August 2014
Trans-Tasman	New Zealand and Australia
VWAP	Volume weighted average price

1 Introduction

Finzsoft Solutions Limited ('Finzsoft') develops, sells and supports computer software for financial institutions in New Zealand and Australia.

Finzsoft is subject to the rules set out in the Takeovers Code.

On 28 January 2015, Silverlake HGH Limited ('Silverlake HGH') gave notice of its intention to make a full takeover offer under the Takeovers Code to acquire all of the equity securities in Finzsoft (the 'Offer').

For the purpose of the Takeovers Code, Finzsoft has two classes of equity securities:

- Shares which are traded on the NZX Main Board ('Finzsoft Shares').
- Entitlements to be issued Finzsoft Shares ('Sush Entitlements'). The Sush Entitlements were granted as part of an acquisition by Finzsoft of a mobile software business ('Sush Mobile') in late August 2014.

The consideration under the Offer is:

- **\$3.00 per share for the Finzsoft Shares**
- **\$818,000 in total for the Sush Entitlements.**

The Offer contemplates Finzsoft paying a dividend without a reduction in the Offer price. On 20 February 2015, Finzsoft announced it would pay a net dividend of 8.7 cents per share. This dividend will be received by **all** shareholders who hold shares at 5pm on 25 February 2015.

The independent directors of Finzsoft (who are not associated with Silverlake HGH) 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 as being independent for the purposes of the Code has been approved by the Takeovers Panel.

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

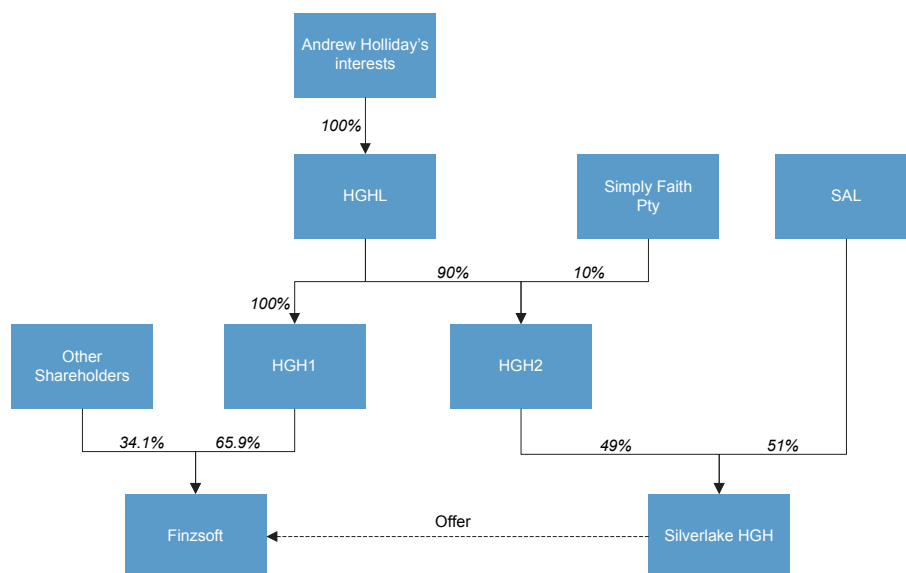
1.1 Timeline of key events

Month	Events
October 2013	<p>Holliday Group Holdings (ICT Investments) Limited ('HGH1'), an entity associated with Andrew Holliday, makes a full takeover offer to acquire Finzsoft.</p> <p>The 2013 offer is partially successful, with Mr Holliday increasing his beneficial interest in Finzsoft from approximately 31.8% to more than 65%. This increase is largely due to a lockup agreement at the time of the transaction.</p> <p>KordaMentha prepared the independent adviser's report on the 2013 offer.</p>
October 2014	<p>Finzsoft announces that it had engaged PwC to assist with a strategic review of its capital and ownership structure.</p>
December 2014	<p>Finzsoft announces a 14 cent per share dividend, the first dividend in four years.</p> <p>Silverlake HGH was formed and entered into an agreement with HGH1 (the 'Lockup Agreement'), in which:</p> <ul style="list-style-type: none"> • Silverlake HGH agreed to make a full takeover offer of Finzsoft at a price of not less than \$3.00 per share. • HGH1 agreed to accept the Offer.
January 2015	<p>Silverlake HGH gave notice of its intention to make an Offer on 28 January 2015.</p>
February 2015	<p>The Takeovers Code requires the Offer to be made no later than 27 February 2015.</p>

1.2 Ownership of Finzsoft and Silverlake HGH

Figure 1.1 shows the ownership structure for Finzsoft and Silverlake HGH prior to the Offer.

Figure 1.1: Ownership of Finzsoft as at 30 January 2015



Source: Companies Office website and Finzsoft management

Silverlake HGH is owned by:

- Silverlake Axis Limited ('SAL'), a Singapore based company which provides digital economy solutions.
- HGH (ICT Investments No. 2) Limited ('HGH2'), an entity associated with Mr Holliday, who is both the Managing Director of Finzsoft and also has a beneficial interest in HGH1 (the majority shareholder of Finzsoft).

Mr Holliday's interests have an indirect 44.1% interest in Silverlake HGH¹. SAL has a direct 51.0% interest in Silverlake HGH. Keat Lee owns Simply Faith Pty Limited and has an indirect 4.9% interest in Silverlake HGH.

Under the Lockup Agreement, HGH1 has agreed to accept the Offer in relation to its shareholding in Finzsoft of approximately 65.92%. The effect of this, combined with Finzsoft's current ownership structure, is that Mr Holliday's interests are selling a proportion of their interest in Finzsoft to SAL. The exact proportion will depend on the level of acceptances from other shareholders.

1.3 Offer terms and conditions

Under the Takeovers Code, a full takeover offer must be conditional on the offeror acquiring at least 50% of the voting rights in the company. The Offer is conditional on Silverlake HGH receiving sufficient acceptances to give it 65% or more of the voting rights in Finzsoft, which will satisfy the 50% requirement of the Takeovers Code. Given HGH1 owns 65.9% of the Finzsoft Shares and has committed to accept the Offer, this condition will be met.

Accepting holders of Finzsoft Shares and Sush Entitlements 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 Mr Holliday owns 99% of the shares in Holliday Group Holdings Limited ('HGHL') jointly with Rebekah Holliday and owns the remaining shares in his own name. Holliday Group Holdings Limited owns 90% of HGH2, which in turn owns 49% of Silverlake HGH.

1.4 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 this report.

References to '\$', dollars or cents are to New Zealand dollars, unless specified otherwise. References to 'AUD' are to Australian dollars. References to financial years or 'FY' mean Finzsoft's financial year end 31 March unless specified otherwise.

Please note, tables may not add due to rounding.

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 'merits', KordaMentha 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 also has a complementary business unit, Sush Mobile, which it acquired in late August 2014. Sush Mobile develops mobile software for a wide range of corporate entities. Sush Mobile was ranked the ninth fastest growing company in New Zealand in the '2014 Deloitte Fast 50'.

Finzsoft currently has 13 Sovereign clients and 30 currently active Sush Mobile clients. All of Finzsoft's clients are based in New Zealand and Australia ('Trans-Tasman').

Finzsoft has previously tendered for significant clients in Asia to use Sovereign. While tendering to Asia based financial institutions, Finzsoft has been one of the last two businesses considered for major contracts. However, to date, it has been unsuccessful in acquiring any significant work in the region.

In the last 12 months, Finzsoft has focused on resolving 'vendor risks' which it believes were barriers to success in Asia and could also limit its ability to expand rapidly in the future. Finzsoft has identified localised computer server infrastructure and its ownership/capital structure as major vendor risks.

To resolve its perceived vendor risks, Finzsoft is in the process of moving its software applications to the IBM cloud (servers operated by IBM). This shift is expected to reduce costs and provide additional security and resilience to Finzsoft's clients. Finzsoft has undertaken an ownership/capital structure review and believes that SAL becoming a cornerstone shareholder will assist it in any future expansion into Asia.

Table 2.1 shows a summary of the Finzsoft's historical and forecast financial performance.

Table 2.1 Financial performance excluding Sush Mobile (\$ thousand)

	FY10	FY11	FY12	FY13	FY14	FY15
	Actual	Actual	Actual	Actual	Actual	Forecast
Revenue	7,216	6,743	7,605	8,807	9,415	18,257
EBITDA	725	821	151	844	1,490	5,728
<i>EBITDA margin</i>	10%	12%	2%	10%	16%	31%

Finzsoft is currently undertaking a major project for St George Bank. This project is the single largest ever undertaken by Finzsoft and is expected to have a positive material impact on financial performance in FY15 and early FY16. Finzsoft currently does not have any projects in its sales pipeline that are of a similar scale to the St George Bank project. Finzsoft expects revenue and profitability to decline in FY16 and has projected FY16 EBITDA of approximately \$2.5 million. This is principally due to the fact that the current major project with St George will conclude during FY16 and there are currently no firm prospects of a replacement project or projects which would sustain Finzsoft's current revenues beyond this period.

Finzsoft paid a 14 cent dividend in January 2015.

2.2 Pricing and valuation

The Offer price of \$3.00 per Finzsoft Share represents a discount of 15.5% to Finzsoft's volume weighted average price ('VWAP') in the three months prior to the Offer. We also note that, as at the date of this report, Finzsoft's share price has remained above the Offer price of \$3.00 per share.

We have assessed a valuation range for the Finzsoft Shares in a relatively wide range of \$3.35 to \$4.55 per Finzsoft Share. The Offer price is below our valuation range, which is summarised in Table 2.1.

Table 2.1: Summary of multiple valuation (\$ thousand, unless stated otherwise)

	Low	High
Finzsoft (excluding Sush Mobile)	30,000	40,000
Sush Mobile	1,900	2,500
Combined Enterprise Value	31,900	42,500
Plus: net cash	917	917
Plus: NZ Bureau proceeds	327	327
Less: dividends paid	(1,945)	(1,945)
Less: unearned revenue	(543)	(543)
Less: deferred consideration (NPV)	(1,045)	(1,045)
Equity value (rounded)	29,611	40,211
Diluted number of shares (thousand)	8,843	8,843
Value per share (\$)	3.35	4.55

Our valuation is subjective and highly sensitive to the underlying assumptions. We have factored in the potential for Finzsoft to acquire new clients into our valuation. To the extent that Finzsoft is unable to acquire new clients, the value of its shares would likely decline below our valuation range. Similarly, if Finzsoft is successful in Asia, or acquires new Trans-Tasman clients similar to St George Bank, the value of its shares would likely increase to more than our valuation range.

Shareholders should consider the potential upside and downside risks when deciding whether or not to accept the Offer. If shareholders form an opinion that Finzsoft has a very low probability of achieving success in Asia, then we note that this would imply a value for the Finzsoft Shares of less than our assessed valuation range of \$3.35 to \$4.55.

Assuming the Finzsoft Shares remain listed, we would expect the share price to be highly volatile over the short to medium term. This volatility would be due to:

- Finzsoft's success or failure in Asia; and
- Trading in Finzsoft's shares is very illiquid and is likely to remain so after the Offer, depending on the level of acceptances.

Our estimate of value is for 100% of Finzsoft and therefore includes a premium for control. We would not normally expect minority parcels of shares to trade at this level (in the absence of a takeover offer, or speculation of a takeover offer). This means that the Finzsoft Shares may trade at a price below our assessed valuation range.

On 20 February 2015, Finzsoft announced that it will pay a dividend of 8.7 cents per share. This dividend will be received by all shareholders who hold shares at 5pm on 25 February 2015 (irrespective of whether the shareholders subsequently accept or reject the Offer). Our valuation range of \$3.35 to \$4.55 per share includes an adjustment for this dividend and can be directly compared to the Offer price of \$3.00 per share.

2.3 Silverlake HGH's intentions

Silverlake HGH's stated intentions are set out in the Offer and include:

- Silverlake HGH intends that Andrew Holliday should continue in his role as Managing Director and, in addition, that a representative of SAL be appointed to the Finzsoft board.
- Silverlake HGH has no present intention to make any material changes to the business activities, material assets or capital structure of Finzsoft or its subsidiaries. However, Silverlake HGH reserves the right to make changes in the future, depending on the business and economic environment and other relevant circumstances that arise after the Offer.

2.4 Potential outcomes of the Offer

Silverlake HGH secures 90% or more of the Finzsoft Shares

Silverlake HGH will acquire at least 65.92% of the Finzsoft Shares due to the Lockup Agreement with HGH1.

In the event that Silverlake HGH receives acceptances for 90% of the Finzsoft Shares, we expect it would enact the compulsory acquisition provisions under the Takeovers Code and move to acquire all the Finzsoft Shares.

Silverlake HGH can only secure 90% or more of the Finzsoft Shares if the Offer is accepted by Rubik Financial Limited ('Rubik Financial'). Rubik Financial owns 19.4% of the Finzsoft Shares.

Silverlake HGH secures between 65.92% and 90% of the Finzsoft Shares

When taken with the Lockup Agreement, the Offer, in its current form, could result in Silverlake HGH acquiring between 65.92% and 90% of the Finzsoft Shares.

It is possible that Silverlake HGH 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 accepts the Offer in respect of its 19.4% shareholding will be a key determinant as to whether Silverlake HGH achieves a shareholding in excess of 75%.

Irrespective of its ability to pass special resolutions, a shareholding between 65.9% and 90% would give Silverlake HGH 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 Silverlake HGH 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.

The Offer fails

Due to the Lockup 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 Silverlake HGH receives acceptances from shareholders other than HGH1, the remaining free float of Finzsoft Shares will decrease following the Offer. This will logically limit the liquidity of trading in Finzsoft Shares.

We note that the dollar value of Finzsoft's free float has increased significantly in the past six months (due to a significant increase in Finzsoft's share price). Over time, this could encourage Finzsoft's free float to be held by a wider group of entities. To the extent that this occurs the trading liquidity of Finzsoft Shares may increase. Nevertheless, we would expect liquidity to remain very low.

2.6 Likelihood of Silverlake HGH increasing its Offer price

It is possible Silverlake HGH could increase the Offer price if it believed doing so would assist it in acquiring 90% of the shares in Finzsoft and allow it to enact the compulsory acquisition provisions under the Takeovers Code.

Due to the existence of the Lockup Agreement, we consider it unlikely that Silverlake HGH will increase its Offer price. Under Rule 31 of the Takeovers Code, any increase in the Offer price would need to be provided to every shareholder which had accepted the Offer (including those shareholders which had already accepted the Offer). If Silverlake HGH increased the Offer price, it would need to pay HGH1 more for the shares which are covered by the Lockup Agreement. This would benefit Mr Holliday at the expense of SAL.

Other than by increasing the Offer price, if Silverlake HGH is not satisfied by the level of acceptances it receives in the Offer, then it could increase its shareholding in Finzsoft by one or more of the following methods:

- Purchasing shares on-market or off-market using the 'creep' provisions in the Takeovers Code. Under the creep provisions, Silverlake HGH could purchase up to 5% of the shares in Finzsoft in any 12 month period beginning 12 months after the Offer ends.
- Have Finzsoft undertake a capital raising (some capital raising methods will have the effect of increasing Silverlake HGH's proportionate shareholding in Finzsoft).¹
- 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, Silverlake HGH will be able to make additional takeover offers to purchase some or all of the remaining shares in Finzsoft. Silverlake HGH would be free to offer more or less than the current Offer price.

2.7 Prospect of alternative takeover offers

It is possible that a third party could contemplate an offer in the future, but there is currently no indication of this. Also, due to the Lockup Agreement, any future takeover offer would need the support of Silverlake HGH to succeed.

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

There is no requirement for shareholders to accept the Silverlake HGH's Offer early and shareholders do not need to do anything in relation to the Silverlake HGH Offer until close to its closing date.

¹ In the event that Finzsoft undertook a capital raising, the Companies Act would provide some level of protection to minority shareholders. For example, in deciding to undertake a capital raising, Finzsoft's directors would have a duty to act in good faith in what they believe are the best interests of the Finzsoft (rather than in the interests of individual shareholders). Also, any capital raising which resulted in a relative increase in Silverlake HGH's control of Finzsoft would be regulated by the Takeovers Code, including a requirement to gain shareholder approval.

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. In acquiring a shareholding of less than 20%, the investor would not be required to make a takeover offer for Finzsoft, nor would the acquisition require shareholder approval in accordance with the Takeovers Code. It is possible that any acquisition of a strategic shareholding is made at a premium to the Offer price of \$3.00.

The Offer price is below the Finzsoft share price at the time we prepared this Report. In the event a shareholder decides to sell all or some of their Finzsoft Shares, assuming the Finzsoft share price remains above \$3.00, shareholders may wish to consider selling their shares on-market. However, this option may not be favourable for large shareholders (due to the liquidity of Finzsoft Shares) and small shareholders (due to any commission which would need to be paid for an on-market transaction). The trading illiquidity of Finzsoft's shares may also affect share trading generally.

2.9 Summary

A key positive of the Offer for minority shareholders is that it provides liquidity at a price which, if Finzsoft had no opportunity to grow in Asia, would likely be within our valuation range – i.e., if expansion into Asia did not occur and Finzsoft's financial performance followed a conservative growth trend based on current expected trading. Section 5.2 of this Report addresses management's predictions regarding the likelihood of Finzsoft's successful expansion into Asia.

The alternative to acceptance is to continue to hold a minority interest in a company which is exposed to Finzsoft's Asian expansion strategy, which is likely to incur significant costs in the short term, but were it to be successful, have the potential to increase the value of Finzsoft Shares significantly above our current valuation range.

We note that Mr Holliday's interests (through HGH1) have effectively accepted the Offer for a portion of this shareholding in Finzsoft. At most, Mr Holliday's interests will have a beneficial interest in up to 44.1% of Finzsoft following the Offer (compared to approximately 65.9% prior to the Offer), assuming 100% acceptance of the Offer was achieved. We do not know the motivations of Mr Holliday's interest for selling, but note that potential motivations could include one or more of the following:

- A belief that Finzsoft would be more valuable with Silverlake HGH as a cornerstone shareholder.
- A belief that the value of Finzsoft is less than or equal to \$3.00.
- A desire to partially exit Finzsoft and make funds available. We note that due to the low trading liquidity of Finzsoft Shares, this would be difficult for Mr Holliday's interests to accomplish without a takeover offer involving another third party.

The key negatives of the Offer are:

- Our valuation range for Finzsoft is \$3.35 to \$4.55 per share, with a mid-point of \$3.95. This analysis relies on management's projections for Finzsoft's future financial performance (which did not have the input of the Managing Director, Mr Holliday). These projections are necessarily dependent on a range of variable factors and reflect management's subjective estimates of Finzsoft's business prospects over the short to medium term. We also note that our valuation is for 100% of the Finzsoft Shares 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, or speculation of a takeover offer).
- The Offer price of \$3.00 is below our valuation range.
- The Offer price is below the Finzsoft share price at the time we are preparing this Report.

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 Offer provides for consideration to be paid no later than seven days after the later of receipt of acceptance by a shareholder and the Offer being declared unconditional. Therefore, early acceptance of the Offer may enable Shareholders to be paid earlier (assuming the Offer has been declared unconditional).

Holding out until near the time the Offer lapses could provide equity holders with additional information on which they can base their decision. In particular, whether Rubik Financial accepts the Offer could have a material impact on the remaining equity holders.

Accepting holders of Finzsoft Shares and Sush Entitlements 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 Silverlake HGH 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 profile

3.1 Overview

Finzsoft operates within the IT and software industry. Finzsoft has two independent but complementary business units, 'Finance Software' and 'Sush Mobile'.

- **Finance Software:** focuses on developing, licensing and maintaining the Sovereign software product suite. Sovereign is a range of software applications used by companies in the finance and banking industry.
- **Sush Mobile:** develops mobile software for a wide range of corporate entities. Sush Mobile was ranked the ninth fastest growing company in New Zealand in the '2014 Deloitte Fast 50'. Sush Mobile co-developed the 'Kiwibank Home Hunter' mobile app, which won the Innovation & Professional Services Award at the most recent New Zealand Innovators Awards.

The finance and banking industry is a sub-segment of the wider financial services industry that includes trading 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 through automation and streamlining processes.

The mobile software industry is a recent addition to the wider software industry. Focus in this industry is on applications which are user-friendly and able to be operated on small portable devices.

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 is typically one or a mix of the following:

- **'Bespoke' software:** software which has been developed for a specific user. Bespoke software can either be developed internally or with the assistance of external consultants. This type of software is typically owned by the company which uses it.
- **'Off-the-shelf' software:** software which is capable of being used by a number of users and offers a template solution. A key advantage of off-the-shelf software is a reduction in upfront costs for users, as the costs to develop the software are shared by multiple users. This type of software is typically owned by a software development business and then licenced to users.

Off-the-shelf software is typically licenced and delivered as follows:

- **Software as a product:** software is hosted by the customers on their own systems. The majority of fees are paid by the customer at the point it purchases the software licence. Additional fees may be paid as software is updated.
- **Software as a Service ('SaaS'):** software is licensed on a subscription basis, is centrally hosted and accessed using an internet connection. The customer pays ongoing monthly or annual fees with no or minimal setup costs. The provider generally updates the software at no additional cost to the customer.

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

Finzsoft's flagship product, Sovereign, is primarily an off-the-shelf solution sold as a product. Finzsoft will often customise Sovereign to meet individual client requirements, with additional fees charged for this customisation. Finzsoft is currently testing the delivery of its finance software using a SaaS model, albeit this is at an early stage.

Sush Mobile develops bespoke mobile software, directly for clients. Finzsoft intends to develop off-the-shelf mobile software which can then be sold as a customisable product.

3.2 Demand for software

3.2.1 Finance and banking software

The demand for finance and banking software is influenced by:

- 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. Many people who previously deposited funds at finance companies switched to depositing those funds at a bank. This switch from smaller finance companies to larger banks has disadvantaged software companies which had a large number of finance company customers, including Finzsoft.

IT spending by Asia/Pacific banks is forecast to grow at approximately 7.0% per annum in the three years to 2017³. This growth is expected to be driven by increased spending on loan origination/servicing, compliance, mobile banking, customer management, and online payment systems.

Growth in IT spending is expected to be particularly high in Hong Kong and Singapore, due to global institutions setting up regional bases in these financial hubs. Malaysia and the Philippines are also expected to experience very strong IT spending growth due to the expansion of their economies.

3.2.2 Mobile software

The demand from businesses for development of bespoke mobile software is driven by:

- increasing consumer penetration of smartphones and tablets;
- increasing amount of time spent by mobile users on mobile applications;
- ability for businesses to reach both national and international consumers; and
- growth in mobile software used within a business (i.e. between staff of a single entity).

The global market for mobile software and related services is currently in a period of strong growth. This is being driven by the proliferation of mobile devices. According to IDC, there was approximately one billion global mobile internet users in 2012 and there is expected to be in excess of two billion by 2017.

Mobile data is increasing due to both the increase in connected mobile devices and also the increasing capability of mobile devices. This allows mobile software to progressively handle more and more complex tasks. Mobile software and cloud based software is expected to progressively handle increasing amounts of the 'work' currently undertaken on either desktop computers or business servers.

³ Source: IDC: Top 10 Strategic IT Initiatives in Asia/Pacific Banks in 2014 – Where the IT Dollars Are

3.3 Software companies

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

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

Companies which develop software tend to have lower volumes and operate at higher margins than 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 earns a significant portion of its revenue in Australia.

3.4 Barriers to entry

3.4.1 Finance and banking software

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.
- Established players in the industry benefit from economies of scale, past experience, in-depth technical knowledge and an understanding of client requirements.

3.4.2 Mobile software

The barriers to entry for companies which develop mobile software are generally low, which reflects:

- The up-front capital required to develop mobile software is relatively low. Developer licence costs are modest and many development tools are freely available.
- Mobile software is often less complex than traditional software. This reflects the nature of the devices on which the software operates. This allows for mobile software to often be developed by smaller teams.
- Reputational requirement is sometimes a less important factor in developing mobile software (when compared to banking software).
- Multiple procurement models for engaging application development engineers exist, including from offshore companies in lower wage countries. This makes it easier for small development companies to scale up larger mobile development projects.

While mobile software often has low barriers to entry, it largely depends on the client and type of software being developed. For example, when developing mobile software for a bank, many of the barriers to entry noted at Section 3.4.1 still apply.

3.5 Key competing products

3.5.1 Finance and banking software

There are a number of companies which produce software for the finance and banking industry in New Zealand and Australia. 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;
- Argos, United States based, made by Argos Inc.;
- Ultradata, Australian based service provider to the financial services industry; and
- Hogan Systems, United States based, core banking systems made by Computer Sciences Corporation.

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

3.5.2 Mobile software

There are a large number of mobile development companies in New Zealand, ranging from a skilled lone mobile application developer to multinationals such as SAP. Most New Zealand based mobile software development companies are relatively small.

Telecommunications companies (e.g. Spark and Telstra) and established IT companies (e.g. Datacom and Fujitsu) have recently been acquiring mobile development capability and/or investing significantly in their own mobile development teams, but are not necessarily seen as leading mobile application developers.

The significant increase in demand for mobile applications is likely to see the emergence of new suppliers, both through start-ups and established companies expanding into mobile software.

4 Company overview

Finzsoft's main product is the Sovereign finance and banking software suite. Sovereign is modular and capable of being used for a full range of finance and banking entities processes. Recent development of Sovereign enables clients to quickly process asset-backed loans (e.g. car loans) at the point of sale, including the ability for documents to be captured and signed on a mobile device.

Finzsoft acquired Sush Mobile in August 2014. Sush Mobile primarily develops software for mobile devices.

Finzsoft has two offices in Auckland, New Zealand. The first is used by the Sovereign software team and head office, the second Auckland office is smaller and used by Sush Mobile. Finzsoft also has employees in Wellington, New Zealand and Sydney, Australia.

At the time of our previous report (2013), Finzsoft had approximately 45 employees and contractors. Since then, Finzsoft has experienced significant growth, due in part to its acquisition of Sush Mobile. Finzsoft currently has approximately 97 employees and contractors.

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 2004 (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.

In 2013, HGH1 made a full takeover offer for Finzsoft at \$0.4546 per share. The 2013 offer was partially successful, with Mr Holliday's interests increasing his beneficial interest in Finzsoft from approximately 31.8% to more than 65%.

In 2014, Finzsoft acquired Sush Mobile, a mobile software development business.

In October 2014, Finzsoft announced that it had secured a further work order from St George Bank. This project is the single largest ever undertaken by Finzsoft and is expected to have a positive material impact on financial performance in FY15 and early FY16.

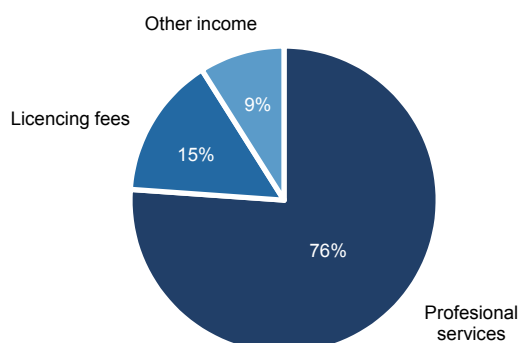
4.2 Business model

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 considers the current economic environment to be favourable, with financial institutions currently prepared to fund significant software development.

Finzsoft categorises its revenue into three broad categories: professional services, licence fees and other income. Figure 4.1 shows that in FY15, 76% of Finzsoft's revenue is expected to be from professional services.

Figure 4.1: FY15 Forecast revenue by client type (excluding Sush Mobile)



Source: Management forecast

Finzsoft has historically earned between approximately 50%–60% of its total revenue from services. This has increased in FY15, largely due to the significant work order by St George Bank.

Professional services revenue is generally related to the time employees' work on projects. Whereas licence fees revenue relates to Finzsoft's already developed software. Licence fees are paid both when the client initially starts using the software and also annually to renew the licence. Renewal fees are typically a fraction of the initial fees.

Finzsoft has historically derived a relatively low proportion of its income from ongoing annuity-type sources.

Sush Mobile is forecast to earn approximately \$2.5 million revenue in FY15 (of which \$1.7 million relates to the period in which it is a Finzsoft subsidiary). Had Sush Mobile been owned by Finzsoft since 1 March 2014, the proportion of group forecast revenue attributable to Sush Mobile would be approximately 12% in FY15.

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

4.2.1 Clients

The Sovereign software product suite is primarily 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. Finzsoft also plans to establish a presence in Asia.

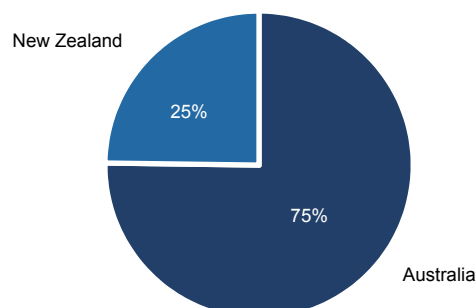
At the time of our last report (October 2013), Finzsoft was actively tendering for work in Asia. Finzsoft was unsuccessful in its tenders. In one key instance SAL was the eventual successful party in a tender in which Finzsoft was involved.

Finzsoft is not currently targeting specific Asia based clients. However, it plans to leverage the Silverlake client list, industry knowledge and global reach as it expands to meet anticipated demand for core and vertical banking software in Asia.

Finzsoft currently has 13 Trans-Tasman clients using its Sovereign product suite and 30 active Sush Mobile clients with projects currently being undertaken. Figure 4.2 shows 75% of FY15 revenue is forecast to be received from clients based in Australia, with the remaining 25% received from New Zealand clients (excluding clients of Sush Mobile).

Sush Mobile's clients are primarily based in New Zealand. Including Sush Mobile, Finzsoft expects to earn approximately 30% of its revenue from New Zealand based clients in FY15.

Figure 4.2: FY15 Forecast revenue by client location (excluding Sush Mobile)



Source: Management forecast

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 FY15 data for the nine months ended 31 December 2014, its four largest customers:

- each account for between 7% and 70% of Finzsoft's revenue (excluding Sush Mobile); and
- together account for approximately 90% of Finzsoft's revenue (excluding Sush Mobile).

This represents a very significant concentration of revenue among a small number of clients. Finzsoft expects the level of concentration to decline in FY16, due to less work from St George Bank and more work from other clients.

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 leveraged 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 its Sovereign product suite to be well suited to the Asian markets. However, it has identified two major 'vendor risks' which could limit its ability to expand rapidly, its:

1. localised computer server infrastructure; and
2. ownership/capital structure.

Finzsoft is in the process of moving its software applications to the IBM cloud (servers operated by IBM). This shift is expected to reduce costs and provide additional security and resilience to Finzsoft's clients. It also allows Finzsoft to focus on the development and delivery of its software solutions. Finzsoft says working with IBM gives its clients confidence that the delivery of its software is through a robust and secure cloud environment, which is particularly important to tier one banks and finance companies. The IBM brand is intended to strengthen the business proposals which Finzsoft puts to clients.

Finzsoft says the other vendor risk to its expansion plans (particularly in Asia) has been its ownership/capital structure. In part to resolve this weakness, Finzsoft initiated a review of its capital structure in the second half of 2014. The management and board of Finzsoft believe that SAL becoming a cornerstone shareholder will assist Finzsoft in any future expansion into Asia. SAL's software is seen as complementary to Finzsoft's.

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. While upgrades are always an ongoing cost in software businesses, these significant upgrades were largely completed in the 2014 calendar year.

Given Finzsoft's historical financial performance, it is difficult for management to provide a clear indication of its current expected sales pipeline. By way of guidance, Finzsoft indicates that its continued sales pipeline with St George Bank is critical to future performance and profitability. While there is currently no certainty as to future contracts and projects, Finzsoft indicates that it is hopeful that it will be able to extend its contracts and projects with St George Bank into 2016 and 2017. However, Finzsoft emphasises that it would be imprudent for shareholders to place strong reliance on this.

4.4 Shareholders

Finzsoft currently has 8,570,164 fully paid ordinary shares. The 20 largest ordinary shareholders as at 28 January 2015 are listed in Table 4.2.

Table 4.2: Share register as at 28 January 2015

Shareholders	Shares	Percentage
HGH1	5,646,438	65.9%
Rubik Financial	1,659,960	19.4%
J Martin	156,250	1.8%
T Hurring, S Hurring	130,000	1.5%
Z Matulic	105,867	1.2%
T Hurring	65,867	0.8%
D Odlin	60,700	0.7%
CRX Investments Pty Limited	52,159	0.6%
FNZ Custodians Limited	36,449	0.4%
D Campbell	33,900	0.4%
M Witt	33,872	0.4%
Y Zhu	30,000	0.4%
Open Business Software Limited	29,700	0.3%
N Dickey	27,800	0.3%
R Scott	25,000	0.3%
N Watts	22,870	0.3%
M Robins	22,870	0.3%
B Milgate	22,870	0.3%
J McCallum, R McCallum	22,000	0.3%
M Smyth	20,026	0.2%
Top 20	8,204,598	95.7%
Remaining shareholders	365,566	4.3%
Total	8,570,164	100.0%

Source: Finzsoft management

Finzsoft's substantial shareholders are HGH1 and Rubik Financial. Rubik Financial is listed company with its shares traded on the ASX Main Board.

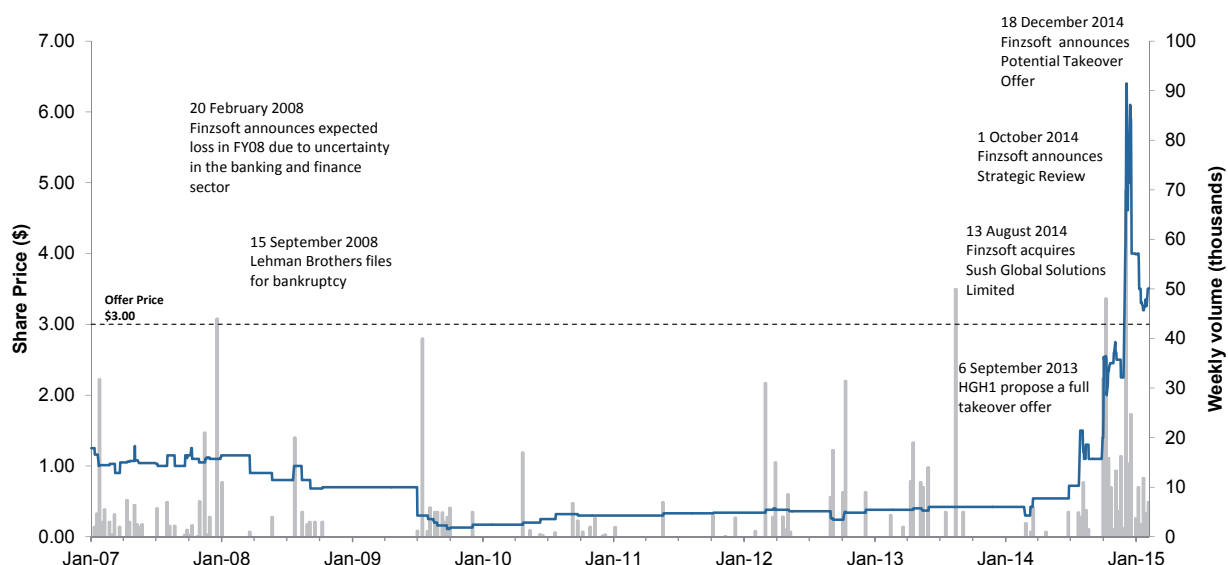
Table 4.2 shows Finzsoft Shares are relatively closely held. 20 shareholders own 95.7% of Finzsoft Shares and the remaining 4.3% are held by shareholders who each own 20,000 or less Finzsoft Shares.

4.5 Finzsoft Shares performance

4.5.1 Share price and volume

Finzsoft's shares are traded on the NZX Main Board. Figure 4.3 illustrates the share price of Finzsoft and the volume of share trades between 1 January 2007 and 5 February 2015.

Figure 4.3: Finzsoft's share price performance



Source: Capital IQ

Between 1 January 2007 and 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 in FY08. 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, which is often regarded as the start of the GFC, 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 declined to a low of \$0.11 on 22 September 2009.

Between 1 July 2010 and 24 April 2014, Finzsoft's share price tended to trade between \$0.30 and \$0.54 per share. During this time, HGH1 made an offer for Finzsoft at approximately \$0.45 per share.

From August 2014, there have been a number of positive announcements, including the acquisition of Sush Mobile (August 2014), the strategic review of its ownership/capital structure (October 2014), and a significant contract win with St Georges Bank (November 2014). Following these announcements, Finzsoft's share price peaked at \$6.40 on light trading volumes.

Finzsoft's share price was \$5.90 prior to the Offer. Silverlake HGH announced it had entered into the Lockup Agreement on 18 December 2014 (which included a requirement for it to make the Offer at a price of not less than \$3.00 per share). Subsequent to the Lockup Agreement, the share price has tended to trade between \$3.20 and \$4.00.

4.5.2 Finzsoft Shares liquidity

Trading of Finzsoft Shares over the 12 months prior to the Lockup Agreement being announced is summarised in Table 4.3, which shows that approximately 3.35% 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 18 December 2014

Period	Share price (\$)			Cumulative volume	Percentage of issued capital
	Low	High	VWAP ⁴		
1 week	5.00	6.10	5.82	21,700	0.25%
1 month	2.25	6.60	4.91	118,700	1.39%
3 months	1.40	6.60	3.55	244,720	2.86%
12 months	0.30	6.60	3.17	287,180	3.35%

Source: Capital IQ and management information

4.5.3 Premium/discount to offer price

Figure 4.4 compares the Offer of \$3.00 per Finzsoft Share to the volume weighted average price ('VWAP') of the Finzsoft Shares as traded on the NZX Main Board.

Figure 4.4: Offer premium/discount summary

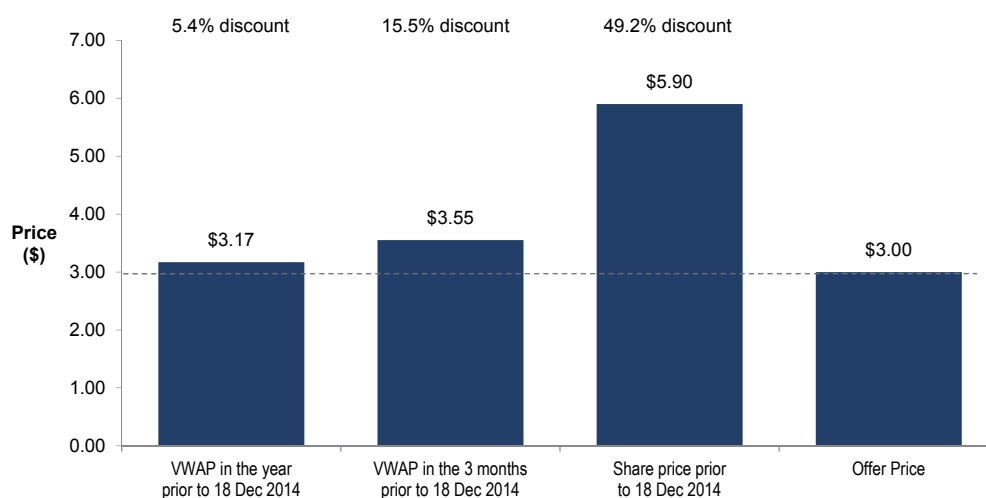


Figure 4.4 shows that the Offer represents a:

- 5.4% discount to the VWAP in the one year prior to the Lockup Agreement being announced
- 15.5% discount to the VWAP in the three months prior to the Lockup Agreement being announced
- 49.2% discount to the share price prior to the Lockup Agreement being announced.

⁴ Volume Weighted Average Price

5 Financial analysis

5.1 Financial performance

Finzsoft is forecasting significant growth in both revenue and EBITDA in FY15. This growth has been both organic (derived from the Sovereign product suite) and from the acquisition of Sush Mobile. Table 5.1 summarises Finzsoft's financial performance excluding Sush Mobile.

Table 5.1 Financial performance excluding Sush Mobile (\$ thousand)

	FY10	FY11	FY12	FY13	FY14	FY15
	Actual	Actual	Actual	Actual	Actual	Forecast
Revenue	7,216	6,743	7,605	8,807	9,415	18,257
Development, servicing and direct costs	(4,270)	(3,708)	(4,510)	(5,640)	(5,641)	(9,370)
Gross profit	2,946	3,035	3,095	3,167	3,774	8,887
<i>Gross profit margin</i>	<i>41%</i>	<i>45%</i>	<i>41%</i>	<i>36%</i>	<i>40%</i>	<i>49%</i>
Sales and marketing expenses	(482)	(766)	(1,251)	(801)	(568)	(544)
Corporate expenses	(456)	(261)	(440)	(404)	(584)	(1,186)
Occupancy expenses	(316)	(240)	(293)	(291)	(302)	(296)
Other operational expenses	(967)	(947)	(961)	(828)	(830)	(1,133)
Other operating expenses	(2,221)	(2,214)	(2,945)	(2,324)	(2,284)	(3,159)
EBITDA	725	821	151	844	1,490	5,728
<i>EBITDA margin</i>	<i>10%</i>	<i>12%</i>	<i>2%</i>	<i>10%</i>	<i>16%</i>	<i>31%</i>
Capitalised software development costs	(168)	(320)	(698)	(761)	(674)	(178)
Normalised EBITDA	557	502	(547)	83	815	5,550

Source: Finzsoft Annual Reports and management forecast

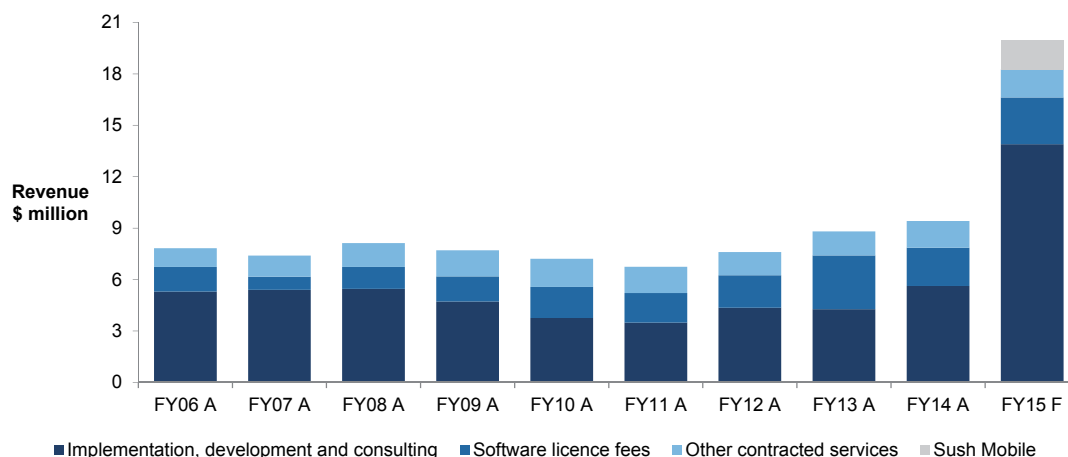
The FY15 forecast is based on nine months of actuals to 31 December 2014 plus three months projections to 31 March 2015. Any forecast is necessarily subjective and based on certain assumptions, however, as the FY15 forecast includes nine months of actual financial performance, we would expect it to be more reliable than long-term projections. Finzsoft cannot rule out the possibility of trading or financial volatility in the remaining months of FY15, however there are currently no indications that a substantial adverse correction in these anticipated figures will eventuate.

The financial performance summarised above excludes non-operating returns, such as interest, gains/losses on the sale of equipment and impairments.

5.1.1 Revenue

Figure 5.1 illustrates the historical and FY15 forecast revenue of Finzsoft since FY06.

Figure 5.1: Finzsoft revenue by business unit



Finzsoft's 'implementation, development and consulting' revenue declined during the GFC. Subsequent to the GFC, Finzsoft experienced strong growth in revenue. Implementation, development and consulting revenue is expected to more than double in FY15, primarily due to the St George Bank project.

Software licence fees peaked in FY13, a year in which several new licence agreements were entered into. Finzsoft typically earns more revenue when a client initially enters into a new licence agreement and less annually from the renewal of that licence. Finzsoft has increased its licencing revenue from renewals year-on-year, however, it has not repeated the level of new licences it achieved in FY13.

Figure 5.1 also shows the revenue which Finzsoft expects Sush Mobile to earn in the seven months ending 31 March 2015. We review Sush Mobile in more detail below at Sections 5.1.5.

5.1.2 Operating costs

Development, servicing and direct costs is predominantly wages and salaries. The cost of employees and contractors is Finzsoft's single largest cost. Employee costs are largely variable, albeit additional cost is typically incurred when there is a change the numbers of employees (due to costs related to redundancy and recruitment).

Finzsoft can earn higher profit margins by increasing the utilisation of its employees. It is typically easier for a larger business with more work to increase utilisation.

Sales and marketing expenses peaked in FY12 due to Finzsoft incurring significant marketing costs in Asia. Finzsoft has temporarily curtailed marketing in Asia, primarily to focus on resolving its capital/ownership structure.

Expenses are forecast to increase in FY15. This is partly as a result of Finzsoft's cost of acquiring Sush Mobile, costs associated with its strategic review of its capital/ownership structure and costs associated with increasing the scale of Finzsoft.

5.1.3 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.

Between FY12 and FY14, due to Finzsoft's focus on developing its software, the portion of development costs which were capitalised increased. Finzsoft says the FY12–FY14 level of software development does not represent the cost to just maintain its current business operations; rather, these costs were incurred to grow the business. Capitalised software costs have returned to a maintenance level in FY15.

5.1.4 FY15 Forecast

Due to the project-nature of Finzsoft's business, the key driver of the financial forecast is an assessment of the size and probability of future projects. Typically work planned for the next two to three months is contracted in advance, which makes it easier to forecast the short term. The medium to longer term financials are more difficult to forecast. We have relied on Finzsoft's assessments and forecast.

Finzsoft's FY15 Forecast was updated in January 2015. This forecast is based on:

- Actual financial performance for the nine months ended 31 December 2014; and
- Finzsoft's best estimate of financial performance for the three months ended 31 March 2015.

Finzsoft expects a significant improvement financial performance in FY15 when compared to FY14. This is largely due to the success to date with the St George Bank project. Finzsoft has forecast EBITDA of approximately \$5.7 million in FY15 (before adjusting for capitalised software and excluding Sush Mobile).

5.1.5 Sush Mobile

Table 5.2 below summarises Sush Mobile's forecast financial performance for FY15 and FY16. The FY15 forecast is for the 12 months ending 31 March 2015, it includes the financial performance of Sush Mobile's from the period prior to it being a subsidiary of Finzsoft.

Table 5.2 Sush Mobile financial performance (\$ thousand)

	FY15	FY16
	Forecast	Forecast
Revenue	2,553	3,447
Expenses	(2,639)	(3,039)
EBITDA	(86)	408

Source: Finzsoft Annual Reports and management forecast

Sush Mobile develops bespoke software for clients. As it is not developing its own software, Sush Mobile does not capitalise software development costs.

5.2 Financial projections (excluding Sush Mobile)

To assist KordaMentha in its preparation of this Report, those members of Finzsoft management not associated with Silverlake HGH have prepared financial projections for the three years ending 31 March 2018. These projections are indicative only, and do not contain the same level of detail as a budget or the current year forecast.

The independent directors have seen the projections and have no objection to our use of or reliance on them. Nevertheless, the independent directors have noted that the projections represent a very basic analysis and set of assumptions as to Finzsoft's possible trading prospects for the period to 31 March 2018. We are advised that the independent directors have yet to fully test the underlying assumptions (due to time constraints and a need to exclude the Managing Director (Mr Holliday) from the preparation of the projections given his association with Silverlake HGH). The projections have not been subject to any independent review by Finzsoft's financial advisers or auditors.

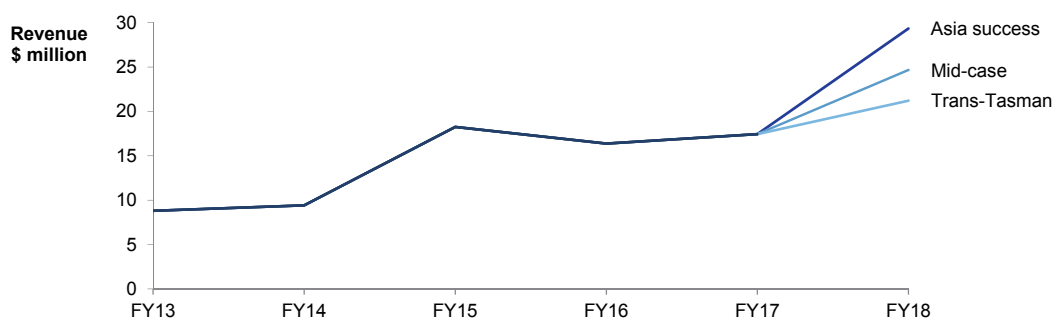
The financial projections cover three scenarios:

- **Asia success:** Finzsoft enters Asia and over the next three years acquires a few medium-to-large sized clients. Finzsoft begins work for the clients in FY18. The work undertaken for these clients is highly profitable and is expected to increase Finzsoft's gross profit margin over time. Under this scenario, Finzsoft would be able to leverage its entry into Asia into a period of above-average growth. For the purpose of valuation, management have estimated a 45% probability of this scenario occurring.
- **Mid-case:** Finzsoft enters Asia and over the next three years acquires a few small-to-medium sized clients. Finzsoft begins work for the clients in FY18. In terms of profitability, the work undertaken for these clients is approximately equal to Finzsoft's existing clients. For the purpose of valuation, management have estimated a 35% probability of this scenario occurring.
- **Trans-Tasman:** Finzsoft does not enter Asia. Finzsoft focuses on its Trans-Tasman business revenue, but is unable to repeat the same level of EBITDA profitability as is expected in FY15. For the purpose of valuation, management have estimated a 20% probability of this scenario occurring.

The 'Asia Success' and 'Mid-case' scenarios are, in management's view, reliant on the introduction of a cornerstone shareholder with a strong business presence in Asia. We note that the scenarios are indicative, and other outcomes may occur. For example, Finzsoft may remain a Trans-Tasman business and be successful at growing this business. Alternatively, it may enter Asia, but be unsuccessful in acquiring any profitable work. Despite the indicative nature of the projections, we consider they provide a useful guide to shareholders of possible outcomes for Finzsoft. They show that the value of Finzsoft could vary wildly depending on whether it is successful in acquiring profitable work.

Figure 5.2 illustrates the revenue projections under each of the three scenarios.

Figure 5.2: Forecast projections by scenario



We note that in all scenarios, Finzsoft expects profitability to reduce in FY16. The EBITDA in FY16 in all scenarios is approximately \$2.5 million, which is equivalent to an EBITDA margin of 15.4%. Management say this is due in large part to the end of the current St George Bank work project and increases in expenses as the company prepares for future growth. In all scenarios, EBITDA margins are projected to increase between FY16–FY18 and reach between 22%–40% (depending on the actual scenario achieved).

5.3 Financial position

Table 5.4 summarises Finzsoft's balance sheet as at 30 September 2014 and 31 December 2014.

Table 5.4: Balance sheet summary (\$ thousand)

	30 Sep 2014	31 Dec 2014
Accounts receivable	2,805	4,537
Accounts payable and provisions	(1,765)	(2,653)
Unearned revenue	(557)	(543)
Working capital	483	1,341
Property and equipment	262	293
Capitalised software	1,602	1,444
Goodwill	3,305	3,305
Other operating assets	5,169	5,042
Net operating assets	5,652	6,383
Cash and cash equivalents	917	941
Finance leases	(81)	(24)
Net cash/(debt)	836	917
Investments in jointly controlled entity	334	307
Deferred acquisition payment	(1,367)	(1,367)
Net assets	5,455	6,240

Source: Half Year Report 2014 and management accounts

Working capital

Finzsoft has historically had relatively low working capital. Working capital is currently higher than it has historically been due to the acquisition of Sush Mobile and outstanding amounts related to Finzsoft's work for St George Bank.

Finzsoft receives fees both in advance and in arrears, largely depending on the nature of the sale.

The Sush Mobile business typically undertakes projects on a 'time and materials' basis, receiving fees for developing bespoke software which is ultimately owned by the client. Projects undertaken on a 'time and materials' basis typically have their fees paid in arrears.

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.

Finzsoft has two offices in Auckland, New Zealand and a serviced office in Wellington, New Zealand. The main Auckland office is used by the Sovereign software team and head office. The second Auckland office and Wellington office are used by Sush Mobile. Finzsoft plans to move the Auckland Sush Mobile team in the short to medium term. Finzsoft does not expect there to be material costs incurred in moving the Sush Mobile team to a new premises.

Goodwill and capitalised software

Historically, Finzsoft's goodwill and capitalised software have both wholly related to Finzsoft's software assets. Goodwill also arose as part of Finzsoft's acquisition of Sush Mobile in August 2014. The Sush Mobile goodwill is not directly associated with specific 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.

Finzsoft ascribes the goodwill which arose from the acquisition of Sush Mobile to the Sush Mobile brand, customer relationships and know-how. Finzsoft is required by NZ IFRS to test this goodwill annually for impairment.

Net cash

At 31 December 2014, Finzsoft had no bank debt, finance leases of approximately \$24,000, and cash of approximately \$941,000, to give net cash of approximately \$917,000.

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 has historically equity accounted for 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 December 2014, this was equal to \$306,602 (50% of \$613,203).

NZ Bureau is currently in the process of being liquidated and Finzsoft expects to receive \$327,000 in cash and assets following the completion of the liquidation process.

Deferred acquisition payment

Deferred acquisition payments relate to the outstanding portion of the purchase price for Finzsoft's acquisition of Sush Mobile. The deferred acquisition payments are subject to various adjustments and described in more detail at Appendix 5.

The unadjusted purchase price payments are summarised in Table 5.5 below.

Table 5.5: Purchase price for Sush Mobile (\$ thousand)

Payment date	Payment in	Amount
29 Aug 2014	Cash	533
Total amount paid		533
2 Mar 2015	Cash	533
31 Aug 2015	Cash	533
31 Aug 2015	Shares	300
Total amount outstanding		1,366
Total purchase price		1,900

Source: Finzsoft management

6 Valuation

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.

6.1.1 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.

6.1.2 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.

6.1.3 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.

6.1.4 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.

6.1.5 Our valuation approach

KordaMentha has valued Finzsoft's traditional finance software business (excluding Sush Mobile) separately from Sush Mobile. In valuing Finzsoft's traditional software business, we have adopted the capitalisation of earnings and DCF approaches. We have valued the Sush Mobile business based on its acquisition price, the capitalisation of earnings and also the DCF approach.

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 the financial forecasts prepared by Finzsoft management.

6.2 Capitalisation of earnings (Finzsoft excluding Sush Mobile)

To apply the capitalisation of earnings methodology it is necessary to determine an appropriate earnings multiple as well as an estimate of earnings to which the multiple is applied. In valuing Finzsoft, we have used EBITDA multiples.

6.2.1 Observed EBITDA multiples

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 generally 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 comparable 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:

- 14.6x, for the entire sample, based on historical EBITDA;
- 11.3x, for the entire sample, based on current year forecast EBITDA; and
- 8.2x, 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).

There are three companies in Appendix 3 which are of a comparable size to Finzsoft. These are Corum, Prophecy International and Adacel. These companies have a very wide range of earnings multiples (between 5.7x and 12.0x historical EBITDA). We expect this is in part due to wide variations in their expected future financial performance. It is also possible that the historical earnings multiples have been affected by one-off events.

A key determinant of an appropriate multiple for a software business is its recent and expected growth. We note that Finzsoft expects to achieve sales growth of 44% per annum in the five years to FY15 and 20% per annum in the two years to FY15. This compares very favourably to comparable companies. However, this increase is in large part due to the significant work order received from St George Bank in FY15. In the five

years to FY14, Finzsoft's sales growth was only 4.0% per annum. We note that management expect FY16 sales to decline from FY15.

The comparable companies with a market capitalisation more than \$100 million are all much larger than Finzsoft. The earnings multiples for these companies are also based on transactions of small parcels of shares and therefore exclude a premium for control. Adjusting for each of these factors has the opposite impact on a benchmarked multiple for Finzsoft; and will partly cancel each other out.

Historical earnings multiples are typically larger than forecast earnings multiples. This is due to businesses typically increasing earnings over time.

Transaction multiples

Appendix 4 shows the EBITDA multiples derived from our sample of comparable transactions and the details of those transactions.

The comparable transactions have earnings multiples in a range of 5.4x to 12.9x forecast EBITDA. The median earnings multiple of the transactions is 6.5x forecast EBITDA. Excluding ISS Group, which is an outlier, the transactions are all within a much narrower 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. However, depending on a company's individual circumstances, including growth prospects and size, a range of multiples 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.

6.2.2 EBITDA multiples for Finzsoft

Interpreting the trading and transaction multiples is inherently subjective. In determining the appropriate multiple to apply to Finzsoft 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.
- 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 in a range of 6.0x to 7.0x, after taking into account the:

- Historical trading multiples for companies which have a market capitalisation less than \$100 million are in a very wide range of 5.7x to 12.0x historical EBITDA. These multiples likely exclude a premium for control. Also, these multiples are, on average, likely to be higher than equivalent forecast multiples.
- 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. These multiples include a premium for control.
- Finzsoft has recently experienced strong financial performance, albeit FY16 earnings are expected to be less than FY15.
- Relative size of Finzsoft when compared to the comparable listed companies and transactions.
- Relative recent and expected sales growth of Finzsoft compared to the comparable listed companies and transactions.
- Premium that would apply to a controlling interest in Finzsoft.

6.2.3 Adjusted earnings

For the purposes of our valuation analysis, we have made adjustments to Finzsoft's EBITDA as set out in Table 6.1. FY16 is based on management's financial projections as discussed at Section 5.2.

Table 6.1: Adjusted EBITDA summary (\$ thousand)

	FY11	FY12	FY13	FY14	FY15	FY16
	Actual	Actual	Actual	Actual	Forecast	Projection
EBITDA	821	151	844	1,490	5,728	2,528
Deduct: capitalised software development costs	(320)	(698)	(761)	(674)	(178)	(208)
Normalised EBITDA	502	(547)	83	815	5,550	2,320
Add back: Asian expansion expenditure	–	450	509	404	50	–
Adjusted EBITDA (excluding Sush Mobile)	502	(97)	592	1,219	5,600	2,320

We have adjusted Finzsoft's reported EBITDA by:

- Deducting capitalised software development costs to assist us in comparing Finzsoft to comparable companies and transactions.
- Adding back marketing costs incurred in Asia. In our view, it is appropriate to exclude these costs because they are optional and we would not expect them to be incurred unless forecast sales more than offset these costs. We understand Finzsoft intends to incur costs in Asia beyond FY15; however, as the FY16 forecast does not capture the revenue in Asia, we have excluded the costs.

For the purposes of our valuation, we have applied forecast EBITDA multiples to adjusted EBITDA of between \$4.0 million and \$4.5 million. The low-end of this range approximately equal to the midpoint of FY15 and FY16 forecast EBITDA of \$3.96 million. The range has been adopted after considering that:

- Finzsoft does not expect to achieve the same level of EBITDA in FY16 as it expects to achieve in FY15.
- Finzsoft may acquire new project work which is equivalent to that it is undertaking for St George Bank, particularly due to the success to date with St George Bank and Finzsoft's improved capital structure.

6.2.4 Capitalisation of earnings summary

Applying our assessed EBITDA multiple range of 6.0x to 7.0x to adjusted EBITDA of \$4.0 million to \$4.5 million results in an enterprise value range for the Finzsoft business of \$24.0 million to \$31.5 million, as shown in Table 6.2.

Table 6.2: Finzsoft multiples valuation (\$ thousand)

	Low	High
Adjusted EBITDA	4,000	4,500
EBITDA Multiple	6.0x	7.0x
Enterprise Value	24,000	31,500

6.3 Discounted cash flow (Finzsoft excluding Sush Mobile)

6.3.1 DCF assumptions

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

Valuation date: 31 December 2014

Forecast period: The DCF valuation is based on the three months forecast between 1 January 2015 and 31 March 2015 plus three years financial projections ending 31 March 2018. The principal assumptions underpinning the projections are discussed in Section 5.2 of this Report.

Capital expenditure: Capital expenditure is primarily capitalised software development costs. We have based capital expenditure on Finzsoft's current expectations. In the terminal year capital expenditure is approximately \$450,000 for both software development and general capital expenditure. We have set depreciation equal to capital expenditure in the terminal year.

Terminal value growth: Terminal value is calculated by assuming terminal year unlevered free cash flows grow in perpetuity at the terminal growth rate. The terminal growth rates are scenario dependant. We have adopted a terminal growth rate of 2% in the Trans-Tasman scenario, 3% in the Mid-case scenario and 5% in the Asia Success scenario. We note that these growth rates produce terminal values which are equivalent to earnings multiples of 6x, 7x and 9x EBITDA (respectively). The different terminal growth rates reflect the different opportunities which will be available to Finzsoft in the various scenarios.

Weighted Average Cost of Capital: We have estimated Finzsoft's post-tax, nominal Weighted Average Cost of Capital ('WACC') at between 13.1% and 14.6% based on our assessment of Finzsoft's cost of equity.

We have assessed an appropriate long-term level of financial leverage for Finzsoft to be nil. In determining an appropriate level of financial leverage, we have had regard to the amount of debt held by the comparable software companies shown in Appendix 4 (typically nil). We have also considered that Finzsoft currently has no debt.

At nil financial leverage, a company's WACC is equal to its cost of equity. We have determined Finzsoft's cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1 - T_i) + \beta_e[R_m - R_f(1 - T_i)] + SCRP$$

where:

- R_f = Risk free rate = 3.25%, based on the yields of long term government bonds
- T_i = Investors' effective tax rate on interest, dividends and capital gains = 28%
- β_a = Asset Beta = 1.1 to 1.3 (based upon a review of the betas of comparable companies)
- β_e = Equity Beta = $\beta_a (1 + D/E)$ = 1.1 to 1.3
- $R_m - R_f (1 - T_i)$ = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%
- SCRP = Small company risk premium = 2.5% (estimated based on the relative equity returns of listed companies of a size comparable to Finzsoft versus very large companies).

6.3.2 DCF summary

Our DCF valuation of Finzsoft (excluding Sush Mobile) is summarised at Table 6.3 and results in an enterprise value range of between \$46.1 million and \$54.6 million.

Table 6.3: Summary of DCF valuation (\$ thousand, rounded, unless a percentage)

	Scenario probability	Low	High
WACC		14.6%	13.1%
Asia success scenario	45%	66,700	80,200
Mid-case scenario	35%	33,400	38,700
Trans-Tasman scenario	20%	21,800	24,800
Enterprise value (weighted average)	100%	46,100	54,600

Source: Management projections, KordaMentha analysis

As discussed at Section 5.2, it is very difficult to forecast Finzsoft's revenue with any certainty. It depends in large part on the successful signing of new projects with both existing and new clients. We note that the three scenarios result in very different valuations for Finzsoft.

Our DCF valuation range is based on a weighted average of the three scenarios. The weightings are the probability of each of the scenarios, when compared to the other scenarios, as estimated by management. We note that other scenarios can (and almost certainly will) eventuate. This valuation methodology should therefore be used as a guide to value, but is not definitive.

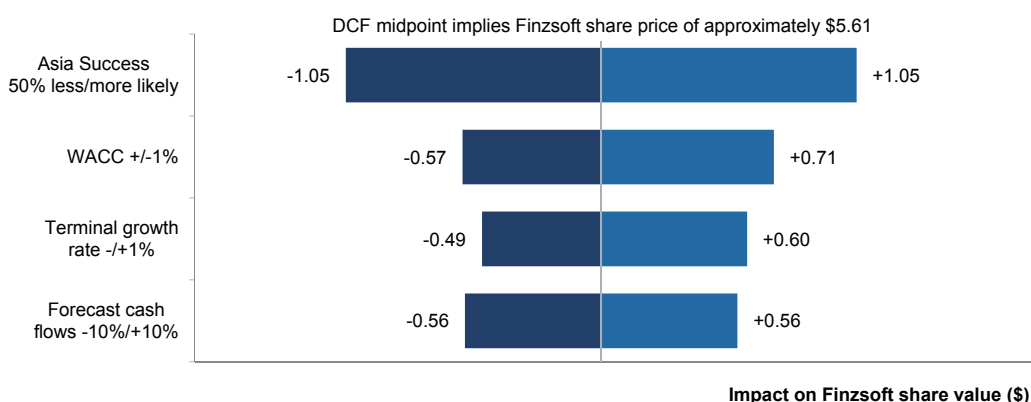
Our high-case and low-case are based on a WACC of 13.1% and 14.6%.

Using the inputs described at Section 6.6 of this Report, the DCF valuation range for Finzsoft (\$46.1 million to \$54.6 million) implies a valuation range for Finzsoft's equity of \$5.17 to \$6.20 per share.

6.3.3 DCF sensitivity

As shown in Figure 6.1, below, the results from the DCF valuation approach is very sensitive to small changes underlying valuation assumptions underlying the valuation. The midpoint in the graph is based on the midpoint WACC of 13.9%, the ranges shown are the impact on Finzsoft's share price from a change in the assumptions (based on 8,842,891 Finzsoft Shares).

Figure 6.1: DCF sensitivity

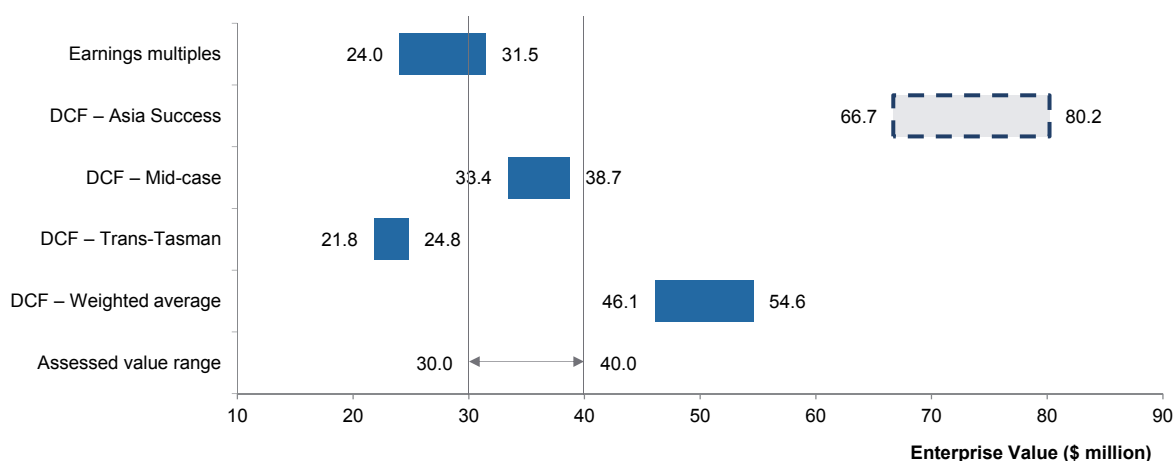


The DCF valuation is highly sensitive to changes in the underlying assumptions. In particular, we note that a change in the probability of the various scenarios has a very significant impact on the value of Finzsoft. If the probability of the 'Asia Success' scenario reduces by 50% (from 45% to 22.5%) and the other two scenarios increased by relative amounts, then the impact on the DCF valuation would be equivalent to \$1.05 per share.

6.4 Valuation of Finzsoft excluding Sush Mobile

Figure 6.2 shows there is a very wide difference between the value which we have arrived at using the earnings multiples and DCF valuation approaches.

Figure 6.2: Finzsoft enterprise value ranges



For the purpose of the Report, we have assessed a valuation range for Finzsoft (excluding Sush Mobile) between \$30 million and \$40 million. This valuation range is on the assumption of 100% of the Finzsoft equity.

Key factors influencing this valuation range include the expected decline in EBITDA in FY16 and the uncertainty concerning Finzsoft's expansion into Asia.

Figure 6.2 highlights the potential value of Finzsoft in the event that it successfully enters the Asian market. Despite the 45% weighting which has been attributed to the 'Asia Success' scenario, we consider it unlikely a purchaser will ascribe significant value to this scenario until Finzsoft can demonstrate it is making real progress in Asia. For this reason, our adopted valuation range overlaps the earnings multiple approach, and is below the range shown by the DCF based valuation approach.

Table 6.4 shows that the midpoint of our assessed value range for Finzsoft implied earnings multiples for Finzsoft of 6.3x FY15 EBITDA and 15.1x FY16 EBITDA.

Table 6.4: Implied earnings multiples

	Adj. EBITDA	Low	High	Midpoint
Enterprise value		\$30m	\$40m	\$35m
FY15 Forecast	\$5.6m	5.4x	7.2x	6.3x
FY16 Projected	\$2.3m	12.9x	17.2x	15.1x
Average	\$4.0m	9.1x	12.2x	10.7x

6.5 Sush Mobile

In valuing Sush Mobile, we have considered that it was acquired for \$1.9 million approximately five months ago, there was competitive tension in the acquisition of Sush Mobile and Finzsoft does not expect any adjustment to the purchase price. Based on this, we consider \$1.9 million represents a reasonable estimate of the value of Sush Mobile.

We have also considered the value of Sush Mobile as a multiple of its expected FY16 EBITDA. Management have forecast Sush Mobile will earn approximately \$400,000 EBITDA in FY16. Small businesses typically trade at earnings multiples of between 3.0x and 4.0x forecast EBITDA. Sush Mobile is in a high-growth industry (mobile software), and we would expect it to trade at a slight premium to an average small company. We have therefore adopted an earnings multiple of 4.0x EBITDA, being at the high-end of observed multiples for small businesses. Based on Finzsoft's FY16 forecast for Sush Mobile, this indicates an enterprise value for Sush Mobile of \$1.6 million.

Finzsoft has produced a 'broad brush' 3-year financial forecast for Sush Mobile. The forecast has Sush Mobile increasing its earnings to \$1.6 million EBITDA by FY18. We have undertaken a DCF using the forecast provided and a WACC of 20%, which we consider appropriate for a small subsidiary software company like Sush Mobile. We have assessed an enterprise value of \$5.4 million for Sush Mobile using the DCF valuation methodology.

Based on the above three methods, we have assessed an enterprise value for Sush Mobile in a range of \$1.9 million to \$2.5 million.

6.6 Sum of the parts valuation

We have assessed a valuation range for the Finzsoft Shares in a relatively wide range of \$3.35 to \$4.55 per Finzsoft Share, as shown in Table 6.2 below. Our valuation range is highly sensitive to an estimate of Finzsoft's maintainable EBITDA and success or failure in Asia. Assuming the Finzsoft Shares remain listed, we would expect the share price to be highly volatile over the short to medium term.

Table 6.2: Summary of multiple valuation (\$ thousand, unless stated otherwise)

	Low	High
Finzsoft (excluding Sush Mobile)	30,000	40,000
Sush Mobile	1,900	2,500
Combined Enterprise Value	31,900	42,500
Plus: net cash	917	917
Plus: NZ Bureau proceeds	327	327
Less: dividends paid	(1,945)	(1,945)
Less: unearned revenue	(543)	(543)
Less: deferred consideration (NPV)	(1,045)	(1,045)
Equity value (rounded)	29,611	40,211
Diluted number of shares (thousand)	8,843	8,843
Value per share (\$)	3.35	4.55

Other important elements of our valuation include:

- **Net cash:** we have added net cash of \$917,000, based on Finzsoft's balance at 31 December 2014.
- **Finzsoft's investment in NZ Bureau:** we have added \$327,000 for Finzsoft's 50% equity interest in NZ Bureau based on the expected proceeds (cash and assets) which Finzsoft expects to receive from the liquidation of NZ Bureau.
- **Dividends paid:** we have deducted approximately \$1.9 million to allow for dividends paid after 31 December 2014. The dividends reduce Finzsoft's net cash and cause a reduction in the value of its shares. Finzsoft paid a 14 cent per share dividend in January 2015 and announced an 8.7 cent per share dividend on 20 February 2015.
- **Adjustment for unearned revenue:** we have deducted unearned revenue of \$543,000, based on Finzsoft's unearned revenue balance at 31 December 2014.
- **Deferred consideration:** we have deducted \$1,045,000 being an NPV estimate of the deferred consideration for Sush Mobile which is expected to be paid in cash.
- **Diluted number of shares:** we have adjusted the number of shares outstanding as at the valuation date to reflect the exercise of the employee options and issue of shares in respect of the Sush Mobile acquisition. On a diluted basis, there are 8,842,891 Finzsoft Shares outstanding (8,570,164 plus 272,727 new shares).

6.6.1 Finzsoft valuation summary

For the purpose of the Report, we have assessed a valuation range for the Finzsoft Shares between \$3.35 and \$4.55 per share, with a midpoint of \$3.95. The valuation range takes into account both the earnings multiples based valuation approach and the DCF based valuation approach.

Our DCF valuation is highly sensitive to the underlying assumptions. For example, if we had based the valuation range for Finzsoft on the Trans-Tasman scenario DCF, the Finzsoft Shares would have been valued at \$2.42 and \$2.83 per share. Alternatively, if the valuation range had been based on Asia Success scenario DCF, the Finzsoft Shares would have been valued \$7.50 and \$9.09 per share.

Our estimate of value is for 100% of Finzsoft 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, or speculation thereof).

6.7 Synergies and strategic benefits

SAL is a leading provider of software to the banking and financial services, payments, retail, logistics and insurance businesses in Asia. We note that potential synergies for SAL from this acquisition could include:

- The ability to market the Sovereign product suite, either on behalf or in combination with Finzsoft to SAL's existing customers.
- Finzsoft considers the Sovereign product suite as complementary to SAL's own software offerings. There could be benefits to a combined entity pitching for new clients.
- Acquiring access to the intellectual property underlying the Sovereign product suite could be faster and of lower cost to SAL than building similar software itself.
- SAL has very large software development teams. Finzsoft may be able to leverage these teams to more easily increase capacity for a large project.

From our discussions with management, we understand that some of the above synergies are expected to be shared by Finzsoft and SAL, even if Silverlake HGH does not acquire 100% of Finzsoft. Nevertheless, we would expect greater synergies if Silverlake HGH acquires all of the Finzsoft equity.

Appendix 1: Sources of information

Documents relied upon

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

- Finzsoft's FY15 Forecast;
- Finzsoft's FY16–FY18 Forecast;
- Finzsoft Management Accounts;
- Finzsoft's Annual Reports for 2011, 2012, 2013 and 2014;
- Finzsoft's shareholder notices;
- Finzsoft's market announcements;
- Finzsoft website: www.finzsoft.com;
- Sush Mobile website: www.sushmobile.com;
- Capital IQ website: www.capitaliq.com;
- NZX website: www.nzx.com;
- Reserve Bank of New Zealand website: www.rbnz.govt.nz;
- IDC: Top 10 Strategic IT Initiatives in Asia/Pacific Banks in 2014 – Where the IT Dollars Are;
- IDC: Investing Now for Future Growth: Upcoming Trends That Will Shape the Industry;
- Financial statements of the comparable companies set out in Appendices 3 and 4;
- Lonergan Edwards & Associates Limited Rule 22 Report dated 26 January 2015; and
- Other publically 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.

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); Shaun Hayward (BCom, BProp, CFA®) and Suresh Yahanpath (MAppFin, BCom, BSc);. 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 as to merits of the proposed transaction. KordaMentha expressly disclaims any liability to any Finzsoft equity security holder 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 with Finzsoft that could affect its ability to provide an unbiased opinion in relation to this transaction.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Offer 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 shows EBITDA multiples for profitable software companies listed in New Zealand and Australia.

Table A3.1: Comparable companies as at 30 January 2015

Company	Head office	Primary software type	Market Cap (\$ million)	Normalised EBITDA Multiple		Annualised Revenue Growth	
				Historical	Forecast	Last 2 years	Last 5 years
IRESS	Australia	Trading and enterprise	1,761	18.8x	13.7x	10.7%	8.8%
TechnologyOne	Australia	Enterprise solutions	1,100	21.1x	19.3x	7.4%	9.8%
Diligent	United States	Governance	478	15.9x	13.4x	103.8%	85.7%
Altium	Australia	Electronic design	416	18.2x	12.0x	13.5%	7.0%
Infomedia	Australia	Automotive sales	303	15.0x	10.0x	11.8%	1.0%
Hansen Technologies	Australia	Billing and e-commerce	303	14.2x	11.3x	23.3%	9.6%
GBST	Australia	Financial	270	13.4x	9.3x	13.4%	9.6%
Integrated Research	Australia	Financial and enterprise	236	20.3x	10.5x	4.7%	4.5%
Reckon	Australia	Financial and accounting	229	10.6x	6.5x	4.0%	10.1%
Gentrack	New Zealand	Billing and e-commerce	152	11.2x	8.7x	10.3%	10.3%
Objective Corporation	Australia	Content and collaboration	145	15.6x	14.0x	10.6%	3.8%
Corum	Australia	Billing and e-commerce	38	5.7x	n/a	(4.8%)	(0.8%)
Prophecy International	Australia	Billing and e-commerce	35	12.0x	n/a	2.8%	2.0%
Adacel	Australia	Aviation	24	8.2x	n/a	(7.3%)	(9.7%)
Median (market capitalisation >\$400 million)				18.5x	13.6x	12.1%	9.3%
Median (market capitalisation \$100 million – \$400 million)				14.2x	10.0x	10.6%	9.6%
Median (market capitalisation <\$100 million)				8.2x	n/a	(4.8%)	(0.8%)
Median				14.6x	11.3x	10.5%	8.0%

Source: Capital IQ, financial statements and announcements and research reports.

IRESS

IRESS Limited 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. IRESS Limited is based in Australia.

Technology One

Technology One Limited provides integrated enterprise business 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. Technology One also provides custom software development services. It serves various markets, including government, local government, financial services, education, health and community services, utilities and infrastructure, and managed services. Technology One is based in Australia.

Diligent

Diligent Board Member Services, Inc. provides online software applications which are used by board members, management and administrative staff to compile, update, review and archive board materials before, during, and after board meetings. Diligent is listed on the NZX but based in the United States.

Altium

Altium Limited 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, hardware products, and project services. It sells directly and also through value added resellers in Australia, the Americas, Europe, the Middle East, Africa, Asia and New Zealand. Altium is based in Australia.

Infomedia

Infomedia Limited develops and supplies electronic parts catalogues and service systems for the 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. Infomedia is based in Australia.

Hansen Technologies

Hansen Technologies Limited develops, implements, and supports proprietary customer care and billing software solutions for service providers in the gas and electricity, telecommunications, Pay TV, and water and wastewater industries in Australia and internationally. Hansen Technologies also offers data centre solutions; cloud solutions, such as infrastructure as a service, software as a service, hardware and operating system, network and security, and daily back-up; and IT managed services consisting of technical support, customer support, network, and security services. Hansen Technologies is based in Australia.

GBST

GBST Holdings Limited provides software and services to the financial services industry. Its 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. GBST is based in Australia.

Integrated Research

Integrated Research Limited designs, develops, implements, and sells systems and applications management computer software for business-critical computing, unified communication networks, and payment networks in Australia, the Americas, Europe and the Asia Pacific. 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. Integrated Research is based in Australia.

Reckon

Reckon Limited provides financial and accounting software in Australia and New Zealand. Its products include accounting, wealth management and business administration software for accountants, businesses and individuals. Reckon also offers a range of online software services on a subscription basis. Reckon is based in Australia.

Gentrack

Gentrack Limited provides software for utilities (electricity, gas and water) and airports, primarily in Australasia and the United Kingdom. Gentrack's software supports the core billing, customer care and collections processes for utilities. It also provides software which assist with the flow of real-time information and resources at modern airports. Gentrack offers cloud and SaaS type solutions; business consulting services; project services; and industry consulting services.

Objective Corporation

Objective Corporation Limited provides information technology software and services. It offers content, collaboration, and process management solutions. Objective Corporation serves the public sector, infrastructure industries and various local, state and central governments. Objective Corporation is based in Australia and also has clients in Asia and Europe.

Corum

Corum Group Limited 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 is based in Australia.

Prophecy International

Prophecy International Holdings Limited provides a range of computer software and services to corporate 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. Prophecy International is based in Australia and has operations also has operations in the United States, Africa, Europe and Asia.

On 29 January 2015, Corum announced that it expected its profit from ordinary activities before tax in the six months to 31 December 2014 to be up by 48% on the previous corresponding period.

Adacel

Adacel Technologies Limited 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. It clients include government organisations and universities. Adacel is based in Australia.

Appendix 4: Comparable transactions

Table A4.1 shows EBITDA multiples for Trans-Tasman enterprise software companies which have been acquired within the last four years. Table A4.1 only shows companies which had an Enterprise Value of between \$10.0 million and \$250 million at the time they were acquired (broadly comparable to Finzsoft).

Table A4.1: Comparable software company transactions

Target	Acquirer	Primary location of target	Transaction date	Enterprise Value (Local \$m)	Historical EBITDA multiple	Forecast EBITDA multiple
Leadtec	SPS Commerce	AUS	Oct-14	16.8	5.8x	n/a
Stargate	Rubik Financial	AUS	Jun-14	25.2	7.9x	≤ 5.9x
Bravura	Ironbridge Capital	AUS	Oct-13	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
Qmastor	Triple Point Technology	AUS	Nov-11	24.8	12.0x	6.5x
Median					7.8x	6.5x

Source: Capital IQ, financial statements and announcements, other publically available information and KordaMentha estimates

Leadtec – SPS Commerce

Leadtec Systems Australia Pty Limited provides software which facilitates the exchange and cataloguing of electronic information between large businesses (primarily in the grocery, retail, automotive and healthcare industries).

Leadtec earned approximately AUD 2.9 million EBITDA in the 12 months ended 30 June 2014.

SPS Commerce, Inc. acquired the equity in Leadtec for AUD17.2 million on 12 October 2014. The purchase price was based on Leadtec having certain assets and liabilities at the time of the transaction, including approximately AUD 0.4 million in cash less lease liabilities.

Stargate – Rubik Financial

Stargate Information Systems Pty Limited provides loan processing and customer management software to the mortgage broking industry. Its software is cloud-based and primarily accessed via desktop applications.

Stargate earned approximately AUD 3.2 million “normalised FY14 run-rate” EBITDA in its FY14.

Rubik Financial acquired Stargate on 4 June 2014 for AUD19.4 million (including an amount used to repay debt). The consideration was subject to an earn-out provision which Rubik Financial valued on a net present value basis at AUD5.8 million. Therefore, Stargate has an estimated Enterprise Value of AUD 25.2 million.

We understand that once the earn-out has been factored into the transaction (including the future earnings achieved under the earn-out), the EBITDA multiple for the transaction will not be more than 5.9x.

Bravura – Ironbridge Capital

Bravura Solutions Limited provides transfer agency and wealth management software applications in Australia, the United Kingdom, New Zealand, Asia, Africa, the Middle East and Europe. Its clients include mutual fund providers, life insurance companies, pensions, and superannuation and investment administrators. Bravura also provides professional services in consulting, data migration, implementation, software development, support and training.

Ironbridge Capital Pty Limited acquired 32.9% of the shares in Bravura for approximately AUD 58.8 million on 10 October 2013. Ironbridge indirectly owned the remaining 67.1% of Bravura prior to the transaction.

ISS Group – P2 Energy Solutions

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

P2 Energy Solutions, Inc. entered into a merger implementation agreement to acquire ISS Group for AUD 44.9 million in cash on 4 June 2013.

Coin Software – Rubik Financial

Coin Software Pty Limited 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. Coin Software provides implementation management, relationship management, helpdesk support and web hosting services, and professional services.

Rubik Financial signed a conditional agreement to acquire Coin Software for AUD 26.8 million in cash on 29 June 2012. Coin's recurring revenue of 85% was expected to increase Rubik Financial's overall recurring revenue base from 45% to 67%.

Qmastor – Triple Point Technology

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

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

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

Appendix 5: Sush Entitlements

Finzsoft acquired 100% of the shares in Sush Global Solutions Limited (trading as 'Sush Mobile') on 29 August 2014 from Sheenu Chawla and Sulabh Sharma at a purchase price of \$1.9 million.

The purchase price is subject to adjustment based on the revenue generated by Sush Mobile in the 12 months ending 31 March 2015. The purchase price adjustments are based on contracted revenue (not necessarily revenue earned). A breakdown of the purchase price is shown in Table 5.1A below.

Table A5.1: Purchase price for Sush Mobile

Date	Payment	Amount	Notes
29 Aug 2014	Cash	\$533,334	Paid.
2 Mar 2015	Cash	\$533,333	To be paid in full.
31 Aug 2015	Cash	\$533,333	Subject to the purchase price adjustment.
Total cash consideration		\$1,600,000	
31 Aug 2015	Shares	\$300,000	To be satisfied by the issue of Finzsoft Shares at \$1.10 per share. Issue price is based on Finzsoft's last traded share price as at 28 August 2014. Subject to the purchase price adjustment.
Sush Entitlements		\$300,000	
Total purchase price		\$1,900,000	

Source: Finzsoft management

The purchase price is subject to adjustment if Sush Mobile does not generate between \$3.5 million and \$4.0 million contracted revenue in the 12 months ending 31 March 2015. Any adjustment to the purchase price will first change the number of shares to be issued under the Sush Entitlements.

A reduction in the purchase price would be equal to approximately 54% of any shortfall in contracted revenue generated below \$3.5 million. An increase in the purchase price would be equal to 6.5% of any surplus in contracted revenue generated above \$4.0 million.

Finzsoft expects there to be no purchase price adjustment. On this basis:

- The total cash consideration will be \$1,600,000. Of this total, \$1,066,666 remains unpaid at the date of the Offer. For the purpose of our valuation, we have discounted the outstanding cash consideration at a discount rate of 5%, being an estimate of Finzsoft's cost of borrowing.
- Sheenu Chawla and Sulabh Sharma (the Sush Mobile vendors) have a right to be issued 272,727 shares in Finzsoft ('Sush Entitlements').

For the purpose of our valuation, we have adjusted the number of Finzsoft Shares outstanding as at the valuation date to reflect the issue of 272,727 shares for the Sush Entitlements. On a diluted basis, there are 8,842,891 Finzsoft Shares outstanding (8,570,164 plus 272,727 new shares).

To make its takeover offer, Silverlake HGH is required by the Takeovers Code to make the Offer for all equity securities in Finzsoft. Equity securities include any rights to be issued Finzsoft Shares (such as the Sush Entitlements). Silverlake HGH has offered Sheenu Chawla and Sulabh Sharma \$818,000 for the Sush Entitlements.