



FRM Holdco Pty Ltd

Employee Share Option Plan valuation

21 April 2023 30 June 2022

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Glossary

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30 June 2022

STRICTLY CONFIDENTIAL

Mr Ramesh Gupta
CFO
FRM Holdco Pty Ltd
Level 3, 187 Clarence Street
Sydney NSW 2000

By email: rgupta@frm.com
Cc: sking@frm.com

Dear Ramesh,

Re: ESOP valuation

Thank you for inviting Peloton Corporate Pty Ltd ["Peloton"] to undertake an assessment of the market value of a share of FRM Holdco Pty Ltd ["FRM"] to support the next round of employee option plan ["ESOP"] issues by FRM Holdco Pty Ltd ["FRM"], expected to occur on 30 June 2022.

The valuation has been prepared consistent with the requirements of the Australian Taxation Office Market Valuation Guidelines, and for the purposes of complying with the rules in Division 83A of the Income Tax Assessment Act 1997 (Cth).

We are pleased to attach our report in relation to this engagement and would be happy to discuss any aspect of the report with you.

Peloton is delighted to have been of service to you on this engagement.

Yours sincerely



Dominic Churchill
Director



Michael Churchill
Head of valuations

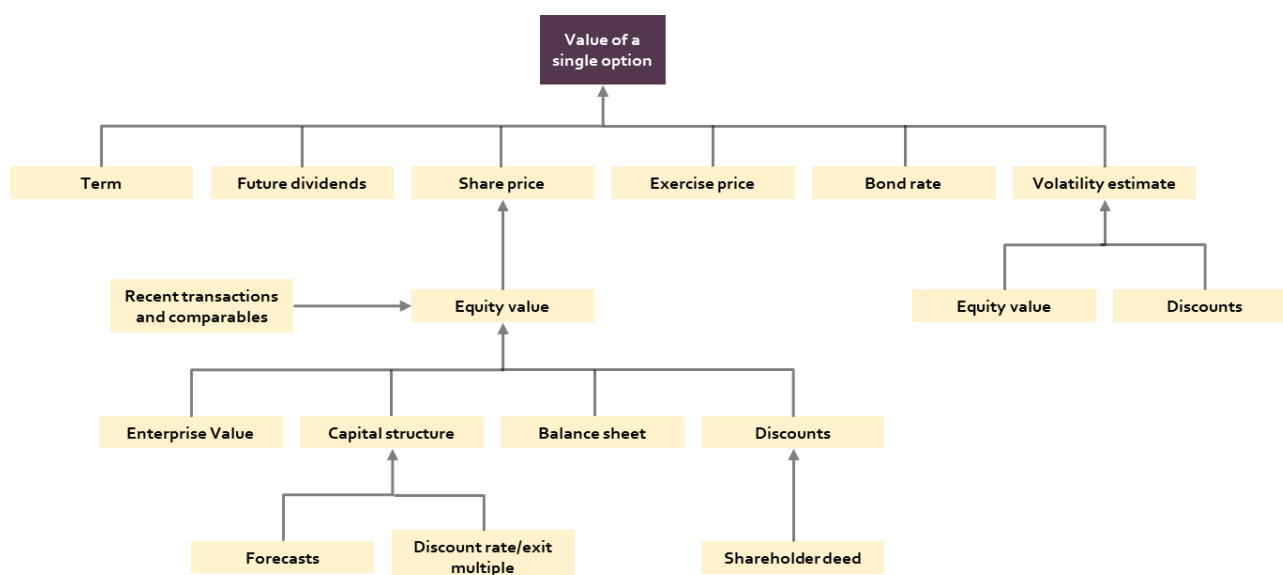
1. Executive summary

Peloton has been engaged by FRM Pty Ltd [“FRM”, “Client” or “Company”] to assess the market value of a single share, in order to comply with the rules in Division 83A of the Income Tax Assessment Act 1997.

This valuation is required to satisfy the ATO market valuation guidelines.

Valuation of an option over unissued shares in an early-stage, unlisted company requires consideration of many critical inputs as described in the chart below:

FIGURE 1 OPTION VALUATION SCHEMATIC



Key inputs to the option valuation are set out below:

TABLE 1 OPTION VALUATION INPUTS

FRM Option pricing model inputs	Key Input
Valuation date (issue date)	30-Jun-22
Expiration Date	30-Jun-37
Life (Years)	15.00
Exercise price (USD)	0.71
Exchange rate at issue date of series B pref shares	0.71
Exercise price	\$ 333.91
Minority share price	\$ 333.91
Base volatility estimate	38%
Discount for unlisted company and vesting restrictions	20%
Assessed volatility estimate	30%
Rf (15-year Commonwealth Bond as at 27 June 2022)	3.95%
Dividend growth rate	10%
Dividend yield initial year	5%

Source: Bloomberg and Peloton analysis

The implied share price has been assessed based on the following estimated equity value of a single FRM share:

TABLE 2 FRM EQUITY VALUATION SUMMARY

FRM (\$'000 unless stated)			
Equity value calculation	Low	Mid	High
Enterprise value	1,134	9,833	18,532
Surplus assets			
Cash	22,500	22,500	22,500
Option exercise cash (PV)	1	1	1
Corporate debt/tax			
Non-EV liabilities	-	-	-
Income tax provision	-	-	-
Pro forma equity value	23,635	32,334	41,033
Capital structure			
Ordinary shares	27,424	27,424	27,424
Preference shares	19,241	19,241	19,241
Existing ESOP options	1,753	1,753	1,753
Fully-diluted capital	48,418	48,418	48,418
Equity value per share (AUD)	\$ 488.15	\$ 667.81	\$ 847.47
Less DLOM and minority discounts		50%	
Assessed minority share price (AUD)		\$ 333.91	

Source: Peloton analysis

In turn, the equity value has been assessed based on a high-level estimate of enterprise (business) value calculated from the following range of forecast outcomes:

TABLE 3 FRM EQUITY VALUATION INPUTS AND ASSUMPTIONS – LOW SCENARIO

Pro forma forecast - low	Variable/ switch	FY23	FY24	FY25	FY26	FY27	Exit value
Inputs							
Merchants - low #		15	23	34	51	76	76
Merchant growth - pa	50%						
ARR per merchant \$k		150	160	170	180	190	
COGS %	15%						
Overheads		6,500	7,500	8,000	8,500	9,000	
Working capital movements	10%						
Capex/R&D	500	500	500	500	500	500	
Corporate tax	25%						
Operating profit	-	4,588	- 4,440	- 3,123	- 754	3,264	
Opening tax losses	- 2,500	- 2,500	- 7,088	- 11,528	- 14,651	- 15,405	
Operating losses	-	4,588	- 4,440	- 3,123	- 754	-	
Losses utilised		-	-	-	-	3,264	
Closing tax losses	- 2,500	- 7,088	- 11,528	- 14,651	- 15,405	- 12,141	
Profit & loss							
Revenue		2,250	3,600	5,738	9,113	14,428	
Opex	-	6,838	- 8,040	- 8,861	- 9,867	- 11,164	
Capex	-	500	- 500	- 500	- 500	- 500	
Tax		-	-	-	-	-	
Working capital		459	- 15	327	- 252	- 75	
Exit at EBITDA multiple of	10.0						32,639
Net cashflows	-	4,629	- 4,955	- 3,296	- 1,506	2,689	32,639
NPV							
Discount rate	30%						
Discount factor		1.140	1.482	1.927	2.505	3.256	3.256
Discounted cashflows	-	4,060	- 3,343	- 1,711	- 601	826	10,023
Cumulative NPV	-	4,060	- 7,402	- 9,113	- 9,714	- 8,888	1,134

Source: Peloton analysis

TABLE 4 FRM EQUITY VALUATION INPUTS AND ASSUMPTIONS – HIGH SCENARIO

Pro forma forecast - high	Variable/ switch	FY23	FY24	FY25	FY26	FY27	Exit value
Inputs							
Merchant growth - pa	60%						
Merchants - high #	1	16	26	41	66	105	105
ARR per merchant \$k		150	160	170	180	190	
COGS %	15%						
Overheads		6,500	7,500	8,000	8,500	9,000	
Working capital movements	10%						
Capex/R&D	500	500	500	500	500	500	
Corporate tax	25%						
Operating profit	-	4,460	- 4,018	- 2,081	1,527	7,935	
Opening tax losses	- 2,500	- 2,500	- 6,960	- 10,978	- 13,060	- 11,533	
Operating losses	-	4,460	- 4,018	- 2,081	-	-	
Losses utilised		-	-	-	1,527	7,935	
Closing tax losses	- 2,500	- 6,960	- 10,978	- 13,060	- 11,533	- 3,598	
Profit & loss							
Revenue		2,400	4,096	6,963	11,796	19,923	
Opex	-	6,860	- 8,114	- 9,044	- 10,269	- 11,988	
Capex	-	500	- 500	- 500	- 500	- 500	
Tax		-	-	-	-	-	
Working capital		446	- 44	252	- 405	- 388	
Exit at EBITDA multiple of	10.0						79,345
Net cashflows	-	4,514	- 4,563	- 2,329	622	7,046	79,345
NPV							
Discount rate	30%						
Discount factor		1.140	1.482	1.927	2.505	3.256	3.256
Discounted cashflows	-	3,959	- 3,078	- 1,209	248	2,164	24,365
Cumulative NPV	-	3,959	- 7,037	- 8,246	- 7,998	- 5,834	18,532

Source: Peloton analysis

Employing both a Black-Scholes and Binomial option pricing model Peloton has concluded that the midpoint value of a single ESOP option over an unissued ordinary share is \$nil as shown in the table below:

TABLE 5 ESOP VALUATION SUMMARY

FRM	Dollars per share
Option valuation outcomes	
Binomial option pricing model	200.88
Black-Scholes option pricing model	202.10
Midpoint	201.49
Less present value of dividends foregone	(238.70)
Value of option	-

Source: Peloton analysis

The conclusion from this process has been cross-checked to a market-based approach which has focussed on the implied market value of FRM equity arising from a Series Seed B preference share capital raising undertaken by FRM in February 2022.

By its very nature, valuation work cannot be regarded as an exact science and our conclusions are of necessity subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single value and we normally express our opinion as falling within a likely range. However, for the purpose of this engagement, we have provided the above opinion on a point estimate of value within our assessed range.

2. Background

2.1 FRM business operations

FRM was founded in late 2018 and is focussed on providing workplace health and safety training programmes to merchants via a SaaS platform.

The addressable market is estimated to be in excess of \$1bn per annum.

At the date of this report, the most recent financial information shows FRM has 9 clients (merchants) producing annual recurring revenue ["ARR"] of around \$1.8m.

FRM is in a growth phase with client (merchants) and staff numbers growing on a monthly basis.

Equity funding of around \$21m was secured in February 2022 and this funding is likely to carry the development of FRM through to cashflow positive in FY26.

2.2 FRM ESOP instruments

1,998 employee options have been offered to eligible employees under the FRM ESOP employing the ATO safe harbour rules with an exercise price of \$0.03 per option. 245 of these options have since lapsed.

The Series Seed B preference share raise undertaken over February 2022 has resulted in the next employee share issue not being eligible to employ the safe harbour rules.

Valuation support has been received in regard to employee options issued to date (which have been issued under the ATO safe harbour rules).

The next round of employee option issues (and future issues) requires a valuation assessment consistent with the ATO employee share scheme rule, Division 83A of the Income Tax Assessment Act 1997 (Cth) and the ATO Market Valuation Guidelines.

An ESOP has been implemented by FRM reflected in the ESOP rules document adopted by the FRM board on 2 September 2021. It is important to note that the board is provided significant discretion with regard to each issue of employee options and the administration of employee options.

Critical characteristics of the ESOP (with references to the relevant ESOP rules clauses) are set out below.

2.2.1 Issue date

To be determined by the FRM board, but likely to be 30 June 2022.

2.2.2 Expiry date

15 years from the date of issue (clause 3.3).

2.2.3 Exercise/exercise price

Upon exercise, the option holder receives ordinary shares in FRM (clause 5).

Upon exercise, the option holder must execute an accession deed to become bound to the shareholder deed.

The exercise price is defined in clause 11.1 of the ESOP rules as an amount determined by the board at the time of issue of employee options.

Peloton understands that the proposed exercise price is to be set at an amount approximately equal to the market value of a single share at the issue date (consistent with the start-up concessions set out in Div. 83A of the ITAA).

2.2.4 Escrow and restrictions on transfer

Clauses 4.1 and 4.2 restrict the opportunity to transfer options to a third party.

Options are not able to sold until 180 days after IPO or similar listing event, or until an exit event occurs (clause 4.3).

2.2.5 Vesting conditions

The ESOP contemplates that each offer may contain vesting conditions but does not specify the nature of the vesting conditions.

The employee must remain in the employ of FRM in order to exercise the options (clause 2.1 (c)).

The intended vesting schedule of options under the ESOP are:

- (a) 25% of options vest 12 months after issue (clause 2.1(c)2A).
- (b) The balance (75%) vest on an equal monthly basis from year one to three years after issue (clause 2.1(c)2B).

2.2.6 Participation in dividends and corporate actions

Clause 9.2 states that options are not entitled to dividends.

Clauses 6, 7 and 8 set out how options are treated upon listing, exit events and corporate reorganisations.

2.3 FRM capital structure

In addition to ordinary shares and ESOP options, FRM has issued Series Seed B preference shares.

The composition of FRM equity capital is summarised below:

TABLE 6 SECURITIES ON ISSUE

Type of security	Number
Ordinary shares	27,424
Preference shares	19,241
Employee options	1,753

Source: FRM cap table

The terms of the Series Seed B convertible preference shares are set out in Schedule 3 of the FRM constitution. The Series Seed B preference shares enjoy various anti-dilutive rights and convert at the option of the company or the holder.

For the purpose of assessing the likely capital structure as at the last date of exercise of the proposed issue of options, Peloton has assumed that all preference shares and options will rank equally with ordinary shares.

Peloton has also assumed that all employee options will have been exercised prior to the expiry date of the proposed options. The proceeds of exercise have been discounted to the valuation date at the 15 year Australian Government Bond rate at the valuation date (3.95% as at 27 June 2022). The present value of the option exercise proceeds have been included in the pro forma FRM balance sheet as at the valuation date as calculated below:

TABLE 7 PRESENT VALUE OF EXISTING OPTIONS EXERCISE PROCEEDS

Existing option exercise	
Number of options	1,753
Exercise price AUD	1
Exercise date	31/12/2036
Years to exercise	14.5
Riskless discount rate	4%
Present value	999

Source: FRM, Peloton analysis

3. Scope of this report and critical assumptions

The Income Tax Assessment Act 1997 Div. 83A governs the taxation of securities issued under an eligible employee equity scheme.

Deductibility and assessability in regard to the issuer and employer, respectively, is subject to an assessment of the market value of the securities issued under the scheme.

The valuation principles which govern this process are set out in the Income Tax Assessment Act (Div. 83A) and the ATO Market Valuation Guidelines.

The scope of this report is limited to providing an assessment of the market value of a single employee option issued under the FRM ESOP, as determined with respect to the equity value of a single minority share in FRM.

The calculations performed in order to arrive at the share price input in the option valuation are indicative only and rely upon numerous assumptions which, in many cases, have had to be made by Peloton based on estimates validated by management representations.

The critical assumptions set out in this report and employed in Peloton's analysis have been confirmed by FRM management and include (but are not limited to):

1. The likely issue date of the options;
2. The likely board-determined vesting conditions and exercise price of the options;
3. Forecasts of profitability including growth scenarios, ARR, merchant on-boarding rates, expense levels, working capital requirements, R&D and capital expenditures;
4. Probability of conversion of the preference shares;
5. Prospects for payment of dividends including the commencement year of dividend payments, the amount of such dividends and the rate of growth of those dividends; and
6. Likelihood that existing options will exercise including the probability of the option-holders remaining in the employ of FRM at the time of potential exercise.

Many of these assumptions are likely to vary or change over time and occur over a valid and wide range.

The potential variability of these assumptions materially impacts the conclusions set out in this report.

4. Valuation methodology and practices

4.1 Valuation approaches

This valuation assessment has been undertaken having regard to the ATO Market Valuation Guidelines and the IVSC Guidelines.

The ATO Market Valuation Guidelines lists the approaches that can be used to value a business, security or intangible asset, but does not provide a detailed description of these approaches.

The ATO Guidelines refer to the International Valuation Standards ["IVS"], prepared by IVSC, as an alternative authority on valuation definitions.

Assuming the adoption of a market value basis, the selection of a valuation approach is hierarchical between the:

- Market approach;
- Income approach; and
- Cost approach.

Our summary of the valuation approaches below is sourced from the IVS guidelines.

4.1.1 Market approach

The market approach provides an indication of value by comparing the subject business(es) or asset(s) with identical or similar assets for which price information is available.

The Market approach compares the subject business to similar businesses, business ownership interests and securities that have been exchanged in the market and any relevant transaction of shares in the same business.

The three most common sources of data used in the market approach are prior transactions in shares or offers for the ownership of the subject business, acquisition market in which entire businesses are bought and sold, and public stock markets in which ownership interests of similar businesses are traded.

There needs to be a reasonable basis for comparison with and reliance upon similar businesses under the market approach. These similar businesses should be in the same industry as the subject business or in an industry that responds to the same economic variables. Further, the comparison businesses/assets should display the similar risk characteristics and expected growth.

The essential requirements which suggest a market approach is a reliable assessment of market value include:

- observable, contemporaneous market data for the asset, or comparable assets;
- one or more units of comparison are available e.g. yield, rates of return, earnings multiplier;
- elements of comparison are crucial considerations e.g. comparability of specific asset characteristics such as condition, utility, finance terms, rights conveyed, location, economic conditions, etc.; and
- any recent transactions or offers for the asset.

4.1.2 Income approach

The Income approach considers income and expense data and estimates value through a capitalisation process, for example, capitalisation rates (yields) or discount rates (reflecting return on investment). The principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

The Income approach should be based on market-determined cash flows and market-derived rates of return. It perceives value as created by the expectation of future benefits (income streams) and employs processes that consider the present value of anticipated future income streams.

The essential requirements which suggest an Income approach is a reliable assessment of market value include:

- assets which are purchased and sold on the basis of their earnings capabilities;
- availability of both quantitative and qualitative market research;
- capability to model future cash flows (capital inputs, income and expenses) for the time frame relevant to the investment proposal; and
- availability of reliable data to inform the capitalisation assumptions e.g. yields, risk profile, costs of capital, market volatility etc.

4.1.3 Cost approach

The Cost approach considers the possibility that, as an alternative to the purchase of a given asset, one could acquire a modern equivalent asset that would provide equal utility, and the price that a buyer would pay would not be more than the cost of the modern equivalent.

The Cost approach establishes the upper limit of what the market would normally pay for a given asset when it is new. For older assets, some allowance for depreciation is deducted to estimate a price that approximates value (where it is possible to acquire a used asset).

The Cost approach is useful in estimating the value of assets that are not frequently exchanged in a market.

The essential requirements for using a Cost approach for assessment of market value include:

- there is a lack of market-based data on sales of comparable assets;
- there is limited capability to relate the utility of the asset to cash flows; and
- there exists reliable data on costs to construct the asset and depreciation information.

4.2 Selection of valuation methodology

As discussed above, there are three approaches available to assess the market value of any asset: market, income and cost.

In order to assess the value of an option over shares in an unlisted company it is first necessary to estimate the implied share price of the company's shares.

FRM is expected to become cashflow positive and the likely forecast financial performance is set out in FRM's forecasts.

Consequently, Peloton has applied an income approach as its primary valuation methodology to assess the value of the FRM enterprise in the absence of a market from which an observed transaction price can be observed.

The ATO Market Valuation Guidelines and IVSC encourage the use of secondary or cross-check approaches to support the application of the primary valuation approach.

Peloton has sought to cross-check the market approach to a market approach which reflects the implied share price arising from the February 2022 Series Seed B preference share issue.

4.3 Valuation engagement

APES225 Valuation Services ["APES225"] issued by the Accounting Professional & Ethics Standards Board states that a valuation engagement is an engagement to perform a valuation and provide a valuation report where the member is free to employ the valuation approaches, valuation methods and valuation procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the engagement available to the member at the time.

This report is a 'valuation engagement' in the terms of APES225.

It is important to note that this report provides a valuation of a specific instrument, being a single option expected to be issued under the terms of the FRM ESOP on the valuation date.

4.4 Valuation date

The valuation date is 30 June 2022

We have taken representations from FRM management that there have been no material changes to the financial information provided prepared as at 31 March 2022 and the date of this report.

4.5 Definition of value

The basis of value adopted in this report is market value. Market value is defined by the IVSC as follows:

"Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

This definition of market value is also referred to in the ATO guide "Market Valuation for Tax Purposes" ["ATO Guide"].

4.6 Limitations

We are not permitted to give an audit opinion, investment or taxation advice. Accordingly, the contents of our report, including our independent opinion of market value, should not be construed as such.

Our valuation opinion is to be used solely by the Client in the context set out above. No other person may rely upon our valuation, nor may it be used for any other purpose whatsoever. It must not be made available to any other party, nor copied in whole or in part without our express written permission and in accordance with the attached terms of business, which will not be unreasonably withheld.

Notwithstanding any of the foregoing, the Client and/or Peloton may disclose the valuation report and any other information or documentation prepared by Peloton to the Client's tax advisor and auditor. The Client may also disclose information in connection with this agreement as required by law, court or regulatory body.

4.7 Engagement team

Dominic Churchill, Director

Dominic is a corporate finance and investment banking professional with 10 years' experience in valuation and transaction advisory services for a range of clients including institutional investors, ASX-listed corporates, and government-owned entities.

Most recently, Dominic was Associate Director (Infrastructure) at Chapman Capital Partners, a boutique investment bank in Adelaide where he was responsible for leading the firm's infrastructure capital markets and valuation advisory business.

Dominic attended Swinburne University where he completed a Bachelor of Business (Finance).

Michael Churchill, Head of Valuations

Michael's career includes over 30 years' valuation and corporate advisory experience. He has held CEO and Partner roles since 1997 in organisations such as accounting firm PwC, infrastructure manager CP2 and boutique adviser Value Adviser Associates.

Michael has had extensive experience in small business tax matters (such as Division 152 Small Business Retirement Concessions) through to large corporate tax issues involving Div 6C (stapled structures), Div 855 (TARP), Div 149 (pre-CGT cost-base setting), transfer pricing, capital gains tax and other matters.

Michael is the only valuation professional to have been a member of the Tax Institute's National Dispute Resolution Committee. He is also former chair of the CPA Valuation group and a former councillor of Finsia.

Over his career Michael has been responsible for over 1,000 valuation engagements including equity valuations of in excess of \$100bn in equity investments in unlisted infrastructure for major superannuation funds and fund managers.

He is co-author of *Business Valuations Digest* and author of a wide range of published material in relation to valuation, government business sales, regulatory cost of capital and tax valuation matters. He is a regular speaker on valuation issues.

5. Enterprise value assessment

As noted above, in order to estimate the price of a share to which an option-holder becomes entitled upon exercise, it is necessary to assess an estimated value of the underlying enterprise and make adjustments for surplus assets, corporate debt and corporate tax along with an appropriate expected rate of return (discount rate) and exit multiple.

This section sets out the basis upon which this assessment has been undertaken.

It is important to note that Div83A requires the assessment of the market value of a single share in the issuer.

The two valuation approaches which are available in the assessment of market value of a single share are market and income approaches.

As an unlisted, early-stage company, shares in FRM do not trade in a deep, secondary market from which a market price for a single share can be observed.

A market approach is, therefore, dependant on the subscription price of recent arms-length capital raisings or, calibration of a market price to transactions involving similar, early-stage companies. The latter approach is inherently unreliable due to the unique attributes of each comparable company.

To the extent that a market approach (focussed on subscription price paid in near-contemporaneous capital raisings) is found to be unreliable, the assessment of a single share value can be obtained from considering the value of the FRM enterprise taking into account the inherent uncertainties which confront the achievement of the company's strategic and business plans.

After consideration of a range of factors including the extent to which the recent capital raising is likely to be representative of the price of a single ordinary share and the reliability and appropriateness of FRM's forecasts, Peloton has undertaken a high-level assessment of enterprise value using an income approach and then cross-checked that to a market approach based on the February 2022 Series Seed B preference share issue.

5.1 Historical financial results

FRM has provided Peloton with the actual financial results of the principal operating entity, FASTFRM Pty Ltd ["FASTFRM"] as at 31 March 2022 along with a spreadsheet analysis of monthly actual and forecast results.

As an early-stage technology start-up, FRM is incurring operating losses as it executes its commercialisation plan.

The historical financial results have not been reproduced here as they do not meaningfully contribute to an understanding of the likely future profitability.

Further, financial statements are not available for the holding company, FRM Holdco Pty Ltd as at the date of this report.

5.2 Financial position

FRM has provided Peloton with the actual financial results of the principal operating entity, FASTFRM as at 31 March 2022.

However, the balance sheet for FRM Holdco Pty Ltd was not available as at the date of this report.

We understand that FRM does not trade in its right but that FASTFRM is the operating entity (a 100%-owned subsidiary).

In consultation with FRM a pro forma balance sheet for FRM has been developed in order to construct a pro forma market value balance sheet.

The pro forma balance sheet is set out in the equity assessment section of this report.

5.3 Forecast profitability

Peloton has adopted the net present value of future cashflows (income) approach as its primary methodology in assessing the market value of the FRM business.

FRM has prepared a monthly profit and loss and cashflow forecast to 30 June 2023.

The FRM forecasts have been prepared on a bottom-up basis.

That is, the revenue and expenses have been forecast (on a deterministic basis) on the basis of likely customer acquisition outcomes which are, in turn, based on the success of the FRM sales team.

The key drivers of the forecasts are:

1. Client (merchant) acquisition rate;
2. GMV per merchant;
3. Direct cost of sales (cloud and related subscription costs); and
4. People costs (sales and software engineering).

5.3.1 Risks to achievement of forecasts

As an early-stage, technology-based business which has developed a unique, disruptive business solution for retail merchants, there are many risks to successful commercialisation.

The most significant risks are discussed below.

5.3.1.1 Market size and accessibility

The FRM founders have identified a unique opportunity and service offering which has gained early adoption by some 9 merchants.

However, there has been no market assessment undertaken to determine key metrics such as:

- market size;
- potential substitute and competitive offerings;
- market penetration rate;
- shape of the adoption curve; and
- pricing consistent with and reflective of the benefits offered to the customer.

As a consequence, the FRM forecasts reflect management expectations of likely sales success in the domestic and US markets over a 24 month period to 30 June 2023.

5.3.1.2 Commercialisation plan execution

FRM has not prepared a detailed business plan to reflect the objectives and strategies to successfully commercialise the market opportunity it has identified.

5.3.2 Five-year forecast

In consultation with management, Peloton has extended the forecasts to five years and developed an upside merchant acquisition scenario. The resultant cashflow forecasts are set out below.

A period of five years has been selected in anticipation that the majority of exponential growth will be captured by that time.

It is important to note that these forecasts are high level and present an extremely wide range of potential outcomes reflective of the significant uncertainties confronting the business at this stage of its development.

This wide range of potential outcomes is not inappropriate given that the purpose of the forecasts is to support the assessment of a single (important) input to the option valuation i.e. the implied current share price.

FIGURE 2 FORECASTS – LOW CASE

Pro forma forecast - low	Variable/ switch	FY23	FY24	FY25	FY26	FY27	Exit value
Inputs							
Merchants - low #		15	23	34	51	76	76
Merchant growth - pa	50%						
ARR per merchant \$k		150	160	170	180	190	
COGS %	15%						
Overheads		6,500	7,500	8,000	8,500	9,000	
Working capital movements	10%						
Capex/R&D	500	500	500	500	500	500	
Corporate tax	25%						
Operating profit	-	4,588	4,440	3,123	754	3,264	
Opening tax losses	- 2,500	2,500	7,088	11,528	14,651	15,405	
Operating losses	-	4,588	4,440	3,123	754	-	
Losses utilised		-	-	-	-	3,264	
Closing tax losses	- 2,500	-7087.5	-11527.5	-14650.63	-15405	-12141.09	
Profit & loss							
Revenue		2,250	3,600	5,738	9,113	14,428	
Opex	-	6,838	8,040	8,861	9,867	11,164	
Capex	-	500	500	500	500	500	
Tax		-	-	-	-	-	
Working capital		459	15	327	252	75	
Exit at EBITDA multiple of	10.0						32,639
Net cashflows	-	4,629	4,955	3,296	1,506	2,689	32,639
NPV							
Discount rate	30%						
Discount factor		1.140	1.482	1.927	2.505	3.256	3.256
Discounted cashflows	-	4,060	3,343	1,711	601	826	10,023
Cumulative NPV	-	4,060	7,402	9,113	9,714	8,888	1,134

Source: Peloton analysis

FIGURE 3 FORECASTS – UPSIDE SCENARIO

Pro forma forecast - high	Variable/ switch	FY23	FY24	FY25	FY26	FY27	Exit value
Inputs							
Merchant growth - pa	60%						
Merchants - high #	1	16	26	41	66	105	105
ARR per merchant \$k		150	160	170	180	190	
COGS %	15%						
Overheads		6,500	7,500	8,000	8,500	9,000	
Working capital movements	10%						
Capex/R&D	500	500	500	500	500	500	
Corporate tax	25%						
Operating profit	-	4,460	4,018	2,081	1,527	7,935	
Opening tax losses	- 2,500	2,500	6,960	10,978	13,060	11,533	
Operating losses	-	4,460	4,018	2,081	-	-	
Losses utilised		-	-	-	1,527	7,935	
Closing tax losses	- 2,500	6,960	10,978	13,060	11,533	3,598	
Profit & loss							
Revenue		2,400	4,096	6,963	11,796	19,923	
Opex	-	6,860	8,114	9,044	10,269	11,988	
Capex	-	500	500	500	500	500	
Tax		-	-	-	-	-	
Working capital		446	44	252	405	388	
Exit at EBITDA multiple of	10.0						79,345
Net cashflows	-	4,514	4,563	2,329	622	7,046	79,345
NPV							
Discount rate	30%						
Discount factor		1.140	1.482	1.927	2.505	3.256	3.256
Discounted cashflows	-	3,959	3,078	1,209	248	2,164	24,365
Cumulative NPV	-	3,959	7,037	8,246	7,998	5,834	18,532

Source: Peloton analysis

The FRM forecasts have been prepared on a deterministic basis and cover the period to June 2027.

Management has not considered the probability of over- or under-achievement of the forecasts.

Peloton has considered how the paucity of market data, early-stage nature of the business and critical commercialisation risks confronting FRM in order to develop a possible range of outcomes for future profitability and cashflows.

The assessment of enterprise value has been based on the midpoint outcomes from the above forecasts.

5.4 Discount rate

In the absence of an information memorandum containing forecast cashflows, there is no observable discount rate reflective of the expected returns of investors that participated in the February 2022 Series Seed B preference share issue.

Consequently, in assessing an appropriate discount rate to apply to the cash flows we have considered the infancy of FRM's operations as a potential candidate for a venture capital ["VC"] investment.

According to various studies, VC funds typically employ discount rates in early-stage (seed) funding rounds of 30% to 70% to reflect risk factors such as:

- investments made by VC funds are highly illiquid until such point in time as an exit strategy is executed (e.g. IPO or acquisition);
- the investments carry substantial execution risk as, in most cases, the businesses are pre-revenue;
- ensuring an appropriate level of compensation to the VC funds for their time as an 'active' investor (e.g. providing managerial services, access to customers, etc.); and
- correcting for any upward bias in cash flows provided by founders.

While there is little evidence on forward-looking VC discount rates, the consensus is embedded within realised exit returns (or internal rate of returns) of VC funds.

Peloton has assumed that, in applying a VC-style approach, a post-tax (nominal) discount rate of 30% is likely to reflect an appropriate expected rate of return given the expected 'J-curve' represented in the Company's forecast cash flows and the possibility that FRM's commercialisation plans fail to deliver the expected profits contained in those forecasts

5.5 Exit multiple

Peloton undertook a screen for publicly listed companies, listed in either Australia, New Zealand, Europe or the Americas, that can be considered somewhat comparable to FRM.

We note that FRM is not directly comparable to any of the companies identified. FRM displays several business-specific characteristics and risks, which have been considered when selecting an appropriate valuation multiple range for the Business.

The observed listed company multiples are based on trading in a minority parcel of shares (i.e. non-control holding). It is necessary to add a control premium to the market capitalisation of each comparable company in order to calculate EBITDA multiples on a control basis. Control premiums are typically in the range of 20-30%.

The observed multiples are also based on shares that are traded on a deep and liquid exchange. To determine the market value of a 100% equity holding in a business, it is necessary to include a discount for lack of marketability ("DLOM") as privately held companies do not transact on an open and liquid exchange. DLOM's typically range between 20-30% (refer to Appendix 3).

Peloton's view is that the control premium and DLOM will more than likely offset one another. Consequently, the observed multiples reflect an equity holding on a control, non-marketable basis.

Based on the observed listed company universe, Peloton has assessed the appropriate valuation multiple range for FRM to be between 8.0x to 12.0x forward EBITDA and has employed the midpoint of 10.0x as an exit multiple.

5.6 Assessment of enterprise value

Enterprise value represents the net working capital and non-current assets (including intangible assets such as intellectual property) employed in generating EBITDA.

Enterprise value is often alternatively described as 'business value.'

Enterprise value is assessed by discounting future cashflows (including a notional sale or exit value) to the present value at a discount rate reflecting the quality and risks associated with generating the cashflows.

The discount rate is typically derived by considering the capitalisation metrics of publicly-traded comparable companies, as discussed above.

6. Assessment of equity value

6.1 Pro forma market value of 100% of FRM

In the absence of a current balance sheet of FRM Holdco Pty Ltd, Peloton has taken into account the cash balance of \$22.5m in arriving at equity value.

Peloton has also assumed that all existing employee options will exercise by the end of the minimum vesting period and has included the present value of the exercise proceeds in the pro forma market value balance sheet.

All other items on the face of the FASTFRM balance sheet at 31 March 2022 are predominantly in the nature of inter-company loans and items relating to enterprise value.

The pro forma market value of 100% of the undiluted equity has therefore been assessed as being in the range of \$23.6m to \$41.0m

Peloton has also given consideration to the dilutive impacts of existing ESOP options, Preference Shares and Series Seed B Preference Shares in order to arrive at an implied equity value per share.

Based on discussion with management, we understand that each ESOP share and preference share are entitled to one equivalent ordinary share on exercise or conversion.

There is no other consequence of exercise or conversion save for the receipt of ESOP exercise proceeds which have been discussed above.

The assessed midpoint equity value is \$32.3m as shown below:

TABLE 1 PRO FORMA MARKET VALUE OF 100% OF EQUITY

FRM (\$'000 unless stated)			
Equity value calculation	Low	Mid	High
Enterprise value	1,134	9,833	18,532
Surplus assets			
Cash	22,500	22,500	22,500
Option exercise cash (PV)	1	1	1
Corporate debt/tax			
Non-EV liabilities	-	-	-
Income tax provision	-	-	-
Pro forma equity value	23,635	32,334	41,033
Capital structure			
Ordinary shares	27,424	27,424	27,424
Preference shares	19,241	19,241	19,241
Existing ESOP options	1,753	1,753	1,753
Fully-diluted capital	48,418	48,418	48,418
Equity value per share (AUD)	\$ 488.15	\$ 667.81	\$ 847.47
Less DLOM and minority discounts		50%	
Assessed minority share price (AUD)		\$ 333.91	

Source: Peloton analysis

6.2 Assessment of individual share value

Peloton has not sought to assess whether there is any value differential between ordinary and preference shareholders but notes that it is likely that preference shares are likely to have a higher value than ordinary shares by virtue of the preferential dividend treatment.

Given the control conferred on the shareholdings of the founders and incoming preference shareholders together with the additional rights available to preference shareholders, it is appropriate to discount the pro rata share of the pro forma market value of 100% of equity to account for these factors.

Consequently, Peloton has applied a discount for lack of marketability ["DLOM"] and minority discount to the pro forma implied equity value per share of 50% (representing both DLOM and minority discounts).

On this basis, the assessed individual share value is \$333.91.

This amount is employed as the implied share price in the option valuation assessment set out in the following section.

6.3 Cross-check of individual share value

Peloton has considered the recent capital raising as a market approach to the assessment of a valuation cross-check.

In February 2022, FRM undertook a Seed and Series Seed B preference share capital raising.

A total of AUD21m was raised.

Sophisticated investors (including domestic and US-based investment funds) subscribed to the Series Seed B issue at a price of USD2,925 per share.

The pricing of the Series Seed B issue was premised on a pre-money valuation of USD135m (as per the FRM cap table supplied).

Employing an AUD/USD exchange rate of 0.7134 (as at the subscription date; source: Bloomberg) implies an AUD equivalent subscription price of approximately A\$4,100 per Series Seed B preference share

The rights and entitlements of the Series Seed B preference shares are set out in the company's constitution.

Those rights and entitlements include an anti-dilution 'ratchet' in the event of further capital raisings and a priority payment of capital in the event of liquidation. Together, these rights operate as an underpin to the value of a Series Seed B preference share.

In essence, the 'payoff' for Series Seed B preference shareholders is asymmetric and has an underpin (being the priority payment in the event of liquidation).

By comparison, ordinary shares are fully-exposed to down-side risk and the return to ordinary shareholders in the event of liquidation is likely to be nil due to the priority claim on capital enjoyed by the Series Seed B shareholders.

At the time of issue of the Series Seed B preference shares, the ordinary shareholders effectively became underwriters to the preferential entitlements offered to and enjoyed by the Series Seed B preference shares.

There is, therefore, a significant differential as between the rights and entitlements conferred on the shareholdings of the ordinary shareholders and those of the preference shareholders.

Consequently, when comparing the relative value of the two classes of shares, it is appropriate to discount the Series Seed B preference share subscription price of \$4,100 to account for these material differences.

In comparing a single ordinary share to the subscription price of a Series Seed B preference share it is not necessary to discount for lack of marketability or governance issues as it is expected that these issues were reflected in the subscription price and no individual subscriber to the Series Seed B preference shares has the opportunity of control.

To compare the Series Seed B subscription price to the assessed value of a single ordinary share, Peloton has considered the affect that the preferential rights and entitlements might infer upon the expected returns to the Series Seed B preference shares. This has been assessed by employing the same DCF model used to assess the enterprise value above but with a discount rate of 5% and an exit multiple of 48x in order to arrive at a pre-money valuation of approximately USD135m (the basis of the pricing of the Series Seed B issue). Peloton has reviewed comparable company and comparable transaction data and is unable to find any reliable examples of similar metrics used to support the application of discount rates or EBITDA exit multiples for companies at a similar early stage.

It should be noted that discount rates and exit multiples applicable to early-stage, high growth businesses have materially changed since the date of the Series Seed B issue.

February 2022 marked a period of exuberance in the US early-stage capital market and there has been a 20% drop in equity markets since that time to the date of this report.

We understand from FRM management that the basis for the pre-money valuation applied to FRM by incoming shareholders was broadly based on 1x FRM gross merchant value ["GMV"] ARR in December 2022 (i.e. a measure of FRM's total addressable market in CY22, not a measure of revenue or profitability). FRM's expected revenue for calendar year 2022 as of March 2022 was \$1.8m which implies a revenue multiple of 75x on the \$135m pre-money valuation.

Peloton has reviewed comparable transactions and is unable to find any data which supports the application of revenue multiples at this level and therefore conclude that the pre-money valuation applied to FRM in the Series Seed B round (1) is reflective of exuberant capital market conditions as at the time of the Series Seed B; and (2) reflects a level of special or strategic value to the subscribing investors which is not known to FRM management and cannot be observed by Peloton.

It is also important to note that no forecasts of revenue or profitability were developed at the time of the Series Seed B preference share issue. Subsequent to the Series Seed B capital raising, a CFO has been recruited and has developed a set of high-level forecasts (relied upon for our income approach valuation) which Peloton understands reflects FRM managements best estimates of likely future revenue and profitability as at the Valuation Date and in light of the material change in capital markets and the inflationary environment since the close of the capital raising.

In the absence of any forecasts being available as at the date of the Series Seed B, it is not possible to measure the extent to which FRM management's estimates of future revenue or profitability have changed to the Valuation Date.

It is, therefore, not possible to state with certainty the basis upon which the advisers to the Series Seed B issue determined the pricing of a single Series Seed B preference share.

On the basis of this analysis, Peloton has concluded that the assessed equity value per share set out earlier in this report is supported by the cross-check to the subscription price per share arising from the February 2022 Series Seed B preference share issue.

7. ESOP instrument valuation

7.1 Key characteristics of options and option valuation methods

Options over unissued equity (or "equity options") provide the holder with the right but not the obligation to acquire shares in the issuer.

The key components of the value of an equity option are:

- Intrinsic value — the extent to which the option is 'in our out of the money'. This is represented by the amount by which the share price exceeds/is less than the exercise price
- Time value — by virtue of deferring the payment of the exercise price, the option has value. As the exercise price is typically a fixed amount, the time value of the exercise price deferral is typically valued using a riskless-equivalent rate of return such as sovereign (government) debt (bonds)
- Volatility value — to the extent that early exercise is available to the holder there is a possibility that the share price will exceed the exercise price upon exercise. This gives rise to volatility value, which arises from the variation in share price presenting the possibility of the option being in-the-money at some point during the option term.

Against this value must be deducted the present value of the likely future dividends that an option-holder will forego during the life of the option.

Estimating and measuring volatility is challenging, as it must be represented as a constant in the modelling despite various indicators to the contrary. For instance:

- market volatility can change over time, as a result of factors such as the macroeconomic environment and cross-asset financial flows; and
- volatility in individual stocks will not necessarily be correlated with the market, particularly companies that are too small or have not been listed for enough time to be included in major indexes.

We understand that FRM does not expect to be listed on the ASX or any other major stock exchange at the issue date.

Options over unissued shares in ASX-listed companies are typically valued employing a Black-Scholes Option Pricing Model ["BSOPM"] as the primary basis of assessing the value of the options with a cross-check to a Binomial Option Pricing Model ["BOPM"]. Both models are consistent with the requirements of the ATO Market Value Guidelines.

Peloton has assessed the value of a single ESOP option based on the fully-diluted equity value set out in the previous section and taking into account the prospective equity value at expiry of the ESOP options.

7.2 Intrinsic value

Options present an intrinsic value in circumstances where the exercise price of the option is less than the current share price.

Options are either 'in the money' (when the exercise price is less than the share price) or 'out of the money' (when the exercise price exceeds the share price).

It is typical for options to be issued 'out of the money' in the expectation that time value (the value arising from the deferral of the exercise price) will (along with volatility value less the present value of dividends foregone) exceed the extent to which the option is initially 'out of the money'

Given an assessed implied share price of \$333.91, an option exercise price in excess of that amount results in the options being 'out of the money'. No intrinsic value arises in those circumstances.

7.3 Time value of exercise price

Options present a time value by virtue of the deferral of the exercise price to the last potential exercise date.

The 'saving' resulting from the deferred exercise price payment is referred to as the time value of the option.

7.4 Volatility estimate

Options represent the right but not the obligation to acquire shares at a future date upon payment of the exercise price.

Options exhibit a volatility value as there is a probability that the share price will increase during the life of the option to give rise to an opportunity to exercise the options and sell the resultant share at a price in excess of the exercise price.

The extent to which the share price is expected to fluctuate influences the amount of the volatility value. For publicly-listed companies this is typically measured by reference to the historic volatility in the company's share price.

FRM is an unlisted proprietary company with respect to which there is no active market for exchange of shares.

Whilst FRM may seek quotation of its shares on a public market (such as ASX) at some stage, at least for the period of the vesting restrictions, it is unlikely that there will be any active market in which FRM shareholders can buy or sell shares.

There are no reliable studies which seek to estimate the implied share price volatility of unlisted companies with respect to which there is no deep secondary market for exchange of shares.

Notwithstanding, it would be unrealistic to assume that there is no volatility in the underlying notional share price of FRM shares.

Based on proprietary analysis undertaken by Peloton, the post-IPO ASX300 volatility for a range of companies is around 38% five years after IPO.

We have employed this estimate as a foundation for the option valuation noting that volatility tends to decline over time from typical levels in excess of 50% to the long run average of 38% for ASX300 companies. Smaller companies (i.e. those not included in an S&P index) often exhibit post-IPO volatility in excess of 100%.

Peloton has made a further assumption that the potential market capitalisation of FRM would see its shares incorporated in the ASX300 index.

A number of these assumptions may cause option pricing models to over-value the options and Peloton has elected to discount the estimated long-term volatility by 10% (i.e. to 33%) to account for the prospect of this over-valuation risk.

A further 10% judgement-based discount has been applied to account for the fact that vesting conditions and the shareholder deed limit both the ability to exercise the options and, ultimately, the ability to sell the underlying shares at times when the options are in the money.

Consequently, Peloton has employed a volatility estimate of 30% in this valuation (i.e. 38% less 20%).

It is important to note that volatility value is not capable of direct calculation. However, both the Black-Scholes and binomial (lattice) option pricing models assess the total value of an option, inclusive of volatility value.

Peloton's analysis shows that the volatility value component of option value represents 23% of the option value.

7.5 Foregone dividends

Throughout the period that the options remain unexercised there is no entitlement to dividends.

FRM has not forecast the amount of dividends which might be paid over the life of the options.

The value of foregone dividends is a direct deduction from the time, intrinsic and volatility value components of an option.

Given the significant expected growth expected in profitability of FRM, the significant implied market capitalisation arising from the February 2022 Series Seed B preference share issue and the expectations of investors in a listed company, it is likely that there will be a desire by the board and expectation by shareholders that a significant proportion of profitability is paid to shareholders as dividends.

Peloton has assumed that a dividend equivalent to approximately 5% of the assessed equity value will commence from FY25 and grow at a rate of 10% per annum.

The resultant dividend flow per share and the present value (employing a discount rate equivalent to the current 15-year government bond rate is \$238.70 as shown below:

TABLE 8 POTENTIAL FOREGONE DIVIDENDS

FRM	
Potential dividends	
YE 30/6/23	\$ -
YE 30/6/24	\$ -
YE 30/6/25	\$ -
YE 30/6/26	\$ 16.70
YE 30/6/27	\$ 18.36
YE 30/6/28	\$ 20.20
YE 30/6/29	\$ 22.22
YE 30/6/30	\$ 24.44
YE 30/6/31	\$ 26.89
YE 30/6/32	\$ 29.58
YE 30/6/33	\$ 32.53
YE 30/6/34	\$ 35.79
YE 30/6/35	\$ 39.37
YE 30/6/36	\$ 43.30
YE 30/6/37	\$ 47.63
Present value of foregone dividends	\$238.70

Source: Peloton analysis

7.6 Conclusion

Based on the terms of the ESOP options and the application of both Black-Scholes and binomial (lattice) option pricing models, Peloton has assessed that the value of a single ESOP option is \$nil per option.

TABLE 9 OPTION VALUATION SUMMARY

FRM	Dollars per share
Option valuation outcomes	
Binomial option pricing model	200.88
Black-Scholes option pricing model	202.10
Midpoint	201.49
Less present value of dividends foregone	(238.70)
Value of option	-

Glossary

Term	Definition
ASX	Australian Stock Exchange Ltd
ARR	Annual recurring revenue
ATO	Australian Taxation Office
BOPM	Binomial option pricing model – also known as lattice model
BSOPM	Black-Scholes option pricing model
Capex	Capital expenditure
DCF	Discounted cashflow
DLOM	Discount for lack of liquidity/marketability
EBITDA	Earnings before interest, tax, depreciation and amortisation
ESOP	Employee share option plan
FRM	FRM Holdco Pty Ltd
FY	Financial year
IPO	Initial public offering
ITAA	Income Tax Assessment Act 1997
IVSC	International Valuation Standards Council
Peloton	Peloton Corporate Pty Ltd
R&D	Research and development
FASTFRM	FASTFRM Pty Ltd – a 100% owned subsidiary of FRM
Valuation Date	30 June 2022
VC	Venture capital fund

Appendix 1 — Sources of information

1. FRM cap table (3/3/22 issue date)
2. FRM share register (dated 3 March 2022)
3. FRM subscription deed (dated 1 March 2022)
4. Forecasts (version with start date 1 July 2021)
5. FASTFRM Pty Ltd Financial statements for the period ended 31 March 2022
6. Shareholder deed (dated 1 March 2022)
7. ESOP rules (adopted 2 September 2021)
8. Valuation report prepared by H Smith (dated 3 February 2022)
9. Discussions with Sally King, Antonio Gianelli, Wang Zhe and Ramesh Gupta during April – June, 2022
10. Publicly available data including S&P CapIQ, Bloomberg and company website
11. ATO Market Value Guidelines
12. International Valuation Standards Council valuation guidelines

Appendix 2 - Discounts for lack of liquidity/marketability

Two general types of empirical studies provide evidence for the existence and magnitude of discounts for lack of marketability, being restricted stock studies and pre-IPO studies.

Restricted stock studies compare the trading prices of a company's publicly held stock sold on the open market with those of unregistered or restricted shares of the same company sold in private transactions.

The Maher study examined restricted stock purchases made by four mutual funds in the period 1969 — 73 and concluded that they traded at an average discount of 35.43% on publicly traded stock in the same companies.

The Silber study examined restricted stock issues from 1981 to 1988 and found that the median discount for restricted stock was 33.75%.

Other studies confirm these findings of a substantial discount, with discounts ranging from 30% to 35%. One study by Bruce Johnson in 1999 found a smaller discount of 20%.

It has been argued that the marketability discounts implied by these studies may be inflated since they are based on small sample sizes, spread out over long time periods, and the standard error of these estimates are substantial.

Moreover the firms that issue restricted stock tend to be smaller, riskier, and less healthy than the typical firm that may warrant discounts for lack of marketability.

Pre-IPO studies examine the prices of transactions in shares of private entities, compared to the eventual IPO price of the same entities to estimate the premium paid for tradable, marketable shares, and conversely the implied discount for the lack of that marketability. These studies indicate that a range of marketability discounts may be in the order of 32% to 75%. The studies indicate that other factors may affect marketability discounts as well.

The following table and references were obtained from Discount for Lack of Marketability: Job Aid for IRS Valuation Professionals, September 25, 2009.

Empirical Study (full citation below)	Time Period Covered	Average Discount %
SEC overall average	1/66 — 6/69	25.8
SEC non-reporting OTC companies	1/66 — 6/69	32.6
Gelman	1/68 — 12/70	33.0
Trout	1/68 — 12/72	33.5
Moroney	1/69 — 12/72	35.6
Maher	1/69 — 12/73	35.4
Standard Research Consultants	10/78 — 6/82	45.0 (median)
Willamette Management Associates	1981 — 1984	31.2 (median)
Silber	1/81 — 12/88	33.8
FMV Opinions, Inc.	1/79 — 4/92	23.0
Bruce Johnson Study	1/91 — 12/95	20.0
Columbia Financial Advisors	1/96 — 4/97	21.0
Columbia Financial Advisors	5/97 — 12/98	13.0

Discount for lack of liquidity/marketability

Due to the limitations of these studies summarised above and lack of direct comparability of the companies that form the basis of those studies, marketability discounts in the lower end of those ranges (e.g. 10% to 30%) are often applied.

This range is also supported by the Australian Private Equity and Venture Capital Association guidelines for the valuation of private equity investments, which states:

The Valuer might consider that under specific circumstances the Marketability Discount is not appropriate and should not be applied. When a discount is applied, the Valuer should consider all relevant factors in determining the appropriate Marketability Discount in each particular situation. A discount in the range of 10% to 30% (in steps of 5%) is generally used in practice, depending upon the particular circumstances.

Based on our research and the academic studies we considered, we believe a marketability discount in the vicinity of 30% to be not unreasonable.

Expressed as a premium to an unlisted security, the premium is c.43%.

Control premium

Peloton has reviewed premium for control studies based on transactions occurring in Australia and internationally. RSM Bird Cameron conducted a control premium study based on 345 successful takeovers between 1 July 2005 and 30 June 2012.

The study found that the implied control premium at 20 days pre-bid for the Australian market was:

An average of 35.3%; and
A median of 29.0%.

The RSM Bird Cameron study also found that control premiums vary considerably based on the level of existing shareholding in the target, with higher premiums being paid when acquirers have a material stake in the target. When buyers already hold between 10% and 50% of the target's equity, the average control premium is around 40% and the median between 30% and 35%. In contrast, when the acquirer has a lesser or no shareholding, the average premium is around 30% and the median premium in the range of 20% to 25%.

Deloitte conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 31 December 2011. This study was conducted by Deloitte Corporate Finance staff for internal research purposes. The merger and acquisition data was sourced from Bloomberg and Thomson Reuters and yielded 490 transactions that were completed during the period under review.

The study found that the implied control premium for the Australian market was:

An average of 34%; and
A median of 29%.

Mergerstat conducted a study of transactions in the United States of America and internationally where 50.01% or more of a company was acquired. Transactions were analysed for the 12 months ending 31 December 2012.

The study found that the implied control premiums were:

An average of 55.8%; and
A median of 37.1%.

Mergerstat conducted a study of transactions in the United States of America and internationally where 50.01% or more of a company was acquired. Transactions were analysed for the 12 months ending 31 December 2012.

The study found that the implied control premiums were:

An average of 55.8%; and
A median of 37.1%.

The Mergerstat control premium findings are higher than the Australian studies conducted by RSM Bird Cameron and Deloitte. This may be due to the exclusion of transactions that had negative premiums. Further, transaction studies potentially include 'special value' that a specific acquirer may pay due to synergies that aren't available to other market participants. Accordingly, these studies may overstate the control premium.

A summary of these studies is included in the table below.

Study	Average control premium	Median control premium
RSM Bird Cameron	35.3%	29.0%
Deloitte	34.0%	29.0%
Mergerstat	55.8%	37.1%

Peloton also reviewed Independent Expert Reports issued by valuation firms over the three years to 2013.

Based on our research, the typical control premium ranges quoted in the Independent Expert Reports are summarised below.

Independent Expert	Control premium range	Control premium midpoint
PwC	20%-40%	30%
KPMG	25%-40%	32.5%
Ernst & Young	20%-40%	30%
Deloitte	20%-40%	30%
Grant Samuel	20%-35%	27.5%
Lonergan Edwards & Associates	30%-35%	32.5%
BDO	25%-35%	30%
Grant Thornton	20%-40%	30%

On the basis of the research conducted in relation to control premiums, Peloton considers a control premium in the vicinity of 30% to be appropriate.

Sources for premiums/discounts:

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