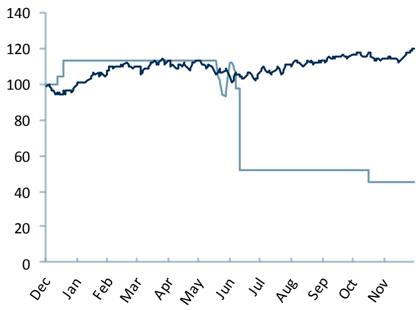
ESTIMATES

VALUE RANGE

EUR 4.64 – 4.88



M77 vs.TecDAX (darker line) 12m to 30/11/2012

Friday, 19 September 2014

ACF VR Metrics	
Value Range Low	€ 4.64
Value Range High	€ 4.88
MCAP Implied (M)	€ 76.28
Net Debt (Cash) (M)	€ 0.99
EV implied (M)	€ 77.27
EBITDA 16E (M)	€ 28.24
Net Debt (Cash) / Equity %	1.30%
Financial YE	31-Dec
Currency	EUR

Business Activity
Investment in finance sector entities

D-Börse Close Metrics	**Adj.**
Close adj. 30/12/2012	€ 2.71
MCAP (D-Börse) (M)	€ 43.34
Ex-D-Börse Ticker	M77
52 Wk Hi (D-Börse)	€ 6.96
52 Wk Lo (D-Börse)	€ 2.75

Financials Sector Research
TecDAX Index
Analyst Team
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Millhouse Inc Plc Valuation Update

PE access for all – Arrives via London Listing

Millhouse Inc Plc (M77) is planning to list on the London facing GXG Main Quote imminently. M77 is a margin geared roll-up play with competitive advantage. We have rebased and reviewed our forecasts and, after M77's significant progress and its imminent listing we have reduced our risk adj. WACC (see below) on this pre-new money, pre-listing valuation. M77 is approaching several key milestones, it has also strengthened its strategy, raised a proportion of its working capital and made considerable progress in closing its all-paper transformative FinRoad (financial disintermediation) acquisition. We have excluded FinRoad's contribution from our valuation as capital is required to develop the acquisition. There is execution risk but the management team, timing, and returns look compelling.

- Consolidation play in financials sector
- EBITDA growth remains highly geared compared to revenues due to prudential capital efficiencies following consolidation
- GXG listing to raise valuation on improved liquidity; outstanding top quartile investment performance record; FCF positive in 2015
- Pipeline includes Tier 1 deals with expected EBITDA >EUR 18m
- Experienced, high integrity, resilient and seasoned entrepreneurial management team

ACF est. EUR (m)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2015E	124.8	9.0	6.7	41.69	13.57
2016E	156.0	28.2	12.2	129.79	42.24

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2015E	0.36x	4.90x	6.64x	0.07x	0.20x
2016E	0.28x	1.57x	3.63x	0.02x	0.06x

*Share Price History	No. of Shares in issue	Fully diluted
NoSh (m) 08/09/14	16,019	49,225
Close adj 30/11/12	€ 2.71	€ 0.88
Value Range Low	€ 4.64	€ 1.51
Value Range High	€ 4.88	€ 1.59
Ex-D-Börse Ticker	M77	
Financial YE	31-Dec	
Reporting Currency	EUR	
NoSh (m) 08/09/14		16,019
NoSh (m) expected dilution (Exp D)		26,019
NoSh (m) full dilution (FD)		49,225

**Key Metrics FCF adj.	2015E	2016E
CPS	41.68	76.20
CPS (Exp D)	25.66	46.91
CPS (FD)	13.56	24.80
P/CPS	0.11x	0.06x
P/CPS (Exp D)	0.19x	0.10x
P/CPS (FD)	0.35x	0.19x

*The Close adj. is the close price adjusted on the last day of trading on D-Börse calculated by taking the closing MCap on the last day of trading on D-Börse of EUR 43.3m and dividing by the NoSh in issue at the date of this note of 16,019,277.

**Note we show Free Cash Flow Per Share (CPS) based upon current NoSh of 16,019,277, expected dilution (Exp D) 26,019,227 and full dilution (FD) 49,224,834. P/CPS uses the intrinsic value per share of EUR 4.76, the midpoint of our ACF Value Range (VR EUR 4.64-4.88).

Investment Case

Competitive background

The current financial environment continues to "find out" weaker institutions.

Although there is something of a mini-boom in primary transactions (IPO and M&A) versus activity over the last 7 years, trading volumes are thin by historical standards and commissions remain under sustained pressure. The regulatory environment is becoming more "hostile" with stronger frameworks, regulators with teeth and record fines. We conclude that M77 can deliver significant outperformance.

Tougher capital requirements and regulatory hurdles are squeezing out weaker players creating fairly priced acquisition opportunities for Millhouse Inc Plc.

Execution of strategy has begun "as advertised"

Millhouse Inc Plc has identified two highly attractive consolidation opportunities prior to listing on GXG. The first, a step from close, is FinRoad (a financial disintermediation portal via a website); the second is the creation of a trusted Private Bank brand via acquisition and JV. We project that M77 can deliver geared EBITDA and FCF margin from consolidation synergies including the reuse of prudential capital.

- **Proven performance** - Private equity investment performance from CEO, David Millhouse, is consistent first quartile (performance record source Prequin 2009).
- **Strong management** - proven M&A and integration experience.
- **FCF positive** in 15E - post raises.

Catalysts

Further value generation

GXG listing - contracts our risk adj. WACC by reducing the liquidity discount.

Appointment of a new Chairman to replace Mr Philippe Paillart (retired 31st August 2014 due to health issues - see management team below).

Closing fund raise (reduces our WACC, releasing significant value).

Closing of FinRoad acquisition (**note** that we have not included any revenues or cash flows in our valuation in this note from the FinRoad acquisition; we have however included some cash capex IT costs).

M&A – Acquisition Growth

FinRoad – global capital markets platform

Disruptive financial disintermediation acquisition, FinRoad, all but closed

Millhouse Inc Plc has all-but-closed its first significant acquisition (FinRoad) - a financial markets disintermediation business centred on a proprietary technology platform and web portal. The FinRoad acquisition is expected to complete on a non-cash (shares only) basis.

We have not included any expected revenues or cash flows from the FinRoad acquisition in our modelling or valuation. We have however included EUR 2m of cash IT investment in our 2015 capex assumptions.

FinRoad is a response to the trend of declining intermediary fee income

FinRoad is a response to the global long-term trend of declining intermediary fee income, whereas the skilled cost base holds relatively steady in terms of total compensation. The progression of web 2.0 and adoption of the internet, as a central pillar of many business strategies, is disrupting small and large-scale traditional business models.

FinRoad is aiming to provide low transaction cost access to transactional data, investments and origination opportunities (Millhouse Inc Plc believes it can leverage the strategy to deliver a number of additional revenue lines including Investor Relations, compliance and head-hunter/HR services).

In addition it is often no longer credible for companies to describe low cost outsourcing strategies as central to their RoE in anything but the very short term. For example, India is rapidly losing its appeal as a low cost base as professional salaries begin to align with those in more developed economies. Both Thailand and China are experiencing similar but accelerated trends in both professional services and manufacturing.

FinRoad is likely to be listed as a separate entity within the Millhouse Inc Plc holding group.

Private Bank – a wealth management platform

Portfolio of acquisitions identified that will create a floatable private bank

Millhouse Inc Plc has targeted the acquisition of a portfolio of assets, which will include wealth management, superannuation funds and specialist insurance management. Together these assets provide significant synergies, and so margin gearing opportunities. The strategy includes a JV/cross shareholding structure with a leading branded European private bank followed by a listing for the shares on the Australian Securities Exchange (ASE) creating a new listed private bank.

Brand value creation is central to leveraging shareholder returns and although this comes with attendant risks (hard to create and easy to destroy) the rewards for shareholders are potentially very significant. We assess that the opportunity to create a trusted brand and the attendant RoE within Financial Services has not been better timed since the Great Depression.

Management Team

- **Chairman – European Advisory Board, Mr Philippe Paillart**

Philippe Paillart was a Director of the Board of M77 until his retirement owing to health issues on 31st August 2014. M77 has identified candidates to replace Mr Paillart following listing. Until retiring Mr Paillart also chaired M77's board – he was former CEO and Vice Chairman of DBS Bank, Singapore's largest Bank, past CEO and Chairman of Ford Credit and Ford Financial Services, Gp. Exec. Dir. of Standard Chartered Bank and Group (directly in charge of retail banking worldwide as well as Group Strategy). Philippe remains Chairman of M77's European Advisory Board.

- **Founder & Deputy Chairman, Mr David Millhouse**

A seasoned and determined team with proven, verifiable ,relevant skills

David Millhouse has been a CEO since 1983. He is a highly seasoned serial entrepreneur and experienced international director in the PE and VC sectors. David has recently had his PhD proposal on systemic and cyclical financial markets failure and proposed changes to Australian law accepted by Bond University. He already has an impressive tertiary education and 30 years of practical experience in building and managing international companies.

David has notable leadership qualities and believes that entrepreneurial skills are not just about fair weather success, but must include the tenacity to push through defeat and the ability to impassion others to follow. Within his management philosophy he believes that entrepreneurial companies can only prosper in an environment of absolute trust, integrity, and common purpose and places great emphasis on the development of human capital.

- **Managing Director, Mr Harry Charlton**

Harry Charlton, Fellow of the Institute of Chartered Accountants (Australia) and proven goal-oriented executive, with a record of driving efficiency and productivity. Harry has global large-cap industrial and institutional experience including banking, PE and VC. Harry is a 'hands on' leader able to direct highly skilled finance and operational management teams. He has significant M&A, restructuring and operational experience. Twice elected Chairman of the Institute of Directors (Western Cape, South Africa), he is insistent on best corporate governance practices. Harry is extremely experienced in the identification of strategic imperatives and aligning resources to maximise shareholder value. He has an exemplary record in tackling malfeasance and also served in the military.

Note: Full CVs available at www.millhouse.co

Valuation

ACF est. EUR (m)	2015E	2016E	2017E	2018E
Revenue	124.8	156.0	243.4	477.1
EBITDA	9.0	28.2	47.9	101.1
Net Income	6.7	20.8	35.3	74.4
FCF	6.7	12.2	23.9	56.4
CPS (diluted)	13.56	24.80	48.57	114.66

European listing cuts Kd and Ke vs. Australian and emerging markets

M77 WACC Calc	*ERP Global
Pre-tax cost of debt	7.7%
ETR	28.6%
After-tax cost of debt	5.5%
Current Leverage	
Debt	2.3%
Equity	43
Target Leverage	
D / (D+E)	20.0%
ACF β adj levered	2.33
rf	1.91%
Rm	5.9%
ERP	4.0%
Cost of equity	11.24%
Risk adj.	75.00%
WACC	85.09%

*Bloomberg ticker indicates ACF market ERP

Note: Listing in Europe systematically reduces the cost of debt and equity compared to Australia and emerging markets

Note well that the equity value EUR 43m in our WACC calculation is the last verifiable equity value for M77 based on the close price on the last day of trading prior to delisting from D-Börse on 15/12/2012. We consider this the most rigorous approach for the WACC calculation.

We have used an implied beta of 2.33 in this note reflecting our observation of volatility on the AIM and GXG markets. We have made this change because we consider the de-listing of M77 from D-Börse now to be too distant combined with substantively different market conditions and sentiment. Our choice of beta also reflects our assessment of the greater potential outperformance of the stock vs. the market.

Our M77 pre-new money and pre-listing value range is EUR 4.64-4.88 per share

Valuation Range		
NPV uFCF (m)	19.74	
NPV TV (EBITDA (m))	57.53	
EVF (m)	77.27	
TV Mulitple	5.0x	
% TV of total NPV	74.46%	
Net Debt (m)	0.989	
Fair Value (m)	76.28	
NoSh (m)	16.02	
NoSh (diluted) (m)	49.22	
Intrinsic Value per Share $	4.76	
Close Price €	2.71	
VR (low - high)	**4.64**	**4.88**
VR Spread	5.00%	
Implied VR Return (low - high)	71.3%	80.1%

Note: Adjusted close price on front page of this ACF research note is based upon Market Capitalisation (MCap) on the last day of trading on D-Börse on 15/12/12 (at which date there were 144,452,863 £0.10 par value shares in issue). The adjusted close is calculated by dividing the last trade MCap by the shares in issue at date of this note (NoSh 16,019,277; €1.00 par value) The ACF Value Range (VR) and metrics are based upon and the NoSh at date of note (16,019,277).

Sensitivity Analysis

Our pre-new money, pre-listing Value Range EUR 4.64-4.88 per share

When running our rebased M77 FCF forecasts we have used an aggressively low FCF assumption in 2015E (note that our median forecast range for FCF 15E is EUR 8-10m). We have cut our TV multiples and reduced our risk adjusted WACC to 85.09% vs. 95.79% in our M77 note published 20th June 2013.

Management has hit significant milestones and all but closed its first acquisitions

In addition and as a result of our rebasing approach, our valuation is now more heavily weighted towards the terminal value which accounts for 74.46% of our total NPV (vs. 59.59% prior). We have used an EBITDA TV 5x replacing our unlevered FCF TV multiple of 10.0x to reflect the greater probabilistic uncertainty associated with an extended FCF horizon. In our FCF TV vs. WACC sensitivity analysis below we can infer that the FCF terminal multiple is cut between 2X and 3X vs. our June 2013 note.

In our strongly conservative valuation approach we have used our low-end sensitivity for FCF 15E. We have also weighted our 5 yr FCF forecasts towards the end of our forecast range, reflecting delays in execution, which notably have been beyond management's control.

FCF TV vs. WACC sensitivity analysis supports our EBITDA TV DCF conclusions

Our DCF value range, EUR 4.64-4.88 per share assumes an EBITDA terminal value 5.0x. We note that using an FCF TV our DCF value range falls within a sensitivity between 85-90% risk adj. WACC and 7-9x FCF TV (see below), which is in line with the additional 2X we would expect to see on an EV/FCF multiple vs. an EV/EBITDA multiple.

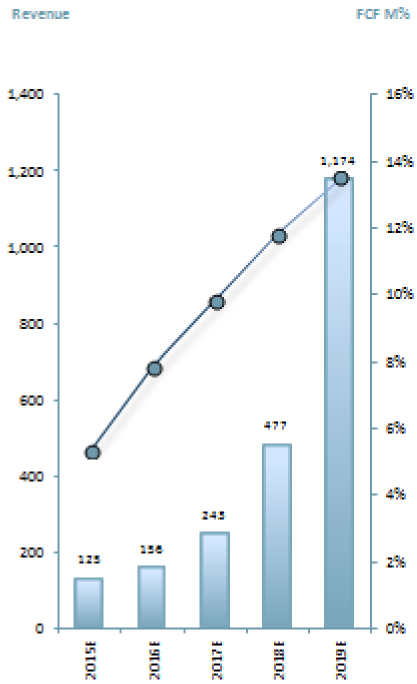
ACF est. EUR (m)	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS	CPS (diluted)
2015E	124.8	9.0	6.7	41.69	13.57	41.68	13.56
2016E	156.0	28.2	12.2	129.79	42.24	76.20	24.80

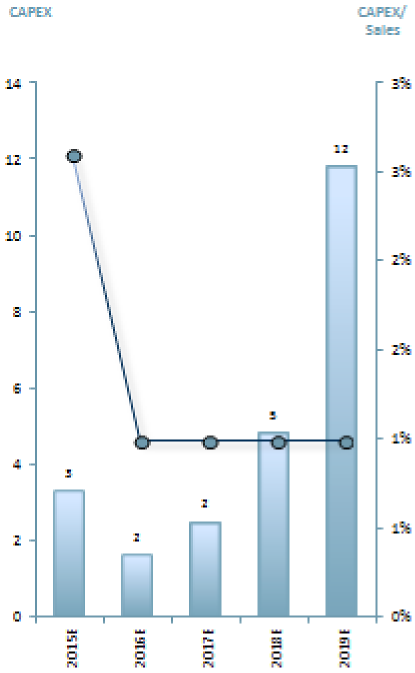
Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS	P/ CPS (diluted)
2015E	0.36x	4.90x	6.64x	0.07x	0.20x	0.07x	0.20x
2016E	0.28x	1.57x	3.63x	0.02x	0.06x	0.04x	0.11x

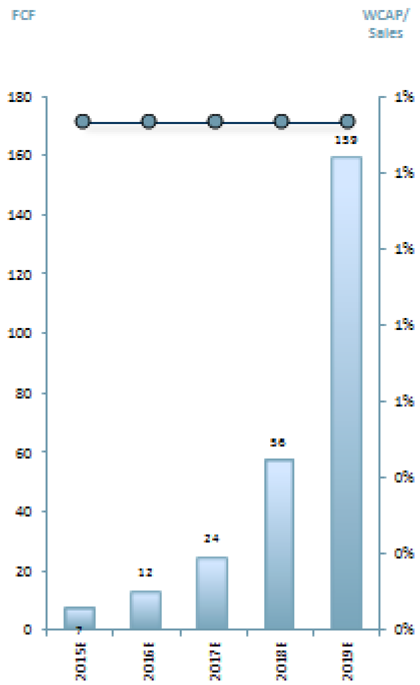
Share Price

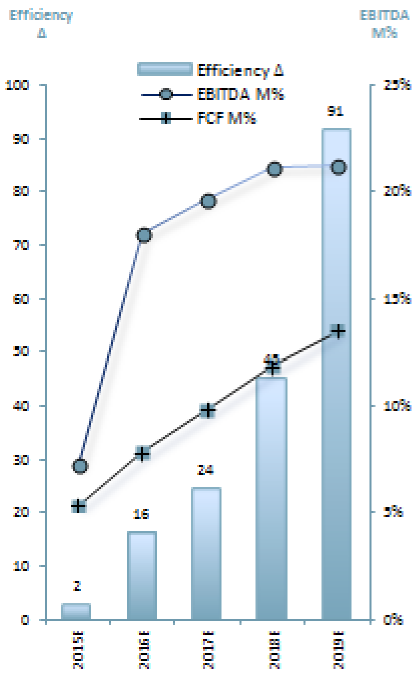
Terminal FCF Multiple	WACC 70.00%	75.00%	80.00%	85.00%	90.00%	95.00%
5.0x	5.13	4.48	3.93	3.46	3.05	2.71
6.0x	5.83	5.08	4.45	3.91	3.45	3.06
7.0x	6.52	5.69	4.97	4.37	3.85	3.41
8.0x	7.22	6.29	5.50	4.83	4.25	3.76
9.0x	7.92	6.89	6.02	5.28	4.65	4.11
10.0x	8.62	7.49	6.55	5.74	5.05	4.46
11.0x	9.31	8.10	7.07	6.20	5.45	4.81

Forecasts









Our forecasts are based upon management guidance and our own sensitivity analysis. We focus on cash proxies (EBITDA) and free cash flow (FCF) measures. We also are strongly of the view that only cash matters.

Financial Analysis

Many boutique financial services businesses are or will no longer be able to compete

M77 is ready to roll these businesses up

● **Competitive advantage** – Prudential capital, also known as regulatory reserve capital. Prudential capital regulatory revisions give Millhouse Inc Plc (M77) a very significant strategic advantage. Increased regulatory requirements for prudential capital are driving industry consolidation in the Australian, Asian and UK markets. Prudential capital in this context does not have the same meaning as in the Basel Accords in respect of regulated bank capital. The great majority of financial services businesses are “four-man” consultancies and are unlikely to be able to raise the EUR 10m prudential capital (see below) required to run large-scale businesses.

● **Revenue growth and mix assumptions** - The key message for investors in respect of the revenue growth mix is threefold:

a) management expects to pay cash and paper for 100% holdings;

b) the revenue mix is likely to be consistent year on year (see exhibit 1 below) since funds management businesses typically have annuity style revenue streams;

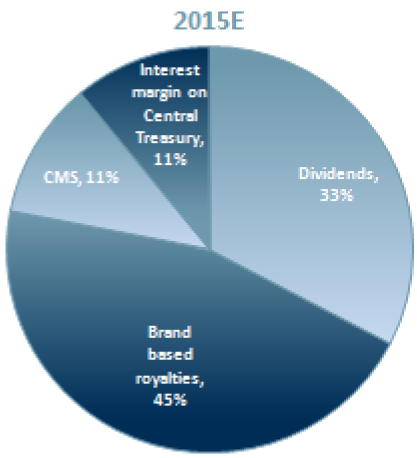
Strong organic growth coupled with significant acquisitions

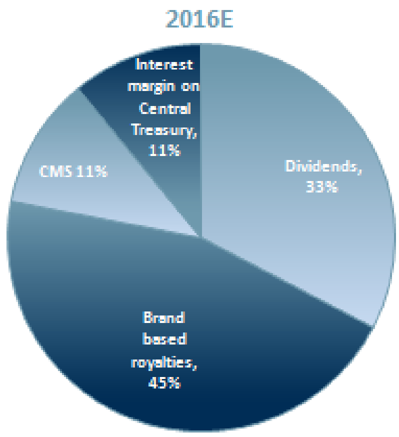
c) approximately 66% of underlying revenues can be cash flows derived from revenues that are not necessarily dividend dependent. This is a result of the holding entity providing prudential capital, and centralised corporate functions.

Revenue mix consistent allowing for reliable but geared margin projection

Our applied growth rates during 2015E and 16E are driven by acquisition activity. 2016E onwards we expect growth to be composed of organic and acquisition growth. We are currently expecting a WCAP/Revenues ratio of around 1% revised down from around 5% and an average operational (maintenance) capex/sales ratio of 1%. However we forecast 2.6% capex/sales 15E to account for expected one off IT investments. Our underlying weighted average D&A/capex expectation is 33%.

Exhibit 1: Millhouse Inc Plc Revenue Mix Consistent 2015E & 16E





EBITDA is highly geared growing faster than revenue

● **EBITDA growth** – We assess that prudential capital (see analysis below) can be re-used to produce a margin gearing effect with respect to EBITDA and FCF and especially where a company's market capitalisation, in and of itself, satisfies regulatory tests. Therefore EBITDA can grow faster than revenue (see exhibit 3 below for M77's acquisitions' expected EBITDA). The relationship between prudential capital, revenue, and margin growth should not necessarily be modelled in a linear fashion.

● **D&A** – **Note** It is reasonable to infer that the start-up costs of the business in 2011 and 12 are distorted by write-downs. **Prudential capital** (see analysis below) is not depreciated other than by inflation. We forecast operational D&A/capex to run at around 33%.

ETR at 26%

● **Effective Tax Rate (ETR) on EBT** – We expect the operational ETR to run at 26%. For the purpose of our WACC calculation we have assumed the World Bank weighted average ETR of 28% reflecting our current expectations of M77's potential international revenue mix.

Capex minimal vs. revenues

● **Capex (Capital Expenditure)** – We have scaled back our **Maintenance capex**/sales to 1%, down from 1.5% after our recent discussions with management; Our **growth capex** (EUR 50m assumption) is used for acquisitions and EUR 10m prudential capital (though this may finally come from a separate debt instrument). The new money from the planned EUR 50m raise is not included in the cash flow projections statement as capex, or as net cash on the balance sheet in this valuation. As such our current M77 valuation is pre-new money and pre-listing.

M77's prudential capital strategy transforms treasury into a profit centre

● **Prudential capital (10m EUR assumption)** – The regulatory reserve that Millhouse Inc Plc intends to deploy is not Tier 1-3 capital as defined under Basel banking regulations. As such M77 can transform the treasury function into a profit centre.

Prudential capital will be provided for out of M77's slated EUR 50m raise (i.e. use of funds). In this context prudential capital is a measure of financial standing of the entity requiring the capital as part of the grant and maintenance of relevant "banking" licences to it by regulators.

Prudential capital strategy combined with increasing regulatory burden and material regulator penalties is the key to EBITDA and FCF gearing

In the scenario above the reserve-holding bank makes an undertaking to the relevant regulatory authority to provide this regulatory capital as an Undertaking or Guarantee, which can only be cancelled with the consent of the regulator. Note that financial services regimes vary by jurisdiction with the UK presently being less onerous than others.

Prudential capital is available for all acquirees (rather than per acquiree) and to all further acquisitions (subject to jurisdictional regulatory approval). It is not the purpose of this form of regulatory reserve (as opposed to its purpose under the Basel Accords) to provide a capital base, of itself potentially, at call.

The Prudential capital-holding bank makes an undertaking to the relevant regulatory authority to protect this capital in case the regulatory authority needs to make a claim on it. As such prudential capital can be "pledged" against multiple assets (acquisitions) and is a significant driver of M77's competitive advantage, EBITDA and FCF margin gearing.

According to management, prudential capital is never actually paid out in Australia; nevertheless the company has taken insurances against the EUR 10m prudential liability. **Protection and prudential requirements – 1)** Insurance protection; **2)** Liability limited to assets/funds under management; **3)** Common and statute law and practice **4)** Prudential protection.

● **Dilution and Options** – Changes to our previous published values are based upon management updates (see exhibit 2 below) and the expired unexercised options. Fully diluted shares in issue will now, according to management, total 49,224,834 vs. the 16,019,227 shares in issue at the date of this note. Management believes that de-facto full dilution will be 26,019,227 shares from options, net of buybacks and treasury share cancellations. The Board views that options affording holders rights to the issue of 10,000,000 shares will be exercised.

● **Free float** – Shares closely held by management, early investors and advisors.

Dilution risk far less than formal numbers suggest

Exhibit 2: M77 Options Dilution Analysis

Total options in issue	**33,205,607**
Unlikely to be exercised	
Gebo Equity Management Pty Ltd	(2,233,090)
New SMSF Pty Ltd	(7,785,000)
Outer Bank Pty Ltd	(3,116,483)
Talitha Skye Pty Ltd	(2,071,034)
Philippe Marcel Etienne Paillart	(5,000,000)
Fin Partners Pty Ltd	(3,000,000)
Likely to exercise	10,000,000
Total options in issue	33,205,607
NoSh	16,019,227
Full Dilution (FD)	**49,224,834**
Likely options uptake	10,000,000
NoSh	16,019,227
Expected Dilution (Exp D)	**26,019,227**

Source: Company Reports; Management discussion

Use of Funds

Includes:

An aggressive acquisition growth programme

- Working capital requirement
- Prudential capital (EUR 10m) – alternatively provided via structured finance
- Acquisition capex up to EUR 50m (from the current round)

Exhibit 3: Millhouse Inc Plc (M77) Acquisition Targets

A generous pipeline of acquisition targets identified for execution post raise

Pipeline Class	Definition	Number of Targets and Projected EBITDA 15E
Tier 1	Completed due diligence (DD) or close to completion of DD	Ten [10] - before corporate costs & synergies EBITDA EUR 18-30m:
Tier 2	Would like to carry out due diligence (DD).	Before corporate costs & synergies EBITDA EUR 12-15m:
Tier 3	Further out from DD but of interest	Before costs & synergies EBITDA 15E EUR 31m:

Source: Company Reports; Management discussion

Notes [Intentionally Blank]

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