ASX Announcement

8 October 2019

ABN 49 109 078 257. ACN 109 078 257

RELEASE OF INDEPENDENT EXPERT REPORT

Attached is an Independent Expert's Report from Grant Thornton Corporate Finance Pty Ltd (**Grant Thornton**), which has been provided to the directors of SeaLink Travel Group Limited (ASX:SLK) (**SeaLink**) in relation to the proposed acquisition by SeaLink of the Transit Systems Group (**Acquisition**) (as described in SeaLink's announcement to the ASX earlier today) (**Acquisition Announcement**) and the issue of SeaLink shares to entities associated with the vendors of the Transit Systems Group (**Vendors**) in connection with the Acquisition. In that report, the expert has concluded that the Acquisition is fair and reasonable to SeaLink shareholders who are not associated with the Vendors. That conclusion is based on the assumptions and qualifications set out in the report.

The Independent Expert's Report has been prepared for the sole purpose of assisting SeaLink shareholders in deciding whether or not to approve the resolutions relating to the Acquisition under item 7 of section 611 of the *Corporations Act 2001* (Cth) (**Corporations Act**), as required under the Corporations Act and Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 74. It has not been prepared for the purpose of the placement of shares or the entitlement offer referred to in the Acquisition Announcement. The Independent Expert's Report, and the draft notice and explanatory memorandum for the extraordinary general meeting of SeaLink to consider these resolutions, will be lodged with ASIC on or around 23 October 2019, and remain subject to its review. Those documents are expected to be despatched to SeaLink shareholders on or around 8 November 2019. The Independent Expert's Report may need to be updated prior to despatch to reflect any material changes in market conditions and circumstances.

The Independent Expert's Report has been prepared by Grant Thornton and Grant Thornton takes responsibility for that report. Grant Thornton has given, and has not withdrawn as at the date of this announcement, its written consent to the publication of the Independent Expert's Report. None of SeaLink, the Vendors, the joint lead managers[1] nor any of their respective subsidiaries, directors, officers, employees, representatives or advisers assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

For further information please contact:

Jeff Ellison, Chief Executive and Managing Director 0407 407 123
Andrew Muir Chief Financial Officer 0423 027 745

1 Being Macquarie Capital (Australia) Limited (ACN 123 199 548), Ord Minnett Limited (ACN 002 733 048) and Taylor Collison Limited (ACN 008 172 450).

SeaLink Travel Group Limited

Independent Expert's Report and Financial Services Guide

8 October 2019

Grant Thornton Corporate Finance Pty Ltd
ABN 59 003 265 987
AFSL 247140

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T + 61 2 8297 2400
F + 61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

The Directors
SeaLink Travel Group Limited
Level 3, 26 Flinders Street
Adelaide, SA 5000

8 October 2019

Dear Directors

Introduction

SeaLink Travel Group Limited ("SeaLink" or "the Company" or "SLK") is a diversified tourism and transport company with operations throughout Australia. The Company operates Australia's largest ferry fleet providing ferry or barge services for regular commuters, businesses and governments, along with tourist and charter cruises, tours and activities, hotel accommodation and packaged holidays. The Company is listed on the Australian Securities Exchange ("ASX") with a market capitalisation of c. A$397 million[1].

Transit Systems Group ("Transit Systems Group" or "TSG") is a global public bus commuter transport company comprising Transit Systems Pty Ltd and its broader group of entities ("Transit Systems Australia" or "TSA"), which is a large Australian private operator of metropolitan public bus services and Tower Transit Group Ltd and its broader group of entities ("Tower Transit Group", or "TTG") which is an established international platform with current bus operations in London and Singapore[2]. As at 30 June 2019, the Transit Systems Group operated circa 3,129 buses and 32 depots in Australia, London and Singapore on behalf of local and regional governments and authorities largely under long term contracts.

On 8 October 2019, the Company announced that it had entered into two separate Securities Sale Agreements[3] ("SSAs") with the Vendors[4] of Transit Systems Australia and Tower Transit Group to effect the acquisition of 100% of Transit Systems Group by SeaLink ("Proposed Acquisition").

SeaLink will acquire 100% of Transit Systems Group for a total equity value of circa A$424 million and it will assume debt and debt like items of circa A$211 million equivalent to an enterprise value of circa A$635[5] million. The equity value will be satisfied by the following consideration:

- Upfront consideration ("Upfront Consideration") comprising the following:

[1] Based on a share price of circa A$3.91 as at 4 October 2019.
[2] Tower Transit Group and Transit Systems Australia have slightly different shareholders (refer to section 1 for details) and they are collectively or individually referred to as the Transit Systems Group.
[3] This is because the shareholders of Transit Systems Australia and Tower Transit Group are slightly different. SLK entered into an agreement with the shareholders of Transit Systems Australia and into an agreement with the shareholders of Tower Transit Group. We note that the two SSAs are interdependent upon each other.
[4] The Vendors of Transit Systems Australia are in equal share Neil Smith, Graham Leishman and Lance Francis either individually or through entities which they control whilst the Vendors of Tower Transit Group are Neil Smith, Graham Leishman, Clint Feuerherdt and staff either individually or through entities which they control (collectively referred to as the "Vendors"..
[5] Calculated as the equity value of A$424 million plus assumed debt and debt-like items of A$211 million.

- A$269 million in SeaLink shares ("SeaLink Shares") at an issue price of A$3.69[6] per share ("Scrip Consideration") which is equivalent to 72,869,945 shares. The Company will, on completion of the Proposed Acquisition, enter into escrow arrangements ("Escrow Agreements") with the Vendors who are receiving the Scrip Consideration ("Scrip Vendors") such that the Scrip Consideration is subject to an escrow period of two years[7] (with 50% released 12 months post transaction completion)

- A$118 million cash to the Vendors ("Cash Consideration")[8] paid pro-rata to all the Vendors as discussed in Section 1.

• Deferred non-contingent consideration of A$37 million ("Deferred Consideration") payable in cash pro-rata to the Vendors in three equal instalments in approximately August 2020, April 2021 and August 2022.

In addition, the Company will pay an earn-out consideration of up to A$63 million ("Earn-out Consideration") contingent upon the FY20 pro-forma normalised EBITDA of Transit Systems Group being between A$79 million or less (nil payment) and A$86 million or more (A$63 million payment). The Earn-out Consideration is payable on a sliding scale based on the FY20 pro-forma normalised EBITDA achieved and at the same time as the Deferred Consideration.

The funding for the Proposed Acquisition (including transaction costs of circa A$21 million) is expected to be derived by the following:

• A fully underwritten placement to new and existing institutional shareholders of A$65 million ("Placement") at an issue price of A$3.50 ("Placement Price"). The Placement Price is at a discount of 10.5% to the closing price of A$3.91 on 4 October 2019.

• A fully underwritten pro-rata, accelerated, non-renounceable entitlement offer to raise approximately A$89 million ("Entitlement Offer") at the Placement Price. All SeaLink Directors who are shareholders intend to fully or partially take-up their rights under the Entitlement Offer.

The Placement and the Entitlement Offer are not contingent upon completion of the Proposed Acquisition.

In conjunction with the Proposed Acquisition, SeaLink will raise A$470 million of new debt facilities ("New Debt Facilities") consisting of a senior term debt facility of A$230 million, revolving credit facilities of in aggregate A$180 million and a letter of credit of A$60 million to refinance its and Transit Systems Group's debt facilities. Certain debt-like Transit Systems Group obligations (circa A$45 million)[9] will rollover.

---

[6] Rounded for the purpose of the IER.
[7] Subject to certain exceptions.
[8] The Cash Consideration includes a base amount of A$118 million and an adjustment amount. If the transaction proceeds, from 31 March 2019, the Locked Box Date, SLK will gain the economic benefit of the cash flows generated by the Transit Systems Group. The Adjustment Amount offers an off-setting compensation for the Vendors in the form of a cost of capital charge ("Cost of Capital Charge") calculated as Transit Systems Group's equity value excluding the Earn-out Consideration ("Adjusted Equity Value") multiplied by an annual interest rate pro-rated for the period between 31 March 2019 and completion of the Proposed Acquisition. The Adjustment Amount is subject to certain other adjustments discussed in Section 1.
[9] A$40 million of vendor finance notes relating to the acquisition of Sita Group and A$5 million of retained finance leases. In April 2019, TSG acquired Sita Group, marking the company's entry into the Victorian bus market.

The Deferred Consideration and the Earn-out Consideration are expected to be funded from operating cash flows and available debt capacity.

If the Proposed Acquisition is completed, the following will occur:

- The Locked Box Date will be assumed as at 31 March 2019 which means that SeaLink will be entitled to the Transit Systems Group's cash flows from this date adjusted for the payment of the Adjustment Amount as discussed in Section 1.

- The Scrip Vendors in aggregate will hold 33.4% of the enlarged issued capital of SeaLink ("Enlarged SeaLink" or "Combined Group").

- Clint Feuerherdt, current Group CEO of Transit Systems Australia and Tower Transit Group will replace Jeff Ellison as CEO of the Combined Group. Jeff Ellison has agreed to provide support to Clint Feuerherdt to ensure a smooth transition of leadership and will remain on the Combined Group board as a Non-Executive Director. We note that SeaLink announced in October 2018, that Jeff Ellison had indicated his intention to retire from SeaLink on or before the Annual General Meeting in October 2019.

- Neil Smith will join the Board of the Combined Group. Mr. Smith is a founding shareholder and the current Chairman of Transit Systems Group.

- As a result of combining the operations of SeaLink and Transit Systems Group into the Combined Group, costs synergies between A$4.0 million and A$4.6 million per annum are expected to be realised after a period of two years (excluding one-off implementation costs). Additionally, there are potential cross-selling and marketing opportunities through the increased scale and selling/co-ordination of routes which are currently not factored into the assessment of the synergies.

- The Combined Group is expected to have a pro-forma net debt of A$318 million on completion (prior to completion adjustments and the Earn-out Consideration but including the Deferred Consideration) which is equivalent to a pro-forma net debt/FY19 normalised EBITDA of 2.5x.

The Proposed Acquisition is subject to SeaLink shareholder ("SeaLink Shareholders") approval, Foreign Investment Review Board ("FIRB") approval for the Scrip Vendors to receive the Scrip Consideration, no material adverse change, approval of key contractual counterparties, as well as other customary conditions precedent as discussed in Section 1.

The Proposed Acquisition contains customary exclusivity provisions including no shop, no talk restrictions and a notification obligation, subject to SeaLink Director's fiduciary obligations. The SSAs also detail circumstances under which SeaLink may be required to pay a break fee of A$5 million if completion of the Proposed Acquisition does not occur (refer to Section 1 for more details).

Subject to no superior proposal emerging and an independent expert concluding and continuing to conclude that the Proposed Acquisition is reasonable to SeaLink Shareholders non-associated with the Scrip Vendors ("Non-Associated Shareholders"), the Directors have unanimously recommended that the Non-Associated Shareholders vote in favour of the Proposed Acquisition and SeaLink has advised that, subject to the same qualifications, all Directors intend to vote, or procure the voting of, all SeaLink Shares held or controlled by them in favour of the Proposed Acquisition.

Purpose of the report

Based on our review of the terms of the Proposed Acquisition, we note the following:

- The Scrip Vendors in aggregate will hold an interest in the Combined Group of 33.4% which is greater than the 20% takeover threshold provision under the Corporations Act.
- As discussed before, the Company will, on completion of the Proposed Acquisition, enter into the Escrow Agreements with the Scrip Vendors in relation to the Scrip Consideration, which will give SeaLink a relevant interest in more than 20% of its own shares in accordance with ASIC Regulatory Guide 5 “Relevant Interests and Substantial Holding Notices” (“RG5”).

Based on the above, the Directors of SeaLink have engaged Grant Thornton Corporate Finance to prepare an Independent Expert’s report to express an opinion on whether the Proposed Acquisition and the Escrow Agreements are fair and reasonable to Non-Associated Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

When preparing this IER, Grant Thornton Corporate Finance has had regard to the ASIC Regulatory Guide 111 *Contents of expert reports* (“RG 111”), ASIC Regulatory Guide 74 *Acquisitions approved by members* (“RG 74”) and Regulatory Guide 112 *Independence of experts* (“RG 112”). The IER also includes other information and disclosures as required by ASIC.

We note that in accordance with RG 74, ASIC strongly encourages the draft Notice of Meeting, Explanatory Memorandum and Independent Expert’s Report—in relation to an acquisition approved by members under Section 611, item 7 of the Corporations Act—to be provided to ASIC for a review period of 14 days before they are printed and dispatched to the members. **However, this version of the IER is yet to be reviewed by ASIC and accordingly it may be subject to changes.** This report is yet to be reviewed by ASIC due to the fact that in order for SeaLink to complete the Placement and the Entitlement Offer in relation to the Proposed Acquisition in a fully informed market, the IER is required to be disclosed at the same time as the Placement and the Entitlement Offer are being undertaken.

This IER will be included in the Notice of Meeting and Explanatory Memorandum which is proposed to be dispatched to SeaLink Shareholders following ASIC review on or around 8 November 2019. The IER may need to be updated to reflect any material changes in market conditions and circumstances prior to the date of dispatch of the Notice of Meeting and Explanatory Memorandum.

However, this IER has been prepared for the sole use by SeaLink Shareholders with respect to their decision whether to approve the resolutions required by Item 7 of Section 611 of the Corporations Act. The IER has not been prepared for, and we make no recommendation in respect of, the Placement and the Entitlement Offer.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Acquisition is FAIR and REASONABLE to the Non-Associated Shareholders.

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders and other quantitative and qualitative considerations.

Fairness Assessment

In accordance with the requirements of the ASIC RG 111, in forming our opinion in relation to the fairness of the Proposed Acquisition, Grant Thornton Corporate Finance has compared the value per SeaLink share before the Proposed Acquisition (on a control basis) to the assessed value per share of the Combined Group after the Proposed Acquisition (on a minority basis).

We note that the Placement and the Entitlement Offer are not conditional upon the Proposed Acquisition being completed and SeaLink will receive the cash from the issue of the new shares to existing and new investors before SeaLink Shareholders vote on the Proposed Acquisition[10]. Accordingly, there could be a scenario, which we consider remote, that notwithstanding the Placement and Entitlement Offer have been completed, the Proposed Acquisition does not proceed. Notwithstanding the above, in our assessment of the Company on a stand-alone basis, we have not considered the dilution that existing shareholders will suffer from the Placement and potentially from the Entitlement Offer[11]. This is because the substance of the Placement and of the Entitlement Offer is to fund the Proposed Acquisition, however, we understand that it was not feasible from a capital raising perspective and timing of SeaLink Shareholders' approval of the Proposed Acquisition to make them interdependent. We have considered the potential ramifications of the Placement and Entitlement Offer completing but the Proposed Acquisition not proceeding in our reasonableness considerations.

The following table summarises our fairness assessment:

Fairness assessment (A$/share)	*Reference*	Low	High
Fair market value per SeaLink Share before the Proposed Acquisition (control basis)	*8.1*	4.39	4.80
Fair market value of the Combined Group (minority basis)	*9.1*	4.29	4.81
Variance (A$/share)		**(0.10)**	**0.01**
Fairness assessment		**FAIR**	

Source: GTCF analysis

Our assessment of the fair market value of Combined Group on a minority basis significantly overlaps with our valuation assessment of SeaLink before the Proposed Acquisition on a control basis and accordingly, we have concluded that the Proposed Transaction is fair to the Non-Associated Shareholders.

[10] We note that technically the SeaLink Shareholders' approval is only in relation to the issue of the Scrip Consideration to the Scrip Vendors but this is a condition precedent for the Proposed Acquisition to proceed.
[11] The dilution arises as the Placement Price is at a discount to the prevailing trading prices before the announcement of the Proposed Acquisition.

Grant Thornton
An instinct for growth™

Non-Associated Shareholders should be aware that the valuation of SeaLink and of the Combined Group represent the range of possible outcomes for which there are numerous different value comparisons that can be made. There is a small portion of the assessed value range of the Combined Group that does not overlap with the value of SeaLink before the Proposed Acquisition. If any Non-Associated Shareholders form the view that the value of the Combined Group on a portfolio basis fell below A$4.39 per share[12], then they may not consider the Proposed Acquisition to be fair. Under these circumstances, we would still conclude that the Proposed Acquisition is reasonable based on the advantages and disadvantages outlined below.

Non-Associated Shareholders should be aware that our assessment of the value per SeaLink share post the Proposed Acquisition does not reflect the price at which SeaLink Shares will trade if the Proposed Acquisition is completed. The price at which SeaLink Shares will ultimately trade depends on a range of factors including the liquidity of SeaLink Shares, macro-economic conditions, the underlying performance of the SeaLink business and the supply and demand for SeaLink Shares.

In the paragraphs below, we have compared our assessed valuation range of SeaLink and of the Combined Group with a number of relevant value benchmarks:

- *Value of the Combined Group compared with the Placement Price* – We note that our assessment of the Combined Group on a portfolio basis after the Proposed Acquisition is materially in excess to the Placement Price. We are of the opinion that this is driven by the following reasons:

  - The Placement Price is only based on the trading prices of SeaLink before the announcement of the Proposed Acquisition and accordingly it does not reflect the terms of the Proposed Acquisition and the value of the Combined Group.

  - The amount of equity to be raised in the Placement and Entitlement Offer is equivalent to circa 40%[13] of the market capitalisation of SeaLink before the announcement of the Proposed Acquisition. This is a relative large amount to be raised which has required the offering of a discount to the prevailing trading prices in order to make this investment opportunity an attractive proposition for existing and new investors.

  - The Placement and the Entitlement Offer are not contingent upon completion of the Proposed Acquisition. Accordingly there could be a scenario, that we consider remote, where SeaLink raises A$154 million but the Proposed Acquisition does not complete[14]. The Board of SeaLink has indicated that under these circumstances, it will consider alternative uses for the proceeds from the equity raising including returning or distributing them to shareholders. This risk is not reflected in our valuation assessment of the Combined Group but it may be priced into the Placement Price.

- *Value of the Combined Group compared with SeaLink trading prices post announcement of the Proposed Transaction* – We note that we have finalised this IER before the announcement to the market of the Proposed Acquisition and accordingly, we did not have the benefit of observing the reaction of the market and the performance of the share price of SeaLink to the

[12] Low-end of the value of SeaLink before the Proposed Transaction.
[13] A$154 million raised divided a market capitalisation of circa A$397 million as at 4 October 2019.
[14] If the Non-Associated Shareholders do not approve the issue of the Scrip Consideration to the Scrip Vendors or other conditions precedent are not met.

announcement of the Proposed Acquisition. Our valuation assessment of the Combined Group may be in excess of the price at which SeaLink Shares will trade immediately after the announcement of the Proposed Acquisition due to the following:

- Given the large capital raising to be undertaken by the Company to fund the Proposed Acquisition, investors demand for the stock may be reduced in the short term due to the participation level in the Placement and Entitlement Offer.

- The share price of SeaLink immediately after the announcement of the Proposed Acquisition should still price-in some uncertainty in relation to completion which is expected to occur in early 2020.

- Our valuation assessment is based on the underlying value of the Combined Group and it does not take into account potential short-term volatility in the financial markets or in the financial performance of the Combined Group which may occur after the announcement of the Proposed Acquisition.

- *Value of SeaLink before the Proposed Acquisition compared with the indicative offer received in May 2018* – In May 2018, SeaLink received an unsolicited, confidential, indicative and non-binding proposal ("2018 Indicative Offer") from an unidentified party expressing an interest in a transaction which would have resulted in a change of control of SeaLink. The indicative and non-binding offer of A$4.75 per share implied an FY18 EV/EBITDA multiple for SeaLink of circa 10.5x at the time. The Board of SeaLink rejected the 2018 Indicative Offer on the basis that it undervalued the Company and the offer was subsequently withdrawn. We note that the 2018 Indicative Offer price is at the high end of our assessed valuation range of SeaLink before the Proposed Acquisition which has been unanimously endorsed by the Directors of SeaLink[15]. We are of the opinion that this is not unreasonable due to the following:

    - Since the 2018 Indicative Offer, industry and macro-economic conditions have deteriorated (e.g. inbound tourism and fuel price) which have particularly affected the financial performance of SeaLink, and specifically of the Captain Cook Cruises businesses in NSW and WA which, in FY19, generated 21% of group revenues but only 0.6% of EBITDA[16].

    - After the 2018 Indicative Offer, the South Australian Government has notified SeaLink that it intends to put the port infrastructure and facilities at Cape Jervis and Penneshaw, used by the Company to deliver its Kangaroo Island ferry services, to competitive tender in 2024.

    - The 2018 Indicative Offer was a cash transaction whereas under the terms of the Proposed Acquisition, SeaLink Shareholders will continue to be exposed to the performance of the Combined Group.

Overall, we are of the opinion that the qualitative discussions above further support our valuation assessment of SeaLink and of the Combined Group.

[15] Subject to certain caveats discussed before and in Section 1.
[16] EBITDA after corporate costs.

Reasonableness Assessment

RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any superior proposal. In assessing the reasonableness of the Proposed Acquisition, we have considered the following advantages, disadvantages and other factors.

Advantages

Earnings per share ("EPS") accretion

The Combined Group is expected to have improved EPS compared to that of SeaLink on a stand-alone basis before the Proposed Acquisition. The table below summarises the EPS calculation for SeaLink and the pro-forma Combined Group as at 30 June 2019 on an as-is basis and including the mid-point of the pre-tax synergies (A$4.3 million) expected to be realised by the Combined Group.

EPS analysis	SeaLink Actual FY19	Combined Group Pro-forma FY19 Excluding synergies	Combined Group Pro-forma FY19 Including synergies[1]
Net profit after tax (A$m)	23	63	66
Number of shares	101,429,103	218,299,048	218,299,048
Basic EPS	**0.23**	**0.29**	**0.30**
EPS accretion		**26%**	**32%**

Sources: Management
Note (1): Based on midpoint of the annual synergies (i.e. A$4.3 million), adjusted to account for the effects of tax of 30%.

The key underlying assumptions adopted in the calculations of the EPS are outlined below:

- SeaLink's underlying FY19 NPAT of A$23 million.
- Combined Group's underlying NPAT for FY19 of A$63 million.
- Synergies calculated based on the mid-point of the synergies identified by Management between A$4.0 million and A$4.6 million and adjusted for tax.
- We note that our calculation is undertaken on a pro-forma basis and assuming that the synergies will be achieved immediately and SeaLink will not incur one-off implementation costs.

However, it is important to understand that the above analysis is on a 'normalised/underlying basis' and that in the short term, the EPS of SeaLink may decline after completion of the Proposed Acquisition due to a range of factors such as integration and synergy implementation costs and potential changes in accounting policies.

Stronger and more integrated business than SeaLink on a standalone basis

The Proposed Acquisition will create an enlarged entity which should be better positioned to compete in the marketplace, grow its market share and take advantage of the significant growth opportunities due to the following:

- *Enhanced scale and multi-modal capabilities* – The Proposed Acquisition will be highly complementary with SeaLink's current operations creating a Combined Group that represents a leading integrated land and marine public commuter transport business. This will provide the Company with enhanced scale and capabilities to compete for large government contracts by providing multi-modal solutions.

- *Diversified operations* – The combination of the two businesses creates a rebalanced portfolio, by geography, end-markets and contracted vs uncontracted revenues. Transit Systems Group is highly diversified in Australia with operations in almost all states and territories except for Queensland and Tasmania and it has considerable international exposure (circa 34%[17] of the FY19 revenues). Conversely, Queensland is SeaLink's biggest revenue contributor and the Company does not currently have a presence overseas.

- *More resilient earnings base supported by long-term government contracts* – The Combined Group will have revenues largely contributed by long-term state and federal governments contracts along with other low-risk counterparties. Many contracts are gross-cost contracts with the costs of running the service estimated at the point of the tender and then paid over the contract term. As a result, Transit Systems Group takes the cost risk but not the patronage/fare risk. Many of these cost risks are typically protected under the contract. In addition, the Combined Group's earnings will be relatively less exposed to tourism-driven earnings, which are more volatile in nature and affected by economic conditions and level of discretionary expenses.

- *Enhanced tender capabilities* – Transit Systems Group has a strong track record of contract renewals and new contract wins having won 13 contracts, renewed seven contracts and lost just two contracts in its 24-year history in Australia. Upon entering various markets, the company has typically increased its market share over time and re-secured the majority of contracts that have come up for renewal (since inception, circa 85%[18] of contracts have been successfully renewed). The Combined Group will have enhanced tender capabilities across different geographies and transport modes which are expected to be beneficial in future tenders.

- *Strong domestic and international growth* – The Combined Group has a strong pipeline of large public commuter transport services contracts to be tendered in domestic and international markets. Transit Systems Group has identified a pipeline of bus tenders of over A$3.5 billion per annum across existing and new markets (in particular in the US) before 2025. Transit Systems Group has recently submitted its first tenders in the US market and the company has a successful history in entering into new markets and building market share organically as it has recently done in London and Singapore. The international operations of Transit Systems Group will also accelerate the opportunity for SeaLink to expand overseas without the need to fund the initial capital outlay to establish a presence in other markets. In Australia, local governments are also increasingly privatising large public transport contracts.

[17] Based on the pro-forma income statement assuming that Sita Group was owned by TSG since 1 July 2018.
[18] Since inception the company has successfully renewed 7 contracts and had 2 non-renewals. However, of the two lost contracts, one was lost in Perth partly due to Transit Systems Group approaching the Western Australia Government's legislated cap of 50% market share for any one operator. The other lost contract, Adelaide's NSONE, was awarded to an entity which has since exited the market. This was subsequently regained with the acquisition of Light City Buses.

Non-Associated Shareholders participation in the Entitlement Offer

Non-Associated Shareholders will be able to participate in the Entitlement Offer and subscribe for new SeaLink Shares at the same price as the institutional investors and at a discount to the price that the SeaLink Shares will be issued to the Scrip Vendors.

Assessment on a like for like basis

Our valuation assessment of SeaLink before the Proposed Acquisition is on a 100% basis and incorporates the application of a full premium for control in accordance with the requirements of RG111. Specifically, ASIC requires the Independent Expert to treat the issue of shares under Section 611(7) of the Corporations Act as if it was a scrip takeover bid.

However, we note that the Scrip Vendors in aggregate will hold 33.4% of the issued capital of the Combined Group.

In addition, the Scrip Vendors are prohibited, within the earlier of two years or until the aggregate interest in SeaLink falls below 20%, to take certain actions including entering into an agreement or arrangement between each other to vote in the same way on SeaLink Shareholders' resolutions (including against a SeaLink Board recommended competing proposal) or put forward a resolution or requisitioning a meeting to alter the composition of SeaLink Board.

Given that the interest in the issued capital of the Combined Group held by the Scrip Vendors in aggregate or individually will not allow them to have full and unfettered control of the Combined Group and the voting restrictions outlined above, we believe it is appropriate to illustrate to the Non-Associated Shareholders a comparison of the value per share of SeaLink before and after the Proposed Acquisition on a like-for-like basis (i.e. minority basis).

Comparison on a like-for-like basis (A$/share)	*Reference*	Low	High
VWAP before announcement of the Proposed Acquisition (minority basis) [1]	*8.4*	3.60	3.75
Fair market value of the Combined Group (minority basis)	*9.1*	4.29	4.81
Variance (A$/share)		**0.69**	**1.06**

Source: GTCF analysis

Note 1 – VWAP is the Volume Weighted Average Price before the announcement of the Proposed Acquisition selected in our assessment based on the trading prices discussed in section 8.4.

As outlined above, the Proposed Acquisition is expected to be materially value accretive for Non-Associated Shareholders on like for like basis.

Synergies realisation and business combination benefits

Management has conservatively estimated that the combination of the two businesses will deliver annual costs synergies between A$4.0 million and A$4.6 million (excluding one-off implementation costs) after two years from the completion of the Proposed Acquisition. Implementation costs are expected to be limited.

Grant Thornton
An instinct for growth™

Cost synergies will be largely achieved by combining state office operating sites, consolidating bus depots in Adelaide, procurement synergies (e.g. fuel, utilities and IT systems), and by realising support function efficiencies and removing duplication in operations.

There is also a revenue opportunity to utilise the highly visible, multi-national platform of Transit Systems Group to market and promote SeaLink's tourism, travel and experience-based assets and operations to a broader international audience, increasing global brand profile and possibly fleet utilisation. These opportunities cannot be quantified, though, and thus have not been included in Management's assessment of the synergies.

Strong and experienced management team led by a new experienced CEO

SeaLink's strong management team, which has led the Company through significant periods of organic and M&A[19]-led growth, will be complemented by Transit Systems Group's management team with longstanding experience in domestic and international commuter transport operations. Both companies are quite familiar with each other as Transit Systems Australia sold its Transit Systems Marine division in Queensland to SeaLink in 2015.

In August 2018, current group CEO of SeaLink, Mr Jeff Ellison, announced his intention to retire. Clint Feuerherdt, current Group CEO of Transit Systems Australia and Tower Transit Group, has agreed to lead the Combined Group as Group CEO. Accordingly, if this Proposed Acquisition completes, the Company will not have to continue its search for a replacement of Mr. Ellison. Mr. Feuerherdt is experienced in managing a large commuter transport business, developing and fostering strong government relationships, tendering for large-scale public transport contracts and successfully implementing international growth strategies. He is well-informed about the ferry business, as he helped build Transit Systems Australia's marine operations, becoming the largest private operator of passenger vehicle ferries in Australia, before divestment to SeaLink in 2015.

In addition, Mr. Smith, has agreed to join the SeaLink Board of Directors upon completion of the Proposed Acquisition. He will bring over 30 years of commuter transport operations experience.

Enhanced liquidity

The Proposed Acquisition will result in a Combined Group that will be significantly larger in size and in market capitalisation, which will likely lead to inclusion in the ASX 200 Index[20]. This is expected to increase volume and coverage by institutional investors and liquidity for the Non-Associated Shareholders.

Volatile market conditions

Market conditions on the global financial markets are currently volatile and subject to uncertainties due to the following, among other things:

- *Trade war* – The trade war between the US and China erupted circa 18 months ago and it has exacerbated in more recent times. As a result, the US has put import tariffs on US$250 billion worth of Chinese goods and it has threatened tariffs on an additional US$325 billion. As a

[19] Mergers and Acquisitions.
[20] SeaLink was removed from the ASX 300 Index effective 23 September 2019.

countermeasure, China has imposed tariffs on US$110 billion worth of US goods and Chinese companies have suspended purchasing US agricultural products. The trade war is affecting those economies which have a greater reliance on export and it is causing fears of global recession. China recently reported the worst manufacturing output in 17 years and Germany indicated that the economy shrank by 0.1% in the second quarter of the year.

- *Inverted yield curve and possible US recession* – On 14 August 2019, the US 10 year bond yield fell below the level of the US two year bond yield (i.e. inversion in the yield curve) which has caused significant uncertainty in the global markets as an inverted yield curve has been associated in the past with a looming US recession.

- *Brexit* – In the UK, GDP growth was negative 0.2% in the second quarter of 2019 and there remains substantial uncertainties in relation to outcome of the Brexit. With substantial uncertainties around the terms of the UK's exit from the European Union, the country is expected to potentially fall into recession.

A global recession may adversely affect the business of SeaLink on a stand-alone basis in a more pronounced way than the Combined Group given the latter has a greater proportion of revenue which is more inelastic to deteriorating market conditions and discretionary expenditure.

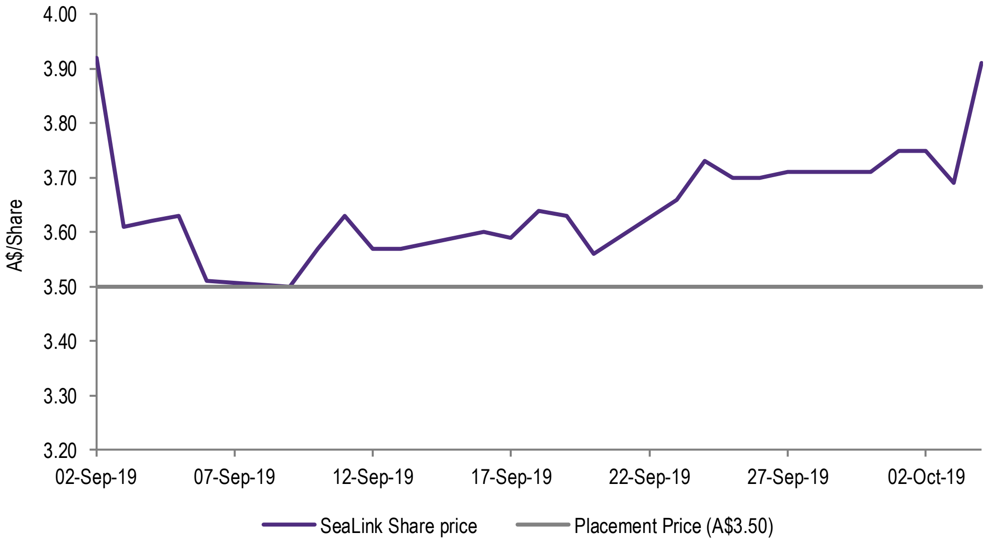
Placement and Entitlement Offer not conditional on completion of the Proposed Acquisition

As discussed before, the Placement and the Entitlement Offer are not conditional upon completion of the Proposed Acquisition and the Company is expected issue the new shares and receive the cash before completion of the Proposed Acquisition. Accordingly, one of the advantages of approving the Proposed Acquisition, all other things being the same, is that the dilution to be suffered by existing shareholders in conjunction with the Placement and the Entitlement Offer[21] will not be borne unnecessarily.

We note that the issue price of SeaLink Shares is expected to be lower than the trading prices prevailing before the announcement of the Proposed Acquisition as outlined in the graph below.

[21] The dilution arises as the Placement Price and the Entitlement Offer are at discount to the prevailing trading prices of SeaLink before the announcement of the Proposed Acquisition.

SeaLink share price and the Placement Price



Source: GTCF analysis; S&P Global

The Board of SeaLink has indicated that under these circumstances, it will consider alternative uses for the proceeds from the Placement and Entitlement Offer including returning or distributing them to shareholders.

Disadvantages

Contracts renewal risks

A number of significant Transit Systems Group contracts are due to expire over the next few years with circa 33% of the FY19 pro-forma revenue expiring before 30 June 2020. We note the following about the expiry of some of the larger contracts:

- The NSW Region 6 contract in Sydney inner-west will expire in June 2023 and may be extended for an additional 3 year period by the government. This is the largest public transport contract to be competitively tendered in Australia to date.
- The NSW Region 3 initial contract expired in October 2018 and was extended for an additional 3 year period at which point there is an option to extend the term for an additional period of 12 months to October 2022.
- The majority of the contracts in Western Australia and South Australia are due to expire in 2020.
- The initial 7 year Darwin contract in Northern Territory will expire in February 2021.
- The UK contracted revenue base is expected to decrease as a result of the expiry of route 25 and route 23 in May 2020 and July 2020, respectively. These routes are not eligible for a 2-year extension. In addition, most other UK routes are up for renewal over the next three years.

- All Tower Transit Group Singapore routes operate under one contract ("Bulim package") which consists of 31 routes[22] with Land Transport Authority of Singapore ("LTA"). This contract expires in May 2021 with a further 2 year extension available at the discretion of LTA.

The risk of the above contracts not being renewed or replaced by similar sized contracts poses a threat to the future earnings of the Combined Group. Transit Systems Group's revenues are almost fully contracted in FY19 but this proportion reduces to 74% in FY20 and further to 60% in FY21[23].

However, in our opinion, this risk is materially mitigated by the ability demonstrated by Transit Systems Group over its circa 25 years of operations to retain existing contracts or been awarded new ones and by the large pipeline of bus tender opportunities identified by management (totalling more than A$3.5 billion per annum by 2025).

Risk connected with the NSW Region 6 Contract

The Region 6 bus contract in Sydney's inner west commenced in July 2018, however Transit Systems Group inherited a bus schedule with opportunities for improvements in terms of driver hours and bus kilometres which caused the contract margin to be lower than expected or generated by Transit Systems Group on the rest of the business. Transit Systems Group has implemented a number of initiatives to streamline the operations and improve margins which are expected to come to fruition during the course of FY20.

The Non-Associated Shareholders share the risk that the initiatives implemented by Transit Systems Group do not bring the expected benefits and the financial performance of the Region 6 contract remains below average. However, we note that this risk is mitigated by the Earn-out Consideration which has been tailored on expected improvements of the Region 6 contract.

Higher debt level

Following completion of the Proposed Acquisition and as a result of the payments to the Vendors, the pro-forma leverage ratio[24] of the Combined Group as at 30 June 2019 will be 2.5x (including the Deferred Consideration) compared with a leverage ratio as at 30 June 2019 of 1.7x for SeaLink on a stand-alone basis as set out in the table below:

Gearing analysis A$m	SeaLink Actual FY19	Combined Group Pro-forma FY19
Net Debt	84	318
Underlying EBITDA	48	125
Gearing	**1.7x**	**2.5x**

Sources: Management, GTCF analysis

Whilst the pro-forma leverage ratio of the Combined Group is higher, we consider the debt level of the Combined Group sustainable and based on the benchmarking undertaken substantially in-line with listed comparable companies.

[22] Two further routes were added to the Bulim package following commencement of the contract, which are operated by SMRT Buses.
[23] Financial Due Diligence Report, July 2019.
[24] Calculated as net debt divided by EBITDA.

Grant Thornton
An instinct for growth™

Other factors

Prospect of a superior offer or alternative transaction

Whilst SeaLink has agreed not to solicit any competing proposals or to participate in discussions or negotiations in relation to any competing proposals during the exclusivity period, there are no impediments to an alternative proposal being submitted by potential interested parties. The transaction process should act as a catalyst for potentially interested parties to assess the merits of potential alternative transactions.

If an alternative proposal on better terms was to emerge, it is expected that this would occur prior to the shareholder meeting convened to consider the Proposed Acquisition. We note that there will be a significant time-lag between the release of this IER and the SeaLink Shareholders meeting to approve the Proposed Acquisition. In the event that an alternative offer on better terms emerges, shareholders will be entitled to vote against the Proposed Acquisition or the shareholders meeting will be adjourned.

Escrowed shares

The Scrip Consideration issued to the Scrip Vendors will be escrowed for a period of two years, with 50% released 12 month post transaction completion. This will effectively decrease the fair market value of the Scrip Consideration received by the Scrip Vendors given they are not able to deal with their SeaLink Shares during the escrow period after the completion of the Proposed Acquisition. However, this value reduction has not been quantified in our valuation assessment of the Combined Group as it refers to the specific circumstances of the Scrip Vendors.

Substantial goodwill balance after completion of the Proposed Acquisition

Following completion of the Proposed Acquisition, SeaLink will undertake a formal fair value assessment of all of the identifiable assets, liabilities and contingent liabilities of Transit Systems Group, including intangible assets, which must be identified and valued as at the Acquisition date. Each of the identified intangibles acquired may have a limited life and must be amortised over that life in contrast to goodwill, which is subject to annual impairment review. SeaLink will likely recognise a substantial goodwill balance. The large goodwill balance carried by the Combined Group post completion will increase the risk of potential goodwill impairment should the financial performance of the Combined Group soften going forward.

The goodwill will be tested for impairment at least once a year and the other identifiable intangible assets (if any) will be amortised in accordance with their useful life.

Implications if the Proposed Acquisition is not implemented

If the Proposed Acquisition is not implemented, it would be the current Directors' intention to continue operating SeaLink in line with its objectives. SeaLink Shareholders who retain their shares would continue to share in any benefits and risks in relation to SeaLink's ongoing business. In addition, we note the following:

- SeaLink might be exposed to a continued softening in several tourism markets.

- SeaLink will need to resume the search for a new CEO.
- SeaLink may be required to pay a break fee of A$5 million in certain circumstances.

As discussed before, the Placement and the Entitlement Offer are not contingent upon completion of the Proposed Acquisition. Accordingly, if the Non-Associated Shareholders do not approve the issue of the Scrip Consideration to the Scrip Vendors and accordingly the Proposed Acquisition does not proceed, SeaLink will[25] have additional cash resources of A$154 million (excluding transaction costs and other costs that may become payable). The Board of SeaLink has indicated that under these circumstances, it will consider alternative uses for the proceeds from the Placement and Entitlement Offer including returning or distributing them to shareholders.

Directors' recommendations and intentions

As at date of this Report, the Directors of SeaLink have recommended that SeaLink Shareholders vote in favour of the Proposed Acquisition, subject to the Independent Expert concluding and not changing its conclusion that the Proposed Acquisition is reasonable to the Non-Associated Shareholders. The Directors also intend to vote the shares they hold or control in favour of the Proposed Acquisition.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Acquisition is **REASONABLE** to the Non-Associated Shareholders.

Fair and Reasonable opinion in relation to the Escrow Agreements

A technical, legal effect of the Proposed Acquisition is that SeaLink will also acquire a relevant interest in the Scrip Consideration because for a period of 24 months commencing upon issue of the Scrip Consideration, SeaLink is proposed to be a party to the Escrow Agreements under which the Scrip Vendors will be prohibited from dealing in the Scrip Consideration shares (except in certain specified circumstances).

As a result, if the Proposed Acquisition is approved then the Scrip Vendors in aggregate will hold an interest in the Company of 33.4% and the Company will obtain a relevant interest in 33.4% of its own shares as a result of entering into the Escrow Agreements.

Consequently, we have also been asked to provide a separate opinion as to whether the acquisition by SeaLink of a relevant interest in the Scrip Consideration is fair and reasonable to SeaLink Shareholders. In our opinion, the deemed acquisition by SeaLink of the Scrip Consideration is fair and reasonable to SeaLink Shareholders. This is because the sale restrictions set out in the Escrow Agreements simply restrict the Scrip Vendors' ability to trade in the Scrip Consideration Shares, but have no adverse impact on SeaLink or SeaLink Shareholders.

[25] If the Placement and the Entitlement Offer complete.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Acquisition and the Escrow Agreements are **FAIR AND REASONABLE** to the Non-Associated Shareholders in the absence of a superior alternative proposal emerging.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide ("FSG") in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Proposed Acquisition is a matter for each SeaLink Shareholder to decide based on their own views of value of SeaLink and expectations about future market conditions, SeaLink's performance, risk profile and investment strategy. If SeaLink Shareholders are in doubt about the action they should take in relation to the Proposed Acquisition, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN Director	JANNAYA JAMES Director

8 October 2019

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by SeaLink to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Acquisition. This report is included in SeaLink's Explanatory Memorandum.

2 Financial Services Guide

This FSG has been prepared in accordance with the Corporations Act 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report, we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is SeaLink. Grant Thornton Corporate Finance receives its remuneration from SeaLink. In respect of the Report, Grant Thornton Corporate Finance will receive from SeaLink a fee of A$145,000 (plus GST) which is based on commercial rates, plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this Report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of SeaLink in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in RG 112 *Independence of expert* issued by ASIC. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with SeaLink (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Acquisition.

Grant Thornton Corporate Finance has confirmed independence of Transit Systems Group. We note that Grant Thornton UK LLP has performed audit services for Tower Transit Group. We have disclosed the existing relationships with SeaLink and we have confirmed that it does not pose a risk to independence due to the reasons described under section 2.3.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Acquisition, other than the preparation of this report.Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Acquisition. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of RG 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Complaints Authority. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority which can be contacted at:

Australian Financial Complaints Authority Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 931 678

Grant Thornton Corporate Finance is only responsible for this Report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

Contents

1 Outline of the Proposed Acquisition

SeaLink has entered into two separate SSAs for the purchase of 100% of the outstanding securities in Transit Systems Australia ("TS SSA") and Tower Transit Group ("TT SSA"). We note that the two SSAs are interdependent upon each other.

The Transit Systems Australia vendors are Mr Graham Alexander Leishman, Mr Lance William Francis and Mr Neil Espie Smith and entities that they control either individually or jointly ("TS Vendors"). Whereas the Tower Transit Group vendors are entities controlled by Mr Graham Alexander Leishman, Mr Neil Espie Smith and Mr Clinton Feuerherdt ("Primary TT Vendors"), and employees of Tower Transit Group who hold in aggregate a 2.6% interest in Tower Transit Group ("TTAH Individuals"). Primary TT Vendors and TTAH Individuals herein collectively referred to as ("TT Vendors").

SeaLink will acquire Transit Systems Group for a consideration consisting of the Cash Consideration, Deferred Consideration, Scrip Consideration and the Earn-out Consideration (if payable) as outlined below:

- *Scrip Consideration:* 72,869,945 SeaLink Shares issued to the Scrip Vendors.
- *Cash Consideration* – The Cash Consideration consists of a base amount of A$118 million ("Base Amount") and the Adjustment Amount. The Adjustment Amount is calculated utilising a locked box pricing mechanism from the Locked Box Date to the completion date ("Ticking Period"). We discuss the calculation of the Adjustment Amount under the locked box mechanism in more detail below.
- *Deferred Consideration and Earn-out Consideration*: the Deferred Consideration consists of A$37 million non-contingent cash payments and the Earn-out Consideration is up to A$63 million in contingent cash payable on a sliding scale based on Transit Systems Group FY20 pro-forma normalised EBITDA between A$79 million or less (nil Earn-Out Consideration) and A$86 million or more (100% of the Earn-out Consideration). The Earn-out Consideration is allocated between the TS Vendors and TT Vendors on the respective performance of Transit Systems Australia and Tower Transit Group.

As discussed in the executive summary, the Locked Box Date is 31 March 2019 and accordingly SeaLink will gain the economic benefit of the cash flows generated by the Transit Systems Group from this date. The Adjustment Amount offers an off-setting compensation for the Vendors in the form of the Cost of Capital Charge calculated as Transit Systems Group's equity value excluding the Earn-out Consideration ("Adjusted Equity Value") multiplied by an annual interest rate pro-rated for the Ticking Period. The Adjustment Amount is subject to certain adjustments including bonuses paid to employees of Transit Systems Group, and any leakage not agreed to by SeaLink. The Cost of Capital Charge is allocated between TS Vendors and TT Vendors based on the proportional equity value contribution of Transit Systems Australia and Tower Transit Group to Transit Systems Group. We understand that the cash flows derived by the Transit Systems Group during the Ticking Period are expected to be approximately equivalent to the Cost of Capital Charge and accordingly the Locked Box mechanism is expected to be approximately value neutral for SeaLink Shareholders. However, this is subject to the business performing in line with expectations

Below we provide a summary of the key terms and conditions (other than the consideration) of the TS SSA and TT SSA.

1.1 Transit Systems Australia SSA and Tower Transit Group SSA

1.1.1 Other terms

- *Break fee* – Unless the Proposed Acquisition becomes effective, a break fee of A$5.0 million will be payable by SeaLink to the TS Vendors and Primary TT Vendors in the event that:
  - The Vendors terminate the Proposed Acquisition because of SeaLink's material breach of the SSAs; or
  - SeaLink's Board recommends a superior proposal or terminates the Proposed Acquisition because of a superior proposal; or
  - SeaLink has not held its General Meeting to seek relevant shareholder approvals by 24 December 2019 (or such later date as agreed by SeaLink and Transit Systems Group), except due to matters outside SeaLink's reasonable control; or
  - Any of SeaLink's directors fail to recommend, or withdraw or adversely modify their recommendation in relation to the Proposed Acquisition except as a result of a *"not fair and not reasonable"* opinion by the Independent Expert.
- *Board composition* – Following completion of the Proposed Acquisition, Neil Espie Smith will join the SeaLink Board. For four years after completion and for so long as Neil Espie Smith holds (directly or indirectly) 15% or more of SeaLink ordinary shares on issue, if Neil Espie Smith resigns or ceases to hold office, then SeaLink must consult with Neil Smith regarding a replacement.
- *Standstill agreement* – Each TS Vendor and TT Vendor warrants that they do not have, and will not have (prior to completion of the Proposed Acquisition) any interest in SeaLink shares without the prior written consent of SeaLink. The Vendors will also be subject to standstill arrangements for one year post completion (for Scrip Vendors) or until 26 October 2020 (for the other Vendors).
- *Seller collective actions* – The TS Vendors and TT Vendors must not, within the earlier of two years or until the aggregate interest of the TS Vendors and TT Vendors in SeaLink falls below 20%, take certain actions including entering into an agreement or arrangement between each other to vote in the same way on SeaLink Shareholder resolutions (including against a SeaLink Board recommended competing proposal) or put forward a resolution or requisition a meeting to alter the composition of the SeaLink Board.
- *Others* – other terms common for a transaction of this nature, including customary exclusivity arrangements subject to customary fiduciary exceptions such as "no shop", "no talk", "no due diligence" and a right for Transit Systems Group to be notified of any competing proposals.

1.1.2 Key conditions precedent

The TS SSA and the TT SSA include the following key conditions precedent:

- Approval by SeaLink Shareholders to issue the Scrip Consideration to the Scrip Vendors in accordance with item 7 of Section 611 of the Corporations Act.

- FIRB approval for the Scrip Vendors to receive the Scrip Consideration.
- Financial assistance approvals under Section 260B of the Corporations Act in connection with the New Debt Facilities.
- No material adverse changes to SeaLink or Transit Systems Group excluding, among other things, changes that affect general economic or business conditions in Australia or overseas.
- All necessary approvals, consents, amendments and waivers of contracts and authorisations required to effect the Proposed Acquisition.
- Approval from the Federal Treasurer to the effect that there are no objections under the Australian Government's foreign investment policy or under the *Foreign Acquisitions and Takeovers Act 1975*.
- No termination of the Underwriting Agreement due to certain specified terminations events within three business days after execution of the TS SSA and TT SSA.

2 Purpose and scope of the report

2.1 Purpose

Item 7 of Section 611 of the Corporations Act

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

Item 7 of Section 611 of the Corporations Act allows the shareholders not associated with the acquiring company (i.e. the Non-Associated Shareholders) to waive this prohibition by passing a resolution at a general meeting. RG 74 and RG 111 set out the view of ASIC on the operation of Item 7 of Section 611 of the Corporations Act.

RG 74 requires that shareholders approving a resolution pursuant to Item 7 of Section 611 of the Corporations Act be provided with a comprehensive analysis of the proposal, including whether or not the proposal is fair and reasonable to the Non-Associated Shareholders. The Directors may satisfy their obligations to provide such an analysis by either:

- Commissioning an independent expert's report; or
- Undertaking a detailed examination of the proposal themselves and preparing a report for the Non-Associated Shareholders.

In addition, ASIC RG5 states that a person who enters into an escrow agreement with a holder has a relevant interest in the securities that are subject to the escrow because the person controls the exercise of a power to dispose of the securities. The power to control disposal includes the 'negative power' of restriction. In the absence of a relief, companies and other counterparties to an escrow agreement will generally have to account for their relevant interests in the securities held in escrow in considering their obligations under the takeover and substantial holding provisions.

If the Proposed Acquisition is approved then the Scrip Vendors in aggregate will hold an interest in the Company of 33.4% and the Company will obtain an interest in 33.4% of its own shares as a result of entering into the Escrow Agreements.

Based on the above, the Directors have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Acquisition and the Escrow Agreements are fair and reasonable to the Non-Associated Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111, which states that an issue of shares requiring approval under Item 7 of Section 611 of the Corporations Act should be analysed as if it were a takeover bid. Accordingly, we have assessed the Proposed Acquisition with reference to Section 640 of the Corporations Act. RG 111 states that:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:

  - The offeror's pre-existing entitlement, if any, in the shares of the target company.

  - Other significant shareholding blocks in the target company.

  - The liquidity of the market in the target company's securities.

  - Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.

  - Any special value of the target company to the offeror.

  - The likely market price if the offer is unsuccessful.

  - The value to an alternative offeror and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Proposed Acquisition is fair to the Non-Associated Shareholders by comparing the fair market value of SeaLink Shares before the Proposed Acquisition on a 100% and control basis with the fair market value of SeaLink Shares after approval of the Proposed Acquisition on a fully diluted and minority basis. We note that entering into the Escrow Agreements is conditional upon the Proposed Acquisition completing and the fairness approach in relation to the Escrow Agreements is the same as the Proposed Acquisition. Accordingly, our opinion in relation to the fairness of the Proposed Acquisition will also satisfy the fairness analysis for the purpose of the Escrow Agreements.

In considering whether the Proposed Acquisition is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Acquisition is fair.

- The implications to SeaLink and the Non-Associated Shareholders if the Proposed Acquisition is not approved.

- Other likely advantages and disadvantages associated with the Proposed Acquisition as required by RG111.

- Other costs and risks associated with the Proposed Acquisition that could potentially affect the Non-Associated Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance (a 100% subsidiary of Grant Thornton Australia Limited) considered its independence with respect to the Proposed Acquisition with reference to the ASIC RG 112.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Acquisition other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Acquisition.

We note that Grant Thornton UK LLP have performed audit services for Tower Transit UK. We have disclosed the existing relationships with SeaLink and we have confirmed that it does not pose a risk to independence due to the following reasons:

- Grant Thornton UK LLP is an independent firm from Grant Thornton Australia Limited and we do not share any common shareholders or partners.
- The audit procedures of Tower Transit were undertaken in a different country with the audit team being a completely different team from the valuations team preparing the independent valuation.
- Tower Transit has a 31 March financial year-end and accordingly the IER has been completed outside the audit review period.

2.4 Consent and other matters

Our report is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Acquisition. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of General Meeting and Explanatory Memorandum proposed to be sent to the SeaLink Shareholders on or around 8 November 2019.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Acquisition to the Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Acquisition on individual Non-Associated Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Acquisition on individual shareholders.

The decision of whether or not to approve the Proposed Acquisition is a matter for each Non-Associated Shareholder based on their own views of value of SeaLink and expectations about future market conditions, SeaLink's performance, risk profile and investment strategy. If the Non-Associated Shareholders are in doubt about the action they should take in relation to the Proposed Acquisition, they should seek their own professional advice.

2.5 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment 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 or Assignment available to the Member at that time."

3 Industry overview

SeaLink generates the majority of its earnings from its ferry services which involve the movement of tourists, commuters and freight at various locations throughout Australia. The Transit Systems Group is predominantly focused on operating buses for public transport, and operates bus services in Australia, Singapore and London. Accordingly, in the sections below, we have provided an overview of the water transport and tourism sectors in Australia, and an overview of public bus transport in Australia, London and Singapore.

3.1 Overview of the water transport and water tourism industries

The main users of passenger vessels are described below:

- ***Tourism and long-distance water transport (circa 23% of total industry revenue in FY19)*:** Cruise ships, vehicles ferries and other freight ferries provide water transport domestically between ferry terminals and ports on the mainland and on islands, and in the case of cruise ships, internationally as well. In addition, tourist vessels operate along popular waterways and harbours (such as the Sydney Harbour), providing sightseeing, dining and accommodation services to tourists. Larger vessels, such as cruise ships, also make trips between coastal cities and to islands along the coast.

- ***Public transport (circa 33% of total industry revenue in FY19)*:** In some cities in Australia ferries are used as a mode of public transport. In Sydney, Brisbane and Perth, ferries provide transport for millions of commuters every year and they reduce the need for building and maintaining costly infrastructure such as roads, tunnels and bridges. Increasing congestion in capital cities has led to an increase in the use of ferries as a form of public transport. In urban areas, the industry is subject to competition from lower cost services like bus and rail (particularly mass rapid transit or well-connected urban public transport), ride-sharing services and car-hire services.

- ***Boat hire with operator (circa 44% of total industry revenue in FY19)*:** Small boats with crew members are typically hired by small businesses or leisure travellers and is a form of discretionary spending. The segment's share of total industry revenue has reduced over the last five years due to strong growth in the industry's other segments.

Whilst SeaLink is the largest ferry operator in Australia, there are a number of large operators that also operate ferries in Australia, including TransDev, NRMA, TT-Line, Keolis Downer and Journey Beyond.

Given that SeaLink's vessels are mainly used for tourism and short distance transport, we have briefly reviewed below the key drivers of these industries in Australia.

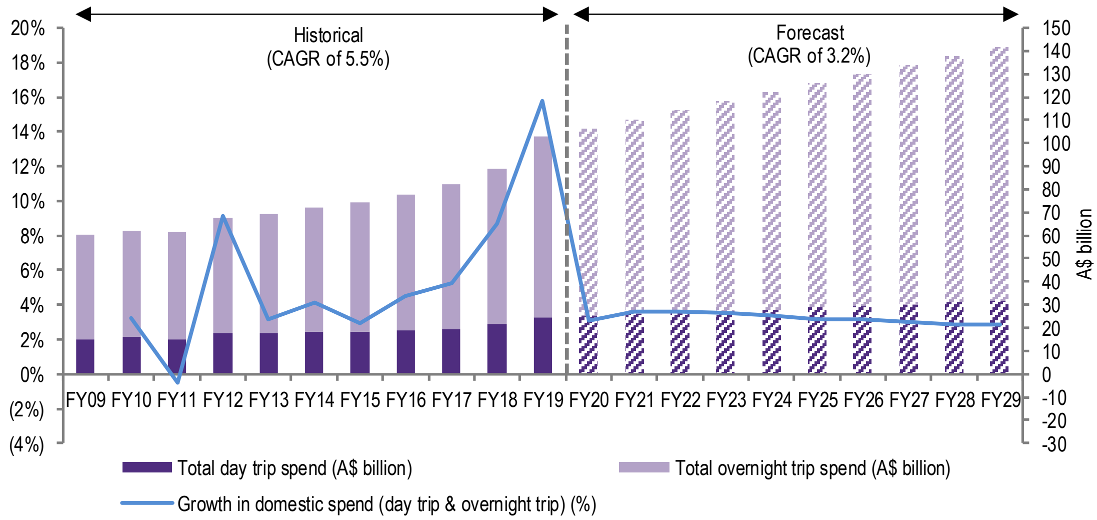
3.1.1 Australian domestic and inbound tourism industry

Domestic tourism

Domestic tourism accounts for the majority of the tourism expenditure in Australia. It covers both overnight trips and day trips within Australia by Australians. Over the last 10 years, the domestic tourism industry has performed strongly, with total spend on domestic day and overnight trips[26] growing at a CAGR of 5.5% as shown in the graph below.

Furthermore, we note the strong performance in FY19, when total day trip and overnight trip expenditure grew by circa 16%. We note the key factor behind the increase in expenditure over the last ten years was an increase in the number of day trip visitors[27] and visitor nights[28]. Total visitor nights and day trips grew at a CAGR of 4.3%, whereas spend per trip grew at a more modest CAGR of 1.2%. Between FY19 and FY29, Tourism Research Australia ("TRA") forecasts day trip and overnight trip expenditure to grow at a CAGR of 3.2%.

Domestic day trips and overnight trip spend[1]



Sources: Tourism Research Australia – National Tourism Forecasts 2019; GTCF analysis.
Note (1): Day trips and overnight trips include those for holiday, visiting friends and relatives, business and other purposes.

Travel is a discretionary expenditure item and thus changes in consumer sentiment can impact travel decisions. Over the last 18 months, measures of consumer sentiment have trended down[29] signalling that consumers are generally becoming more concerned about the outlook of the economy.

In this regard, we note that the below-trend GDP growth rate (driven by weak household spending growth), weak housing market conditions, ongoing trade tensions between China and the United States—and associated volatility in equity markets—have all weighed on consumer sentiment over the last 18 months.

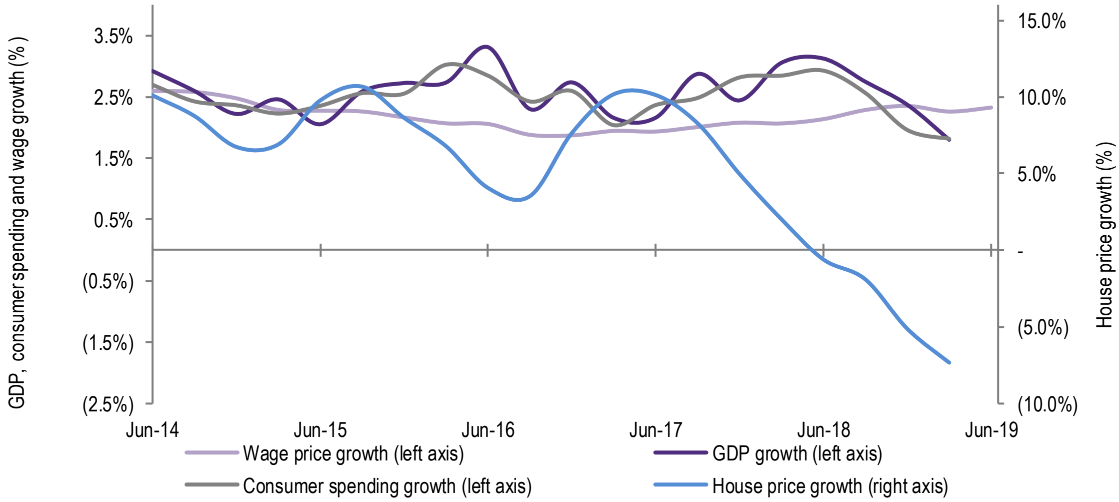
Additionally, Australian wage growth has been weak compared to the long term average, with year-on-year wages growing at 2.3% for the year ended June 2019[30]. Accordingly, the RBA's outlook for the domestic economy remains subdued, with economic growth in 2019 and 2020 expected to be 2.0% and 2.5%[31] respectively, below the long-term average of 3.5% per annum.

[26] A visitor night is defined as one person staying one night at a place at least 40 kilometres from home.
[27] A day trip visitor is a person who travels for a round trip of at least 50 kilometres, is away from home for at least four hours and does not spend a night away from home.
[28] Visitor nights and day trip visitors are important measures for the tourism sector as they quantify the level of tourism demand in the economy.
[29] Based on the ANZ-Roy Morgan and Westpac/Melbourne Institute measures of consumer sentiment survey data.
[30] Based on ABS figures, over the last twenty years, wages have grown on average at c. 3.2% per annum.
[31] RBA Minutes of the Monetary Policy Meeting of the Reserve Bank Board dated 6 August 2019.

However, stabilising house prices and the Federal Government's tax relief[32], which commenced being received by households in late 2019 in the form of greater cash flow, may bring improved consumer sentiment in the near term.

Below we provide a graph of recent macroeconomic data which supports the weak consumer confidence.

Consumer confidence indicators

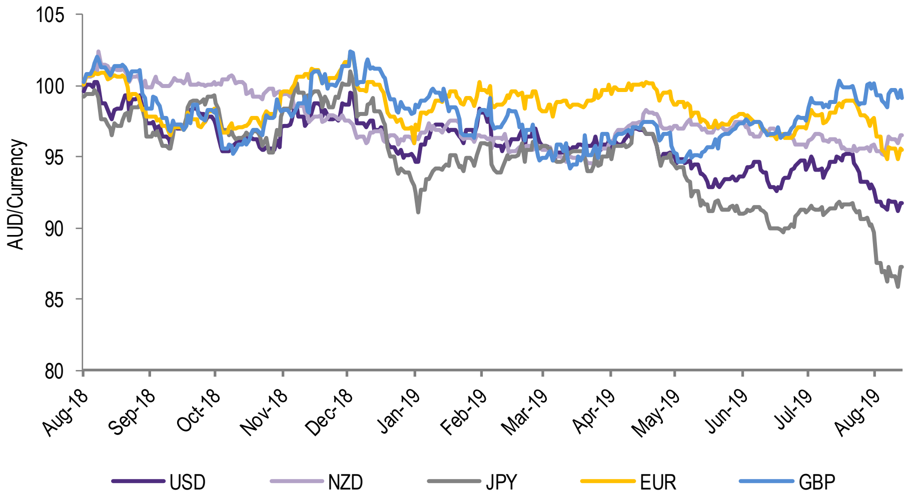


Sources: (1) GTCF analysis; (2) Australian Bureau of Statistics ("ABS") 6345.0 – Wage Price Index, Australia, June 2019 (Total hourly rates of pay excluding bonuses, Private and Public sectors, Seasonally adjusted); (3) ABS 5206.0 – Australian National Accounts: National Income, Expenditure and Product, Mar 2019 (Households final consumption expenditure, Seasonally adjusted); (4) ABS 6416.0 – Residential Property Price Indexes: Eight Capital Cities, Mar 2019 (Residential Property Price Index, weighted average of eight capital cities); (5) ABS 5206.0 – Australian National Accounts: National Income, Expenditure and Product, Mar 2019 (Gross Domestic Product, Seasonally adjusted)

The exchange rate also plays a significant role on the demand for domestic tourism. All else being equal, a depreciating Australian dollar increases the cost of outbound travel from Australia and creates a more favourable environment for domestic tourism. With the falling strength of the Australian dollar since mid-2013, domestic holiday numbers have grown faster than outbound trips[33]. In particular, we note the decline in the Australian Dollar over the last 18 months and the associated strong growth in domestic holidays in CY18 of circa 8.2%. From the chart below we can observe the depreciation of the Australian dollar against most leading currencies over the last year.

[32] As part of the 2019-20 Federal Budget the Government announced increased personal income tax relief for low and middle income earners as part of its Personal Income Tax Plan (which was already legislated). In particular, the Low and Middle Income Tax Offset ("LMITO") was increased from a maximum amount of A$530 to A$1,080, along with other changes to income tax thresholds and brackets designed to lower overall income taxes.
[33] Over the 5 years from 31 December 2013 to 31 December 2018, domestic holiday trips grew at a CAGR of 5.7% versus 4.7% for outbound trips.

Australian Dollar movements against leading currencies, August 2018 to August 2019
(Index 1 August 2018 = 100)



Sources: GTCF analysis; S&P Global
Note: Currencies are United States Dollars ("USD"); New Zealand Dollars ("NZD"); Japanese Yen ("JPY"); Euros ("EUR"); Great British Pounds ("GBP").

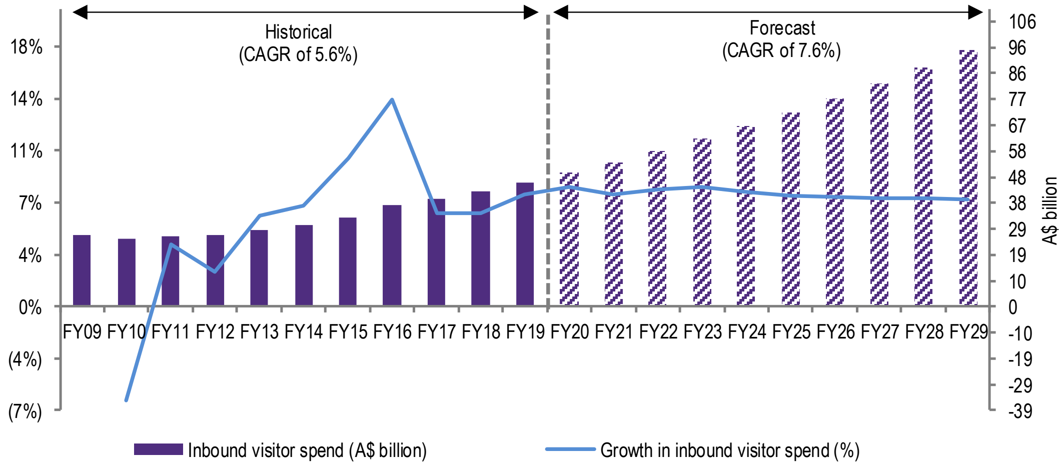
The outlook for the domestic tourism industry continues to remain positive with total expenditure forecast to grow at CAGR of 3.2% between FY19 and FY29. In FY20, TRA expects a 3.1% increase in domestic overnight trip and day trip expenditure as a result of 1.4% growth in visitor nights, 1.2% growth in day trips and 1.8% increase in expenditure per trip[34]. Over the long term, Tourism Australia expects day trips and domestic visitor nights to increase at an average of 1.1% and 1.2% p.a. respectively between FY19 and FY29, with expenditure per trip growing at 2.0% per annum.

Inbound tourism

Inbound tourism consists of short-term visitor arrivals to Australia for leisure and business and in FY19 represented approximately 24% of domestic and inbound tourism expenditure[35]. Total inbound visitor spend has grown significantly over the last ten years, at a CAGR of 5.6%. The outlook also remains favourable with TRA forecasting expenditure to grow at a CAGR of 7.6% between FY19 to FY29.

34 Total nominal expenditure divided by day trips and visitor nights.
35 Domestic and inbound tourism expenditure consisting of expenditure on domestic day trips and overnight trips by Australians, and inbound visitor spend.

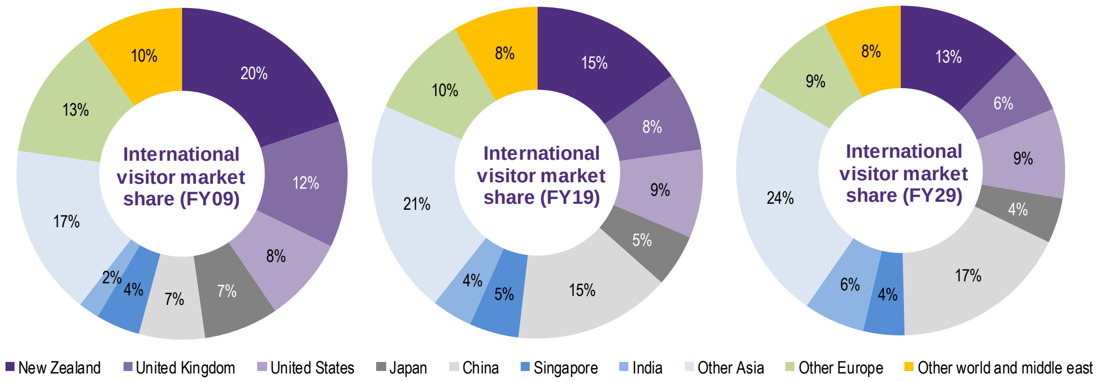
Inbound visitor spend and growth



Sources: Tourism Research Australia – National Tourism Forecasts 2019; GTCF analysis.

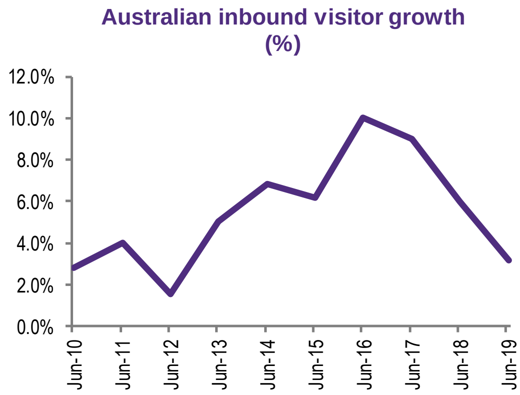
The mix of markets has changed considerably over the last ten years, as the growing numbers of visitors from Asia make up a larger proportion of visitors. This trend is expected to continue as shown in the below charts.

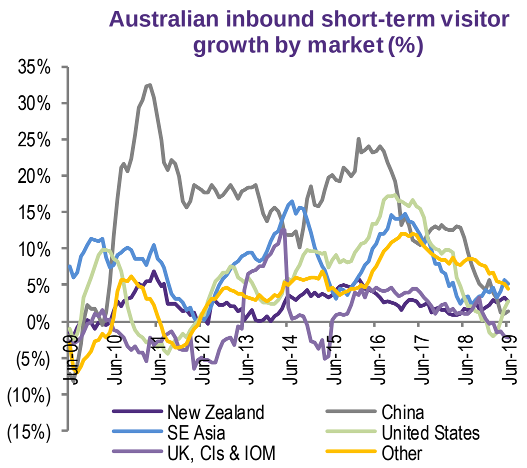
Inbound visitor market share



Source: Tourism Research Australia – National Tourism Forecasts 2019.

The strong historical growth in inbound tourism expenditure has largely been due to growth in the number of international visitors which has increased from 5.5 million in FY09 to 9.4 million in FY19 (representing a CAGR of 5.4%). However, we note that growth has slowed over the last two years, from a peak of circa 10% in 2016-17, to approximately 3% in FY19[36], as shown in the below charts.





Sources: Australian Bureau of Statistics 3401.0 – Overseas Arrivals and Departures, Australia, Jun 2019 (Number of Movements, Short-term Visitors arriving, Seasonally Adjusted); Tourism Research Australia – National Tourism Forecasts 2019; GTCF analysis.
Note: UK, CIs and IOM stands for the United Kingdom, Channel Islands and Isle of Man.

We have set out below some of the key factors affecting demand for inbound tourism.

- *Chinese demand:* Chinese visitor growth has been very strong over the last ten years at a CAGR of 15.0% from FY09 to FY19. As a result, in FY18 China surpassed New Zealand as the largest market for inbound tourists. However we note that growth has slowed in the last year, growing at 0.8% in FY19. Importantly, Chinese tourists spend significantly more than visitors from any other country[37,38]. While the reasons for the slowdown in Chinese visitor growth aren't immediately clear, the slowing Chinese economy, increasing competition from more affordable destinations in South East Asia (Chinese tourists may be acting more cautiously due to the slowing economy) and rising political tensions between the Australia and China may have affected visitor numbers.

- *Global economic growth and uncertainty:* Global economic growth has slowed over the last two years and is projected to grow 3.2% in 2019, down from 3.6% in 2018 and 3.8% in 2017[39]. In particular, the US-China trade dispute and ongoing uncertainty in relation to Brexit have led to subdued investment and consumption globally, with firms and households holding back on spending due to the ongoing economic uncertainty. A number of economies have suffered as a result, with UK GDP contracting by 0.2% in the quarter ending June 2019 and Asian countries with economies highly exposed to international trade, such as Singapore and Korea also significantly affected[40].

- *Growth of Asian middle class*: The increase in disposable income in developing countries in Asia like India and China as a result of strong economic growth has resulted in larger numbers of international

[36] Tourism Research Australia – National Tourism Forecasts 2019.
[37] In the year ended 31 March 2019, Chinese tourists spent approximately 73% more than the average inbound tourist, and more than tourists from any other country.
[38] Tourism Research Australia – International Visitor Survey Data - March 2019
[39] International Monetary Fund – World Economic Outlook July 2019
[40] In the second quarter of CY19 ("Q2"), Singapore recorded a 3.3% (annualised) reduction in GDP and has revised its growth forecasts for CY19 down to between 0% and 1.0% growth. Meanwhile Korea recorded a 0.4% reduction in Q1, followed by growth of 1.1% in Q2 on the back of strong Government spending to prop up the economy, without which, the Bank of Korea estimates the economy would have contracted further.

visitors to Australia in recent years. We note that countries like India and China have strong household consumption with a particular focus on overseas travel and education.

- *Capacity growth on airlines*: International aviation capacity to Australia has been a key driver of tourism growth, growing from 18 million seats in 2011 to circa 27 million seats in March 2019, representing an average growth rate of 5.1% per annum. This has occurred on account of the signing of the open skies agreement between Australia and China in December 2016 and agreements by domestic airlines and airports with several Asian and Middle Eastern airlines to increase capacity on routes. In addition, the growth in low cost carriers has made the cost of air travel more affordable.

- *Exchange rate:* The depreciation of the Australian dollar in the last few years, as discussed previously, has created a more favourable environment for inbound tourism.

- *International education:* Australia is the third largest destination for international students in tertiary education, behind the US and UK. Australia's close proximity to growing Asian economies, such as China and India, and its highly ranked universities, mean that the demand for Australia as a study destination has flow on effects to the tourism market, with education-related travel representing 6.8% of international travellers in 2017[41].

3.1.2 Water transport sector

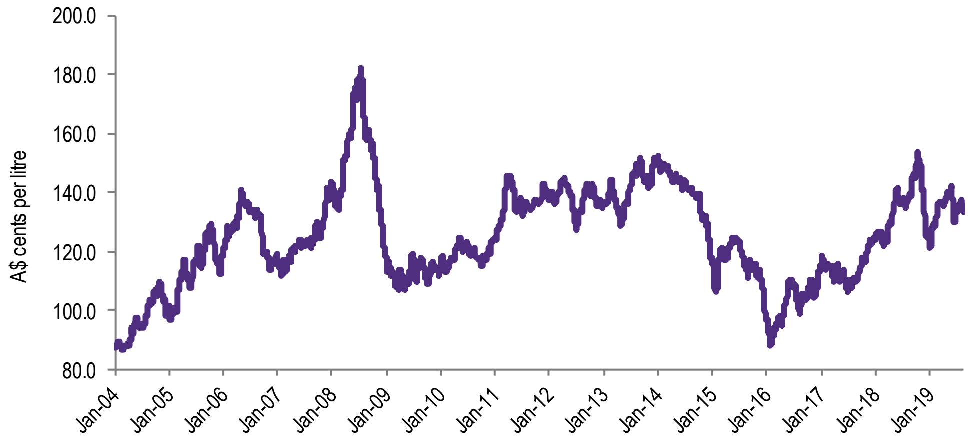
Most people in urban areas seek to live in close proximity to public transport networks or near major roadways, which not only provide ease of access but also alternate modes of commuting. As population increases, state and federal governments are faced with the challenge of maintaining infrastructure programmes like highways, to cater for additional motor vehicles. Increased congestion and the increasing costs of commuting by car has led to more people turning to public transport, which is resulting in an increased share of Australians commuting by ferry. Sydney, Brisbane and Perth are major cities where water-based public transport systems are used. We note that in conjunction with the NSW Government's Three Cities plan and Future Transport Strategy for the Greater Sydney region, the NSW Government is increasing the number of ferry services. The recently tendered Sydney Ferries contract[42] includes 400 extra weekly services on the Parramatta River and Sydney Harbour commencing in 2020 and 2021. In addition, the NSW government is planning to upgrade the Circular Quay precinct including the ferry wharves to cater for future growth.

Fuel cost is a key expense to ferry operators and it cannot always be passed to customers in full. This poses the risk that operators may have a lower fare box recovery ratio[43]. Ferry operators like SeaLink employ forward contracts and derivative instruments to hedge against the risk of fluctuating fuel costs. For example, 35% of SeaLink fuel demand is currently hedged through forward contracts or cost pass through to customers on a number of contracts.

[41] Tourism Research Australia – State of the Industry 2017-18, published April 2019.
[42] The Sydney Ferries contract comprises ferry services on Sydney Harbour and the connecting Parramatta River under contract with the NSW government. In February 2019, the tender to operate Sydney Ferries was awarded to Transdev for a nine year term from July 2019.
[43] The fare box recovery ratio is the fraction of operating expenses which are met by the fares paid by passengers.

Below we show the historical movement in Australian diesel prices:

National Average Diesel Terminal Gate Price (cents per litre)



Source: Australian Institute of Petroleum

In September 2019, oil prices spiked on fears of a prolonged supply disruption following drone attacks on Saudi Arabia's key oil production facilities. The attacks led a halving of daily production in the country, representing approximately 5% of total global production. However, supply concerns have subsequently eased, with Saudi Arabia committing to return production to levels before the attack within one month. Notwithstanding this, as at the date of this report, crude oil prices are forecast to remain relatively volatile in the near-term[44].

In Europe and North America, ferries are being operated using alternative fuels like LNG and methane. Lighter materials like carbon fibre are also being used in the construction of ferries. With such developments, the cost of operating ferries is expected to reduce going forward which should have a positive impact on commuters and growth opportunities for the sector.

Like other transport operators, ferry operators also have to comply with emission regulations. From 1 January 2020, new regulations limiting the sulphur content in fuel oil for all ships will become effective. There are also additional regulations made by the International Maritime Organisation ("IMO"), the international body responsible for framing rules on shipping. In Australia, the Australian Maritime Safety Authority released national standards for the safe operation of commercial vessels.

3.2 Overview of Australian bus public transport sector

Bus passenger transport forms a significant part of the public transport network in Australia's cities. Across Australia, 35.2% of total public transport passenger kilometres are serviced by bus routes and 60% by rail networks[45,46]. We note that rail networks cannot reach all areas, take a longer time to build and are more expensive to operate, whereas buses are easier to deploy given they can use existing road networks to expand the reach of public transport.

---

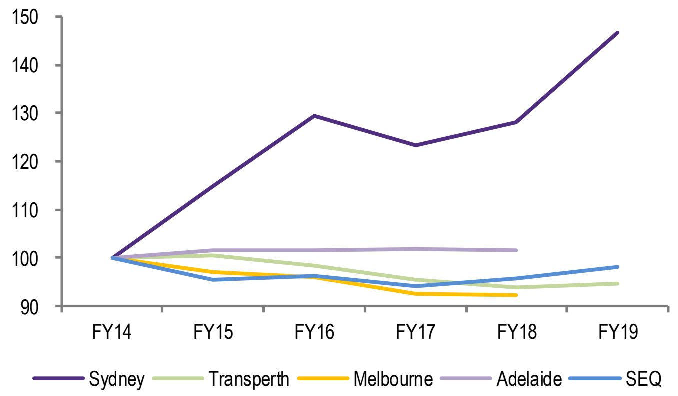
44 US Energy Information Administration – Short-term Energy Outlook, August 2019.
45 IBISWorld – Public Transport in Australia, December 2018.
46 The remaining 4.8% market share relates to light rail and ferry transport modes.

While the urban bus industry is dominated by buses operating for public transport (76.3% of industry revenue in FY19 was attributable to public transport[47]), bus operators also operate school buses, private charter buses, airport shuttles and other miscellaneous purposes.

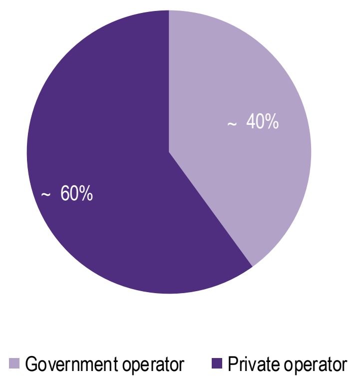
Urban bus patronage has grown over the last five years, driven by the Sydney market where the NSW government has increased the number of bus services in operation. However, Melbourne, South East Queensland ("SEQ") and Perth have all witnessed declines in bus patronage. In Melbourne, where patronage has fallen the most, the decline is partially due to increasing congestion levels and the increasing popularity of the tram system, which has seen significant investment and promotion by the state government.

Overall, approximately 40% of the Australian urban public bus network, based on the most recent patronage figures, is operated by government entities, with all of Brisbane[48], Canberra and Tasmania and large part of Sydney. This represents future potential growth for private bus operators if these services are put to tender in the future. Melbourne, Perth, Darwin and Adelaide bus networks have all been 100% privatised.

Bus patronage index by capital city[1,2,3]



Approximate market share by operator type[4]



Source: GTCF analysis; Annual reports of Transport for NSW, Western Australia Public Transport Authority, Public Transport Victoria, South Australia Department of Planning Transport and Infrastructure; Queensland Department of Transport and Main Roads; TransLink tracker Quarterly Report January to March 2019.
Note (1): From July 2016, Sydney patronage data is based on Opal data rather than the previous methodology that was based on a combination of paper tickets, opal tap-on/tap-off data and fare non-compliance and unpaid trips.
Note (2): FY19 SEQ patronage has been calculated based on the annualised figures from first three quarters of FY19.
Note (3): No data available for Melbourne and Adelaide FY19 patronage.
Note (4): Market share by operator type calculated based on patronage figures for the capital cities Sydney, Melbourne, Brisbane (SEQ), Perth, Adelaide and ACT. No patronage data was available for Darwin. Government operated network consists of SEQ (Brisbane Transport, a subsidiary of Brisbane City Council), ACT, Sydney Regions 7, 8 and 9 and Hobart.

3.2.1 Privatisation and competitive tendering

The public transport bus industry is in a process of ongoing privatisation with state/territory governments continuing to shift towards contracting private bus operators to run the local bus networks. This shift has been driven by industry participants' belief that private operators are more cost-effective than the public

[47] 65.8% of revenue is earned from services which have been privatised, while 10.5% is earned from ACT and TAS where services are still operated by state governments.
[48] Some bus routes outside of Brisbane in South East Queensland have been privatised, although within Brisbane the bus network is operated by Brisbane Transport, an entity owned and operated by Brisbane City Council.

sector as they are incentivised to provide higher quality services (through KPIs contained in contracts and competitive tension in the tendering process) while maintaining or reducing costs.

The key features of privatised bus services in Australia typically include the following:

- *Competitive tender process*: The competitive nature of the industry and widespread capabilities among private operators means that an operator not meeting the required criteria can be replaced at the end of the contract through a competitive tender process. The competitive tender process ensures that not only are operators motivated to meet criteria but also the state governments can lock-in operators on long-term contracts at lower costs. Typical contract lengths range between five and 10 years, and usually contain an option to extend the contract for a pre-determined period of time subject to meeting certain KPIs or at the discretion of the transport authority. In general, the industry is expected to move toward further competitive tendering. In Melbourne, historically, approximately only 30% of the city's network was competitively tendered, however since 2018, government policy requires the balance of the services to also be allocated based on a tender process. Sydney recently put the Region 6 SMBSC[49]—the largest public bus tender in Australian history—out to competitive tender, having previously been operated by the State Government.

- *Barriers to entry*: The market is characterised by high barriers to entry with governments typically favouring large incumbent operators with a proven ability to deliver high service levels in a cost effective manner. New potential market entrants need to have substantial resources and experience operating public transport networks, to be competitive when tendering for new or existing routes. In addition, governments typically tend to favour renewing contracts with incumbent operators, so long as minimum service levels are met, due to the risk of a public backlash from disruptive handover, reduced service levels or negative employment outcomes.

- *Government involvement and risk allocation:* Despite involving private parties to operate bus routes, governments continue to have a high level of control on how the buses are run. Governments typically have full control over the fares and service levels, and often retain ownership and control of most of the public assets like buses or depots by leasing them to the operators for the duration of the contract[50]. Upon the expiry of a contract, some governments stipulate that the fleet be transferred to the government or to the new operator for a pre-determined payment.

  In exchange for contract fees on a gross cost basis[51], private operators are required to meet various criteria like safety, punctuality, reliability of services, driver quality and customer satisfaction, with incentives and penalties applicable depending on the operator's performance. In addition, contract revenues are typically aligned with the movement in key expenses. Payment terms under the contract may vary, with either fixed or variable payments depending on the hours and/or distance serviced. Accordingly, fare box risks are borne by the government and are not passed on to the operator.

  In addition to the above, governments are usually responsible for funding the necessary infrastructure. Since fare box revenues are typically less than operators' costs, governments subsidise public transport operations with a view to maintain low prices for the end-users.

---

[49] This tender refers to the Region 6 Sydney Metropolitan Bus Service Contract covering Sydney's inner west. In May 2017, the Government announced that the operation of Region 6 would be contracted out to the private sector, commencing July 2018. The contract was awarded to Transit Systems Group.

[50] However, we note that in some cases, governments also outsource the procurement of buses to the private operator, and provides recovery of costs through the contractual arrangements with the operator.

[51] Under gross cost contracts, operators commit themselves on a cost for a fully-defined service in the bid (hence take risk of higher than anticipated costs) with fare revenues transferred the government entity (government takes fare box risk).

3.2.2 Market participants

The Australian bus public transport sector is characterised by a moderate market share concentration with over 40% of the industry revenues hold by less than 5 players[52]. Below we provide a snapshot of the bus market and the key participants.

Transdev is a French based multi-modal public transport operator, with operations in approximately 20 countries throughout Europe, North America and Australasia. Transdev Australasia Pty Ltd ("Transdev Australia"), a subsidiary of Transdev, provides bus services on more than 180 bus routes[53] in Queensland, Sydney, Melbourne and Western Australia. In addition to buses, Transdev operates ferries in Brisbane and Sydney and the inner west light rail in Sydney, and will operate Sydney's CBD and South-East Light Rail service when it becomes operational in 2019 and 2020.

ComfortDelGro ("CDG") is multi-national and multi-modal land transport company listed on the Singapore Stock Exchange. CDG owns 75% of SBS Transit, the leading bus and rail operator in Singapore, operating 60% of the bus network, and two of the five Mass Rapid Transit ("MRT") lines. CDG also operates bus and coach operations in the UK and Australia. CDG has acquired a number of private bus operators in Australia in recent years and primarily operates in NSW and Victoria but also has operations in Queensland and the Northern Territory.

Keolis Downer is a multi-modal joint venture between private French transport group Keolis, and the ASX-listed integrated services provider Downer Group. Keolis Downer operates bus services in South Australia, Western Australia, NSW and Queensland. In addition to its bus services, Keolis Downer operates the Yarra Trams in Melbourne and the Gold Coast Light rail.

Transit Systems Group operates public bus services in Australia, London and Singapore. As at the date of this report, Transit Systems Australia has the largest fleet of all metropolitan bus operators and operates in NSW, Victoria, South Australia, Western Australia and the Northern Territory. For more information on Transit Systems Group, see Section 5.

Some states have legislated market share caps for the operation of bus services within their jurisdiction. For instance, in Perth (where Transit Systems Australia has 38% market share), the state has a legislated cap of 50% to any one operator. In Adelaide, the legislation states that no single operator should be awarded service contracts that allow it to obtain a monopoly on public transport services[54]. In general, we note that the state legislation governing public transport services in each state typically encourages competition even though a specific legislated market share percentage may not necessarily be stated.

3.2.3 Key value drivers and outlook

- *Number of motor vehicles and usage of public transport*: An increase in the number of private vehicles is inversely proportional to the number of people using public transport. However, increasing traffic and the rising cost of fuel are pushing more people toward public transport. New vehicle sales for the calendar year 2019 show an eight percent decline as compared to the corresponding period in 2018[55], which is likely to contribute toward increasing use of public transport systems.

[52] IBISWorld Urban Bus and Tramway Transport in Australia Industry Report – June 2019.
[53] IBISWorld Transdev Australasia Pty Ltd Company Report - 31 December 2018.
[54] Passenger Transport Act 1994.
[55] Federal Chamber of Automotive Industries media release – 4 September 2019.

- *Car share and ride share services*: Car share and ride share services have grown in popularity over the last ten years. The introduction of Uber in Australia in 2012 was a pivotal moment. Uber is the leading ride-share app, providing services to approximately 20%[56] of the population[57] and has grown rapidly, with the number of Australians who travel by Uber doubling between 2016 and 2018[58]. A number of competing ride share services have subsequently also entered the private hire vehicle ("PHV") market. In addition, car sharing apps, which facilitate peer to peer car rental, have also grown in popularity in recent years. Ride share and car share services act to lower the cost and increase the availability of car transportation, which may reduce the demand for public transport.

- *Urbanisation*: By global standards, Australian cities are widespread in size and have lower population density, with most workplaces concentrated in or around the CBD. Public transport operators aim to capture passengers living near the CBD or in close proximity to rail/bus networks. A rise in the number of people living in urban areas typically increases demand for public transport, as customers require higher frequency of services as well as new services for previously unconnected areas. Australia has seen a steady increase in the proportion of the population living in urban areas, with population growth in urban areas outstripping that of regional areas. The urbanisation trend is expected to continue going forward. As at 30 June 2017, 67% of Australians lived in capital cities, which is projected to increase to 69% by 2027[59].

- *Population growth:* In the ten years to June 2017, Australia's population increased by 1.7% per annum. Population projections from the Australian Bureau of Statistics ("ABS") estimate that Australia's population could grow between 1.4% and 1.8% per annum over the ten years to 2027.

- *Infrastructure investment by the government*: As discussed previously, governments provide subsidies to enable customer fares to remain low, and are responsible for developing infrastructure including roads and depots. Higher passenger numbers have created pressure on state governments to expand public transport services. Accordingly, state governments around Australia are expected to increase their budgeted spend on infrastructure development going forward. Given that bus systems can operate on the existing road network, they require less investment than rail networks. Further, subsidies provided for bus and light-rail services are much lower than heavy-rail networks.

- *Size of the workforce:* A fall in employment has an adverse effect on the number of users of public transport. We note that employment and workforce participation rates are at relatively high levels historically and are expected to remain at current levels in the near-term.

- *Fuel, insurance, registration and other vehicular operating costs*: A rise in operating costs for vehicles like fuel, insurance or registration charges creates a barrier for more people to buy motor vehicles and encourages people to continue using public transport.

3.3 Overview of the London bus public transport market

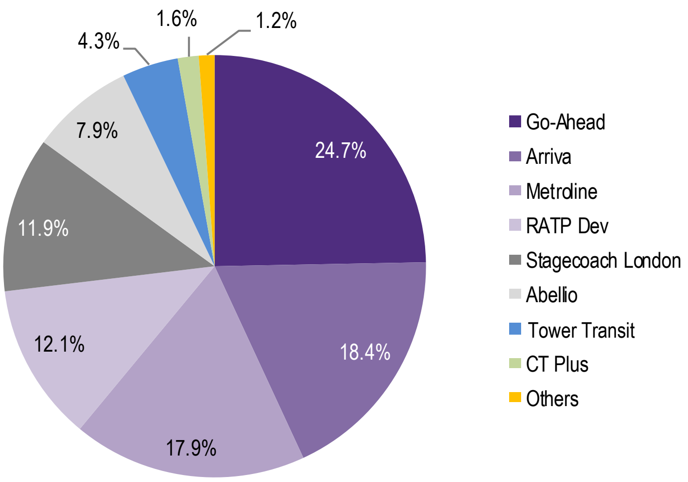
Bus transport in London is managed by Transport for London ("TfL"), a government agency which is also responsible for administering other modes of public transport and commuting in general, including roadways, cycleways and river services like ferries and charter boats.

---

[56] In an average three months.
[57] Roy Morgan Single Source (Australia).
[58] Over the period 2016 to 2018, the percent of Australians who use an Uber in an average three month period more than doubled from 10.2% to 20.8%.
[59] Australian Bureau of Statistics 3222.0 – Population Projections, Australia, 2017 (base) – 2066.

Buses in London operate under a different regulatory framework than the rest of England, given the size of the London market, the high level of completion (with a large number of operators) and different trends of bus usage compared with the rest of England. Further, while bus fares in London are set by the government (i.e. by TfL), bus fares outside London are set by private bus operators. Below we provide an overview of the key operators in the London public bus market:

Leading bus operators in London[1]

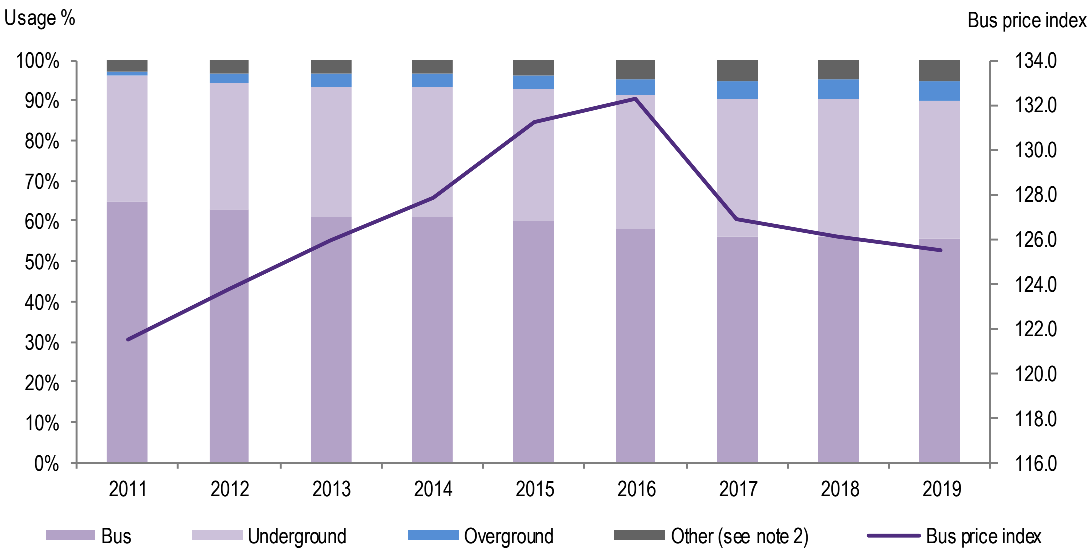


Source: http://www.londonbusroutes.net/garages.htm
Note (1): Based on proportion of network covered.

3.3.1 Bus usage in London

Buses are the most frequently used mode of public transport in London, with 55% of journeys undertaken by bus in the year ending 31 March 2019. This has reduced from 65% in 2011 as a result of increased use of underground, overground rail and licensed PHVs (in particular Uber). This is also a result of the reduction in government funding for buses in England since 2010 which has resulted in a reduction in bus services. The share journeys made across the various modes of public transport in London is shown below:

Public Transport Usage in London and London bus price index[1]

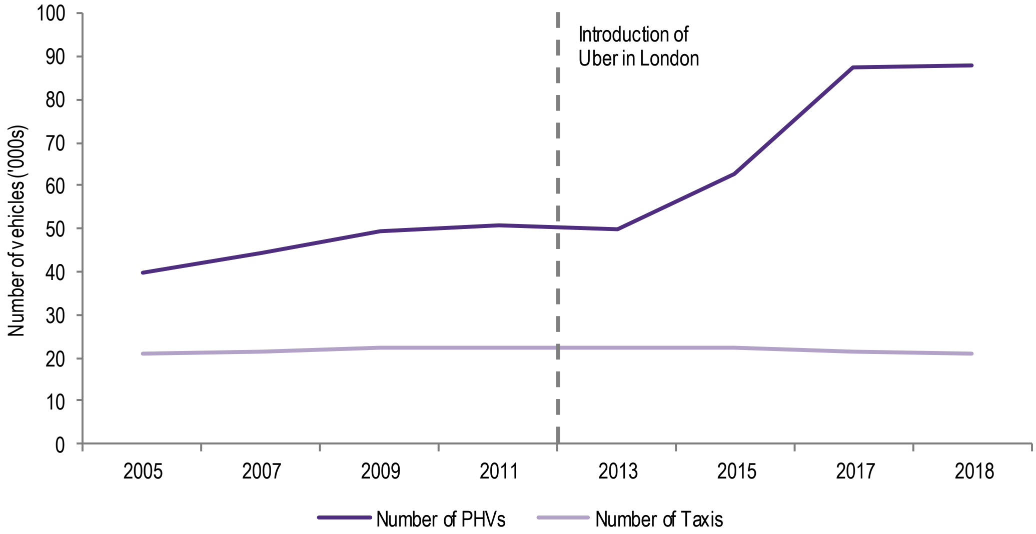


Source: Transport for London
Note (1): Bus price index is in constant prices i.e. adjusted for CPI; 2005 prices represent 100 on the index.
Note (2): Other London public transport modes consist of Docklands Light Rail, Tram, Emirates Air Line Cable Car and TfL rail.

At the same time as declining bus ridership, total public transport journeys in London (across all modes) over the same period have increased 0.4% per annum, and the number of PHVs in London has increased at a CAGR of 12.0%[60]. The decline in bus ridership in recent years has been blamed on increased congestion (as a result of growing PHVs and delivery vans), and the prioritisation of cycling lanes along key bus routes and junctions.

Below we provide a graph showing the growth in PHVs before and after the introduction of Uber in London. We note that within five years of the launch of Uber, the number of PHVs almost doubled.

Number of PHVs and taxis in London



Sources: GTCF analysis, UK Government Department of Statistics – TAXI0101: Taxis, Private Hire Vehicles (PHVs) and their drivers: England and Wales.

Concurrently, fare increases have been low, growing at a CAGR of 1.0% over the five years to March 2019 (compared to CPI of 1.4%, and hence decreasing by 0.4% in real terms). Compared to other modes of transport, bus price growth (1.0%) has been low with rail fares increasing 2.5% and the cost of purchasing a vehicle increasing 2.7% over the same period.

3.3.2 Operating model: Tender process and contract terms

TfL conducts tenders for the bus routes on a rotating basis, where the route, timetable, vehicle quality and service quality are specified by TfL. Bidders usually submit a gross cost tender with a specified annual payment to be made by TfL. Some bidders also undertake mixed bundling i.e. offering a charge for a bundle of routes which costs less than the charges for the individual routes.

Similar to Australia, bus operators do not bear fare box risks since these are borne by TfL. While the contracts allow for cost escalations, these are applied on only 85% of the contract price which implies that operators will lower operating costs through realisation of efficiencies over the term of the contract. As a result, prior operators stand an advantage when re-tendering for a route.

[60] Over the five years from 2013 to 2018, as sourced from UK Government Department of Statistics – TAXI0101: Taxis, Private Hire Vehicles (PHVs) and their drivers: England and Wales.

Bus operators in England also have arrangements with local authorities to improve service quality and facilities, called bus partnership schemes. These involve the local authorities providing facilities like new bus stops or real time information systems, and bus operators providing new vehicles which are more accessible or have better performance, or improved training for drivers. Bus partnership schemes can be statutory[61] or voluntary. In 2017-18, 7% of local bus operators in England were part of at least one statutory scheme, with 16% being part in at least one voluntary scheme.

Central and local government support for local bus services consists of payments for supported services, bus service operator grants and concessionary travel reimbursements (effectively a subsidy to concessionary passengers). In London, the total support payments increased significantly up to 2008-09 but have declined since then.

3.3.3 Outlook

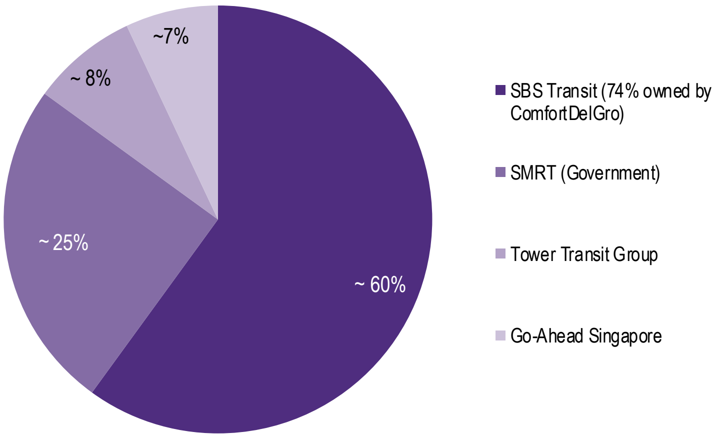
Similar to a number of other cities around the world, London implements a congestion charge for vehicles entering the central areas of the city. London is also witnessing an increase in traffic due to a growing number of delivery businesses (as more people are shopping online) and the increasing use of PHVs (e.g. Uber). While PHVs have previously been exempt from the congestion charge, from April 2019, PHVs are required to pay. The city is currently implementing an Ultra-Low Emissions Zone with a view to reduce the number of private vehicles in the central areas of London, thereby reducing pollution and encouraging more people to use public transport.

3.4 Overview of the Singapore bus public transport market

Public transport in Singapore is dominated by the bus networks and mass rapid transport ("MRT") rail systems. Bus is the more commonly used mode of transport with 53-56% of public transport usage over the last 4 years being undertaken by bus and 41-44% by the MRT[62]. The public transport system in Singapore is regarded as one of the best in the world due to its efficiency, affordability and convenience for customers. The system is managed by the Land Transport Authority of Singapore ("LTA"), a government agency responsible for governing roadways, rail lines, cycleways and busways. There are four key bus operators in Singapore as shown in the chart below:

[61] Statutory scheme is a scheme made under Section 114 of the Transport Act 2000.
[62] Based on data published by Land Transport Authority, Singapore.

Market share of leading bus operators in Singapore



Sources: SBS Transit 2018 Annual Report, Management.

3.4.1 Operating model

In 2014-15, the LTA adopted a new operating model called the Bus Contracting Model ("BCM") wherein the operation of buses was privatised with a view to make bus services more responsive to changes in commuter needs, as well as to improve the service quality through competition. Similar to Australia and London, the LTA retains fare box risks while paying fees to private operators to run the services. Fares are determined by the LTA with annual fare reviews which considers changes in consumer price inflation, wage inflation, energy costs and network capacity factor[63].

Further, the LTA owns all infrastructure like the depots, the buses and the fleet management system (including route and service planning as well as related online platforms) which are leased to operators. The LTA is also attempting to introduce diesel-electric hybrid buses and battery-powered buses with a view to move the entire fleet to clean energy sources by 2040. Electric buses are expected to be operational by 2020 as the LTA has awarded contracts to three suppliers[64] to supply the buses.

Operators are responsible for maintenance of the buses and are paid prices based on an annual service fee and scheduled mileage, as well as incentive payments based on performance. The contracts have specified performance standards which are required to be complied with.

Currently, there are two type of agreements in place with private bus operators as outlined below:

- *Tendered packages* – They are contracts consisting of the right to operate a number of routes and typically have a 5-year term with a 2 year extension option (at the LTA's discretion), which considers whether operational criteria (like safety, punctuality and others) have been met.
- *Negotiated bus packages* – They are legacy agreements reached with the incumbent operators and will be progressively put to tender (open to both Singaporean and international operators) once the contract expires. So far four out of 14 bus packages have been put to competitive tender

[63] Measures capacity provision relative to passenger demand for the entire public transport system.
[64] BYD: S$17 million for 20 single-deck electric buses; ST Engineering Land Systems: S$15 million for 20 single-deck electric buses; Yutong-NARI Consortium: S$18 million for 10 single-deck and 10 double-decker electric buses

representing approximately 28% of Singapore bus routes, with the remainder to be tendered over the next seven years to 2026.

Competitively tendered bus packages

Package Name	Operator	Number of bus routes	Contract start date	Initial Contract expiry date[1]
Bulim	Tower Transit Group (Singapore)	31	May 2015	May 2021
Loyang	Go-Ahead Sinagapore	25	Sep 2016	Sep 2021
Seletar	SBS Transit	26	Mar 2018	1st half of 2023
Bukit Merah	SBS Transit	18	Nov 2018	2023
Total		**100**		

Note (1): Based on the initial contract term, excluding the 2-year extension option at the discretion of the LTA.

Negotiated bus packages (to be progressively put to competitive tender)

No. of Packages	Operator	Number of bus routes	Contract start date	Initial Contract expiry date[1]
7	SBS Transit	178	Sep 2016	Between 2021 and 2026
3	SMRT Buses	76	Sep 2016	Between 2020 and 2023
Total		**254**		

Source: LTA

4 Profile of SeaLink

4.1 Introduction

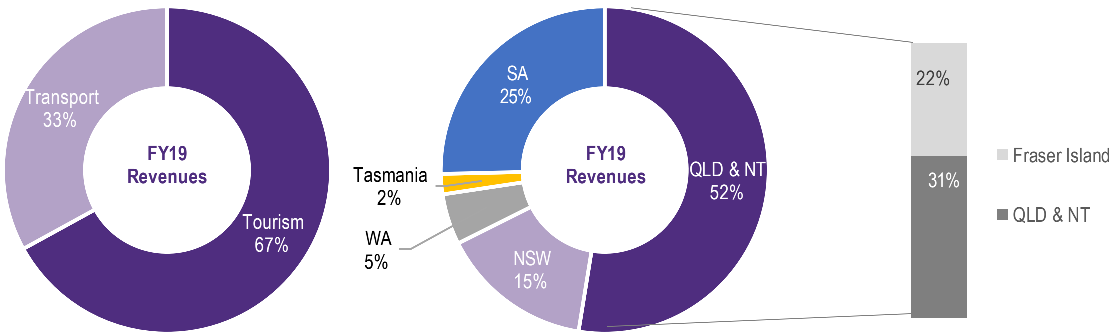
SeaLink is a diversified tourism and transport company with operations throughout Australia.

The Company primarily provides ferry services for commuters, tourists and freight. In addition to its ferry operations, SeaLink offers packaged holidays, accommodation, tours and activities, tourism and charter cruises. As at 30 June 2019, the Company owns and leases a fleet of 78 ferries, 12 accommodation and dining vessels, 72 coaches and touring vehicles[65] and 3 resorts[66] with strategically located freehold land on Kangaroo Island and Fraser Island.

SeaLink has the largest ferry fleet in Australia with exposure across Australia's key tourism markets and the more defensive transport sector. The latter provides a steady base in earnings given revenues are largely contracted with tourism markets offering potential upside given the robust growth outlook for domestic and inbound tourism. SeaLink operates essential transport services with largely protected market positions as a result of its sole operator status on multiple routes.

Before listing on the ASX in 2013, the operations were heavily-weighted to South Australia, due to its significant Kangaroo Island operations. Following a number of acquisitions discussed in section 4.2 below, the Company has grown its footprint in all five states it operates in and the Northern Territory, servicing 18 islands plus the Murray River, Sydney Harbour and Swan River. The following graphs illustrate SeaLink's diversification across industry and geography.

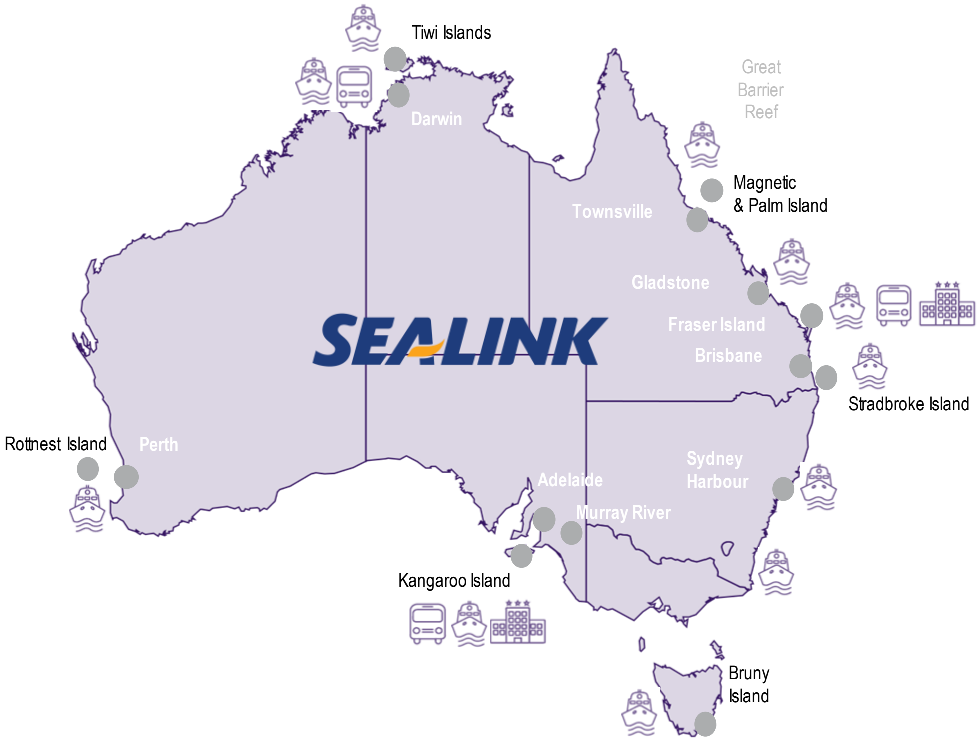
SeaLink's revenue diversification across industry and geography



Source: Management, SeaLink FY19 investor presentation dated 27 August 2019 and SeaLink Macquarie Presentation dated 30 April 2019.
Note(1): QLD includes Northern Territory and Fraser Island. SA includes Tasmania.
Note (2): Totals may not add up to due to rounding.

[65] The Company leases some vessels and vehicles.
[66] Kingfisher Bay Resort and Eurong Beach Resort on Fraser Island, and Vivonne Bay Lodge on Kangaroo Island.

SeaLink's presence across Australia



Source: SeaLink investor presentation
Note: QLD includes Northern Territory and Fraser Island. SA includes Tasmania.

4.2 Company history

The SeaLink business started in 1989 with the purchase of a ferry service linking Kangaroo Island with the South Australian mainland from Malaysian company MBF, which was later renamed KI SeaLink. In 1996, a syndicate of South Australian investors and staff members acquired the SeaLink business. Having originally provided transport services for locals, land owners and their vehicles to and from Kangaroo Island, the Company embarked upon a strategy to develop tourism experiences and holiday packages to attract new customers to its ferry services.

As outlined below, over the years the Company has undertaken a number of transformative acquisitions in both the transport and tourism sectors.

- *Captain Cook Cruises* – In 2011, the Company acquired the New South Wales tourism businesses of Captain Cook Cruises, Matilda Cruises, Sydney Harbour and Murray River Cruises for approximately A$20 million[67]. Captain Cook Cruises was the leader in charter cruises on the Sydney Harbour and had the largest fleet at the time with approximately 12 vessels providing sightseeing, dining and specialist charter cruises. Murray River Cruises provided cruising along the Murray River aboard the vessel "PS Murray Princess". In February 2016, SeaLink also acquired Captain Cook Cruises in WA ("CCC WA") which at the time operated seven vessels for tourism-focused river cruises on the Swan River in Perth along with commuter services on behalf of the Western Australian Government.

[67] This represents the purchase of business assets as reported in SeaLink's consolidated cash flow statement for FY12 as shown in its prospectus.

- *Transit Systems Marine* - In 2015, SeaLink acquired Transit Systems Australia's Marine Division ("TSM") for approximately A$125 million[68]. At the time of the acquisition, TSM operated a fleet of 33 vessels in Queensland, providing passenger and vehicular barge services for the Australia Pacific LNG ("APLNG") plant on Curtis Island, North Stradbroke Island and four islands around the Southern Moreton Bay Islands ("SMBI"). TSM also operated government contracted ferry services along the Brisbane River and a water ambulance service in the SMBI. A number of strategic properties were also acquired as part of the acquisition.

- *Kingfisher Bay Resort Group* - In February 2018, the Company acquired the assets and operations of the Kingfisher Bay Resort Group ("KBRG") on Fraser Island for approximately A$43 million[69]. The acquisition included the two island resorts Kingfisher Bay Resort and Eurong Beach Resort, as well as Fraser Explorer Tours and the Fraser Island Ferry business operating from Hervey Bay to the western side of Fraser Island. The acquisition included, amongst other assets, three ferries, and 30 4WD coaches.

4.3 Business model

Approximately 33% of SeaLink's revenues are contracted through long-term contracts with private companies and local governments, resulting in an earnings base that is, to a certain extent, secured and visible.

The table below provides an overview of SeaLink's contracts. SeaLink has several "cost-plus" contracts where fare revenues are transferred to the Government and operating costs are reimbursed plus a management fee with costs often indexed with inflation. In these type of contracts, the Government assumes all the patronage and fare box risk. Under the "license" contracts SeaLink, pays the government fees for wharf access and infrastructure, and it assumes all the patronage risk and associated costs of running the services and route.

SeaLink contracts overview					Contract duration[2]										
Contracts	Length	Entity	Expiry	Type	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Cape Jervis SA/Penneshaw	25	SLK SA	Jun-24	License											
Bruny Island Tasmania	10+10	SLK SA	Sep-28	License											
TransLink South East QLD	5+1+1	SLK QLD	Dec-23	Cost +											
Mandorah and Tiwi Islands NT	5+5	SLK QLD	Jun-24	License											
Moggill cable ferry Brisbane River	5	SLK QLD	Dec-20	Cost +											
Gladstone ferry/barge 3 LNG plants	5	SLK QLD	Oct-21	NA											
Mineral sands barge Stradbroke[1]	5	SLK QLD	Dec-20	NA											
Palm and Magnetic Island[4]	5+1	SLK QLD	Dec-19	License											
Perth CBD to South Perth	5	CCC	Jun-21	Cost +											
Charter for Harbour City Ferries	1.5	CCC	Jun-19	NA											

Source: SeaLink's investor presentations, annual reports and IPO prospectus.
Note (1): Contract in place until 2020, but the State Government has legislated an early end to sand mining at the end of 2019.
Note (2): Three contracts have an option for extension. For instance, the Bruny Island contract has a duration of 10 years with a possible extension of another 10 years if certain performance requirements are met.
Note (3): The dark purple area refers to the contract duration. The light purple area refers to the possible extension period.
Note (4): Rigth of first offer held by SeaLink. Term of renewal subjects to invitation offer (up to 7 years) may be longer depending on a market led proposal currently underway with Queensland Governement for redevelopment of the Townsvilee ferry terminal by the Honeycombes Property Group.

[68] This included a deferred cash element of A$3 million, if a particular transport contract was awarded.
[69] SeaLink ASX announcement *Acquisition of Kingfisher Bay Resort Group* on 21 February 2018.

4.4 Current operations

The Company operates four business segments which are discussed in the following sections.

4.4.1 SeaLink South Australia and Tasmania ("SLK SA")

SLK SA is the Company's second largest division generating 26% of group revenues and 36% of group EBITDA[70] in FY19. This is SeaLink's oldest division operating since 1989 and includes operations in South Australia and Tasmania. SeaLink offers the following services through SLK SA:

- Passenger and freight ferry services between Cape Jervis and Kangaroo Island in South Australia. The Company has a license in place until June 2024 to use the Cape Jervis and Penneshaw ports. In October 2018, SeaLink was advised by the SA Government that it intended to put the Kangaroo Island license to competitive tender. The tender is expected to occur in 2021/2022 and will take effect from July 2024.

- Murray River Cruising aboard the PS Murray Princess in South Australia.

- Ferry services under a government contract to Bruny Island off Tasmania. In September 2018, SeaLink secured a 10-year contract[71] to operate passenger and vehicular ferry services for the Tasmanian Government to Bruny Island in Tasmania which commenced later that month.

- Multi-day guided tours on Kangaroo Island ("KI Adventure Tours").

- Sightseeing coach operations in South Australia.

- Guided tours using 4WDs on Kangaroo Island and other parts of South Australia ("KI Odyssey").

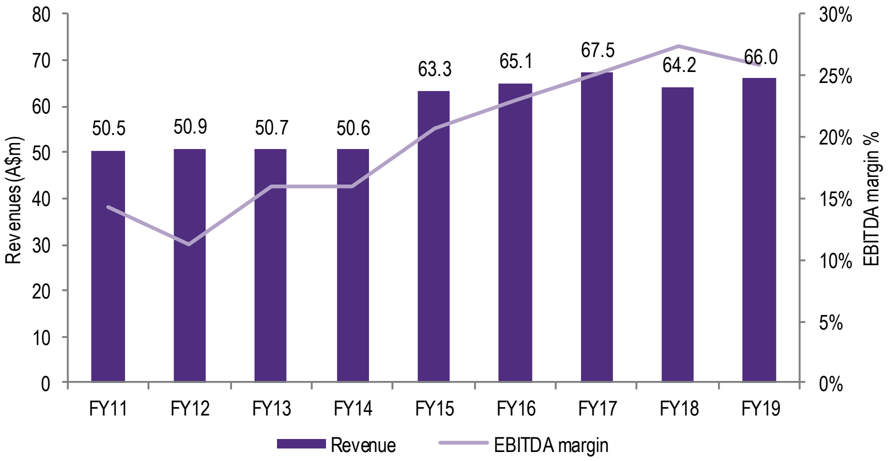
- Accommodation and restaurant facilities at the Vivonne Bay Lodge on Kangaroo Island.

- The Australian Holiday Centre travel agency located in Adelaide. In July 2017, SeaLink closed down a retail travel centre as a result of direct online sales trends.

The table below shows SLK SA's revenue and operating performance over time.

[70] EBITDA including corporate costs.
[71] This contract is for an initial duration of 10 years, which may be extended for another 10 years if certain requirements are met.

SLK SA's revenues and EBITDA margin



Source: SeaLink's investor presentations
Note: EBITDA margin based on EBITDA including corporate costs allocation.

We note the following about SLK SA's financial performance:

- In FY15, revenues and earnings increased significantly primarily due to the re-classification of the PS Murray Princess to SLK SA.
- Between FY15 and FY19, revenue remained largely flat due to consecutive years of no fare increases. SLK SA has successfully increased EBITDA margin over time on the back of an increased focus on higher margin products, greater efficiency, and improved fleet utilisation with more passengers by growing tourism.
- In FY18, revenue was negatively impacted by the retail travel centre closure in July 2017 (A$3.2m) and lower third party accommodation sales (A$0.7m). This was partly offset by the higher sales from PS Murray Princess, coach revenue, KI Odyssey and core ferry operations.
- EBITDA in FY19 was negatively affected by lower passenger numbers to Kangaroo Island, lower third party accommodation sales and lower revenue from PS Murray Princess. This was partly offset by increased vehicles and freight numbers to Kangaroo Island and the commencement and ramp up of Bruny Island operations which commenced operations in September 2018.

Earnings are driven by the traffic flow of international tourists, domestic visitors and local residents who visit Kangaroo Island, supported by the visitation of large cruise ships. SeaLink has long enjoyed sole operator status on the Kangaroo Island route, with a number of competitors attempting to compete in the past, although none successfully. In June 2018, the passenger-only competitor KI Connect began operations which has had a minor effect on SeaLink sales. SeaLink's fleet is considered to have a competitive advantage as it has a much larger daily capacity, its ferries can also carry vehicles and freight, and SeaLink controls the peak docking times at the main wharf location at Cape Jervis. Nevertheless, KI Connect is more affordable[72] which could potentially have some impact on revenues going forward.

[72] KI Connect charges A$27.50 for a single ticket from Cape Jervis and Penneshaw (Kangaroo Island), whereas SeaLink charges A$49.

4.4.2 SeaLink Queensland and Northern Territory (“SLK QLD”)

SLK QLD is the Company’s largest division generating 31% of group revenues and contributing to 51% of overall EBITDA[73] in FY19. SeaLink inherited many contracts and a significant fleet from the acquisition of TSM in FY16. SLK QLD provides passenger ferry and freight services on multiple routes, government contracted ferries services, barging services, and vehicular ferry services in Queensland and Northern Territory.

SeaLink offers the following services through SLK QLD:

- Contract passenger ferry services for the Queensland Government (Translink) to four islands around the SMBI.

- Contract with the Queensland Government Ambulance Service to provide water ambulance services around the SMBI.

- Contract ferry services under a contract with the Queensland Department of Transport to operate the Moggill cable ferry crossing the Brisbane River. In December 2014, SeaLink secured a 5 year renewal with possible extension for another 5 years.

- Barging of mineral sands from North Stradbroke Island to Brisbane. We note that the contract for provision of barging services of mineral sands from North Stradbroke Island to Brisbane expires in FY20. The QLD State Government has legislated an early end to sand mining and SeaLink barging operations are expected to cease in December 2019.

- Passenger and vehicular ferry services from the mainland (Cleveland) to Dunwich on North Stradbroke Island.

- Vehicular barge services around the SMBI, servicing Lamb, Karragarra, Macleay and Russel Islands.

- Ferry and barging services to the APLNG processing plant on Curtis Island in Gladstone. In October 2016, the Company secured a 5-year contract until FY21. We note that SeaLink services two out of three contracts for the APLNG operations. Revenues and earnings have decreased as the APLNG project has moved from the construction phase (2011 to 2017) to the operational phase, leading to lower service requirements and thus lower revenues in FY18 and beyond.

- Passenger ferry services between Darwin and Mandorah and a contracted ferry service to the Tiwi Islands. In September 2019, SeaLink secured a 5 year contract renewal with the Northern Territory Government for the passenger ferry service between Darwin and Mandorah and contracted ferry services to the Tiwi Islands with a further extension option for five years.

- Passenger ferry and bus service on behalf of the Groote Eylandt community.

- Passenger ferry service between Townsville and Magnetic Island and Palm Island. In 2018, SeaLink secured a short renewal of the 5-year ferry contract to operate ferry services from Townville to Magnetic Island and Palm Island to enable the length of the next possible renewal term (subject to negotiation and offer by the Queensland Government) to align with the potential development of the

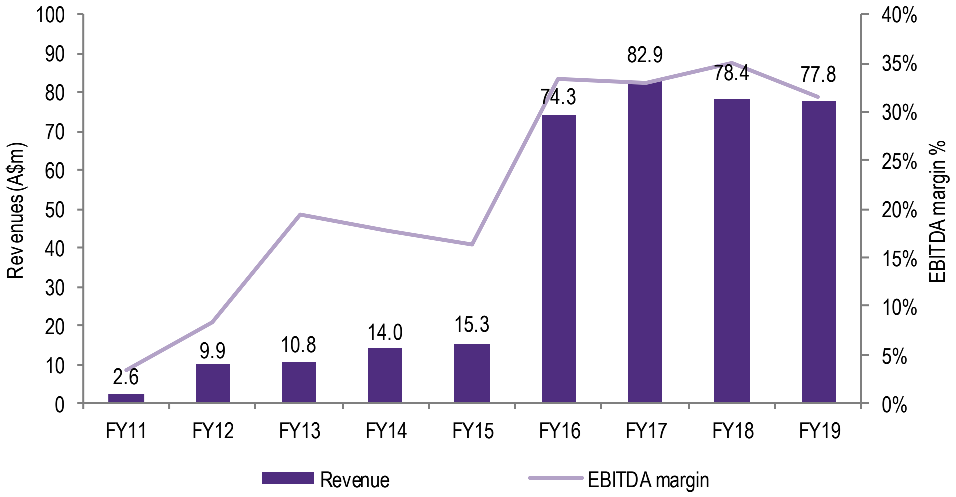
[73] EBITDA including the corporate costs allocation.

Townsville ferry terminal which would require a long term lease with the proposed developer, Honeycombes Property Group, if the project proceeds.

- Touring packages to Palm Island, Magnetic Island and around Townsville. The Company recently launched whale watching tours in Townsville.

The table below shows SLK QLD's revenue and operating performance over time.

SLK QLD's revenues and EBITDA margin



Source: SeaLink investor presentations.
Notes: (1) EBITDA margin is based on EBITDA after the allocation of corporate costs.

We note the following about SLK QLD's financial performance:

- The SLK QLD division has been the largest contributor to the Company's earnings since the acquisition of TSM in September 2015.

- The increase in revenue in FY17 was primarily attributable to the full year inclusion of the TSM acquisition (FY16 revenue was for 8 months), and to a lesser extent by the sales growth from Magnetic Island and the new routes opened servicing the Groote Eylandt community and Bickerton Islands.

- In FY18, the division experienced a decline in revenue as a result of the full year impact of Gladstone AP LNG operations moving from construction phase to operational phase. In comparison, FY17 revenues still included four months of construction phase revenues (A$10.5 million). EBITDA margins slightly improved due to increased passenger and vehicle numbers as well as tight control around repair and maintenance costs.

- Revenues and EBITDA declined in FY19 due to the conclusion of third party dry leases over two Gladstone vessels, with a revenue impact of A$2.3 million in the year. EBITDA was further impacted by higher repairs and maintenance expenses and fuel costs.

4.4.3 SeaLink Fraser Island ("SLK FI")

SLK FI is the Company's third largest division generating 22% of group revenues and 12% of group EBITDA[74] in FY19. In March 2018, SeaLink expanded its tourism offerings in Australia through the acquisition of the Kingfisher Bay Resort Group. The acquisition has further increased the Company's revenue exposure to Queensland from circa 43% in FY18 to circa 53% as of FY19.

The acquisition included the following assets:

- The 4-star Kingfisher Bay Resort comprised of a 152-room hotel resort located on freehold land, with management and caretaking rights to a further 109 self-contained villas/houses and the lease of a 174-bed wilderness lodge for the educational and backpacker market. The resort has enjoyed consistent improvements in occupancy rates, increasing from 40% in 2012 to 64.5% in 2019[75].

- The 3.5-star Eurong Beach Resort comprised of a 108-room hotel resort located on a perpetual lease with a direct beach front area consisting of approximately 1.4 hectares of freehold land. The resort has enjoyed an improvement in occupancy rates, with rates increasing from 30% in 2012 to 47% in 2017.

- Fraser Explorer Tours, which operates one or two day 4WD tour operations. The fleet consists of approximately 25 4WD coaches and a fleet of 5 courtesy buses operating on the mainland to facilitate transfers.

- Fraser Island ferry business comprised of 3 passenger and vehicular ferries operating from River Heads (near Hervey Bay) on the mainland to either Wanggoolba Creek or Kingfisher Bay Resort on Fraser Island and vice versa.

- Retail operations (fuel, food and alcohol) and some freehold land.

The operations have strong barriers to entry and a dominant market position on Fraser Island, with the two resorts accounting for approximately 90% of commercial accommodation options and a substantial portion of the available developable freehold land.

The outlook for this division is robust thanks to the strong domestic visitor flow to Fraser Coast Regional Council which has seen overnight visitor numbers increase approximately 5.7% per annum over the last three years ending March 2019[76].

4.4.4 Captain Cook Cruises NSW and WA ("CCC")

CCC is SeaLink's smallest division and in FY19 generated 21% of group revenues and 0.6% of EBITDA[77]. The New South Wales operations of CCC was acquired in 2011 and since then it has achieved modest organic revenue growth. In 2016, SeaLink acquired the Western Australian operations of CCC.

Under the CCC brand, SeaLink provides the following services:

---

74 EBITDA after corporate costs.
75 SLK FY19 investor presentation.
76 Tourism & Events Queensland – Fraser Coast Regional Snapshot for the year ending 31 March 2019.
77 EBITDA after corporate costs.

Grant Thornton
An instinct for growth™

- Passenger ferry services on multiple routes on Sydney Harbour. These routes include Lane Cove and Circular Quay, Darling Harbour and Circular Quay, and the International Convention Centre and Circular Quay (commenced July 2017).

- In August 2019, SeaLink announced the closure of the Manly to Barangaroo ferry service (after two years of service) effective from September 2019 due to lower than anticipated demand and competition from the B-Line bus service and Manly Fast Ferry[78].

- Tourist cruises and other charter cruises on Sydney Harbour, NSW and Swan River, WA, including lunch and dinner cruises, whale watching and sightseeing.

- Contracted commuter ferry service (on behalf of Transperth) between Perth CBD and South Perth. In 2016, CCC secured a further 5-year contract until June 2021.

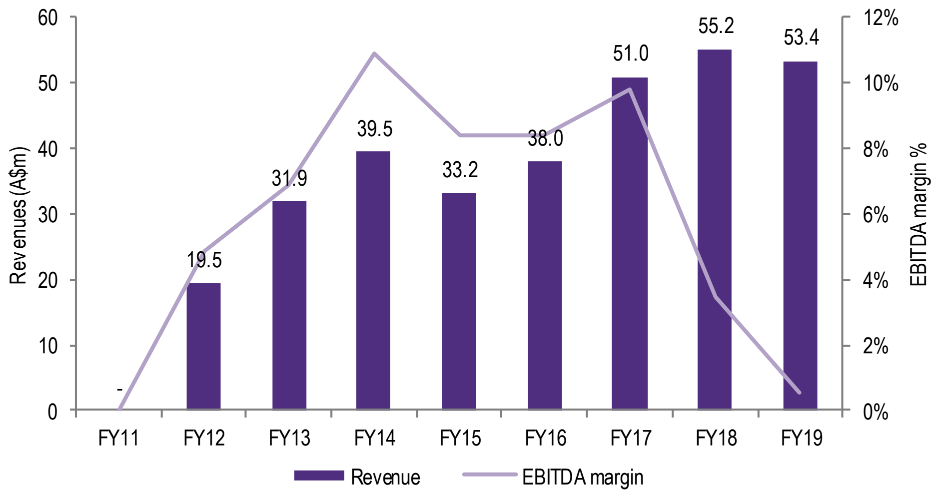
- Provision of ferry services under charter contracts for Harbour City Ferries.

- Passenger ferry service from Fremantle to Rottnest Island (commenced November 2017) under the SeaLink brand.

In August 2019, SeaLink announced that it had secured new wet and dry hire leases for four Sydney Harbour Rocket ferries commencing in July 2019 for 12 months with a 12 month extension option. In addition, SeaLink negotiated a subsidy[79] from the NSW government on the Lane Cove ferry service.

The table below shows CCC's revenue and operating performance over time.

CCC's revenues and EBITDA margin



Source: SeaLink investor presentations.
Note: EBITDA margin based on EBITDA including corporate costs allocation.

We note the following about the financial performance:

- Revenue in FY17 increased largely due to the full year impact of the acquisition of CCC WA, supported by strong international and domestic sales and VIVID festival performance. Margin growth

---

[78] Operated by NRMA
[79] 6 month contract, with two additional options for 6 months each.

was primarily attributable to sales growth in the higher margin CCC NSW premium dining and chartering business.

- Revenue in FY18 increased following commencement of the Manly to Barangaroo ferry service in September 2017, the Rottnest Island ferry service in November 2017 and growth from CCC NSW dining cruises. However, the start-up nature of these operations had a material adverse impact on EBITDA margin.

- In FY19 CCC's performance was impacted by more sluggish domestic activity leading up to the Federal Election and a slowing of the inbound international tourism market. This was further exacerbated by start-up costs relating to new services, higher fuel costs, and CCC WA's swan river cruising trading losses. Offsetting this was improved performance from the Rottnest Island service. As a result of the division's poor performance, the Company initiated a strategic review focused on cost structures, pricing strategies, productivity improvements and operational efficiencies.

4.5 Financial Information

4.5.1 Financial Performance

The table below illustrates the Company's audited consolidated statements of comprehensive income for the last four financial years.

Consolidated statements of financial performance A$ '000	FY16 Audited	FY17 Audited	FY18 Audited	FY19 Audited
Total revenues[1]	**177,459**	**201,407**	**209,436**	**251,321**
Revenue growth	*58.8%*	*13.5%*	*4.0%*	*20.0%*
Direct wages	(47,157)	(56,536)	(59,744)	(76,405)
Repairs and maintenance costs	(8,845)	(9,281)	(10,367)	(14,336)
Fuel	(5,927)	(7,711)	(10,083)	(13,294)
Commission	(6,647)	(7,373)	(8,487)	(12,397)
Meals and beverage	(7,693)	(11,085)	(11,507)	(14,530)
Accomodation	(4,332)	(4,131)	(3,557)	(384)
Tour costs	(10,465)	(10,263)	(9,335)	(11,965)
Other direct expenses	(9,939)	(11,049)	(10,226)	(12,262)
Direct operating expenses	(101,005)	(117,429)	(123,306)	(155,573)
Indirect operating expenses	(32,169)	(34,517)	(40,084)	(47,840)
EBITDA	**44,285**	**49,461**	**46,046**	**47,908**
Reported EBITDA margin	*25.0%*	*24.6%*	*22.0%*	*19.1%*
Depreciation and amortisation	(8,803)	(11,905)	(12,860)	(16,375)
EBIT	**35,482**	**37,556**	**33,186**	**31,533**
Reported EBIT margin	*20.0%*	*18.6%*	*15.8%*	*12.5%*
Impairment on investment	-	-	-	(1,637)
Business acquisition expenses	(1,040)	-	(2,569)	(364)
Financing charges	(2,470)	(3,239)	(3,070)	(4,582)
Profit before income tax expense	**31,972**	**34,317**	**27,547**	**24,950**
Income tax expense	(9,623)	(10,485)	(7,982)	(3,407)
Net profit (loss)[2]	**22,349**	**23,832**	**19,565**	**21,543**
Reported Net Profit margin	*12.6%*	*11.8%*	*9.3%*	*8.6%*

Source: SeaLink's annual reports
Notes:(1) Total revenues is comprised of revenue from customers, interest income and other income; (2) In FY19 Underlying net profit was A$23 million.

In relation to the above, we note the following:

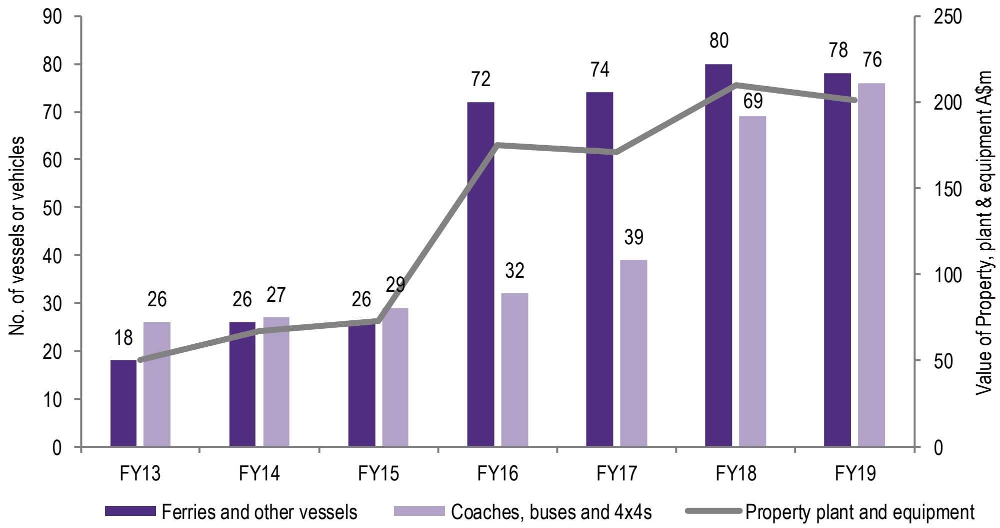
- Revenues increased in FY19 due to the net increase of A$42.6 million (over FY18) from SLK FI, which was also the primary reason behind higher EBITDA for the year. This however, was offset by the weaker result from CCC and the SLK QLD divisions as discussed previously. In FY18, revenue growth was subdued as a result of the A$3.2 million negative impact from the closure of SLK SA's retail travel centre in conjunction with the Gladstone LNG operations moving from construction phase to operational phase. However, this was more than offset by the acquisition of the Fraser Island operations.

- In FY18 and FY19, SeaLink's EBITDA margin declined due to the acquisition of the lower margin Fraser Island operations, weak performance of CCC as a result of the launch of new ferry routes (e.g.

Manly to Barangaroo and Fremantle to Rottnest Island), weakness consumer sentiment and the weak WA economy.

- Depreciation expenses have increased over time. This is due to the increase in SeaLink's asset base as can be observed from the graph below, resulting from the TSM acquisition (33 vessels), along with the acquisitions of CCC WA (7 vessels) and Fraser Island (30 vehicles and 3 vessels).

SeaLink's increasing asset base



Source: SeaLink investor presentations; SeaLink annual reports.

- In FY19, SeaLink impaired 50% of the book value of its investment in UWAI Limited (A$1.6 million), a Hong Kong-based tourism technology start-up company that connects businesses and Chinese tourists by translating and promoting local business content through a smartphone app.

- In FY16 and FY18 the Company incurred non-recurring business acquisition expenses related to CCC WA and Fraser Island.

- In FY19 the Company's effective tax rate declined materially due to exemptions in relation to marine training incentives[80]. Management expects that the Company will continue to benefit from the tax incentives in the future.

4.5.2 Financial Position

The table below illustrates the Company's audited consolidated statements of financial position as at 30 June 2018 and 30 June 2019.

[80] SeaLink receives tax benefits from providing marine training services.

Consolidated statements of financial position A$ '000	FY18 Audited	FY19 Audited
Cash and cash equivalents	3,242	11,904
Trade and other receivables	11,004	12,355
Inventories	4,738	4,921
Current tax assets	6,334	5,684
Prepayments	2,000	4,263
Total current assets	**27,318**	**39,127**
Property, plant and equipment	210,101	201,396
Intangible assets	55,327	53,383
Other financial assets	3,274	1,637
Deferred tax assets	4,539	5,936
Total non-current assets	**273,241**	**262,352**
Total assets	**300,559**	**301,479**
Trade and other payables	10,623	13,578
Unearned revenues	6,643	7,684
Interest bearing loans and borrowings	1,350	822
Other financial liabilities	137	943
Provisions	9,600	11,027
Total current liabilities	**28,353**	**34,054**
Unearned revenues	805	776
Interest bearing loans and borrowings	107,187	94,957
Deferred tax liabilities	9,293	9,132
Other non-current liabilities	2,699	4,645
Total non-current liabilities	**119,984**	**109,510**
Total liabilities	**148,337**	**143,564**
Net assets	**152,222**	**157,915**
KPIs:		
Net debt	*105,295*	*83,875*
Net debt / EBITDA	*2.3x*	*1.7x*
Gearing [1]	*40.9%*	*34.7%*

Source: SeaLink annual reports.
Note (1): Gearing is net debt divided by net assets plus net debt.

We note the following regarding the Company's financial position:

- Approximately two thirds of SeaLink's total assets consist of ferries and land and buildings, with intangible assets making up circa 18%. Almost 90% of intangible assets is goodwill, with the balance attributed to customer contracts and permits.
- The high level of debt in FY18 was the result of the acquisition of the Kingfisher Bay Resort Group for A$43.0 million, which was funded through bank debt.
- In FY19, following a review of fleet utilisation, SeaLink sold two Capricornian class vessels. A small gain on sale was recorded with the A$9.9 million in proceeds used to pay down debt.

4.5.3 Cash Flow Statement

The Company's cash flow statements for the last four years are set out below.

Consolidated statements of cash flow A$ '000	FY16 Audited	FY17 Audited	FY18 Audited	FY19 Audited
Cash flows from operating activities				
Receipts from customers	176,178	206,338	208,288	251,606
Payments to suppliers and employees	(133,627)	(153,966)	(161,540)	(202,878)
Interest received	203	43	27	38
Interest paid	(2,502)	(3,239)	(3,070)	(4,582)
Income tax paid	(8,158)	(23,485)	(15,127)	(3,539)
Net cash inflow from operating activities	**32,094**	**25,691**	**28,578**	**40,645**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	26	389	659	12,605
Payments for property, plant and equipment	(6,855)	(6,467)	(13,654)	(17,645)
Investment in unlisted entity	-	-	(3,274)	-
Acquisition of new businesses	(115,273)	-	(44,728)	-
Net cash outflow from investing activities	**(122,102)**	**(6,078)**	**(60,997)**	**(5,040)**
Cash flows from financing activities				
Proceeds from issue of shares	50,299	-	-	500
Proceeds from borrowings	57,500	1,809	49,350	-
Repayment of borrowings	(7,220)	(10,053)	(1,945)	(12,758)
Dividends paid	(7,624)	(13,654)	(14,667)	(14,685)
Net cash from/(used in) financing activities	**92,955**	**(21,898)**	**32,738**	**(26,943)**
Net increase/(decrease) in cash and cash equivalents	**2,947**	**(2,285)**	**319**	**8,662**
Cash and cash equivalents at the beginning of the financial period	2,261	5,208	2,923	3,242
Cash and cash equivalents at the end of the financial period	**5,208**	**2,923**	**3,242**	**11,904**
Cash conversion ratio[1]	72%	52%	62%	85%
Capex to depreciation ratio	78%	54%	106%	108%

Source: SeaLink's annual reports
Note (1): Cash conversion ratio defined as net operating cash flow divided by EBITDA.

We note the following in relation to SeaLink's cash flow statements:

- Capital expenditure has increased as SeaLink's asset base has grown. In FY18 and FY19 capex increased due to the acquisition of new vessels (Bruny Island and SEQ vessel), touring coaches, and upgrades to resorts on Fraser Island. The Company anticipates capex to increase further in FY20 to between A$20 million and A$24 million due to additional vessel acquisitions and further upgrades to the resorts on Fraser Island.

- The Company achieved a significant improvement in the FY19 cash conversion ratio mainly driven by lower tax payment. We note that both FY17 and FY18 operating cash flows were affected by large tax payments. In particular in FY17, a one-off tax payment in relation to utilisation fees was incurred following the de-mobilisation of vessels in relation to a contract in Gladstone.

4.6 Share capital structure

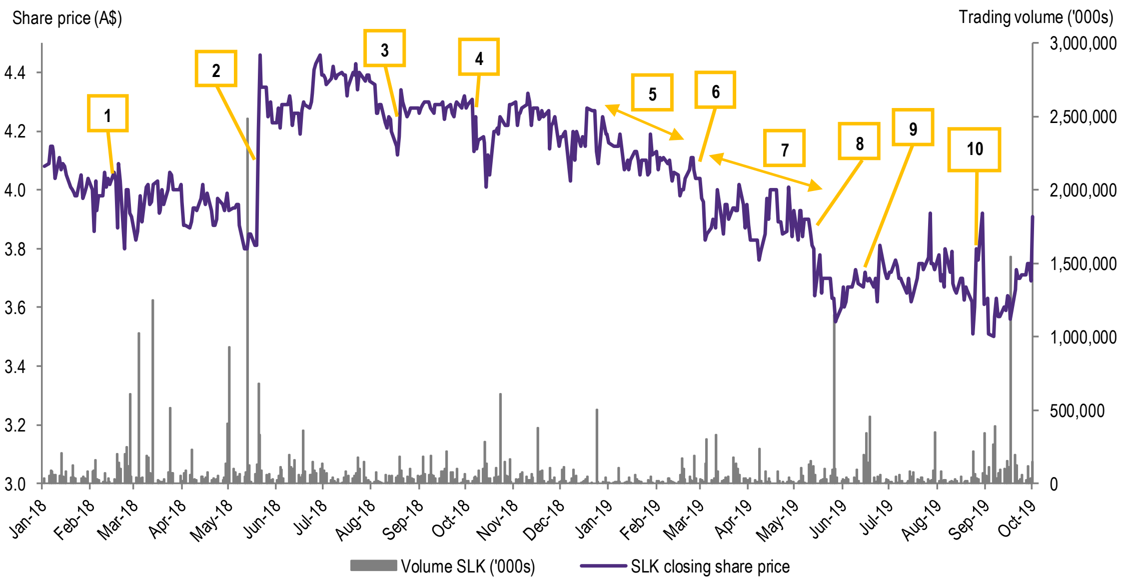
As at the date of this report, SeaLink has the following securities on issue:

- 101,429,103[81] SeaLink Shares.
- 100,000[82] share options ("SeaLink Options"). The SeaLink Options vest after a period of 3 years subject to continuity of service and they have nil exercise price.
- 190,000 unlisted Performance Rights ("SeaLink PRs"). The SeaLink PRs are generally granted to senior executives with more than 12 months service. When a participant ceases employment prior to the vesting or where the performance hurdle[83] is not met, the performance rights lapse. Should all conditions be met, one ordinary share is issued for each performance right at no consideration.

4.6.1 Share price and market analysis

Our analysis of the daily movements in SeaLink's trading price and volume for the period from January 2018 to August 2019 is set out below. We note that SeaLink's most recent closing share price as at 4 October 2019 was A$3.91.

Historical share price and volume for SeaLink



Source: S&P Global, GTCF analysis

The following table describes the key events which may have impacted the share price and volume movements recently as shown above.

Event	Date	Comments
1	Feb-18	21 February – 1HFY18 results were announced in conjunction with the acquisition of the Kingfisher Bay Resort Group. SeaLink's share price was very volatile following the announcement of the acquisition.

[81] ASX, Appendix 3B, 29 November 2018.
[82] The Company issued 200,000 shares on conversion of existing options in November 2008. The 100,000 are held by Mr. McEvoy.
[83] This is measured against a minimum share price quoted on the ASX. This future price hurdle usually targets a 10% compound growth rate from the share price at the date of issue of the performance rights.

2	May-18	23 May – SeaLink reported that it had received an unsolicited, confidential, indicative, and non-binding proposal to acquire 100% of the Company for a cash consideration of A$4.75 per share. The Board concluded that the proposal undervalued SeaLink and decided to reject the proposal.
3	Aug-18	22 August – Full year FY18 results were announced with several new growth opportunities emphasized such as the acquisition of the Kingfisher Bay Resort Group, the recently awarded contract to operate Bruny Island in Tasmania as well as several new routes launched on Sydney Harbour and to Rottnest Island. The Queensland business continued to perform well and saw improved EBITDA margins. SLK SA's result was slightly down as a result of the closure of a retail travel centre. CCC had a weak result due to start-up costs of new routes on Sydney Harbour as well as prolonged weak trading of CCC WA as a result of subdued economic conditions in WA and the temporary closure of the Swan River in April/May[84]. The Company also announced that current Managing Director and Chief Executive Officer, Mr. Ellison gave notice to retire effective from SeaLink's AGM in October 2019 with Mr. Ellison remaining as CEO until such time as a successor is appointed.
4	Oct-18	17 October - The Company was verbally advised by the SA Government that the use of port infrastructure and facilities in relation to the Kangaroo Island ferry operations will be put to competitive tender and will take effect from July 2024.
5	Dec-18 to Feb-19	We note that SeaLink's share price in this time period was largely impacted by several factors including the announcement of a new competitor on the Kangaroo Island ferry route, weak domestic consumer spending and inbound tourism growth, and continued uncertainty in relation to the replacement of the CEO.
6	Feb-19	19 February – Half year FY19 results were announced. The Company announced a successful integration and trading results of the recently acquired Fraser Island operations and successful commencement of the Bruny Island ferry operations in Tasmania. The Company also obtained renewal of its TransLink contract in South-East Queensland. Some brokers considered EBITDA weaker than expected, which was attributed to unseasonable bad weather on Kangaroo Island impacting the SLK SA division, weaker performance of the CCC division, with the discretionary parts of the business (dining and charter) impacted by a tightening economy and softening from tourism markets. Furthermore, slower than anticipated growth on the Manly to Barangaroo ferry weighed on the half year results.
7	Feb-19 to May-19	On 27 February, the NSW Government announced the A$1.3 billion Sydney Ferries contract had been awarded to Transdev. SeaLink had tendered for the contract but was ultimately unsuccessful. In addition, on 6 March 2019, GDP growth figures were released by the ABS highlighting weak economic growth of just 0.2% in the December quarter as a result of soft household spending. Furthermore, uncertainty in relation to the Federal Election outcome and potential changes to tax legislation had resulted in subdued consumer sentiment in the lead up to the election. In addition, on 18 April 2019 Sydney Airport reported declining domestic and international passenger traffic for March 2019 (vs. prior corresponding period), although this was in part due to the earlier Easter period in 2018.
8	May-19	14-16 May 2019 – In the days leading up to the Federal Election, the opposition Labor Party was leading in the polls and expected to win the election. However, on 17-18 May 2019, in a surprise result, the Coalition party won the election. In May, a number of other companies leveraged to the inbound and domestic tourism markets reported weakness in consumer and business confidence. On 17 May, Virgin Australia Holdings Limited provided guidance that underlying earnings for FY19 were expected to be at least A$100 million lower than FY18 driven by weakness in the leisure and corporate sectors. On 20 May, Sydney Airport reported subdued load factors, falling domestic passenger numbers (despite the later Easter in 2019) and falling numbers of Chinese tourists travelling through Sydney Airport. Overall international passenger numbers were higher, although this was boosted by the later Easter in 2019.
9	Jun-19	19 June – SeaLink provided a trading update in which it provided NPAT guidance for FY19 in the range of A$22.0 million to A$24.0 million. This was lower than broker consensus estimates (average of A$27 million). Conversely, the Company reported that it is currently experiencing early signs of an improved trading environment, with the performance of its dining and sightseeing operations on Sydney Harbour during the VIVID festival tracking ahead of last year. The successful integration and performance of the Fraser Island operations will also support results in the second half of FY19.
10	Aug-19 to Sep-19	27 August – SeaLink announced its FY19 results with an underlying NPAT of A$23.4 million, at the upper end of the Company's guidance of between A$22.0 million and A$24.0 million it provided to the market in June. In addition, SeaLink announced an increased dividend of 8.5 cents per share, up 0.5 cents compared to the prior year and provided EBITDA guidance of between A$49 million and A$52 million for FY20, below the broker consensus of A$53.5 million at the time.

[84] The river was closed for six to eight weeks in April/May 2018 for the construction of a new pedestrian bridge to the Perth Stadium.

		The Company also provided an update to its strategic review of CCC, advising that the Company had secured new wet & dry hire leases (+A$1.0m EBITDA p.a.), secured a subsidy for its Lane Cove service (+A$0.5m EBITDA p.a) and closed its Manly/Barangaroo ferry service effective September 2019. In addition, the Company reported Fraser Island had performed better than expected in FY19. On 3 September, the share traded ex-dividend and the closing price fell 7.9%. On 6 September, SeaLink was removed from the S&P ASX-300 effective 23 September 2019, the share price fell 3.3% on the day to close at A$3.51.

Source: ASX announcements, GTCF analysis

The monthly share price performance of SeaLink since July 2018 and the weekly share price performance of SeaLink over the last 16 weeks is summarised below:

SeaLink Travel Group Limited	Share Price			Average
	High A$	Low A$	Close A$	weekly volume 000'
Month ended				
Sep 2018	4.320	4.170	4.300	405
Oct 2018	4.320	4.010	4.220	447
Nov 2018	4.330	4.120	4.250	313
Dec 2018	4.300	4.030	4.250	265
Jan 2019	4.255	3.980	4.190	110
Feb 2019	4.170	3.950	4.070	211
Mar 2019	4.100	3.800	4.020	426
Apr 2019	4.020	3.660	4.010	176
May 2019	3.980	3.500	3.560	515
Jun 2019	3.810	3.500	3.810	416
Jul 2019	3.920	3.600	3.750	151
Aug 2019	3.850	3.440	3.760	272
Sep 2019	3.920	3.450	3.710	930
Week ended				
14 Jun 2019	3.790	3.630	3.680	181
21 Jun 2019	3.750	3.500	3.700	1,148
28 Jun 2019	3.810	3.620	3.810	189
5 Jul 2019	3.810	3.650	3.720	85
12 Jul 2019	3.790	3.650	3.690	157
19 Jul 2019	3.710	3.600	3.640	228
26 Jul 2019	3.800	3.620	3.730	147
2 Aug 2019	3.920	3.660	3.730	517
9 Aug 2019	3.800	3.650	3.800	161
16 Aug 2019	3.790	3.650	3.650	89
23 Aug 2019	3.720	3.620	3.660	102
30 Aug 2019	3.800	3.440	3.760	403
6 Sep 2019	3.920	3.510	3.510	619
13 Sep 2019	3.740	3.450	3.570	863
20 Sep 2019	3.750	3.500	3.560	1,968
27 Sep 2019	3.800	3.580	3.710	429

Source: S&P Global, GTCF analysis
Note: The share price analysis is based on 1 October 2019.

We have also considered SeaLink's recent trading prices for the purpose of our valuation of SeaLink. Refer to Section 8.4 for further details and analysis on the trading price of the Company.

4.6.2 Substantial shareholders

We have provided in the below table the ten largest shareholders of SeaLink as at 30 September 2019:

Top ten ordinary shareholders of ordinary shares as at 30 September 2019		No. of shares	Interest (%)
1	Smerdon Christopher David	6,104,500	6.02%
2	Perennial Value Management Limited	5,952,754	5.87%
3	Ellison Jeffrey R.	5,524,769	5.45%
4	Sarto Pty Ltd	5,031,000	4.96%
5	Sunrop Pty Ltd	4,143,000	4.08%
6	Mayfield Brenton J.	3,563,692	3.51%
7	Mann FCA, MAICD, Fredererick A.	3,548,000	3.50%
8	The Vanguard Group Inc.	2,912,790	2.87%
9	Belahville Pty Ltd	2,125,000	2.10%
10	Norges Bank Investment Management	2,009,164	1.98%
Top 10 shareholders total		**40,914,669**	**40.34%**
Remaining shareholders		60,514,434	59.66%
Total ordinary shares outstanding		**101,429,103**	**100.00%**

Source: S&P Capital IQ, GTCF analysis
Note: The above information is as at 30 September 2019. We have updated the total number of ordinary shares outstanding to date.

The table below summarises the substantial shareholders of SeaLink as at 30 September 2019, comprised of several of the Company's senior executives.

Substantial ordinary shareholders as at 30 Sept 2019	*Number of shares*	%
Smerdon Christopher David (NED)	6,104,500	6.02%
Ellison Jeffrey R. (Managing Director, CEO)	5,524,769	5.45%
Dodd Terry J. (NED)	4,786,578	4.72%

Source: ASX annnouncements

5 Profile of Transit Systems Group

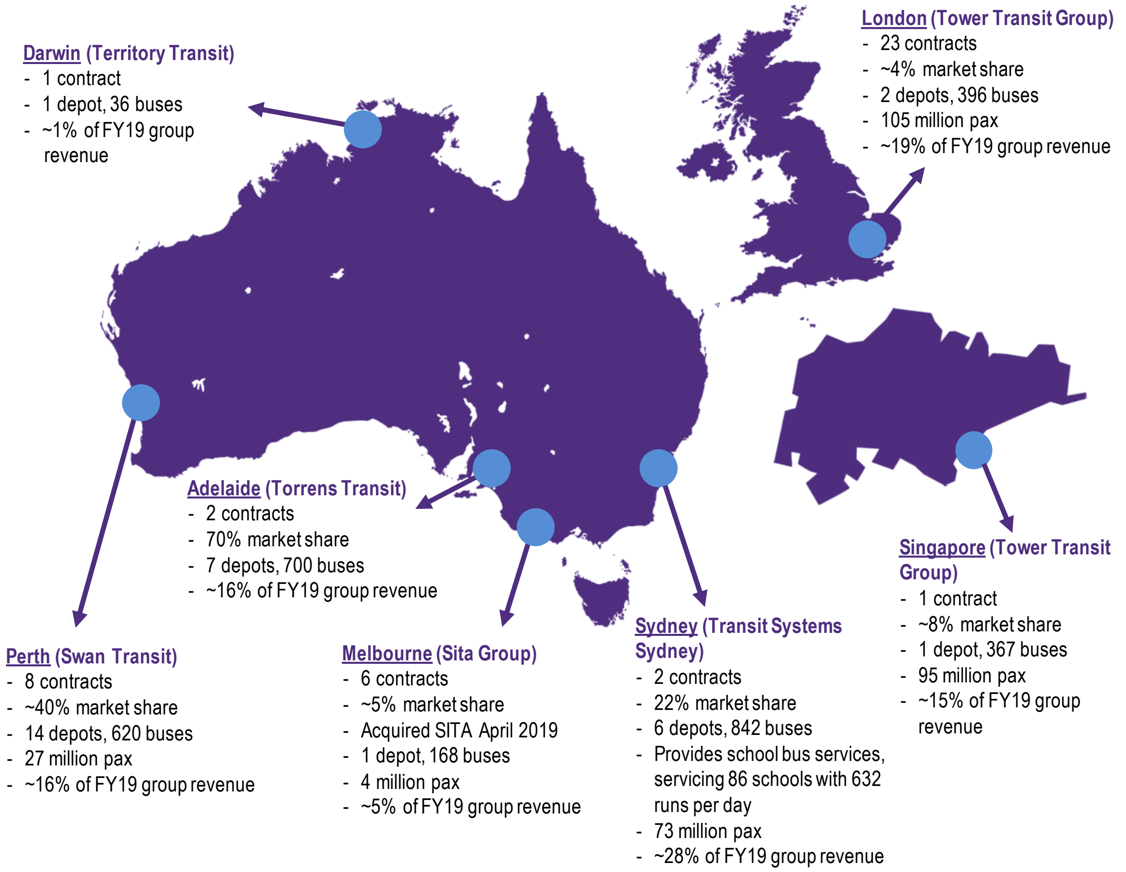
5.1 Introduction

Transit Systems Group is a geographically diversified transport company with operations in Australia, London and Singapore. The Australian business is owned in equal share by its founders and Directors Lance Francis, Graham Leishman and Neil Smith either individually or through entities that they control. The international business operates under a different entity, Tower Transit Group, and is owned by entities controlled by Neil Smith, Graham Leishman, Clint Feuerherdt and Tower Transit Group staff (2.6%).

TSG operates 3,129 buses and 32 depots, most of which are leased from the local government agencies. Nearly all revenues are secured by contracts with terms of between six and ten years (at contract commencement). The contracts allow for the recovery of expenses plus a profit margin, with TSG taking the risk of higher costs, but not the patronage/fare risk. These contracts are also indexed in line with expense growth.

Transit Systems Australia has one of the largest privately operated metropolitan public transport bus networks in Australia. In addition to operating public buses, it also offers private charter bus services and school bus services. Tower Transit Group has a smaller market share internationally, with the platform providing significant opportunity to expand in the future. Below we provide an overview of Transit Systems Group's current operations.

Overview of Transit Systems Group



Source: Management

5.2 Company history

Transit Systems Group was founded in 1995 in Western Australia where it won the contract to operate buses on the Midland area in Perth, the first bus contract to be tendered in Perth.

After approximately 5 years of operations in Perth, TSG expanded to Adelaide, by securing the East West and City Free urban bus contract in 2000 followed by the North South and Outer North East ("NS ONE") bus contract in 2005, giving the company a 73% market share in Adelaide. In 2005, TSG expanded to Queensland when it acquired the Bay Islands Transit ("BITS") passenger ferry contract. This marked the company's entry into the marine passenger transport business, which it grew further in 2010 when it secured the contract to provide ferry services for the construction of the Gladstone LNG ("GLNG") and APLNG terminals on Curtis Island, Gladstone. In 2011 Transit Systems Group continued to grow its marine business with the acquisition of Stradbroke Ferries Limited.

In 2013, TSG expanded internationally when it acquired, from FirstGroup Plc, the London bus operations consisting of 20 bus routes and 3 depots. A new entity, Tower Transit Group, was established to operate the London business. In the same year, TSG entered the Sydney market, winning the tender for the Region 3 contract. Transit Systems Group was the only new entrant to be awarded a Sydney Metropolitan Bus Service Contract.

TSG grew its international operations when Singapore put the first of its bus contracts—under its new Bus Contracting Model ("BCM"), which is based on the Transperth contracting model—to tender in 2015. TSG won the contract despite being only the third cheapest bidder. Also in 2015, TSG sold its marine division, consisting of its entire ferry operations, to SeaLink, to focus on the company's bus operations.

Transit Systems Group continued to grow when in 2018 it won the Sydney Region 6 contract, covering Sydney's inner west. Region 6, which was previously operated by the government, was the largest Australian public bus contract ever tendered in Australia. TSG began operations for Region 6 on 1 July 2018.

In April 2019, TSG acquired Sita Group, marking the company's entry into the Victorian bus market. Sita Group currently operates 19 bus routes under a ten-year contract with Public Transport Victoria ("PTV"). Sita Group also owns a strategically located bus depot in Footscray, the closest bus depot to the CBD. In addition to the PTV contract, Sita Group operates various charter contracts for schools in Melbourne.

5.3 Business model

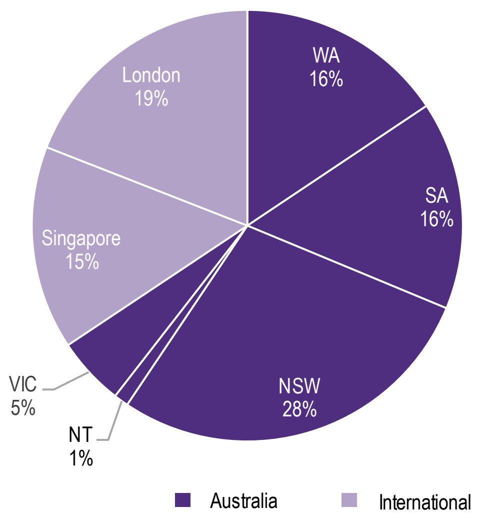
5.3.1 Terms of the contracts

TSG has long-term contracts with State Governments as well with Transport Authorities in relation to international contracts and most of its revenues are contracted. Revenues are charged to the State Governments on a monthly basis. The company's contracts are on a "gross cost" basis, where revenues are indexed in line with the movement of key expenses such as driver salaries, fuel and maintenance expenses. The bus operations and associated expenses such as cleaning, driver payroll and repairs and maintenance, as well as meeting safety guidelines is the responsibility of Transit Systems Group. The underlying contracts, through the contract indexation, provides a natural hedge to the price changes related to the operating costs of the company. Transit Systems Group does not assume any fare box risk (which is borne by the government) and focuses purely on operating the buses and meeting the required operating KPIs.

TSG's contracts generally have a duration of 6 to 10 years, across its domestic and international portfolio. Based on the duration of individual contracts, the vast majority[85] of the current portfolio will be re-tendered in the next 5 years, including major contracts in Adelaide and Perth within the next 12 months.

We note that approximately 33% of revenues are up for renewal before 30 June 2020, with 56% up for renewal within the next two years. However, we note that Transit Systems Group has a strong track record of renewing contracts as discussed further in section 5.3.3. Furthermore, governments, in general, typically prefer to keep incumbent operators unless there is a need for substantial quality improvement, due to the potential risks associated with changing operators, which include reduced service quality, uncertainty for bus drivers and reduced patronage. Whilst State Governments are seeking to streamline the cost of their operations, the offering a substantial price discount to the agreed amount with current operator may be perceived by Governments as being indicative of a compromise on the quality of service. This was observed in Singapore where the Tower Transit Group won the first-ever bus contract tendered by the LTA despite only being the third cheapest. Below we provide a split of revenues by location.

Revenue by location[1]



Source: Management
Note (1): Based on FY19 revenue derived from the following information: Transit Systems Australia unaudited management financials for the year ended 30 June 2019; Sita Group unaudited management financials for the year ended 30 June 2019; Tower Transit Group twelve months unaudited management financials to 30 June 2019.

[85] Excluding extension option periods.

We have further analysed each of Transit Systems Groups' key contracts, and provide a summary of the key contract terms below.

Summary of key Transit Systems Group contracts[1]

Route / Contract	Location	Contract first held	# of historical renewals[3]	Expiry[4]	Extension Option (yrs)[5]
Midland Perth	WA	Jan-96	2	Apr-24	
Canning Perth	WA	Sep-96	1	Apr-20	
Southern River Perth	WA	Sep-96	1	Apr-20	
Claremont Perth	WA	Sep-02	2	Jan-20	
Marmion Perth	WA	May-11		Jan-20	
Busselton WA	WA	Jan-15		Dec-24	
Bunbury WA	WA	Jan-15		Dec-24	
Albany WA	WA	Jul-17		Jun-27	
Adelaide (EW)	SA	Apr-00	1	Jun-20	
Adelaide (NS ONE)[2]	SA	Jun-18		Jun-20	
Region 3	NSW	Oct-13		Oct-21	1
Region 6	NSW	Jul-18		Jun-23	3
Darwin Bus Services	NT	Oct-14		Feb-21	
PTV	VIC	Jul-18		Jun-26	2
Bulim	Singapore	May-15		May-21	2
23 London contracts	London	na		Numerous[6]	

Source: Management
Note (1): A few immaterial contracts (e.g. school charters) have not been included (collectively these account for less than 1% of revenues)
Note (2): The NS ONE contract was acquired as part of the acquisition of Light-City Buses from Broadspectrum in June 2018.
Note (3): The number of times the contract has been successfully renewed by Transit Systems Group.
Note (4): The expiry dates represent the contract expiry, assuming extension options are not granted. This is represented by the dark purple bars, with the light purple bars representing option extension periods.
Note (5): The number of extension years on the contract. Extensions are at the discretion of the relevant transport authority.
Note (6): The London bus contracts have various expiry dates between March 2020 and March 2024.

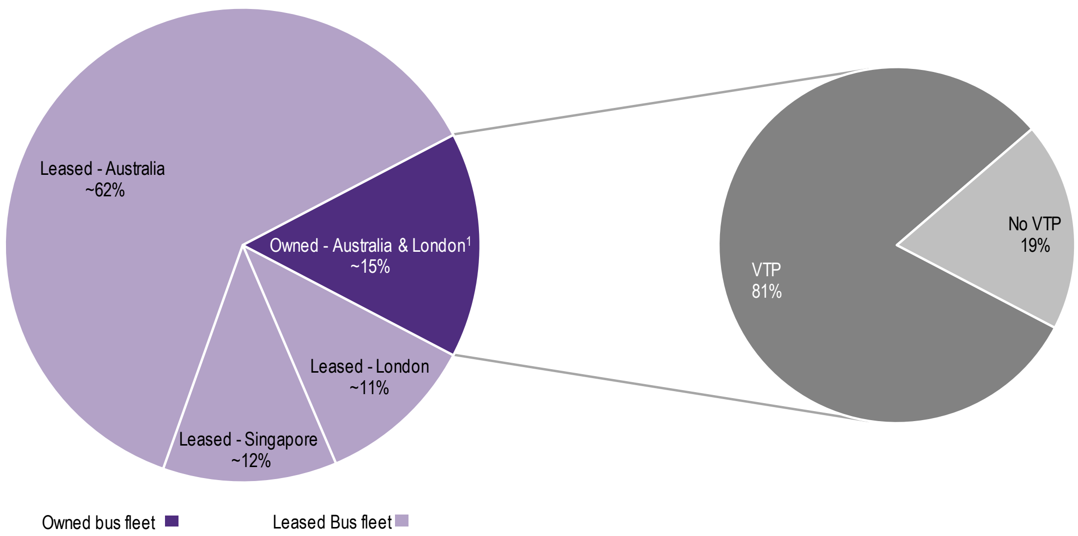
5.3.2 Fleet and depot arrangements

Transit Systems Group owns a relatively small proportion (circa 15%) of its bus fleet (leasing the remainder) and leases most of its depots. The majority of buses are owned by the respective government agencies where the company operates. Lease rent is recovered through the contract payments by the relevant government entity[86]. Under some contracts TSG owns all, or some of the fleet. For instance, under the Region 6 contract, TSA is required to purchase all new and replacement buses, with the company reimbursed for the associated capex over the life of the contract and the fleet subject to pre-determined vehicle termination payments ("VTP") at contract expiry, which we explain in more detail below.

For those buses owned by Transit Systems Group approximately 81% are subject to a VTP, effectively guaranteeing their asset values. Below we provide a breakdown of Transit Systems Group bus fleet split between owned and leased buses.

[86] We note that under Tower Transit Group's contracts with TfL, no recoveries of lease expenses are provided by TfL. This is bid into the contract price.

Transit Systems Group's bus fleet overview as at 30 June 2019



Source: Management
Note (1): Consisting mostly of Australian-owned fleet, as the majority of London fleet is leased.

The age of Transit Systems Group's fleet ranges from 1 to 26 years, with most buses being between 1 and 10 years old. Some contracts stipulate that the buses should not be older than a specified number of years, which necessitates either replacement or major refurbishment of the buses once they reach the specified age. For the Region 6 contract—under which TSA is responsible for the new and replacement fleet—a number of buses are approaching the maximum permitted fleet age. Accordingly, a large amount of capex is required over the next few years to fund purchases of Region 6 buses.

5.3.3 Contract tendering history

Transit Systems Group has an impeccable track record of tendering for bus public transport contracts, having won 13 contracts, renewed seven contracts and lost just two contracts in its 24-year history. Upon entering various markets, the company has typically increased its market share over time and re-secured the majority of contracts that have come up for renewal (since inception circa 85%[87] of contracts have been successfully renewed). This growth and renewal success has been observed in Perth and Adelaide (where TSA has a circa 40% and 70% market share respectively), as well as Sydney. We note that in 2013 Transit Systems Australia won the Region 3 contract despite being a new entrant, and was the only new entrant to secure one of the 11 bus contracts that were retendered in Sydney during 2012 and 2013. Transit Systems Australia then won the Region 6 contract five years later, the largest bus public transport contract tender in Australian history. We understand that Management have expertise in running the tendering process, and have good relationships with state governments.

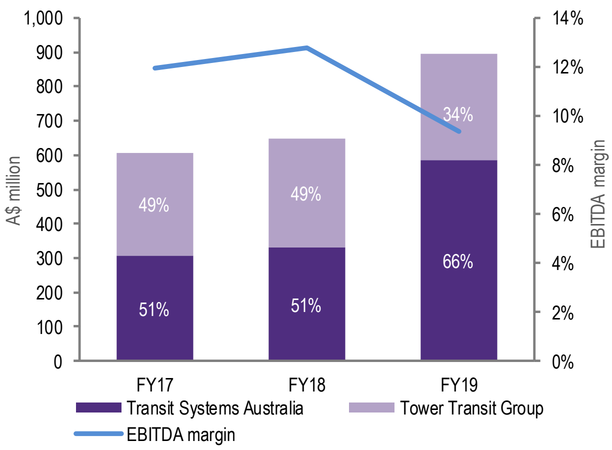
5.4 Current operations

TSG derives approximately two-thirds of its revenues in Australia, and a third from its London and Singapore operations. TSG has grown rapidly in the last few years, with revenues and EBITDA growing at

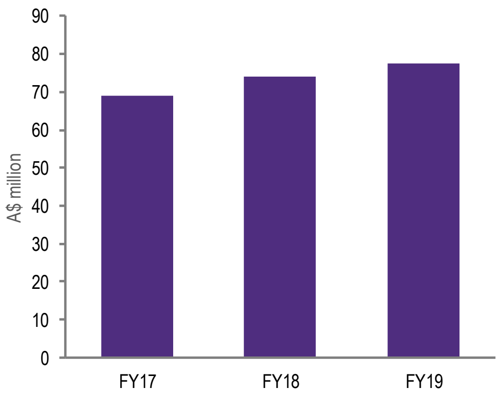
[87] Since inception the company has successfully renewed 12 contracts and had 2 non-renewals. However, of the two lost contracts, one was lost in Perth partly due to Transit Systems Group approaching the Western Australia Government's legislated cap of 50% market share for any one operator. The other lost contract, Adelaide's NSONE, was awarded to an entity which has since exited the market. This was subsequently regained with the acquisition of Light City Buses.

a CAGR of approximately 25.6% and 19.5% respectively since FY17[88], driven predominantly by the Sydney Region 6 contract win and acquisition of Light City Buses. The historical revenue across geographies and group EBITDA is shown below:

Transit Systems Group Revenue[1,2]



Transit Systems Group EBITDA[1,2]



Source: Management
Note (1): These financials have been adjusted for certain pro forma adjustments, to remove certain assets and operations excluded from the acquisition perimeter, normalisations identified during SeaLink's due diligence and assuming the Sita Group was owned by Transit Systems Group from 1 July 2016 (i.e. the full contribution for Sita Group is included in FY17, FY18 and FY19). For a more description of how the financials have been prepared, see section 5.6.
Note (2): Sita Group included on a pro forma basis for all years, to allow for ease of comparison purposes.

5.4.1 Transit Systems Australia

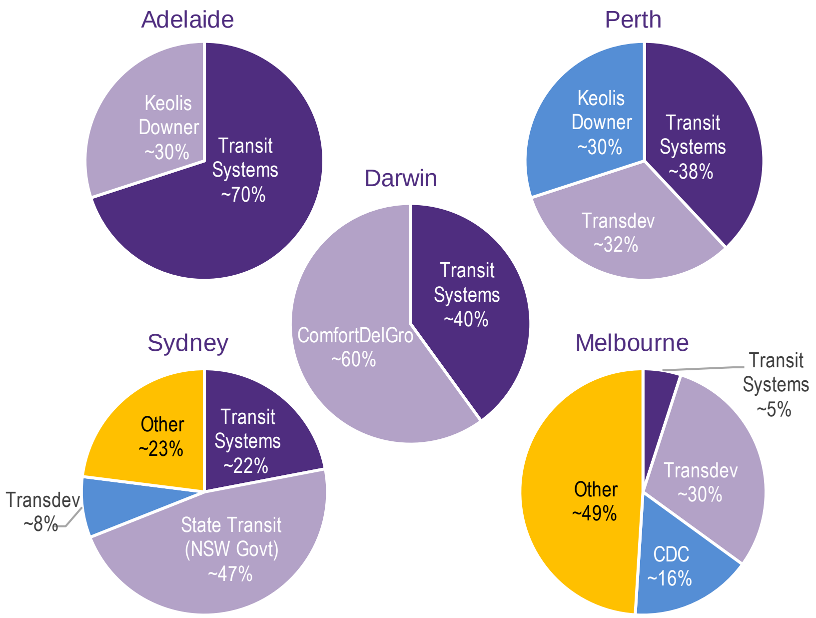
Transit Systems Australia enjoys significant market share in Australia, particularly in Adelaide, Darwin and Perth.

Below we provide a breakdown of the market share controlled by Transit Systems Australia in each of the Australian cities that it operates in.

---

[88] Based on pro-forma normalised revenues, and assuming Sita Group was owned by Transit Systems from 1 July 2018.

Approximate market share by city as at 30 June 2019[1,2]



Sources: Management
Note (1): Sydney market share for Transdev and State Transit (NSW Gov't) based on CY18 passenger numbers under the respective SMBSCs and Outer Sydney Metropolitan Bus Service Contracts ("OSMBSCs").
Note (2): Melbourne CDG market share based on CDG's 2018 annual report.

Transit Systems Australia leases the majority of its fleet and depots but owns the Region 3 fleet, Region 6 new and replacement fleet and Darwin fleet. At contract expiry, all three operating contracts require the State to either purchase the bus fleet or transfer the fleet to any subsequent operator. The payment for the fleet is based on a VTP for each vehicle that transfers. Below we provide an overview of the Australian fleet and depot arrangements by state.

Australia operations asset overview	Bus fleet	Fleet owned or leased	Owned fleet transfer at contract expiry	Depots	Depot owned or leased
WA	620	Leased	NA	14	Leased
SA	700	Majority leased	NA	7	Majority leased
NSW	842	Leased and Owned	✔	6	Leased and Owned
NT	36	Owned	✔	1	Leased
VIC	168	Owned	✔	1	Leased
Total	**2,366**			**29**	

Source: Management.

We note the following key points in relation to Transit Systems Australia's operations:

- Transit Systems Australia's contracts are held with the respective Governments in the states and territory that it operates[89]. These contracts are usually for 6-10 year periods with extension options at the transit authority's discretion, or based on achieving KPIs.

- Approximately 44% of Transit Systems Australia's revenues under contract are up for renewal in CY20, including key South Australian and West Australian contracts.

[89] Being Transport for NSW in NSW; Public Transport Authority of Western Australia in WA;

- *Region 6*: The contract was previously operated by TfNSW with a fleet of approximately 600 buses, which is expected to grow over the life of the contract. In addition to funding the replacement cost of new buses, Transit Systems is also required to fund the contract mobilisation costs, contract working capital and a performance bond. The five year contract term expires in June 2023 and may be extended for an additional three years at TfNSW's discretion. A significant portion of the profitability of the Region 6 contract depends on Transit Systems Australia successfully implementing service and scheduling changes, some of which took place in March 2019 and July 2019.

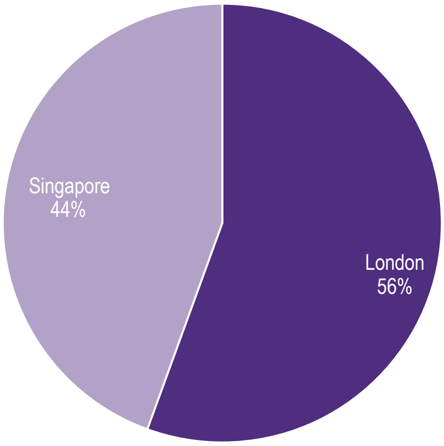
- *Acquisition of Sita*: In April 2019, TSA acquired Sita Group, a Melbourne based entity operating 168 buses and providing public bus services, general charter bus services, rail replacement buses and school bus services. Sita Group operates nineteen of the circa 350 Melbourne metropolitan bus routes under contract with PTV. The contract is for ten years (8 years plus a mandatory 2 year extension subject to meeting contracted KPIs). Sita Group also owns a strategically-located depot in West Footscray which is the closest depot to the Melbourne CBD.

  The rationale for the acquisition was to expand the business into Victoria where Transit Systems Australia previously did not have a presence. In late 2018, PTV announced that Transdev's Melbourne metropolitan bus contract, which accounts for approximately 30% of bus services in the city, was not being extended beyond 2021, and will likely go to tender.

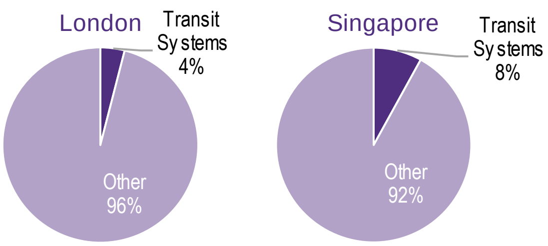
5.4.2 Tower Transit Group

Tower Transit Group operates public bus transport in London and Singapore, holding a circa 5% and 8% market share in each city respectively. In FY19, revenues from international operations represented 34% of total group revenues.

Tower Transit Group revenues by country



Market share by city



Source: Management

In London, Tower Transit Group generates revenue across 23 different contracts which typically cover an individual or small number of routes. Contracts are typically for a term of five years and generally a two-year extension option is available if operational KPIs are met.

In Singapore, the TTG operates under one contract ("Bulim package") which consists of 31 routes[90]. The contract is for a term of five years, ending 2021, following which a further two-year extension is available at the discretion of the LTA.

Similar to its Australian operations, in the UK and Singapore, the TTG leases the majority of its bus fleet. In Singapore, all buses are owned by the LTA and leased to Tower Transit Group. In the UK, TTG Group leases its fleet from third parties. In relation to the depots, TTG owns the Westbourne depot in London while it leases both the Interchange depot located in London and the depot in Singapore.

Below we provide a table with an overview of the asset arrangements for London and Singapore.

International operations asset overview	Bus fleet	Fleet owned or leased	Owned fleet transfer at contract expiry	Depots	Depot owned or leased
London	396	Majority leased	NA	2	Leased and owned
Singapore	367	Majority leased	NA	1	Leased
Total	**763**			**3**	

Source: Management

5.5 Future opportunities and initiatives

The Midland contract in Perth was the first ever competitively tendered urban bus contract in Australia. Since then, more Australian cities have privatised their bus networks, a trend which is also occurring internationally. Competitive tendering has become a proven model to enhance service quality and reduce costs to tax payers. It is expected that more states and local authorities will follow suit and undertake privatisation. Furthermore, the industry is undergoing consolidation as the larger players attempt to grow their market share and smaller operators (typically family run businesses) which in the past made up the majority of private operators, will likely be unable to remain competitive.

While Transit Systems Group has a large market share in Australia, there are several opportunities, both domestic and international which if captured have the potential to continue to increase the scale of the business. Below we highlight a number of potential opportunities:

- *Melbourne Metropolitan Bus Franchise:* In December 2018, the Victorian Government announced that it would be retendering the Melbourne Metropolitan Bus Franchise agreement, which covers approximately 30% of services in the city. The current contract[91], which expires in 2021, has a term of approximately seven years and is worth circa A$1.7 billion.

- *Sydney:* The Sydney region consists of 15 Metropolitan Bus Service Contracts and 12 Outer Sydney Metropolitan Bus Service Contracts. Transit Systems Australia will be able to bid for these as they are progressively tendered. In addition, Regions 7, 8 and 9 are currently operated by the NSW government and represent approximately 44% of the Sydney's bus network in terms of passenger numbers[92].

- *Singapore:* Singapore is currently in the process of implementing its Bus Contracting Model ("BCM") under which 14 bus packages covering over 350 routes will be progressively put to tender. The first

[90] Two further routes were added to the Bulim package following commencement of the contract, which are operated by SMRT Buses.
[91] Operated by Transdev.
[92] Based on CY18 passenger numbers for the OSMBSCs and SMBSCs.

four packages (Tower Transit Group secured the first contract) have already been tendered with the remaining ten to be progressively tendered over the next 7 years (to 2026).

- *United States:* TSG is actively pursuing entering into the United States where it has commenced submitting tenders for bus contracts in Los Angeles.

- *London:* Tower Transit Group has a 5% market share in London and owns two centrally located bus depots in the city. Tower Transit Group may be able to expand its operations in London, although we note the high level of competition in the market and significant level of entrenchment of existing operators. TTG's market share has remained fairly steady since entering the London market in 2013.

- *Brisbane:* In 2019, the Queensland Government contracted Brisbane City Council to operate Brisbane's buses under a three-year contract across more than 420 routes. It is possible that in the future, the operations of Brisbane's buses may be put to competitive tender. In addition to Brisbane, the Gold Coast and Sunshine Coast have private bus contracts which upon expiry represent new opportunities.

- *Other Australian opportunities:* All public bus operations in Hobart and the ACT. Should these be privatised, Transit Systems Australia may be able to capture additional market share.

In addition to the above opportunities, there are contracts operated by Transit Systems Groups' competitors in almost every city, which Management can potentially bid for upon expiry of the same.

Management of Transit Systems Group has identified a tender pipeline worth circa A$3.5 billion per annum across new and existing markets before 2025.

5.6 Financial information

5.6.1 Financial performance

Below we have presented the pro-forma financial performance of Transit Systems Group over the last three financial years. The historical financials have been amended for certain pro-forma adjustments, to remove certain assets and operations excluded from the transaction perimeter and normalisations identified during SeaLink's due diligence. In addition, the financials are presented on a constant currency basis for Tower Transit Group[93]. For ease of comparison purposes, we have included the full historical contribution from Sita Group even Transit Systems Group only completed the acquisition in April 2019. We note that given the different reporting dates of Transit Systems Australia (30 June) and Tower Transit Group (31 March), the pro-forma financials have been built up as follows:

- *FY19* – TSA unaudited management financials for the year ended 30 June 2019; Sita Group unaudited management financials for the year ended 30 June 2019; TTG twelve months unaudited management financials to 30 June 2019.

- *FY18 and FY17* – TSA and Sita Group audited financial accounts for the year ended 30 June; TTG twelve months unaudited management financials for the year ended 30 June, which reconcile to the audited TTG financial accounts for the financial year ended 31 March.

[93] AUD:GBP exchange rate of 0.5344 for the UK operations of Tower Transit Group; AUD:SGD exchange rate of 0.9578 for the Singaporean operations of Tower Transit Group.

Consolidated statements of comprehensive income for the period[1] A$ million (Constant currency basis)	FY17 Unaudited	FY18 Unaudited	FY19 Unaudited
Revenue			
Australia (including Sita)	308	331	587
UK[1]	195	184	171
Singapore[2]	121	127	137
Total revenue	**623**	**642**	**895**
Revenue growth	*n/a*	*3.0%*	*39.4%*
Underlying EBITDA	**69**	**74**	**78**
EBITDA margin	*11.1%*	*11.5%*	*8.7%*
Less: Depreciation and Amortisation			(16)
Reported EBIT			**61**
EBIT margin			*6.8%*
Less: Interest			0.0
Net Profit before Tax			**61**
Less: Tax			(16)
Net Profit after Tax[2]			**45**
NPAT margin			*5.0%*

Source: Management
Note (1): FY17, FY18 and FY19 in the table above reflects a full year of Sita Group earnings as if it had been owned by Transit Systems Group from 1 July 2016.
Note (2): Assumes no interest and a 30% tax rate for Australia earnings, 19% tax rate for UK earnings and 17% tax rate for Singapore earnings.

We note the following in relation to the financial performance of Transit Systems Group:

<u>Australia (including Sita Group)</u>

- TSA's revenue (including Sita Group) grew at a CAGR of 38.1% over FY17 to FY19 driven by both organic and inorganic factors, as summarised below:
  - On 1 July 2018, Transit Systems Australia commenced operations of the Region 6 contract, which generated approximately A$185 million uplift in revenue in FY19.
  - Additional revenues in FY19 from the acquisition of Light City Buses in South Australia.
  - An increase in the mileage serviced in Adelaide and Western Australia, as well as additional bus charter income in Adelaide.
  - Increase in revenue through the recovery of higher variable costs.
  - An increase in Sita Group revenue through charter services from rail replacement work.
- The Sydney Region 6 contract has delivered a substantial uplift in revenue in FY19. We understand that upon commencement of the contract, Management has undertaken a process to streamline

Region 6 services with the aim of improving the efficiency of the network through servicing and scheduling refinements. While an efficiency audit has been undertaken and several servicing and scheduling changes introduced in March 2019 and July 2019, a significant portion of savings remain to be realised which has had an adverse impact on the overall EBITDA margin in FY19. For instance, excluding Region 6, the FY19 EBITDA margin for Transit Systems Australia would have been circa 14%. Including Region 6, this reduces to 10%. The effects of the scheduling and servicing changes will be observed over the coming year, and Management expects to realise significant savings in FY20.

UK

- The revenues for TTG's UK business reduced from A$195 million to A$171 million due to the expiry of contracts for 3 key routes. This is expected to reverse in FY20 as the contracts for 4 new routes commence from 1 April 2019.

- A reduced mileage also resulted in lower driver requirements and lower fuel requirements in FY18 and FY19, which resulted in lower expenses.

Singapore

- Tower Transit Group's Singapore business witnessed an increase in revenue due to an increase in the periods of service after a revised bus service schedule for the Bulim zone was introduced in FY17-18.

- The business faced higher repairs and maintenance expenditure on the fleet leased from the government as well as higher driver wages and fuel costs relative to revenue.

- Fixed costs for depot rental also increased significantly post the introduction of the revised service schedule.

5.6.2 Financial position

The consolidated statement of financial position of TSG as at 31 March 2019 is summarised in the table below. The balance sheet has been prepared based on unaudited management financials as at 31 March for TSA, Sita Group and TTG.

Consolidated statements of financial position as at	31-Mar-19
A$ million	Unaudited
Assets	
Cash and cash equivalents	12
Trade and other receivables	82
Inventories	10
Property, Plant & Equipment	198
Intangible assets	110
Other assets	53
Total Assets	**464**
Liabilities	
Trade and other payables	63
Provisions	69
Borrowings	201
Capitalised borrowing costs	(1)
Other financial liabilities	8
Other liabilities	53
Total Liabilities	**393**
Net Assets	**70**

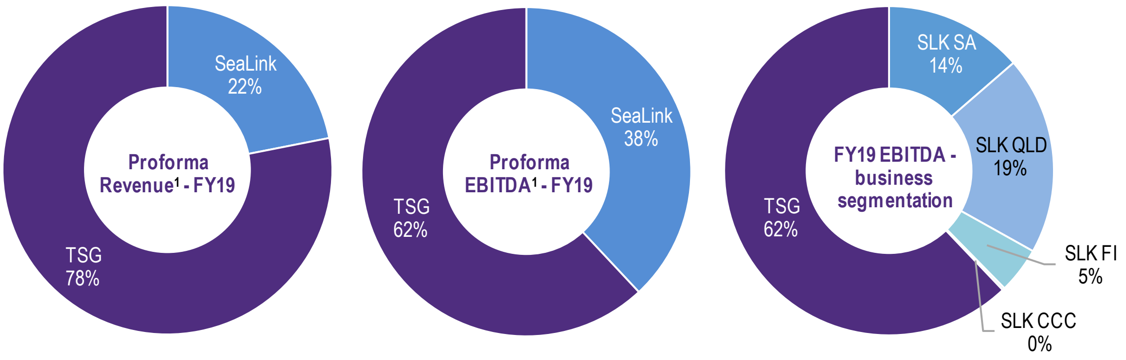
Source: Management

- Property, plant and equipment mainly relate to buses and motor vehicles, as well as the owned depots in relation to Tower Transit Group (UK operations).
- Trade receivables mainly pertain to service payments paid monthly in arrears by the state governments. Trade payables comprises of unpaid supplier invoices.
- Inventories comprises spare parts and diesel for maintenance and operation of the fleet.
- Borrowings comprises commercial loans, finance leases and facilities for capex and working capital.
- Intangible assets consist mainly of goodwill arising from acquisitions and some customer contracts.

6 Profile of the Combined Group

6.1 Overview of the Combined Group

The graphs below provide an illustration of the Combined Group.



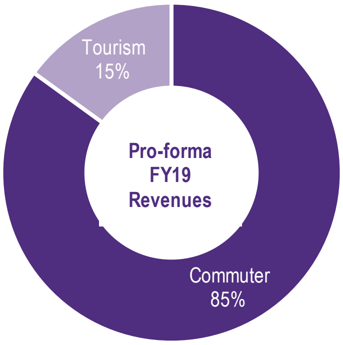
Source: Management
Note (1): Adjusted EBITDA, after normalisation of one-off costs and non-operational costs. Assumes Sita Group was owned by Transit Systems Group from 1 July 2018.
Note (2): Transit Systems Group's international operations are reported on constant currency basis using the following exchange rates: AUD:GBP exchange rate of 0.5344 for the UK operations of TTG and AUD:SGD exchange rate of 0.9578 for the Singaporean operations of TTG.

If the Proposed Acquisition is completed, the Combined Group will have the following characteristics:

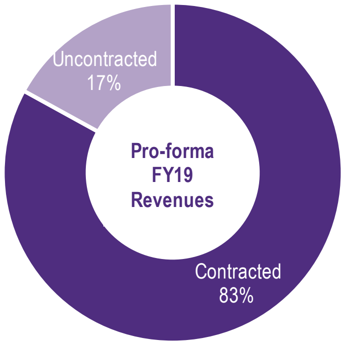
- A materially larger, more diversified multi-modal transport and tourism company with international operations.
- A higher market share in operating transport assets in Australia along with exposure to international markets which provides SeaLink the potential to promote its brand in other jurisdictions.
- An improved ability to tender for new opportunities, given both the complementarity of the businesses as well as the tendering expertise and relationships of both groups of Management, which are likely to be strengthened.
- Cost synergies in relation to consolidation of operating sites/ state offices, procurement synergies, insurance synergies and overhead synergies as well as potential unquantified revenue synergies through cross-selling, coordination of routes and increased scale.
- A large-scale business with enhanced capacity to access the equity markets and to fund investments necessary for large contracts and obligations.

Below we provide an overview of the exposure to end markets and breakdown of contracted and uncontracted revenues of the Combined Group.

Split of tourism and commuter revenues



Split of contracted/uncontracted revenues



Source: Management

6.2 Board of Directors and Management Team

- As discussed in Section 1.1, Neil Smith, current Chairman of Tower Transit Group and founding shareholder of Transit Systems Group, has agreed to join the SeaLink Board of Directors (currently comprising six directors) immediately upon completion of the Proposed Acquisition, which will result on a total of seven directors.

- Jeff Ellison will step down as SeaLink CEO with Clint Feuerherdt taking over on completion of the Proposed Acquisition. Jeff Ellison will provide ongoing support to Clint Feuerherdt to ensure a smooth transition of leadership. In addition, Jeff Ellison will remain on the Board as a non-executive director.

6.3 Pro-forma statement of comprehensive income

The pro forma statement of comprehensive income of the Combined Group before synergies prepared by the Company is set out below. We note that Grant Thornton Corporate Finance has not reviewed the pro-forma statement of comprehensive income.

Pro forma statement of comprehensive income A$ million (Constant currency basis)	FY19 SeaLink	FY19 Transit Systems Group	Adjustments	FY19 Pro forma[1]
Revenue	251	895		1,147
EBITDA	**48**	**78**		**125**
EBITDA margin	*19.1%*	*8.7%*		*10.9%*
Depreciation and amortisation	(16)	(16)		(33)
EBIT	**32**	**61**		**93**
EBIT margin	*12.5%*	*6.8%*		*8.1%*
Net profit after tax	**23**	**45**	**(5)**	**63**

Source: Management, GTCF analysis
Note (1): Pro-forma statement of income does not factor in synergies. In addition it is calculated before the amortisation of any identifiable intangibles, excluding transaction costs and stated prior to applying the adjustment factor to take into account the bonus element of the Entitlement Offer consistent with AASB 133.

As outlined above, the Proposed Acquisition is expected to be EPS accretive to SeaLink Shareholders.

6.3.1 Synergies

The Combined Group is expected to realise cost and revenue synergies operating as an enlarged entity. Potential cost synergies for the Combined Group have been identified by the Company as outlined below:

- The two companies have estimated annual pre-tax cost synergies of between A$4.0 million and A$4.6 million realised after a two-year integration period (excluding one-off implementation costs) as a result of cost savings including the following:

  - Consolidation of a number of offices.

  - Procurement cost savings through lower cost of fuel, engine operating fluids, spare parts, tyres and other maintenance inputs.

  - Utilities, IT systems, support teams, insurance and other corporate cost savings.

The Combined Group is also expected to realise synergies through the uplift in revenue expected through the expanded service offerings and capabilities of the combined business. Significant increase in cross selling opportunities is expected across the enlarged passenger base. SeaLink is expected to utilise the higher visibility among passengers in Transit Systems Group's public transport operations to promote their tourism business.

Implementation costs of synergies are expected to be limited.

6.4 Pro-forma balance sheet

The pro forma balance sheet of the Combined Group prepared by the Company is set out below. We note that Grant Thornton Corporate Finance has not reviewed the pro-forma balance sheet.

Statement of financial position[1] A$m	SeaLink 30-Jun-19	Transit Systems Group 31-Mar-19	Adjustments	Pro-forma Combined Group
Assets				
Cash and cash equivalents	12	12	(12)	12
Trade and other receivables	12	82	-	94
Inventories	5	10	-	15
Property, plant and equipment	201	198	-	399
Intangible assets	53	110	417	580
Other assets	18	53	(32)	38
Total assets	**301**	**464**	**373**	**1,138**
Liabilities				
Trade and other payables	14	63	-	77
Provisions	13	69	(1)	82
Borrowings	96	201	(4)	293
Capitalised borrowing costs	-	(1)	(2)	(3)
Deferred Consideration related to Proposed Acquisitic	-	-	37	37
Earn Out Consideration related to Proposed Acquisiti	-	-	63	63
Other financial liabilities	4	8	(8)	4
Other liabilities	18	53	(46)	25
Total liabilities	**144**	**393**	**40**	**577**
Net assets	**158**	**70**	**333**	**561**

Source: Management

Note (1): *The purchase price accounting for the acquisition has been shown on an illustrative basis by allocating the difference between the purchase consideration and the carrying value of assets and liabilities in the 31 March 2019 consolidated balance sheet of Transit Systems Group to intangibles. The pro forma adjustments to reflect the estimated financial effect of the accounting for the business combination are illustrative only. Australian Accounting Standards require an allocation of fair value of assets and liabilities acquired. SeaLink will undertake a formal allocation of its acquisition subsequent to the date when the transaction completes. Accordingly that allocation may give rise to material differences in values allocated to the above balance sheet line items and may also give rise to fair value being allocated to other balance sheet items.*

Post completion of the Proposed Acquisition, the Company will undertake a purchase price allocation exercise in accordance with the accounting standard which may identify separately identifiable intangibles.

6.5 Net debt position

The pro-forma net debt of the Combined Group is expected to be circa A$318 million, inclusive of the Deferred Consideration but excluding the Earn-out Consideration, as outlined in the table below:

Pro-forma net debt of the Combined Group A$m	
Transaction funding debt issuance from senior term debt	230
Sita Group vendor note	40
Revolving credit facility	2
Transit Systems Group finance leases	8
Pro-forma net debt of the Combined Group	**281**
Deferred Consideration	37
Pro-forma net debt of the Combined Group including deferred consideration	**318**

Source: Management

With regard to the debt position of the Combined Group, we note the following:

- SeaLink has received the New Debt Facilities of approximately A$470.0 million consisting of a senior term debt facility of A$230 million, revolving credit facilities of in aggregate A$180 million and a letter of credit facility of A$60 million. These are intended to largely be applied to refinance SeaLink and Transit Systems Groups' existing debt facilities on more favourable terms, and to assist in funding the Deferred Consideration and the Earn-out Consideration (if any) as well as the Combined Group's ongoing working capital needs.

- The Sita Group vendor note refers to a deferred consideration of A$40 million in relation to the acquisition of Sita Group ("Vendor Note"). The Vendor Note is to be paid 50% within 3 years of the completion date (April 2022) and 50% within four years of the completion date (April 2023).

6.6 Dividend policy

SeaLink Directors intend to maintain the current target dividend payout ratio of 50% to 70% of NPAT.

6.7 Shareholding

Set out below is the expected shareholding structure of the Combined Group:

Combined Group Number of ordinary shares	*Section* *Reference*	Number of shares	%
Existing shares on issue	*4.6*	101,429,103	46.5%
Shares issued for the Placement and Entitlement Offer	1.1	44,000,000	20.2%
Scrip Consideration	1.1	72,869,945	33.4%
Total		**218,299,048**	100.0%

Source: Management

7 Valuation methodologies

7.1 Introduction

As part of assessing whether or not the Proposed Acquisition is fair to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared:

- Fair market value of SeaLink Shares before the Proposed Acquisition on a control basis.
- Fair market value of the Combined Group after the Proposed Acquisition on a minority basis.

In each case, Grant Thornton Corporate Finance has assessed the value using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

We note, RG111 requires the fairness assessment to be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

7.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

7.3 Selected valuation methods

In our assessment of the fair market value of SeaLink and Transit Systems Group, Grant Thornton Corporate Finance has relied on a number of valuation methodologies as outlined below:

- *EBITDA Multiple Method:* Grant Thornton Corporate Finance has selected the EBITDA capitalisation approach to assess the fair market value of SeaLink and Transit Systems Group. We have adopted the FY20 EBITDA multiple approach due to the following key considerations:

  - This methodology is suitable for business like SeaLink and Transit Systems Group that have been trading profitably for a number of years and have relatively stable operations and earnings.

  - EBITDA is a frequently used valuation metric to assess the value of a company as it is not affected by differences in earnings caused by varying capital structures and depreciation and amortisation policies.

  - Capitalisation of earnings based on EBITDA multiples is commonly adopted for companies in the transport and tourism industries.

  We note that in our valuation assessment of Transit Systems Group, we have also considered the EBIT multiple of listed peers in order even the differences in relation to the leasing the depots and the owned versus leased buses.

The EBITDA Multiple Method involves the following key processes:

  - Selecting an appropriate level of EBITDA for FY20, having regard to the historical and budgeted operating results after adjusting for non-recurring items of income and expenditure, and other known factors likely to affect the future operating performance of the business.

  - Determining appropriate EV/EBITDA multiples having regard to the trading multiples of comparable companies and comparable transaction evidence, and the specific circumstances of SeaLink and Transit Systems Group.

- *DCF Method*: For the purpose of our valuation assessment, Grant Thornton Corporate Finance has built a valuation model ("GT Model") based on cash flow management projections to 30 June 2023 prepared by SeaLink and Transit Systems Group ("Financial Models"), and calculated a terminal value at that point in time.

  We believe the DCF Method is an appropriate valuation methodology due to the following:

  - SeaLink and Transit Systems Group have long histories of profitability.

  - Working capital and capital expenditure requirements can be modelled in a robust way.

  - The DCF Method is one of the most commonly used methodologies for valuing transport and tourism companies with contract risks.

- In addition to the EBITDA Multiple Method and DCF Method, for our valuation of SeaLink Shares before the Proposed Acquisition, we have also adopted the Quoted Security Price Method. This method is based on the Efficient Market Hypothesis which assumes that the share price at any point in time reflects all publicly available information and will change when new information becomes publicly available.

8 Valuation assessment of SeaLink before the Proposed Acquisition

8.1 Valuation summary

As discussed in section 7, we have assessed the fair market value of SeaLink Shares before the Proposed Acquisition on a control basis using the FY20 EBITDA Multiple Method, DCF Method and Quoted Security Price Method. We have set out in the table below a summary of our assessed valuation range on a control basis.

Valuation summary of SeaLink Shares before the Proposed Acquisition (control basis) A$ per share	*Section Reference*	Low	High
FY20 EBITDA Multiple Method	*8.2*	4.25	4.81
DCF Method	*8.3*	4.25	4.70
Quoted Security Price Method	*8.4*	4.68	4.88
Fair market value per SeaLink Share (control basis) - Average		**4.39**	**4.80**

Source: GTCF analysis

8.2 FY20 EBITDA Multiple Method

Set out below is our valuation assessment of SeaLink Shares based on the capitalisation of the FY20 EBITDA.

Valuation summary - FY20 EBITDA Multiple Method A$ millions (except where stated otherwise)	*Section Reference*	Low	High
Assessed FY20 EBITDA	*8.2.1*	49.0	52.0
Assessed EV/EBITDA Multiple (on a control basis)	*8.2.2*	10.5x	11.0x
Enterprise value (control basis)		**514.5**	**572.0**
Less: Net debt as at 30 June 2019	*4.5.2*	(83.9)	(83.9)
Equity value (control basis)		**430.6**	**488.1**
Number of outstanding shares [(1)]	*4.6*	101,429,103	101,429,103
Value per share (control basis) (A$ per Share)		**4.25**	**4.81**

Source: GTCF analysis; SeaLink Management.
Note 1 – We note that we have not considered the dilution from the PRs and the Options in the calculation of the value per share as it is already reflected in the multiple of listed peers and comparable transactions.

8.2.1 FY20 EBITDA of SeaLink

When considering the FY20 EBITDA of SeaLink, we have taken into account the following:

- Historical financial performance of SeaLink for FY17 to FY19 as set out and discussed in Section 4.5.
- SeaLink Management FY20 underlying EBITDA guidance in the range of A$49.0 million to A$52.0 million and management projections[94] for FY20 to FY23 which have been prepared based on the latest financial performance of the Company ("SeaLink Management Projections").
- Expectations regarding upcoming contracts and their likelihood of renewal.

[94] Details of SeaLink's Management Projections are not disclosed due to confidentiality and commercial sensitivity factors and because they do not meet the disclosure requirements under ASIC Regulatory Guide 170 "Prospective Financial Information" ("RG170").

- Brokers' forecast EBITDA for SeaLink released after the announcement of the FY19 results at the end of August 2019.

In our assessment of FY20 EBITDA for SeaLink, we have considered the following key factors:

- SeaLink's financial performance in FY18 and FY19 was adversely affected by its Captain Cook Cruises businesses in NSW and WA. In particular, in FY18, the Company commenced two new ferry routes which generated trading losses of approximately A$1.8 million (EBIT). The first of the two routes, the Manly to Barangaroo ferry, has continued to underperform Management's expectations in FY19 (with growth slower than expected) and Management has recently announced its closure which occurred in September 2019. The second new ferry route, the Rottnest Island ferry, has seen improved performance in recent months, and Management sees this as a long-term growth opportunity. Other initiatives implemented to maximise the yield of the existing fleet include the following:

    - Secured a new wet and dry hire lease for a period of 6 months with potential extension of an additional twelve months for 4 Rockets[95] on Sydney Harbour commencing in August 2019 which is expected to generate a net contribution of approximately A$1 million per annum.

    - Agreed with the NSW Government, subsidies on the Lane Cove service with a net EBITDA contribution of A$0.5 million per annum.

    - Close other low yielding ferry services.

    - Continuous review of vessels deployed and a focus on growing stadium transfer opportunities in Perth.

    In addition to the above, we have taken into account that the Captain Cook Cruises business has been affected and continues to be affected by the slowdown in consumer demand driven by below average consumer sentiment and slowdown in demand for discretionary products and services.

- At the end of September 2018, SeaLink commenced ferry services to Bruny Island following the successful tender for the ten year contract. The Company is expected to realise the full year impact of the Bruny Island contract win in FY20 with residents, tourists and vehicle patronage/traffic all performing well.

- YTD performance is in line with budget.

- In January 2019, SeaLink successfully renewed the Bay Islands Transit contract with the Queensland Government (Translink) to service four islands around the Southern Moreton Bay for 5 years plus a further two by one year options.

- Mineral sands mining on North Stradbroke island has been legislated by the Queensland Government to end at the end of calendar year 2019. SeaLink earns revenue from both a contracted barge service plus transportation of workers and freight which accordingly will cease shortly after.

[95] SeaLink operates a fleet of ferries on the Sydney Harbour called "Rockets" which travel between various destinations on the harbour including Circular Quay, Darling Harbour, Taronga Zoo, Watsons Bay and others..

* Uncertain market conditions with fluctuating consumer sentiment may act to restrain revenue growth in the short-to-medium term. However, the weakening Australian dollar will likely encourage more Australians to holiday domestically, while at the same time potentially attracting an increased number of international visitors.

Based on the above discussions and a review of the information available, we have assessed the FY20 EBITDA of SeaLink within a range of A$49.0 million to A$52.0 million as set out below.

Underlying EBITDA analysis		Underlying EBITDA (A$m)			
A$m	*Section*	FY17	FY18	FY19	FY20
Source	*Reference*	Actual	Actual	Actual	Forecast
Sealink adjusted EBITDA actuals and FY20 guidance	*4.5.1*	49.4	46.5	47.9	49.0 - 52.0
Broker 1		na	na	na	50.5
Broker 2		na	na	na	52.0
Broker 3		na	na	na	51.8
Broker 4		na	na	na	48.8
Average		49.4	46.5	47.9	50.8
Median		49.4	46.5	47.9	51.2
Grant Thornton Adopted EBITDA			**49.0**	to	**52.0**

Sources: SeaLink Management; SeaLink Investor Presentation FY18 Results announced on the ASX on 22 August 2018; Various broker reports.

We note that our assessment of the FY20 EBITDA is in line with the brokers' estimates.

8.2.2 EV/EBITDA Multiple

The selection of an appropriate EV/EBITDA multiple is a matter of judgement and involves consideration of a number of factors including:

* The stability and quality of earnings.
* The nature and size of the business.
* The quality of the management team.
* Future prospects of the business.
* Cyclical nature of the industry.

For the purpose of assessing an appropriate EV/EBITDA multiple range to value SeaLink, we have had regard to:

* The trading multiples of listed transport and tourism related companies which have been attributed by share market investors. We note that the level of comparability of listed peers is limited and we have only adopted it to provide directional evidence for our valuation assessment.
* The multiples implied by recent transactions involving transport and tourism related companies. We have placed greater reliance on the transaction multiples.

Trading multiples

Summarised below are the trading multiples of the selected companies having regard to the trading prices:

Trading multiples analysis summary Company	Market Cap[2] (A$'m)	FY18 Actual	LTM Actual[5]	FY19 Actual/Project[6]	FY20 Projected	FY21 Projected
		EV/EBITDA[4]				
Sealink Travel Group Limited	**377**	**9.3x**	**10.0x**	**9.6x**	**9.1x**	**8.5x**
Australia & NZ Tourism & Travel companies						
Helloworld Travel Limited[1]	577	9.5x	7.9x	7.9x	6.8x	6.4x
Tourism Holdings Limited	579	7.4x	7.2x	7.2x	7.0x	6.8x
Experience Co Limited	147	6.5x	9.2x	9.2x	6.7x	6.0x
Webjet Limited[1]	1,546	NM	12.6x	12.6x	9.8x	8.5x
Apollo Tourism & Leisure Ltd	88	6.0x	6.7x	6.7x	6.3x	6.0x
Flight Centre Travel Group Limited[1]	4,835	10.6x	11.0x	11.0x	9.9x	9.1x
Event Hospitality & Entertainment Limited[3]	2,149	9.6x	9.9x	9.9x	9.3x	8.8x
Millennium & Copthorne Hotels New Zealand Limited	413	5.0x	5.8x	NA	NA	NA
Average		**7.8x**	**8.8x**	**9.2x**	**8.0x**	**7.4x**
Median		**7.4x**	**8.5x**	**9.2x**	**7.0x**	**6.8x**
International Ferry and Cruise Operators						
Carnival Corporation & Plc	45,635	7.7x	7.5x	7.6x	7.1x	6.6x
Royal Caribbean Cruises Ltd.	33,119	11.5x	10.5x	9.9x	9.0x	8.1x
Norwegian Cruise Line Holdings Ltd.	16,235	8.9x	8.6x	8.7x	7.7x	7.2x
DFDS A/S	3,075	8.7x	8.6x	8.9x	8.2x	7.7x
AS Tallink Grupp	1,018	8.2x	8.2x	8.5x	8.3x	8.3x
Torghatten ASA	951	6.9x	6.5x	NA	NA	NA
Fjord1 ASA	592	6.9x	7.9x	8.9x	6.9x	6.6x
Attica Holdings S.A.	438	9.8x	9.3x	NA	NA	NA
Viking Line ABP	311	8.3x	7.2x	NA	NA	NA
Average		**8.6x**	**8.3x**	**8.8x**	**7.8x**	**7.4x**
Median		**8.3x**	**8.2x**	**8.8x**	**7.9x**	**7.4x**
Average - All		**8.2x**	**8.5x**	**9.0x**	**7.9x**	**7.4x**
Median - All		**8.2x**	**8.2x**	**8.9x**	**7.7x**	**7.2x**

Sources: S&P Global; financial reports of comparable companies and GTCF calculations
Note (1): We have adjusted our enterprise value calculations to remove cash held on behalf of clients as this is considered operating in nature.
Note (2): Market capitalisation as at 27 September 2019.
Note (3): We have adjusted FY18 and LTM EBITDA to reflect the discontinued operations of the Germany Entertainment business.
Note (4): Projected EBITDA is based on the median of broker estimates sourced from S&P Global as at 27 September 2019.
Note (5): Twelve months EBITDA computed with latest information released by the companies up to 27 September 2019.
Note (6): For Australia and NZ tourism & travel companies FY19 multiple is based on actual EBITDA since the companies have 30 June as end of financial year. For international ferry and cruise operators FY19 multiple is based on projected EBITDA since the companies have 31 December as and of financial year end accordingly FY19 results have not been published yet.
Note (7): We have adjusted historical and projected EBITDA amounts to eliminate the impact of IFRS 16 adoption.

A brief description of the companies listed in the table above is set out in Appendix B. We note the following in relation to the comparable companies:

- The EBITDA multiples presented above reflect the value of underlying companies on a minority basis and do not include a premium for control.
- Due to the lack of publicly-listed Australian companies with directly comparable operations to SeaLink,

we have selected two sets of listed companies. The first set consists of companies operating in the Australian and New Zealand tourism, travel and leisure sectors. The second set consists of international ferry and cruise operators.

In our detailed review of each comparable company we also noted the following key similarities and differentiating factors with SeaLink:

- SeaLink is exposed to the domestic and inbound tourism markets, with approximately two-thirds of revenue generated from tourism activities. Given the discretionary nature of consumer spending in this sector, SeaLink, along with other Australian tourism, travel and leisure companies, is exposed to changes in the macroeconomic environment (both domestically and abroad) including changes in consumer sentiment, GDP growth, wage growth, employment levels and the exchange rate. We note the currently subdued conditions in the domestic tourism market has negatively impacted a number of tourism-exposed companies.

- SeaLink is exposed to lower levels of competition than other Australian tourism and travel companies listed on the ASX. For instance, SeaLink has sole operator status on a number of its ferry routes and faces low levels of competition on others. The Company's flagship ferry service to Kangaroo Island has been in operation for approximately 30 years and in that time a number of competitors have attempted to enter the market, although none have been able to adversely affect the operations of SeaLink.

- SeaLink is a vertically integrated tourism and transport company. For its Kangaroo Island and Fraser Island operations, the Company operates an integrated service for the two islands combining ferry and freight (for Kangaroo Island) services, and packaged holidays including accommodation and tours.

- The majority of the Australian and New Zealand travel and tourism companies are highly exposed to the tourism sector. However, we note that approximately a third of SeaLink's revenues are earned from freight and commuter transport ferry services, which are typically more stable and defensive in nature.

- Nearly all of the Tier 1 and Tier 2 selected comparable companies (with the exception of Torghatten ASA and Fjord1 ASA which operate in Norway) are more internationally diversified than SeaLink. Companies with globally diversified operations tend to have less exposure to country specific risks including political risks, exchange rate risks and other macroeconomic factors, and usually trade at higher multiples. In addition, we note that companies operating in emerging market countries such as Flight Centre Travel Group Limited ("Flight Centre") benefit from significantly higher expected economic growth rates in comparison to more developed countries like Australia.

- A large portion of SeaLink's revenues are supported by contracts and licenses held with private companies and governments. In FY18, approximately 34% of SeaLink's revenue was underpinned by contracts and licenses. While SeaLink is typically reliant on booking volumes to generate the majority of its revenues, the Company does provide some cost plus contracted services to the Queensland Government (e.g. BITS) with CPI-linked revenues and minimal patronage risk.

Below we provide an overview of a number of key performance indicators for the listed companies.

Growth and margin analysis Company	Market Cap[1] (A$m)	Historical EBITDA CAGR[2]	Historical average[3] EBITDA margin	Forecast 3-yr EBITDA CAGR[4]
Sealink Travel Group Limited	377	2.7%	22.0%	7.1%
Australia & NZ Tourism & Travel companies				
Helloworld Travel Limited	577	45.9%	19.3%	9.9%
Tourism Holdings Limited	579	15.9%	26.3%	4.1%
Experience Co Limited	147	12.8%	18.5%	18.7%
Webjet Limited	1,546	49.0%	22.4%	18.8%
Apollo Tourism & Leisure Ltd	88	24.9%	19.5%	4.9%
Flight Centre Travel Group Limited	4,835	1.1%	14.6%	8.9%
Event Hospitality & Entertainment Limited	2,149	(6.0%)	22.2%	4.8%
Millennium & Copthorne Hotels New Zealand Limited	8,207	(1.1%)	42.0%	NA
Average		**17.8%**	**23.1%**	**10.0%**
Median		**14.4%**	**20.9%**	**8.9%**
International Ferry and Cruise Operators				
Carnival Corporation & Plc	44,208	5%	28%	5%
Royal Caribbean Cruises Ltd.	33,119	11%	30%	12%
Norwegian Cruise Line Holdings Ltd.	16,235	15%	31%	7%
DFDS A/S	3,075	8%	19%	4%
AS Tallink Grupp	1,018	(2%)	16%	(0%)
Torghatten ASA	951	3%	14%	NA
Fjord1 ASA	592	24%	33%	2%
Attica Holdings S.A.	438	(10%)	21%	NA
Viking Line ABP	311	(11%)	7%	NA
Average		**4.8%**	**22.1%**	**5.1%**
Median		**5.1%**	**21.2%**	**4.8%**
Average - All		**10.9%**	**22.6%**	**7.7%**
Median - All		**8.2%**	**21.2%**	**5.4%**

Sources: S&P Global; financial reports of comparable companies and GTCF calculations
Note (1): Market capitalisation as at 27 September 2019.
Note (2): For the Australia & NZ tourism & travel companies the historical EBITDA CAGR is computed over 3 years from FY16 to FY19 while for the international ferry & cruise operators is computed over 2 years from FY16 to FY18 since FY19 results have not been released as at the date of this report.
Note (3): For the Australia and NZ tourism & travel companies the average has been computed over FY16 to FY19, while for the international ferry and cruise operators over FY16 to FY18 since FY19 results have not been released as at the date of this report.
ote (4): For the Australia and NZ tourism & travel companies the forecast CAGR has been computed from FY19 to FY22, while for the international ferry and cruise operators from FY18 to FY21

In relation to the above KPIs, we note that the historical average EBITDA margin of SLK is inline with the domestic and international peers, however the historical EBITDA growth rate is materially lower.

In summary, while none of the listed companies are directly comparable to SeaLink (although many of them share a number of similarities), we believe the selected comparable companies as a whole provide guidance for the EBITDA multiple applicable to SeaLink.

Transaction multiples

In relation to the EBITDA multiple implied by comparable transactions, we note that:

- The implied transaction multiples may incorporate various levels of control premium and special values paid for by the acquirers.
- The multiples may reflect synergies paid by the acquirer which may be unique to the acquirers.
- The transactions observed took place during the period between June 2010 and February 2019. Economic and market factors, including competition dynamics and consumer confidence may be materially different from those as at the valuation date. These factors may influence the amounts paid by the acquirers for these businesses.
- The transaction multiples are calculated based on the historical EBITDA of the acquired companies (unless otherwise stated) which typically tends to provide a higher multiple due to the growth expectations typically included in forecast financial performance.

The following table summarises the EBITDA multiples implied by these transactions.

Grant Thornton
An instinct for growth™

Transactions analysis Date	 Target Company	 Bidder Company	 *Note*	 Stake (%)	Deal Value (A$m)	EBITDA Multiple Historical	EBITDA Multiple Forecast	 Status
Tier 1 - Domestic ferry, resort and transport transactions								
Feb-19	Australian Alpine Enterprises Holdings (Hotham Ski Resort & Falls Creek Ski Resort)	Vail Resorts Inc.		100%	174	NA	9.7x	Closed
May-18	Sealink Travel Group Limited	Unknown	*1*	100%	586	NA	10.5x	Rejected
Feb-18	Kingfisher Bay Resort	SeaLink Travel Group		100%	43	5.4x	NA	Closed
Dec-17	Big Cat Green Island Reef Cruises Pty Ltd and Tropical Journeys	Experience Co. Limited		100%	56	5.9x	5.6x	Closed
Oct-17	Mantra Group Limited	AAPC Limited (Accor S.A.)	*2*	100%	1,304	12.9x	11.3x	Closed
Feb-16	Captain Cook Cruises Western Australia	SeaLink Travel Group		100%	12	9.2x	NA	Closed
Sep-15	Transit Systems Pty Ltd (Marine division)	SeaLink Travel Group		100%	125	NA	6.6x	Closed
Mar-15	Perisher Blue Pty Limited	Vail Resorts Inc.		100%	177	NA	8.8x	Closed
Dec-12	Airtrain Holdings Limited	Universities Superannuation Scheme		100%	110	16.6x	NA	Closed
Nov-11	Captain Cook Cruises Sydney Harbour	SeaLink Travel Group		100%	20	NA	9.0x	Closed
Jun-10	FreightLink Pty Ltd (Asia Pacific Transport Finance)	Genesee & Wyoming Inc.		100%	322	NA	8.0x	Closed
Average						**10.0x**	**8.7x**	
Median						**9.2x**	**8.9x**	
Tier 2 - International ferry and cruise transactions								
Feb-19	P&O Ferrymasters Limited; P&O Ferries Limited	DP World	*3*	100%	1,089	6.1x	NA	Closed
May-18	The Isle of Man Steam Packet Company	Isle of Man Government	*4*	100%	394	10.8x	10.2x	Closed
Apr-18	U.N Ro-Ro Isletmeleri A.S.	DFDS A/S		99%	1,473	9.8x	NA	Closed
Mar-18	Scandlines Aps	First State Investments, Hermes Investment Mgt Ltd		100%	4,071	8.9x	NA	Closed
Oct-17	Hellenic Seaways Maritime S.A.	Attica Holdings S.A.		49%	491	8.1x	NA	Closed
Oct-17	Compañía Trasmediterránea, S.A.	Naviera Armas Group	*5*	93%	645	9.3x	NA	Closed
Aug-17	Hellenic Seaways Maritime S.A.	Attica Holdings S.A.		50%	425	6.9x	NA	Closed
Aug-16	Fjord1 ASA	Havila Shipping ASA	*6*	26%	922	12.0x	NA	Closed
Aug-15	Mols-Linien A/S	Polaris Management A/S		100%	265	9.5x	NA	Closed
Oct-14	Hurtigruten ASA	Consortium including TDR Capital LLP		100%	849	8.9x	NA	Closed
Average						**9.0x**	**10.2x**	
Median						**9.1x**	**10.2x**	
Tier 3 - Other relevant transactions with limited amount of information								
Oct-18	Fantasea Cruises Pty Limited	National Roads & Motorists' Association Ltd (NRMA)		100%	NA	NA	NA	Closed
Nov-16	Cruise Whitsundays and Rottnest Express Pty Ltd	Quadrant Private Equity		Majority	300	NA	NA	Closed
Sep-16	Great Southern Rail Limited	Quadrant Private Equity		70%	NA	NA	NA	Closed
Mar-11	Sunferries Pty Ltd	SeaLink Travel Group		100%	10	NA	NA	Closed
Overall average						**9.4x**	**8.9x**	
Overall median						**9.2x**	**9.0x**	

Source: Mergermarket; GTCF analysis
Note (1): EBITDA based on consensus forecasts at the time of the unsolicited proposal and includes the expected contribution from the acquisition of Kingfisher Bay Resort Group and the enterprise value includes net debt as at 30 June 2018 to reflect the funding of the acquisition.
Note (2): Forecast multiple based on mid-point of the independent expert's maintainable EBITDA.
Note (3): Related party transaction, accordingly we have placed less reliance on this transaction.
Note (4): Based on Isle of Man Treasury analysis of the base case valuation of Isle of Man Steam Packet Company prepared by Park Partners.
Note (5): Excluding potential earn out payments of up to €16 million.
Note (6): The transaction terms included a call option for Havila Shipping ASA ("Havila") to acquire a further 33% interest in Fjord1 over the next two years, which it exercised in 2017. We note the terms of the call option were not publicly disclosed.

Among the Tier 1 transactions, we have placed greater reliance on the following:

- In May 2018, SeaLink received an unsolicited, confidential, indicative and non-binding proposal from a unidentified party expressing an interest in a transaction which would have resulted in a change of control of SeaLink. The indicative and non-binding offer of A$4.75 per share implied an FY18 EV/EBITDA multiple for SeaLink of circa 10.5x at the time. Whilst the transaction did not progress, we are of the opinion that it still provides an indication of the EBITDA multiple that a potential purchaser may be prepared to pay for the Company in a change of control transaction.

- Vail Resorts Inc's acquisitions of Perisher Blue Pty Ltd ("Perisher") and Australian Alpine Enterprises Holdings Pty Ltd (Hotham and Falls Creek ski resorts) completed at multiples of circa 9x and 10x respectively. The acquisitions included the long-term leases of the ski fields and the associated infrastructure at the resorts. We are of the view that the acquisition of Perisher, Hotham and Falls Creek provide good directional guidance for the multiple of SeaLink. Whilst the businesses are different, they share similarities in terms to the exposure to the domestic and inbound tourism markets, strong brand recognition, the low competitive environment for the assets (i.e. captive market) and the associated discretionary nature of spending. However, we note the greater geographic and operational diversification of SeaLink compared to the ski resorts, the inelastic nature of the transport/commuter demand of the business and the lack of earnings volatility in conjunction with weather conditions support for a higher multiple applicable to SLK.

- SeaLink's acquisitions of the Captain Cook Cruises operations in NSW and WA in 2011 and 2016 respectively occurred at multiples of circa 9 times EBITDA. Captain Cook Cruises NSW is one of the pre-eminent tourism businesses on the Sydney Harbour and operates tourism and charter cruises as well as commuter ferry passenger services. In addition to the brand, the acquisition included prime berth positioning on the Sydney Harbour at Circular Quay and Darling Harbour, and land at Neutral Bay which supports SeaLink's long-term lease over a marina at which the Company berths the majority of its fleet.

In relation to the other Tier 1 transactions, we note the following:

- SeaLink acquired the assets and operations of the Kingfisher Bay Resort Group on Fraser Island in February 2018 for approximately A$43 million. The acquisition included the 2 island resorts Kingfisher Bay Resort and Eurong Beach Resort, accounting for 90% of commercial accommodation options on the island, plus strategic freehold land. The captive nature of the asset makes it somewhat comparable to SeaLink's operations. However, we have placed limited reliance on this transaction as the business is smaller, less accessible (making it harder to manage and more difficult to attract tourists) and less diversified than SeaLink.

- In September 2015, SeaLink acquired the Transit Systems Marine business from Transit Systems Group for A$125 million at an implied underlying EBITDA multiple of 6.6 times. The low multiple likely reflected the limited growth opportunity of the business, the lack of geographic diversification and the willingness of Transit Systems Group to dispose of non-core operations. We also note that the acquisition price may have been opportunistic for SeaLink given that in the short period after the acquisition, the share price of SeaLink increased from circa A$2.50 per share to circa A$4.50 per share.

- Experience Co. Limited acquired 100% of Big Cat Island Reef Cruises ("Big Cat") in December 2017 for A$56 million and an implied EV/EBITDA multiple of 5.9 times. Big Cat operates cruises in the

Great Barrier Reef and competes with a large number of other tour operators for a share of the tourism market in the Great Barrier Reef. Accordingly, the multiple likely reflects this high level of competition of the industry within which Big Cat operates and the geographic concentrated nature of the operations.

- We have placed less reliance on the other acquisitions being that of Mantra Group Limited, AOT Group, Airtrain Holdings Limited and FreightLink Pty Ltd given their limited comparability with SeaLink's operations. While Mantra, like SeaLink, is also highly exposed to the domestic and inbound tourism markets, it operates in the much more competitive hotel industry, and doesn't benefit from the defensive nature of SeaLink's transport-focussed businesses or the sole operator status that SeaLink enjoys on a number of its routes. Airtrain Holdings Limited operates a monopoly train service between the Brisbane Airport and the CBD under concession to 2036, with competition from other public transport (in particular buses) restricted under the terms of the concession. Freightlinks Pty Ltd is a freight and logistics company focussed on pallet, carton and container freight. Freight makes up a relatively small component of SeaLink's business.

We have also mainly relied on the EV/EBITDA multiples of the following Tier 2 transactions:

- The Isle of Man Steam Packet Company provides ferry services to the Isle of Man under an exclusive access license to the port of Douglas, the main population centre and port for the island. The business was recently acquired by the Isle of Man Government from the private operator and was valued at an EBITDA multiple of 10.8x (historical EBITDA) to 10.2x (forecast EBITDA) by an advisor to the Isle of Man Treasury.

- In March 2018, a consortium of investors acquired a 65% stake in Scandlines. The company's core business is to provide transport services for both passengers and freight and in 2018 Scandlines transported 7.4 million passengers, 1.8 million cars and 700,000 freight units between Denmark and Germany and Denmark and Sweden. The deal valued the company at approximately €1.7 billion and at an implied multiple of circa 8.9 times historical EBITDA. In 2017, Scandlines generated an EBITDA margin of c. 40% which is substantially higher than the EBITDA margin of SLK and of the other listed peers.

- Compañía Trasmediterránea, S.A. was acquired by Naviera Armas Group at an implied historical EBITDA multiple of 9.3x. The company is a leading ferry operator in Europe. It operates across 32 routes and transports passenger, freight and vehicles.

- In August 2016, Havila Shipping ASA ("Havila") announced the acquisition of a 26%[96] stake in Fjord1 AS ("Fjord1") for NOK 1.1 billion at an implied EV/EBITDA transaction multiple of circa 12.0x. The company has a fleet of 74 vessels and is the largest ferry operator in Norway, operating 7 of the 10 busiest routes in the country. The ferry segment is the largest contributor to the company's revenues and earnings and in CY18, accounted for c. 89% of revenues and 94% of EBITDA, with tourism contributing less than 1% of revenues. Approximately three quarters of Fjord1's revenues in CY18 were under long-term government contracts, with 58% generated from gross contracts (cost plus) whereby Fjord1 receives fixed index-adjusted fees (thereby not exposing the company to fare box

[96] The transaction included a call option that allowed Havila to acquire a further 33% in the following two years. In addition, the seller (F1 Holding AS), the county municipality's ownership company, has the right to sell its remaining 33% interest to Havila in early 2019. We note the financial terms of the call and put options were not publically disclosed. Accordingly our transaction analysis relates only to the acquisition of the 26% stake. We note that in 2017, Havila exercised its call option and acquired F1 Holding AS's remaining 33% interest in Fjord1. Fjord1 provides ferry passenger, catering and fjord-based tourism services in Norway.

risk). We are of the opinion that the high multiple paid is a reflection of the leading market position of the company, the defensive nature of the business and the high level of contracted revenue.

- In August 2015, Polaris Management A/S, a 100% owned subsidiary of Polaris Private Equity, acquired the listed shares in Mols-Linien A/S, a Danish high-speed ferry operator with 24 daily services connecting the Danish island of Sealand (where Copenhagen is located) and Jutland (the European mainland). The Offer valued Mols-linien at approximately 567 million Danish Kroner and an EBITDA multiple of 9.5 times.

- In late 2014, a consortium of investors including TDR Capital LLP acquired Hurtigruten, a Norwegian cruise, ferry and cargo operator. Hurtigruten provides travel experiences along the Norwegian coast, Iceland, Greenland and other locations, along with cargo and passenger services in Norway. The transaction implied a historical EV/EBITDA multiple of approximately 9 times.

In relation to the balance of the tier 2 transactions, we note the following:

- The acquisition of P&O Ferrymasters Limited and P&O Ferries Limited by DP World is a related party transaction given that the vendor, Dubai World is also a major shareholder of the purchaser. Accordingly, we have placed limited reliance on this transaction. In addition, the earnings relate mostly to freight operations, which are typically less valuable than passenger ferry and cruise companies, due to them being subject to much higher levels of competition from other modes of transport and location provides less of a competitive advantage.

- U.N Ro-Ro Isletmeleri is an operator of roll on roll off freight ships between Turkey and Europe and is relatively less comparable to SeaLink, which generates only a relatively small portion of earnings from freight.

- Hellenic Seaways Maritime S.A. ("Hellenic Seaways") is a Greek shipping company operating passenger and freight ferry services in the Aegean and Adriatic seas. In August 2017 and October 2017, Attica Holdings S.A ("Attica") announced the acquisitions of 50.3% and 48.53% of the share capital in Hellenic Seaways, respectively. Attica paid a consideration of circa €69 million and €78.5 million respectively for the two acquisitions. The deals value Hellenic Seaways on a 100% basis at historical implied multiples of 6.9 times and 8.1 times CY17 EBITDA of €20 million. We note the relatively low multiple was in large part driven by an increase in fuel prices which negatively impacted earnings in 2017 and the large amount of debt on the balance sheet at the time of the acquisition. As at 31 December 2016, net debt to EBITDA stood at approximately 8.6 times, based on CY16 EBITDA of €18.4 million.

Conclusion on EV/EBITDA multiple

Based on the analysis of listed comparable companies and comparable transactions, Grant Thornton Corporate Finance has assessed an EV/EBITDA multiple for the valuation of SeaLink before the Proposed Acquisition in the range of 10.5x to 11.0x on a control basis. In our selection of the EV/EBITDA multiple, we have mainly considered the following:

- The 2018 Indicative Proposal valued SeaLink at c. 10.5x forecast EBITDA.
- Captain Cook Cruises (NSW and WA), Perisher and Australian Alpine Enterprises Holdings Pty Ltd acquisitions all occurred at multiples between circa 8.8x and 9.7x and were for smaller and less diversified businesses than SeaLink.
- The average and median EBITDA multiple of the International ferry and cruise transactions is 9.0x and 9.1x respectively.
- Before the Proposed Acquisition, SeaLink is trading at an FY20 EBITDA multiple of 9.1x on a minority basis.

8.3 DCF Method

For the purpose of our valuation assessment of SeaLink before the Proposed Acquisition utilising the DCF Method, Grant Thornton Corporate Finance developed the GT Model based on a critical review and consideration of the following:

- Historical financial performance of SeaLink.
- SeaLink Management Projections[97] for the discrete period from FY20 to FY23 developed by SeaLink Management using the FY19 results as a starting point.
- Market updates, including historical and expected performance of SeaLink, as prepared by a number of investment analysts who cover SeaLink.
- Key industry risks and growth prospects, and the general economic outlook.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the GT Model are reasonable and appropriate to be adopted for the purpose of our valuation. In accordance with the requirements of RG111, we have not disclosed them in our IER as they contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in ASIC Regulatory Guide 170 “Prospective Financial Information”.

In accordance with the requirement of RG 111, we have undertaken a critical analysis of the projections before integrating them into the GT Model and relying on them for the purpose of our valuation assessment. Specifically, we have performed the following analysis:

[97] Details of SeaLink’s Management Projections are not disclosed due to confidentiality and commercial sensitivity factors and because they do not meet the disclosure requirements under ASIC Regulatory Guide 170 “Prospective Financial Information” (“RG170”).

- Conducted high level checks, including limited procedures in relation to the mathematical accuracy of Management's forecasts.

- Performed a broad review, critical analysis and benchmarking with the historical performance of SeaLink and current trends in the industry.

- Held discussions and interviews with Management of the Company and its advisor to discuss Management's projections.

- Reviewed and benchmarked revenue growth rates and earnings margins with listed peers.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of SeaLink could vary materially based on changes to certain key assumptions. Accordingly, we have conducted further sensitivity analysis below to highlight the impact on the value of SeaLink Shares caused by movements to certain key assumptions.

The table below sets out a summary of our valuation assessment of SeaLink before the Proposed Acquisition based on the DCF Method:

Valuation summary - DCF Method A$m	*Section Reference*	Low	High
Enterprise value on a control basis	*8.3.1*	515.8	562.2
Less: Net debt as at 30 June 2019	*8.3.2*	(83.9)	(83.9)
Equity value (control basis)		**432.0**	**478.3**
Number of outstanding shares (fully diluted)	*8.3.3*	101,719,103	101,719,103
Value per share (control basis) (A$ per share)		**4.25**	**4.70**

Source: SeaLink Management; GTCF analysis

8.3.1 GT Model - Key valuation assumptions

We have outlined below the key assumptions which we have adopted in the GT Model.

- We have relied on Management's projections which have been prepared based on a top down approach for each of the divisions. We note that we have performed a detailed review of the growth and margin assumptions adopted by Management and compared them to the historical performance of the Company and listed peers.

- In FY14 and FY15, SeaLink generated EBITDA margins of approximately 15% to 16%. Following the acquisition of the TSM business in FY16, the EBITDA margins increased significantly to circa 25% in FY16, and was mostly maintained in FY17, before falling slightly to 22% in FY18. Over the period FY14 to FY18, the company approximately doubled its revenue, in large part due to the acquisition of TSM and CCC WA.

- *Kangaroo Island retender*: We have assumed that the Company will successfully renew the Kangaroo Island contract on substantially the same terms when it is retendered in 2024, given its long history of operating on the island and its strong competitive position. The company will be able to point to its history of developing tourism on Kangaroo Island and the economic value that it has provided to the region. However, given the South Australian Government's intentions to retender the contract, we have performed a sensitivity (see Section 8.3.4), reducing the EBITDA generated by this contract in our assessment of the cash flows in the terminal value year to reflect possible margin reduction that SeaLink may be required to forego in order to secure the renewal of the contract.

- In our assessment of the corporate costs, given that we are valuing SeaLink on a control basis, we have deducted costs related to ASX listing fees, registry fees and directors fees as these are synergies that would be available to a pool of potential purchasers. We have adopted a range of A$0.5 to A$1.0 million in annual corporate cost savings.

- *Capital expenditure:* The Company is expected to incur significant capital expenditure in FY20 and FY21 on new vessels for Bruny Island and improvements to Fraser Island operations. The purchase of two new ferries for Bruny Island will enable SeaLink to increase the frequency of services and replace the ageing MV Mirambeena. In addition to the new ferries, SeaLink is implementing an online booking system for the Bruny Island service. In relation to Fraser Island, the additional capital expenditure is required to upgrade the facilities, including guest facing areas, at the Kingfisher Bay Resort and Eurong Beach Resort to enable SeaLink to grow occupancy levels within the two resorts. For the terminal period, we have adopted a normalised capex amount of A$10m per annum, based on Management's guidance of the likely capital expenditure requirement to maintain the fleet into perpetuity and to achieve our adopted terminal value growth rate.

- *Tax:* We have assumed a nominal corporate tax rate of 30% over the discrete period and in our terminal value. In addition, we have included approximately A$4.3 million of ongoing tax rebates from the South Australian Government as a result of marine training incentives. Based on discussions with Management and our internal discussion and research, we have assumed that tax rebates will continue in the foreseeable future. We have performed a sensitivity analysis in section 8.3.4.

- *Working capital:* Changes in working capital are not material in the free cash flows and they have been assessed in line with historical averages.

- *Discount rate:* We have assessed the net present value of future cash flows having regard to an assessed discount rate based on the weighted average cost of capital ("WACC") in the range of 9.5% and 10.0%. Refer to Appendix D for details.

- *Terminal value:* We have adopted the following assumptions in the calculation of the terminal value of the business:

  - EBITDA margin of approximately 20%, which is based on a normalised EBITDA margin for SeaLink between FY16 and FY19 and takes into account the expected performance during the forecast period.

  - Capital expenditure of A$10 million, which is the amount required to achieve the terminal growth rate of 3%. We provide additional support for our terminal growth rate below.

  - Terminal growth rate of 3% in order to take into account expected long term growth of the tourism sector and an improvement in the current subdued consumer confidence. The Company is also planning to incur in significant capex in the discrete forecast period which should generate an uplift in the future performance of the business.

Assessment of reasonableness of terminal growth rate	
Australia macroeconomic indicators	
Reserve bank long-term inflation target	2% - 3%
Average 10-years quarterly GDP growth rate (Real)	2.60%
Australian industry sources	
Australian Government Tourism Research - Domestic and Inbound expenditures FY13 to FY19 CAGR[1]	7.70%
Australian Government Tourism Research - Domestic and Inbound expenditures FY19 to FY29 CAGR[1]	4.70%
IBIS Tourism e xpenditures FY19 to FY24 CAGR[2]	2.80%
IBIS Water Passenger Transport - Expenditures FY19 to FY24 CAGR[2]	3.50%
IBIS Scenic and Sightseeing Transport - Expenditures FY19 to FY24 CAGR[2]	3.50%
Selected terminal growth rate	**3.00%**

Source: GTCF analysis, Australian Bureau of Statistics, IBISWorld, Tourism Research Australia
Note (1): CAGR in nominal terms.
Note (2): CAGR in real terms.

8.3.2 Net debt

As at 30 June 2019, SeaLink reported a net debt position of A$83.9 million, which we have deducted to arrive at our equity value.

8.3.3 Share capital

As at the date of this report, SeaLink has 101,429,103 shares on issue.

In addition, we have included in our valuation assessment on a fully diluted basis, the 190,000 SeaLink PRs and 100,000 SeaLink Options on the assumption that their vesting will be accelerated in a change of control event. This equates to a fully diluted number of shares of 101,719,103.

8.3.4 Sensitivity analysis

It should be noted that the enterprise value of SeaLink could vary materially based on changes in certain key assumptions. Accordingly, we have conducted certain sensitivity analysis below to highlight the impact on the value of the SeaLink’s enterprise value based on the DCF Method caused by movements in certain key assumptions.

Sensitivity Table	Low A$	High A$	Low % change	High % change
Value per SeaLink Share before the Proposed Acquisition on a control basis	4.25	4.70	na	na
Terminal growth rate				
Increased by 0.5% per annum	4.59	5.11	8.1%	8.7%
Decreased by 0.5% per annum	3.95	4.35	(7.1%)	(7.4%)
EBITDA margin				
Increased by 1% (i.e. 21% EBITDA margin)	4.46	4.94	5.1%	5.0%
Decreased by 1% (i.e. 19% EBITDA margin)	4.03	4.47	(5.1%)	(5.0%)
Capex				
Increased by 10% per annum	4.11	4.56	(3.2%)	(3.0%)
Decreased by 10% per annum	4.38	4.85	3.2%	3.0%
A$2m EBITDA reduction in terminal period following Kangaroo Island competitive tender process	4.11	4.55	(3.3%)	(3.3%)
Discount rate				
Increased by 0.5% per annum	3.90	4.29	(8.3%)	(8.7%)
Decreased by 0.5% per annum	4.65	5.18	9.5%	10.1%
Tax Rebate removed in terminal year	3.71	4.12	(12.6%)	(12.4%)

Sources: GTCF analysis

These sensitivities do not represent a range of potential enterprise value of SeaLink, but they intend to show to SeaLink Shareholders the sensitivity of our valuation assessment to changes in certain variables.

8.4 Quoted Security Pricing Method

In our assessment of the fair market value of SeaLink shares, we have also had regard to the trading prices of the listed securities on the ASX. Set out in the table below is a summary of our assessed valuation range.

Quoted Security Price Method A$ per share	*Section* *Reference*	Low	High
Selected value per share based on trading prices (on a minority basis)	*8.4.3*	3.60	3.75
Control premium	*8.4.4*	30.0%	30.0%
Value per share (on a control basis)		**4.68**	**4.88**

Sources: S&P Global; GTCF analysis.

The adopted value of SLK based on the trading price is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price, and whether or not the trading price are likely to represent the underlying value of SLK. The following sections detail the analysis undertaken in selecting the share price range.

8.4.1 Liquidity analysis

In accordance with the requirements of RG 111, we have analysed the liquidity of SLK shares before relying on them for the purpose of our valuation assessment. We have set out below the monthly trading volume of SLK shares over the past 12 months as a percentage of the total shares outstanding as well as free float shares outstanding[98].

Liquidity analyis Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of free float shares	Cumulative Volume traded as % of free float shares	Volume traded as % of total shares	Cumulative Volume traded as % of total shares
Oct 2018	2,054	4.1777	8,582	3.2%	3.2%	2.0%	2.0%
Nov 2018	1,379	4.2623	5,876	2.2%	5.4%	1.4%	3.4%
Dec 2018	1,113	4.1615	4,630	1.7%	7.1%	1.1%	4.5%
Jan 2019	484	4.1295	1,997	0.8%	7.9%	0.5%	5.0%
Feb 2019	845	4.0461	3,420	1.3%	9.2%	0.8%	5.8%
Mar 2019	1,789	3.9154	7,005	2.8%	12.0%	1.8%	7.6%
Apr 2019	773	3.8541	2,981	1.2%	13.2%	0.8%	8.3%
May 2019	2,371	3.7101	8,796	3.7%	16.9%	2.3%	10.7%
Jun 2019	1,665	3.6718	6,115	2.6%	19.5%	1.6%	12.3%
Jul 2019	693	3.7097	2,572	1.1%	20.5%	0.7%	13.0%
Aug 2019	1,196	3.6700	4,389	1.9%	22.4%	1.2%	14.2%
Sep 2019	3,905	3.6029	14,069	6.1%	28.5%	3.8%	18.0%
Min				**0.8%**		**0.5%**	
Average				**2.4%**		**1.5%**	
Median				**2.0%**		**1.3%**	
Max				**6.1%**		**3.8%**	

Source: S&P Global, GTCF analysis

[98] Free float shares excludes those owned by Company employees, individual insiders, related parties and/or other strategic investors.

With regard to the above analysis, we note that:

- The level of free float of SLK is 63.2%[99]. From October 2018 to September 2019, c. 28.5% of the free float shares were traded with an average monthly volume of 2.4% of the total free float shares. This indicates that liquidity is robust. The Company was part of the S&P/ASX 300 Index ("ASX 300") until 23 September 2019 when it was removed.

- We note that the relatively higher trading volumes in May 2019 were triggered by the period leading up to and including the Federal Election, and at a time when a number of companies were providing updates to the market in relation to FY19 results.

- SeaLink is recognised as a major player in the tourism and transport industries and it is one of the few companies listed on the ASX providing both tourism and transport exposure to investors.

- In the absence of a takeover or other share offers, the trading price represents the value at which minority shareholders could realise their portfolio investment.

- SeaLink complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of the Company. SLK provides updates to the market on a regular basis with information regarding its investment strategy and performance. As a result, there is extensive analysis provided to the market not only about SLK's performance and market standing, but also regarding industry trends.

- The Company's stock is covered by four investment analysts who provide updates to the market on a regular basis.

As set out below, the level of free float of SLK shares is in line with the listed peers. However, the average monthly volume traded as percentage of free float shares is lower than most of the listed peers.

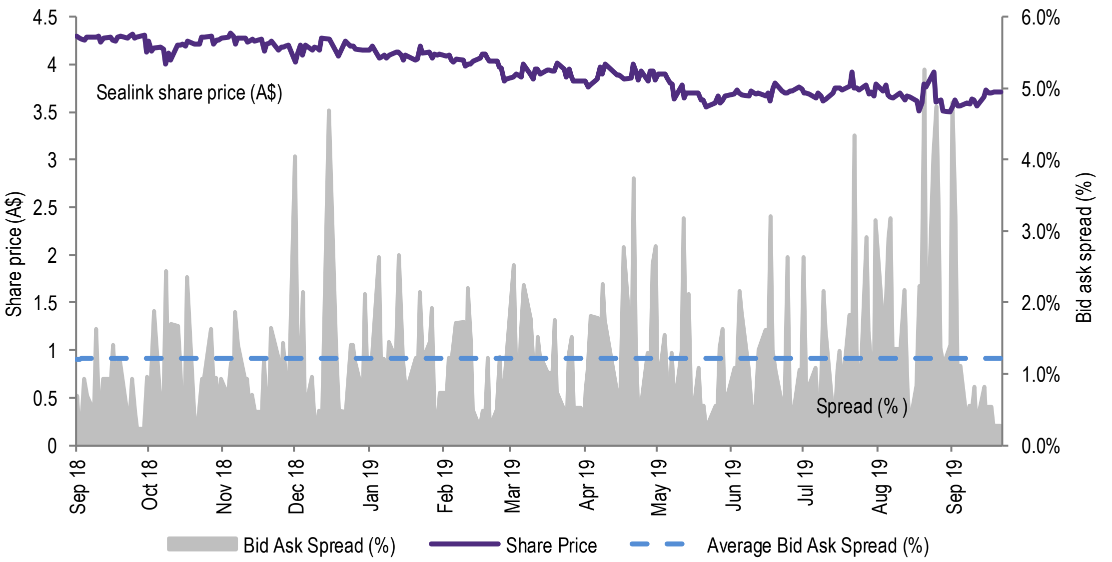
[99] This comprises of the total shares outstanding 101,429,103 less the shares held by company employees (23,802,067) and related parties (13,176,077).

Liquidity analysis Company	Country	Free float (%)	Average volume traded as % of free float shares	Cumulative volume traded as a % of free float shares	Average volume traded as a % of total shares	Cumulative volume traded as a % of total shares
SeaLink Travel Group Limited	Australia	63.2%	2.4%	28.5%	1.5%	18.0%
Helloworld Travel Limited	Australia	31.8%	4.6%	54.6%	1.4%	17.4%
Tourism Holdings Limited	New Zealand	77.2%	3.1%	37.7%	2.4%	29.1%
Experience Co Limited	Australia	53.5%	4.7%	56.9%	2.5%	30.4%
Webjet Limited	Australia	87.7%	12.6%	151.5%	11.1%	132.9%
Apollo Tourism & Leisure Ltd	Australia	41.2%	6.8%	81.9%	2.8%	33.7%
Flight Centre Travel Group Limited	Australia	56.7%	16.9%	203.3%	9.6%	115.2%
Event Hospitality & Entertainment Limited	Australia	65.6%	1.1%	12.9%	0.7%	8.5%
Millennium & Copthorne Hotels New Zealand Limited	New Zealand	21.3%	0.4%	4.8%	0.1%	1.0%
Low		**21.3%**	**0.4%**	**4.8%**	**0.1%**	**1.0%**
Average		**54.4%**	**6.3%**	**75.4%**	**3.8%**	**46.0%**
Median		**55.1%**	**4.6%**	**55.8%**	**2.5%**	**29.8%**
High		**87.7%**	**16.9%**	**203.3%**	**11.1%**	**132.9%**

Sources: S&P Global, GTCF analysis

In addition to the above, where a company's shares are relatively illiquid and not heavily traded, the market typically observes a difference between the 'bid' and 'ask' price for the shares as there may be a difference in opinion between the buyer and seller on the value of the stock. As set out in the following graph, we note that the historical average bid-ask spread has been 1.2% over the last twelve months.

SeaLink Spread between Bid and Ask Price



Source: S&P Global, GTCF analysis

As can be observed from the following table, SeaLink's twelve month average bid-ask spread[100] is in line with the average of the listed peers.

[100] From the twelve month period between 1 October 2018 and 1 October 2019.

Liquidity analysis Company	Country	Market Cap (A$m)	12 month average Bid-Ask Spread
SeaLink Travel Group Limited	Australia	381	1.2%
Helloworld Travel Limited	Australia	584	0.8%
Tourism Holdings Limited	New Zealand	580	0.9%
Experience Co Limited	Australia	153	2.9%
Webjet Limited	Australia	1,427	0.1%
Apollo Tourism & Leisure Ltd	Australia	89	2.7%
Flight Centre Travel Group Limited	Australia	4,804	0.1%
Event Hospitality & Entertainment Limited	Australia	2,140	0.6%
Millennium & Copthorne Hotels New Zealand Limited	New Zealand	414	2.6%
Average			**1.3%**
Median			**0.9%**

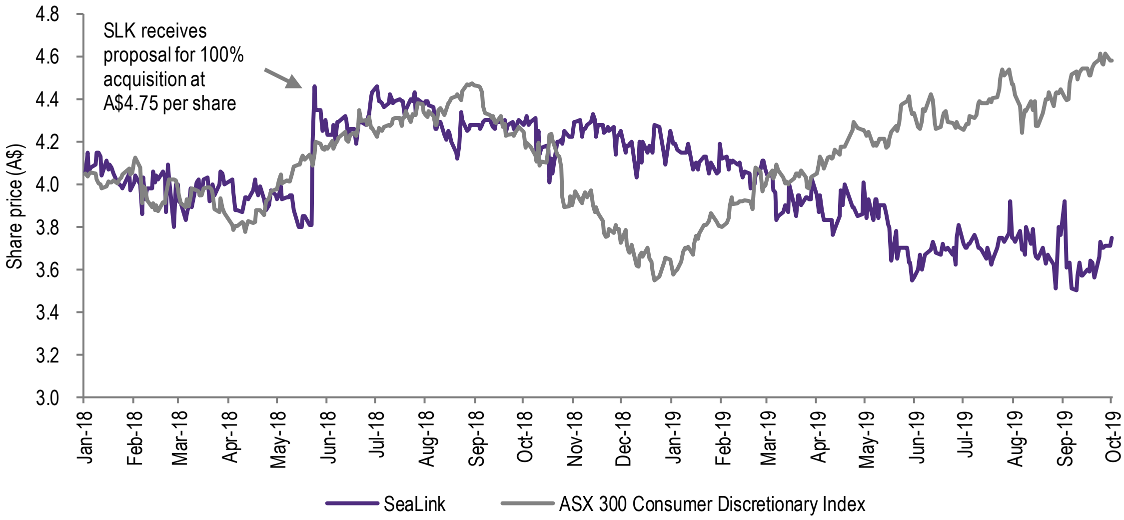
Source: S&P Global, GTCF analysis
Note: Market capitalisation as at 1 October 2019

Based on the analysis above, we conclude that there is sufficient liquidity in SLK's trading price for utilisation of the Quoted Security Price Method to value the Company.

8.4.2 Valuation assessment of SLK based on the trading price

As part of our valuation assessment based on the trading prices, we have benchmarked below the performance of SLK's trading price with the ASX300 Consumer Discretionary Index ("Index") to determine whether movements in SLK's trading price are largely driven by industry/company-specific events or simply by movements in the broader market.

Share price performance (rebased to the Company's share price)



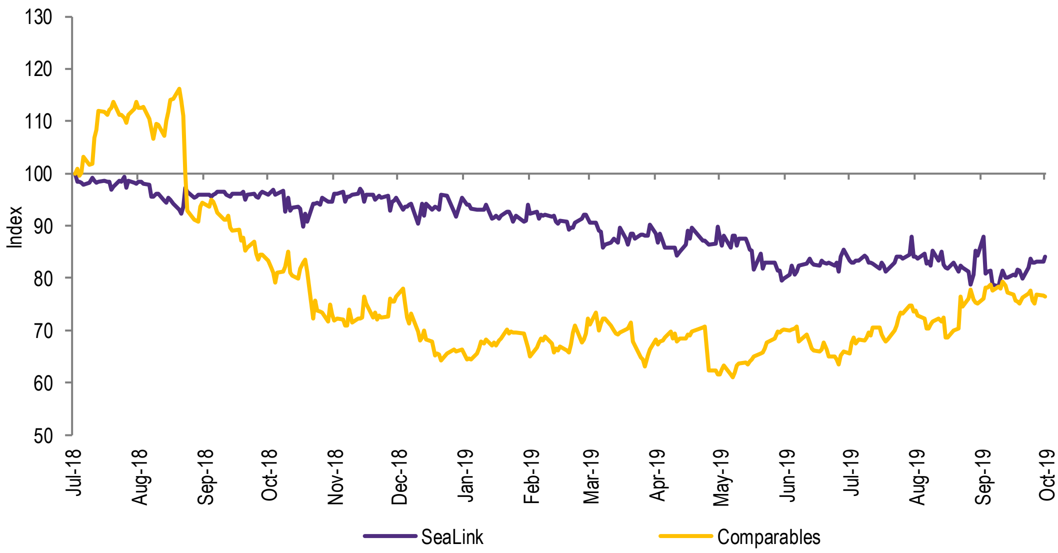
Source: S&P Global, GTCF analysis

As can be observed from the above graph, at the end of CY18, the Index experienced a correction driven by a sell off in the broader market. A number of reasons can be attributed to this decline such as the fallout from the banking royal commission, a worsening outlook for the domestic economy, and a ramp-up in the trade dispute between the US and China.

We note that SeaLink did not experience the same sharp decline at the end of CY18, which indicates that the stock has likely been influenced by more company-specific factors over the last 18 months. We note that SeaLink's share price has trended down since the 2018 Indicative Offer. The decline can be explained by the lack of a follow-up bid or any further offers for the Company, which the stock market may have been expecting. In addition, the ongoing uncertainty regarding the appointment of a successor to Jeff Ellison (CEO for 21 years) following the August 2018 announcement of his intention to retire, the SA Government's intention to retender the license for port facilities required to operate Kangaroo Island ferry, the unsuccessful tender bid for the Sydney Ferries contract in February 2019, the difficult financial performance of CCC business and the weak domestic and inbound tourism markets (and weak consumer spending in general) have all weighed on SeaLink's share price.

As set out in the graph below, the performance of SLK share price appears to be highly correlated with the performance of the index comprising the comparable companies ("Peer Index")[101], which are all highly leveraged to the inbound tourism market.

Share price performance of SeaLink and Comparables[1] (rebased to SeaLink share price)

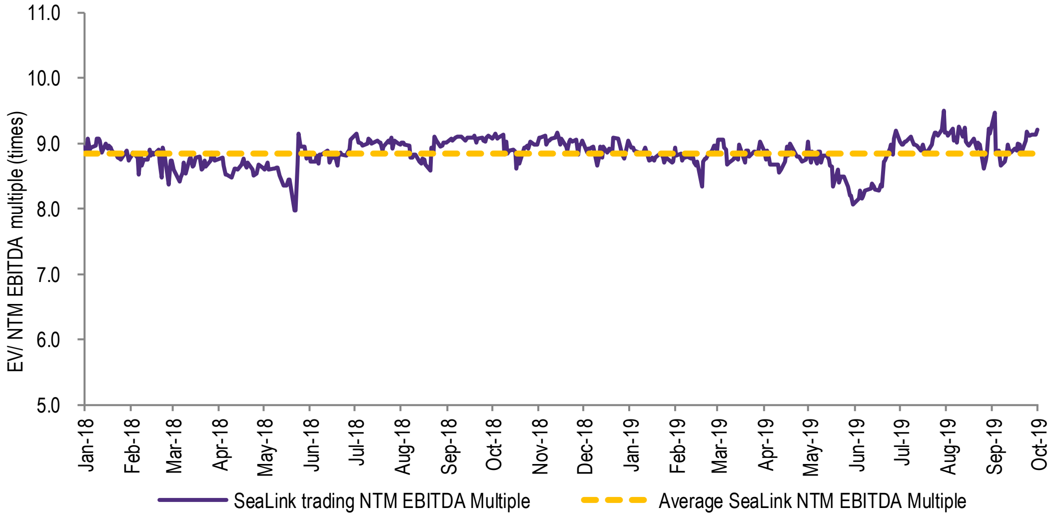


Sources: GTCF analysis, S&P Global
Note (1): The comparable companies consist of Helloworld, Tourism Holdings Limited, Flight Centre, Experience Co, Apollo Tourism, Event Hospitality & Entertainment, WebJet and Millenium & Copthorne Hotels New Zealand.

Despite the reduction in SeaLink's share price since May 2018, we note that SeaLink's rolling next twelve month ("NTM") EBITDA multiple has been relatively steady at circa 8.8x NTM EBITDA as shown in the graph below which seems to indicate that the subdued share price has been driven by soft underlying financial performance.

[101] The comparable companies include Helloworld, Tourism Holdings, Flight Centre, Experience Co, Apollo Tourism, Event Hospitality & Entertainment, WebJet and Millenium & Copthorne Hotels New Zealand.

SeaLink rolling NTM EBITDA Multiple



Source: S&P global; GTCF analysis

8.4.3 Conclusion on the selected valuation range

Set out below is a summary of the VWAP of SLK shares over the last nine months.

VWAP		Low	High	VWAP
Up to	04 Oct 2019			
1 day prior		3.640	3.910	3.808
5 day prior		3.640	3.910	3.767
10 day prior		3.560	3.910	3.621
1 month prior		3.450	3.910	3.604
2 month prior		3.440	3.920	3.618
3 month prior		3.440	3.920	3.637
4 month prior		3.440	3.920	3.645
5 month prior		3.440	3.950	3.659
6 month prior		3.440	4.010	3.672
9 month prior		3.440	4.240	3.741

Source: S&P Global, GTCF analysis

In addition to the table above, we note the following:

- The median broker consensus target share price for SeaLink's is currently A$3.68[102]. If we exclude one broker which has a high target price of A$4.38, this results in a median and average target price of A$3.60 and A$3.62 respectively.

- The share price has traded substantially sideways over the last nine months, despite a short period between 29 August and 2 September following the declaration of an increased dividend of 8.5 cents[103] during which time the share traded cum-dividend with a VWAP of 3.77. On the ex-dividend date of 3 September, the share price closed at A$3.61.

[102] Brokers estimates released between 19 June and 30 September 2019.
[103] The dividend declared following FY18 was 8.0 cents.

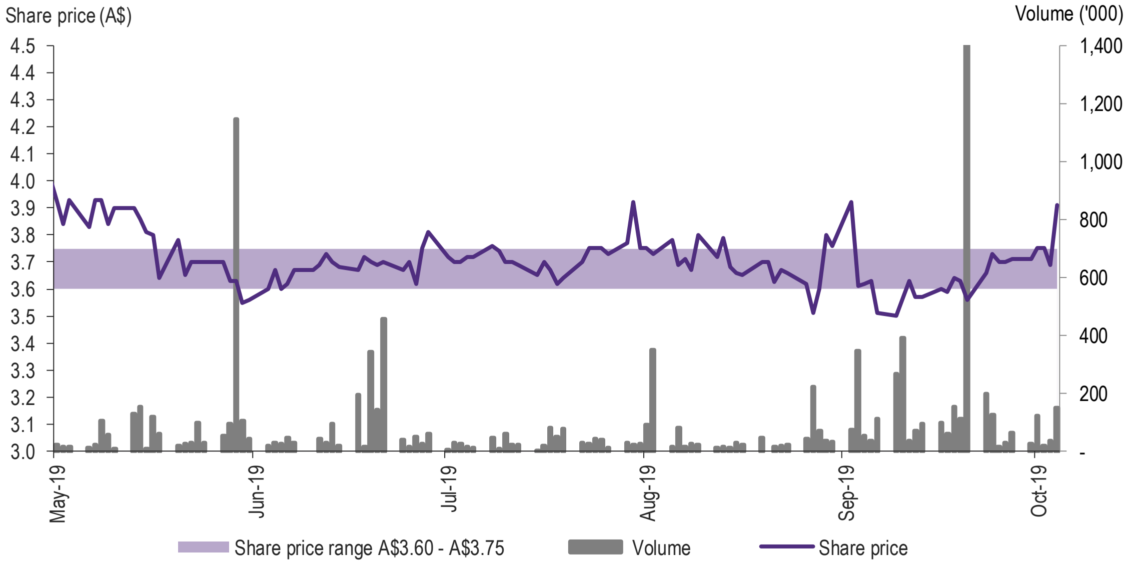
- SeaLink announced its FY19 results on 27 August 2019 and at the same time provided updated guidance for underlying FY20 EBITDA of between A$49 million and A$52 million.

- On 6 September, SeaLink was removed from the ASX 300[104], with the share price closing 3.3% lower than the prior day. Accordingly, the Company's share price post 3 September (ex-dividend date), and following the Company's removal from the ASX 300 (announced 6 September), should reflect the latest developments.

Based on the above discussions and analysis, we have assessed the fair market value of SLK shares based on the trading price between A$3.60 and A$3.75 on a minority basis.

We have set out below the historical share price of SLK shares over the past six months compared with our assessed trading price range.

Closing share price of SLK (last 6 months)



Source: S&P Global, GTCF analysis

8.4.4 Premium for control

The trading prices presented above reflect the value of SLK on a minority basis and thus do not include a premium for control. Evidence from studies suggests that successful takeovers in Australia have completed based on premium for control in the range of 20% to 40%. Refer to Appendix E for an overview of this control premium study. Given the distribution of the control premium in the Australian market in general, in our valuation assessment we have applied a control premium of 30%.

[104] Effective 23 September 2019.

9 Valuation assessment of SeaLink after the Proposed Acquisition

In this section of the report, we have estimated the fair market value of the shares in SeaLink after the Proposed Acquisition ("Combined Group Shares") on a minority interest basis.

In assessing the fair market value of SeaLink after the Proposed Acquisition, Grant Thornton Corporate Finance has aggregated the following:

- The market value of the Combined Group on a minority basis.
  - For the EBITDA Multiple Method, we have aggregated the normalised EBITDA of SeaLink and Transit Systems Group (excluding synergies) and then we have selected an appropriate EBITDA multiple for the Combined Group that reflects the risk of the business and the stream of income that it generates.
  - For the DCF Method, we have aggregated the cash flow forecasts of SeaLink and Transit Systems Group contained in the Financial Models.
- Value of expected synergies to be realised as a result of the Proposed Acquisition.
- Combined Group's pro-forma net debt at completion of the Proposed Acquisition.
- Placement and Entitlement Offer to fund the Proposed Acquisition and transaction costs.
- The Scrip Consideration issued to the Scrip Vendors.

9.1 Valuation summary

As discussed in section 7, we have assessed the fair market value of SeaLink Shares after the Proposed Acquisition on a minority basis using the EBITDA Multiple Method and DCF Method. We have set out in the table below a summary of our assessed valuation range.

Valuation summary of Sealink Shares After the Proposed Acquisition (minority basis) A$ per share	*Section Reference*	Low	High
FY20 EBITDA Multiple Method	*9.1*	4.30	4.74
DCF Method	*9.2*	4.27	4.88
Fair market value per Sealink Share (minority basis) - Average		**4.29**	**4.81**

Source: GTCF analysis

9.2 FY20 EBITDA Multiple Method

Set out below is our valuation assessment of Combined Group Shares based on the capitalisation of FY20 EBITDA earnings.

Valuation summary - FY20 EBITDA Multiple Method A$ millions (except where stated otherwise)	*Section Reference*	Low	High
Assessed FY20 EBITDA	*9.2.1*	131.5	141.0
Assessed EBITDA Multiple (on a minority basis)	*9.2.2*	9.40x	9.56x
Enterprise value (minority basis)		1,237	1,348
Add: NPV of synergies	*9.2.3*	45.0	56.3
Less: Net debt of Sealink after the Proposed Transaction	*9.2.4*	(280.7)	(280.7)
Less: NPV of Deferred Consideration	*9.2.5*	(34.7)	(34.9)
Less: NPV of Earn-Out Consideration	*9.2.5*	(26.6)	(53.7)
Equity value (minority basis)		**939.7**	**1,034.6**
Number of outstanding shares (fully diluted)	*5.6.2*	218,299,048	218,299,048
Value per share (minority basis) (A$ per Share)		**4.30**	**4.74**

Source: GTCF analysis; Management of SeaLink and Transit Systems Group

9.2.1 FY20 EBITDA of SeaLink after the Proposed Acquisition

In our assessment of the FY20 EBITDA of the Combined Group, we have aggregated the assessed FY20 EBITDA of SeaLink as detailed in Section 8.2.1 between A$49 million and A$52 million and the FY20 EBITDA of Transit Systems Group which we have estimated based on the following

- Historical financial performance of Transit Systems Group, based on the underlying performance of Transit Systems Australia (including Sita Group) and Tower Transit Group.
- Transit Systems Group management projections[105] for FY20 to FY23 which have been prepared and updated based on the latest financial performance of the Company ("TSG Management Projections").
- Expectations regarding upcoming contracts and their likelihood of renewal.

In summary, in our assessment of the FY20 EBITDA for Transit Systems Group, we have considered the following key factors (refer to section 5.6 for further insights):

- Our maintainable EBITDA is based on the assumption that Transit Systems Group will not win any new contracts or lose any existing contracts. However, Transit Systems Group has a long history of winning new contracts and successfully renewing existing contracts. In the Company's 24 year history, Transit Systems Australia has won 13 contracts, renewed seven contracts and lost two contracts (one in 2011 and one in 2012).
- Management of Transit Systems Group has identified a tender pipeline worth more than A$3.5 billion per annum across existing end markets and the US before 2025. This pipeline includes approximately A$2.1 billion in Australia alone, plus a further A$400 million in London and Singapore. TSG is also looking to enter the US market and has submitted a tender for a bus contract in Los Angeles. For further details of future opportunities, see section 5.5.
- Nearly all of Transit Systems Group revenues are secured by long-term contracts with government entities. The contracts allow for the recovery of expenses plus a profit margin, with TSG taking the risk of higher costs, but not the patronage/fare risk. These contracts are also indexed in line with expense

[105] Details of Transit Systems Management Projections are not disclosed due to confidentiality and commercial sensitivity factors and because they do not meet the disclosure requirements under RG170.

growth. The anticipated inflation in the cost base is offset by contractual indexation, with contract income increasing for wage price growth (wages under the company's enterprise bargaining agreements are indexed in line with revenue growth), changes in fuel prices (indexed monthly under the contract with any differences to forecasts paid in arrears) and repairs and maintenance expense growth (which is assumed to grow in line with inflation). In addition, for contracts where Transit Systems Group owns the bus fleet, in the case that a contract is not renewed, predetermined VTP provides certainty of the price the new operator is required to pay Transit Systems Group to transfer the fleet.

- On 1 July 2018, Transit Systems Group commenced operations on the NSW Region 6 contract, covering Sydney's inner west. The contract has a term of 5 years with a 3 year option extension at the discretion of TfNSW. We note that the Sydney Region 6 contract has delivered a substantial uplift in revenue in FY19. However, the EBITDA margin of TSA has reduced from circa 14% before Region 6 to circa 10% in FY19. Transit Systems Group is currently in the process of optimising schedules with the aim of achieving significant cost savings, in particular in relation to driver wage costs, which are expected to be realised from FY20. Based on discussions with Management, we understand that the improvements in the performance of Region 6 are tracking in line with plan.

- Management has confidence that six contracts, contributing approximately 33% of Australian FY20 revenues, will be renewed in FY20[106]. In FY21 a further contract accounting for an addition 13% of total Australian revenues is also up for renewal. However, we note that Transit Systems Group is currently in negotiations with the Western Australian Government and associated transport authorities as preferred tenderer on the renewal of the Marmion and Claremont contracts. In addition Transit Systems Group is well placed on a proposal it has submitted on the Joondalup contract area (preferred tender status), which would be a new contract win. However, there is no guarantee that binding contracts will be executed between the parties for the Claremont, Marmion and Joondalup contracts.

We have set out below our assessment of the FY20 EBITDA of Transit Systems Group compared with the historical performance and the overall assessment of the FY20 EBITDA of SLK after the Proposed Acquisition.

Underlying EBITDA analysis A$m	*Section Reference*	FY17 Actual	FY18 Actual	FY19 Actual
Transit Systems Group underlying EBITDA	*5.6.1*	69	74	78
Grant Thornton Adopted FY20 EBITDA for TSG		82.5	to	89.0
Grant Thornton Adopted FY20 EBITDA for SeaLink before the Proposed Transaction	*8.2.1*	49.0	to	52.0
Grant Thornton Adopted FY20 EBITDA for the Combined Group		**131.5**		**141.0**

Source: GTCF analysis

Based on the above discussions and a review of the information available, we have assessed the FY20 EBITDA of Transit Systems Group between A$82.5 million and A$89.0 million and the overall FY20 EBITDA of SLK after the Proposed Acquisition within a range of A$131.5 million to A$141.0 million.

We note that at the low-end of our assessed FY20 EBITDA of Transit Systems Group only a component of the Earn-out Consideration will be payable which we have adjusted accordingly.

[106] We note that in the assessment of the EBITDA, Grant Thornton Corporate Finance has benefitted from some high level discussions with Management in relation to expected outcomes for these tenders which cannot be disclosed for confidentiality reasons.

GrantThornton
An instinct for growth™

9.2.2 EV/EBITDA Multiple

For the purpose of assessing an appropriate EBITDA Multiple range to value the Combined Group, we have blended the FY20 EBITDA Multiple assessed for SLK before the Proposed Acquisition with the FY20 EBITDA Multiple assessed for Transit Systems Group weighted by the relative contribution to the FY20 EBITDA of the Combined Group. We note that we have selected a separate basket of listed peers and comparable transactions for Transit Systems Group given the differences in the two businesses.

We note that in our analysis, we have placed greater reliance on the comparable transactions given the limited comparability of most of the comparable companies.

<u>Trading multiples</u>

Summarised below are the trading multiples of the selected companies having regard to the trading prices. As discussed in section 7, in our valuation assessment of Transit Systems Group, we have also considered the EBIT multiple[107] of listed peers in order to even the differences in relation to the leasing accounting of the depots and the owned versus leased buses.

Trading multiples analysis summary	Market	EV/EBITDA[2]				EV/EBIT[2]			
	Cap[1]	LTM	FY19	FY20	FY21	LTM	FY19	FY20	FY21
Company	(A$m)	Actual[3]	Act./Pro.[4]	Projected	Projected	Actual[3]	Act./Pro.[4]	Projected	Projected
Global Public Transport - Bus with limited rail operations									
National Express Group PLC	4,017	8.2x	8.0x	7.6x	7.4x	12.7x	12.3x	11.7x	11.4x
ComfortDelGro Corporation Limited	5,516	6.6x	6.7x	6.5x	6.4x	12.4x	12.4x	11.9x	11.6x
Nobina AB (publ)	799	6.7x	7.4x	6.6x	6.3x	17.2x	18.4x	17.2x	15.3x
Average		**7.2x**	**7.4x**	**6.9x**	**6.7x**	**14.1x**	**14.3x**	**13.6x**	**12.8x**
Median		**6.7x**	**7.4x**	**6.6x**	**6.4x**	**12.7x**	**12.4x**	**11.9x**	**11.6x**
Global Public Transport - Bus with significant rail operations									
The Go-Ahead Group plc	1,588	5.7x	5.7x	6.2x	5.9x	9.7x	9.7x	10.8x	10.1x
Stagecoach Group plc	1,337	3.4x	3.4x	4.7x	5.1x	10.0x	10.0x	9.7x	10.0x
Firstgroup plc	3,006	4.6x	4.6x	4.3x	4.3x	10.4x	10.4x	8.9x	8.5x
Average		**4.5x**	**4.5x**	**5.1x**	**5.1x**	**10.0x**	**10.0x**	**9.8x**	**9.6x**
Median		**4.6x**	**4.6x**	**4.7x**	**5.1x**	**10.0x**	**10.0x**	**9.7x**	**10.0x**
Other Australia & NZ relevant companies									
Cleanaway Waste Management Ltd	3,975	10.0x	10.0x	8.7x	8.2x	19.2x	19.2x	16.9x	15.4x
Downer EDI Limited	4,627	6.8x	6.8x	6.4x	6.0x	11.8x	11.8x	10.9x	10.2x
Aurizon Holdings Limited	11,976	11.1x	11.1x	10.4x	10.2x	18.4x	18.4x	16.6x	16.3x
A2B Australia Limited	177	4.4x	4.4x	4.3x	4.0x	7.4x	7.4x	7.5x	6.9x
Average		**8.1x**	**8.1x**	**7.4x**	**7.1x**	**14.2x**	**14.2x**	**13.0x**	**12.2x**
Median		**8.4x**	**8.4x**	**7.5x**	**7.1x**	**15.1x**	**15.1x**	**13.8x**	**12.8x**
Average - All		**6.7x**	**6.8x**	**6.6x**	**6.4x**	**12.9x**	**13.0x**	**12.2x**	**11.6x**
Median - All		**6.6x**	**6.8x**	**6.5x**	**6.2x**	**12.1x**	**12.0x**	**11.3x**	**10.8x**

Sources: S&P Global; financial reports of comparable companies and GTCF calculations
Note (1): Market capitalisation as at 27 September 2019.

---

[107] The commentaries in this section of the report only relates to the EBITDA multiples of the listed peers but we have considered the EBIT multiples in the selection of the multiples applicable to Transit Systems Group.

Grant Thornton
An instinct for growth™

Note (2): Projected EBITDA and EBIT are based on the median of broker estimates sourced from S&P Global as at 27 September 2019.
Note (3): Twelve months EBITDA and EBIT computed with latest information released by the companies up to 27 September 2019.
Note (4): For National Express Group PLC and ComfortDelGro Corporation Limited FY19 multiple is based on projections since the companies have 31 December as end of financial year and accordingly FY19 results have not been published as at the date of this report. For all the other companies FY19 multiple is based on actual EBITDA and EBIT since results were published as at the date of this report.
Note (5): We have adjusted historical and projected EBITDA and EBIT amounts to eliminate the impact of IFRS 16 adoption.

A brief description of the companies listed in the table above is set out in Appendix C.

The EBITDA and EBIT multiples presented above reflect the value of underlying companies on a minority basis and do not include a premium for control.

Due to the lack of publicly-listed Australian companies with directly comparable operations to Transit Systems Group, we have selected three sets of listed companies. The first set consists of global companies with activities focused primarily on bus operations, although we note these companies also have significant other businesses. The second set consists of international public transport companies, with bus and rail operations, although we note the rail segment dominates for these companies. The third set is Australian companies with certain key elements that are comparable to Transit Systems Group.

In our detailed review of each comparable company we also noted the following key similarities and differentiating factors:

- Transit Systems Group has grown rapidly in recent years and has higher growth prospects than the majority of the listed comparable companies. The company has secured large contracts in Australia and has recently expanded to overseas markets. In 2013, Tower Transit Group entered the UK market when it acquired the London bus routes from First Group Plc. In the same year, the company was awarded the Sydney Region 3 contract, covering Sydney's south-western suburbs, in a competitive tender process as the only non-incumbent operator tendering. Transit Systems Group then leveraged its success in Australia and London to help it win the inaugural tender offered under the Singapore LTA bus contracting model, making Transit Systems Group the first international operator of public transport in Singapore. In 2018, Transit Systems Group was awarded the Region 6 contract, covering the Sydney inner west, the largest bus public transport contract tendered in Australia. Transit Systems Group continues to target opportunities both in Australia and internationally, including in Melbourne where Transit Systems recently completed the strategic acquisition of Sita Group (including its centrally located bus depot in West Footscray), giving the company an entry into the Victorian bus market.

- A large number of the public transport listed peers have large operations in the UK. National Express Group Plc ("National Express"), the Go-Ahead Group Plc ("Go-Ahead"), Stagecoach Group Plc ("Stagecoach") and Firstgroup plc ("Firstgroup") all have substantial UK operations ("UK Peers"). Go-Ahead and Stagecoach are the most exposed to the UK economy, generating nearly all of their revenues there. National Express is relatively less exposed, generating only a quarter of total revenues and earnings from its UK operations whereas Firstgroup generates approximately half of its revenues in the UK. Given the prevailing economic conditions (with GDP declining by 0.2% in the second quarter of CY19) and significant uncertainty in relation to the outcome of Brexit, the outlook for the UK peers is relatively more uncertain with risks weighted more to the downside. While Tower Transit Group has operations in the UK, its contribution to overall earnings is relatively minor.

- In addition to the prevailing economic outlook and uncertainty facing the UK Peers, Go Ahead, Stagecoach and Firstgroup all generate substantial revenues from rail operations in the UK under rail franchise agreements with the UK government. The UK rail franchising sector has drawn heavy criticism in recent years with a number of contracts failing[108] and the UK Government facing legal action from several operators for claimed mishandling of the bid process on a number of contracts[109]. Profitability is generally very low across the sector, with operating profit margins typically in the low single digits[110]. In recent years a number of operators have exited the market (with some blaming the unbalanced risk and reward of operating the franchise agreements). National Express—once the country's biggest train operator—exited the market in 2017 and no longer has any rail operations in the country. In addition, Stagecoach, one of the country's largest rail operators, has been disqualified from bidding on three UK rail franchise tenders following disputes with the UK Government regarding pension liabilities. In its 2019 annual report, Stagecoach has stated that it no longer plans to bid for new UK rail franchises on their current risk profile. Furthermore, while presenting the group's annual results for 2019, the CEO of FirstGroup, the company charged with running three UK rail franchises, commented "We have concerns with the current balance of risk and reward being offered" by UK passenger rail franchises. We are of the opinion that the above is adversely impacting the related EBITDA multiples of these companies which makes them not relevant for the purpose of our assessment of Transit Systems Group.

- ComfortDelGro Corporation Limited ("CDG") is a land transportation company operating through seven divisions, the major of which are its Public Transport Services and Taxi divisions. Its Public Transport Services division generates approximately half of group EBITDA and provides bus and rail services in Singapore, scheduled and unscheduled bus services in Australia, and bus and coach services in the UK. CDG's taxi division accounted for 38% of EBITDA in 2018 and generates income from the renting out of taxis and offering taxi bureau services. We note that CDG's FY19 EV/EBITDA multiple of 7.3 times is likely weighed down by the limited growth prospects and challenging market conditions of the taxi business given the rise of ridesharing services such as Uber. For instance, we note that A2B Australia Limited, of which CDG is a substantial shareholder[111] is trading at an FY19 EV/EBITDA multiple of 4.4 times. By applying A2B's trading multiple to CDG's taxi earnings, we generate an implied multiple of c. 8.2 times[112] for the remainder of the business, which is largely dominated by the Public Transport Services division.

- Cleanaway Waste Management ("Cleanaway") is a large waste management solutions company with long-term contracts held with local councils, under which the company generates approximately 80 per cent of its revenues. The company operates through a vertically integrated model across collections, resource recovery, waste treatment and landfill. While the operations of the business are different to Transit Systems Group, the two companies risk profiles share a number of similarities including the defensive nature of their operations, the significant portion of revenues generated under long-term contracts with government entities and the positive industry growth outlook. Accordingly, we are of the opinion that Cleanaway's multiple provides directional evidence for the multiple applied to Transit System Group.

- Downer EDI Limited is a provider of integrated services to the transport, infrastructure and utilities sectors in Australia and internationally. The company has 49% interest in the Keolis Downer joint

[108] In early 2018, the UK Government announced that the InterCity East Coast fail franchise operated by Virgin Trains (with Virgin Group and Stagecoach as shareholders) would be re-nationalised, marking the third time since 2007 that it had failed.
[109] Including Stagecoach/Virgin/SNCF and Deutsche Bahn/Arriva for claimed mishandling of the West Coast, East Midlands and South Eastern lines.
[110] For the year ended March 2019, Firstgroup's rail business generated an operating profit margin of 2.7%, with Go-Ahead Group generating 1.7% for its rail business.
[111] As at September 2018, CDC held a c.12% stake of A2B Australia Limited's common shares outstanding.
[112] In FY18 CDG generated EBITDA of circa SGD$833 million, of which SGD$317 million related to the taxi division. CDG's FY19 EV/EBITDA multiple is currently trading at 6.6x. Applying the 4.4x FY19 EV/EBITDA multiple of A2B to the earnings of the taxi division, implies a multiple of 8.2x for the non-taxi division, to arrive at CDG's overall EV/EBITDA multiple of 6.6x.

venture, a public transport provider (light rail and bus) and one of the largest bus operators in Australia with operations around the country. However, Downer EDI generates the majority of its income from the heavy and civil engineering construction industry in Australia and accordingly, we cannot rely on this multiple.

- National Express Group Plc is a multinational transport provider operating across 8 countries. It holds the largest market share for long haul coach transport in Spain and the UK, and is the second largest school bus provider in the United States. National Express also operates urban bus and transit operations in the USA, UK, Spain and other countries. In 2018, approximately 48% of revenues were contracted, mainly relating to the school bus operations in the United States. 38% was derived from passengers and the remaining 14% originated from grants and subsidies, private hire and other revenues. National express generated EBITDA of £402 million on the back of revenues of £2.45 billion and has grown revenues at a CAGR of approximately 11.8% over the last three years. While National Express operates buses internationally similar to Transit Systems Group, a lower proportion of revenue is contracted and a large part subject to higher levels of competition. So while the multiple of National Express provide some guidance, we have not relied on it for the purpose of our valuation.

- Nobina AB is the largest bus operator in Sweden and also operates in Denmark, Finland and Norway. Nobina provides regional public transport and service transport under contract to local authorities in the Nordic Region. Nobina has grown revenues at a CAGR of 6% over the last five years and generated an EBITDA margin of approximately 13.5% for the year ending 28 Feb 2019. Accordingly, given the different geographical focus and relatively lower growth profit, we have placed limited reliance on Nobina AB.

- Aurizon Limited is a rail freight operator that transports commodities for the mining, agricultural and industrial sectors in Australia. While the company generates a large portion of revenues under contract (similar to Transit Systems Group), the company is highly exposed to the mining industry which is very cyclical and highly correlated to domestic and global GDP growth.

- A2B Limited, formerly known as Cabcharge Australia, provides bookings, trips and payment facilities to the taxi industry in Australia. We consider A2B to have limited comparability with Transit Systems Group.

Overall, whilst none of the listed peers are particularly comparable to Transit System Group, we draw the following conclusions from our analysis:

- The Public Transport Services division of CDG is fairly comparable to Transit System Group but the EBITDA is drawn down by the taxi division which is a key contributor to the overall business. We have attempted to isolate the multiple of the Public Transport Services division which seems to become high single digit.

- Listed businesses like Cleanaway and Aurizon which showcase similar attributes to Transit Systems Group in terms of the defensive nature of the business, low/no level of competition and long term contracts, are trading at low double digits EBITDA multiples

<u>Transaction multiples</u>

In our valuation assessment, we have mainly relied on the multiples implied by historical transactions involving companies comparable to Transit Systems Group in Australia and overseas.

In relation to the EBITDA multiple implied by the comparable transactions, we note that:

- The implied transaction multiples may incorporate various levels of control premium and special values paid for by the acquirers.
- The multiples may reflect synergies paid by the acquirer which may be unique to the acquirers.
- The transactions observed took place during the period between May 2012 and April 2019. Economic and market factors, including competition dynamics and consumer confidence may be materially different from those as at the valuation date. These factors may influence the amounts paid by the acquirers for these businesses.
- The transaction multiples are calculated based on the historical EBITDA of the acquired companies (unless otherwise stated) which typically tends to provide a higher multiple due to the growth expectations typically included in forecast financial performance.

The following table summarises the EBITDA multiples implied by these transactions.

Grant Thornton
An instinct for growth™

Transactions analysis Date	Target Company	Bidder Company	Note	Stake (%)	Deal Value (A$m)	EBITDA Multiple Historical	Status
Tier 1 - Australian & New Zealand Public Bus Transport transactions							
Dec-18	NZ Bus Limited	Next Capital Pty Ltd	1	100%	147.0	8.9x	Closed
Nov-18	Buslink Pty Ltd (incl. Buslink Southern Pty Ltd)	ComfortDelGro Corporation Limited	2	100%	168.2	7.9x	Closed
Aug-18	FCL Holdings Pty Ltd	ComfortDelGro Corporation Australia Pty Limited	3	100%	110.0	8.1x	Closed
Apr-18	Tullamarine Bus Lines Pty Ltd	CDC Victoria Pty Ltd		100%	32.2	9.9x	Closed
Dec-14	Forest Coach Lines Pty Ltd	Next Capital Pty Ltd		75%	50.0	7.4x	Closed
Average						**8.4x**	
Median						**8.1x**	
Tier 2 - International Public Bus Transport transactions							
Dec-18	Coach USA LLC (North American operations Stagecoach Group Plc)	Variant Equity Advisors LLC		100%	377	3.2x	Closed
Feb-18	Student Transportation Inc.	Caisse de Depot et Placement du Quebec and Ullico Inc		92%	1,496	12.8x	Closed
Jul-16	SMRT Corp. Ltd.	Temasek Holdings Pte Ltd		46%	3,003	9.7x	Closed
May-12	Coach America Inc. (certain businesses and assets)	Stagecoach Group Plc	4	100%	136	5.5x	Closed
Apr-10	Arriva Plc	Deutsche Bahn AG		100%	4,062	7.5x	Closed
Average						**7.7x**	
Median						**7.5x**	
Tier 3 - Other relevant transactions with limited amount of information							
Apr-19	Transport Australia Group	AATS Group	5	100%	~400	NA	Closed
Apr-19	Sita Coaches Pty Ltd	Transit Systems Pty Ltd		100%	NA	NA	Closed
Jun-18	Light-City Buses	Transit Systems Pty Ltd		100%	NA	NA	Closed
Mar-15	Australian Transit Enterprises Pty Ltd	Keolis Downer Pty Ltd		100%	163.0	NA	Closed
Aug-14	Go Bus Limited	Tainui Group Holdings Limited, Ngai Tahu Holdings Corporation Limited		99%	154.7	NA	Closed
Apr-13	FirstGroup Plc (3 bus depots)	Transit Systems Pty Ltd		100%	31.3	NA	Closed
Overall average						**8.1x**	
Overall median						**8.0x**	

Source: S&P Global; Mergermarket; financial reports of comparable companies and GTCF calculations.
Note (5): Financial terms of the deal were not publicly disclosed although the deal value was reported to be in the vicinity of A$400 million.
Note (1): On 2 September 2019, Infratil announced the completion of the sale of NZ Bus to Next Capital, with expected proceeds of between NZ$145 to NZ$165 depending on earn out. We have adopted the mid point of NZ$155 million, which we have converted to Australia dollars using an AUD:NZD exchange rate of 0.94 as at 2 September 2019. Our historical multiple is based on reported underlying EBITDA of NZ$17.4 million achieved in FY19.
Note (2): The total consideration was A$190.9 million, including A$22.7 million for the acquisition of 11 freehold depot properties, which we have excluded to arrive at our A$168 million deal value.
Note (3): The total consideration was A$125.5 million, including A$15.5 million for the acquisition of 2 freehold depot properties, which we have excluded from the deal value to arrive at out A$110 million deal value.
Note (4): In January 2012, a few months prior to the acquisition, Coach America Inc had filed for bankruptcy.

During the course of 2018, ComfortDelGro completed four relevant acquisitions in Australia which are outlined below:

- *Buslink acquisition in November 2018 for A$168 million* – Buslink is a bus operator with operations in eight locations across four Australian states and territories with a fleet of circa 400 buses and 22 depots. It is the largest operator in the Northern Territory and also has significant operations in Queensland, mainly on the Sunshine Coast and Gladstone. Buslink also has a presence in NSW and Victoria where it operates the bus service in Broken Hill and Mildura respectively. The company provides bus transportation services for urban, school, special needs, employees and charter services. It mainly serves small cities/towns and less densely populated rural areas and regional towns. The purchase price of A$168 million represents the consideration for the acquisition of the bus services contracts. Separately, CDG also acquired 11 bus depot properties, for the operation of the bus services, for a consideration of A$22.7 million. The purchase consideration (excluding the bus depots) implies an EV/EBITDA multiple of 7.9 times.

- *FCL Holdings Pty Ltd ("FCL") acquisition in August 2018 for A$110 million* – FCL runs Forest Coach Lines in Northern Sydney and regional NSW. FCL operates Region 14 contracted bus services in Metropolitan NSW, as well as other bus services in regional NSW and school and non-school charter services. FCL was also previously acquired (at the time called Forest Coach Lines Pty Ltd) in 2014 by Next Capital Pty. The purchase consideration paid by CDG implies and EV/EBITDA multiple of 8.1 times.

- *Tullarmarine Bus Lines Pty Ltd ("TBL") acquisition in April 2018 for A$32.2 million* – TBL operated seven metropolitan bus routes under a long term contract with state government agency Public Transport Victoria. Besides public buses, TBL contracted school services and a small taxi fleet management business. The purchase consideration paid by CDG implies an EV/EBITDA multiple of 9.9 times.

- *Coastal Liner Coaches ("CLC") acquisition in August 2018 for A$9.0 million* – CLC operates route bus services in Outer Sydney Metropolitan Bus Service Region 11 which provides exposure to the growing retirees and young families moving away from metropolitan Sydney to more affordable coastal regions. It has a fleet of 31 buses and coaches and also specialised in luxury coach tour packages for theatre performance, concerts for individuals and small groups. Financial terms of the deal were not disclosed.

In addition, we have considered the NZ Bus acquisition by Next Capital which recently completed. NZ Bus operates long term public bus commuter services under long-term contracts (on a cost plus model) with Wellington Regional Council and Auckland City Council. The vendor, Infratil Limited ("Infratil") initially expected to receive consideration of between NZ$218 million and NZ$240 million when the deal was announced in December 2018, which included an earnout based on the performance of NZ Bus. We note that since that time, Infratil had significantly reduced its expectations regarding the sale proceeds, and the completed transaction valued 100% of the business between NZ$145 million and NZ$165 million[113]. In addition, NZ Bus reported an underlying EBITDA of NZ$17.4 million for the year ended 31 March 2019, approximately half of what it reported for the year to 31 March 2018. Infratil notes that the business was impacted by a number of operating challenges in the year and incurred significant one-off transition costs, although no further detail was disclosed in their annual report regarding the quantum of these costs or their nature. However, we note that NZ Bus has been significantly adversely impacted by the New Zealand Government's roll out of the new Public Transport Operating Model ("PTOM") which has come about from a change of national legislation. The new model substantially aligns New Zealand bus contracts with those in Australia, with key features such as set contract terms (6 to 12 years) and fixed payments to operators (based on a cost plus model), with local government retaining all revenue risk. Historically, bus public transport in New Zealand was a mix of commercially operated services (operator takes revenue risk), fully subsidised services and 'grandfathered' operating contracts. In addition, PTOM introduced caps on market share for individual operators (generally 50%). NZ Bus was affected as it had previously controlled a market share of around 70% in Auckland and Wellington and lost a number of routes, in particular to Tranzit Group, as a result of the new market share caps and as a result of the new tendering process.

[113] We have adopted the mid-point for the purpose of calculating our implied multiple

Furthermore, we note that NZ Bus has struggled to meet its contractual KPIs, and was reported to have received substantial fines, in particular from Wellington Regional Council, in late 2018 and early 2019. Our assessed EBITDA multiple of 8.9 times is based on FY19 adjusted EBITDA of NZ$17.4 million.

Information to calculate the EBITDA Multiples for the other transactions which occurred in Australia and NZ were not available.

In relation to the transactions involving bus public transport companies operating internationally (Tier 2 transactions), we note the following:

- Stagecoach announced the sale of its North American bus operations (Coach USA LLC) in late 2018, a month after announcing a write-down of £85 million for the value of the unit following margin reductions and a reduction in like-for-like sales. The business provides inter-city coach services, commuter bus services and bus services under contract with transit authorities as well as other bus services (e.g. bus tours and sightseeing services). The company is more heavily exposed to macroeconomic factors and competitive pressures than Transit Systems Group and other public transport companies as a significant proportion of its revenues is affected by patronage risk. Stagecoach noted the competitive bus market and low oil prices (which encouraged a switch towards private cars) as the reasons behind the division's poor performance which led to the write-down. We note the very low multiple reflects the low margins achieved in the business (3.4% operating profit margin for year ending 27 October 2018, CY18 and 3.7% in FY17) and declining revenues.

- Student Transportation Inc. is one of the largest providers of school bus transportation services in North America. Approximately 90% of the company's revenue is contracted, typically with school districts. At the end of FY17 the company had circa 290 contracts with terms of between three and eight years. Revenues have grown steadily over the last 3 years, growing at a CAGR of c.9% through a combination of organic growth and acquisitions (over the same period EBITDA has grown at approximately 6%). Approximately 50% of revenues under contract have been secured through a competitive bid process, with the remainder mostly from acquisitions. In early 2018 Student Transportation Inc was acquired by Caisse de dépôt et placement du Québec ("CDPQ") at a multiple of c. 12.8 times historical EBITDA.

- Singapore's state investment company (Temasek Holdings Pte Ltd) acquired the 46% interest in the share capital of SMRT Corp Ltd that it did not already own. We have placed limited reliance on this transaction due to the introduction of the New Rail Franchising Framework, which effectively placed a cap on the earnings upside of SMRT. Under the New Rail Franchising Framework SMRT is required to pay a higher licence charge to the LTA if SMRT's profit outperform a certain target, effectively transferring profits from SMRT to the LTA if SMRT outperforms certain benchmark performance.

- In May 2012, Stagecoach acquired selected businesses and assets from Coach America for a consideration of US$134.2 million. The businesses and assets acquired generated an EBITDA of US$24.6 million for the year ending 31 December 2011. However, at the time, Coach America was operating under Chapter 11 bankruptcy protection since January 2012. Coach America had been experiencing significant earnings pressures including a loss of US$27 million in the 11 months ended November 2011 and a US$180 million loss the prior year. In addition, Coach America had been deferring capital improvements due to its high level of debt. The EBITDA multiple of 5.5x likely reflected the distressed nature of the seller and accordingly, it should not be relied upon for the purpose of the assessment of the fair market value of Transit System Group.

Conclusion on the selected EV/EBITDA multiple

Based on a review of the above transactions and discussions, we have adopted an EBITDA multiple for Transit Systems Group of 10.0x on a minority basis based on the following:

- ComfortDelGro paid acquisition multiples between 7.9x and 9.9x for three acquisitions which were in relation to companies significantly smaller than Transit Systems Group and with mainly domestic and localised operations (apart from Buslink). Conversely, Transit Systems Group is the largest private operator of metropolitan public bus services on behalf of the governments in Australia with operations in most states and territories (often with a dominant market share), has a global platform with operations in London and Singapore, has grown rapidly due to its high success rate in tendering for new and existing contracts, and has a significant pipeline of identified opportunities in excess of A$3.5 billion per annum.

- The acquisition of NZ Bus by Next Capital occurred at an EBITDA multiple of approximately 8.9x notwithstanding that we note that NZ Bus faces a number of challenges adapting to the new PTOM model introduced by the New Zealand Government and has lost considerable market share as a result. In addition, the company operates only in Auckland and Wellington and is significantly smaller than Transit Systems.

- We consider CDPQ's acquisition of Student Transportation Inc fairly comparable given that similarly to Transit Systems Group in Australia, Student Transportation is one of the largest providers of school bus transportation services in North America with the majority of the revenue contracted with terms between three and eight years and revenue are awarded mainly based on a competitive tender process.

- Our selected multiple of Transit System Group include an element of re-rating of the Combined Group[114] due to the unique strategic footprint of the Combined Group business which is difficult to replicate and it has significant barriers to entry.

In addition to the above, as discussed at the beginning of this section, we have also considered the EBIT multiples of the listed peers for the valuation assessment of Transit Systems Group in order to even-out the differences in relation to the capital expenditure on the purchase of the fleet, the owned vs leased depots and the terms of the leased depots (commercial rate vs nominal amount). We note that our analysis on the previous pages has mainly reverted around EBITDA multiples given that the comparable transactions usually do not disclose the EBIT of the acquired businesses and accordingly, it was not possible to refer to the EBIT multiple altogether.

The enterprise value of Transit Systems Group included in our valuation of the Combined Group[115] implies an FY20 EBIT multiple of circa 12.2x (mid-point on a minority basis)[116]. We are of the opinion that this is supportive of our assessment of the enterprise value of Transit Systems Group based on the selected EBITDA multiple due to the following:

- It is in line with the FY20 EBIT multiple of ComfortDelGro of 11.9x notwithstanding that the latter is still

---

[114] We note that we have incorporated the re-rating only into the multiple of Transit Systems Group and we have kept the multiple of SeaLink the same (apart for the application of a minority discount).
[115] Mid-point enterprise value of circa A$860 million based on the FY20 EBITDA and EBITDA multiples selected in our valuation assessment.
[116] Estimated as Transit Systems Group enterprise value of A$860 million (mid-point) divided by our estimate of the FY20 EBIT of circa A$70 million.

dragged down by the taxi division which is a big contributor to the EBIT of the group but valuation multiples applicable in this sector of the transport industry are lower than the multiple applicable to the bus transport industry where the rest of the ComfortDelGro business operates.

- It is at a slight discount to the average and median FY20 EBIT multiple of the basket of "Other Australia and NZ relevant companies" of 13.0x and 13.8x respectively.

- It is at a more modest premium to the average and median of the Global Public Transport companies with significant rail operations between 9.8x and 9.7x respectively.

The assessed multiple for the overall SLK business post the Proposed Acquisition is a blended EBITDA multiple between Transit Systems Group and SLK before the Proposed Acquisition as outlined below.

Multiple blending calculation for Combined Group	*Section Reference*	Note	Low	High
EBITDA - SeaLink		a	49.0	52.0
EBITDA - TSG		b	82.5	89.0
EBITDA - Combined Group		c	**131.5**	**141.0**
Multiple - SeaLink (control)	*8.2.2*	d	10.5x	11.0x
Minority discount (1)		e	20.0%	20.0%
Multiple - Sealink (minority)		f = d * e	8.40x	8.80x
Multiple - TS (minority)	*9.2.2*	g	10.0x	10.0x
Weighted Multiple - Combined Group		h = f * (a / c) + g * (b / c)	**9.40x**	**9.56x**

Source: Management; GTCF analysis

Note: We have adopted a control premium of 30% at equity value which implies a minority discount of 20% at enterprise value after taking into account the net debt level of SeaLink as at 30 June 2019 which results in a control premium of 25% at enterprise level basis. We have then calculated the minority discount, which is the inverse of the control premium to be 20%.

As set out in the table above, our selected FY20 EBITDA multiple of Transit Systems Group on a minority basis is higher than the multiple applied to SeaLink on a minority basis. We are of the opinion that this is not unreasonable due to the following:

- Transit Systems Group market leading position in Australia and growth platform on overseas jurisdictions in London and Singapore.

- Inelastic nature of the demand which is less subject to fluctuation in conjunction with changes in the economic environment domestically and internationally and the level of discretionary expenditure and consumer sentiment which affects the tourism component of SeaLink business.

- Transit Systems Group has a long history of winning new contracts and successfully renewing existing contracts. In the Company's 24 year history, Transit Systems Australia has won 13 contracts, renewed seven contracts and lost two contracts (one in 2011 and one in 2012). In addition, Management of Transit Systems Group has identified a tender pipeline worth circa A$3.5 billion per annum across existing end markets and the US before 2025.

- Nearly all of Transit Systems Group revenues are secured by long-term contracts with government entities (typically gross-cost contracts[117]) and nearly every part of the cost base is hedged, with

[117] Under gross cost contracts, an operators commits to a cost for a fully defined service in their bid, with fare revenues transferred to the public authority and the operator assuming the risk of high costs.

contract income increasing for wage price growth, changes in fuel prices and repairs and maintenance expense growth.

- For contracts where Transit Systems Group owns the bus fleet, in the case that a contract is not renewed, predetermined VTP provides certainty of the price the new operator is required to pay Transit Systems Group to transfer the fleet.

- Our selected multiple of Transit System Group include an element of re-rating of the Combined Group[118].

9.2.3 NPV of the assessed synergies

SeaLink and Transit System Group have undertaken an extensive analysis and they have estimated cost annual synergies between A$4.0 million and A$4.6 million (excluding one-off implementation costs) to be realised as a result of the Proposed Acquisition within two years after completion. We have assessed the net present value of the post-tax synergies based on the Combined Group discount rate. In our assessment, we have considered implementation costs of circa A$2 million.

9.2.4 Net debt

The net debt of the Combined Group after the Proposed Acquisition is summarised in the table below.

Pro-forma net debt of the Combined Group A$m	
Transaction funding debt issuance from senior term debt	230
Sita Group vendor note	40
Revolving credit facility	2
Transit Systems Group finance leases	8
Pro-forma net debt of the Combined Group	**281**
Deferred Consideration	37
Pro-forma net debt of the Combined Group including deferred cons	**318**

Source: Management

Combined Group - Net debt bridge A$m	
Net debt of SeaLink as at 30 June 2019	**84**
Sita Vendor loan and other debt like items	45
Less: Cash received from Placement and Entitlement Offer	(154)
Plus: Payment of Cash Consideration	118
Plus: Draw down of the New Debt Facilities	230
Less: Debt refinancing (excluding finance leases)	(81)
Plus: Other debt like items (1)	38
Proforma net debt of the Combined Group as at 30 June 2019	**281**

Source: Management
Note 1 – It includes transaction costs, capitalisation of borrowing costs and other items.

118 We note that we have incorporated the re-rating only into the multiple of Transit Systems Group and we have kept the multiple of SeaLink the same (apart for the application of a minority discount).

9.2.5 Net present value of the Deferred Consideration and Earn-Out Consideration

Under the terms of the Proposed Acquisition, SLK is required to pay the Deferred Consideration of A$37 million which is made up of three non-contingent cash payments and the Earn-out Consideration of up to A$63 million payable in three contingent cash payment on a sliding scale based on Transit Systems Group FY20 pro-forma normalised EBITDA between A$79 million or less (nil Earn-Out Consideration) and A$86 million or more (100% of the Earn-out Consideration is payable).

In our valuation assessment, we have discounted the Deferred Consideration at the short term cost of debt and the Earn-out Consideration at the cost of equity given that the latter is contingent on the underlying financial performance of the Transit Systems Group.

9.3 DCF Method

For the purpose of our valuation assessment of SeaLink after the Proposed Acquisition utilising the DCF Method, Grant Thornton Corporate Finance developed the GT Model based on a critical review and consideration of the following:

- Historical financial performance of Transit Systems and SeaLink.
- Transit Systems Management forecasts[119] for the discrete period from FY20 to FY23 and developed by Transit Systems Management and their advisors.
- Key industry risks and growth prospects, and the general economic outlook.

Refer to section 8.3 for an overview of the procedures undertake by Grant Thornton Corporate Finance on the projections.

The table below sets out a summary of our valuation assessment of SeaLink after the Proposed Acquisition based on the DCF Method:

Valuation summary - DCF Method A$m	*Section Reference*	Low	High
Enterprise value on a control basis	*9.3.1*	1,581.7	1,754.8
Less: Net debt of Sealink after the Proposed Transaction	*9.2.4*	(280.7)	(280.7)
Less: NPV of Deferred Consideration	*9.2.5*	(34.7)	(34.9)
Less: NPV of Earn-Out Consideration	*9.2.5*	(53.2)	(53.7)
Equity value (control basis)		**1,213.2**	**1,385.5**
Number of outstanding shares (fully diluted) (1)	*5.6.2*	218,589,048	218,589,048
Value per share (control basis) (A$ per share)		**5.55**	**6.34**
Less: Minority discount (%) (2)	*9.3.2*	23.1%	23.1%
Value per share (minority basis) (A$ per share)		**4.27**	**4.88**

Source: SeaLink Management; GTCF analysis
Note 1 – It also includes the 190,000 SeaLink PRs and 100,000 SeaLink Options.
Note 2 – Calculated as the inverse of a premium for control of 30%.

119 Details of Transit Systems Management Projections are not disclosed due to confidentiality and commercial sensitivity factors and because they do not meet the disclosure requirements under RG170.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of SeaLink after the Proposed Acquisition could vary materially based on changes to certain key assumptions.

9.3.1 GT Model – Key valuation assumptions

We have outlined below the key assumptions which we have adopted for the DCF Method of the Combined Group.

- The cash flow projections for the Combined Group are based on the SeaLink Management Projections (as adopted for our valuation of SeaLink before the Proposed Acquisition in section 8.3) and Transit Systems Group Management Projections, as prepared by Management of Transit Systems Group. They include the synergies identified by Management as discussed in section 9.2.3.

- The cash flow projections prepared by Management of Transit Systems Group and relied upon by us in our DCF valuation have been prepared on the basis that Transit Systems Group will not win any new contracts and all existing contracts will be renewed on substantially the same terms. We note this is a conservative assumption given the strong growth achieved by Transit Systems Group over the last several years and the tender's pipeline.

- Transit Systems Group has grown its revenues at a CAGR of c. 19.9% since FY17, mostly as a result of the Region 6 contract. The projections only include modest revenue growth in line with the terms on the various contracts.

- TSG's EBITDA margins have historically eroded and have fallen from 11.5% in FY18, to 8.7% in FY19. The decrease primarily reflects the impact of Region 6, which is currently going through an efficiency audit to identify scheduling and servicing improvements. The forecasts assume that Transit Systems Group will be able to achieve cost reductions in relation to its Region 6 contract as a result of the rostering and scheduling changes implemented by Management during March and July 2019. Based on the discussions with Management, we understand that the performance of the Region 6 is improving in accordance with plan.

- *Tax:* We have assumed a nominal corporate tax rate of 30% for the Australian operations[120], 17% for the UK operations and 17% for the Singapore operations, in line with the corporate tax rates in those jurisdictions.

- *Capital expenditure:* We have adopted Management's forecast capital expenditure over the discrete period. Transit Systems Group's forecast capital expenditures for FY20 to FY22 will be higher than initially projected by Management due to replacement of Region 6 compressed natural gas ("CNG") buses being required earlier than assumed in the original replacement program. This brings forward associated fleet payments to cover associated capital costs. Under the NSW Region 6 contract, Transit Systems Group will own and fund replacement buses. The original fleet replacement plan assumed replacement of the CNG buses at 25 years of age (which Management has advised is when Sydney buses are typically replaced) but this has recently been accelerated and now required after 20

[120] We have maintained SeaLink's tax rebate in the Combined Group cash flows.

years. The early retirement of these buses will require Transit Systems Group to bring forward a significant amount of capital expenditures in order to acquire an additional 44 buses during FY20 and FY21. These forecast capital expenditures come with an associated increase in revenues by way of additional monthly fleet payments to be received by Transit Systems Group. We note that these capital expenditures will ultimately be recovered from the Government (through fleet payments or through a lump-sum payment if the contract is awarded to another operator on expiry).

- *Working capital:* Changes in working capital are not material in the free cash flows and they have been assessed in line with historical averages.

- *Discount rate:* We have assessed the net present value of future cash flows having regard to an assessed discount rate based on the weighted average cost of capital ("WACC") in the range of 8.5% to 9.0%. Refer to Appendix D for details.

- *Terminal value:* We have adopted the following assumptions in the calculation of the terminal value of the business:

  - EBITDA margin of approximately 12.4 percent which is based on the normalised EBITDA margins assumed into perpetuity for SeaLink (circa 20%) and Transit Systems Group (circa 10%).

  - Capital Expenditure of circa A$35 million for the Combined Group to reflect the long-term forecast capital expenditure required in relation to the current contracts in place. This has been estimated based on the normalised maintenance capex included in the forecast period and the average annual capex for the various major contracts.

  - Terminal growth rate of 3% for SeaLink as discussed in section 8.3.1 and 3.5% for Transit Systems Group due to the significant growth opportunities from identified tenders discussed at length in section 5.5 and the significant growth achieved by Transit Systems Group in recent years. We have set out below some benchmarks adopted for the long term growth rate of Transit Systems Group.

Assessment of reasonableness of terminal growth rate	
Transit System Group - Revenues FY17 to FY19 CAGR	19.90%
IMF - Global GDP growth in 2020[1]	3.50%
IBIS Australian public transport - Expenditures FY19 to FY24 CAGR[2]	2.40%
Selected terminal growth rate	**3.50%**

Source: GTCF Analysis; International Monetary Fund; IBISWorld

9.3.2 Minority discount

Given the DCF Method produces a control valuation, we have applied a minority discount of 23.1% based on the inverse of a 30% control premium.

9.3.3 Sensitivity Analysis

It should be noted that the enterprise value of the Combined Group could vary materially based on changes in certain key assumptions. Accordingly, we have conducted certain sensitivity analysis below to highlight the impact on the value of SeaLink's enterprise value after the Proposed Acquisition based on the DCF Method caused by movements in certain key assumptions.

Sensitivity Table	Low A$	High A$	Low % change	High % change
Value per ShareLink per share after the Proposed Acquisition on a minority basis	4.27	4.88	na	na
Terminal growth rate				
Increased by 0.5% per annum	4.74	5.46	10.9%	11.8%
Decreased by 0.5% per annum	3.88	4.41	(9.2%)	(9.8%)
EBITDA margin				
Increased by 1% (i.e. 21% EBITDA margin)	4.72	5.38	10.4%	10.1%
Decreased by 1% (i.e. 19% EBITDA margin)	3.83	4.39	(10.4%)	(10.1%)
Capex				
Increased by 10% per annum	4.10	4.70	(4.0%)	(3.7%)
Decreased by 10% per annum	4.45	5.06	4.0%	3.7%
A$2m EBITDA reduction in terminal period following Kangaroo Island competitive tender process	4.21	4.81	(1.5%)	(1.5%)
Discount rate				
Increased by 0.5% per annum	3.83	4.35	(10.5%)	(11.0%)
Decreased by 0.5% per annum	4.81	5.53	12.5%	13.4%
Tax Rebate removed in terminal year	4.03	4.61	(5.7%)	(5.6%)

Source: GTCF analysis

These sensitivities do not represent a range of potential enterprise value of SeaLink, but they intend to show to SeaLink Shareholders the sensitivity of our valuation assessment to changes in certain variables.

10 Sources of information, disclaimer and consents

10.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Draft sales and purchase agreement (“SPA”).
- Annual reports/consolidated accounts of SeaLink and Transit Systems for FY16 to FY19.
- Management projections for SLK and Transit Systems for FY19 to FY23
- Minutes of Board meetings.
- Merger model.
- Lender presentations for SeaLink and Transit Systems.
- Financial and tax due diligence reports.
- Draft investor presentation for FY19.
- Synergies assessment.
- Transaction databases such S&P Global Capital IQ and Mergermarket.
- IBISWorld industry reports.
- Various industry and broker reports.
- Press releases and announcements by SLK on the ASX.
- Other publicly available information.

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from, Management of SeaLink and its advisers.

10.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been only been prepared in accordance with the requirements of Section 611, item 7 of the Corporations Act in relation to the issue of the Scrip Consideration to the Scrip Vendors and approval for Escrow Agreements. This report should not be used for any other purpose. In particular, it is not intended that this report should be used by current and future investors in making their investment decisions in relation to the Placement and the Entitlement Offer.

SeaLink has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

SeaLink is not responsible for any information provided by Transit Systems Group or its shareholders.

Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Grant Thornton
An instinct for growth™

Appendix B – Comparable companies SeaLink

Company	Description
Helloworld Travel Limited *ASX:HLO*	Helloworld Travel Limited operates as a travel distribution company in Australia, New Zealand, and internationally. It provides international and domestic travel products and services, as well as operates a franchised network of travel agents. The company was formerly known as Helloworld Limited and changed its name to Helloworld Travel Limited in April 2017. Helloworld Travel Limited is based in Sydney, Australia.
Tourism Holdings Limited *NZSE:THL*	Tourism Holdings Limited, together with its subsidiaries, operates as a tourism company in Australia, New Zealand, and the United States. The company operates in New Zealand Rentals, New Zealand Tourism Group, Australia Rentals, and United States Rentals segments. It engages in the manufacture, rental, and sale of motor homes, campervans, and caravans; and other tourism related activities. The company was formerly known as The Helicopter Line and changed its name to Tourism Holdings Limited in 1996. Tourism Holdings Limited was incorporated in 1984 and is headquartered in Auckland, New Zealand.
Experience Co Limited *ASX:EXP*	Experience Co Limited, an adventure tourism and leisure company, provides tandem skydiving services in Australia and New Zealand. It also provides white water rafting, canyoning, helicopter and boat tours, island day trips, reef tours, snorkeling and diving in the Great Barrier Reef; rain forest tours in North Queensland; and hot air ballooning in New South Wales. The company was founded in 1998 and is based in North Wollongong, Australia.
Webjet Limited *ASX:WEB*	Webjet Limited provides online travel booking services in Australia, New Zealand, Europe, and internationally. It operates through Business to Consumer Travel and Business to Business Travel segments. Its brands include Webjet, Online Republic, JacTravel, Sunhotels, Lots of Hotels, FIT Ruums, and Totalstay. The company serves consumers, travel agents, online travel agencies, wholesalers, and tour operators. Webjet Limited was incorporated in 1980 and is based in Melbourne, Australia.
Apollo Tourism & Leisure Ltd *ASX:ATL*	Apollo Tourism & Leisure Ltd, a tourism leisure company, manufactures, imports, rents, sells, and distributes recreational vehicles in Australia, New Zealand, North America, the United Kingdom, and Ireland. Apollo Tourism & Leisure Ltd was founded in 1985 and is headquartered in Brisbane, Australia.
Flight Centre Travel Group Limited *ASX:FLT*	Flight Centre Travel Group Limited provides travel retailing services for the leisure, corporate, and wholesale travel sectors in Australia, New Zealand, Europe, the Middle East, Africa, the Americas, Asia, and Internationally. It provides its services primarily under the Flight Centre brand, as well as other travel brands, such as Student Flights, Travel Associates, My Adventure Travel, Liberty Travel, Infinity Holidays, GOGO Vacations, FCm Travel Solutions, Corporate Traveller, Stage and Screen, cievents, and Campus Travel. The company was formerly known as Flight Centre Limited and changed its name to Flight Centre Travel Group Limited in November 2013. Flight Centre Travel Group Limited was incorporated in 1987 and is headquartered in Brisbane, Australia.
Event Hospitality & Entertainment Limited *ASX:EVT*	Event Hospitality & Entertainment Limited operates as an entertainment, hospitality, and leisure company in Australia, New Zealand, and Germany. The company operates through Entertainment Australia, Entertainment New Zealand, Entertainment Germany, Hotels and Resorts, Thredbo Alpine Resort, and Property and Other Investments segments. The company was formerly known as Amalgamated Holdings Limited and changed its name to Event Hospitality & Entertainment Limited in December 2015. Event Hospitality & Entertainment Limited was founded in 1910 and is headquartered in Sydney, Australia.
Millennium & Copthorne Hotels New Zealand Limited *NZSE:MCK*	Millennium & Copthorne Hotels New Zealand Limited owns, operates, manages, leases, and franchises hotels. It is involved in the residential development and sale of land; and development and sale of residential units and commercial properties. The company also owns and develops residential apartments. It has operations in New Zealand and Australia. The company was incorporated in 1985 and is headquartered in Auckland, New Zealand. Millennium & Copthorne Hotels New Zealand Limited is a subsidiary of CDL Hotels Holdings New Zealand Limited.
Carnival Corporation *NYSE:CCL*	Carnival Corporation operates as a leisure travel company in North America, Australia, Europe, and Asia. It operates in four segments: North America and Australia Cruise Operations, Europe and Asia Cruise Operations, Cruise Support, and Tour and Other. The company operates cruises under the Carnival Cruise Line, Princess Cruises, Holland America Line, P&O Cruises (Australia), Seabourn, Costa, AIDA, P&O Cruises (UK), and Cunard brand names. It also owns Holland America Princess Alaska Tours, a tour company in Alaska; and the Canadian Yukon, which owns and operates hotels, lodges, glass-domed railcars, and motor coaches. In addition, the company is involved in the lease of cruise ships. It sells its cruises primarily through travel agents and tour operators. Carnival Corporation was incorporated in 1972 and is headquartered in Miami, Florida.
Royal Caribbean Cruises Ltd. *NYSE:RCL*	Royal Caribbean Cruises Ltd. operates as a cruise company. The company operates cruises under the Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises, and Silversea Cruises brands. As of December 31, 2018, the company operated 60 ships providing services to approximately 1,000 destinations in 126 countries. Royal Caribbean Cruises Ltd. was founded in 1968 and is headquartered in Miami, Florida.
Norwegian Cruise Line Holdings Ltd. *NYSE:NCLH*	Norwegian Cruise Line Holdings Ltd., together with its subsidiaries, operates as a cruise company in the United States and internationally. It offers cruise itineraries ranging from a few days to 180-days calling on various locations, including destinations in Scandinavia, Russia, the Mediterranean, the Greek Isles, Alaska, Canada and New England, India and the rest of Asia, Tahiti and the South Pacific, Australia and New Zealand, Africa, South America, the Panama Canal, the Caribbean, and Harvest Caye. As of December 31, 2018, the company had 26 ships with approximately 50,400 berths. It distributes its products through retail/travel agents and international channel, as well as meetings, incentives, and charters. The company was founded in 1966 and is headquartered in Miami, Florida.
DFDS A/S *CPSE:DFDS*	DFDS A/S provides ferry shipping services and transport solutions in Europe and Turkey. The company operates through Ferry and Logistics divisions. The Ferry division operates ferry routes in and around Europe transporting freight units, primarily trailers and passengers, as well as offers port terminal services. The Logistics division provides full and part load transportation, warehousing, and logistics solutions to manufacturers of heavy industrial goods, consumables, and retailers. This division also provides railway transport services. The company operates 35 freight ferries, 16 freight and passenger ferries, 4 cruise ferries, and 15 container and side port ships. The company was founded in 1866 and is headquartered in Copenhagen, Denmark.

Company	Description
AS Tallink Grupp *TLSE:TAL1T*	AS Tallink Grupp, together with its subsidiaries, provides marine passenger and cargo transportation services in the Baltic Sea. The company operates through Estonia - Finland Routes, Estonia - Sweden Routes, Latvia - Sweden Routes, Finland - Sweden Routes, and Other segments. It offers mini-cruise and passenger transportation, and ro-ro cargo services, as well as travel packages. The company provides its services on various routes under the Tallink and Silja Line brands. It operates a fleet of 14 vessels that include cruise ferries, high-speed ro-pax ferries, and ro-ro cargo vessels. The company also operates three hotels in Tallinn and one hotel in Riga. AS Tallink Grupp was founded in 1989 and is based in Tallinn, the Republic of Estonia.
Torghatten ASA *OTCNO:TORG*	Torghatten ASA provides transportation services through ferries, boats, buses, and airplanes in Norway. It is also involved in garage, travel agency, and real estate activities. The company is based in Brønnøysund, Norway.
Fjord1 ASA *OB:FJORD*	Fjord1 ASA, together with its subsidiaries, operates passenger ferries and other passenger boats in Norway. The company operates in four segments: Ferry, Passenger Boat, Catering, and Tourism. Its ferries and passenger boats transport vehicles and passengers. The company also offers catering and tourism, shipyard, and travel agency services, as well as manages properties. Fjord1 ASA was founded in 2001 and is headquartered in Florø, Norway. Fjord1 ASA is a subsidiary of Havilafjord AS.
Attica Holdings S.A. *ATSE:ATTICA*	Attica Holdings S.A., through its subsidiaries, provides passenger shipping and travel agency services in Greece and internationally. The company's vessels offer sea transportation services to passengers, private vehicles, and freight. It owns and operates a fleet of 11 Ropax vessels in the Greek domestic routes and in Adriatic Sea under the Superfast Ferries, Blue Star Ferries, and Africa Morocco Links brand names. The company was founded in 1918 and is headquartered in Kallithea, Greece. Attica Holdings S.A. is a subsidiary of MIG Shipping S.A.
Viking Line ABP *HLSE:VIK1V*	Viking Line ABP, together with its subsidiaries, provides passenger and cargo carrier services. The company offers its services using seven vessels between Finland, Sweden, and Estonia; and owns 13 buses. It also provides cargo shipment and freight forwarding services. The company also has operations in other Baltic countries, Poland, Denmark, Norway, and Russia. Viking Line ABP was founded in 1959 and is headquartered in Mariehamn, Finland.

Appendix B – Comparable companies Transit Systems

Company	Description
National Express Group Plc *LSE:NEX*	National Express Group PLC provides public transport services in the United Kingdom, Continental Europe, North Africa, North America, and the Middle East. The company operates through UK, German Rail, ALSA, and North America segments. It owns and leases buses, coaches, and trains to deliver local, regional, national, and international transportation services. The company also operates urban bus and transit operations; scheduled coach services linking approximately 900 destinations across the United Kingdom; and offers private hire and commuter coach travel services in London and the south of England. In addition, the company operates service areas and other transport-related businesses, such as fuel distribution; and offers student transportation services. National Express Group PLC was incorporated in 1991 and is based in Birmingham, the United Kingdom.
ComfortDelGro Corporation Limited *SGX:C52*	ComfortDelGro Corporation Limited, an investment holding company, operates as a land transportation company. It operates through seven divisions: Public Transport Services, Taxi, Automotive Engineering Services, Inspection and Testing Services, Driving Centre, Car Rental and Leasing, and Bus Station. The company offers public bus and charter, and rail services to commuters; coach and taxi rental, terminal, taxi bureau, taxi booking, and outdoor advertisement services; and motor vehicle inspection and evaluation, as well as non-vehicle testing, inspection, consultancy, and other related services. As of February 13, 2019, it operated a fleet of 43,300 buses, taxis, and rental vehicles. The company has operations in Singapore, the United Kingdom, Ireland, Australia, China, Vietnam, and Malaysia. ComfortDelGro Corporation Limited was incorporated in 2003 and is headquartered in Singapore.
Nobina AB *OM:NOBINA*	Nobina AB (publ), through its subsidiaries, provides public transportation services in Sweden, Norway, Denmark, and Finland. The company offers scheduled and express bus services. It has a fleet of approximately 3,600 buses. Nobina AB (publ) was founded in 1911 and is headquartered in Solna, Sweden.
The Go-Ahead Group plc *LSE:GOG*	The Go-Ahead Group plc provides bus and rail passenger transportation services in the United Kingdom and Singapore. It operates through three segments: Regional Bus, London Bus, and Rail. The company also offers rail replacement and other contracted services. It serves the department for transport, and transport for London. The company was founded in 1987 and is headquartered in London, the United Kingdom.
Stagecoach Group plc *LSE:SGC*	Stagecoach Group plc, together with its subsidiaries, provides public transportation services in the United Kingdom. It operates through three segments: UK Bus (Regional Operations), UK Bus (London), and UK Rail. The company offers bus, coach, rail, and tram services. It operates city buses primarily in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield, Cambridge, and Exeter through a fleet of approximately 6,900 buses and coaches; inter-urban services linking major towns within its regional operating areas, as well as megabus.com, an inter-city coach service; and buses from 10 depots with a fleet of approximately 1,200 buses serving routes in and around east and south-east London. The company was founded in 1980 and is headquartered in Perth, the United Kingdom.

Company	Description
Firstgroup Plc *LSE:FGP*	FirstGroup plc provides passenger transport services. The company's First Student segment provides student transportation services through a fleet of approximately 44,000 yellow school buses in North America. This segment also offers charter hire services for school and non-school activities. Its First Transit segment offers public transit management and contracting services, including fixed route, paratransit, shuttle, and vehicle maintenance services to transit authorities, such as federal, state, and local transportation departments, as well as for private institutions, including universities, hospitals, and airports in North America. The company's Greyhound segment provides scheduled intercity coach transportation services to approximately 4,000 destinations through a fleet of approximately 1,600 vehicles in the United States and Canada. Its First Bus segment offers local bus services with a fleet of approximately 5,800 buses in the United Kingdom. The company's First Rail segment operates passenger rail network that provides intercity, commuter, regional, and sleeper services through a portfolio of Great Western and TransPennine Express franchises; and passenger rail service. FirstGroup plc was incorporated in 1995 and is based in London, the United Kingdom.
Cleanaway Waste Management Ltd *ASX:CWY*	Cleanaway Waste Management Limited provides waste management, industrial, and environmental services in Australia. It operates through three segments: Solid Waste Services, Industrial & Waste Services, and Liquid Waste & Health Services. The company offers commercial and industrial, municipal, and residential collection services for various types of solid waste streams, including general waste, recyclables, construction, and demolition waste, as well as medical and washroom services. It owns and manages waste transfer stations, resource recovery and recycling facilities, secure product destruction, quarantine treatment operations, and landfills; sale of recovered paper, cardboard, metals, and plastics; and collection, treatment, processing, and recycling of liquid and hazardous waste, including industrial waste, grease trap waste, oily waters, and used mineral and cooking oils in packaged and bulk forms. The company was formerly known as Transpacific Industries Group Ltd. and changed its name to Cleanaway Waste Management Limited in February 2016. Cleanaway Waste Management Limited was incorporated in 2002 and is headquartered in Melbourne, Australia.
Downer EDI Limited *ASX:DOW*	Downer EDI Limited operates as a services provider in Australia, New Zealand, the Asia-Pacific, South America, and Southern Africa. Its Transport segment engages in road, rail infrastructure, bridge, airport, and port businesses; and provides earthworks, civil construction, asset management, maintenance, surfacing and stabilization, open space and facilities management, and rail track signaling and electrification works services. Its Utilities segment plans, designs, constructs, operates, maintains, manages, and decommissions power and gas network assets. Its Rail segment offers passenger build, operations and maintenance, component overhauls, and after-market services. Its Engineering, Construction and Maintenance segment provides design, engineering, construction, and maintenance services for greenfield and brownfield projects in various project lifecycle stages. Its Mining segment provides asset management, blasting, crushing, exploration drilling, mine closure and site rehabilitation, mobile plant maintenance, open cut mining, tyre management, and underground mining services; supplies explosives; undertakes civil projects; and trains and develops ATSI employees. Its Spotless segment offers outsourced facility, catering and laundry, and technical and engineering services, as well as refrigeration solutions. The company was incorporated in 1989 and is headquartered in North Ryde, Australia.
Aurizon Holdings Limited *ASX:AZJ*	Aurizon Holdings Limited, through its subsidiaries, operates as a rail freight operator in Australia. It operates through Network, Coal, Bulk, and Other segments. The company transports various commodities, including mining, agricultural, industrial, and retail products; and retail goods and groceries across small and big towns, and cities, as well as coal and iron ore. It also operates and manages the Central Queensland Coal Network that consists of 2,670 kilometers of track network; and provides various specialist services, such as rail design, engineering, construction, management, and maintenance, as well as supply chain solutions. In addition, the company transports bulk freight for miners, primary producers, and the manufacturing industry. Further, it is involved in the general freight business. The company was formerly known as QR National Limited and changed its name to Aurizon Holdings Limited in December 2012. Aurizon Holdings Limited was incorporated in 2010 and is headquartered in Fortitude Valley, Australia.
A2B Australia Limited *ASX:A2B*	A2B Australia Limited provides personal transport solutions to corporate account customers, passengers, drivers, and taxi operators in Australia. It provides bookings, trips, and payment facilities. The company offers Cabcharge Plus, a cloud based travel management solution, as well as provides real-time electronic trip information and ATO compliant receipt access services. It also provides non-cash methods for paying taxi fares under the Cabcharge FASTCARD and eTICKET names; Cabcharge gift cards; FAREWAYplus, a payment terminal; Cabcharge Digital Pass, a digital version of the Cabcharge paper-based single use eTICKET; Spotto, a handheld terminal for taxi drivers; and Giraffe, a handheld terminal for hire cars. Additionally, the company owns a portfolio of taxi license plates; and offers courier, car sales, and school bus route services, as well as provides software development for clients in the banking and retail sectors. The company was formerly known as Cabcharge Australia Limited and changed its name to A2B Australia Limited in November 2018. A2B Australia Limited was founded in 1976 and is based in Sydney, Australia.

Grant Thornton
An instinct for growth™

Appendix C – SeaLink Comparable transactions' target descriptions

Target	Description
Australian Ski Resorts and Hotham and Falls Creek of Merlin Entertainments plc	As of February 22, 2019, Australian Ski Resorts and Hotham and Falls Creek of Merlin Entertainments plc was acquired by Vail Resorts, Inc. Australian Ski Resorts and Hotham and Falls Creek of Merlin Entertainments plc comprises midway attractions and a resort. The asset is located in Australia.
SeaLInk Travel Group Limited	SeaLink Travel Group Limited operates as a tourism and transport company in Australia. It operates through four segments: Kangaroo Island SeaLink (SA), Captain Cook Cruises (CCC), SeaLink Queensland (QLD), and SeaLink Fraser Island (Fraser Island). The SA segment offers ferry services, tours in South Australia, packaged holidays, retail travel services, accommodation facilities at Vivonne Bay, and accommodated cruising on the Murray River. It also provides ferry services to Bruny Island in Tasmania. The CCC segment operates tourist cruises; and lunch, dinner, and charter cruises, as well as offers ferry passenger services on Sydney Harbour and in Perth. The QLD segment offers ferry passenger services, as well as packaged holidays in Queensland and the Northern Territory. The Fraser Island segment provides ferry services; tours on Fraser Island; retail outlets for fuel, food, and alcohol; and accommodation facilities at Kingfisher Bay Resort and Eurong Beach Resort. SeaLink Travel Group Limited was founded in 1989 and is headquartered in Adelaide, Australia.
All assets of Kingfisher Bay Resort Group	As of March 26, 2018, All assets of Kingfisher Bay Resort Group was acquired by SeaLink Travel Group Limited. All assets of Kingfisher Bay Resort Group is located in Australia.
Big Cat Green Island Reef Cruises Pty Ltd and Tropical Journeys	Big Cat Green Island Reef Cruises Pty Ltd is an Australia-based cruise operator, headquartered in Cairns. Tropical Journeys is an Australia-based snorkeling and diving service provider, headquartered in Port Douglas.
Mantra Group Limited	Mantra Group is an Australia-based hotel group with most of its revenue generated across Australia and New Zealand.
Captain Cook Western Australia	Captain Cook Cruises Western Australia, the Australia-based cruise operating company, is headquartered in Perth.
AOT Group Ltd	AOT Group Ltd (AOT) is an Australia-based company, headquartered in South Melbourne, engaged in inbound, wholesale, and online travel products distribution
Transit System Pty Ltd (Marine division)	Transit Systems Pty Ltd. provides public transportation services in Australia. It offers passenger and school transportation services. The company operates buses and ferry; and provides solutions to bus planning problems and ferry operations. Transit Systems Pty Ltd. was founded in 1995 and is based in Cleveland, Australia.
Perisher Blue Pty	Perisher Blue Pty., Ltd., the Australia-based company operating as snow resort, is headquartered in Perisher Valleys.
Airtrain Holdings Limited	Airtrain Holdings Limited runs the airport rail link. The company was founded in 2001 and is based in Brisbane, Australia. As of March 26, 2013, Airtrain Holdings Limited operates as a subsidiary of USS Axle Pty Limited.
Captain Cook Cruises Sydney Harbour	Captain Cook Cruises Australasia Limited engages as a cruise operator in Australia and the Fiji Islands. It owns and operates cruises. The company was founded in 1971 and is based in Sydney, Australia. As of November 23, 2011, Captain Cook Cruises Australasia Limited operates as a subsidiary of SeaLink Travel Group Pty Ltd.
FreigthLink Pty Ltd	FreightLink Pty Ltd, a Australia based company, is a provider of railway transport services. Genesee & Wyoming Inc, a listed US based company headquartered in Greenwich, Connecticut, is a provider of rail freight transportation and supporting services.
P&O Ferrymasters Limited	P&O Ferrymasters Limited is the UK-based provider of freight management solutions, headquartered in Larne Harbour. P&O Ferries Limited is the UK-based ferry operator, headquartered in Dubai.
The Isle of Man Steam Packet Company	Isle of Man Steam Packet Company Limited is an Isle of Man-based passenger shipping company.
U.N Ro-Ro Isletmeleri A.S.	U.N Ro-Ro Isletmeleri A.S., a Turkey-based company headquartered in Istanbul, provides marine freight transportation services.
Scandlines Aps	Scandlines ApS (Scandlines), the Denmark-based holding company, headquartered in Copenhagen, operates through Scandlines Holding GmbH and Scandlines Danmark Aps, which are engaged in ferry transportation services
Hellenic Seaways Maritime S.A	Hellenic Seaways SA (HSW), a Greece-based provider of sea transportation services to passengers and cargo.
Compania Trasmediterranea	Compania Trasmediterranea, S.A., a Spain-based operator of maritime passenger and cargo carrier.
Hellenic Seaways Maritime S.A	Hellenic Seaways SA (HSW), a Greece-based provider of sea transportation services to passengers and cargo.
Fjord 1 ASA	Fjord1 AS, the Norway-based company engaged in providing ferry and passenger boat transportation services, from Municipality of Sogn og Fjordane (MSF), the Norway-based regional governing administration for Sogn og Fjordane county, with responsibilities in areas such as education, transport, dental care, culture and regional development.
Mols-Linien A/S	Mols-Linien A/S is a listed Denmark-based ferry operator.
Hurtigruten ASA	Hurtigruten ASA, the listed Norway based company engaged in public transport and hotel management.
Fantasea Cruises Pty Limited	Fantasea Cruises Pty Limited is an Australia-based cruise operator.
Cruise Whitsundays and Rottnest Express Pty Ltd	Cruise Whitsundays, the Australia-based island cruise service operator, and Rottnest Express PTY LTD, the Australia-based cruise and ferry company.
Great Southern Rail Limited	Great Southern Rail Limited (GSR), an Australia-based company engaged in commercial rail transportation business.
Sunferries Pty Ltd	Sunferries Pty Ltd is an Australia based transport and tour operator.

Grant Thornton
An instinct for growth™

Appendix C – Transit Systems Group Comparable transactions' target descriptions

Target	Description
NZ Bus Limited	NZ Bus is a New Zealand based transportation company operating bus and ferry services.
Buslink Pty Ltd (incl. Buslink Southern Pty Ltd)	Buslink Pty Ltd is an Australia-based bus operator.
FCL Holdings Pty Ltd	FCL Holdings Pty Limited, the Australia-based bus and coach operator, is headquartered in Sydney.
Tullamarine Bus Lines Pty Ltd	Tullamarine Bus Lines Pty Ltd (TBL) is an Australia-based bus operator based in Melbourne.
Forest Coach Lines Pty Ltd	Forest Coach Lines Pty Ltd, the Australia-based company providing bus transportation services.
Coach USA LLC (North American operations Stagecoach Group Plc)	Coach USA, LLC., is the US-based transportation company which offers motorcoach charters, tours and sightseeing, commuter transportation, headquartered in Paramus, New Jersey.
Student Transportation Inc.	Student Transportation of America, Inc., the US based company engaged in providing school bus transportation services.
SMRT Corp. Ltd.	SMRT Corp is a multi-modal public transport operator in Singapore.
Coach America Inc. (certain businesses and assets)	Coach America, Inc. is the US based tour and charter bus operator.
Arriva Plc	Arriva Plc, the UK-based provider of transportation services.
Transport Australia Group	Transit Australia Group (TAG) is an Australia-based bus operator. It is Australia's leading mass transit specialist headquartered on the Gold Coast in Queensland.
Sita Coaches Pty Ltd	Sita Tours Pty. Ltd is an Australia-based company providing transportation service.
Light-City Buses	Light City Buses is an Australia-based provider of operations, maintenance and asset management services.
Australian Transit Enterprises Pty Ltd	Australian Transit Enterprises Pty Ltd (ATE), is an Australia-based providers of public transport with route, school and charter bus business.
Go Bus Limited	Go Bus Limited, the New Zealand-based company headquartered in Hamilton, is engaged in the provision of coach and bus services.
FirstGroup Pls (3 bus depots)	Transit Systems acquired Three Bus Depots in Atlas Road, Lea Interchange and Westbourne Park of FirstGroup Plc, the listed UK based transport operator company.

Appendix D – Discount rate

Introduction

The cash flow assumptions underlying the DCF approach are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of the cash flows.

The discount rates were determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\mathrm{WACC} = \mathrm{R_d} \times \frac{\mathrm{D}}{\mathrm{D+E}} \times (1-\mathrm{t}) + \mathrm{R_e} \times \frac{\mathrm{E}}{\mathrm{D+E}}$$

Where:

- Re = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- Rd = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the CAPM, which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion.

Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e(R_m - R_f)$$

Where:

- Rf = risk free rate
- βe = expected equity beta of the investment
- (Rm – Rf) = market risk premium

Risk-free rate

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have observed the yields on the 10-year Australian Government bond, 10-year UK Government bond and 10-year Singapore Government bond over several intervals from a period of 5 trading days to 10 trading years.

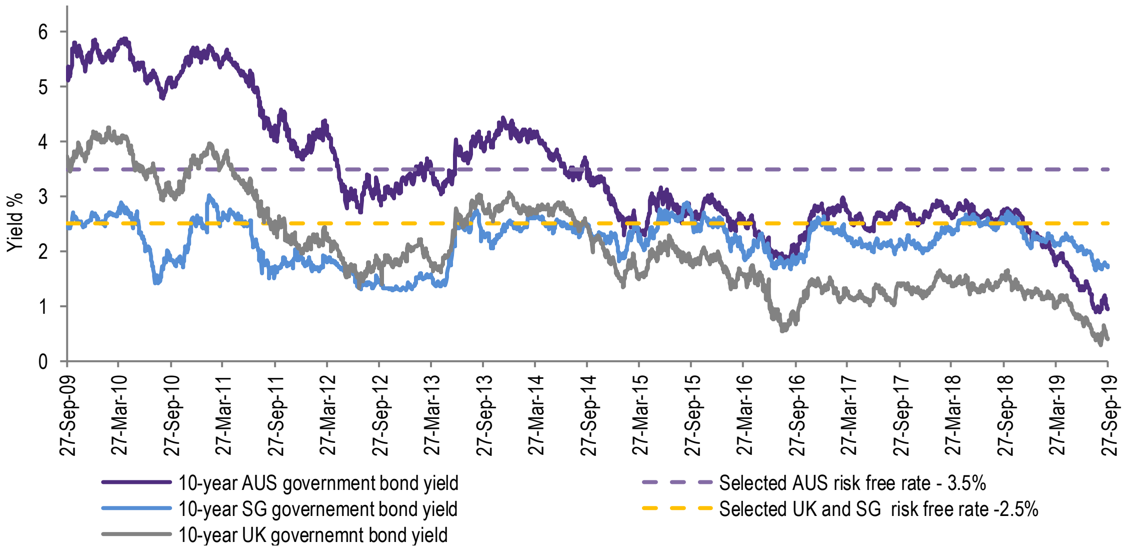
We note that the 10-year average yields are 2.09% for the 10-year UK Government bond and 2.18% for the 10-year Singapore Government bond. The table sets out the average yield of the different Government debts analysed.

Government debt analysis				
as at 27 September 2019		Range		Nominal
Australian Governement Debt - 10 Year				
Previous 5 trading days	0.95%	-	1.01%	0.96%
Previous 10 trading days	0.95%	-	1.20%	1.04%
Previous 20 trading days	0.93%	-	1.20%	1.04%
Previous 30 trading days	0.89%	-	1.20%	1.00%
Previous 60 trading days	0.89%	-	1.46%	1.10%
Previous 1 year trading	0.89%	-	2.79%	1.88%
Previous 2 years trading	0.89%	-	2.93%	2.29%
Previous 3 years trading	0.89%	-	2.99%	2.40%
Previous 5 years trading	0.89%	-	3.50%	2.49%
Previous 10 years trading	0.89%	-	5.88%	3.41%
United Kingdom Government Debt - 10 Year				
Previous 3 years trading	0.29%	-	1.65%	1.21%
Previous 5 years trading	0.29%	-	2.45%	1.39%
Previous 10 years trading	0.29%	-	4.26%	2.09%
Singapore Government Debt - 10 Year				
Previous 3 years trading	1.66%	-	2.73%	2.24%
Previous 5 years trading	1.66%	-	2.89%	2.25%
Previous 10 years trading	1.28%	-	3.02%	2.18%

Source: S&P Global

Given the unprecedented, historically low Government Bond yields around the world as a result of the volatility in global equity markets, we believe utilising a long-term average yield is reasonable given the current economic climate, as set out below.

Australian, British and Singaporean 10-year Government Bond yield



Source: S&P Global

We also had regards to the following key developments:

- *Trade war* – The trade war between the US and China erupted circa 18 months ago and it has exacerbated in the more recent times. As a result, the US has put import tariffs on US$250 billion worth of Chinese goods and it has threatened tariffs on additional US$325 billion. As countermeasure, China has allowed tariffs on US$110 billion worth of US goods and Chinese companies have suspended purchasing US agricultural products. The trade was is affecting those economies which have a greater reliance on export and it causing fears of global recession. China recently reported the worst manufacturing output in 17 years and Germany indicated that the economy shrank by 0.1% in the second quarter of the year.

- *Inverted yield curve and possible US recession* – On Wednesday 14th of August, the US 10 year bond yield fell below the level of the US two year bond yield (i.e. inversion in the yield curve) which has caused significantly jittery in the global markets as an inverted yield curve has been associated in the past with a looming US recession. We note that the inversion in the yield curve first occurred a few months ago, but recently became more pronounced. We note for example that on Wednesday, the three months US Treasury Bond was paying nearly 0.4% more than the 10 year US Treasury Bond. The inverted yield curve indicates that investors are so concerned about the short-term that they are prepared to accept a lower return to buy safer long-term investments. When the economy fundamentals are sound, bond holders typically require a higher yield on long term bonds as they are required to lock their money up for a longer period of time (time value of money). The inversion in the yield curve is considered an alarming signal by investors given that the yield curve inverted before every US recession since 1955 although sometimes the time-lag between the inversion and the actual recession was longer than others. Additionally, the US Federal Reserve ("Fed") has lowered the target Federal funds rate to between 1.75% and 2.00% as of September 2019, after two years of gradually increasing the rate to 2.5% as of December 2018. The Fed has last cut rates in 2008, prior to the Global Financial Crisis.

- *Brexit* – In the UK, GDP growth contracted to only 0.2% in the second quarter of 2019 and there still remain substantially uncertainty in relation to outcome of Brexit. If the UK leaves the European Union in October without a deal on an orderly exit, the country is expected to potentially fall into recession.

Concluding, global financial markets are currently witnessing significant volatility with several geopolitical factors, as mentioned above, adding to the fluctuation of bond rates. The RBA recently cut cash rates from 1.25% to 1.00% in July 2019 and further to 0.75% in October 2019. The current Australian spot rate is 0.95% as of September 2019. Although we note that the spot rate is currently 0.95%, given the significant volatility in the global financial markets, we have placed more emphasis on the average risk free rate observed over a longer period of time (e.g. 10 years).

Having regard to the above and based on our forecast inflation assumption of circa 2.5% in the financial model utilised in the DCF valuation, we have determined the following risk free rates:

- A risk-free rate of **3.5%** for Australian operations.

- A risk-free rate of **2.5%** UK and Singaporean operations.

- A blended risk-free rate of circa **3.4%** for the Combined Group.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest a risk premium of 6.0% for the Australia markets.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of **6.0%**.

Equity beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of the report, we have had regards to the observed betas (equity betas) of comparable listed companies operating in the tourism and transport (related) industries as outlined in the following tables below. We have performed regressions of the historical betas over 5-year monthly time period with local or MSCI indices.

Beta analysis		Market Cap	Equity	Ungeared	Regeared	Regeared	Equity	Ungeared	Regeared	Regeared
Company name	Country	(A$m)	beta	Beta	Beta	Beta	beta	Beta	Beta	Beta
SeaLink Travel Group Limited	**Australia**	**377**	**0.30**	**0.27**	**0.33**	**nmf**	**0.23**	**0.21**	**0.25**	**nmf**
Tourism Holdings Limited	New Zealand	579	0.67	0.56	0.67	nmf	0.15	0.12	0.15	nmf
Experience Co Limited	Australia	147	0.14	0.13	0.16	nmf	0.30	0.29	0.34	nmf
Apollo Tourism & Leisure Ltd	Australia	88	0.32	0.15	0.17	nmf	1.36	0.62	0.75	0.75
Event Hospitality & Entertainment Limited	Australia	2,149	0.20	0.18	0.22	nmf	0.31	0.29	0.35	nmf
Village Roadshow Limited	Australia	552	0.12	0.08	0.10	nmf	(0.02)	(0.01)	(0.01)	nmf
Flight Centre Travel Group Limited	Australia	4,835	0.53	0.57	0.69	nmf	0.47	0.51	0.61	nmf
Webjet Limited	Australia	1,546	1.69	1.77	2.12	2.12	1.17	1.22	1.47	nmf
Helloworld Travel Limited	Australia	577	0.14	0.21	0.25	nmf	0.31	0.45	0.54	nmf
Crown Resorts Limited	Australia	8,207	1.26	1.18	1.41	1.41	1.12	1.04	1.25	1.25
The Star Entertainment Group Limited	Australia	3,975	0.96	0.85	1.02	1.02	0.40	0.35	0.42	nmf
SKYCITY Entertainment Group Limited	New Zealand	2,489	1.27	1.12	1.34	1.34	0.80	0.70	0.84	0.84
Millennium & Copthorne Hotels New Zealand	New Zealand	383	(0.04)	(0.05)	(0.06)	nmf	0.17	0.19	0.22	nmf
Qantas Airways Limited	Australia	9,801	0.69	0.56	0.67	nmf	0.37	0.30	0.36	nmf
Air New Zealand Limited	New Zealand	2,913	0.84	0.65	0.78	nmf	0.58	0.45	0.54	nmf
Virgin Australia Holdings Limited	Australia	1,351	0.71	0.45	0.54	nmf	0.20	0.13	0.15	nmf
Alliance Aviation Services Limited	Australia	283	0.56	0.39	0.46	nmf	0.59	0.41	0.49	nmf
Regional Express Holdings Limited	Australia	147	0.15	0.15	0.18	nmf	0.17	0.17	0.20	nmf
Carnival Corporation & Plc	United States	45,636	1.05	0.90	1.08	1.08	1.08	0.92	1.11	1.11
Royal Caribbean Cruises Ltd.	United States	33,119	1.27	0.96	1.15	1.15	1.34	1.02	1.22	1.22
Norwegian Cruise Line Holdings Ltd.	United States	16,235	1.59	1.13	1.36	1.36	1.64	1.17	1.40	1.40
DFDS A/S	Denmark	3,075	0.61	0.48	0.58	nmf	0.61	0.48	0.58	nmf
AS Tallink Grupp	Estonia	1,018	0.43	0.25	0.30	nmf	0.43	0.25	0.30	nmf
Fjord1 ASA	Norway	592	0.97	0.66	0.79	0.79	0.97	0.66	0.79	0.79
Attica Holdings S.A.	Greece	438	1.08	0.51	0.62	nmf	1.08	0.51	0.62	nmf
Viking Line ABP	Finland	311	0.13	0.09	0.11	nmf	0.13	0.09	0.11	nmf
Average			**0.69**	**0.56**	**0.67**	**1.28**	**0.63**	**0.49**	**0.59**	**1.05**
Median			**0.67**	**0.51**	**0.62**	**1.25**	**0.47**	**0.45**	**0.54**	**1.11**

Source: S&P Global and GTCF calculations

Note (1): Equity betas are calculated using data provided by S&P Global. The betas are based on a five-year period with monthly observations based on the local or MSCI index. Betas have been degeared based on the average gearing ratio (i.e. net debt divided by shareholders' equity based on market values). Betas have been regeared based on SLK's assumed regearing ratio of 25%.

Beta analysis		Market Cap	Equity	Ungeared	Regeared	Regeared	Equity	Ungeared	Regeared	Regeared
Company name	Country	(A$m)	beta	Beta	Beta	Beta	beta	Beta	Beta	Beta
National Express Group PLC	United Kingdom	4,017	0.53	0.37	0.44	nmf	0.55	0.39	0.46	0.46
Firstgroup plc	United Kingdom	3,006	1.08	0.59	0.69	0.69	0.73	0.40	0.47	nmf
The Go-Ahead Group plc	United Kingdom	1,588	0.36	0.47	0.55	nmf	0.74	0.97	1.14	1.14
Stagecoach Group plc	United Kingdom	1,337	0.68	0.51	0.60	nmf	0.77	0.58	0.68	0.68
Rotala PLC	United Kingdom	48	0.36	0.19	0.23	nmf	0.36	0.19	0.23	nmf
Nobina AB (publ)	Sweden	799	0.58	0.32	0.38	nmf	0.43	0.24	0.28	nmf
BVZ Holding AG	Switzerland	344	(0.06)	(0.03)	(0.03)	nmf	(0.08)	(0.04)	(0.05)	nmf
ComfortDelGro Corporation Limited	Singapore	5,516	0.65	0.66	0.78	0.78	0.58	0.59	0.70	0.70
Guangshen Railway Company Limited	China	4,259	1.24	1.29	1.52	1.52	1.19	1.24	1.46	1.46
MTR Corporation Limited	Hong Kong	51,427	0.54	0.50	0.59	0.59	0.55	0.51	0.60	0.60
Keisei Electric Railway Co., Ltd.	Japan	10,308	0.73	0.56	0.67	0.67	0.70	0.54	0.64	0.64
East Japan Railway Company	Japan	54,131	0.88	0.60	0.70	0.70	0.82	0.55	0.65	0.65
West Japan Railway Company	Japan	24,296	0.84	0.60	0.71	0.71	0.75	0.54	0.63	0.63
Kyushu Railway Company	Japan	7,592	0.42	0.41	0.49	0.49	0.38	0.37	0.43	nmf
Aurizon Holdings Limited	Australia	11,976	0.53	0.43	0.50	nmf	0.24	0.20	0.23	nmf
A2B Australia Limited	Australia	177	1.00	0.97	1.14	1.14	0.61	0.59	0.70	nmf
Downer EDI Limited	Australia	4,627	0.97	0.88	1.04	1.04	0.88	0.80	0.95	0.95
Freightways Limited	New Zealand	1,150	0.74	0.66	0.78	0.78	0.54	0.49	0.57	0.57
Mainfreight Limited	New Zealand	3,725	0.61	0.57	0.67	0.67	0.35	0.32	0.38	nmf
Qube Holdings Limited	Australia	5,160	1.61	1.44	1.69	1.69	1.25	1.11	1.32	1.32
Port of Tauranga Limited	New Zealand	4,054	0.45	0.41	0.48	0.48	0.36	0.33	0.39	0.39
South Port New Zealand Limited	New Zealand	188	(0.06)	(0.06)	(0.07)	nmf	(0.02)	(0.02)	(0.02)	nmf
TIL Logistics Group Limited	New Zealand	96	(0.76)	(0.52)	(0.61)	nmf	(0.18)	(0.13)	(0.15)	nmf
CTI Logistics Limited	Australia	61	0.83	0.55	0.64	nmf	0.76	0.50	0.59	nmf
Wiseway Group Limited	Australia	34	(0.18)	(0.16)	(0.19)	nmf	0.79	0.69	0.81	nmf
K&S Corporation Limited	Australia	232	0.56	0.39	0.46	nmf	0.56	0.40	0.47	nmf
Average			**0.58**	**0.48**	**0.57**	**0.85**	**0.56**	**0.47**	**0.56**	**0.78**
Median			**0.60**	**0.51**	**0.60**	**0.71**	**0.57**	**0.49**	**0.58**	**0.65**

Source: S&P Global and GTCF calculations
Note (1): Equity betas are calculated using data provided by S&P Global. The betas are based on a five-year period with monthly observations based on the local or MSCI index. Betas have been degeared based on the adjusted gearing ratio. We have adopted the adjusted gearing ratio for Transit Systems peers as several peers had significant amounts of restricted cash which we excluded for the purpose of the degearing exercise. Betas have been regeared based on SLK's assumed regearing ratio of 25%.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the predevelopment assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and regearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the average historical gearing levels of those respective companies over several years. We note that most comparable companies had net cash positions. We then re-geared based on a gearing ratio of 20% debt to 80% equity (see Capital Structure Section below for further discussions).

For the purposes of our valuation, we have selected the following beta ranges to calculate the required return on equity capital:

- A regeared beta in the range of 1.05 to 1.15 for SeaLink mainly based on the average and median of the listed peers. We note that many betas of other tourism related companies are not statistically relevant, and accordingly we were not able to rely upon them.

- A regeared beta in the range of 0.90 to 1.00 for Transit Systems Group. This is based on the average and median of the listed peers group. We note that many betas of other transport/infrastructure related companies are not statistically relevant, so we were not able to rely upon them.

- A regeared beta in the range of 0.90 to 1.00 for the Combined Group.

Specific risk premium

Specific risk premium ("SRP") represents the additional return an investor expects to receive to compensate for country, size and project related risks not reflected in the beta of the observed comparable companies.

We have assumed a SRP in the range of **1.0%** given the size of the Company and the operational risks (e.g. contract risk) not directly reflected in the cash flows. We note that we have adopted the same specific risk premium in the discount rate build-up for SeaLink and the Combined Group.

Cost of debt

For the purpose of estimating the cost of debt applicable to SLK, Grant Thornton Corporate Finance has considered the following:

- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.

- The historical and current cost of debt for SLK.

- Expectations of the yield curve.

- The cost of debt of the New Debt Facilities.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of **4.5% to 5.0%** on a pre-tax basis.

Capital Structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- the quality and life cycle of a company;
- the quality and variability of earnings and cash flows;
- working capital;
- level of capital expenditure; and
- the risk profile of the assets.

In determining the appropriate capital structure, we have had regard to the current capital structure of the broadly comparable companies of SeaLink and of the Combined Group.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a debt-to-enterprise ratio of **20%** debt and **80**% equity for SeaLink and the Combined Group.

Tax rate

For the purpose of our valuation assessment we have assumed the following tax rates:

- A tax rate of **30.0%** for SeaLink based on the Australian corporate tax rate less the tax benefit received from the marine training incentives.
- A tax rate of **30.0%** for the other Australian operations of the Combined Group.
- A tax rate of **17.0%** for UK operations.
- A tax rate of circa **17%** for Singaporean operations.
- A blended tax rate of circa **24.0%** for the Combined Group.

Discount rate summary

The discount rate range for the different entities is set out below:

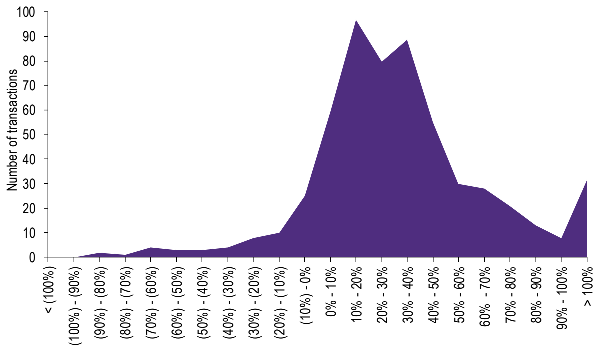
WACC calculation	Sealink		Combined Group	
	Low	High	Low	High
Cost of equity				
Risk free rate	3.5%	3.5%	3.4%	3.4%
Beta	1.05	1.15	0.90	1.00
Market risk premium	6.0%	6.0%	6.0%	6.0%
Specific risk premium	1.0%	1.0%	1.0%	1.0%
Cost of equity	**10.8%**	**11.4%**	**9.8%**	**10.4%**
Cost of debt				
Cost of debt (pre tax)	4.5%	5.0%	4.5%	5.0%
Tax	18%	18%	24%	24%
Cost of debt (post tax)	**3.7%**	**4.1%**	**3.4%**	**3.8%**
Capital structure				
Proportion of debt	20.0%	20.0%	20.0%	20.0%
Proportion of equity	80.0%	80.0%	80.0%	80.0%
	100.0%	100.0%	100.0%	100.0%
WACC (post tax)	9.4%	9.9%	8.5%	9.0%
WACC (post tax) (rounded)	**9.5%**	**10.0%**	**8.5%**	**9.0%**

Source: GTCF analysis

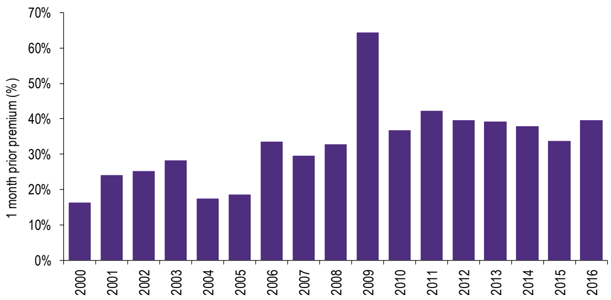
Appendix E – Premium for control study

Evidence from studies indicates that premium for control on successful takeovers has frequently been in the range of 20% to 40% in Australia, and that the premium vary significantly for each transaction.

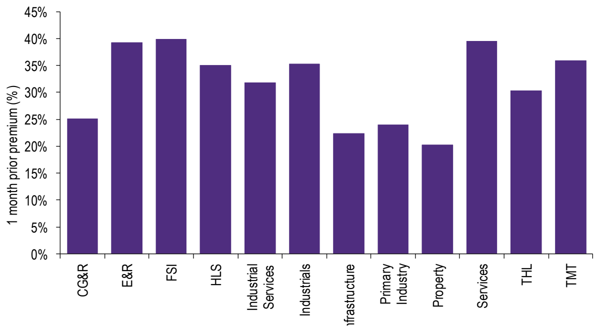
1 Month Prior Control Premium



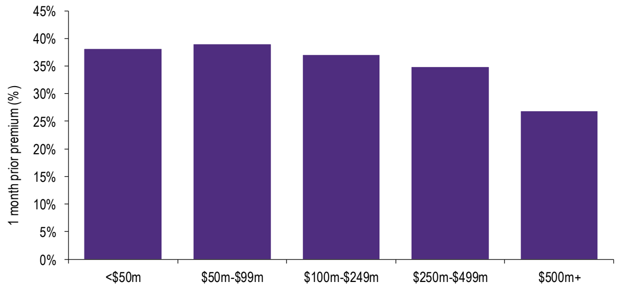
Control premium per completion date



Control premium per industry



Control premium and size



	Control premium
Average	34.33%
Median	29.34%

Source: GTCF analysis.

Appendix F – Glossary

2018 Indicative Offer	The unsolicited, confidential, indicative and non –binding proposal received by SeaLink in May 2018.
A$	Australian Dollar
ABS	Australian Bureau of Statistics.
Adjusted Equity Value	The Transit Systems Group's equity value excluding the Earn-out Consideration.
Adjustment Amount	The Adjustment Amount is calculated utilising a box pricing mechanism from the Locked Box Date, 31 March 2019 to the completion date
APES	Accounting Professional and Ethical Standards
APES225	Accounting Professional and Ethical Standard 225 "Valuation Services"
APLNG	Australia Pacific LNG.
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX 300	S&P/ASX 300 Index
ATO	Australian Tax Office
Attica	Attica Holdings S.A.
Base Amount	The base amount of A$118 million cash of the Cash Consideration
BCM	Bus Contracting Model.
Big Cat	Big Cat Island Reef Cruises.
BITS	Bay Islands Transit
Bulim Package	All Tower Transit Group Singapore routes operate under one contract (Bulim package) which consists of 31 routes with LTA. This contract expires in May 2021 with a further 2 year extension available at the discretion of LTA
Cash Consideration	A$118 million cash to the Vendors paid pro-rata to all the Vendors as discussed in Section 1
CCC	Captain Cook Cruises NSW and WA.
CCC WA	Captain Cook Cruises in WA.
CDG	ComfortDelGro Corporation Limited.
CDPQ	Caisse de dépôt et placement du Québec
CLC	Coastal Liner Coaches
Cleanway	Cleanaway Waste Management
CNG	Compressed natural gas
Combined Group Shares	The fair market value of the shares in SeaLink after the Proposed Acquisition on a minority interest basis
Corporations Act	Corporations Act 2001
Cost of Capital Charge	The Adjustment Amount offers an off-setting compensation for the Vendors in the form of a cost of capital charge calculated as Transit Systems Group's equity value excluding the Earn-out Consideration multiplied by an annual interest rate pro-rated for the Ticking Period.
DCF	Discounted Cash Flow
DCF Method	Discounted Cash Flow and the estimated realisable value of any surplus assets
Deferred Consideration	Deferred non-contingent consideration of A$37 million payable in cash pro-rata to the Vendors in three equal instalments in approximately August 2020, April 2021 and August 2022
Earn-out Consideration	The Company will pay an earn-out consideration of up to A$63 million contingent based upon the FY20 pro-forma normalised EBITDA of Transit Systems Group. Nil paid if FY20 pro forma normalised EBITDA below A$79 million. Straight-line sliding scale with maximum payment of A$63 million when FY20 pro forma normalised EBITDA is A$86 million..
EBIT	Earnings before, interest and tax
EBITDA	Earnings before, interest, tax, depreciation and amortisation
EBITDA Multiple	Enterprise Value divided by unaudited Underlying EBITDA
EM	Explanatory Memorandum
Enlarged SeaLink or Combined Group	The enlarged issued capital of SeaLink
Entitlement Offer	A fully underwritten pro-rata, accelerated, non-renounceable entitlement offer to raise approximately A$89 million at the Placement Price
EPS	Earnings per share

Escrow Agreements	The Company will on completion of the Proposed Acquisition enter into escrow arrangements with the Scrip Vendors who are receiving the Scrip Consideration such that the Scrip Consideration is subject to an escrow period of two years (with 50% released 12 month after the completion of the Proposed Acquisition)
EV	Enterprise Value
FCL	FCL Holdings Pty Ltd
FED	US Federal Reserve
Financial Models	SeaLink and TSG Management cash flow projections to 30 June 2023.
FIRB	Foreign Investment Review Board
Fjord1	Fjord1 AS
Flight Centre	Flight Centre Travel Group Limited.
FME Method	Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets
FSG	Financial Services Guide
FYxx	12 month financial year ended 30 June 20xx
Gearing Ratio	Net Debt over Equity
GLNG	Gladstone LNG.
GT Model	GTCF valuation model based on the Financials Models.
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987)
Havila	Havila Shipping ASA
Hellenic Seaways	Hellenic Seaways Maritime S.A.
IER or Report	Independent Expert Report
IMO	International Maritime Organisation.
Index	ASX300 Consumer Discretionary Index
Infratil	Infratil Limited
KBRG	Kingfisher Bay Resort Group.
KI Adventures Tours	Multi-day guided tours on Kangaroo Island.
KI Odissey	Guided tours using 4WDs on Kangaroo Island and other parts of South Australia.
LMITO	Low and Middle Tax Offset
Locked Box Date	31 March 2019. 1 April 2019 is the starting date for the calculation of the Adjustment Amount
LTA	Land Transport Authority of Singapore
MRT	Mass Rapid Transit lines.
NAV Method	Amount available for distribution to security holders on an orderly realisation of assets
New Debt Facilities	In conjunction with the Proposed Acquisition, SeaLink has refinanced its and Transit Systems Group debt facilities via A$470 million of new multi-tranche acquisition debt and revolving credit facilities (including the refinancing of SeaLink's existing debt) and rollover of certain debt-like Transit Systems Group' obligations (circa A$45 million)
NOM	Notice of Meeting
Non-Associated Shareholders	SeaLink Shareholders non-associated with the Scrip Vendors
NS ONE	North South and Outer East areas of Adelaide.
NTM	Next twelve months
OSMBSCs	Outer Sydney Metropolitan Bus Service Contracts.
Peer Index	Index made of the following comparable companies to SeaLink: Helloworld, Tourism Holdings Limited, Flight Centre, Experience Co, Apollo Tourism, Event Hospitality & Entertainment, WebJet and Millenium & Copthorne Hotels New Zealand.
Perisher	Perisher Blue Pty Limited.
PHV	Private hire vehicle.
Placement	A fully underwritten placement to new and existing institutional shareholders of A$65 million at the Placement Price of A$3.50.
Placement Price	Price at which the shares related to the Placement and Entitlement Offer will be issued. The Placement Price is A$3.50 per share.
Primary TT Vendors	The Primary TT Vendors of Tower Transit Group are entities controlled by Mr Graham Alexander Leishman, Mr Neil Espie Smith and Mr Clinton Feuerherdt

Grant Thornton
An instinct for growth™

Proposed Acquisition	On 8 October 2019, the Company announced that it had entered into two separate Securities Sale Agreements with the Vendors of Transit Systems Australia and Tower Transit Group to effect the acquisition of 100% of Transit Systems Group by SeaLink
PTOM	Public Transport Operating Model
PTV	Public Transport Victoria.
Quoted Security Price Method	Quoted price for listed securities, when there is a liquid and active market
RG	Regulatory Guide
RG 74	ASIC Regulatory Guide 74 "Acquisition approved by members"
RG111	ASIC Regulatory Guide 111 “Contents of expert reports”
RG112	ASIC Regulatory Guide 112 “Independence of experts”
RG5	ASIC Regulatory Guide 5 "Relevant Interests and Substantial Holding Notices"
RG60	ASIC Regulatory Guide 60 “Scheme of arrangement”
Scrip Consideration	A$269 million in SeaLink shares at an issue price of A$3.69 per share
Scrip Vendors	Vendors who are receiving the Scrip Consideration
Sea link, the Company or SLK	Sea link Travel Group Limited
SeaLink Management Projections	Management projections for FY20 to FY23 which have been prepared based on the latest financial performance of the Company
SeaLink Options	100,000 share options of SeaLink.
SeaLink PRs	190,000 unlisted Performance Rights of SeaLink.
SeaLink Shareholders	SeaLink shareholders
SeaLink Shares	SeaLink shares
SEQ	South East Queensland.
SLK FI	SeaLink Fraser Island.
SLK QLD	SeaLink Queensland and Northern Territory.
SLK SA	SeaLink South Australia and Bruny Island.
SMBI	Southern Moreton Bay.
SPA	Sales and purchase agreement
SRP	Specific Risk Premium
SSAs	Securities Sale Agreements
TBL	Tullarmarine Bus Lines Pty Ltd
TERP	Theoretical ex-rights price. TERP is a mechanical and theoretical calculation only and the actual price at which SLK Shares will trade immediately following the ex-date of the Entitlement Offer may be different from TERP.
TfL	Transport for London.
Ticking Period	The period from 31 March 2019 to the completion date utilised for the computation of the Adjustment Amount
Tower Transit Group or TTG	Tower Transit Group Ltd and its broader group of entities
TRA	Tourism Research Australia.
Transdev	Transdev S.A. a French based multi-modal public transport operator, with operations in approximately 20 countries throughout Europe, North America and Australasia.
Transdev Australia	Transdev Australasia Pty Ltd, a subsidiary of Transdev.
Transit Systems Australia or TSA	Transit Systems Pty Ltd and its broader group of entities
Transit Systems Group or TSG	Transit System Group
TSG Management Projections	Transit Systems Group management projections for FY20 to FY23 which have been prepared and updated based on the latest financial performance of the Company
Translink	Contract passenger ferry services for the Queensland Government to four islands around Southern Moreton Bay.
TS SSA	The Securities Sale Agreement relating to Transit Systems Australia
TS Vendors	The Transit Systems Australia vendors are Mr Graham Alexander Leishman, Mr Lance William Francis and Mr Neil Espie Smith and entities that they control either individually or jointly
TSM	Transit Systems Australia's Marine Division.
TT SSA	The Securities Sale Agreement relating to Tower Transit Group

TT Vendors	Collectively Primary TT Vendors and TTAH Individuals
TTAH Individuals	The TTAH Individuals are employees of Tower Transit Group who hold in aggregate a 2.6% interest in Tower Transit Group
Upfront Consideration	Together Scrip Consideration and Cash Consideration
Vendor Note	The Sita Group vendor note refers to a deferred consideration of A$40 million in relation to the acquisition of Sita Group.
Vendors	The Vendors of Transit Systems Australia are Neil Smith, Graham Leishman and Lance Francis either individually or through entities which they control whilst the Vendors of Tower Transit Group are Neil Smith, Graham Leishman, Clint Feuerherdt and staff (2.7%) either individually or through entities which they control.
VTP	Vehicle termination payments.
VWAP	Volume Weighted Average Price.
WACC	Weighted Average Cost of Capital.