

Meeting Booklet

Notice of Meeting and Explanatory Memorandum

THE INDEPENDENT DIRECTORS UNANIMOUSLY RECOMMEND THAT THE
NON-ASSOCIATED SHAREHOLDERS

vote in favour

OF BOTH RESOLUTIONS IN THE ABSENCE OF A SUPERIOR ALTERNATIVE
TRANSACTION PROPOSAL.

Meeting Date: 22 July 2021

Time: 10.30am (AEST)

Venue: Level 16, 1 Market St Sydney NSW 2000

Financial Adviser

 **BELL POTTER**

ABOUT THIS DOCUMENT

This document comprises a Notice of Meeting and an Explanatory Memorandum both of which contain detailed information about a proposal for the internalisation of the management of the Company, the impact of the Transaction on Shareholders and the Resolutions to be voted upon in connection with the Transaction.

WHAT SHOULD YOU DO?

The transaction described in this document requires the approval of Shareholders. You should:

1. READ

Read the Notice of Meeting and the Explanatory Memorandum (including the Independent Expert's Report) in full.

Shareholders should read the Explanatory Memorandum carefully before making any decision about how to vote.

2. VOTE

Shareholders wishing to vote on the Resolutions must either attend the Meeting at 10.30am AEST on 22 July 2021 or return their Proxy Form by 10.30am AEST on 20 July 2021.

FURTHER INFORMATION

If you have further enquiries, please email investors@propelfuneralpartners.com.au.

If you have queries or uncertainties relating to the Transaction, you should consult your financial, stockbroker or other professional adviser.

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IMPORTANT NOTICES

Introduction

This Explanatory Memorandum has been prepared for Shareholders in connection with the business to be conducted at the general meeting to be held at Level 16, 1 Market St, Sydney, New South Wales 2000 on 22 July 2021 at 10.30am AEST. This Explanatory Memorandum:

- (a) forms part of the Notice of Meeting which should be read in its entirety;
- (b) provides background to the Transaction; and
- (c) contains the Resolutions to be voted upon to give effect to the Transaction, full details of which are contained in the Notice of Meeting (refer to Section 9 of this Explanatory Memorandum).

If Resolution 1 is not passed, then the proposed termination of the Management Agreement will not proceed. If Resolution 1 is passed, but Resolution 2 fails, then the proposed termination of the Management Agreement will proceed, but the Constitution will not be amended as outlined in this Explanatory Memorandum. The terms relating to the Manager and the Management Agreement in the Constitution will remain, albeit they will become defunct, and the other suggested amendments to the Constitution will not occur.

| | |
|---------------------|---|
| Resolution 1 | Approval of the termination of the Management Agreement in consideration of Propel paying to the Manager the Termination Fee (by way of payment of the Cash Component and the issue of the Termination Shares) for the purposes of ASX Listing Rules 10.1 and 10.11 and for all other purposes. |
| Resolution 2 | Proposed amendments to the Constitution for the purposes of section 136(2) of the Corporations Act. <i>Note: Resolution 2 will not be put to the vote if Resolution 1 is not passed. However, the passing of Resolution 1 is not conditional upon Resolution 2 being passed.</i> |

A copy of the Independent Expert's Report accompanies this Explanatory Memorandum as Annexure 1.

A Proxy Form (template) accompanies this Explanatory Memorandum.

Forward Looking Statements

Certain statements in this Explanatory Memorandum relate to the future and are based on current expectations of future events or results. These statements reflect views only as at the date of this Explanatory Memorandum. While the Company believes that the expectations reflected in any forward-looking statements are reasonable, neither the Company, the Board nor any other person gives any representation, assurance or guarantee that the occurrence

of an event expressed or implied in any forward-looking statements in this Explanatory Memorandum will actually occur.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Transaction which is not contained in this Explanatory Memorandum. Any information which is not contained in this Explanatory Memorandum may not be relied on as having been authorised by the Company or any officer, employee or adviser of the Company in connection with the Transaction.

Responsibility for Information

Except for the information contained in Sections 8.5 and 8.6 of this Explanatory Memorandum regarding the intentions of the Manager in respect of its intentions regarding the Termination Fee and the information relating to the Manager in the Independent Expert's Report, the information contained in this Explanatory Memorandum has been prepared by the Company and is the responsibility of the Company.

The Independent Expert has prepared the Independent Expert's Report and has consented to the inclusion of that report in this Explanatory Memorandum. The Independent Expert takes responsibility for the Independent Expert's Report, but is not responsible for any other information contained within this Explanatory Memorandum. Shareholders are urged to read the Independent Expert's Report carefully and, in its entirety, to understand the scope of that report, the methodology of the assessment, the sources of information and the assumptions made.

The Manager takes responsibility for the information contained in Sections 8.5 and 8.6 of this Explanatory Memorandum regarding the intentions of the Manager in respect of the Termination Fee and has consented to the inclusion of that information in this Explanatory Memorandum.

ASX

A copy of this Explanatory Memorandum (which includes the Notice of Meeting and the Independent Expert's Report) has been lodged with the ASX pursuant to the ASX Listing Rules. Neither the ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum (which includes the Notice of Meeting).

Electronic Copy

An electronic copy of this Explanatory Memorandum (which includes the Notice of Meeting and the Independent Expert's Report) is available on the Company's website at <https://investors.propelfuneralpartners.com.au/Investor-Centre/>.

Glossary

Capitalised terms in this Explanatory Memorandum shall have the meaning given in the glossary at Section 10, unless the context otherwise admits.

Enquiries

All enquiries in relation to the contents of this Explanatory Memorandum (including the Notice of Meeting and the Independent Expert's Report) should be directed to Brian Scullin (Chairman of the Company) by one of the following methods:

By email: investors@propelfuneralpartners.com.au

By telephone: +61 2 8514 8600

1. IMPORTANT DATES

| Event | Indicative date |
|---|-------------------------|
| Implementation Agreement executed | 30 May 2021 |
| Transaction announced to the ASX | 31 May 2021 |
| Dispatch of Notice of Meeting and Explanatory Memorandum (together with the Independent Expert's Report) to Shareholders | 22 June 2021 |
| Proxy return date The time and date by which Proxy Forms must be received | 10.30am on 20 July 2021 |
| Voting entitlement record date Time and date for determining eligibility to vote at the Meeting | 10.30am on 20 July 2021 |
| General Meeting Shareholders will vote on the Resolutions | 10.30am on 22 July 2021 |
| Completion Date (effective date of termination of the Management Agreement, date of payment of the Cash Component and issue of the Termination Shares) <i>(Subject to the Non-Associated Shareholders voting to approve Resolution 1 and all other conditions precedent to the Implementation Agreement being satisfied (or waived, as the case may be)).</i> | 26 July 2021 |
| Quotation of Termination Shares | By 30 July 2021 |

The timetable above is indicative only. Unless otherwise specified above, all times and dates refer to AEST. The Company reserves the right to amend any or all of these dates and times subject to the Implementation Agreement, the Corporations Act or the ASX Listing Rules, or to withdraw the Transaction, subject in all cases to the consent of the Manager. Any amendment to the timetable for the Transaction will be announced to the market through the ASX and posted on the Company's website at <https://investors.propelfuneralpartners.com.au/Investor-Centre>.

The quotation and commencement of trading of the Termination Shares is subject to confirmation from the ASX.

2. INDEPENDENT CHAIRMAN'S LETTER

22 June 2021

Dear Shareholders,

Proposed Internalisation

Background

Propel Funeral Partners Limited (ACN 616 909 310) (**Company**) is externally managed by Propel Investments Pty Limited (ACN 117 536 357) (**Manager**), under a management agreement dated 11 September 2017 (**Management Agreement**). The initial term of the Management Agreement is 10 years from the Company's initial public offering (November 2017) (**IPO**). The Management Agreement automatically extends for successive five year periods, unless Shareholders resolve to terminate it (which they may only do after the end of the initial term or with the consent of the Manager). Under the Management Agreement, the Manager is entitled to receive fees, including administration fees and uncapped performance fees (the quantum dependent on the total shareholder return being above a benchmark in the relevant period) and, after the initial term, management fees calculated on the basis of the Company's market capitalisation. The Manager is owned by entities associated with Albin Kurti, Fraser Henderson, Lilli Gladstone and Peter Dowding. Albin and Fraser are directors of the Company, Peter is a former director of the Company and Lilli is the Head of Finance.

Transaction

Since the IPO and prior to the announcement of the proposed internalisation on 31 May 2021, the Company's share price growth has not corresponded with the material increase in the Company's earnings in the way the Company's independent directors expected. Further, since the IPO, there has been a growing emphasis placed on environmental, social and governance (**ESG**) factors by a broad section of the investment community and, for many, the externally managed model does not meet the 'governance' part of 'ESG'. This messaging from current and potential investors is becoming more persistent and could be a reason why the Company's share price growth has lagged behind its material earnings growth. Feedback from market participants also suggests that many potential institutional investors have been unable (due to investment mandate restrictions) or unwilling to invest in the Company due to its externally managed model, which may be a constraining factor on the Company's ability to attract new investors. For these reasons, among others, a committee (**Independent Board Committee**) consisting of the Company's independent directors, being Jonathan Trollip, Naomi Edwards and myself (together, the **Independent Directors**), was formed to consider and assess the externally managed model and a potential management internalisation. A strict governance and information sharing protocol was adopted to ensure independent arm's length dealings with the Manager. As well as an Independent Expert, external legal, financial, accounting, tax and remuneration advisers were engaged by the Independent Board Committee.

As announced on 31 May 2021, the Company has entered into an implementation agreement with the Manager (**Implementation Agreement**) in connection with the proposed internalisation of all services delivered under the Management Agreement, including key senior management functions, and the termination of the Management Agreement.

The proposed transaction involves:

- the Management Agreement being assigned to a subsidiary of the Company and then terminated;
- Albin Kurti, Fraser Henderson and Lilli Gladstone (**Executives**) becoming employees of Propel;
- the transfer of intellectual property from the Manager (and its officers and employees) to the Company;
- amendments to the Constitution; and
- amendments to the voluntary escrow arrangements relating to 14,732,667 Shares (**Escrowed Shares**), which are currently held by an associated entity of the Manager, so that:
 - 50% of the Escrowed Shares will be released from voluntary escrow following the release of the Company's audited FY2022 financial results (instead of a release from escrow in November 2027); and
 - 50% of the Escrowed Shares will be released from voluntary escrow following the release of the Company's audited FY2025 financial results (instead of a release from escrow in November 2027),

(together, the **Transaction**).

Consideration and Funding

The amount payable to the Manager in connection with the assignment and termination of the Management Agreement is \$15 million (**Termination Fee**). Nominal consideration is payable in connection with the assignment of the intellectual property. The Executives will receive remuneration pursuant to their Executive Service Agreements, summaries of which are provided in Sections 4.7 to 4.9.

The Termination Fee will be funded through a combination of the issuance of Shares and through the use of Propel's existing funding lines. The Termination Fee will be payable as follows:

- \$7.5 million in cash (**Cash Component**); and
- \$7.5 million in shares via the Company issuing 2,307,692 new fully paid ordinary shares (**Termination Shares**) at \$3.25 per Share (representing the 30 day VWAP as at 28 May 2021, being the Business Day prior to the date of the Announcement).

Unanimous Recommendation of the Independent Directors

As mentioned above, an Independent Expert was engaged to provide an opinion regarding the fairness and reasonableness of the terms of the Transaction to the shareholders of the Company not associated with the Manager or the Manager's shareholders (**Non-Associated Shareholders**). The Independent Expert has concluded that the Transaction is not fair, but reasonable to the Non-Associated Shareholders and that, on balance, the advantages of

approving the Transaction outweigh the disadvantages of approving it. After careful consideration, the Independent Directors unanimously recommend that you vote in favour of the two resolutions to approve the Transaction and amend the Constitution (together, **Resolutions**) for the reasons outlined below. My fellow Independent Directors and I will be voting our holdings in favour of the Resolutions. I, as Chair of the Meeting, also intend to vote all valid undirected proxies in favour of each Resolution.

Advantages of the Transaction

The Independent Board Committee has concluded that the advantages of approving the Transaction outweigh the disadvantages of approving it. Some of those advantages are listed below:

- **Increased investor participation:** the Independent Directors believe that an 'internalised Propel' has the potential to attract new investors to the Company that previously may have been unable or unwilling to invest in an externally managed company¹. The current non-standard governance model may not enable investors or their advisors to easily measure or compare the Company's governance metrics under ESG assessment models. ESG considerations are increasingly becoming a gateway decision particularly for institutional investors' decision-making processes. The Transaction removes complexity of forecasting future cash flows and peer analysis, which is expected to aid investor engagement. In that regard, it has been encouraging to see the Company's share price and liquidity increase since the announcement of the proposed transaction on 31 May 2021.
- **Enhanced alignment and corporate governance benefits:** rather than providing their services through the Manager, the Executives will become employees of Propel. The Internalisation is also expected to enhance accountability, transparency with respect to disclosure about the Executives' remuneration in the annual remuneration report and shareholder rights with respect to voting upon the election and re-election of Directors, with the ability for the Board to have direct control over the appointment, remuneration and removal of the Executives. The Board will thus be able to undertake succession planning directly.
- **Continuity of strategy, the Board and the Executives:** the Company will continue its core business and acquisition-led investment strategy. Approving the Transaction also avoids potential business disruption if the Management Agreement is cancelled at or following the end of the initial term. The Executives, who co-founded the Company, will remain with the Company, and they will become employees of Propel. The current composition of the Board will not change as a result of the Transaction (although, if Resolution 2 is passed, the Constitution will be amended to allow the Company to have a maximum of 8 (instead of 5) Directors). This enables the Company to manage succession directly, but it also removes the risk that the Manager is sold to a third party, and for people other than the

¹ This is a forward-looking statement based on current expectations of future results or events. No assurance or guarantee is given that such expectations will prove to be correct and actual results or events may differ materially.

Executives providing management services pursuant to the Management Agreement.

- **Shareholder influence on management election and remuneration:** the termination of the Management Agreement and the employment of the Executives will enable Shareholders to have a greater influence over the Company's management and remuneration. Shareholders will have the ability to elect Directors (excluding the Managing Director) on a three-year rotational basis and make an advisory vote on the remuneration payable to the Executives as part of the annual general meeting process.
- **Market alignment:** the Company will align with more standard management structures for ASX listed operating entities. An internal management model is by far the most common and most understood governance model for listed Australian entities outside of the listed investment company sector. Institutional, analyst and proxy advisor ESG models are driven by metrics that relate to a standard internal management model. These metrics cannot be easily applied to an external management model which means that the Company may not be capable of passing threshold governance ratings in the ESG models.
- **Financial benefits:** the Internalisation removes the obligation on the Company to pay fees while the Management Agreement remains in place, including uncapped potential performance fees and material management fees after the initial term to a third party (being the Manager). The Transaction will reduce the current uncertainty around timing and magnitude of management costs and, therefore, should assist with financial forecasting, including forecasting potential future dividends.
- **Further alignment of interests:** 50% of the Termination Fee will be paid in ordinary shares in the capital of the Company, which upon transfer of the Termination Shares by the Manager to the Manager Shareholders, will further align the Executives' interests with those of the Non-Associated Shareholders.

More detail on the advantages of the Transaction can be found in Section 4.10.

Disadvantages and risks of the Transaction

Some of the disadvantages of the Transaction include:

- **The Independent Expert has opined that the Transaction is not fair but reasonable and that, on balance, the advantages of the Transaction outweigh the disadvantages:** the Independent Expert concluded that the Transaction is not fair, but reasonable to Non-Associated Shareholders and that, on balance, the advantages of the Transaction outweigh the disadvantages.
- **Disagree with the conclusions:** you may disagree with the conclusion of the Independent Directors and the conclusion of the Independent Expert that, on balance, the advantages of the Transaction outweigh the disadvantages.

- **Preference to retain existing structure:** you may prefer the Company retains the existing external management structure and continues to pay fees (including uncapped potential performance fees) to an external third party (being the Manager).
- **Potentially higher expenses:** whilst the Transaction will mean that fees are no longer paid to the Manager, direct employment of the Executives will mean that the Company is exposed to the ongoing employment costs of the Executives.
- **Additional debt:** the Cash Component paid to the Manager will be funded by using Propel's existing funding lines, resulting in the Company's pro forma:
 - Gearing Ratio increasing from 30.2% to 32.8% as at 31 December 2020; and
 - Net Leverage Ratio increasing from 2.2x to 2.7x as at 31 December 2020.
- **Access to the Executives:** The contract term of each of the Executive Service Agreements is 3 years with a mutual notice period of 6 months whereas the initial term of the Management Agreement has a remaining period of circa 6.5 years. However, as noted in the Advantages section above, the Company can manage succession planning directly.
- **Dilution:** Non-Associated Shareholders will be diluted by approximately 1.79% due to the issuance of the Termination Shares to the Manager.

More detail on the disadvantages and risks of the Transaction can be found in Sections 4.11 and 7.

Remaining externally managed by the Manager

The Independent Directors considered the merits and risks of the Company remaining externally managed by the Manager. This remains a viable alternative. However, this does not provide the advantages of the Transaction referenced above, which the Independent Directors consider outweigh the disadvantages and risks referenced in this Explanatory Memorandum. Therefore, the Independent Directors believe that the short and long-term interests of Shareholders and the Company would be better served by an internalised management structure.

Resolutions

There is one ordinary resolution that must be passed to approve the Internalisation. This is Resolution 1.

There is one special resolution to approve proposed amendments to the Constitution. This resolution, being Resolution 2, will only be considered if Resolution 1 passes. However, if Resolution 2 is not passed, the Internalisation will nonetheless occur (assuming Resolution 1 is passed).

The two resolutions are set out in the Notice of Meeting and explained in further detail in this Explanatory Memorandum.

Proxies

If you are unable to attend the Meeting, you should complete and return the Proxy Form in accordance with the instructions provided on the Proxy Form. Proxy Forms must be returned by 10.30am AEST on 20 July 2021.

Your Vote is Important

In order for the Internalisation to proceed, Resolution 1 must be passed by a simple majority of the Shareholders present and entitled to vote (in person or by proxy) (with the Manager Shareholders and their Associates excluded from voting) at the Meeting scheduled for 22 July 2021.

If you have any questions, please feel free to contact me via email on investors@propelfuneralpartners.com.au. Alternatively, you may also contact your financial, legal, taxation or other professional adviser.

On behalf of the Company, I would like to take this opportunity to thank you for your continuing support and encourage you to vote in favour of the Resolutions.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'B. Scullin', with a stylized flourish at the end.

Brian Scullin
Chairman

3. SUMMARY OF THE TRANSACTION

This Section 3 answers some basic questions that you may have about the Transaction. The information is a summary only and should only be read in conjunction with the entire Booklet (including the Independent Expert's Report).

You should read the entire Booklet and the Independent Expert's Report before deciding how to vote on the Resolutions.

| Summary | For More Information |
|--|-------------------------|
| <p>What is the Transaction?</p> <p>The Transaction (if approved and implemented) involves the following:</p> <ul style="list-style-type: none"> • the Company assigning the Management Agreement to PFP Corporate, a wholly-owned subsidiary of the Company; • following assignment of the Management Agreement to PFP Corporate, the Management Agreement will be terminated; • on the Completion Date: <ul style="list-style-type: none"> ○ Propel will pay the Cash Component to the Manager (funded from the Company's available funding lines); ○ Propel will issue the Termination Shares to the Manager; ○ the Manager (and its officers and employees) will transfer to the Company for nominal consideration all of the intellectual property rights created in the course of performing the management services under the Management Agreement; ○ Propel will enter into the Executive Service Agreements with each of the Executives; ○ the Voluntary Escrow Deed will be amended such that the Escrowed Shares will be released from voluntary escrow upon the release of the Company's financial results for the respective financial years ending 30 June 2022 (in respect of 7,366,333 Shares) and 30 June 2025 (in respect of 7,366,334 Shares); and ○ the Constitution will (if Resolution 2 is passed) be amended to, among other things, remove references to the Management Agreement and the Manager's right to appoint nominees to the Board. | <p>Section 4</p> |
| <p>What is the effective outcome of the Transaction (if approved and implemented)?</p> <p>The effective outcome of the Transaction is that:</p> <ul style="list-style-type: none"> • the Management Agreement will terminate; | <p>Sections 4 and 5</p> |

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| <ul style="list-style-type: none"> • on and from the Completion Date, the Company will no longer be liable to pay fees to the Manager pursuant to the Management Agreement; • all fees and expenses accrued and payable by the Company to the Manager for the period before the Completion Date will be paid by the Company on the Completion Date. Assuming the Completion Date is 26 July 2021, this is expected to be approximately \$18,000 (excluding GST); • on and from the Completion Date, Propel will employ each of the Executives under their respective Executive Service Agreements; • the Constitution will be amended to reflect the changes referred to in Section 8.2(b) of this Explanatory Memorandum; • any intellectual property owned by the Manager and/or its officers and employees in connection with the provision of management services under the Management Agreement will be assigned to the Company; and • the Company will continue its core business and acquisition-led investment strategy. | |
| <p>What is the background to the Transaction?</p> <p>The Company announced on 31 May 2021 that it had entered into the Implementation Agreement with the Manager in connection with the Transaction.</p> <p>The Implementation Agreement follows consideration by the Independent Directors of the advantages the Transaction may bring for the Company and the Non-Associated Shareholders.</p> <p>Under the Management Agreement, and as summarised in the IPO Prospectus, the Manager was appointed by the Company on an exclusive basis for the Initial Term, following which the Management Agreement automatically extends for successive five year periods, unless terminated earlier in accordance with the Management Agreement or with the consent of the Manager.</p> <p>During the Initial Term, the Manager is entitled to receive Administration Fees and uncapped potential Performance Fees. Prior to expiry of the Initial Term, the Management Agreement cannot be terminated, other than for limited breach related events (or with consent).</p> <p>The Management Agreement provides that after the Initial Term, it will be automatically extended for successive periods of five year terms, unless terminated in accordance with the provisions of the Management Agreement. During the Initial Term, no management fee is payable to the Manager. However, after the Initial Term, the Company would need to pay the Manager a quarterly management fee of 0.375% of the market capitalisation of the Company, payable in arrears (plus GST). After the Initial Term, the cash management fee is payable in addition to the Administration Fees and the uncapped potential Performance Fees.</p> | Section 4 |

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| <p>The Independent Directors believe that the short and long-term interests of Shareholders and the Company would be better served by an internalised management structure. Subject to the passing of Resolution 1, the Management Agreement will be terminated with effect on and from the Completion Date.</p> <p>The Transaction will not result in a change to the Company’s core business and acquisition-led investment strategy. However, the termination of the Management Agreement will result in Propel employing Albin Kurti (as Managing Director), Fraser Henderson (as Executive Director, Head of M&A, General Counsel and Company Secretary) and Lilli Gladstone (as Chief Financial Officer) pursuant to their respective Executive Service Agreements. The Board, comprising the Independent Directors, Albin Kurti and Fraser Henderson, will implement the same investment strategy as currently undertaken by the Manager, and the Executives will broadly have the same functions as currently performed as officers and employees of the Manager in accordance with the Management Agreement.</p> <p>To compensate the Manager for agreeing to the early termination of the Management Agreement, Propel will, subject to the passing of Resolution 1, pay the Termination Fee to the Manager (by way of the Cash Component and issue of the Termination Shares).</p> | |
| <p>Who are the Manager Shareholders?</p> <p>The shareholders of the Manager are entities associated with each of Albin Kurti, Fraser Henderson, Lilli Gladstone and Peter Dowding.</p> <p>Collectively, as at the date of this Explanatory Memorandum, the Manager Shareholders (through various associated entities) own 20,822,187 Shares, representing 20.83% of the total issued share capital of the Company.</p> | <p>Sections 8.1(a) and 8.6</p> |
| <p>What is the effect of the issue of the Termination Shares on the capital of the Company and the voting power of the Manager and the Manager Shareholders?</p> <p>As at the date of this Explanatory Memorandum, the Manager does not hold any Shares.</p> <p>On issue of the Termination Shares to the Manager, the Manager will have a Relevant Interest in 2,307,692 Shares, which will represent approximately 2.26% of the Shares (on a fully diluted basis).</p> <p>Immediately following the issue of the Termination Shares to the Manager, the Manager and the Manager Shareholders will, in aggregate, have a Relevant Interest in 23,129,879 Shares, which will represent 22.62% of the expanded share capital of the Company. An acquisition of Relevant Interests by the Manager Shareholders and the Manager of less than 3% as a result of the issue of the Termination Shares falls within the 3% creep exception in section 611, item 9 of the Corporations Act. Accordingly, there is no requirement for the Manager Shareholders and the Manager to make a takeover offer for the Company under Chapter 6D of the Corporations Act, by reason of the issue of the Termination Shares.</p> <p>Following the Manager’s receipt of the Termination Fee, the Manager intends to declare and pay a fully franked dividend to the Manager</p> | <p>Sections 4.10(i), 4.11(f) and 8.6</p> |

Shareholders by way of a cash payment and the off-market transfer of the Termination Shares to the Manager Shareholders.

Following this, the Manager will cease to hold any Shares, but the Manager Shareholders (through various associated entities) will have increased their shareholding, and voting power, in the Company as follows:

| Manager Shareholder (and their associated entities) | Shareholding (including the Escrowed Shares and the additional Termination Shares) | % of total expanded capital and Relevant Interests |
|--|---|---|
| Albin Kurti | 10,883,009 | 10.64% |
| Fraser Henderson | 7,755,841 | 7.58% |
| Lilli Gladstone | 796,239 | 0.78% |
| Peter Dowding | 3,694,790 | 3.61% |

On and from the termination of the Management Agreement, each of the Manager Shareholders will not be associates of each other (within the meaning of sections 12 and 15 of the Corporations Act). The ability of the Manager and the Manager Shareholders to exert influence over the conduct and affairs of the Company through the provision of the management services under the Management Agreement will cease and the powers and obligations of each of the Executives will be governed under the terms of their respective Executive Service Agreements.

After termination of the Management Agreement and transfer by the Manager of the Termination Shares to the Manager Shareholders, the individual Relevant Interests (as shown above) of each of the Manager Shareholders (and their associated entities) will not increase beyond 20%. Accordingly, no approval is required under section 611, item 7 of the Corporations Act.

Who will manage the Company if the Transaction is approved and implemented?

Sections 4.7 to 4.9

The Executives will manage the Company if the Transaction is approved and implemented. The Executives will enter into the Executive Service Agreements, each of which will take effect on the Completion Date. The key terms of each agreement are set out in Sections 4.7 to 4.9.

What are the financial consequences if the Transaction is approved?

Sections 5 and 6

From a financial perspective, if the Transaction is approved and implemented:

- the Cash Component (i.e. \$7.5 million) will be paid by Propel to the Manager;
- the Termination Shares (i.e. equating to \$7.5 million) will be issued by Propel to the Manager;
- Propel will no longer pay fees to the Manager under the Management Agreement, but instead Propel will pay

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| <p>remuneration to the Executives pursuant to their Executive Service Agreements;</p> <ul style="list-style-type: none"> • Propel will pay an estimated \$0.7 million in Transaction Costs (regardless of whether the Transaction is approved), and an additional \$0.2 million will be incurred if the Transaction is approved (both excluding GST and disbursements); • the pro forma: <ul style="list-style-type: none"> ○ Gearing Ratio will increase from 30.2% to 32.8% as at 31 December 2020; and ○ Net Leverage Ratio will increase from 2.2x to 2.7x as at 31 December 2020; and • a proforma one off, non cash share based payment will be recognised in connection with the amendments to the Voluntary Escrow Deed (refer to Section 5). <p>See Section 5 for further detail about the financial impact on the Company and Section 6 for details about the taxation consequences of the Transaction.</p> | |
| <p>Is the Manager a related party of the Company?</p> <p>Yes, the Manager is a related party of the Company, as associated entities of Albin Kurti and Fraser Henderson, who are directors of the Company, together own (through their associated entities) more than 50% of the ordinary shares of the Manager. Albin Kurti and Fraser Henderson (as well as Peter Dowding) are also directors of the Manager.</p> <p>An entity associated with Peter Dowding is a minority shareholder of the Manager. An entity associated with Lilli Gladstone is also a shareholder of the Manager, with such shareholding entitling the shareholder to certain distributions.</p> | <p>Sections 8.1(a) and 8.3</p> |
| <p>How is the Company dealing with the conflicts and related party issues?</p> <p>To address potential conflicts arising from the relationship between the Manager, the Executives and the Company:</p> <ul style="list-style-type: none"> • the Independent Directors established the Independent Board Committee and established a protocol to ensure separation of representation in the context of the negotiation and implementation of the Transaction, and to represent the interests of the Non-Associated Shareholders; • as well as appointing the Independent Expert (refer below), the Independent Directors engaged independent legal, financial, accounting, tax and remuneration advisers to advise them on the Transaction; • the Transaction will be put to Shareholders for a vote, and the Non-Associated Shareholders will vote on Resolution 1 to consider and, if thought fit, approve the internalisation and | <p>Sections 2 and 4.10</p> |

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| <p>termination of the Management Agreement; and</p> <ul style="list-style-type: none"> • as required by the ASX Listing Rules, the Independent Directors engaged an independent expert to opine on the fairness and reasonableness of the Transaction. <p>The Independent Directors believe these measures address the conflicts and related party issues associated with the Transaction.</p> | |
| <p>Why is Shareholder approval being sought?</p> <p>Approval of the termination of the Management Agreement and Propel's payment of the Termination Fee (Resolution 1) is being sought for the purposes of ASX Listing Rules 10.1 and 10.11. Approval of the proposed amendments to the Constitution (Resolution 2) is being sought for the purpose of section 136(2) of the Corporations Act.</p> <p>The Independent Directors established the Independent Board Committee to consider, propose and negotiate the terms of the Transaction.</p> <p>The Independent Board Committee engaged the Independent Expert to undertake an independent assessment of the arrangements contemplated by the Transaction and to prepare an independent expert's report.</p> <p>Consistent with the reasonableness conclusion of the Independent Expert, the Independent Directors have determined that the Transaction is reasonable in the circumstances and because the parties are dealing on arm's length terms, the Independent Board Committee has determined that shareholder approval is not required under section 208 of the Corporations Act (relying on the arm's length exception in section 210 of the Corporations Act).</p> <p>The Independent Board Committee also engaged the Independent Remuneration Consultant to provide a report on the remuneration to be paid to each of the Executives pursuant to the Executive Service Agreements. The Independent Directors have used that report to negotiate the remuneration to be paid to the Executives. The Independent Directors consider that the proposed remuneration of each of the Executives is reasonable given the respective circumstances of the Company and the Executives (and their functions). Accordingly, the Independent Board Committee has determined that, with advice from the Company's external legal adviser, shareholder approval is not required under section 208 of the Corporations Act (relying on the reasonable remuneration exception in section 211 of the Corporations Act).</p> | <p>Sections 8.1, 8.2, 8.3 and 8.4</p> |
| <p>Why are the Independent Directors recommending the Transaction?</p> <p>The unanimous view of the Independent Directors is that, having regard to the Independent Expert's Report and subject to the Company not receiving a Superior Alternative Transaction Proposal, the Non-Associated Shareholders should vote in favour of both Resolutions.</p> <p>The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders and that, on balance, the advantages of approving the Transaction outweigh the</p> | <p>Sections 4.10 and 7</p> <p>Annexure 1 (Independent Expert's Report)</p> |

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| <p>disadvantages of approving it.</p> <p>A copy of the Independent Expert’s Report is attached as Annexure 1. Shareholders are encouraged to read the Independent Expert’s Report in its entirety.</p> <p>The remuneration payable to the Executives under their Executive Services Agreement has been agreed having regard to market standards referenced in the report prepared by the Independent Remuneration Consultant. Refer to Sections 4.7 to 4.9 for details of the Executive Service Agreements.</p> <p>The Independent Directors unanimously intend to vote all Shares in which they have a Relevant Interest in favour of the Resolutions, in each case in the absence of a Superior Alternative Transaction Proposal and subject to the Independent Expert continuing to conclude that the Transaction is not fair but reasonable to the Non-Associated Shareholders or otherwise concluding that the Transaction is fair and reasonable to the Non-Associated Shareholders.</p> <p>The Chair intends to vote all valid undirected proxies in favour of each Resolution, subject to the voting exclusions for Resolution 1.</p> | |
| <p>What are the implications if Resolution 1 is passed, but Resolution 2 does not?</p> <p>If Resolution 1 is passed, but Resolution 2 fails, the Internalisation will proceed, but the Constitution will not be amended. The terms relating to the Manager and the Management Agreement in the Constitution will remain, albeit they will become defunct, and the other proposed amendments to the Constitution will not occur.</p> <p>An additional \$0.2 million of Transaction Costs, which is the fee (exclusive of GST and disbursements) that will be payable to the Independent Board Committee’s financial adviser, Bell Potter Securities Limited, if Resolution 1 is passed.</p> | Section 8.2 |
| <p>What are the implications if Resolution 1 is not passed?</p> <p>If Resolution 1 is not passed:</p> <ul style="list-style-type: none"> • the Company will remain externally managed, and the Management Agreement will continue to bind the Company; • the Independent Directors will continue to be independent directors of the Company; • the Executives will not become employees of Propel, but the Company will still continue to have exclusive access to the Manager; • the Company will remain liable to pay fees to the Manager under the Management Agreement (including uncapped potential Performance Fees and Administration Fees) as well as management fees based on the Company’s market capitalisation if the arrangements remain in place beyond the Initial Term; and • the Company will incur approximately \$0.7 million (excluding | Chairman’s Letter |

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| <p>GST and disbursements) of Transaction Costs (including legal, financial, accounting, tax, remuneration and independent expert costs) in relation to the Transaction (which will be incurred even if Resolution 1 is not passed).</p> | |
| <p>Why should you vote in favour of the Transaction?</p> <p>The Independent Directors consider that the advantages of the Transaction outweigh the disadvantages and unanimously recommend that the Non-Associated Shareholders vote in favour of the Transaction, in the absence of a Superior Alternative Transaction Proposal.</p> <p>The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders and that, on balance, the advantages of approving the Transaction outweigh the disadvantages of approving it.</p> <p>The Transaction will result in the Company having a more standard internal management structure for an ASX listed operating entity. The Directors and the Executives (as employees of Propel) will be responsible for the management and operation of the Company. The Transaction also provides enhanced accountability, with the ability of Shareholders to vote on the appointment/re-election of Directors (excluding the Managing Director) on a three-year rotational basis, and to vote on the Company’s annual remuneration report which will include the remuneration payable to the Executives.</p> <p>The Transaction will also enhance the alignment of the interests of the Executives with Shareholders (through the increased shareholding of their associated entities upon transfer of the Termination Shares to them) as well as the continuity of involvement of the Executives (through their respective employment under the Executive Service Agreements). The Company’s existing strategy, which has delivered positive benefits to the Company to date, will continue to be implemented. The Executives will be employed by Propel, and will be accountable to the Board, who will set remuneration incentives tailored to the Company’s objectives. The Board will be able to undertake succession planning directly.</p> <p>The Independent Directors, who will all remain on the Board following the completion of the Transaction, believe that the Transaction may increase investor participation (and has the potential to remove an impediment to share price growth) through the potential increase in demand and liquidity of the Shares from investors who may have a preference for investing in internally managed companies (or investors with mandates which limit their ability to invest in externally managed companies)².</p> | <p>Chairman’s Letter and Section 4.10</p> |
| <p>Why might you vote against the Transaction?</p> <p>While the Independent Directors consider the benefits of the Transaction to be compelling, potential disadvantages include:</p> <ul style="list-style-type: none"> • you may disagree with the conclusions of the Independent Directors and/or the Independent Expert about the advantages | <p>Section 4.11</p> |

² This is a forward-looking statement based on current expectations of future results or events. No assurance or guarantee is given that such expectations will prove to be correct and actual results or events may differ materially.

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| <p>and benefits of the Transaction;</p> <ul style="list-style-type: none"> • you may prefer to retain the existing external management structure and pay fees to the Manager, including uncapped potential Performance Fees and Administration Fees as well as management fees after the Initial Term; • while the Transaction will mean that no further fees will be payable to the Manager, direct employment of the Executives will mean that Shareholders are indirectly exposed to the ongoing employment costs of the Executives; • the Cash Component paid to the Manager will be funded using Propel's existing funding lines, resulting in the Company's pro forma: <ul style="list-style-type: none"> ○ Gearing Ratio increasing from 30.2% to 32.8% as at 31 December 2020; and ○ Net Leverage Ratio increasing from 2.2x to 2.7x as at 31 December 2020; • the Non-Associated Shareholders will be diluted by approximately 1.79% due to the issuance of the Termination Shares to the Manager; • Transaction Costs estimated to be \$0.7 million (excluding GST and disbursements) will be incurred by the Company in connection with the Transaction, regardless of whether the Transaction is approved by Shareholders (and will be approximately \$0.9 million (excluding GST and disbursements) if the Transaction is approved); and • there is no certainty nor assurance that the Transaction will maintain or improve the share price, liquidity or earnings growth of the Company. Nor is there any guarantee or assurance that more investors will be willing to invest in the Company as a result of the Internalisation. | |
| <p>What are the specific risks to the Transaction?</p> <p>There are a number of specific risks associated with the Transaction. Key risks include the following:</p> <ul style="list-style-type: none"> • Higher operating costs: following completion of the Transaction, the Company would no longer pay fees to the Manager. However, Propel will bear all employment costs of the Executives; • Reliance on Employees: Propel will be reliant on retaining and attracting quality senior management and personnel to operate the Company. While this risk exists today, following completion of the Transaction, responsibility for managing this risk will be internalised, rather than the Manager's responsibility; • Share price: there is no guarantee that the market price of the Shares will be maintained or increase following completion of the Transaction; | <p>Section 7</p> |

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| <ul style="list-style-type: none"> • Dividend level: the higher operating costs may have a potential impact on the level of any dividends declared and paid by the Company in the future; and • No certainty regarding investor base or appeal: there is no certainty that the Internalisation will broaden the investor base or investor appeal. | |
| <p>Are there any conditions to completion of the Transaction?</p> <p>Yes, although the main one is the passing of Resolution 1. Others include:</p> <ul style="list-style-type: none"> • the Independent Expert continuing to conclude that the Transaction is not fair but reasonable to the Non-Associated Shareholders or otherwise concluding that the Transaction is fair and reasonable to the Non-Associated Shareholders prior to the Meeting, and the Independent Expert not withdrawing the Independent Expert’s Report prior to the Meeting; and • the steps specified in the Implementation Agreement, including execution of the relevant documents. | Section 4.2 |
| <p>What Transaction Costs are being incurred in connection with the Transaction?</p> <p>The Company will incur Transaction Costs of approximately \$0.9 million (excluding GST and disbursements) in connection with the Transaction, if approved. Approximately \$0.7 million (excluding GST and disbursements) will be payable regardless of whether the Internalisation is approved.</p> <p>The Manager is responsible for any costs it incurs in connection with the Transaction.</p> | Section 5 |
| <p>What are the taxation implications of the Transaction?</p> <p>The taxation implications of the Transaction are addressed in Section 6.</p> | Section 6 |
| <p>What alternatives to the Transaction did the Independent Directors consider?</p> <p>The Independent Directors considered the merits and risks of maintaining the Manager as the Company’s external manager. This remains a viable alternative. However, the Independent Directors have taken the view that this does not provide the benefits of the Transaction referenced above. In particular:</p> <ul style="list-style-type: none"> • the obligation on the Company to pay fees to the Manager, including uncapped potential Performance Fees, would remain; • maintaining an externally managed governance framework potentially reduces demand for, and liquidity of, the Shares from investors who may have a preference for investing in internally managed companies; • it would not produce the corporate governance enhancements, including improved shareholders’ rights and stronger alignment | Sections 4.10, 4.11 and 7 |

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| <p>of interests between the Executives, the Company and the Shareholders that result from the proposed Internalisation; and</p> <ul style="list-style-type: none"> • there may be uncertainty for Shareholders if the shareholders of the Manager sought to sell their shares in the Manager to a third party. <p>If any Alternative Transaction Proposal is received by the Board prior to the Meeting, the Independent Directors will consider that Alternative Transaction Proposal having regard to various factors, including the interests of the Non-Associated Shareholders, and take appropriate actions deemed necessary.</p> | |
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4. DETAILS OF THE TRANSACTION

4.1 Continuation of the Company's core business and acquisition-led investment strategy

The Company owns and operates businesses, properties, infrastructure and related assets in the death care industry which stand to benefit from the growing and ageing population. The Company comprises of long established providers of funeral services operating from 138 properties (77 owned and 61 leased) across 7 states and territories of Australia and in New Zealand, including 32 cremation facilities and 9 cemeteries. The Company is the second largest private provider of death care services in Australia and New Zealand. The Company's strategy is to continue to grow both organically and via acquisition, by continuing to:

- build on its strong history of making and integrating profitable acquisitions of private businesses, properties, infrastructure and related assets which operate within the death care industry in Australia and New Zealand; and
- consider organic expansion opportunities such as selectively identifying potential sites in new locations and expanding (and/or refurbishing) existing locations.

The Transaction will, if approved by the Non-Associated Shareholders:

- not result in a change to the Company's core business and acquisition-led investment strategy; and
- result in the carrying out of the Company's investment strategy by the Company itself, through the employment of the following key senior executives:
 - Albin Kurti, in his capacity as Managing Director of the Company;
 - Fraser Henderson, in his capacity as Executive Director, Head of M&A, General Counsel and Company Secretary of the Company; and
 - Lilli Gladstone, in her capacity as Chief Financial Officer of the Company.

The Transaction therefore provides for continuity of implementation of the Company's acquisition-led investment strategy and key personnel through the employment of the Executives upon termination of the Management Agreement.

4.2 Implementation Agreement

As announced on 31 May 2021, the Company entered into an Implementation Agreement relating to the Transaction.

The key terms of the Implementation Agreement are summarised below.

Conditions Precedent

Completion of the Transaction, and the obligations of the Company and the Manager under the Implementation Agreement, are subject to the following conditions precedent being satisfied (or waived in accordance with its terms):

- Independent Expert: the Independent Expert has not publicly withdrawn or qualified its conclusion that the Transaction is not fair but reasonable to the Non-Associated

Shareholders before 8.00am on the Meeting Date (unless the change results in the Independent Expert concluding that the Transaction is fair and reasonable to the Non-Associated Shareholders);

- Meeting Approval: the Non-Associated Shareholders pass Resolution 1 by the requisite majority under the ASX Listing Rules;
- No breach of Company Warranty: none of the warranties given by the Company (relating to information contained in this Explanatory Memorandum relating to the Company, incorporation, authority, execution and no default in respect of the Company's execution of the Implementation Agreement) is or has become false, misleading or incorrect in a material respect by 8.00am on the Completion Date; and
- No breach of Manager Warranty: none of the warranties given by the Manager (information contained in this Explanatory Memorandum relating to the Manager, incorporation, authority, execution and no default in respect of the Manager's execution of the Implementation Agreement) is or has become false, misleading or incorrect in a material respect by 8.00am on the Completion Date.

It is noted that the terms of the Executive Service Agreements, the IP Transfer Deed and the Deed of Termination have been agreed prior to the date of this Explanatory Memorandum.

Subject to satisfaction of the conditions precedent contained in the Implementation Agreement, the Completion Date will be 26 July 2021, or such other date as the Company and the Manager agree in writing.

Obligations on the Company and the Manager

The Implementation Agreement provides that, subject to the passing of Resolution 1, the Company will give to the Manager a duly executed Termination Deed (executed by the Company and PFP Corporate), Voluntary Escrow Amendment Deed (executed by the Company), IP Transfer Deed (executed by the Company) and the Executive Services Agreements (executed by PFP Corporate). Pursuant to the Implementation Agreement, the Manager also has obligations to execute and provide the Company with the Termination Deed (executed by the Manager), Voluntary Escrow Amendment Deed (executed by the Escrowed Holder and associated entities of Albin Kurti, Fraser Henderson and Peter Dowding), IP Transfer Deed (executed by the Manager, the Executives and Peter Dowding) and the Executive Service Agreements (each executed by the relevant Executive). Refer to Sections 4.4 to 4.9 below for summaries of these documents.

Termination Rights

The Implementation Agreement may be terminated by either the Company or the Manager in the following circumstances:

- by either party where the other party is in material breach of the Implementation Agreement, and the relevant circumstances have not been waived (if permitted) and continue to exist for at least 10 Business Days;

- by the Company or the Manager, if, at any time before 8.00am on the Completion Date, a majority of the members of the Independent Board Committee publicly recommends an Alternative Transaction Proposal that is a Superior Alternative Transaction Proposal;
- by the Company or the Manager, if the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Transaction is not fair and not reasonable, or adversely changes its previously given opinion that the Transaction is not fair but reasonable to the Non-Associated Shareholders;
- if the Transaction has not become effective by 31 August 2021 by reason of the non-satisfaction of a condition precedent, other than as a result of a deliberate breach or omission by the Company or the Manager of their respective obligations under the Implementation Agreement; and
- if agreed to in writing by the Company and the Manager.

If the Implementation Agreement is terminated by one party, except to the extent that the termination results from a breach by that party of its obligations under the Implementation Agreement, all further obligations of the parties under the Implementation Agreement cease to be of further force and effect, other than mutual warranties given by the Company and the Manager and obligations in respect of the general miscellaneous provisions (including in respect of costs) contained in the Implementation Agreement.

Costs and expenses

All Transaction Costs associated with convening the Meeting, appointing and engaging the Company's external advisors, the Independent Expert and the Independent Remuneration Consultant are the responsibility of the Company. The Manager and the Company have agreed that they will each bear its own costs associated with the Transaction, including costs in relation to the implementation of the Transaction.

4.3 Existing Management Agreement

Under the terms of the Management Agreement, the Company appointed the Manager to exclusively provide management services to the Company. The Manager agreed to provide such services to the Company for the Initial Term (following which the Management Agreement automatically extends for successive five year periods, unless terminated earlier in accordance with the Management Agreement or with the consent of the Manager).

The Manager Shareholders are entities associated with the Executives and Peter Dowding. The Executives have been responsible for performing the management services for the Company under the Management Agreement.

The terms of the Management Agreement were summarised in the IPO Prospectus. The Company's Annual Reports for FY2018, FY2019 and FY2020 disclosed details of fees paid to the Manager under the Management Agreement.

As at the date of this Explanatory Memorandum, the Management Agreement has a further circa six and a half years until the expiry of the Initial Term. Except in the case of the Manager's serious breach (which is unrectified within 60 days or which cannot be rectified) or the Manager's insolvency, the Company has no right to terminate the Management Agreement during the Initial Term.

The Management Agreement provides that the Manager is entitled to receive fees for its management of the Company, which during the Initial Term will comprise the following:

- Administration Fee of \$60,000 per quarter plus GST, escalated by CPI annually (and currently approximately \$62,600, excluding GST, per quarter); and
- Performance Fees, calculated on each anniversary of 17 November 2017 on the following basis (subject to the recoupment of any prior underperformance):
 - if the annualised Total Shareholder Return (including dividends) is less than or equal to a benchmark of 8%, the Performance Fee will be zero; and
 - if the annualised Total Shareholder Return (including dividends) is greater than a benchmark of 8%, the Performance Fee will be 20% of the absolute dollar value that the Total Shareholder Return outperforms that benchmark.

The Manager may, by notice to the Company and subject to any regulatory approvals or ASX waivers, require the Company to pay up to a maximum of 50% of the Performance Fee in Shares.

Since the Company's IPO, the Manager has received approximately \$4.9 million (excluding GST) of fees, as follows:

- \$0.8 million (excluding GST) in respect of Administration Fees; and
- \$4.1 million (excluding GST) in respect of Performance Fees.

To date, all fees paid to the Manager have been paid in cash.

The Manager has no current entitlement to a Performance Fee for the fourth calculation period (i.e. 12 month period ending 17 November 2021). If Shareholders do not vote in favour of Resolution 1, the Performance Fee payable in connection with the fourth calculation period will only be known after 17 November 2021. It is noted, however, that if there is a takeover offer for the Company, the Performance Fee will be calculated using the highest price per Share implied by the takeover.

During the Initial Term, no management fee is payable to the Manager. However, after the Initial Term, the Company will need to pay the Manager a quarterly management fee of 0.375% plus GST of the market capitalisation of the Company, payable in arrears. The Management Agreement provides that after the Initial Term, the management fee will be payable in addition to the Administration Fees and in addition to the Performance Fees as outlined above.

Since the Company's IPO in November 2017, the Independent Directors have undertaken an annual review of the performance of the Manager under the Management Agreement. Each review has concluded that the Manager complied with its obligations under the Management Agreement and its performance exceeded expectations. To date, all of the Company's

acquisitions have been identified, negotiated, completed and managed by the Manager on the Company's behalf. Notwithstanding that the Manager is not in breach of the Management Agreement, the Independent Directors have determined that it is in the best interests of the Company to terminate the Management Agreement and internalise the management expertise of each of the Executives by employing them directly.

Propel's payment of the Termination Fee upon termination of the Management Agreement is in circumstances where the Manager is neither in breach of its obligations under the Management Agreement nor insolvent and the Independent Expert has formed the opinion that the Transaction is not fair but reasonable to the Non-Associated Shareholders.

Subject to Resolution 1 being approved, the Management Agreement will be terminated with effect from the Completion Date and Propel will no longer be required to pay the various fees summarised above under the Management Agreement.

4.4 Termination Deed

Subject to the passing of Resolution 1, the Company, PFP Corporate and the Manager will enter into and execute the Termination Deed. The obligations on the parties under the Termination Deed are conditional on the passage of Resolution 1. If Resolution 1 is passed, the following will occur:

- the Manager will consent to, and the Company will assign all of its rights and interests in the Management Agreement to its wholly-owned subsidiary, PFP Corporate;
- the Management Agreement will be terminated with effect from the Completion Date; and
- the Termination Fee will be payable by Propel to the Manager, by the payment of the Cash Component and the Company's issue of the Termination Shares to the Manager.

On the Completion Date, the Company will pay the Manager all accrued and outstanding fees and expenses due to the Manager under the Management Agreement for the period up to the Termination Date. Assuming the Completion Date is 26 July 2021, the Company will be required to pay the Manager approximately \$18,000 for the period from 1 July to 26 July 2021. No Performance Fee will be payable, and it is not expected that any expenses will need to be reimbursed.

If completion of the Internalisation does not occur, the Management Agreement will not terminate and will continue in full force and effect. In such circumstances, Propel will not pay the Termination Fee to the Manager. The Administration Fee will continue to accrue, and the Performance Fee will be calculated annually in November.

4.5 Voluntary Escrow Amendment Deed

As stated in the Announcement, a condition of the Transaction is that, subject to completion of the Internalisation, the Company, the Escrowed Holder and associated entities of Albin Kurti, Fraser Henderson and Peter Dowding will enter into the Voluntary Escrow Amendment Deed.

The Voluntary Escrow Amendment Deed will, subject to completion of the Internalisation, take effect on the Completion Date and will provide for the early release (as set out below) from escrow of a total of 14,732,667 fully paid ordinary shares issued in the capital of the Company and registered in the name of the Escrowed Holder. Under the terms of the Voluntary Escrow Deed, the Escrowed Shares were subject to a ten year escrow expiring on 21 November 2027, the tenth anniversary of the Company being admitted to the official list of the ASX.

The Voluntary Escrow Amendment Deed will provide that:

- 7,366,333 of the Escrowed Shares will be released from voluntary escrow following the release of the Company's audited FY2022 financial results; and
- 7,366,334 of the Escrowed Shares will be released from voluntary escrow following the release of the Company's audited FY2025 financial results.

The Voluntary Escrow Amendment Deed will also remove provisions that relate to the Management Agreement, including the ability for the Escrowed Shares to be released on termination of the Management Agreement in circumstances where the Manager has a right to terminate the Management Agreement, given that the Management Agreement will no longer be relevant (subject to the Internalisation occurring).

Under the terms of the Voluntary Escrow Amendment Deed, the Escrowed Holder is prevented from disposing of its Escrowed Shares for the relevant escrow period. Under the terms of the Voluntary Escrow Deed, a holding lock is applied during the relevant escrow period, restricting trading in the relevant Escrowed Shares. The restriction on 'disposing' is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Escrowed Shares, encumbering or granting a security interest over the Escrowed Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control (including economic ownership or control) of any of the Shares or agreeing to do any of those things. Under the terms of the Voluntary Escrow Deed, the Escrowed Holder may create a security interest to a bona fide third party financier over up to 50% of the Escrowed Shares, provided the Escrowed Holder demonstrates to the Board that the Escrowed Holder has an ability to service the debt as at the time of granting the security interest. These terms are not changed by reason of the Voluntary Escrow Amendment Deed.

All of the Escrowed Shares may be released earlier from these escrow obligations to enable:

- the Escrowed Holder to accept an offer under a takeover bid in relation to the Escrowed Shares provided the Board has recommended (whether or not unanimously) that Shareholders accept the takeover bid;
- the Escrowed Shares to be transferred or cancelled as part of a scheme of arrangement under Part 5.1 of the Corporations Act;
- limited related entity transfers, provided the transferee executes a similar voluntary escrow deed; or
- the release of the Escrowed Shares in circumstances where an insolvency event occurs with respect to the Company.

During the relevant escrow period, the Escrowed Holder may deal in any of the Escrowed Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

Under the terms of the Voluntary Escrow Deed and the Voluntary Escrow Amendment Deed, the Escrowed Holder retains voting power in respect of the Escrowed Shares and retains any right to receive a dividend or other distribution with respect to the Escrowed Shares during the relevant Escrow Period.

For the avoidance of doubt, as stated elsewhere in this Explanatory Memorandum, the proposed issue of the Termination Shares will not be subject to any mandatory restricted securities requirements under the ASX Listing Rules, voluntary escrow requirements or otherwise.

4.6 Intellectual Property Transfer Deed

Subject to completion of the Internalisation, the Company (as assignee) and the Manager and each of the Executives and Peter Dowding (as assignors) will enter into and execute the IP Transfer Deed.

Pursuant to the IP Transfer Deed, the Manager, the Executives and Peter Dowding (as assignors) severally confirm that all of their current rights, title and interest in the Assignor IP vests in the Company (as assignee) from the Completion Date. It also provides that to the extent that any of the Assignor IP can only be transferred in writing, the Manager, the Executives and Peter Dowding assign all of their current rights, title and interest in the Assignor IP to the Company on the Completion Date. Nominal consideration is payable to the Manager, the Executives and Peter Dowding under the IP Transfer Deed.

Under the IP Transfer Deed, the Manager, the Executives and Peter Dowding (as assignors):

- acknowledge that they have received adequate and appropriate consideration and that they have no claims against the Company in any way related to or in connection with the Assignor IP;
- release and discharge the Company from all claims that they have, had or might have had but for the IP Transfer Deed against the Company with respect to the Assignor IP; and
- covenant with and undertake to the Company not to claim, sue or take any action against the Company in any way related to or in connection with the Assignor IP and its transfer to the Company.

4.7 Executive Service Agreement for Albin Kurti, Managing Director

The material terms of the Executive Service Agreement to be entered into between Propel and Albin Kurti are set out below:

- **Commencement Date** – subject to Completion occurring, the agreement will become effective on the Completion Date;

- **Term** – Mr Kurti’s employment contract with the Company commences on the Completion Date and continues until 31 August 2024, unless terminated earlier by either party providing at least 6 months’ notice;
- **Position** – Mr Kurti will be employed in the position of Managing Director and Chief Executive Officer of the Company, reporting to the Board;
- **Total fixed remuneration (TFR)** – a TFR of \$650,000 per annum inclusive of superannuation contributions is payable from the Completion Date. The Board will conduct an annual review of TFR, which does not guarantee an increase in the TFR;
- **STI** – eligibility to participate in a short term incentive plan (**STIP**), under which Mr Kurti will be eligible to receive up to 75% of his relevant TFR (or such greater amount that the Board may determine from time to time, in its absolute discretion). The STI is payable in cash and is calculated in accordance with the STIP terms summarised below.
- **LTI** – eligibility to participate in a long term incentive plan (**LTIP**), under which Mr Kurti will be eligible to receive up to 75% of his relevant TFR (or such greater amount that the Board may determine from time to time, in its absolute discretion). The LTI is payable in cash and is calculated in accordance with the LTIP terms summarised below.
- **Leave** – entitled to accrue up to five weeks’ annual leave for each year of service.
- **Assumed accrued leave entitlements** – nil.

Termination and notice – the initial term of Mr Kurti’s ESA will end on 31 August 2024, subject to either party being able to provide at least six months’ notice or the parties agreeing to extend the agreement. If Mr Kurti or Propel give notice of termination, then Propel may elect to make payment of a maximum amount equal to 6 months of Mr Kurti’s relevant TFR to Mr Kurti in lieu of notice instead of requiring Mr Kurti to work for part, or all, of the notice period. Any payment in lieu of notice will be paid to Mr Kurti on the basis of the relevant TFR and in accordance with applicable legislation. Propel may summarily terminate Mr Kurti’s employment at any time without having to provide any period of notice if Mr Kurti has engaged in conduct justifying summary dismissal, including but not limited to wilfully disobeying a lawful and reasonable direction of Propel, engaging in serious, wilful or persistent misconduct or serious or persistent breach of any material provision of the contract or materially failing to perform his duties.

- **Effect of termination on LTI grants** – if Mr Kurti is terminated for cause in circumstances that Mr Kurti is a ‘bad leaver’ (including for the reasons allowing for termination without notice detailed above) or Mr Kurti resigns prior to 31 August 2024 (without consent of the Board), then the Mr Kurti forfeits all rights to receive any LTI payments, subject to the Board’s discretion. If Mr Kurti is not a bad leaver (i.e. he is a ‘good leaver’), then Mr Kurti’s right to be paid LTIs granted to date is not forfeited and, subject to applicable laws, the Board may in its discretion decide whether to accelerate each LTI calculation and payment. If the Board does not make a determination to accelerate payment, the payment will not be accelerated.
- **Change of control** – In the event of a takeover, scheme of arrangement or other transaction which results in the sale of all or substantially all of the assets of the Company or a change in ownership of more than 50% of the voting shares in the Company, the Board must pay Mr Kurti an amount equal to 75% of the relevant TFR

on completion of the transaction. If, prior to 31 August 2024, there is a takeover, scheme of arrangement or other transaction which results in the sale of all or substantially all of the assets of the Company or a change in ownership of more than 50% of the voting shares in the Company (**Corporate Transaction**), the Company must pay Mr Kurti, on the completion date of the Corporate Transaction, the maximum amount payable under the Executive Service Agreement in connection with the LTI that would otherwise have been payable but for the Corporate Transaction relating to the period between 1 July 2021 and the date of completion of the Corporate Transaction.

- **Intellectual property** – Mr Kurti acknowledges that all existing and future intellectual property rights in materials developed during the course of his employment will be owned by, and vests absolutely in, Propel upon development and that he has no claim to any such intellectual property rights.
- **Confidential information** – Mr Kurti acknowledges that the Group has a legitimate interest in protecting confidential information received during his employment and the non-compete restrictions extend to preventing Mr Kurti from being engaged in a similar role, the performance of which involves dealing with the same or similar confidential information.
- **Non-compete protections** – Mr Kurti is subject to non-compete restraints during employment and for a maximum (cascading) period of 12 months after cessation of employment with Propel. These non-compete restraints provide that Mr Kurti must not within Australia and New Zealand, the State of New South Wales, the State of Victoria or otherwise, within a 100 kilometre radius of the Company's premises, be engaged in a similar role for a competitor business or for a supplier or client of the Group with whom he has had material work-related dealings, or in respect of whom he has had access to confidential information during the 12 month period preceding the cessation of his employment. Mr Kurti is also subject to non-solicit restraints for a maximum (cascading) period of 12 months after cessation of employment with Propel, restraining him from inducing or encouraging a material client or supplier to cease doing business with, or reduce the amount of business, or induce or encourage material employees, contractor or director to cease employment with the Group.

STI Participation

Mr Kurti's Executive Service Agreement provides that he is eligible to be paid on an annual basis a STI award (settled wholly in cash) of up to 75% of his relevant TFR, generally subject to financial (70%) and non-financial (30%) performance conditions. The amount of the annual STI award that Mr Kurti is eligible to receive is pro-rated and calculated with respect to the extent to which the Company reaches threshold (90%), target (100%) and stretch (110%) hurdles based on budgeted and actual Operating EBITDA for a relevant financial year, as well as qualitative strategic and personal performance goals. If less than 90% of the budgeted Operating EBITDA is achieved and/or if strategic/personal STI performance conditions are not achieved, then any STI award is at the sole discretion of the Board. The first STI grant for Mr Kurti relates to FY22.

LTI Participation

Mr Kurti's Executive Service Agreement provides that he is eligible to receive an LTI, subject to a financial performance condition (Adjusted EPS CAGR over a rolling three year period). The maximum LTI opportunity that can be granted is 75% (unless the Board determines a greater amount) of his relevant TFR (where the Adjusted EPS CAGR is greater than 10%). A percentage of the maximum is payable if the Adjusted EPS CAGR is between 6% and 10%. 'Adjusted EPS' and 'CAGR' are defined in Section 10 of this Explanatory Memorandum.

LTI awards are required to be settled wholly in cash. The first LTI grant for Mr Kurti relates to FY22. The first LTI grant will be calculated and paid after 30 June 2024, the second LTI grant will be calculated and paid after 30 June 2025 and the third LTI grant will be calculated and paid after 30 June 2026.

4.8 Executive Service Agreement for Fraser Henderson, Executive Director, Head of M&A and General Counsel and Company Secretary

The material terms of the Executive Service Agreement to be entered into between Propel and Fraser Henderson are the same as the terms and conditions of the Executive Service Agreement for Albin Kurti, other than:

- **Position** – Fraser Henderson will be employed in the position of Executive Director, Head of Mergers & Acquisition, General Counsel and Company Secretary of the Company, reporting to the Board.
- **Total fixed remuneration (TFR)** – a TFR of \$500,000 per annum inclusive of superannuation contributions is payable from the Completion Date.
- **STI** – eligibility to participate in the STIP, where the maximum payable STI on an annual basis is 50% of Mr Henderson's relevant TFR.
- **LTI** – eligibility to participate in the LTIP, where the maximum payable LTI on an annual basis is 50% of Mr Henderson's relevant TFR.

4.9 Executive Service Agreement for Lilli Gladstone, Chief Financial Officer

The material terms of the Executive Service Agreement to be entered into between Propel and Lilli Gladstone are the same as the terms and conditions of the Executive Service Agreement for Albin Kurti, other than:

- **Position** – Lilli Gladstone will be employed in the position of Chief Financial Officer of the Company, reporting to the Board.
- **Total fixed remuneration (TFR)** – a TFR of \$450,000 per annum inclusive of superannuation contributions is payable from the Completion Date.

- **Assumed leave entitlements** – long service leave and personal leave, as well as any accrued annual leave to the extent required by relevant laws, accrued by Ms Gladstone during her employment with the Manager will be assumed by Propel.
- **STI** – eligibility to participate in the STIP, where the maximum payable STI on an annual basis is 50% of Ms Gladstone’s relevant TFR.
- **LTI** – eligibility to participate in the LTIP, where the maximum payable LTI on an annual basis is 50% of Ms Gladstone’s relevant TFR.

Parent Guarantee

Under a separate deed poll, the Company will agree to guarantee Propel’s payment obligations in respect of employee entitlements payable under the Executive Service Agreements for each of the Executives.

4.10 Conclusion of the Independent Expert and Advantages of the Transaction

The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders and that the advantages of the Transaction outweigh the disadvantages of the Transaction.

The Independent Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder’s decision on how to vote on the Resolutions. This Section 4.10 is not intended to set out all the relevant issues for Shareholders in relation to the Transaction. It should be read in conjunction with the other Sections of this Explanatory Memorandum and the Independent Expert’s Report.

a) The Independent Directors unanimously recommend that you vote in favour of the Transaction in the absence of a Superior Alternative Transaction Proposal

The Independent Directors have concluded that the advantages and key benefits of the Transaction outweigh the disadvantages and risks of the Transaction and unanimously recommend Shareholders vote in favour of the Transaction in the absence of a Superior Alternative Transaction Proposal. The Independent Directors make this recommendation after carefully considering the Transaction’s advantages and disadvantages, assessing the risks associated with the Transaction (see Section 4.11 and Section 7) and the alternatives to the Transaction (see Section 3, under the heading, ‘What alternatives to the Transaction did the Independent Directors consider?’).

b) The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders

The Independent Directors commissioned the Independent Expert to prepare an independent expert’s report to consider the fairness and reasonableness of the Transaction to the Non-Associated Shareholders. The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders and, on balance, the Transaction is reasonable and that the advantages of approving the Transaction outweigh the disadvantages of approving it. A full copy

of the Independent Expert's Report, which you are encouraged to read in its entirety, is set out in Annexure 1.

c) The Transaction brings the Company's management framework in line with what is regarded as "market standard"

The rationale for internalising key senior executives aligns with the reasons identified in this Explanatory Memorandum and with standard management structures for listed ASX operating entities.

d) The Transaction aims to increase investor participation and improve the Company's market position

The Independent Directors believe that the Transaction may strengthen the Company's market position by increasing the breadth of institutional and other investor participation given the market's preference for an internally managed structure³. Internal management structures are the most common and most understood governance model in listed equities. The current non-standard governance model does not enable investors or their advisors to easily measure or compare the Company's governance metrics under their ESG assessment models. These ESG considerations are rapidly becoming a gateway decision, particularly for institutional investors' decision-making processes.

Further to the "market standard" alignment described above, the ability of investors to understand and model forecast future cash flows will be improved by the Internalisation. The external management model and associated uncapped Performance Fees introduces significant uncertainty into investors' models which can flow through into reduced market interest in the Company.

The Independent Directors believe that an 'internalised Propel' may increase investor participation (and has the potential to remove an impediment to share price growth) through the potential increase in demand and liquidity of the Shares from investors who may have a preference for investing in internally managed companies (or investors with mandates which limit their ability to invest in externally managed companies)⁴.

e) Financial benefits

The Company currently has an obligation to pay the Manager an Administration Fee of approximately \$250,000 per annum (exclusive of GST) escalating with CPI, potentially uncapped annual Performance Fees and after the Initial Term (if applicable), management fees. Following the Internalisation, these fees will not be payable, and instead the Executives will be employed on the basis of a standard remuneration structure for senior executives in similar circumstances to the Company. This change

³ This is a forward-looking statement based on current expectations of future results or events. No assurance or guarantee is given that such expectations will prove to be correct and actual results or events may differ materially.

⁴ This is a forward-looking statement based on current expectations of future results or events. No assurance or guarantee is given that such expectations will prove to be correct and actual results or events may differ materially.

should reduce uncertainty and volatility in the Company's future profitability and dividend profile⁵.

f) Enhanced board accountability, with Shareholders able to periodically elect Directors, and vote annually on the remuneration report

Following the Internalisation, Shareholders with a sufficient majority may, in certain circumstances, appoint and remove Directors, and participate in an annual vote on the remuneration report. A requirement for the periodic re-election of Directors (excluding the Managing Director) will ensure the Board is held accountable by Shareholders for oversight of the performance and strategic direction of the Company. The Internalisation will provide Shareholders with the ability to vote at annual general meetings to approve (by way of an advisory vote) the adoption of the annual remuneration report regarding details of the remuneration of the Executives. The Company will be required to publish an annual remuneration report detailing the quantum and nature of fixed and variable remuneration entitlements to key senior executives, enhancing corporate governance transparency. These changes will further emphasise the Board's accountability to Shareholders.

g) Expected continuity of the Board and the Executives

The Board is currently majority independent and this will not change following the Internalisation. If the Internalisation is approved, the current composition of Directors and independent oversight will remain unchanged.

All Directors hold, and will continue to hold, an interest in Shares (although the Constitution does not require a Director to hold Shares). The Company will continue to be founder led, and the Executives will continue to lead and manage the day to day operations of the business, but as employees of the Company, rather than through providing management services pursuant to the Management Agreement. Under the Executive Service Agreements, the Executives will be employed by Propel on market terms (including with respect to non-compete provisions). The employment of the Executives aims to ensure that implementation of the Company's strategy continues seamlessly. The Internalisation will remove the risk of the Manager being sold to a third party, which could result in people other than the Executives providing the management services pursuant to the Management Agreement. Approving the Transaction avoids potential business disruption if the Management Agreement is cancelled at the end of or following the Initial Term.

h) Alignment of interests

50% of the Termination Fee will be paid in Shares, further aligning the Executive's interests with the Non-Associated Shareholders (as entities associated with the Executives will receive Termination Shares from the Manager, following the Company's issue of the Termination Shares to the Manager). Following the Internalisation, the Executives (through their associated entities) will collectively hold approximately 19% of the Company. The Company will continue to be founder-led.

⁵ This is a forward-looking statement based on current expectations of future results or events. No assurance or guarantee is given that such expectations will prove to be correct and actual results or events may differ materially.

4.11 Disadvantages of the Transaction

The Independent Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the Resolutions. This Section 4.11 is not intended to set out all of the relevant issues for Shareholders in relation to the Transaction. It should be carefully read in conjunction with the other Sections of this Explanatory Memorandum and the Independent Expert's Report.

a) The Transaction is not fair but reasonable

The Independent Expert concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders.

b) You may disagree with the conclusion of the Independent Directors and / or the Independent Expert about the Transaction's benefits

You may disagree with the conclusion of the Independent Directors. Alternatively, you may disagree with the conclusion of the Independent Expert that, on balance, the advantages of the Transaction outweigh the disadvantages.

c) Implementation of the Transaction may change the risk profile for Shareholders

Although the Company already has exposure to the operating costs of the business, the Transaction may change the risk profile for Shareholders with direct exposure to ongoing operating costs associated with the employment of the Executives. These risks and the mitigating steps taken by the Independent Directors to address these risks are discussed in greater detail in Section 7 of this Explanatory Memorandum.

d) Consideration paid to the Manager will be partially funded from the drawing down of the Company's existing debt facilities

The Internalisation will be funded through a combination of debt and the issuance of the Termination Shares. If completion of the Internalisation occurs, the Company's pro forma Gearing Ratio as at 31 December 2020 is expected to increase from 30.2% to 32.8% and the pro forma Net Leverage Ratio is expected to increase from 2.2x to 2.7x as at 31 December 2020. The Board has and will continue to have a strong focus on maintaining balance sheet strength, which may include various capital management initiatives being employed over time. Part of the rationale for internalising the management structure is to increase investor demand and liquidity of Shares (as described in Section 4.10(d)). Please see Section 5 of this Explanatory Memorandum for further information regarding the financial impact of the Transaction.

e) Access to the Executives

The contract term of the Executive Service Agreements is 3 years from the Completion Date with a mutual notice period of 6 months whereas the initial term of the Management Agreement has a remaining period of circa 6.5 years. However, as noted in the Advantages section above, the Company can manage succession planning directly.

f) Existing shareholders will be diluted due to the issuance of new ordinary shares to the Manager

As partial consideration of the Internalisation, 2,307,692 Shares are to be issued to the Manager. As such, the holdings of Non-Associated Shareholders will be diluted by approximately 1.79% (on an expanded share capital basis).

5. FINANCIAL INFORMATION

5.1 Introduction

The financial information contained in this Section 5 sets out the Pro Forma Historical Financial Information for the Group comprising the:

- pro forma consolidated historical income statement for FY2019, FY2020 and 1H FY2021 (**Pro Forma Historical Income Statements**); and
- pro forma consolidated historical balance sheet as at 31 December 2020 (**Pro Forma Historical Balance Sheet**).

All amounts disclosed in this Section 5 are presented in Australian dollars and are rounded to the nearest \$0.1 million. Tables in this Section 5 have not been amended to correct immaterial summation differences that may arise from rounding. The Company has a 30 June financial year end. As such, any references in this Section 5 to "FY" refer to a 30 June financial year end and references to "1H" refer to a six month period ending 31 December.

The information in this Section 5 should be read in conjunction with the risk factors set out in Section 7 and other information contained in this Explanatory Memorandum, which should be read in its entirety.

The Pro Forma Historical Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document (Applicable Criteria)* by Nexia Corporate who have concluded that nothing has come to their attention that causes them to believe that the Pro Forma Historical Financial Information has not been compiled in accordance with the Applicable Criteria, in all material respects.

5.2 Basis of preparation and presentation of financial information

Overview

The Pro Forma Historical Financial Information is intended to present Shareholders with information to assist them in understanding the financial impact of the Transaction on the historical financial position and financial performance of the Group.

The Pro Forma Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards (**AAS**) issued by the Australian Accounting Standards Board (**AASB**), which are consistent with International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board (**IASB**) and has been derived from the Group's financial statements for FY2019, FY2020 and 1H FY2021. Nexia Audit audited the financial statements for FY2019 and FY2020, and reviewed the 1H FY2021 financial statements. Nexia Audit issued unqualified audit opinions on those financial statements.

The Pro Forma Historical Financial Information also includes adjustments which have been prepared in a manner consistent with AAS that reflect the impact of certain transactions in connection with the Transaction, which are summarised below.

The Pro Forma Historical Income Statements have been prepared as if the Transaction had occurred on 1 July 2018 and include:

- employment costs relating to the Executives in connection with the Executive Service Agreements;
- ceasing of payments to the Manager in connection with the Management Agreement including the Administration Fee and the Performance Fee; and
- pro forma income tax impacts of the Transaction, assuming a company tax rate of 30%.

The Pro Forma Historical Balance Sheet has been prepared as if the Transaction had occurred on 31 December 2020 and includes:

- the after tax impact of the Transactions Costs;
- the revaluation of a previous share based payment due to the amendments to the Voluntary Escrow Deed; and
- the after tax impact of the Termination Fee which includes the Cash Component and the issue of the Termination Shares and the assumed accrued leave entitlements.

The Pro Forma Historical Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Pro Forma Historical Financial Information is provided for illustrative purposes only and is not represented as being necessarily indicative of the Group's actual or future financial position or performance.

Non IFRS Financial Measures

The Group uses certain measures to manage and report on business performance that are neither recognised under AAS nor IFRS. These measures are collectively referred to as non-IFRS financial measures and are defined in Section 10.

The non-IFRS financial measures do not have a prescribed definition under either AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities. These should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Although the Company believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the Group, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in this Explanatory Memorandum.

5.3 Proforma Historical Financial Information

Proforma Historical Income Statements

Table 1 below sets out the Pro Forma Historical Income Statements for FY2019, FY2020 and 1H FY2021, for illustrative purposes as if the Transaction had occurred on 1 July 2018:

Table 1

| \$m | FY2019 ⁶ | FY2020 | 1H FY2021 |
|---|---------------------|---------------|---------------|
| Total revenue | 95.1 | 110.8 | 59.0 |
| Gross Profit | 67.3 | 79.6 | 42.7 |
| Employment costs | (31.9) | (36.2) | (18.2) |
| Occupancy and facility costs | (4.6) | (6.0) | (3.2) |
| Other operating costs | (5.9) | (7.5) | (3.5) |
| Total operating costs | (42.4) | (49.7) | (24.9) |
| Operating EBITDA | 24.8 | 29.9 | 17.8 |
| Transaction costs | (1.6) | (1.6) | (0.2) |
| Other income | 0.4 | (0.4) | (0.1) |
| Depreciation | (7.1) | (8.8) | (4.8) |
| EBIT | 16.6 | 19.0 | 12.7 |
| Net interest income | (1.4) | (3.1) | (1.8) |
| Net financing charge on prepaid contracts | (0.6) | (0.5) | (0.5) |
| NPBT | 14.6 | 15.4 | 10.4 |
| Income tax expense | (4.3) | (3.7) | (3.1) |
| NPAT | 10.3 | 11.7 | 7.3 |
| Operating NPAT | 11.3 | 12.4 | 7.5 |
| Adjusted EPS ⁷ | 11.2 | 12.3 | 7.4 |

Table 2 below sets out the pro forma adjustments made to the statutory NPAT.

Table 2

| \$m | Notes | FY2019 ⁶ | FY2020 | 1H FY2021 |
|------------------------------|-------|---------------------|-------------|------------|
| Statutory NPAT | | 12.3 | 10.6 | 8.2 |
| Adoption of AASB 16 (Leases) | 1 | (0.4) | - | - |
| Employment costs | 2 | (2.8) | (2.8) | (1.4) |
| Administration Fees | 3 | 0.2 | 0.2 | 0.1 |
| Performance Fee | 4 | - | 4.1 | - |
| Income tax expense | 5 | 0.9 | (0.5) | 0.4 |
| Pro forma NPAT | | 10.3 | 11.7 | 7.3 |

⁶ Includes pro forma impacts of AASB 16 (Leases).

⁷ EPS has been adjusted for the inclusion of the Termination Shares.

Notes:

- 1 The Group implemented AASB 16 (Leases) on 1 July 2019. As a result of the implementation of AASB 16 (Leases), operating lease expenses are no longer expensed but are capitalised and recognised through the income statement as depreciation and interest expenses. The adjustment reflects the impact as if AASB 16 (Leases) was implemented on 1 July 2018.
- 2 As part of the Transaction, the Executives will enter into Executive Services Agreements. The pro forma adjustment reflects the total employment costs of the Executives (total fixed remuneration of \$1.6 million per annum, plus the target STI and LTI amounts of \$1.2 million per annum, representing 60% of the maximum amount of \$2.0 million per annum) totalling approximately \$2.8 million per annum. Refer to Sections 4.7-4.9 for further details.
- 3 As part of the Transaction, the Management Agreement will be terminated and the Administration Fee of circa \$60,000 per quarter (adjusted for CPI annually) will no longer be payable to the Manager. Refer to Section 3 for further details.
- 4 In FY2019, a Performance Fee of \$4.1 million (excluding GST) was paid to the Manager in connection with the Management Agreement. As part of the Transaction, the Management Agreement will be terminated and no Performance Fee will be paid to the Manager in the future. Refer to Section 3 for further details.
- 5 Pro forma income tax effect of the Transaction, assuming a company tax rate of 30%.

Proforma Historical Balance Sheet

Table 3 below sets out the pro forma historical balance sheet for illustrative purposes as if the Transaction had occurred on 31 December 2020.

Table 3

| \$m | 31 December 2020 Statutory | Transaction costs | Share Based Payment expense | Termination Fee | 31 December 2020 Pro Forma |
|--|-------------------------------------|----------------------|--------------------------------------|--------------------|-------------------------------------|
| Notes | | 1 | 2 | 3 | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 6.8 | (0.9) | | | 5.9 |
| Contract assets | 47.4 | | | | 47.4 |
| Trade and other receivables | 5.7 | | | | 5.7 |
| Other current assets | 6.3 | | | | 6.3 |
| Total Current Assets | 66.2 | (0.9) | | | 65.4 |
| Non – Current Assets | | | | | |
| Property, plant and equipment | 152.6 | | | | 152.6 |
| Goodwill | 133.3 | | | | 133.3 |
| Right-of-use assets | 36.3 | | | | |
| Deferred tax assets | 3.5 | 0.2 | | 3.6 | 7.3 |
| Other non-current assets | 0.2 | | | | 0.2 |
| Total Non – Current Assets | 325.9 | 0.2 | - | 3.6 | 329.7 |
| Total Assets | 392.1 | (0.7) | - | 3.6 | 395.0 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 7.8 | | | | 7.8 |
| Borrowings | 10.1 | | | | 10.1 |
| Current tax liabilities | 0.7 | (0.1) | | (0.9) | (0.3) |
| Lease liabilities | 3.1 | | | | 3.1 |
| Provisions | 6.0 | | | 0.0 | 6.1 |
| Contract liabilities | 52.3 | | | | 52.3 |
| Other financial liabilities | 0.0 | | | | 0.0 |
| Total Current Liabilities | 80.0 | (0.1) | - | (0.9) | 79.0 |
| Non – Current Liabilities | | | | | |
| Borrowings | 77.9 | | | 7.5 | 85.4 |
| Lease liabilities | 34.9 | | | | 34.9 |
| Deferred tax liabilities | 10.1 | | | | 10.1 |
| Provisions | 1.5 | | | 0.1 | 1.6 |
| Other financial liabilities | 1.1 | | | | 1.1 |
| Total Non – Current Liabilities | 125.5 | - | - | 7.6 | 133.1 |
| Total Liabilities | 205.5 | (0.1) | - | 6.7 | 212.1 |
| Net Assets | 186.6 | (0.6) | - | (3.1) | 182.9 |
| Equity | | | | | |
| Issued capital | 203.4 | | 4.2 | 7.5 | 215.1 |
| Reserves | (0.1) | | - | - | (0.1) |
| Retained earnings | (16.7) | (0.6) | (4.2) | (10.6) | (32.1) |
| Total Equity | 186.6 | (0.6) | - | (3.1) | 182.9 |

Notes:

- 1 Increase in deferred tax assets and a reduction in current tax liabilities and retained earnings in respect of the Transaction Costs (estimated to be \$0.9 million). Refer to Section 3 for further details.
- 2 Revaluation of issued capital and decrease in retained earnings in respect of the one off, non cash Share Based Payment. Refer to Sections 4.5 and 5.4 for further details.
- 3 Increase in net debt, provisions (relating to the assumption of Ms Gladstone's employee entitlements), issued capital and deferred tax assets, with a decrease in retained earnings and current tax liabilities in respect of the Termination Fee, including the Cash Component (\$7.5 million) and the issue of the Termination Shares. Refer to Section 3 and Section 4.9 for further details.

5.4 Share Based Payment

The amendments to the Voluntary Escrow Deed are treated as a modification to the terms and conditions of the Share Based Payment in accordance with AASB 2 (Share based payment). This modification results in a revaluation of the Share Based Payment. An expense of \$4.2 million has been recognised in the Pro forma Historical Balance Sheet in relation to this one off, non cash expense in accordance with AASB 2 which is based on the Independent Directors' view of fair value, having regard to the terms of the Voluntary Escrow Amendment Deed and the Company's share price on 31 December 2020 of \$2.85. The actual Share Based Payment expense that will be recognised in the financial statements for the six months ending 31 December 2021 and for the 12 months ending 30 June 2022, will be based on the Company's share price as at Completion and therefore is likely to differ from the proforma expense.

5.5 Funding for the Transaction

The total funding required in connection with the Transaction is estimated to be approximately \$15.9 million. Table 4 below sets out the sources and uses of funds.

Table 4

| \$m | Sources | | Uses |
|--------------------------------|-------------|-------------------|-------------|
| Debt drawdowns | 7.5 | Termination Fee | 15.0 |
| Issue of shares in the Company | 7.5 | Transaction Costs | 0.9 |
| Cash reserves | 0.9 | | |
| Total | 15.9 | | 15.9 |

5.6 Group's debt facilities and funding capacity

On completion of the Transaction:

- \$7.5 million of the Group's debt facilities will be drawn down to fund the Cash Component of the Termination Fee and \$0.9 million of cash reserves will be used to fund the Transaction Costs;
- the Group's principal source of funds will continue to be cash flows from operations, cash reserves and through available funding from the Group's debt facilities;
- the Group's pro forma Gearing Ratio as at 31 December 2020 was 32.8%;
- the Group's pro forma Net Leverage Ratio as at 31 December 2020 was 2.7x, in compliance with its covenant of less than 3.5x;

- the Group's pro forma Fixed Charge Cover Ratio as at 31 December 2020 was 4.9x, in compliance with its covenant of greater than 1.75x; and
- the Group's pro forma funding availability as at 31 December 2020 was \$54.8 million as set out below:

| As at 31 December 2020 | Notes | \$m |
|-----------------------------------|-------|---------------|
| Senior Debt Facility | | 150.0 |
| Net Debt | 1 | (80.8) |
| <i>Pro forma commitments:</i> | | |
| Transaction | 2 | (8.4) |
| Pro forma Net Debt | 3 | (89.2) |
| Interim Dividend | | (6.0) |
| Total commitments | | (6.0) |
| Pro forma funding capacity | | 54.8 |

Notes:

- 1 Senior drawn debt less cash and cash equivalents.
- 2 \$7.5 million Cash Component of the Termination Fee plus \$0.9 million of Transaction Costs.
- 3 Senior drawn debt less cash and cash equivalents, adjusted for the Transaction.

Subject to completion of the Transaction, the Financier has approved a covenant step up mechanism which enables the Company, at its election and in connection with a permitted acquisition, to increase the Net Leverage Ratio covenant to 3.75x⁸ which will endure for three consecutive biannual testing dates, following which, it will reduce to 3.25x.

Other key terms of the Group's debt facilities with the Financier are summarised in the Company's Financial Statements for 1H FY2021.

⁸ The Net Leverage Ratio covenant was 3.5x as at 31 December 2020. If the Company has not, in connection with an acquisition, elected to exercise the covenant step up right to 3.75x prior to the relevant biannual testing date, the Net Leverage Ratio covenant will be 3.5x as at 30 June 2021 and 3.25x at each testing date thereafter.

6. TAX INFORMATION

The Company has obtained advice in respect of the Australian income tax and goods and services tax implications of the Transaction. In summary, the consequences are as follows:

- the Company should be entitled to an income tax deduction in respect of the:
 - Termination Fee, in equal proportions over five years;
 - Transaction Costs (except in the case of the tax adviser fees), in equal proportions over five years; and
 - tax adviser fees, in the year in which the fees were incurred (i.e. FY2022); and
- the Termination Fee will be subject to GST at a rate of 10% (i.e. \$1,500,000), and the Company should be entitled to claim an input tax credit of that amount on its business activity statement in the tax period in which the expense was incurred.

7. RISKS

7.1 General and specific risks

General and specific risks of an investment in the Company were set out in Section 6 of the IPO Prospectus, a copy of which may be found at <https://investors.propelfuneralpartners.com.au/Investor-Centre>. Shareholders are already subject to the risks relevant to their shareholding in the Company, and the Transaction does not affect those risks. Accordingly, this Section 7 does not seek to further address those risks. This Section 7 outlines only the specific and general risks which the Independent Directors believe may arise from the Transaction and may affect the Company's future operating and financial performance. There may be other risks, and this Section 7 does not seek to be exhaustive of all risks which may potentially arise from the Transaction.

Specific risks relating to the Transaction (in addition to the disadvantages listed in Section 4.11) are as follows:

- **Potentially higher expenses:** following completion of the Internalisation, the Company will no longer pay fees to the Manager (including uncapped potential Performance Fees), however, direct employment of the Executives will mean that Propel is exposed to the ongoing employment costs of the Executives. The remuneration payable to the Executives under their Executive Service Agreements will be reported in the Company's annual remuneration report. An Executive's annual eligibility for the relevant short-term incentive and long-term incentive is dependent on the achievement of certain performance conditions which address both financial, strategic and personal performance metrics. The management services provided will not materially change under the Transaction, however there may be an increase in operating costs relative to the fees that would otherwise have been payable to the Manager (including uncapped potential Performance Fees), absent the Transaction.
- **Economic conditions:** there is no certainty that the internalisation of management will broaden the investor base, investor appeal or improve the market price of the Shares. While the Independent Board Committee expect that an internalised management model may broaden the investor base and appeal of the Company, there is no guarantee that this will in fact occur or that the market price of the Shares will increase. The market price of the Shares may be affected by other factors that are unrelated to the Internalisation such as performance of the Company's businesses, performance of the domestic and global share markets, interest rates, movements in capital markets, regulatory changes, increased competition and taxation and labour relations environments generally. Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. The market price of the Company's securities may be subject to varied and unpredictable influences on the market for equities in general and consumer service stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.
- **Reliance on key management personnel:** the Company will (as it was under the Management Agreement) be dependent on the Executives, as well as its ability to attract and retain skilled employees and manage any succession-planning for key

management personnel. A loss of key management personnel or under-resourcing, and inability to recruit suitable replacements within a reasonable time period, may cause disruptions to the Company's marketplace and growth initiatives, and may adversely affect the Company's operations, reputation, financial performance and implementation of its strategy. While the Company may have initiatives to mitigate this risk, the loss of key management personnel may have a negative impact on the Company. The loss of key staff to a competitor may amplify this impact. The terms of the Executive Service Agreements, remuneration and incentive structures, confidentiality obligations and non-compete provisions assist in the mitigation of such risks. The risk of the Executives leaving Propel in the near term is also mitigated by the fact that the Executives will hold Shares and have short term and long term incentives tied to the Company's performance. However, there is no assurance that such contracts will not be terminated. If such contracts were terminated or breached, or if the Executives were no longer to continue in their current roles, Propel would need to employ alternative key management personnel, and Propel's operations and business may be adversely affected.

- **Material decisions:** material decisions about matters, such as acquisitions and disposals prior to the Internalisation have been made by the Manager. Following the Internalisation, these decisions will, following recommendations by the management, be made by the Board. There is a risk that the Board may choose to make different decisions than the Manager would have and this could be to the detriment of the Company.
- **Dividends:** any future determination as to the payment of dividends by the Company will continue to be at the discretion of the Directors and will depend on the availability of distributable earnings, operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company. Following Internalisation, the Company may be exposed to higher operating costs due to the ongoing employment costs of the Executives, which may impact on the level of any dividends declared and paid by the Company in the future.
- **Management of growth:** there is a risk that the management will not be able to implement the Company's acquisition-led investment strategy after completion of the Internalisation as planned due to unforeseen circumstances or prevailing economic conditions. The management's capacity to implement and manage the Company's strategic direction, in particular with regards to the Company's acquisition-led investment strategy, may affect the Company's financial performance. However, the Internalisation does not result in a change in strategy or personnel, so the risks of disruption are mitigated by the continuity of the Executives as employees and the transfer of the intellectual property pursuant to the IP Transfer Deed.
- **Non-alignment of Executives:** if the Transaction is approved, the Escrowed Holder may be able to sell the Escrowed Shares earlier than November 2027 due to the earlier release from escrow of the Escrowed Shares. This may reduce the alignment between the Executives and Propel. However, alignment of the Executives over the term of their respective Executive Service Agreement is intended to be enhanced through their participation in the LTIP.

- **General risks relating to the Transaction:** there is risk that suppliers or customers of the Company perceive the Internalisation adversely as a change in management or strategic direction. However, this is mitigated by the fact that the Internalisation involves the continued involvement of the Executives and the continued implementation of the same business undertaking and acquisition-led investment strategy of the Company. The Company will mitigate these risks through pro-active communication strategies with its stakeholders, as applicable.
- **Risk of dilution:** the Non-Associated Shareholders will be diluted by approximately 1.79% due to the issuance of the Termination Shares to the Manager. There is a risk that Shareholders will be further diluted by future capital raises if the Company conducts new issues of shares to raise equity capital or whether Shares are issued as part consideration in connection with any future acquisitions that may be made by the Company.

General risks relating to the operation of the Company and its business are as follows:

- **Future capital needs:** further funding of acquisitions or greenfield expansion may be required by the Company to support its ongoing activities and operations. There can be no assurance that such funding will be available on satisfactory terms or at all. Any inability to obtain funding will adversely affect the business and financial condition of Propel and consequently its performance.
- **Taxation:** there is the potential for changes to tax laws and changes in the way tax laws are interpreted. Any change to the current tax rates imposed on Propel (including in foreign jurisdictions that Propel may operate) is likely to affect Propel's ongoing operations, financial performance, acquisition and growth prospects.
- **Disputes and litigation:** Propel may be subject to litigation, complaints and other claims or disputes, regulatory inquiries or investigations and other enforcement action initiated by customers, employees, suppliers, regulators or other third parties in the course of its business. Such matters may adversely affect Propel's financial performance and position. Even if such matters are successfully defended or settled without financial consequences, they may have an adverse effect on Propel's reputation.
- **ASX listing requirements:** following completion of the Internalisation, Propel will continue to be an ASX listed entity and required to comply with the ASX Listing Rules, including requirements to report upon its corporate governance framework. Any failure to comply with applicable ASX Listing Rule requirements when operating as an internally managed entity may subject Propel to significant additional compliance costs, liability, risk suspension of quotation of its Shares if material and damage Propel's reputation and business.
- **Changes in applicable law:** the Company operates in a sector where the laws and regulations around its operations can evolve and change. There is a risk that new laws or regulations may be enacted, or existing laws and regulations may be amended in such a way that impose obligations on Propel. There is also a risk that laws and regulations may change in some jurisdictions in which Propel operates but not others. Depending on the significance of these changes to the Company's existing business model and acquisition-led acquisition strategy, any changes to laws and regulations

may have a material adverse impact on Propel's ongoing operations, financial performance, acquisition and growth prospects.

- **Increase in regulation:** Propel is subject to a number of laws and regulations. After Internalisation, there is risk that changes in applicable laws and regulations may increase the regulatory burden on Propel. After Internalisation, Propel will remain a listed company but will have an internalised management structure. Propel will need to continue to comply with the disclosure, reporting and record-keeping, fair-trading and consumer protection, property, customs, taxation and employment requirements. Any material change or significant increase in the applicable laws and regulations may adversely affect Propel's future financial performance and failure to comply with applicable laws and regulations may subject Propel to significant costs and penalties and damage to its reputation and business.
- **COVID-19:** COVID-19 is a community and economic concern which is having an impact on business operations and equity markets in Australia and globally. There is a risk that government or industry measures taken in response to COVID-19, such as restrictions on funeral or cremation gatherings and social distancing measures, may adversely impact the level of, and demand for, services sought by customers and performed by the Group. These risks may have a material adverse impact on Propel's operations, financial performance, acquisition and growth prospects.

7.2 Recommendations of the Independent Directors and Voting Intention

The Independent Directors considered the merits and risks of the Company remaining externally managed by the Manager. This remains a viable alternative. However, this does not provide the benefits of the Transaction referenced above in Section 4.10, which the Independent Directors consider outweigh the disadvantages and risks referenced above in Section 4.11. Therefore, the Independent Directors believe that the short and long-term interests of Shareholders and the Company would be better served by an internalised management structure.

The Independent Directors unanimously recommend that Non-Associated Shareholders vote in favour of both Resolutions, and the Independent Directors unanimously intend to vote all of their Shares in which they have a relevant interest in favour of both Resolutions to approve the Transaction, in each case in the absence of a Superior Alternative Competing Proposal and subject to the Independent Expert continuing to conclude that the Transaction is not fair but reasonable to the Non-Associated Shareholders (or otherwise changes its conclusion to fair and reasonable). The Chair also intends to vote all valid undirected proxies in favour of each Resolution.

8. ADDITIONAL INFORMATION

8.1 Resolution 1 - Information required for the purposes of Listing Rules 10.1 and 10.11

(a) Background to approval for purposes of Listing Rule 10.1

ASX Listing Rule 10.1 requires a company to obtain shareholder approval for the disposal of a 'substantial asset' by the company to certain specified persons, including related parties and their associates, a child entity of the entity and persons whose relationship to the entity is such that, in the ASX's opinion, the transaction should be approved by shareholders.

Under ASX Listing Rule 10.2, an asset is a 'substantial asset' if its value, or the value of consideration for it, is 5% or more of the equity interests (as that term is defined in the ASX Listing Rules) of the company, as set out in the latest accounts given to the ASX under the ASX Listing Rules.

It has been concluded that the Company's interest in the Management Agreement is a 'substantial asset' for the purpose of ASX Listing Rules 10.1 and 10.2, and the Manager is a related party.

The Transaction does not involve the assignment of the Management Agreement to the Manager or a related party of the Manager. However, it does involve the assignment of the Management Agreement to a subsidiary of the Company and then, immediately following the assignment, the termination of the Management Agreement and payment of the Termination Fee to the Manager as compensation for the Manager agreeing to an early termination of the Management Agreement.

The Implementation Agreement requires that, immediately prior to the proposed termination of the Management Agreement and payment of the Termination Fee to the Manager, the Company assigns the Management Agreement to PFP Corporate, a wholly-owned subsidiary of the Company. PFP Corporate, being a wholly-owned subsidiary of the Company, is a child entity of the Company within the meaning of Listing Rule 10.1.2.

By reason of the Management Agreement, the appointment of the Manager's two nominees to the Board (Albin Kurti and Fraser Henderson) and the shareholding of the Manager Shareholders in the Company, the Manager and the Manager Shareholders (being entities associated with each of the Executives and Peter Dowding) are related parties of the Company or associates of a related party of the Company. The Manager is a related party of the Company, as associated entities of Albin Kurti and Fraser Henderson, who are directors of the Company, together own (through their associated entities) more than 50% of the ordinary shares of the Manager. Albin Kurti and Fraser Henderson (as well as Peter Dowding) are also directors of the Manager. An entity associated with Peter Dowding is a minority shareholder of the Manager. An entity associated with Lilli Gladstone is also a shareholder of the Manager, with such shareholding entitling the shareholder to certain distributions.

Pursuant to ASX Listing Rule 10.1.5, the ASX has a discretion to require that shareholders approve a disposal of a substantial asset under ASX Listing Rule 10.1 where the counterparty

is in a position to exert influence over the entity's decision to enter into the transaction. The ASX may exercise its discretion under ASX Listing Rule 10.1.5 where a disposal of a substantial asset involves connected transactions.

The ASX Listing Rules define disposal to include a decrease in an entity's economic interest in a substantial asset.

Following assignment of the Management Agreement to PFP Corporate and then termination of the Management Agreement, the Company will have disposed of its rights, interests and obligations in, and under, the Management Agreement. The Transaction, including the payment of the Termination Fee to the Manager by way of the issue of the Termination Shares and payment of the Cash Component to the Manager, is a disposal of a substantial asset, conditional upon approval of the Non-Associated Shareholders for the purposes of ASX Listing Rule 10.1.

In accordance with ASX Listing Rule 10.10.2, a report from an independent expert is required where ASX Listing Rule 10.1 applies. The Independent Directors appointed the Independent Expert to complete an independent expert's report for this purpose and for the purpose of assisting the Non-Associated Shareholders' consideration and assessment of the merits of the Transaction.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of that report, the methodology and valuation and the assumptions made in it. The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders. A copy of the Independent Expert's Report accompanies this Booklet as Annexure 1. The Independent Expert's Report can be accessed on the Company's website at <https://investors.propelfuneralpartners.com.au/Investor-Centre>. A Shareholder may email or contact the Company Secretary at investors@propelfuneralpartners.com.au and the Company will send to that Shareholder a hard copy of the Independent Expert's Report at no cost to that Shareholder.

If the Non-Associated Shareholders do not pass Resolution 1, then:

- the Transaction will not proceed;
- the Management Agreement will not be terminated; and
- Resolution 2 will not be put to the Shareholders.

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of holders of ordinary securities. Further, exception 14 of ASX Listing Rule 7.2 states that approval pursuant to ASX Listing Rule 7.1 is not required if shareholder approval is obtained under ASX Listing Rule 10.11.

In general terms, ASX Listing Rule 7.1 provides that a listed company must not issue or agree to issue equity securities that total more than 15% of its fully paid ordinary shares in a 12 month period without the approval of its shareholders (**15% Capacity**), subject to certain exceptions. Under ASX Listing Rule 7.1, the company must not issue or agree to issue equity securities in excess of its 15% Capacity within a 12 month period without the approval of its

shareholders, subject to certain exceptions. Issues of equity securities made with prior shareholder approval are not included in the company's 15% Capacity.

If Resolution 1 is passed, then none of the Termination Shares will count towards the Company's 15% Capacity, and the Company will preserve the flexibility of being able to issue equity securities over the next 12 months (within the 15% Capacity), without the delays involved with seeking prior shareholder approval.

(b) Specific disclosure requirements for ASX Listing Rule 10.1

Name of the person to whom the entity is disposing of the substantial asset and category of Listing Rule 10.1 person

The Company will assign the Management Agreement to PFP Corporate Services Pty Ltd (ACN 623 445 330) (**PFP Corporate**). PFP Corporate is a child entity of the Company and falls within the category of persons in ASX Listing Rule 10.1.2. PFP Corporate and the Manager will then agree to terminate the Management Agreement.

The Manager will receive the Termination Fee as compensation for agreeing to the early termination of the Management Agreement. Each Manager Shareholder (being respective entities associated with each of the Executives and Peter Dowding) will ultimately receive the benefit of the Termination Fee following the Manager's distribution of the Termination Fee. Each of these persons fall within the category of persons in ASX Listing Rule 10.1.1, 10.1.4 and 10.1.5 because the Manager, Albin Kurti and Fraser Henderson are related parties of the Company and each of Lilli Gladstone and Peter Dowding are associates of related parties.

Details of the asset being disposed of and the consideration for the disposal

The Management Agreement is the substantial asset that is being disposed of, for a total consideration value of \$15 million plus GST by way of Propel's payment of the Termination Fee. 50% of the Termination Fee is payable by Propel's payment of the Cash Component to the Manager. The obligation to pay the remaining 50% of the Termination Fee is discharged by Propel issuing the Termination Shares to the Manager. The number of Termination Shares has been determined by dividing \$7.5 million by \$3.25, being the 30 day VWAP as at 28 May 2021, being the Business Day prior to the date of the Announcement.

Following the Manager's receipt of the Termination Fee, the Manager intends to declare and pay a fully franked dividend to the Manager Shareholders, to be satisfied by way of a cash payment and the off market transfer of the Termination Shares to the Manager Shareholders. Refer to Section 8.5 for further details.

Intended use of funds (if any) received for the disposal

Neither the Company nor PFP Corporate will receive any funds for the disposal of the substantial asset.

Timetable for completing the disposal

The disposal of the substantial asset will occur on the date the Management Agreement is terminated, being the Completion Date. The Completion Date is expected to be 26 July 2021, unless the Company and the Manager otherwise agree in writing.

Summary of any other material terms under which the disposal is occurring

Other material terms under which the disposal of the Management Agreement is occurring are:

- payment of the Termination Fee to the Manager in accordance with the Implementation Agreement and the Termination Deed;
- Propel's entry into the Executive Service Agreements with each of the Executives;
- non-compete covenants and restrictions applying to each of the Executives under their respective Executive Service Agreements during the term of their employment by Propel and for a maximum period of 12 months following cessation of employment;
- payment by the Company of all accrued, outstanding but unpaid Administration Fees (approximately \$18,000 (excluding GST), assuming a Completion Date of 26 July 2021) due to the Manager under the Management Agreement for the period prior to termination of the Management Agreement;
- assignment by the Manager, the Executives and Peter Dowding to the Company of all intellectual property rights created in the course of the Manager performing its services under the Management Agreement pursuant to the terms of the IP Transfer Deed; and
- amendment of the Voluntary Escrow Deed so that the Escrowed Shares will be released earlier from the voluntary escrow period in accordance with the Voluntary Escrow Amendment Deed.

Refer to Sections 4.2 to 4.9 for further details about the terms of the Implementation Agreement, the Termination Deed, the IP Transfer Deed, the Executive Service Agreements and the Voluntary Escrow Amendment Deed.

Voting Exclusion Statement

A voting exclusion statement is included in the Notice of Meeting for Resolution 1.

Independent Expert Report

The Independent Expert has concluded that the Transaction is not fair but reasonable to the Non-Associated Shareholders and that, on balance, the advantages of approving the Transaction outweigh the disadvantages of approving it. A copy of the Independent Expert's Report is attached as Annexure 1 to this Explanatory Memorandum.

(c) Specific disclosure requirements for ASX Listing Rule 10.11

Name of person

Propel Investments Pty Limited (ACN 117 536 357), the Manager.

Category of person

The Manager is a related party, within the category of person in ASX Listing Rule 10.11.1.

Number and class of securities to be issued to the person

A total of 2,307,692 Shares, being the Termination Shares, which are fully paid ordinary shares in the capital of the Company.

The price or other consideration the Company will receive for the issue

The Company will receive no funds for the issue of the Termination Shares. The deemed issue price is \$3.25 per Share.

The purpose of the issue

The issue of the Termination Shares is part of the Termination Fee, being the consideration payable to the Manager for agreeing to the early termination of the Management Agreement.

Summary of any other material terms of the agreement under which the securities are issued

The Termination Shares are issued pursuant to the Termination Deed, subject to Resolution 1 being approved and the Internalisation becoming effective. Other material terms include the obligation on Propel to pay the Cash Component to the Manager.

Voting exclusion statement

A voting exclusion statement is included in the Notice of Meeting for Resolution 1.

Recommendation regarding Resolution 1

The Independent Directors recommend that the Non-Associated Shareholders vote in favour of Resolution 1. The Chair of the meeting intends to vote undirected proxies in favour of Resolution 1.

8.2 Resolution 2 - Information required for Resolution 2 – Proposed amendments to the Constitution

Resolution 2 will not be put to the vote if Resolution 1 is not passed.

Resolution 2 is a special resolution proposing amendments to the Constitution in the manner set out below. Under section 136(2) of the Corporations Act, a company may modify or repeal its constitution or a provision of its constitution by special resolution of Shareholders. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 2 for it to be passed.

(a) Reasons for the Proposed Amendments to the Constitution

It is proposed to amend the Constitution to remove references to the Manager and the Management Agreement, given these concepts will become irrelevant if the Management Agreement is terminated. It is proposed to take this opportunity to make other changes to the Constitution so as to make it consistent with other listed company constitutions. The proposed changes are described below.

Albin Kurti, Managing Director and Fraser Henderson, Executive Director, Head of M&A, General Counsel and Company Secretary, are the nominees of the Manager appointed to the Board pursuant to the terms of the Management Agreement. The Transaction will, subject to the passage of Resolution 1, result in the termination of the Management Agreement and the Company's employment of, and payment of remuneration to, each of the Executives.

Clause 9 of the Management Agreement currently provides that, among other things:

- the Manager has the right to appoint two Directors to the Board, being less than half of the number of Directors appointed at any time;
- the Manager may nominate one of its nominees to be the Managing Director of the Company; and
- the persons nominated by the Manager as Directors or observers to the Board shall not be paid any director or observer fees.

The Constitution includes provisions in relation to the appointment of the nominees of the Manager and the powers of the Managing Director.

The Constitution also provides that the maximum number of Directors is five members or any lower number that the Board decides from time to time. The current Board consists of five members, being three non-executive Directors and two executive Directors. Subject to the Transaction being approved and effected, the Board will continue to comprise of five Directors, being Brian Scullin, Jonathan Trollip, Naomi Edwards (non-executive Directors) and Albin Kurti and Fraser Henderson (executive Directors). However, subject to Resolution 2 being passed, the Constitution will be amended to provide that the maximum number of Directors that can be appointed is eight members (increased from five members). The quorum will reduce to two, from three.

Rules 6.19(a) and (c) of the Constitution also provide that the Directors may from time to time appoint one of their number to the office of the Managing Director and that the provisions regarding retirement at each annual general meeting in Rule 6.7 do not apply to the Managing Director(s). The proposed amendments to the Constitution will not amend these specific provisions, such that Albin Kurti, whilst appointed to act as the Managing Director, will not be required to retire and offer himself for re-election at an annual general meeting, as is permitted under ASX Listing Rule 14.4 whilst a company has one managing director. Subject to Resolution 1 being passed, Mr Kurti will be employed as the Managing Director, subject to and upon the terms of his Executive Service Agreement. Section 4.7 summarises the terms and conditions of the Executive Service Agreement to be entered into between Propel and Albin Kurti.

In summary, the proposed amendments to the Constitution:

- remove references to the Manager and the Management Agreement in the Constitution;
- remove the right of the Manager to appoint nominees and observers to the Board;
- clarify that upon termination of the Management Agreement, the Directors may revoke or vary any of the powers conferred on the Managing Director; and
- other non-material changes.

Refer to Section 8.2(b) below for further details of the proposed amendments to the Constitution.

(b) Proposed Amendments to the Constitution the subject of Resolution 2

If Resolution 2 is passed as a special resolution, the constitution of the Company will be amended with effect from the day after the Completion Date by making the amendments set out below and as shown in the redline mark-up in the proposed amended constitution, a copy of which is available on <https://investors.propelfuneralpartners.com.au/Investor-Centre>.

The proposed amendments to the Constitution are as follows:

- In Rule 1.2(a), delete the definition for 'present in person' and insert the following new definition: "**present in person** means present in person, or by proxy, by attorney and, in the case of a corporation, by representative and, in the case of an individual envisaged in Rules 4.4 and 5.8(f), by legal personal representative, committee, trustee or other proper appointee (and includes any member, proxy, attorney or representative participating by use of technology in accordance with Rule 5.1(d));".
- Insert a new Rule 1.7 as follows: "Without limiting any other method of signing or delivery permitted by law, where this Constitution refers to or contemplates the signing of a document (including notices, resolutions, proxy forms, consents and resignations) by a chairperson, Director, Secretary, member or member's proxy, attorney or body corporate representative, the electronic signature, whether digital or encrypted, of that person has the same force and effect as his or her manual or 'wet ink' signature."
- In Rule 2.2(a)(ii) after the word 'redemption', delete the full stop and replace it with a semi colon.
- In Rule 2.6b), in the third line, after the words 'number of shares', delete the words 'and the issue price'.
- In Rule 3.9, insert a full stop after the word 'sale' at the end of the paragraph for Rule 3.9.
- Delete the definition of "Management Agreement" in Rule 1.2(a), Definitions.
- Delete the definition of "Manager" in Rule 1.2(a), Definitions.
- Delete Rule 6.2(c) and Rule 6.2(d) which relate to the Manager's right to appoint nominees as Directors.
- Renumber Rule 6.2(e) (regarding no share qualification for Directors) as Rule 6.2(c).

- Delete reference to Rule 6.2(c) in Rule 6.3(a) as a consequence of the removal of Rule 6.2(c) relating to retirement and re-election of nominee Directors of the Manager.
- Delete Rule 6.5(k) as following termination of the Management Agreement, no fees will be payable by the Company under that agreement.
- Delete Rule 6.19(e) and replace it with new Rule 6.19(e) as follows: "The Directors may confer upon a Managing Director any of the powers exercisable by them on such terms and conditions and with such restrictions as they think fit."
- Delete Rule 6.19(g) and replace it with new Rule 6.19(g) as follows: "The Directors may at any time withdraw or vary any of the powers conferred on the Managing Director."
- Delete Rule 6.19(h) of the Constitution.
- In Rule 6.11(a) (Quorum at Directors meetings), delete the number 3 on the second line and replace it with "two (2)", such that the quorum for a Directors' meeting is amended from 3 Directors to become 2 Directors.
- Delete Rule 7.2 (Register of documents executed) as such a register is not required to be kept under the Corporations Act.
- Delete current Rule 5.1(d) (regarding use of technology to hold general meetings) and replace it with a new Rule 5.1(d) (regarding use of technology to hold general meetings) as set out in the redline mark-up in the proposed amended constitution.
- In Rule 6.7(h), in the second and third line, replace the fraction 1/3 with the word "one-third".
- In Rule 8.4(c)(v) insert the word "as" before the words "the Directors consider expedient".
- In Rule 9.1(f) insert "or other document" after "notice" in both the first line and second line.
- Delete Rule 9.3 (Joint holders) as the proposed amendments to Rule 9.1(f) address how documents may be given to joint holders.

(c) Other Information for Resolution 2

Resolution 2 will not be put to the vote if Resolution 1 is not passed. If Resolution 1 is passed, but Resolution 2 fails, then the Internalisation will proceed and the Management Agreement will be terminated, but the Constitution will not be amended. The rules in the Constitution relating to the Manager and the Management Agreement will remain in the Constitution, albeit they will become defunct, and the other suggested amendments to the Constitution will not occur.

A clean copy of the Constitution which incorporates the proposed amendments is available for review by Shareholders at <https://investors.propelfuneralpartners.com.au/Investor-Centre> and at the registered office of the Company. A clean copy of the Constitution which incorporates the proposed amendments can also be sent to Shareholders upon request by contacting the Company Secretary by email on investors@propelfuneralpartners.com.au.

Shareholders are invited to contact the Company if they have any queries or concerns.

If Resolution 2 is passed, the Constitution will be amended in the manner described above and as set out in the redline mark up appearing at <https://investors.propelfuneralpartners.com.au/Investor-Centre> with effect from the day after the Completion Date.

If both Resolutions are passed, the Company will amend its Corporate Governance Statement, Securities Trading Policy and Corporate Governance Charter, to ensure they are consistent with the amendments to the Constitution and the termination of the Management Agreement. Subject to the Internalisation being approved, the Company will release the amended Corporate Governance Charter on the ASX Company Announcements Platform and make it available on the Company's website at www.propelfuneralpartners.com.au/Investor-Centre.

Recommendation regarding Resolution 2

The Independent Directors recommend that Shareholders vote in favour of Resolution 2. The Chair of the meeting intends to vote undirected proxies in favour of Resolution 2.

8.3 Arm's length terms of the Transaction

As referred to in this Explanatory Memorandum, an Independent Board Committee was established to consider and negotiate the terms of the Transaction with the Manager. Executive Directors, Albin Kurti and Fraser Henderson, each have a material personal interest in the outcome of the Resolutions, and have not voted upon, or actively participated in any Board meetings considering whether or not to recommend to the Non-Associated Shareholders the Resolutions. The Independent Directors:

- commissioned the Independent Expert to prepare an independent expert's report; and
- commissioned the Independent Remuneration Consultant to prepare its report.

Section 208 of the Corporations Act provides that a public company must not, subject to certain exceptions, give a financial benefit to a related party without approval of the company's members. Section 228 of the Corporations Act defines a 'related party' for the purposes of Chapter 2E to include directors of the public company (section 228(2)(a)) and an entity controlled by directors of the public company (section 228(4)).

Albin Kurti and Fraser Henderson are related parties of the Company for the purposes of Chapter 2E of the Corporations Act as they are directors of the Company. The Manager is a related party of the Company for the purposes of Chapter 2E of the Corporations Act as it is an entity majority owned and controlled by Albin Kurti and Fraser Henderson, who are directors of the Company.

A 'financial benefit' is defined in section 229 of the Corporations Act and includes issuing shares and paying money to a related party. Section 210 of the Corporations Act provides an exception to the requirement to obtain shareholder approval for giving a financial benefit to a related party, where the financial benefit is on terms that would be reasonable in the circumstances of the public company and the related party were dealing at arm's length.

The proposed payment of the Termination Fee to the Manager as compensation for agreeing to the early termination of the Management Agreement is a financial benefit payable to the Manager, which, by virtue of the Management Agreement and the Manager's right to appoint the Managing Director and a further Director, is a related party of the Company. The proposed issue of Termination Shares to the Manager, which will then be transferred to the Manager Shareholders (including associated entities of Albin Kurti and Fraser Henderson, both directors of the Company), may also constitute the giving of a financial benefit to a related party within the meaning of section 228 of the Corporations Act.

The Independent Expert has formed the opinion that the Transaction is not fair but is reasonable to the Non-Associated Shareholders. A proposed related party transaction is reasonable if it is fair, or despite not being fair, it is reasonable where there are sufficient reasons for the shareholders to vote in favour of the transaction.

Further, the Independent Board Committee had regard to the recommendations made by the Independent Remuneration Consultant in proposing the terms of, and remuneration payable under, the Executive Service Agreements.

Having regard to the Independent Expert's Report and the report prepared by the Independent Remuneration Consultant, the Independent Directors consider that the payment of the Termination Fee to the Manager is reasonable and falls within the arm's length exception set out in section 210 of the Corporations Act.

Notwithstanding that Chapter 2E approval of the Transaction is not required, Resolution 1 seeks approval of the Transaction for the purposes of ASX Listing Rules 10.1 and 10.11 and all other purposes.

8.4 Reasonableness of remuneration payable to a related party director or employees under the Executive Service Agreements

As referred to above, the remuneration payable under the Executive Service Agreements is based upon the recommendations made by the Independent Remuneration Consultant.

Section 211 of the Corporations Act provides an exception to the requirement to obtain member approval under section 208 of the Corporations Act where a financial benefit is remuneration to a director/related party or employee of a public company and to give the remuneration would be reasonable given the circumstances of the public company and the related party's circumstances (including the responsibilities involved in the office or employment).

The Independent Directors, having considered the proposed terms of the Executive Service Agreements, the circumstances of the Transaction and both the Independent Expert's Report and the report prepared by the Independent Remuneration Consultant, consider that each of:

- the remuneration package for Albin Kurti, to be employed as Managing Director of the Company, subject to the Internalisation being approved under Resolution 1, of a TFR of \$650,000 per annum inclusive of superannuation and opportunity to receive cash

settled STI and LTI awards (each for a maximum of 75% of TFR), subject to satisfaction of performance conditions;

- the remuneration package for Fraser Henderson, to be employed as Executive Director, Head of M&A, General Counsel and Company Secretary of the Company, subject to the Internalisation being approved under Resolution 1, of TFR of \$500,000 per annum inclusive of superannuation and opportunity to receive cash settled STI and LTI awards (each for a maximum of 50% of TFR), subject to satisfaction of performance conditions; and
- the remuneration package for Lilli Gladstone, to be employed as Chief Financial Officer of the Company, subject to the Internalisation being approved under Resolution 1, of TFR of \$450,000 per annum inclusive of superannuation and opportunity to receive cash settled STI and LTI awards (each for a maximum of 50% of TFR), subject to satisfaction of performance conditions,

is reasonable remuneration, with each falling within the exception in section 211 of the Corporations Act. Accordingly, shareholder approval is not required for the Company's entry into each of the Executive Service Agreements and payment of remuneration under their respective terms on and from the Completion Date.

8.5 How the Manager intends to distribute the Termination Fee

Following the Manager's receipt of the Termination Fee, the Manager intends to pay corporate tax on the Termination Fee (i.e. an amount of \$4,500,000, being 30% of the \$15,000,000), then declare and pay a fully franked dividend to the Manager Shareholders by way of a cash payment (being approximately \$3,000,000, as the after tax proceeds of the Cash Component) and the off-market transfer of the Termination Shares to the Manager Shareholders in the proportions set out below:

| Manager Shareholder (either directly or indirectly through their respective associated entities) | % of total of Cash Distribution | Allocated Cash Distribution |
|---|--|--|
| Albin Kurti | 39.4% | \$1,182,102 |
| Fraser Henderson | 31.4% | \$944,094 |
| Lilli Gladstone | 27.1% | \$812,054 |
| Peter Dowding | 2.1% | \$61,750 |
| Total | 100.0% | \$3,000,000 |

The number of Termination Shares to be transferred by the Manager to the Manager Shareholders is set out in Section 8.6 below.

Subject to Resolution 1 being passed, the Independent Directors will approve the dealing in the Termination Shares by each of Albin Kurti and Fraser Henderson (as directors of the Manager and the Company) under the Company's Securities Trading Policy, to permit the registration of the off-market transfer during the period between the Completion Date and prior to the lodgement of the Company's annual financial results for the 12 months ending 30 June 2021.

The information provided in this Section 8.5 about the Manager’s intention to declare a dividend and distribute the Termination Fee is provided by the Manager and the Manager takes responsibility for this information.

8.6 Effect of issue of the Termination Shares on the capital of the Company and voting power of the Manager and the Manager Shareholders

As at the date of this Explanatory Memorandum, the Company has on issue 99,946,016 Shares.

Subject to completion of the Internalisation, and after the Company issues 2,307,692 Termination Shares, the Company will have on issue a total of 102,253,708 Shares.

As at the date of this Explanatory Memorandum, the Manager currently does not hold any Shares.

The Manager Shareholders (either directly or indirectly through their respective associated entities) currently have a Relevant Interest in the Company’s Shares as set out below:

| Manager Shareholder (either directly or indirectly through their respective associated entities) | Number of Shares | % of voting power in current issued capital |
|---|-------------------------|--|
| Albin Kurti | 9,973,700 | 9.98% |
| Fraser Henderson | 7,029,615 | 7.03% |
| Lilli Gladstone | 171,582 | 0.17% |
| Peter Dowding | 3,647,290 | 3.65% |
| Total | 20,822,187 | 20.83% |

Following the Manager’s receipt of the Termination Fee, the Manager intends to declare and pay a fully franked dividend to the Manager Shareholders by way of a cash payment and the off-market transfer of the Termination Shares.

On issue of the Termination Shares to the Manager, the Manager will have a Relevant Interest in 2.26% of the Company (on a fully diluted basis).

Immediately following the issue of the Termination Shares to the Manager, the Manager and the Manager Shareholders will therefore collectively have a Relevant Interest in 23,129,879 Shares, representing 22.62% of the expanded share capital of the Company.

As referred to above, the Manager intends to transfer the Termination Shares to the Manager Shareholders by way of a fully franked dividend, in the amounts allocated as below:

| Manager Shareholder (either directly or indirectly through their respective associated entities) | % of total of Termination Shares | Allocated Termination Shares |
|---|---|---|
| Albin Kurti | 39.4% | 909,309 |
| Fraser Henderson | 31.4% | 726,226 |
| Lilli Gladstone | 27.1% | 624,657 |
| Peter Dowding | 2.1% | 47,500 |
| Total | 100.0% | 2,307,692 |

Following the Manager's dividend distribution to the Manager Shareholders, the Manager will cease to hold any Shares in the Company, but each Manager Shareholder (together with its respective associated entities) will have increased its Shareholding and voting power in the Company as follows:

| Manager Shareholder (either directly or indirectly through their respective associated entities) | Shareholding (including the Escrowed Shares and the additional allocated Termination Shares) | % of voting power (total expanded capital) |
|---|---|---|
| Albin Kurti | 10,883,009 | 10.64% |
| Fraser Henderson | 7,755,841 | 7.58% |
| Lilli Gladstone | 796,239 | 0.78% |
| Peter Dowding | 3,694,790 | 3.61% |

Following termination of the Management Agreement, none of the Manager Shareholders will be associates of each other. The ability of the Manager and the Manager Shareholders to exert influence over the conduct and affairs of the Company through the provision of the management services under the Management Agreement will cease. The powers and obligations of each of the Executives will be governed under the terms of their respective Executive Service Agreements, which contain post-employment non-compete provisions.

8.7 Proposed amendments to the Company's Corporate Governance Charter

The Board consists of a majority of independent and non-executive Directors and, if the Internalisation is approved, the current composition of Directors and independent oversight will remain unchanged. Brian Scullin will continue to be the Independent Chair of the Board and Jonathan Trollip and Naomi Edwards will continue to be appointed as non-executive Directors.

Subject to the Internalisation being approved, the Company intends to amend its Corporate Governance Charter to remove references to the appointment of the Manager under the Management Agreement.

The Company's amended Corporate Governance Charter will also include the establishment of a nomination and remuneration committee which will consist of the non-executive Directors.

Further, following the Completion Date, the Company intends to amend its Securities Trading Policy so that references to the Manager and the Management Agreement will be removed.

Subject to the Internalisation being approved, the Company will release the amended Corporate Governance Charter on the ASX Company Announcements Platform and make them available on the Company's website at www.propelfuneralpartners.com.au/InvestorCentre.

8.8 No Superior Alternative Transaction Proposal

As at the date of this Explanatory Memorandum, the Board has not received any Superior Alternative Transaction Proposal.

9. NOTICE OF MEETING

Notice is given that a General Meeting of Propel Funeral Partners Limited (ACN 616 909 310) (**Company**) will be held at 10.30am on 22 July 2021.

Special Business

Resolution 1: Approval of the termination of the Management Agreement and payment of the Termination Fee to the Manager

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That for the purposes of the ASX Listing Rules 10.1 and 10.11, and for all other purposes, Non-Associated Shareholders (being shareholders of the Company who are not Manager Shareholders or their associates) approve:

- (a) the Company's assignment of the management agreement dated 11 September 2017 (as amended) (**Management Agreement**) between the Company and Propel Investments Pty Limited (ACN 117 536 357) (**Manager**) to the Company's wholly-owned subsidiary, PFP Corporate Services Pty Ltd (ACN 623 445 330) (**PFP Corporate**), with the Manager's consent immediately prior to termination of the Management Agreement;*
- (b) the Company and PFP Corporate entering into the Termination Deed with the Manager to give effect to the termination of the Management Agreement; and*
- (c) PFP Corporate's payment of the Termination Fee to the Manager, in the manner as detailed in this Explanatory Memorandum."*

Independent Expert's Report

The Non-Associated Shareholders should carefully consider and read in its entirety the Independent Expert's Report (in Annexure 1) prepared by the Independent Expert for the purposes of seeking shareholder approval required under ASX Listing Rule 10.1 for this resolution.

The Independent Expert has determined that the Transaction is not fair but reasonable to the Non-Associated Shareholders.

Voting Exclusion Statement – Resolution 1

The Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- PFP Corporate Services Pty Ltd ACN 623 445 330, the Manager, being Propel Investments Pty Limited ACN 117 536 357, Albin Kurti and his associated entities, Fraser Henderson and his associated entities, Lilli Gladstone and her associated entities, Peter Dowding and his associated entities and the Escrowed Holder and its associated entities; and

- any other person who will obtain a material benefit as a result of the Transaction and issue of the Termination Shares (except a benefit solely by reason of being a holder of ordinary securities in the Company); or
- an Associate of those persons referred to above.

However, this does not apply to a vote cast in favour of Resolution 1 by:

- a person as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with directions given to the proxy or attorney to vote on Resolution 1 in that way;
- the Chair of the Meeting as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with a direction given to the Chair to vote on Resolution 1 as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on Resolution 1; and
 - the holder votes on Resolution 1 in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 2: Amendment of the Constitution of the Company

To consider and, if thought fit, to pass with or without amendment, the following resolution as a **special resolution**:

“That for the purpose of section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to amend its existing constitution in the manner set out in Section 8.2(b) of the Explanatory Memorandum, with effect from the day after the Completion Date and in the form signed by the Chair of the Meeting for identification purposes.”

Resolution 2 will not be put to the vote if Resolution 1 is not passed.

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of Meeting.

By Order of the Board



Brian Scullin
Chair

22 June 2021

Background Information to Notice of Meeting

The following information forms part of this Notice of Meeting.

How to Vote

You may vote by attending the Meeting in person or by proxy. A body corporate may vote by appointing a corporate representative.

Voting in person

To vote in person, attend the Meeting on Thursday, 22 July 2021 at Level 16, 1 Market Street, Sydney NSW 2000. The Meeting will commence at 10.30am (AEST).

Entitlement to vote and required majority

Snapshot time

The Company has determined, under Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that for the purposes of the general meeting, shares will be taken to be held by the persons who are registered holders at **10.30am (AEST) on Tuesday, 20 July 2021**. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Required majority

Resolution 1 is an **ordinary resolution** and will be passed if more than 50% of the votes cast by Shareholders entitled to vote on Resolution 1 are cast in favour of Resolution 1.

Resolution 2 is a **special resolution** and requires 75% of the votes cast by Shareholders entitled to vote on the resolution.

In the interests of transparency and good governance, and so as to include proxy votes that have been lodged before the Meeting, the vote on each Resolution will be decided on a poll.

Each Shareholder entitled to vote and be present (in person, by proxy or representative) has one vote for each fully paid ordinary share held.

Voting at the Meeting: Proxies, attorneys and corporate representatives

A shareholder entitled to attend and vote can do so either by:

- attending and voting, by appointing a representative to attend and vote on the shareholder's behalf; or
- appointing not more than 2 proxies to attend and vote for the shareholder.

The Independent Directors encourage Shareholders to attend the Meeting in person or by proxy.

As noted above, all voting at the Meeting will occur via a poll in respect of both Resolutions. The Chair will open the poll, and voting will commence, at the beginning of the Meeting at 10.30am (Sydney time) on Thursday, 22 July 2021. The poll will remain open for the majority of the Meeting and will be closed once all items of business items have been considered.

Whilst Shareholders attending in person will be able to vote on the Resolutions during the Meeting, Shareholders are encouraged to lodge a Proxy Form ahead of the meeting, even if they are going to attend.

Voting by proxy

If a Shareholder does not want to attend the Meeting, but is entitled to attend and vote, the Shareholder can appoint the Chair or another person as proxy to attend and vote for the shareholder. A proxy need not be a shareholder of the Company and can either be an individual or a body corporate. The proxy can be appointed in respect of some or all of the votes held by the shareholder. A shareholder that is entitled to cast two or more votes may appoint up to two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes. If a shareholder appoints a body corporate as proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the meeting (see 'Voting by corporate representative' below). A Proxy Form (template) is enclosed with this Notice of Meeting. Shareholders are encouraged to direct their proxies how to vote.

The Proxy Form will provide that if a proxy is appointed and the proxy is not the Chair, the shareholder's direction to vote in respect of each Resolution applies where voting is by poll on each relevant Resolution.

Completed Proxy Forms (together with any authority under which the proxy was signed or a certified copy of the authority) must be received by the Company's corporate registry, Link Market Services Limited, at least 48 hours before the meeting for the proxy to be effective (that is, no later than **10.30am (AEST) on 20 July 2021**), at the following address, facsimile number or website address:

| | | | | |
|------------|-------------------------------|--|----------|---|
| Address: | By mail: | Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia | By Hand: | Link Market Services Limited 1A Homebush Bay Drive Rhodes NSW 2138 Australia |
| Facsimile: | +61 2 9287 0309 | | | |
| Online: | www.linkmarketservices.com.au | | | |

Proxy voting by attorney

If a Proxy Form is signed under a power of attorney on behalf of a shareholder, then the original power of attorney, or a certified copy of it, must be received by **10.30am (AEST) on 20 July 2021** by Link Market Services Limited, as set out above for proxy forms.

Voting by corporate representative

Any proxy that is a body corporate must appoint a person to act as its representative to exercise its powers at the Meeting, in accordance with section 250D of the Corporations Act. Shareholders that are bodies corporate can appoint a corporate representative.

Formal notices of appointment must be received no later than **10.30m (AEST) on 20 July 2021** by the Company's corporate registry, Link Market Services Limited. A form of notice of appointment can be obtained from the Company's corporate registry, Link Market Services Limited or downloaded from www.linkmarketservices.com.au/investor-forms.

Voting exclusions

Voting exclusions apply in respect of Resolution 1 and are set out in the Notice of Meeting under Resolution 1.

How the Chair will vote available proxies

The Chair intends to vote all valid undirected proxies **IN FAVOUR** of each Resolution set out in this Notice of Meeting, subject to the voting exclusions for Resolution 1.

Proxy voting by the Chair

If the proxy is the Chair, the proxy must vote on a poll and must vote on each Resolution in the manner specified in the Proxy Form. The Constitution provides that if the proxy is not the Chair, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote in the manner specified. The Proxy Form will provide that if a proxy is appointed and the proxy is not the Chair, the shareholders' direction to vote in respect of each Resolution applies where voting is by poll on each relevant Resolution.

Admission to Meeting

It is recommended that shareholders or their proxies or representatives who will be attending the Meeting arrive at least 15 minutes prior to the scheduled start time.

Shareholders who do not plan to attend the Meeting are encouraged to complete and return a Proxy Form.

More information

If you have any questions or require further information about this Notice of Meeting, please contact the Company's Chair, Brian Scullin at investors@propelfuneralpartners.com.au.

10. GLOSSARY

10.1. Definitions

In this Explanatory Memorandum (including the Annexure), the following words shall have the meaning stated, unless the context requires otherwise:

| | |
|---|--|
| 1H FY2021 | 6 month period ended 31 December 2020. |
| Administration Fee | An administration fee calculated and payable under the Management Agreement. |
| Adjusted EPS | Earnings per Share, adjusted for significant, one off or extraordinary items or events. |
| AEST | Australian Eastern Standard Time (as observed in Sydney, New South Wales). |
| Alternative Transaction Proposal | Any proposal by a third party under which if the proposal is completed: <ul style="list-style-type: none">• a person would acquire (whether directly or indirectly) or become the holder of, or otherwise have a right to acquire or have an economic interest in, all or substantially all of the business conducted by the Company, or the assets of the Company;• a person would acquire (whether directly or indirectly) Control of the Company;• a person would acquire a Relevant Interest in, or voting power of, 50% or more of the Shares; or• a person would otherwise acquire, or merge or amalgamate with, the Company (or any member of the Company); and• the Company would be required by law to abandon the Transaction. |
| Announcement | The ASX announcement made by the Company on 31 May 2021. |
| Assignor IP | All intellectual property created or developed by the Manager, the Executives or Peter Dowding in connection with, related to, or arising from the provision of the management services pursuant to the Management Agreement and the right to take action against third parties for infringement of any rights relating to such intellectual property whether occurring before or after the date of the IP Transfer Deed. |
| Associate | Has the meaning given to that term in ASX Listing Rule 19, unless the context otherwise requires. |
| ASX | ASX Limited (ACN 008 624 691). |
| ASX Listing Rules | Official listing rules of the ASX. |
| Board | The board of directors of the Company. |

| | |
|-------------------------------------|---|
| Booklet | The Company's Notice of Meeting and the Explanatory Memorandum (including the Independent Expert's Report). |
| Business Day | A weekday on which trading banks are open for business in Sydney, Australia, excluding any Saturday, Sunday or public holiday. |
| CAGR | Compound Annual Growth Rate. |
| Cash Component | The cash amount of \$7,500,000, forming part of the Termination Fee payable by Propel to the Manager. |
| Chair | Independent Chair of the Company, Brian Scullin. |
| Company | Propel Funeral Partners Limited (ACN 616 909 310). |
| Completion Date | 26 July 2021, or such other date as is agreed in writing between the Company and the Manager. |
| Constitution | The constitution of the Company. |
| Control | As that term is defined in section 50AA of the Corporations Act. |
| Corporations Act | <i>Corporations Act 2001 (Cth)</i> . |
| CPI | Has the meaning given in the Management Agreement. |
| Director | Director of the Company. |
| EBIT | Earnings before interest and tax. |
| EPS | Operating NPAT divided by the weighted average number of Shares on issue for the period. |
| Escrowed Holder | DKH TI Pty Ltd ACN 616 879 844 as trustee of the DKH Unit Trust, an associated entity of Albin Kurti, Fraser Henderson and Peter Dowding. |
| Escrowed Shares | 14,732,667 Shares held by the Escrowed Holder. |
| ESG | Environmental, social and governance. |
| Executives | Albin Kurti, Fraser Henderson and Lilli Gladstone. |
| Executive Service Agreements | The executive service agreements to be entered into between PFP Corporate and each of the Executives. |
| Explanatory Memorandum | The explanatory statement in relation to the Transaction, which forms part of the Booklet. |
| Financier | Westpac Banking Corporation. |
| Fixed charge cover ratio | Operating EBITDA plus rent expense divided by the sum of interest expense and rent expense, calculated on a pre AASB 16 (Leases) basis. |
| FY2018 | 12 month financial year ended 30 June 2018. |
| FY2019 | 12 month financial year ended 30 June 2019. |

| | |
|--|--|
| FY2020 | 12 month financial year ended 30 June 2020. |
| FY2022 | 12 month financial year ended 30 June 2022. |
| FY2025 | 12 month financial year ended 30 June 2025. |
| Gearing Ratio | Net debt divided by net debt plus total equity. |
| Gross Profit | Total revenue less cost of sales. |
| Group | The Company and its wholly owned subsidiaries. |
| GST | Has the meaning given in the GST Act. |
| GST Act | A New Tax System (Goods and Services Tax) Act 1999 (Cth). |
| Internalisation | The various transactions described in this Booklet, except the proposed amendments to the Constitution. |
| Implementation Agreement | The agreement between the Company and the Manager dated 30 May 2021. |
| Independent Board Committee | The committee consisting of the Independent Directors, established by the Board. |
| Independent Directors | Brian Scullin, Chair, Naomi Edwards, Non-executive Director and Jonathan Trollip, Non-executive Director. |
| Independent Expert | BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFSL 247420. |
| Independent Expert's Report | The report dated 7 June 2021 prepared by the Independent Expert provided to the Company and the Shareholders providing an opinion as to whether the Transaction is fair and reasonable to the Non-Associated Shareholders. |
| Independent Remuneration Consultant | Guerdon Associates Pty Ltd (ABN 47 618 560 991) |
| Initial Term | The initial 10 year term of the Management Agreement which commenced on 17 November 2017. |
| IP Transfer Deed | The intellectual property transfer deed to be entered into between the Company, the Manager, the Executives and Peter Dowding. |
| IPO Prospectus | The initial public offering prospectus issued by the Company and dated 25 October 2017. |
| LTI | Long Term Incentive. |
| LTIP | Long Term Incentive Plan. |
| Management Agreement | The management agreement between the Company and the Manager dated 11 September 2017 (as amended). |
| Manager | Propel Investments Pty Limited (ACN 117 536 357). |
| Manager Shareholders | Shareholders of the Manager, being associated entities of the Executives and Peter Dowding. |

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|------------------------------------|--|
| Meeting | General meeting of the Shareholders convened to consider the Resolutions. |
| Meeting Date | The date of the Meeting. |
| NBPT | Net profit before tax. |
| Net Leverage Ratio | Net debt (excluding the \$10 million working capital facility) divided by Operating EBITDA, adjusted for the annualised impact of acquisitions and other adjustments, calculated on a pre AASB 16 (Leases) basis. |
| Nexia Audit | Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399). |
| Nexia Corporate | Nexia Sydney Corporate Advisory Pty Ltd (ABN 68 114 696 945). |
| Non-Associated Shareholders | The shareholders of the Company who are not: <ul style="list-style-type: none"> • the Manager Shareholders; or • Associates of the Manager Shareholders or the Manager. |
| Notice of Meeting | Notice contained in Section 9 of this Booklet, convening the Meeting. |
| NPAT | Net profit after tax. |
| Operating EBITDA | In respect of the Group, earnings before interest, taxes, depreciation and amortisation and certain non-operating items, such as transaction costs, non-recurring items and certain non-cash items, such as impairment expense (if any). |
| Operating NPAT | In respect of the Group, net profit after tax, adjusted for certain non operating items and items that do not reflect underlying performance, such as transaction costs and certain non-cash items, such as impairment expense (if any). |
| Performance Fee | A performance fee calculated and payable under the Management Agreement. |
| PFP Corporate | PFP Corporate Services Pty Ltd (ACN 623 445 330), a wholly-owned subsidiary of the Company. |
| Propel | Company and/or, where the context admits, PFP Corporate. |
| Proxy Form | A proxy form for a Shareholder to vote on the Resolutions, a template of which is attached as Annexure 2. |
| Relevant Interest | Has the meaning given to that term in section 608 of the Corporations Act. |
| Resolution 1 | The first shareholder resolution detailed in the Notice of Meeting (regarding approval of the termination of the Management Agreement as part of the Internalisation and payment of the Termination Fee). |
| Resolution 2 | The second shareholder resolution detailed in the Notice of Meeting (regarding proposed amendments to the Constitution). |

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|--|---|
| Resolutions | Resolution 1 and Resolution 2. |
| Share | A fully paid ordinary share in the capital of the Company. |
| Share Based Payment | The one off, non cash expense resulting from the amendments to the Voluntary Escrow Deed as required by Australian Accounting Standards Board AASB 2 (Share based payment). |
| Shareholder | A holder of one fully paid ordinary share in the Company. |
| STI | Short Term Incentive. |
| STIP | Short Term Incentive Plan. |
| Superior Alternative Transaction Proposal | A bona fide unsolicited Alternative Transaction Proposal received by the Company after the date of the Implementation Agreement which the Independent Board Committee has determined, acting in good faith and in accordance with their fiduciary duties, and after consultation with and the receipt of written advice from the Independent Board Committee's external legal advisors and financial advisers is: (1) reasonably capable of being completed, taking into account all aspects of the Alternative Transaction Proposal and the person making it; and (2) more favourable to Shareholders (as a whole) than the Transaction, taking into account all the terms and conditions of the Alternative Transaction Proposal. |
| Termination Deed | The deed of assignment and termination to be entered into between the Company, PFP Corporate and the Manager. |
| Termination Fee | The consideration of \$15,000,000 comprising the Cash Component and the Termination Shares. |
| Termination Shares | A total of 2,307,692 Shares valued at \$7,500,000 (using 30 day VWAP as at 28 May 2021, being the Business Day prior to the date of the Announcement) to be issued by the Company to the Manager and forming part of the Termination Fee. |
| Total Shareholder Return | The total shareholder return for the purposes of calculating the Performance Fee under the Management Agreement, and as determined in accordance with the formula set out in the Management Agreement. |
| Transaction | The various transactions described in this Booklet, including the assignment and termination of the Management Agreement, the payment of the Termination Fee, entry into and execution of the Voluntary Escrow Amendment Deed, the IP Transfer Deed and the Executive Service Agreements and the proposed amendments to the Constitution. |
| Transaction Costs | The costs associated with the Transaction and the Meeting to be borne by the Company. |
| VWAP | Average of the daily volume weighted average price of the Shares. |

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|--|---|
| Voluntary Escrow Amendment Deed | The deed amending the Voluntary Escrow Deed between, among others, the Company and the Escrowed Holder. |
| Voluntary Escrow Deed | The voluntary escrow deed dated on or around 25 October 2017 entered into between, among others, the Company and the Escrowed Holder. |

10.2. Interpretation

In this Explanatory Memorandum (including the Annexure) unless the context otherwise requires:

- a number of figures, amounts, percentages, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Memorandum;
- except where otherwise stated, all references to times in this Explanatory Memorandum are references to AEST;
- all references to "\$", "dollar" and "cent" are references to Australian currency, unless stated otherwise;
- words and phrases not otherwise defined in this Explanatory Memorandum (excluding the Annexure) have the same meaning (if any) as is given to them by the Corporations Act;
- the singular includes the plural and vice versa. A reference to a person includes a reference to a corporation;
- headings are for ease of reference only and do not affect the interpretation of this Explanatory Memorandum; and
- a reference to a section is to a section in this Explanatory Memorandum unless stated otherwise.

11. CORPORATE DIRECTORY

| | |
|--|---|
| Company | Propel Funeral Partners Limited ACN 616 909 310 (ASX: PFP) |
| Company Secretary | Fraser Henderson |
| Directors | Brian Scullin, Chair Naomi Edwards, Non-executive Director Jonathan Trollip, Non-executive Director Albin Kurti, Managing Director Fraser Henderson, Executive Director |
| Financial Adviser | Bell Potter Securities Limited ABN 25 006 390 772 |
| Principal Registered Office | Level 18.03, 135 King Street Sydney, NSW 2000 |
| Manager | Propel Investments Pty Limited ACN 117 536 357 |
| Share Registry | Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 |
| Tax Adviser | PriceWaterhouseCoopers |
| Independent Expert | BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFSL 247420 |
| Independent Remuneration Consultant | Guerdon Associates Pty Ltd ABN 47 618 560 991 |
| Company's Legal Adviser | Mont Lawyers Pty Limited ACN 631 930 937 |
| Stock Exchange Ticker | Listed on the ASX with Ticker Code: PFP |
| Website | www.propelfuneralpartners.com.au |

Annexure 1: Independent Expert Report



INDEPENDENT EXPERT REPORT

PROPEL FUNERAL PARTNERS LIMITED

In relation to the proposed termination of the management agreement with
Propel Investments Pty Ltd

7 June 2021





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www.bdo.com.au

Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

FINANCIAL SERVICES GUIDE

Dated: 7 June 2021

This Financial Services Guide ('FSG') helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd ('BDO Corporate Finance, we, us, our').

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide *general* advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$55,000 for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

COMPLAINTS RESOLUTION

Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 11, 1 Margaret St, Sydney NSW 2001 or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, our determination, has the right to refer the matter to the Australian Financial Complaints Authority (AFCA). AFCA is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of AFCA (Member Number 11843).

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
MELBOURNE VIC 3001
Toll free: 1800 931 678
Email: info@afca.org.au

COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - cf.ecp@bdo.com.au



SUMMARY OF FINDINGS





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Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

The Independent Directors
Propel Funeral Partners Limited
Level 18.03
135 King Street
SYDNEY NSW 2000

7 June 2021

Dear Independent Directors

INDEPENDENT EXPERT REPORT IN RELATION TO THE PROPOSED TERMINATION OF THE MANAGEMENT AGREEMENT WITH PROPEL INVESTMENTS PTY LIMITED

1. INTRODUCTION

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (**BDOCF, we, us or our**) have been engaged by the Independent Directors (**Directors**) of Propel Funeral Partners Limited (**Propel or the Company**) to prepare this independent expert report (**Report or IER**), setting out our opinion as to whether the proposed termination of the Management Agreement with Propel Investments Pty Ltd (**PIPL or the Manager**) (**Proposed Transaction**), is fair and reasonable to the shareholders of Propel not associated with the Manager (**Shareholders**).

Propel owns and operates businesses, properties, infrastructure and related assets in the death care industry, and is listed on the Australian Securities Exchange (**ASX**). The Company was founded and is managed by PIPL. The Management Agreement requires PIPL to execute the Company's investment strategy, on an exclusive basis. The initial term of the Management Agreement expires on 17 November 2027.

Three key management personnel (**KMP**) of the Manager currently provide the services required by the Management Agreement. The KMP hold shares in Propel with a collective interest of approximately 17%. The majority of shares held by the KMP in Propel were issued prior to the IPO of Propel and are subject to escrow restrictions. Two of the KMP are also on the Board of Directors of Propel.

If the Proposed Transaction is approved:

- ▶ the Management Agreement will be assigned to a subsidiary of the Company and then terminated;
- ▶ the KMP will enter into executive services agreements (**ESAs**) with Propel and be paid salaries including short term and long term incentives. Propel will also incur the associated costs in relation to their employment;
- ▶ the intellectual property from the Manager, its officers and employees, will be transferred to the Company;
- ▶ the Constitution of the Company will be amended to remove references to the Management Agreement and Manager's rights, clarify the powers conferred to the Managing Director, and allow a maximum of 8 directors instead of 5 (please refer to the Meeting Booklet for more information); and
- ▶ the shares held by an associated entity of the Manager which are under escrow arrangements will be released from escrow earlier than is currently the case.

In connection with the termination of the Management Agreement, Propel will be required to pay PIPL \$15 million, as follows:

- ▶ cash of \$7.5 million (**Cash Component**); and
- ▶ 2,307,692 shares in the Company (**Termination Shares**). The number of Termination Shares has been calculated with reference to the Company's 30 day volume weighted average price (**VWAP**) of \$3.25 as at 28 May 2021. Based on the VWAP of \$3.25, the value of the Termination Shares is \$7.5 million. The issued Termination Shares are not subject to any escrow arrangements;

(together defined as the **Termination Payment**).

Full details of the Proposed Transaction are set out in the Meeting Booklet that has been prepared for the Shareholders by the Independent Directors (**Transaction Booklet**).

BDO Corporate Finance (East Coast) Pty Ltd ABN 70 050 038 170 AFS Licence No. 247 420 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (East Coast) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards legislation.



2. PURPOSE OF REPORT

The Independent Directors have requested that BDOCF prepare an IER stating whether, in our opinion, the Proposed Transaction is fair and reasonable to the Shareholders, to satisfy the requirements of ASX Listing Rules 10.1 and 10.11 (LR 10.1 and LR 10.11).

LR 10.1 deals with transactions between an entity and persons in a position to influence the entity. If an ASX listed entity is acquiring or disposing of a significant asset to a related party, LR 10.1 requires the shareholders to approve the acquisition or disposal.

LR 10.11 requires an entity to obtain the approval of the ordinary shareholders before issuing any equity securities to a related party or their associate.

LR 10.5.10 requires that a report on the transaction from an independent expert be included in the notice of meeting. The report must state the expert's opinion as to whether the transaction is fair and reasonable to the holders of the entity's ordinary securities whose votes in favour of the transaction are not to be disregarded under LR 14.11.

This IER is to accompany the Transaction Booklet to be provided to the Shareholders. It has been prepared to assist and enable Shareholders to assess the merits of the Proposed Transaction and to decide whether or not to approve the Proposed Transaction.

3. APPROACH

In preparing our IER, we have considered the requirements of:

- ▶ ASIC Regulatory Guide 111 Content of expert reports (RG 111);
- ▶ ASIC Regulatory Guide 112 Independence of experts (RG 112); and
- ▶ Accounting Professional & Ethical Standards Board (APESB) professional standard APES 225 'Valuation Services' (APES 225).

RG 111 establishes guidelines in respect of independent expert reports under the Act. This regulatory guide provides guidance as to what matters an independent expert should consider to assist shareholders to make informed decisions about transactions.

RG 111 states that there should be a separate assessment of fairness and reasonableness.

This engagement is a Valuation Engagement as defined by APES 225.

3.1. Fairness

Paragraph 57 of RG 111 states that "a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length".

Based on our interpretation of RG111, we have compared:

- ▶ The present value of the likely costs payable to the Manager under the Management Agreement, if it continues for the remaining 6.5 years of the initial term (**Pre-Transaction Management Costs**); and
- ▶ The present value of costs payable under the new management structure over the same period, including the Termination Payment, remuneration costs, and associated transaction costs (**Post-Transaction Management Costs**).

We have assessed the management costs over the remaining 6.5 years of the initial term as the Company has the right to terminate the Management Agreement at this time.

3.2. Reasonableness

In accordance with paragraph 60 of RG111, a proposed related party transaction is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons to vote for the proposal.

When deciding whether a transaction is 'reasonable', factors an expert might consider include:

- ▶ the financial situation and solvency of the entity;
- ▶ opportunity costs;
- ▶ the alternative options available to the entity and the likelihood of those options occurring;
- ▶ the entity's bargaining position;



- ▶ whether there is selective treatment of any security holder, particularly the related party;
- ▶ any special value of the transaction to the purchaser; and
- ▶ the liquidity of the market in the entity’s securities.

4. SUMMARY OF OPINION

We have concluded that the Proposed Transaction is not fair but reasonable to the shareholders of Propel not associated with the Manager, at the time of writing this Report.

A summary of our analysis in forming the above opinion is provided below. This summary should be read in conjunction with our full IER that sets out in full the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

4.1. Fairness assessment

In undertaking our assessment of fairness, we have had regard to ASIC RG 111.

Our analysis has been performed by comparing:

- ▶ the present value of the Pre-Transaction Management Costs; and
- ▶ the present value of the Post-Transaction Management Costs.

The Proposed Transaction will be fair if the Post-Transaction Management Costs are less than or equal to the Pre-Transaction Management Costs.

As part of our assessment of the Pre-Transaction Management Costs, we have assessed the likely:

- ▶ performance fees;
- ▶ administration fees; and
- ▶ termination fees.

To assess the Post-Transaction Management Costs, we have assessed the likely:

- ▶ Termination Payment;
- ▶ remuneration payments for the executive roles filled by the KMP, including associated employee on costs; and
- ▶ transaction costs associated with the termination of the Management Agreement.

We have assessed the fair market value (FMV) of Propel shares that form part of the Termination Payment using the quoted market price (QMP) and capitalisation of earnings (COE) methods.

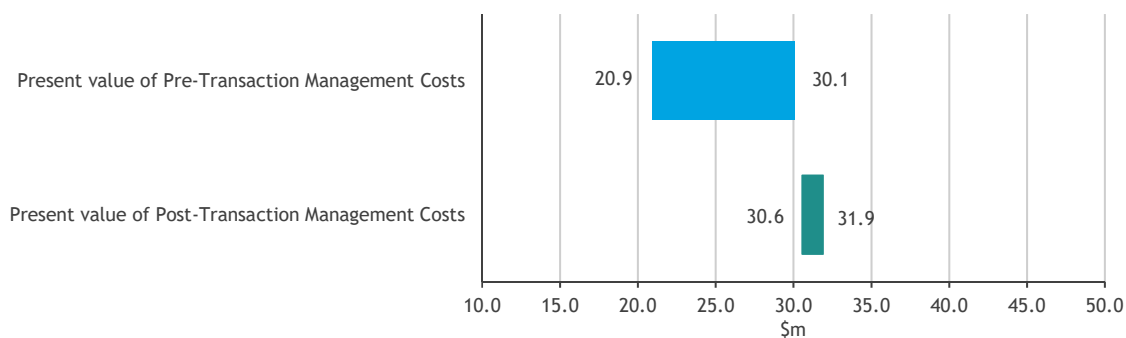
The result of our fairness analysis is summarised below.

Table 1: Fairness summary

| \$m | Low | High |
|--|--------------|--------------|
| Present value of Pre-Transaction Management Costs | 20.9 | 30.1 |
| Present value of Post-Transaction Management Costs | 30.6 | 31.9 |
| Additional cost as a result of the Proposed Transaction | (9.7) | (1.8) |

Source: BDOCF analysis

Figure 1: Fairness summary



Source: BDOCF analysis

As set out above, the Post-Transaction Management Costs are greater than the Pre-Transaction Management Costs.

Therefore, we have concluded that the Proposed Transaction is not fair to Shareholders.

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

4.2. Reasonableness conclusion

In accordance with RG 111, a proposed related party transaction is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the shareholders of Propel not associated with the Manager to vote in favour of the Proposed Transaction.

We have assessed the reasonableness of the Proposed Transaction by considering the factors set out in the following table.

Table 2: Summary of factors considered in the reasonableness assessment

| Advantages | |
|--|---|
| Propel Shareholders will be better able to influence the election of management and remuneration | The termination of the Management Agreement, and the employment of KMP, enables Shareholders to have a greater influence over Propel management and remuneration. Propel shareholders will have the ability to elect directors (excluding the Managing Director) on a three-year rotational basis and vote on the remuneration payable to the executives of as part of the annual AGM process. |
| Eliminates the risk of substantially higher management costs after the Initial Term and possible business disruption | <p>Our fairness assessment has been conducted over the remaining period of the Initial Term of the Management Agreement. The analysis has been performed on this basis as the Company has the ability to terminate the Management Agreement and avoid substantially higher management costs after the Initial Term.</p> <p>After the Initial Term, the Manager is entitled to the following fees:</p> <ul style="list-style-type: none"> ▶ Administration fee - there is no change in the calculation of the administration fee post the Initial Term ▶ Performance fee - there is no change in the calculation of the performance fee post the Initial Term ▶ Management fee - No management fee is payable during the Initial Term. After the Initial Term, a management fee of 0.375% per quarter is payable. Based on Propel's current market capitalisation, the annual management fee would be c.\$5m. <p>The management fee alone is substantially higher than the annual commercial salaries of the KMP that provide these services. We have estimated the commercial salaries of the KMP to be c.\$3m including short term and long term incentives (refer to Table 26 in our IER).</p> <p>In our opinion it would be in Propel's best interests to cancel the Management Agreement at the end of the Initial Term and employ the KMP as is proposed under the Proposed Transaction. However there are a number of difficulties with this approach:</p> <ol style="list-style-type: none"> 1. Cancelling the Management Agreement requires an ordinary resolution to be passed. Currently the KMP hold c.21% of Propels ordinary shares. We have been advised by Management that the KMP are entitled to vote on such a resolution. If the KMP vote to continue the Management Agreement, it may be difficult to obtain enough votes to cancel the Management Agreement. 2. If the Management Agreement is cancelled at the end of the Initial Term, there is no guarantee that the KMP will continue as employees of Propel. Propel may be required to commence a search for a new management team in a short period of time. This search would involve additional costs, and possible disruption to Propel's Business. <p>Approving the Proposed Transaction avoids the risk of incurring substantial management costs after the Initial Term, and also avoids potential business disruption if the Management Agreement is cancelled at the end of the Initial Term.</p> |



| Advantages (cont'd) | |
|--|---|
| Certainty of management costs | <p>The performance fee payable to the Manager under the current agreement is subject to certain conditions being met (refer to Section 4.3 of our IER). The timing and quantum of these payments are uncertain. These potential payments are also uncapped.</p> <p>The internalisation of management will reduce the current uncertainty around timing and magnitude of management costs.</p> |
| Prevention of potential breach of debt obligations to meet obligations to pay fees to the Manager after the Initial Term | <p>Under the current Management Agreement, material fees would be payable by the Company to the Manager after the Initial Term.</p> <p>The obligation to pay material management fees and uncapped performance fees may put the Company into default.</p> |
| Demand and liquidity for Propel shares may improve when the Corporate Governance structure is more aligned to the market | <p>The current structure where Propel has key management services provided by an external manager is not in line with current market practices.</p> <p>The Transaction Document notes that potential institutional investors have been unable or unwilling to invest in Propel due to the externally managed model.</p> <p>The termination of the Management Agreement and employment of KMP by Propel may attract new institutional investors.</p> <p>We note that upon announcement of the Proposed Transaction the share price increased from \$3.41 to \$3.70. This increase may have resulted from a range of factors including the announcement of the Proposed Transaction. If the proposal is not approved, the share price may revert to previous levels.</p> <p>The internalisation of management may also provide increased alignment for corporate activity such as takeover transactions.</p> <p>We do note that the KMP are currently aligned with Propel through their direct and indirect shareholdings in Propel. KMP currently have an interest in Propel of approximately 17% with an estimated value of c. \$54 million. Following the Proposed Transaction, the KMP will collectively hold an interest of approximately 19% in Propel.</p> |
| Retention of Propel brand name | <p>Upon termination of the Management Agreement after the Initial Term, PIPL would require the removal of the word "Propel" from the company's name or the payment to PIPL of an annual non-transferable license equal to 0.2% of the market capitalisation at the anniversary of termination for the use of the "Propel name.</p> <p>Propel will retain its "Propel" name without additional payment under the Proposed Transaction.</p> |
| Disadvantages | |
| The Proposed Transaction is not fair | <p>The management services provided will not materially change under the Proposed Transaction, however there will be an increase in the present value of management costs of approximately \$2m to \$10m.</p> |
| Earlier release of escrowed share | <p>If the Proposed Transaction is approved, the shares held in escrow by the KMP will be released earlier. The KMP are currently aligned up to the 10th anniversary of the commencement of the Management Agreement. If the Proposed Transaction is approved the KMP may be able to sell their shares earlier, reducing the alignment between KMP and Propel.</p> <p>The value of early release of the escrowed shares has been estimated by the Manager and reviewed by PwC to be \$4.6 million.</p> |
| Reduced security of access to the KMP | <p>The Initial Term of the current Management Agreement has a remaining period of 6.5 years. The interests of the KMP are currently aligned by the volume and escrow of shares held in the Company by the KMP.</p> |

| Disadvantages (cont'd) | |
|---|---|
| | The new ESAs include a contract term of 3 years with a notice period of 6 months and post-employment non-compete period of 12 months. The shares held will be released from escrow earlier. |
| Cashflow impact | The Termination Payment and remuneration will result in an additional \$7.5 million non-operating cash outflow. |
| Shareholder dilution | The termination of the Management Agreement will result in the issue of additional shares to the Manager. Existing shareholders will be diluted by circa 2.5%. |
| Other considerations | |
| KMP interests are already aligned due to their current shareholding | <p>One stated purpose of the Proposed Transaction is to increase the alignment of interests between KMP and Propel, however the KMP are already aligned due to the shares held in escrow until the 10th anniversary.</p> <p>The early release of the escrowed shares aligns the escrow period to the term of the new ESAs.</p> |

Source: BDOCF analysis

Based on the above analysis, we consider the Proposed Transaction to be reasonable. The key considerations in arriving at this conclusion are:

- ▶ As detailed in our Fairness Assessment, the additional cost over the Initial Term as a result of the Proposed Transaction is calculated to be between \$1.8m and \$9.7m. It is possible that the Management Agreement will continue after the Initial Term. If the Management Agreement continues after the Initial Term, the likely cost of management services will be c. \$5m per annum plus performance fees. The market salaries for the KMP is c. \$3m. In our opinion it is in the Shareholders best interest to approve the Proposed Transaction to avoid the risk of incurring these substantially higher management costs.
- ▶ The benefits of internalisation of Management may be recognised by market participants, providing Shareholders and the Company with trading benefits and corporate activity opportunities.
- ▶ We note that upon announcement of the Proposed Transaction the share price increased from \$3.41 to \$3.70. This increase may have resulted from a range of factors including the announcement of the Proposed Transaction. If the proposal is not approved, the share price may revert to previous levels.

On balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it.

4.3. Overall conclusion

We have considered the terms of the Proposed Transaction, as outlined in this Report, and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders.

BDOCF released a full draft copy of this report to the Independent Directors of Propel on 7 May 2021. Our conclusion in the report dated 7 May 2021 was that the Proposed Transaction was not fair and not reasonable.

Our conclusion in this IER was amended to be not fair but reasonable due to two factors.

- ▶ Increase in the share price of Propel. Propel shares traded around \$3.15 prior to the report dated 7 May 2021. Since releasing the draft report and up to the announcement of the Proposed Transaction, Propel shares have traded up to \$3.41. This has increased the value of the likely performance fee payable during the Initial Term, therefore increasing Pre-Transaction Management Costs.
- ▶ Exclusion of value related to the reduction in escrow terms for the KMP's shares. In our draft report we included a value associated with the reduction in escrow terms in Post-Transaction Management Costs. This has been removed from our analysis in this report. The escrow terms were implemented to align the KMP with the Initial Term of the Management Agreement. If the Proposed Transaction is approved, the KMP will be employed directly by the Company. In our opinion, the escrow period is no longer required in line with common commercial practice. Therefore we have excluded the reduction in the escrow terms from our fairness assessment.



5. OTHER MATTERS

5.1. Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. Accordingly, BDOCF has not considered the effect of the Proposed Transaction on the particular circumstances of individual Shareholders. Some individual Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in this IER. Accordingly, individual Shareholders may reach different conclusions as to whether or not the Proposed Transaction is fair and reasonable in their individual circumstances.

The decision of an individual Propel Shareholder in relation to the Proposed Transaction may be influenced by their particular circumstances and accordingly the Shareholders are advised to seek their own independent advice.

Approval or rejection of the Proposed Transaction is a matter for individual Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. The Shareholders should carefully consider the Transaction Booklet. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their professional advisor.

5.2. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated by those persons affected by the Proposed Transaction. In preparing the IER we considered ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- ▶ particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time in the past, between BDO Group Holdings Limited or BDOCF and any of the parties to the Proposed Transaction;
- ▶ the nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER;
- ▶ we have been appointed as independent expert for the purposes of providing an IER in relation to the Proposed Transaction for the Directors;
- ▶ that we have relied on information provided by the Directors and management of Propel (**Management**) and that we have not carried out any form of audit or independent verification of the information; and
- ▶ that we have received representations from the Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

5.3. Current market conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

5.4. Glossary

Capitalised terms used in this IER have the meanings set out in the glossary. A glossary of terms used throughout this IER is set out in **Appendix 1**.

5.5. Sources of information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by Propel.

Under the terms of our engagement, Propel has agreed to indemnify BDO Group Holdings Limited and BDOCF and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

5.6. Limitations

This IER has been prepared at the request of the Directors for the sole benefit of the Directors and Shareholders of Propel to assist them in their decision to approve or reject the Proposed Transaction. This IER is to accompany the



Transaction Booklet to be sent to the Shareholders to consider the Proposed Transaction and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Directors and Shareholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Transaction Booklet. Apart from this IER, we are not responsible for the contents of the Transaction Booklet or any other document associated with the Proposed Transaction. We acknowledge that this IER may be lodged with regulatory authorities.

5.7. Summary

This summary should be read in conjunction with our full IER that sets out in full the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

5.8. Financial Service Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

David McCourt
Director

Sebastian Stevens
Director

INDEPENDENT EXPERT REPORT





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1. PURPOSE AND BACKGROUND

1.1. Purpose

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (**BDOCF, we, us or our**) have been engaged by the Independent Directors (**Directors**) of Propel Funeral Partners Limited (**Propel** or the **Company**) to prepare this independent expert report (**Report** or **IER**), setting out our opinion as to whether the proposed termination of the Management Agreement with Propel Investments Pty Ltd (**PIPL** or the **Manager**) (**Proposed Transaction**), is fair and reasonable to the shareholders of Propel not associated with the Manager (**Shareholders**).

Propel owns and operates businesses, properties, infrastructure and related assets in the death care industry, and is listed on the Australian Securities Exchange (**ASX**). The Company was founded and is managed by PIPL. The Management Agreement requires PIPL to execute the Company's investment strategy, on an exclusive basis. The initial term of the Management Agreement expires on 17 November 2027.

Three key management personnel (**KMP**) of the Manager currently provide the services required by the Management Agreement. The KMP hold shares in Propel with a collective interest of approximately 17%. The majority of shares held by the KMP in Propel were issued prior to the IPO of Propel and are subject to escrow restrictions. Two of the KMP are also on the Board of Directors of Propel.

If the Proposed Transaction is approved:

- ▶ the Management Agreement will be assigned to a subsidiary of the Company and then terminated;
- ▶ the KMP will enter into executive services agreements (**ESAs**) with Propel and be paid salaries including short term and long term incentives. Propel will also incur the associated costs in relation to their employment;
- ▶ the intellectual property from the Manager, its officers and employees, will be transferred to the Company;
- ▶ the Constitution of the Company will be amended to remove references to the Management Agreement and Manager's rights, clarify the powers conferred to the Managing Director, and allow a maximum of 8 directors instead of 5 (please refer to the Meeting Booklet for more information); and
- ▶ the shares held by an associated entity of the Manager which are under escrow arrangements will be released from escrow earlier than is currently the case.

In connection with the termination of the Management Agreement, Propel will be required to pay PIPL \$15 million, as follows:

- ▶ cash of \$7.5 million (**Cash Component**); and
- ▶ 2,307,692 shares in the Company (**Termination Shares**). The number of Termination Shares has been calculated with reference to the Company's 30 day volume weighted average price (**VWAP**) of \$3.25 as at 28 May 2021. Based on the VWAP of \$3.25, the value of the Termination Shares is \$7.5 million. The issued Termination Shares are not subject to any escrow arrangements;

(together defined as the **Termination Payment**).

Full details of the Proposed Transaction are set out in the Meeting Booklet that has been prepared for the Shareholders by the Independent Directors (**Transaction Booklet**). This IER is to accompany the Transaction Booklet and has been prepared to assist and enable Shareholders to assess the merits of the Proposed Transaction and to decide whether or not to approve the Proposed Transaction.

A summary of the Proposed Transaction is set out below.

1.2. Proposed Transaction

Propel is currently party to a management agreement with PIPL. In accordance with the Management Agreement, the Manager is responsible for providing day-to-day management of the Company, this includes providing management services such as those normally reserved for a chief executive officer and chief financial officer, and being principally responsible for identifying and consummating transactions which are consistent with the Company's investment strategy. Matters such as debt and equity raisings are reserved for the Board.

The Company is seeking Shareholder approval to terminate the Management Agreement, which would result in the following KMP of the Manager becoming employees of a subsidiary of Propel:

- ▶ Mr Albin Kurti (Managing Director);
- ▶ Ms Lilli Gladstone (CFO); and
- ▶ Mr Fraser Henderson (Head of M&A, General Counsel and Company Secretary).

The KMP employed under ESAs will report directly to the Company's Board of Directors.

1.2.1. Termination Payment

As compensation for the early termination of the Management Agreement, the Company is to pay the Manager the Termination Payment in accordance with the following terms:

- ▶ The Manager will be paid \$15 million (exclusive of GST, if applicable) by the Company on completion of the Proposed Transaction;
- ▶ Prior to the completion of the Proposed Transaction, the Management Agreement will be assigned, with the Manager's consent, to PFP Corporate Services Pty Ltd, a wholly owned subsidiary of the Company;
- ▶ The Termination Payment will be payable by:
 - (a) a Cash Component of \$7.5 million in cleared cash funds; and
 - (b) 2,307,692 Termination Shares in the Company valued at \$7.5 million. The number of Termination Shares has been calculated with reference to the Company's 30 day VWAP of \$3.25 as at 28 May 2021, the trading day immediately prior to the date the Proposed Transaction is announced to the ASX. The Termination Shares are not subject to any escrow arrangements.

1.2.2. New Executive Service Agreements

The ESAs will offer the following remuneration to the KMP commencing 1 July 2021 subject to the following terms:

Table 3: ESA terms

| Position | Contract Expiry | Total Fixed Remuneration (TFR) | STI | LTI | Notice period | Post-employment restraint |
|---|-----------------|---|--|--|---------------|---------------------------|
| Managing Director | 31 August 2024 | \$650,000 p.a. (including superannuation) | Pro-rata award between threshold, target and stretch hurdles based on operating EBITDA and strategic/personal metrics each year. Payable in cash after the release of full year audited financial results (Results Announcement Date). Maximum payable STI of 75% of TFR | Pro-rata award between threshold, target and stretch hurdles based on adjusted EPS growth over a 3 year period. Payable in cash from the third anniversary of the Results Announcement Date. Maximum payable LTI of 75% of TFR | 6 months | 12 months |
| Head of M&A, General Counsel, and Company Secretary | 31 August 2024 | \$500,000 p.a. (including superannuation) | Pro-rata award between threshold, target and stretch hurdles based on operating EBITDA and strategic/personal metrics each year. Payable in cash after the Results Announcement Date. Maximum payable STI of 50% of TFR | Pro-rata award between threshold, target and stretch hurdles based on adjusted EPS growth over a 3 year period. Payable in cash from the third anniversary of the Results Announcement Date. Maximum payable LTI of 50% of TFR | 6 months | 12 months |
| Chief Financial Officer | 31 August 2024 | \$450,000 p.a. (including superannuation) | Pro-rata award between threshold, target and stretch hurdles based on operating EBITDA and strategic/personal metrics each year. Payable in cash after the Results Announcement Date. Maximum payable STI of 50% of TFR | Pro-rata award between threshold, target and stretch hurdles based on adjusted EPS growth over a 3 year period. Payable in cash from the third anniversary of the Results Announcement Date. Maximum payable LTI of 50% of TFR | 6 months | 12 months |
| Total TFR | | \$1,600,000 p.a., which will be reviewed annually. | | | | |

Source: Management information

1.2.3. Early release of escrowed shares

Prior to the listing of Propel on the ASX, individuals associated with the Manager (the KMP and Mr Peter Dowding) held 19,622,801 shares in the Company. The individuals agreed to enter into escrow arrangements in relation to these shares. Of the total shares held in escrow, 4,890,134 were released following the release of the Company's financial results for the financial year ending 30 June 2018. The remaining 14,732,667 were to remain in escrow until the tenth anniversary of the IPO, being 17 November 2027 (Escrowed Shares).

Under the Proposed Transaction, the relevant escrow deed will be amended with the effect that half of the Escrowed Shares will be released from escrow following the release of the Company's financial results for the financial year ending



30 June 2022 (approximately 5 years prior to the 10th anniversary of the IPO). The remaining 50% of the Escrowed Shares will be released following the release of the Company's financial results for the financial year ending 30 June 2025 (approximately 2 years prior to the 10th anniversary of the IPO).

2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Proposed Transaction is fair and reasonable to the Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

Our assessment involved determining the fair market value (FMV) of various securities, assets and liabilities. For the purposes of our opinion, the term FMV is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

2.2. Summary of regulatory requirements

The Independent Directors have engaged us to prepare an IER in relation to the Proposed Transaction to satisfy the requirements of ASX Listing Rules 10.1 and LR 10.11 (LR 10.1 and LR 10.11).

LR 10.1 deals with transactions between an entity and persons in a position to influence the entity. If an ASX listed entity is acquiring or disposing of a significant asset to a related party, LR 10.1 requires the shareholders to approve the acquisition or disposal.

LR 10.11 requires an entity to obtain the approval of the ordinary shareholders before issuing any equity securities to a related party or their associate.

LR 10.5.10 requires that a report on the transaction from an independent expert be included in the notice of meeting. The report must state the expert's opinion as to whether the transaction is fair and reasonable to the holders of the entity's ordinary securities whose votes in favour of the transaction are not to be disregarded under LR 14.11.

2.3. Basis of assessment

Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members. This analysis is specifically required where the report is also intended to accompany meeting materials for member approval of an asset acquisition or disposal under ASX Listing Rule 10.1.

In determining whether the Proposed Transaction is fair and reasonable to the Shareholders, we have had regard to:

- ▶ RG 111 'Content of expert reports'
- ▶ RG 112 'Independence of experts'

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- ▶ Is the offer 'fair'?
- ▶ Is it 'reasonable'?

The terms fair and reasonable are regarded as separate elements and are not regarded as a compound phrase.

In valuing the financial benefit given and the consideration received by the entity, an expert should take into account all material terms of the proposed transactions.

2.3.1. Fairness

Paragraph 57 of RG 111 states that "a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length".

Based on our interpretation of RG111, we have compared:

- ▶ The present value of the likely costs payable to the Manager under the Management Agreement, if it continues for the remaining 6.5 years of the initial term (Pre-Transaction Management Costs); and
- ▶ The present value of costs payable under the new management structure over the same period, including the Termination Payment, remuneration costs, and associated transaction costs (Post-Transaction Management Costs).



We have assessed the management costs over the remaining 6.5 years of the initial term as the Company has the right to terminate the Management Agreement at this time.

The Proposed Transaction will be fair if the Post-Transaction Management Costs are less than or equal to the Pre-Transaction Management Costs.

2.3.2. Reasonableness

In accordance with paragraph 60 of RG111, a proposed related party transaction is ‘reasonable’ if it is ‘fair’. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes there are sufficient reasons to vote for the proposal.

RG 111.62 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- ▶ the financial situation and solvency of the entity;
- ▶ opportunity costs;
- ▶ the alternative options available to the entity and the likelihood of those options occurring;
- ▶ the entity’s bargaining position;
- ▶ whether there is selective treatment of any security holder, particularly the related party;
- ▶ any special value of the transaction to the purchaser; and
- ▶ the liquidity of the market in the entity’s securities.

2.3.3. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert, when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transaction. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- ▶ particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO Group Holdings Limited or BDOCF and any of the parties to the Proposed Transaction;
- ▶ the nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER;
- ▶ we have been appointed as independent expert for the purposes of providing an IER for the Transaction Booklet;
- ▶ that we have relied on information provided by the Directors and Management of Propel and that we have not carried out any form of audit or independent verification of the information provided; and
- ▶ that we have received representations from the Directors and Management of Propel in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

2.4. Special value

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the FMV. This premium represents the value to the particular potential acquirer of potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of FMV as it relates to the individual circumstances of special purchasers.

2.5. Reliance on information

This IER is based upon financial and other information provided by the Directors, Management and other representatives of Propel. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable to Propel Shareholders.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.



Where we relied on the views and judgement of Management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, Propel has agreed to indemnify BDO Group Holdings Limited, BDOCF, and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

We acknowledge that this IER may be lodged by the Directors with regulatory and statutory bodies and will be included with the Transaction Booklet to be sent to the Shareholders. The Directors acknowledge that our IER has been prepared solely for the purposes noted in the Transaction Booklet and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of Propel. We understand that the Directors have been advised by legal, accounting, tax and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Directors or their advisors.

We note that the IER does not deal with the individual investment circumstances of Shareholders and no opinion has been provided in relation to same. Some individual Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable. An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by their particular circumstances and, therefore, Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Transaction Booklet or any other document. We have provided consent for inclusion of the IER in the Transaction Booklet. Our consent and the Transaction Booklet acknowledge that we have not been involved with the issue of the Transaction Booklet and that we accept no responsibility for the Transaction Booklet apart from the IER.

2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- ▶ assumptions outlined in the valuation sections;
- ▶ that matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ information sent out in relation to the Proposed Transaction to Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects;
- ▶ publicly available information relied on by us is accurate, complete and not misleading;
- ▶ if the Proposed Transaction is implemented, that it will be implemented in accordance with the stated terms;
- ▶ the legal mechanisms to implement the Proposed Transaction are correct and effective; and
- ▶ there are no undue changes to the terms and conditions of the Proposed Transaction or material issues unknown to us.

3. PROFILE OF PROPEL

3.1. Overview

Established in 2012, Propel is a holding company which owns and operates businesses, properties, infrastructure and related assets in the death care industry. It is now the second largest provider of death care related services in Australia and New Zealand with a strong presence in regional areas and an emerging metropolitan presence.

The Company was listed on the ASX in November 2017 with the ticker ASX:PPF.

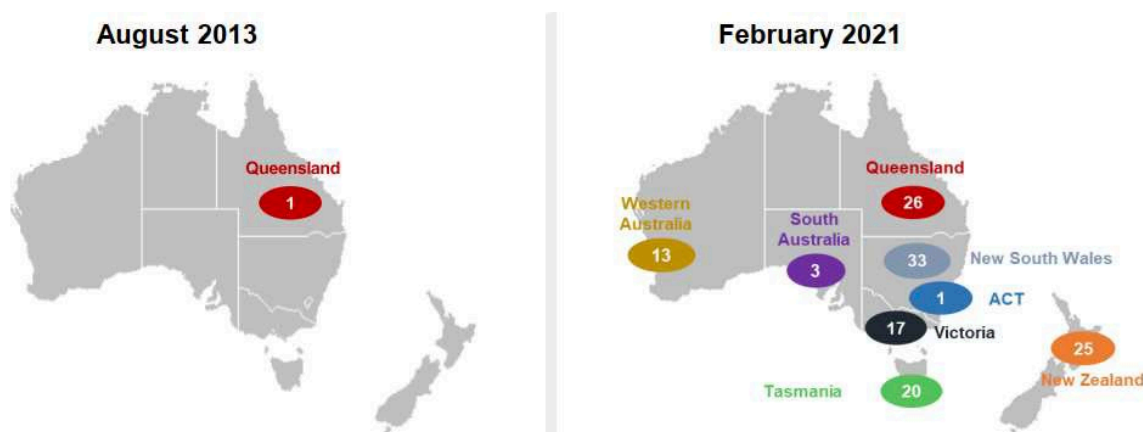
Propel is focussed on a clearly defined investment strategy to acquire social infrastructure and assets which operate within the death care industry in Australia and New Zealand (**Investment Strategy**) such as:

- ▶ private funeral home operators;
- ▶ funeral related properties and infrastructure; and
- ▶ cemeteries and crematoria.

The Manager executes Propel’s acquisition led growth strategy and has deployed approximately \$126.7 million on acquisitions since the Company’s IPO in 2017.

As at February 2021, the consolidated Propel group comprised of long established providers of funeral services operating from 138 properties (77 owned and 61 leased) across 7 states and territories of Australia and in New Zealand, including 32 cremation facilities and 9 cemeteries. Some of the funeral homes have been operating since the late 1800s and early 1900s.

Figure 2: Propel’s growth in geographical presence



Source: Propel FY21 First Half Results Investor Presentation, 25 February 2021

The Company operates under a multi-brand strategy with a vision to consolidate the fragmented death care industry in Australia and New Zealand.



3.2. Board of Directors

The Board comprises five directors, three of whom are independent non-executive directors (including the Chairman) and two of whom are non-independent executive directors that have been nominated by the Manager. We note that Fraser Henderson and Albin Kurti provide services to the Manager, hold shares in the Manager, and will be employed by Propel if the Proposed Transaction is approved.

Brief profiles of each member of the Board are provided in the following table.

Table 4: Directors

| Name | Title and special responsibilities | Experience |
|------------------|--|--|
| Brian Scullin | Independent Chairman and Non-Executive Director | <ul style="list-style-type: none"> Chair of Tasmanian Development Board, Macquarie Point Development Corporation and OAK Possability Former senior executive with Bankers Trust and Deutsche Asset Management (AM) in Australia and Asia Former Chair of Spark Infrastructure Limited, BTIM (Pental) and Hastings Funds Management Former Non Executive Director (NED) of Dexus Property Group, Tasplan Super and State Super Financial Services |
| Naomi Edwards | Independent Non-executive Director and Chair of the Audit & Risk Committee | <ul style="list-style-type: none"> Chair of Spirit Super NED of Nikko AM and Australian Institute of Company Directors Member of the Tasmanian Development Board Former Deloitte Partner and NED of Australian Ethical Investments and Hunter Hall Limited Fellow of the Institute of Actuaries (London) and Fellow of the Australian and New Zealand Institute of Actuaries |
| Jonathan Trollip | Independent Non-executive Director | <ul style="list-style-type: none"> Chair of Antipodes Global Investment Company Limited, Future Generation Investment Company Limited, Plato Income Maximiser Limited, Global Value Fund Limited and Spheria Emerging Companies Limited NED Kore Potash Limited Former Herbert Smith Freehills Partner |
| Fraser Henderson | Head of M&A and General Counsel/ Company Secretary | <ul style="list-style-type: none"> Co-founder of Propel who leads the Company's acquisition activities and is on the board of each operating subsidiary Former Minter Ellison Partner with M&A experience in London, Singapore and Sydney |
| Albin Kurti | Managing Director | <ul style="list-style-type: none"> Co-founder of Propel who leads the business and is chair of each operating subsidiary Former executive with Deutsche AM and Arthur Andersen Co-led the MBO of the private capital division of Deutsche Bank |

Source: 2020 Annual General Meeting Presentation, 19 November 2020

3.3. Historical Consolidated Statement of Profit or Loss

The financial performance for the consolidated Propel group for the financial years ending 2018 (FY18), 2019 (FY19), 2020 (FY20) and the half-year ending 31 December 2020 (1H FY21) is presented in the following table.



Table 5: Historical Statement of Profit or Loss

| \$'000 | Note | FY18 | FY19 | FY20 | 1H21 |
|---|------|-----------------|---------------|---------------|---------------|
| Revenue | 1 | 80,869 | 95,125 | 110,845 | 59,009 |
| Cost of sales and goods | | (24,473) | (27,853) | (31,249) | (16,335) |
| Gross profit | | 56,396 | 67,272 | 79,596 | 42,674 |
| Expenses | | | | | |
| Employee costs | 2 | (23,739) | (29,275) | (33,603) | (16,846) |
| Occupancy and facility expenses | 3 | (5,688) | (8,230) | (6,002) | (3,204) |
| Advertising expenses | | (1,785) | (2,274) | (2,540) | (1,358) |
| Motor vehicle expenses | | (1,098) | (1,377) | (1,524) | (799) |
| Other expenses | | (2,887) | (2,681) | (3,848) | (1,577) |
| EBITDA | | 21,199 | 23,435 | 32,079 | 18,890 |
| Depreciation expense | 4 | (3,049) | (4,140) | (8,826) | (4,760) |
| EBIT | | 18,150 | 19,295 | 23,253 | 14,130 |
| Acquisition costs | | (3,505) | (1,556) | (1,615) | (155) |
| Performance fee | 5 | - | - | (4,077) | - |
| Net (loss)/gain on disposal of assets | | (70) | 20 | (80) | (45) |
| Other income | | 1,117 | 727 | 57 | 14 |
| Interest income | | 397 | 314 | 148 | 68 |
| Interest expense | | (2,046) | (571) | (3,276) | (1,859) |
| Net financing charge on contract assets and contract liabilities | | (808) | (644) | (527) | (528) |
| Net foreign exchange losses | | (7) | (17) | (22) | 37 |
| Share-based payment expense | 6 | (21,878) | - | - | - |
| Profit before income tax expense | | (8,650) | 17,568 | 13,861 | 11,662 |
| Income tax expense | | (5,620) | (5,228) | (3,237) | (3,506) |
| Profit/(loss after income tax expense for the year attributable to the shareholders of Propel Funeral Partners Limited | | (14,270) | 12,340 | 10,624 | 8,156 |
| Other comprehensive income (Items that may be reclassified to profit or loss) | | | | | |
| Foreign currency translation | | (1,070) | 1,366 | (817) | (80) |
| Changes in the fair value of cash flow hedges, net of tax | | - | - | (283) | 17 |
| Total comprehensive income for the year attributable to the shareholders of Propel Funeral Partners Limited | | (15,340) | 13,706 | 9,524 | 8,093 |

Source: Annual report FY20 & FY19, Interim Financial Report for the half year ended 31 December 2020

Notes:

| | |
|---|---|
| 1 | Revenue increased by 16.5% from FY19 to FY20 primarily due to the inclusion of revenue generated by six new funeral businesses acquired FY19 and FY20. Average revenue per funeral increased by 3.6% in 1H FY21 on FY20, impacted by the newly acquired businesses, funeral mix and pricing. |
| 2 | Employee costs include government support during COVID: <ul style="list-style-type: none"> 1H FY21 includes \$2.23m in Australian wage subsidies (Jobkeeper) and \$0.2m in New Zealand wage subsidies FY20 includes \$1.18m in Jobkeeper subsidies and \$0.5m in New Zealand wage subsidies. |
| 3 | The increase in occupancy and facility expenses in FY19 was due to the increase in leasehold properties acquired during that financial year. The decrease in FY20 and 1H FY21 were due to AASB 16 'Leases' as per Note 4 below. |
| 4 | Depreciation in FY20 and 1H FY21 include \$3.3 million and \$1.7m in depreciation, respectively, related to right-of-use assets, recognised under AASB 16. |
| 5 | The first performance fee payable to the Manager of \$4.077m was paid in FY20. No performance fee was triggered during FY19 and the negative outperformance amount of \$21.1m was carried forward to FY20. The performance fee is excluded from operating EBITDA and debt covenant ratios. No performance fee is payable to the Manager for the 12 month period ended 18 November 2020. |
| 6 | The \$21.9m non-cash share-based payment expense was recognised in FY18 in connection with 14,732,667 shares held by entities associated with Albin Kurti, Fraser Henderson and Peter Dowding prior to the IPO of Propel. These shares were valued at a 45% discount to the IPO issue price to reflect the escrow arrangements on the shares which prevent the entity from disposing of these shares until the tenth anniversary of Propel's IPO. |



3.4. Historical Consolidated Statement of Financial Position

Table 6: Historical Statement of Financial Position

| \$'000 | Notes | Jun-18 | Jun-19 | Jun-20 | Dec-20 |
|--------------------------------------|-------|-----------------|-----------------|------------------|------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | | 28,259 | 5,289 | 53,904 | 6,775 |
| Customer deposits | | 719 | 556 | 544 | 571 |
| Contract assets | 1 | 45,460 | 47,901 | 47,495 | 46,853 |
| Trade and other receivables | | 4,230 | 5,406 | 4,562 | 5,706 |
| Inventories | | 2,730 | 3,665 | 4,233 | 4,425 |
| Prepayments | | 727 | 963 | 745 | 1,894 |
| Total current assets | | 82,125 | 63,780 | 111,483 | 66,224 |
| Non-current assets | | | | | |
| Property, plant and equipment | | 72,462 | 97,943 | 129,318 | 152,599 |
| Right-of-use assets | 2 | - | - | 39,120 | 36,264 |
| Goodwill | | 91,105 | 106,437 | 123,230 | 133,335 |
| Deferred tax | | 2,471 | 2,717 | 3,607 | 3,496 |
| Other non-current assets | | 121 | 153 | 171 | 176 |
| Total non-current assets | | 166,159 | 207,250 | 295,446 | 325,870 |
| Total assets | | 248,284 | 271,030 | 406,929 | 392,094 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | | (5,561) | (6,667) | (6,092) | (7,755) |
| Borrowings | 3 | (126) | (238) | (4,145) | (10,115) |
| Income tax | | (1,586) | (1,265) | (233) | (691) |
| Lease liabilities | | (2,502) | - | (6,136) | (3,072) |
| Provisions | 4 | (1,425) | (4,921) | (5,164) | (6,056) |
| Contract liabilities | 1 | (48,764) | (53,765) | (52,419) | (52,313) |
| Other current liabilities | | (1,162) | (14) | - | - |
| Total current liabilities | | (61,126) | (66,870) | (74,189) | (80,002) |
| Non-current liabilities | | | | | |
| Borrowings | 3 | (284) | (13,226) | (106,009) | (77,864) |
| Derivative financial instruments | | - | - | (405) | (380) |
| Lease liabilities | 2 | - | - | (34,442) | (34,890) |
| Deferred tax liabilities | | (5,580) | (6,990) | (8,069) | (10,094) |
| Provisions | 4 | (1,506) | (1,167) | (1,662) | (2,038) |
| Other non-current liabilities | | (121) | (301) | (212) | (201) |
| Total non-current liabilities | | (7,491) | (21,684) | (150,799) | (125,467) |
| Total liabilities | | (68,617) | (88,554) | (224,988) | (205,469) |
| Net assets | | 179,667 | 182,476 | 181,941 | 186,625 |
| Equity | | | | | |
| Issued capital | | 199,562 | 200,363 | 200,903 | 203,418 |
| Reserves | | (298) | 1,068 | (32) | (95) |
| Accumulated losses | | (19,417) | (18,955) | (18,930) | (16,698) |
| Total equity | | 179,847 | 182,476 | 181,941 | 186,625 |

Source: Annual report FY20 & FY19, Interim Financial Report for the half year ended 31 December 2020

Notes:

| | |
|---|---|
| 1 | Contract assets and liabilities relate to pre-paid funerals and other products and services (such as memorials) where the customer pays for those products and services in advance. Funds held in connection with pre-paid contracts are largely held with third party friendly societies who largely invest the funds in case and fixed interest products. |
| 2 | Right-of-use assets and corresponding lease liabilities have been recognised in accordance with AASB 16 'Leases' which was adopted by the Company on 1 July 2019. |
| 3 | Propel raised additional debt to finance acquisitions in FY20. In March 2020, Propel elected to draw an additional \$44m from existing Senior Debt facilities to increase its liquidity position as a result of the COVID-19 pandemic. By December 2020, Propel had repaid approximately \$28m of the outstanding debt, with the balance used to fund an acquisition. |

Provisions primarily relate to employee benefits and contingent considerations regarding performance based acquisition payments and derivative financial instruments.

3.5. Ownership

As at 23 November 2020, Propel had c.99.95m fully paid ordinary shares on issues. The top 20 shareholders collectively own c.55% of the shares in Propel.

Table 7: Propel's top 20 shareholders

| Rank | Shareholder | Current shares | % of total shares |
|----------------------------|---|-------------------|-------------------|
| 1 | Dkh Ti Pty Ltd | 14,732,667 | 14.74% |
| 2 | Viburnum Funds | 6,669,977 | 6.67% |
| 3 | Smallco Investment Manager | 4,357,791 | 4.36% |
| 4 | Pengana Capital | 3,581,215 | 3.58% |
| 5 | Viburnum Funds | 3,343,765 | 3.35% |
| 6 | Mr Albin Kurti | 2,607,367 | 2.61% |
| 7 | Investors Mutual | 1,839,141 | 1.84% |
| 8 | Australian Ethical Investment | 1,758,140 | 1.76% |
| 9 | Mr Peter E Dowding | 1,753,956 | 1.75% |
| 10 | Private Clients of Netwealth Investments | 1,624,306 | 1.63% |
| 11 | Mr Scott L Malcolm & Md's Jane D Taylor | 1,587,583 | 1.59% |
| 12 | OC Funds Mgt | 1,535,007 | 1.54% |
| 13 | Private Clients of Bank Julius Baer | 1,496,480 | 1.50% |
| 14 | Mr & Mrs Andrew P J Wade | 1,430,917 | 1.43% |
| 15 | Mr Roger B Massy-Greene & Ms Belinda Hutchinson | 1,308,305 | 1.31% |
| 16 | Mr & Mrs Ronald J David | 1,302,885 | 1.30% |
| 17 | Mr & Mrs Coman F Reynolds | 1,156,448 | 1.16% |
| 18 | Mr Fraser Henderson | 1,136,545 | 1.14% |
| 19 | Ms Rosanna T Wade | 1,045,000 | 1.05% |
| 20 | Mr Timothy R Gunning & Ms Susan I Richards | 890,000 | 0.89% |
| Top 20 shareholders | | 55,157,495 | 55.19% |
| Other shareholders | | 44,788,521 | 44.81% |
| Total shares | | 99,946,016 | 100.0% |

Source: Management information

The balance of shareholdings in Propel associated with the KMP and Manager are shown in the following table.

Table 8: Manager shareholdings in Propel

| Key individuals | Current shares | % of total shares |
|--|-------------------|-------------------|
| Albin Kurti and his associated entities | 9,973,700 | 9.98% |
| Fraser Henderson and his associated entities | 7,029,615 | 7.03% |
| Lilli Gladstone and her associated entities | 171,582 | 0.17% |
| Total KMP shareholding | 17,174,897 | 17.18% |
| Peter Dowding and his associated entities | 3,647,290 | 3.65% |
| Total Manager shareholding | 20,822,187 | 20.83% |
| Manager shareholding subject to escrow | 14,732,667 | 14.74% |
| Total shares | 99,946,016 | 100.00% |

Source: Management information



4. PROFILE OF THE MANAGER

Propel was founded and is managed by Propel Investments Pty Ltd. PIPL was established in 2007 by former senior executives of DB Capital Partners (being Mr Albin Kurti and Mr Peter Dowding), following Deutsche Bank's divestment of its Australian direct private capital business. PIPL previously held investments in Bledisloe Holdings, the then second largest provider of death care services in Australia and the largest in New Zealand, then facilitated the sale of Bledisloe to InvoCare Limited in 2011.

Prior to the IPO of Propel, the Company appointed PIPL to provide management services to the Company on an exclusive basis in accordance with the Management Agreement. The agreement was signed on 11 September 2017 and the conditions precedent to the commencement of the Management Agreement, being the restructure of Propel and admittance to the ASX, were met on 17 November 2017 (**Commencement Date**).

The following sections provide an overview of the terms and KMP under the Management Agreement.

4.1. Overview of services provided

In accordance with the Management Agreement and Propel's Corporate Governance Statement, the Manager is responsible for providing day-to-day management to the Company, including the provision of management services such as those normally reserved for a chief executive officer and chief financial officer, and being principally responsible for identifying and completing transactions which are consistent with the Company's investment strategy. Matters such as debt and equity raisings are reserved for the Board.

The Manager has overall responsibility for investment decisions on behalf of the Company, to implement the Investment Strategy.

The Company intends to continue to acquire assets that are in line with the investment strategy and aims to provide Shareholders with a combination of income and capital growth through improved business performance and capital management. Any investment made by the Manager that is not consistent with the investment strategy would require the approval of the Board.

Representatives of the Manager (who perform the services ordinary reserved for senior executives) are not employees of the Company. There is no contract in place between those representatives and the Company and those representatives are not paid any fees by the Company. Their individual performance is not evaluated. The overall performance of the Manager including consideration of the Manager's compliance with its contractual obligations in the Management Agreement is however reviewed by the non-executive independent directors and the Audit and Risk Committee, with external assistance if required.

4.2. Key management personnel

Profiles of the key management personnel are provided in the following table.

Table 9: Key Management Personnel

| Name | Title and special responsibilities | Experience and expertise |
|-------------|------------------------------------|---|
| Albin Kurti | Managing Director | <p>Albin co-founded Propel Funeral Partners and the Manager. He has overall responsibility for the Manager's investment decisions on behalf of Propel Funeral Partners. Together with his colleagues, Albin plays an important role in sourcing, screening, executing and actively managing the Propel Funeral Partners' portfolio. He chairs Propel Funeral Partner's operating subsidiaries and each location manager reports directly to Albin.</p> <p>Albin commenced his career in the insolvency and corporate finance division of Arthur Andersen, where he qualified as a chartered accountant and worked in Melbourne and Brunei. In 2000, he moved to Sydney and joined Deutsche Asset Management and, in 2007, he co-led the management buy-out of the private capital division of Deutsche Bank. Albin has led, co-led or been a key investment team member on a range of M&A transactions and has been a director of numerous private companies. He played an important role in the sale of Bledisloe Holdings to InvoCare in 2011.</p> <p>Albin has a Bachelor of Commerce from the University of Melbourne and a Masters in Business Administration from Victoria University of Technology.</p> <p>Albin is a nominated Director of the Board in accordance with the Management Agreement.</p> |



| Name | Title and special responsibilities | Experience and expertise |
|------------------|--|---|
| Fraser Henderson | Head of Mergers & Acquisitions and General Counsel and Company Secretary | <p>Fraser co-founded Propel Funeral Partners and is a director of the Manager. He is Propel Funeral Partners' Head of M&A and General Counsel/Company Secretary and is on the board of each operating subsidiary.</p> <p>Fraser commenced his legal career with Ashurst, where he worked in both London and Singapore. In 2003, he moved to Sydney and joined Minter Ellison, becoming a Partner in their Private Equity and Capital Markets team in 2006. He joined the Manager in 2008, where he became a director of a number of the Manager's investee companies. He co-led a number of transactions for the Manager, and played an important role in the sale of Bledisloe Holdings to InvoCare in 2011.</p> <p>Fraser is a graduate of the University of Newcastle-Upon-Tyne (LLB) and of Sydney University (LLM). He has a Diploma in Applied Corporate Governance (FCIS) and a Diploma in Investor Relations (DiplInvRel), and is a graduate of the Company Directors Course (GAICD).</p> <p>Fraser is a nominated Director of the Board in accordance with the Management Agreement.</p> |
| Lilli Gladstone | Chief Financial Officer | <p>Lilli leads the finance function of Propel. She is responsible for the delivery of the Company's statutory reporting obligations, internal control procedures and treasury management. Lilli manages a small team of accountants who, among other things, produce timely financial and operational reports. She plays an active role in sourcing and executing transactions and leads the financial due diligence and financial integration of acquisitions for Propel.</p> <p>Lilli commenced her career at Ernst & Young in corporate finance specialising in business valuations and dispute advisory. She then joined Deutsche Asset Management (DB Capital Partners) in June 2006. Lilli was a director of Bledisloe Holdings prior to its sale to InvoCare.</p> <p>Lilli graduated from the University of Wollongong with a Bachelor of Commerce, majoring in accounting and finance. She is a chartered accountant, a graduate of the Company Directors Course (GAICD) and holds a Diploma in Investor Relations (DiplInvRel).</p> |

Source: Propel Funeral Partners website: <https://propelfuneralpartners.com.au/our-people/>

Mr Peter Dowding is a shareholder of the Manager and was a former director of the Propel. Whilst Peter Dowding holds a portion of the Escrowed Shares and will receive approximately \$61.75k (after tax) in cash, and a similar amount of the Termination Shares from the Termination Payment, he does not have responsibility for performing the management services under the Management Agreement and is therefore not considered a KMP executive for the purposes of this Proposed Transaction.

4.3. Key terms of the Management Agreement

4.3.1. Exclusivity and term

The Manager agreed to provide investment management services to the Company on an exclusive basis for 10 years from the Commencement Date (**Initial Term**). After the initial 10 year term, the Management Agreement will be automatically extended for successive period of 5 years, unless the agreement is terminated prior.

4.3.2. Termination rights

During the Initial Term, the termination rights of both parties are limited to instances of breach and insolvency.

After the Initial Term, the Company may terminate the Management Agreement on 3 months' notice with Shareholder approval. If the Company terminates the agreement, the Company must pay the Manager a fee equal to the sum of all fees paid to the Manager in the 12 month period leading up to the date of termination and any accrued but unpaid fees. The Company's name must also be changed to remove the work 'Propel' within 3 months of the date of termination, otherwise the Manager will grant a personal non-transferable licence to use the 'Propel' name for an annual pre-paid licence fee equal to 0.2% of the market capitalisation calculated on the date of termination and each subsequent anniversary of the termination date.



The Manager may terminate the Management Agreement after the Initial Term upon giving the Company at least 6 months' notice.

Neither party has the right to terminate the agreement in the event of a change of control.

4.3.3. Management fee

No management fee is payable during the initial 10 year term. After the Initial Term, the Company must pay the Manager a quarterly management fee of 0.375% (plus GST) of the Company's market capitalisation in arrears.

4.3.4. Administration fee

From the Commencement Date, a quarterly administration fee of \$60,000 plus GST in arrears, is payable by the Company to the Manager. The fee is escalated by CPI on each anniversary of the Commencement Date.

In FY20 the Manager invoiced an administration fee totalling \$205.4k (FY19: \$243k)(exclusive of GST). The amount in FY20 included a waiver of fees in the months of April 2020 and May 2020 (COVID-19).

4.3.5. Performance fee

From the Commencement Date, the Manager receives a performance fee if the Total Shareholder Return (TSR) is greater than an 8% benchmark in the 12 months ending on the anniversary of the Commencement Date (**Calculation Period**). A high watermark must be exceeded before a performance fee is triggered. The dollar value of the performance fee payable is calculated as 20% of the absolute dollar value of the amount that the TSR outperforms the benchmark, subject to the high watermark and recoupment of any prior underperformance. Further details on the calculation of the performance fee are provided in Section 7.1.1 and an example calculation as provided in the Prospectus, is set out in Appendix 6.

Up to the date of this Report, only one performance fee has been paid. For the 12 months ended 17 November 2019, the TSR was 24.2%. After recouping the underperformance amount carried forward from the prior calculation period, the performance fee paid was approximately \$4.1m (excluding GST). The TSR hurdle was not met in the most recent calculation period to 17 November 2020, therefore no performance fee was payable in FY21. An underperformance amount of approximately \$20.4m will be carried forward for recoupment in the next calculation period.

The Manager may, by notice to the Company and subject to any regulatory approvals, require the Company to pay up to 50% of the performance fee in the Company's shares.

4.3.6. Alignment of interests between KMP and Propel

Individuals associated with the Manager are shareholders in Propel, owning approximately 20.8% of the Company collectively. The KMP own approximately 17.18% of the Company collectively.

Table 10: Manager shareholdings in Propel

| Key individuals | Current shares | % of total shares |
|--|-------------------|-------------------|
| Albin Kurti and his associated entities | 9,973,700 | 9.98% |
| Fraser Henderson and his associated entities | 7,029,615 | 7.03% |
| Lilli Gladstone and her associated entities | 171,582 | 0.17% |
| Total KMP shareholding | 17,174,897 | 17.18% |
| Peter Dowding and his associated entities | 3,647,290 | 3.65% |
| Total Manager shareholding | 20,822,187 | 20.83% |
| Manager shareholding subject to escrow | 14,732,667 | 14.74% |
| Total shares | 99,946,016 | 100.00% |

Source: Management information

Ms Lilli Gladstone is employed by the Manager and receives a salary and any profit in accordance with her shareholding in PIPL from the performance fee payable. Mr Albin Kurti and Mr Fraser Henderson are directors and shareholders of the Manager and are not contractually employed by the Manager; they only receive payment for management services via their shareholding in the Manager.

5. INDUSTRY OVERVIEW

The death care industry is a mature industry that generates approximately \$1.5 billion in revenue in Australia and NZ\$270 million in New Zealand annually by providing essential services to individuals and families dealing with, or preparing for, death or bereavement. Services include the collection and transfer of the deceased, mortuary services, arranging and performing funerals, cremations, burials and memorialisations.

5.1. Market share

Propel and InvoCare Limited (**InvoCare**) are the two major players in the Australian and New Zealand death care industries, representing approximately 6.3% and 25.8% of Australian market share respectively. Aside from the major players, the industry is highly fragmented. Most operators are small in scale and are usually family-run businesses operating in a narrow geographical region. The industry has consolidated over the past 5 years due to acquisitions by InvoCare and Propel, and some less profitable businesses exiting the industry. Industry consolidation is projected to continue over the next 5 years as larger players seek to grow inorganically and benefit from economies of scale, and as the founders of family-owned funeral businesses reach retirement age.

5.2. Demand drivers

The major determinant of demand for the industry is the number of deaths. Despite approximately 909 people dying in Australia and 26 in New Zealand from COVID-19, this is a relatively small proportion of total deaths and therefore the COVID-19 pandemic has not significantly affected industry demand. However, government restrictions regarding funeral attendees resulted in a decline in average spend per funeral towards the end of FY20 and beginning of FY21, reducing industry revenue. Consumer preferences and changing religious influences are affecting the demand for different services provided in the industry, with an increasing preference for cremations. Rising disposable incomes and the Baby boomers entering the 65 and over age bracket may be positive demand drivers in coming years.

5.3. Success factors

Internal competition is high as firms compete on the basis of price, service and reputation. Key success factors for businesses in the death care industry, as identified by IBISWorld, include:

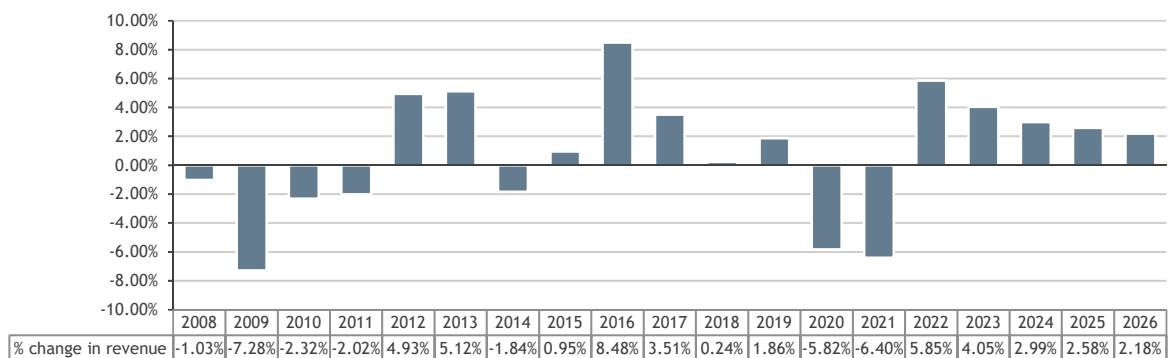
- ▶ access to the necessary amount of land/ type of property to be of sufficient size and appeal to customers;
- ▶ having a good reputation as industry players can benefit from local reputation and word-of-mouth for repeat business;
- ▶ being a member of an industry organisation can increase customer confidence;
- ▶ proximity to key markets;
- ▶ ability to vary services to suit different needs; and
- ▶ compliance with government regulations.

5.4. Industry outlook

Death care industry revenue is forecast to increase over the next 5 years through to 2025-26 at an annualised rate of 3.5%, lifting industry revenue in Australia to \$1.8 billion. The key contributors to forecast growth include a steady rise in annual deaths as the population aged 70 and older increases, despite increasing life expectancy, and increases in household disposable income. More families are however anticipated to choose lower priced cremation services over traditional burial services.

The following chart shows the historic and forecast change in revenue in the Australian death care industry as reported by IBISWorld.

Figure 3: Australian Death Care Industry revenue growth



Source: IBISWorld



6. FAIRNESS ASSESSMENT AND VALUATION METHODOLOGY

6.1. Fairness assessment overview

Paragraph 57 of RG 111 indicates that a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

Based on our interpretation of RG111, the Proposed Transaction will be fair if the present value of the Post-Transaction Management Costs is less than or equal to the present value of the Pre-Transaction Management Costs. The Pre-Transaction Management Costs include the likely costs payable to the Manager under the Management Agreement if it continues for the remaining 6.5 years of the Initial Term (**Remaining Term**). The Post-Transaction Management Costs include the costs payable under the new management structure over the same period, including the Termination Payment, remuneration costs, and associated transaction costs.

We have only considered the cost of management services up to the expiry of the Initial Term as the Company has the ability to terminate the Management Agreement at this date. If the Company terminates the Management Agreement a termination fee is payable. We have included this termination fee in our analysis.

If the Management Agreement is terminated after the Initial Term, the Company could employ individuals to perform the functions currently performed by the Manager. This is consistent with what is being considered under the Proposed Transaction with the KMP being employed by the Company at market rates.

Therefore, if the Management Agreement is terminated, there is no difference in cash flows after the Initial Term (and payment of the termination payment) between the current management structure and the Proposed Transaction.

Our consideration of the common valuation methods for the above analyses is discussed below.

6.2. Valuation methods

Details of common methodologies for valuing businesses and assets are included at Appendix 3. The principal methodologies which can be used are as follows:

- ▶ Discounted cash flow (DCF);
- ▶ Capitalisation of earnings (COE);
- ▶ Net asset value (NAV);
- ▶ Quoted market price basis (QMP);
- ▶ Recent capital transactions; and
- ▶ Option pricing methodologies.

6.3. Selected methodologies to value Propel shares

If the Proposed Transaction is approved, Propel will issue Propel Shares as part of the Termination Payment. Therefore, as part of our analysis of the Proposed Transaction we have valued Propel Shares.

We have adopted the Quoted Market Price and the Capitalisation of Earnings methodologies to value Propel Shares.

The QMP approach is appropriate as Propel is listed on the ASX and the share price is observable on the market.

The COE approach is appropriate as Propel is a profitable business operating in a mature industry.

Although the Manager has provided long term forecasts for the Company, we have not applied the DCF methodology to value the Company as we consider the QMP and COE approaches to provide reliable assessments of the market value of Propel shares.

6.4. Selected methodology to value the performance fee

The performance fee is payable if the Company achieves a TSR over 8% per annum (and other conditions including the recoupment of previous underperformance and exceeding previous high watermarks are met).

This is similar to a barrier option where the exercise price is zero, and the barrier price equates to the share price where an 8% TSR is achieved.

We have used option pricing methodologies and forecast share price distribution models over the remaining part of the Initial Term to value the performance fee.

6.5. Discounting of future cash flows

Certain cash flows will be incurred over the Remaining Term of the Management Agreement. These cash flows are:



- ▶ Pre-Transaction Management Costs
 - Performance fees;
 - Administration fees; and
 - Termination fees.
- ▶ Post-Transaction Management Costs
 - Termination Payment;
 - Remuneration paid to the executive roles filled by the KMP, including associated employee on-costs; and
 - Transaction costs associated with the termination of the Management Agreement.

These costs have been discounted back to present value at Propel's estimated cost of debt using the DCF methodology. We note that the performance fee valuation is already a present value and the Termination Payment and transaction costs are incurred or recognised at day 1.

6.6. Other valuation considerations

6.6.1. Future events

The business of Propel that we have considered is that which existed as at the date of this IER. Growth potential, which may result from new activities, business initiatives, acquisitions and the like (which are not capable of estimation), is not within the scope of our assessment.

6.6.2. Valuation in accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.



7. VALUATION OF THE PRE-TRANSACTION MANAGEMENT COSTS

The Pre-Transaction Management Costs include the following elements:

1. The likely performance fees
2. Administration fees
3. Termination fees

7.1. Valuation of likely performance fees

7.1.1. Overview of the performance fee

Under the Management Agreement, the Manager is entitled to be paid a performance fee if the annualised TSR (including dividends) in a Calculation Period is greater than the 8% benchmark. The performance fee for a Calculation Period will be 20% of the absolute dollar value that the TSR outperforms the 8% benchmark (**Outperformance Amount**).

The TSR means the number, calculated and expressed as a percentage, as follows:

Table 11: Calculation of the Total Shareholder Return

$$TSR = (CP - OP + D + FC) / OP$$

Where:

CP is the average of the daily VWAP for the 10 trading days up to and including the last day of the relevant Calculation Period, unless there is a control transaction in which case the CP shall be the highest price paid by the offeror in connection with the control transaction

OP in respect of Calculation Periods is the CP in respect of the TSR for the immediately preceding Calculation Period

D is the dividends or other distributions per share paid or payable to shareholders

FC represents the income tax per share that the Company has already paid on dividends (the value of franking credits) per share

Source: *Propel Prospectus*

The Outperformance Amount is calculated as follows:

Table 12: Calculation of the Outperformance Amount

$$CMC - (OMC \times (1 + \text{Benchmark}) + DA + FCA - NC$$

Where:

CMC is the closing market capitalisation of the Company at the end of the relevant Calculation Period. The market capitalisation shall be calculated using the average of the daily VWAP for the last 1- trading days up to and including the last day of that period

OMC is the opening market capitalisation of the Company at the beginning of the relevant Calculation Period

DA is the aggregate of all dividends or other distributions in respect of all shares paid or payable to Shareholders

FCA is the aggregate of all franking credits that have been distributed or will be distributed to the Shareholders during the relevant Calculation Period

NC is the aggregate dollar value of any new capital subscribed for shares during the relevant Calculation Period, calculated at the subscription price for that new capital.

Source: *Propel Prospectus*

Where the Outperformance Amount is a negative number, it is to be carried forward to the following Performance Calculation Period(s) until it has been recouped in full against future positive Outperformance Amount(s). No performance fees will be payable until the full recoupment of prior underperformance.

A worked example as provided in the Prospectus is set out in Appendix 6.

7.1.2. Valuation methodology

The performance fee is payable if the Company achieves a TSR of 8% per annum (and other conditions including the recoupment of previous underperformance and exceeding previous high watermarks are met).

This is similar to a barrier option where the exercise price is zero, and the barrier price equates to the share price where an 8% TSR is achieved.



We have used option pricing methodologies and forecast share price distribution models over the Remaining Term to value the performance fee.

7.1.3. Key valuation inputs

The key valuation inputs adopted in our valuation of the likely performance fees are summarised in the following table.

Table 13: Performance fee valuation inputs

| Input | Formula reference | Assumption | Source |
|--|-------------------|-------------------------|---|
| Start of Current Calculation Period | | 17 November 2020 | Anniversary of Commencement Date |
| End of Remaining Term | | 17 November 2027 | Management Agreement end date |
| 10 day average daily VWAP at start of Calculation Period | OP | \$2.97 | Management's performance fee calculation |
| Share price at the valuation date of 28 May 2021 | | \$3.36 | Propel 1 week VWAP. BDOCF analysis |
| Shares outstanding at start of Calculation Period | | 99.9 million | Propel Half-year Report 31 December 2020 |
| Assumed shares outstanding at end of Remaining Term | | 99.9 million | |
| New capital subscribed for shares during Remaining Term | NC | 0 | |
| Dividends per share since start of Calculation Period | D | 0.06 | Fully franked dividend of 6c declared on 25 February 2021 |
| Franking credits per share since start of Calculation Period | FC | 0.03 | Calculated using a tax rate of 30% and 100% franking as per ASX Announcement 25 February 2021 |
| Number of dividends in Remaining Term | | 13 | Based on assumption of 2 dividends per annum |
| Opening negative underperformance from previous Calculation Period | | \$20.4 million | Calculation using Management performance fee calculation |
| Annual volatility | | 20% - 30% | BDOCF analysis based on Propel and InvoCare trading history |
| Closing price distribution | CP | Log-normal distribution | |

Source: BDOCF analysis

7.1.4. Conclusion as to the present value of likely performance fees

Using the option pricing methodology and the above assumptions, we have determined the present value of the likely performance fees over the remaining period of the Initial Term to be as follows:

Table 14: Present value of likely performance fees

| \$'000s | Low | High |
|--|----------|----------|
| Present value of likely performance fees (Total) | 16,685.5 | 24,710.6 |
| Present value of likely performance fees (per annum) | 2,382.7 | 3,528.7 |

Source: BDOCF analysis

We estimate the present value of likely total performance fees to range between \$16.7m and \$24.7m.

7.2. Valuation of administration fees

Under the Management Agreement, Propel is to pay the Manager an administration fee. The initial fee was \$60,000 per quarter (excluding GST). The fee increases by CPI on the anniversary of the Commencement Date of the Management Agreement.

The administration fee was waived by the Manager during FY20 as a result of the COVID pandemic. The fee for the half year ending 31 December 2020 was \$126,000.

We have forecast future administration fees based on:

- ▶ the most recent administration fee of \$126,000 for the half year ending 31 December 2020;
- ▶ annual inflation of between 1.9% based on RBA forecasts for June 2021; and
- ▶ a discount rate of 2.30% being Propel's average effective interest rate as disclosed in the 1H FY21 Investor Presentation.



Based on the above we have determined the present value of the administration fee over the Remaining Term to be as follows:

Table 15: Present value of administration fees

| \$'000s | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------------------------------------|---------|-------|-------|-------|-------|-------|-------|
| Administration fee inflated at CPI | 126.0 | 256.8 | 261.7 | 266.6 | 271.7 | 276.9 | 282.1 |
| Total undiscounted fees | 1,741.8 | | | | | | |
| Present value of administration fees | 1,599.2 | | | | | | |

Source: BDOCF analysis

We estimate the present value of administration fees to be \$1.6m.

7.3. Valuation of termination fees

The Management Agreement allows the Company to terminate the agreement by giving three months' notice, if the Company's shareholders pass an ordinary resolution.

If the Management Agreement is terminated by the Company, the Company must pay the Manager:

- ▶ a fee equal to all fees paid to the Manager in the 12 months prior to termination; and
- ▶ any accrued but unpaid fees;

(together, the **Termination Fees**).

We have estimated the likely Termination Fees as follows:

- ▶ the total value of the likely performance fees divided by the Remaining Term to determine a likely annual performance fee (as assessed in Section 7.1.4); and
- ▶ the forecast administration fee, including CPI.

The Termination Fees have been discounted back to present value at the rate of 2.30% being Propel's average effective interest rate.

We have determined the present value of Termination Fees to be as follows:

Table 16: Present value of Termination Fees

| \$'000s | |
|---|----------------|
| Termination Fee - low | |
| Present value of likely performance fee - low | 2,382.70 |
| Present value of 2027 administration fee | 240.61 |
| Present value of Termination Fees - low | 2,623.3 |
| Termination Fee - high | |
| Present value of likely performance fee - high | 3,528.71 |
| Present value of 2027 administration fee | 240.61 |
| Present value of Termination Fees - high | 3,769.3 |

Source: BDOCF analysis

We estimate the present value of Termination Fees to range between \$2.6m and \$3.8m.

7.4. Conclusion as to the present value of the Pre-Transaction Management Costs

We have determined the present value of the Pre-Transaction Management Costs to the end of the Initial Term to be as follows:

Table 17: Present value of Pre-Transaction Management Costs

| \$'000s | Low | High |
|---|-----------------|-----------------|
| Performance fees | 16,685.5 | 24,710.6 |
| Administration fees | 1,599.2 | 1,599.2 |
| Termination fees | 2,623.3 | 3,769.3 |
| Total Pre-Transaction Management Costs | 20,907.9 | 30,079.1 |

Source: BDOCF analysis

On the basis of the above analysis we estimate the present value of the Pre-Transaction Management costs to range between \$20.9m and \$30.1m.

8. VALUATION OF THE POST-TRANSACTION MANAGEMENT COSTS

The Post-Transaction Management Costs include the following elements:

1. The Termination Payment
2. Proposed KMP remuneration
3. Transaction costs associated with the termination of the Management Agreement.

8.1. Valuation of the Termination Payment

The proposed Termination Payment of \$15 million will comprise of a \$7.5 million Cash Component and \$7.5 million in Termination Shares. The number of Termination Shares to be issued has been calculated by dividing \$7.5 million by the Company's 30 day VWAP of \$3.25 as at 28 May 2021, the trading day immediately prior to the date the Proposed Transaction is announced to the ASX.

As the Termination Payment includes the issue of Propel shares, we have performed a valuation analysis of Propel using the QMP and COE methods.

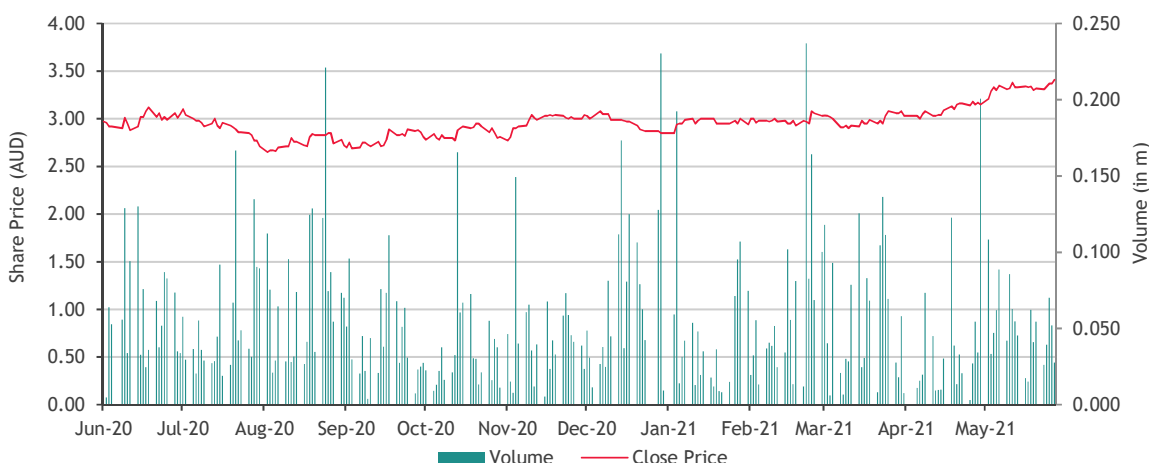
8.1.1. Valuation of a Propel share using the QMP method

We have analysed the trading history of Propel for the 12 months up to 28 May 2021, the trading day prior to the announcement by the Company of the Internalisation Proposal to the ASX. Propel's share price movement, announcements and VWAP over this period are discussed below.

8.1.1.1. Trading history

The following chart illustrates the trading history of the company over the twelve months to 28 May 2021.

Figure 4: Propel share price and trading volume (from June 2020 to May 2021)



Source: CapitalIQ

Set out below is a summary of the Company's price-sensitive announcements in the period from March 2020 up to May 2021.

Table 18: Summary of price-sensitive announcements between 25 March 2020 and 28 May 2021

| Date | Announcement | Share price 1 day before (\$) | Share price 1 day after (\$) | Change (\$) | Change (%) |
|-----------|--|----------------------------------|---------------------------------|----------------|---------------|
| 25-Feb-21 | Dividend/Distribution and 1H FY21 Results | 2.95 | 3.06 | 0.11 | 3.7% |
| 9-Nov-20 | Change of Director's Interest Notice | 2.92 | 2.99 | 0.07 | 2.4% |
| 14-Oct-20 | Trade Update and COVID-19 Impacts | 2.77 | 2.90 | 0.13 | 4.7% |
| 16-Sep-20 | Change in substantial holding | 2.71 | 2.78 | 0.07 | 2.6% |
| 7-Sep-20 | Change of Director's Interest Notice - Fraser Henderson and Change of Director's Interest Notice - Albin Kurti | 2.69 | 2.75 | 0.06 | 2.2% |
| 15-Jun-20 | COVID-19 Update and FY20 Guidance | 2.88 | 3.02 | 0.14 | 4.9% |
| 8-May-20 | Trading Update and Change in substantial holding | 2.68 | 3.07 | 0.39 | 14.6% |
| 27-Mar-20 | Change of Director's Interest Notice | 2.20 | 2.31 | 0.11 | 5.0% |
| 25-Mar-20 | COVID-19 Update | 2.30 | 2.20 | (0.10) | (4.3%) |

Source: ASX website, Capital IQ and BDOCF analysis



We note the following key considerations from the trading history and announcements above:

1. Propel's share price reached a 52 week high close price of \$3.41 on 28 May 2021.
2. The 52 week low close price of \$2.65 occurred on 3 August 2020.
3. The largest daily price change in the last 12 months of 4% on 25 February 2021 followed the release of the interim financial report and announcement of the 6c dividend to be paid in April 2021.
4. Propel shares have traded on all available trading days over the last 12 months.

8.1.1.2. Propel VWAP

The following table summarises the trade results for the 12 month period to 28 May 2021.

Table 19: VWAP for the 12 months ending 28 May 2021

| Period | Price (Low) \$ | Price (High) \$ | Price VWAP \$ | Cumulative value \$m | Cumulative volume m | % of Free float | % of issued capital |
|-----------|-------------------|--------------------|------------------|-------------------------|------------------------|-----------------|---------------------|
| 1 day | 3.36 | 3.42 | 3.39 | 0.09 | 0.03 | 0.0% | 0.0% |
| 1 week | 3.30 | 3.43 | 3.36 | 0.72 | 0.21 | 0.3% | 0.2% |
| 1 month | 3.12 | 3.43 | 3.28 | 4.16 | 1.27 | 2.0% | 1.3% |
| 3 months | 2.87 | 3.43 | 3.12 | 9.99 | 3.20 | 5.1% | 3.2% |
| 6 months | 2.84 | 3.43 | 3.04 | 20.84 | 6.87 | 11.1% | 6.9% |
| 12 months | 2.63 | 3.43 | 2.96 | 40.34 | 13.64 | 21.9% | 13.7% |

Source: Capital IQ, BDOCF analysis

VWAPs have increased, particularly over the last month. Propel shares are moderately traded, with 21.9% of the free float traded in the 12 month period.

8.1.1.3. FMV of a Propel share using the QMP method

On the basis of the above, we consider the FMV of a Propel share under the QMP method to range between \$3.28 and \$3.39, on a minority basis.

Table 20: FMV of a Propel share using the QMP method

| | Low | High |
|---|---------|---------|
| FMV per Propel share using the QMP method | \$ 3.28 | \$ 3.39 |

Source: BDOCF analysis

8.1.2. Valuation of a Propel share using the COE methodology

We have also assessed the FMV of a Propel share using the COE method.

Historical earnings have been analysed to estimate future maintainable earnings (FME) for Propel. The selected FME has then been capitalised using a market based multiple to conclude on an enterprise value range. To arrive at a per share value, the enterprise value has been adjusted for cash, debt and debt-like items and the total equity value is divided by the total shares on issue.

Set out in the following sections is the valuation assessment of Propel based upon the COE method.

8.1.2.1. Assessed FME of Propel

Our selected FME is based on Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). We have adopted underlying EBITDA as it allows comparison of companies with different gearing levels and amortisation/ depreciation policies.

We note that our EBITDA is calculated after deducting any amortisation associated with AASB 16.

Table 21: Propel FME

| \$'000 | Ref | Note | FY18 | FY19 | FY20 | 1H FY21 |
|--|-----|------|---------------|---------------|---------------|---------------|
| Reported EBITDA (before performance fees) | 3.3 | | 21,199 | 23,435 | 32,079 | 18,890 |
| Normalisation adjustments: | | | | | | |
| Depreciation of right-of-use assets (AASB16) | | 1 | - | - | (3,258) | (1,707) |
| Estimated performance fees | | 2 | (2,500) | (2,500) | (2,500) | (1,250) |
| Normalised EBITDA | | | 18,699 | 20,935 | 26,321 | 15,933 |

Source: BDOCF analysis

Notes:

| | |
|---|--|
| 1 | In order to maintain comparability with earlier financial years prior to the release of AASB16, we have adjusted for the impact of AASB16 accounting adjustments in FY20 and 1H FY21. |
| 2 | The current management structure of Propel is not directly comparable with other market participants that have been considered in our trading multiples analysis. Therefore we have applied an estimated annual management cost of \$2.5 million per annum based on our assessment of the performance fee payable. |

Based on the above analysis, we have adopted an EBITDA of \$27 million as a best estimate of Propel's FME.

8.1.2.2. Selected trading multiple for Propel

The appropriate multiple is assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are broadly comparable to those of the entity being valued. Such multiples are derived from:

- ▶ Trading and operational performance of comparable listed companies; and
- ▶ Prices achieved in mergers and acquisitions of comparable companies (usually reflecting a controlling interest).

For the trading comparable company multiples, we have considered broadly comparable companies in the US and UK, as InvoCare is the only listed comparable for Propel in Australia. Descriptions of the identified comparable companies are set out in Appendix 5. The results of our analyses are set out below.

Table 22: Comparable trading multiples

| Ticker | Company Name | Country | Enterprise Value ¹ AUDm | EV/ EBITDA FY18 | EV/ EBITDA FY19 | EV/ EBITDA FY20 | EV/ EBITDA FY21 ² | EV/ EBITDA FY22 ² |
|-----------|-----------------------------------|----------------|------------------------------------|-----------------|-----------------|-----------------|------------------------------|------------------------------|
| NYSE:SCI | Service Corporation International | United States | 15,859.3 | 13.8 | 13.5 | 10.9 | 11.2 | 12.0 |
| ASX:IVC | InvoCare Limited | Australia | 1,637.3 | 14.7 | 13.3 | 20.8 | 13.3 | 11.3 |
| LSE: DTY | Dignity plc | United Kingdom | 1,431.0 | 7.9 | 12.5 | 11.2 | 10.6 | 11.6 |
| NYSE:CSV | Carriage Services, Inc. | United States | 1,469.3 | 16.3 | 15.3 | 11.0 | 9.8 | 9.6 |
| NYSE:STON | StoneMor Inc. | United States | 682.1 | n/a | n/a | 34.8 | n/a | n/a |
| ASX:PFP | Propel Funeral Partners Limited | Australia | 422.1 | 9.8 | 18.0 | 17.1 | 11.4 | 10.7 |
| Mean | | | 3,583.5 | 12.5 | 14.5 | 17.6 | 11.3 | 11.0 |
| Median | | | 1,450.1 | 13.8 | 13.5 | 14.1 | 11.2 | 11.3 |

Source: CapitalIQ and BDOCF analysis

Note 1: Adjustments for AASB16 have been made and no control premium has been applied to enable comparison with the QMP approach. Note 2: Forecast multiples are based on Broker estimates of future earnings.

The comparable company median EBITDA multiples sourced from CapitalIQ range between 11.2x and 14.1x. Propel has the smallest enterprise value of the identified comparable companies.

We note that we have performed different normalisation adjustments to Propel's EBITDA at Section 8.1.2.3. The implied multiple based upon our normalised EBITDA is 15.6x.

We have also observed the implied EBITDA multiples of mergers and acquisitions of companies operating in Cemeteries and Funeral Home Services. Set out below are transaction multiples observed since 1999.

Table 23: Comparable transaction multiples

| Transaction Closed date | Target | Country | % acquired | Implied Enterprise Value (AUDm) | Implied Enterprise Value / EBITDA |
|-------------------------|---|---------------|------------|---------------------------------|-----------------------------------|
| 31/03/2008 | Batesville Casket | United States | 100.00% | 1,631.4 | 7.7 |
| 19/01/1999 | Equity Corporation International | United States | 100.00% | 1,360.4 | 16.5 |
| 29/06/2012 | Lungyen Life Service Corporation | Taiwan | 0.13% | 1,220.7 | 16.6 |
| 23/05/2019 | Kosaido Co., Ltd. | Japan | 86.50% | 542.3 | 9.3 |
| 14/02/2014 | Calgro M3 Holdings Limited | South Africa | 1.57% | 124.9 | 9.8 |
| 30/07/2013 | Park Lawn Corporation | Canada | 28.30% | 45.6 | 18.6 |
| 4/07/2011 | Park Lawn Corporation | Canada | 15.00% | 35.2 | 13.3 |
| 13/12/2007 | Info Communication Holdings Limited (nka:Sun Entertainment Group Limited) | Hong Kong | 44.94% | 13.3 | 3.2 |
| 6/11/2007 | Info Communication Holdings Limited (nka:Sun Entertainment Group Limited) | Hong Kong | 55.06% | 10.3 | 2.6 |
| Mean | | | | 553.8 | 10.8 |
| Median | | | | 124.9 | 9.8 |

Source: CapitalIQ and BDOCF analysis

The comparable transaction EBITDA multiples range between 2.6x and 18.6x with a median of 9.8x.

Based on the observed trading and transaction multiples, and in particular:



- ▶ mean and median EBITDA trading multiples for FY20 of 17.6x and 14.1x respectively; and
- ▶ transaction multiples around 10x EBITDA;

we consider a range of 13.5x to 15.5x EBITDA to be appropriate for Propel.

8.1.2.3. FMV of a Propel share using the COE method

Our valuation of Propel using the COE method with the above inputs is summarised below.

Table 24: Propel COE valuation

| \$'000 | Ref | Low | High |
|--|---------|----------------|----------------|
| Selected FME | 8.1.2.1 | 27,000 | 27,000 |
| EV/EBITDA multiple | 8.1.2.2 | 13.5x | 15.5x |
| Enterprise value of Propel | | 364,500 | 418,500 |
| Net debt: | | | |
| Cash and cash equivalents | 3.4 | 6,775 | 6,775 |
| Borrowings - current | 3.4 | (10,115) | (10,115) |
| Borrowings - non-current | 3.4 | (77,864) | (77,864) |
| Equity value of Propel | | 283,296 | 337,296 |
| Total shares on issue | 3.5 | 99,946 | 99,946 |
| FMV per Propel share using the COE method | | \$ 2.83 | \$ 3.37 |

Source: BDOCF analysis

As the multiples are based on market capitalisations without addition of a control premium, we consider the resulting range of price per share to reflect a minority interest.

We estimate the FMV of Propel's equity per share to be between \$2.83 and \$3.37 per share with a midpoint of \$3.10.

8.1.3. Conclusion as to the FMV of the Termination Payment

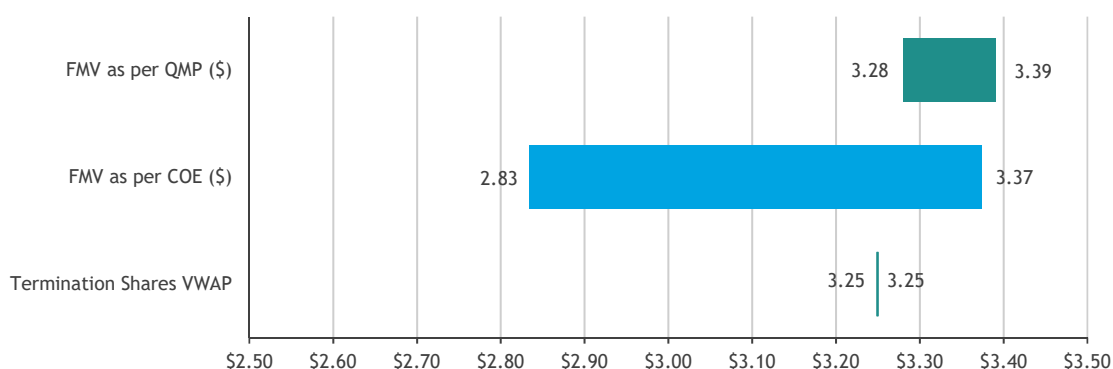
A summary of our valuations, and the 30 day VWAP as at 28 May 2021 noted in the Company announcement of the Proposed Transaction for the issue of the Termination Shares, are set out below.

Table 25: Summary of assessed FMV per Propel share and Termination Shares VWAP

| \$'000 | Ref | Low | High |
|---|---------|---------|---------|
| FMV per Propel share using the QMP method | 8.1.1.3 | \$ 3.28 | \$ 3.39 |
| FMV per Propel share using the COE method | 8.1.2.4 | \$ 2.83 | \$ 3.37 |
| Termination Shares VWAP as at 28 May 2021 | 8.1 | \$ 3.25 | \$ 3.25 |

Source: BDOCF analysis

Figure 5: Comparison of Propel price per share with the Termination Shares VWAP



Source: BDOCF analysis

The VWAP of \$3.25 used to determine the number of Termination Shares to be issued is within our COE valuation range. The VWAP of \$3.25 is just below our QMP valuation range. Based on the above, we value the Termination Shares at \$7.5 million in value (being the number of Termination Shares to be issued multiplied by \$3.25).

8.2. Valuation of proposed KMP remuneration

The key terms of the proposed ESAs are summarised in Section 1.2.2. We have estimated the present value of the employee costs required to remunerate the executive positions filled by the KMP as per the proposed ESAs over the Remaining Term including:

- ▶ the total fixed remuneration as per the ESAs, escalated at CPI;
- ▶ short term incentives, assuming achievement of the target award +/- 10%;



- ▶ long term incentives, assuming achievement of the target award +/- 10%; and
- ▶ associated employee on-costs including payroll tax and workers compensation of between 6.2% and 6.8% of total remuneration.

The total remuneration costs have been discounted back to present value at the rate of 2.30% being Propel's average effective interest rate.

We have determined the present value of total KMP remuneration costs over the Remaining Term to be as follows:

Table 26: Present value of KMP remuneration costs

| \$'000 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|----------------------------------|-----------------|---------|---------|---------|---------|---------|---------|-------|-------|------|
| Remuneration costs - low | | | | | | | | | | |
| Base Salary, CPI adjusted | 1,600.0 | 1,630.4 | 1,661.4 | 1,692.9 | 1,725.1 | 1,757.9 | | | | |
| Estimated STI | | 481.3 | 490.4 | 499.7 | 509.2 | 518.9 | 528.7 | | | |
| Estimated LTI | | | | 481.3 | 490.4 | 499.7 | 509.2 | 518.9 | 528.7 | |
| Estimated employee on-costs | 99.2 | 130.9 | 133.4 | 165.8 | 168.9 | 172.1 | 64.4 | 32.2 | 32.8 | |
| Total undiscounted costs | 1,699.2 | 2,242.6 | 2,285.2 | 2,839.7 | 2,893.6 | 2,948.6 | 1,102.3 | 551.1 | 561.5 | |
| Present value - low | 15,367.7 | | | | | | | | | |
| Remuneration costs - high | | | | | | | | | | |
| Base Salary, CPI adjusted | 1,600.0 | 1,630.4 | 1,661.4 | 1,692.9 | 1,725.1 | 1,757.9 | | | | |
| Estimated STI | | 673.8 | 686.6 | 699.6 | 712.9 | 726.4 | 740.2 | | | |
| Estimated LTI | | | | 673.8 | 686.6 | 699.6 | 712.9 | 726.4 | 740.2 | |
| Estimated employee on-costs | 108.8 | 156.7 | 159.7 | 208.5 | 212.5 | 216.5 | 98.8 | 49.4 | 50.3 | |
| Total Remuneration | 1,708.8 | 2,304.2 | 2,347.9 | 3,066.3 | 3,124.5 | 3,183.9 | 1,453.1 | 726.4 | 740.2 | |
| Present value - high | 16,688.8 | | | | | | | | | |

Source: BDOCF analysis

We estimate the present value of remuneration costs to range between \$15.4m and \$16.7m.

8.3. Transaction costs

The Transaction Document notes that an additional \$0.2 million in transaction costs will be payable if the Proposed Transaction is approved. This cost relates to the Financial Advisor fee for the Proposed Transaction. The fee is therefore an additional cost associated with the change in management structure and has been added to our valuation of the Post-Transaction Management Costs.

8.4. Conclusion as to the present value of the Post-Transaction Management Costs

We have determined the present value of the Post-Transaction Management Costs for the period to the end of the Initial Term to be as follows:

Table 27: Present value of Post-Transaction Management Costs

| \$'000 | Low | High |
|--|-----------------|-----------------|
| Cash Component | 7,500.0 | 7,500.0 |
| Termination Shares | 7,500.0 | 7,500.0 |
| Remuneration of KMPs under new ESAs | 15,367.7 | 16,688.8 |
| Financial Advisor risk component fee (pre GST) | 200.0 | 200.0 |
| Total Post-Transaction Management Costs | 30,567.7 | 31,888.8 |

Source: BDOCF analysis

On the basis of the above analysis we estimate the present value of the Post-Transaction Management costs to range between \$30.6m and \$31.9m.



9. FAIRNESS ASSESSMENT

Our analysis has been performed by comparing the value of:

- ▶ The present value of the Pre-Transaction Management Costs, being the likely costs payable to the Manager under the Management Agreement, if it continues for the remaining 6.5 years of the initial term; and
- ▶ The present value of Post-Transaction Management Costs, being the costs payable under the new management structure over the same period, including the Termination Payment, remuneration costs, and associated transaction costs.

We have assessed the management costs over the remaining 6.5 years of the initial term as the Company has the right to terminate the Management Agreement at this time.

The Proposed Transaction will be fair if the Post-Transaction Management Costs are less than or equal to the Pre-Transaction Management Costs.

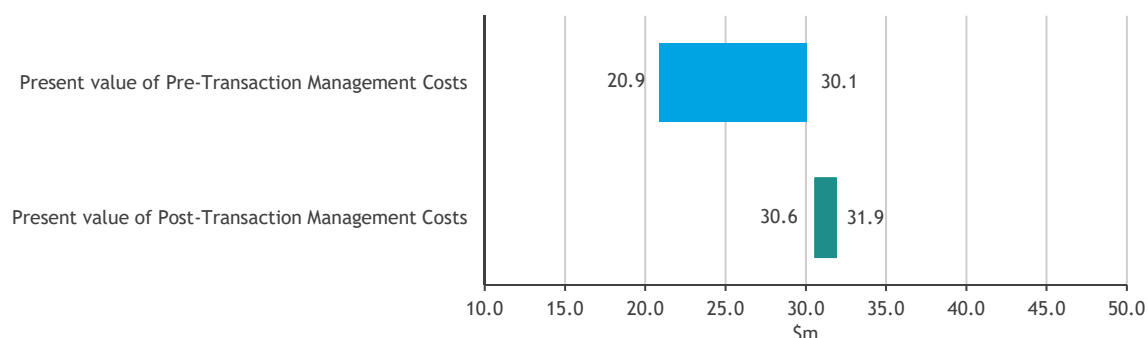
The result of our fairness analysis is summarised below.

Table 28: Fairness summary

| \$m | Ref | Low | High |
|--|-----|--------------|--------------|
| Present value of Pre-Transaction Management Costs | 7.4 | 20.9 | 30.1 |
| Present value of Post-Transaction Management Costs | 8.4 | 30.6 | 31.9 |
| Additional cost as a result of the Proposed Transaction | | (9.7) | (1.8) |

Source: BDOCF analysis

Figure 6: Fairness summary



Source: BDOCF analysis

As set out above, the assessed present value of the Post-Transaction Management Costs is greater than the assessed present value of the Pre-Transaction Management Costs.

Therefore, we have concluded that the Proposed Transaction is not fair to Shareholders.

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

10. REASONABLENESS ASSESSMENT

In accordance with RG 111, a proposed related party transaction is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the shareholders of Propel not associated with the Manager to vote in favour of the Proposed Transaction.

We have assessed the reasonableness of the Proposed Transaction by considering the factors set out in the following table.

Table 29: Summary of factors considered in the reasonableness assessment

| Advantages | |
|--|---|
| Propel Shareholders will be better able to influence the election of management and remuneration | The termination of the Management Agreement, and the employment of KMP, enables Shareholders to have a greater influence over Propel management and remuneration. Propel shareholders will have the ability to elect directors (excluding the Managing Director) on a three-year rotational basis and vote on the remuneration payable to the executives of as part of the annual AGM process. |
| Eliminates the risk of substantially higher management costs after the Initial Term and possible business disruption | <p>Our fairness assessment has been conducted over the remaining period of the Initial Term of the Management Agreement. The analysis has been performed on this basis as the Company has the ability to terminate the Management Agreement and avoid substantially higher management costs after the Initial Term.</p> <p>After the Initial Term, the Manager is entitled to the following fees:</p> <ul style="list-style-type: none"> ▶ Administration fee - there is no change in the calculation of the administration fee post the Initial Term ▶ Performance fee - there is no change in the calculation of the performance fee post the Initial Term ▶ Management fee - No management fee is payable during the Initial Term. After the Initial Term, a management fee of 0.375% per quarter is payable. Based on Propel's current market capitalisation, the annual management fee would be c.\$5m. <p>The management fee alone is substantially higher than the annual commercial salaries of the KMP that provide these services. We have estimated the commercial salaries of the KMP to be c.\$3m including short term and long term incentives (refer to Table 26 in our IER).</p> <p>In our opinion it would be in Propel's best interests to cancel the Management Agreement at the end of the Initial Term and employ the KMP as is proposed under the Proposed Transaction. However there are a number of difficulties with this approach:</p> <ol style="list-style-type: none"> 3. Cancelling the Management Agreement requires an ordinary resolution to be passed. Currently the KMP hold c.21% of Propels ordinary shares. We have been advised by Management that the KMP are entitled to vote on such a resolution. If the KMP vote to continue the Management Agreement, it may be difficult to obtain enough votes to cancel the Management Agreement. 4. If the Management Agreement is cancelled at the end of the Initial Term, there is no guarantee that the KMP will continue as employees of Propel. Propel may be required to commence a search for a new management team in a short period of time. This search would involve additional costs, and possible disruption to Propel's Business. <p>Approving the Proposed Transaction avoids the risk of incurring substantial management costs after the Initial Term, and also avoids potential business disruption if the Management Agreement is cancelled at the end of the Initial Term.</p> |
| Certainty of management costs | <p>The performance fee payable to the Manager under the current agreement is subject to certain conditions being met (refer to Section 4.3 of our IER). The timing and quantum of these payments are uncertain. These potential payments are also uncapped.</p> <p>The internalisation of management will reduce the current uncertainty around timing and magnitude of management costs.</p> |
| Prevention of potential breach of debt obligations to meet obligations to pay fees to the Manager after the Initial Term | <p>Under the current Management Agreement, material fees would be payable by the Company to the Manager after the Initial Term.</p> <p>The obligation to pay material management fees and uncapped performance fees may put the Company into default.</p> |



| Advantages (cont'd) | |
|--|---|
| Demand and liquidity for Propel shares may improve when the Corporate Governance structure is more aligned to the market | <p>The current structure where Propel has key management services provided by an external manager is not in line with current market practices.</p> <p>The Transaction Document notes that potential institutional investors have been unable or unwilling to invest in Propel due to the externally managed model.</p> <p>The termination of the Management Agreement and employment of KMP by Propel may attract new institutional investors.</p> <p>We note that upon announcement of the Proposed Transaction the share price increased from \$3.41 to \$3.70. This increase may have resulted from a range of factors including the announcement of the Proposed Transaction. If the proposal is not approved, the share price may revert to previous levels.</p> <p>The internalisation of management may also provide increased alignment for corporate activity such as takeover transactions.</p> <p>We do note that the KMP are currently aligned with Propel through their direct and indirect shareholdings in Propel. KMP currently have an interest in Propel of approximately 17% with an estimated value of c. \$54 million. Following the Proposed Transaction, the KMP will collectively hold an interest of approximately 19% in Propel.</p> |
| Retention of Propel brand name | <p>Upon termination of the Management Agreement after the Initial Term, PIPL would require the removal of the word "Propel" from the company's name or the payment to PIPL of an annual non-transferable license equal to 0.2% of the market capitalisation at the anniversary of termination for the use of the "Propel name.</p> <p>Propel will retain its "Propel" name without additional payment under the Proposed Transaction.</p> |
| Disadvantages | |
| The Proposed Transaction is not fair | <p>The management services provided will not materially change under the Proposed Transaction, however there will be an increase in the present value of management costs of approximately \$2m to \$10m.</p> |
| Earlier release of escrowed share | <p>If the Proposed Transaction is approved, the shares held in escrow by the KMP will be released earlier. The KMP are currently aligned up to the 10th anniversary of the commencement of the Management Agreement. If the Proposed Transaction is approved the KMP may be able to sell their shares earlier, reducing the alignment between KMP and Propel.</p> <p>The value of early release of the escrowed shares has been estimated by the Manager and reviewed by PwC to be \$4.6 million.</p> |
| Reduced security of access to the KMP | <p>The Initial Term of the current Management Agreement has a remaining period of 6.5 years. The interests of the KMP are currently aligned by the volume and escrow of shares held in the Company by the KMP.</p> <p>The new ESAs include a contract term of 3 years with a notice period of 6 months and post-employment non-compete period of 12 months. The shares held will be released from escrow earlier.</p> |
| Cashflow impact | <p>The Termination Payment and remuneration will result in an additional \$7.5 million non-operating cash outflow.</p> |
| Shareholder dilution | <p>The termination of the Management Agreement will result in the issue of additional shares to the Manager. Existing shareholders will be diluted by circa 2.5%.</p> |
| Other considerations | |
| KMP interests are already aligned due to their current shareholding | <p>One stated purpose of the Proposed Transaction is to increase the alignment of interests between KMP and Propel, however the KMP are already aligned due to the shares held in escrow until the 10th anniversary.</p> <p>The early release of the escrowed shares aligns the escrow period to the term of the new ESAs.</p> |

Source: BDOCF analysis



Based on the above analysis, we consider the Proposed Transaction to be reasonable. The key considerations in arriving at this conclusion are:

- ▶ As detailed in our Fairness Assessment, the additional cost over the Initial Term as a result of the Proposed Transaction is calculated to be between \$1.8m and \$9.7m. It is possible that the Management Agreement will continue after the Initial Term. If the Management Agreement continues after the Initial Term, the likely cost of management services will be c.\$5m per annum plus performance fees. The market salaries for the KMP is c.\$3m. In our opinion it is in the Shareholders best interest to approve the Proposed Transaction to avoid the risk of incurring these substantially higher management costs.
- ▶ The benefits of internalisation of Management may be recognised by market participants, providing Shareholders and the Company with trading benefits and corporate activity opportunities.
- ▶ We note that upon announcement of the Proposed Transaction the share price increased from \$3.41 to \$3.70. This increase may have resulted from a range of factors including the announcement of the Proposed Transaction. If the proposal is not approved, the share price may revert to previous levels.

On balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it.

11. OVERALL OPINION

We have considered the terms of the Proposed Transaction, as outlined in this Report, and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders.

BDOCF released a full draft copy of this report to the Independent Directors of Propel on 7 May 2021. Our conclusion in the report dated 7 May 2021 was that the Proposed Transaction was not fair and not reasonable.

Our conclusion in this IER was amended to be not fair but reasonable due to two factors.

- ▶ Increase in the share price of Propel. Propel shares traded around \$3.15 prior to the report dated 7 May 2021. Since releasing the draft report and up to the announcement of the Proposed Transaction, Propel shares have traded up to \$3.41. This has increased the value of the likely performance fee payable during the Initial Term, therefore increasing Pre-Transaction Management Costs.
- ▶ Exclusion of value related to the reduction in escrow terms for the KMP's shares. In our draft report we included a value associated with the reduction in escrow terms in Post-Transaction Management Costs. This has been removed from our analysis in this report. The escrow terms were implemented to align the KMP with the Initial Term of the Management Agreement. If the Proposed Transaction is approved, the KMP will be employed directly by the Company. In our opinion, the escrow period is no longer required in line with common commercial practice. Therefore we have excluded the reduction in the escrow terms from our fairness assessment.



12. QUALIFICATIONS, DECLARATIONS AND CONSENTS

12.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO Group Holdings Limited, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr David McCourt, B.Bus, CA, is a director of BDOCF. Mr McCourt is also a partner of BDO Group Holdings Limited. Mr McCourt has been responsible for the preparation of this IER.

Mr McCourt has over 20 years of experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Mr Sebastian Stevens, B.Bus, CPA is a Director of BDOCF. Mr Stevens is also a partner of BDO Group Holdings Limited.

Mr Stevens is the Director responsible for the review of this IER. Mr Stevens has over 25 years of experience in a number of specialist corporate advisory activities including company valuations advising on independent expert reports, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, preparation of information memoranda and other corporate investigations. Accordingly, Mr Stevens is considered to have the appropriate experience and professional qualifications to provide the advice offered.

12.2. Independence

BDOCF is not aware of any matter or circumstance that would preclude it from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

BDOCF considers itself to be independent in terms of RG 112 independence of experts.

BDOCF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Propel in relation to the Proposed Transaction. Further, BDOCF has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with Propel that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

BDOCF will receive a fee of up to \$55,000 plus Goods and Services Tax for the preparation of this IER. BDOCF will not receive any fee contingent upon the outcome of the Proposed Transaction, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

A draft of this IER was provided to the Directors and their advisors for review of factual accuracy.

BDOCF released a full draft copy of this report to the Independent Directors of Propel on 7 May 2021. Our conclusion in the report dated 7 May 2021 was that the Proposed Transaction was not fair and not reasonable.

Our conclusion in this IER was amended to be not fair but reasonable due to two factors.

- ▶ Increase in the share price of Propel. Propel shares traded around \$3.15 prior to the report dated 7 May 2021. Since releasing the draft report and up to the announcement of the Proposed Transaction, Propel shares have traded up to \$3.41. This has increased the value of the likely performance fee payable during the Initial Term, therefore increasing Pre-Transaction Management Costs.
- ▶ Exclusion of value related to the reduction in escrow terms for the KMP's shares. In our draft report we included a value associated with the reduction in escrow terms in Post-Transaction Management Costs. This has been removed from our analysis in this report. The escrow terms were implemented to align the KMP with the Initial Term of the Management Agreement. If the Proposed Transaction is approved, the KMP will be employed directly by the Company. In our opinion, the escrow period is no longer required in line with common commercial practice. Therefore we have excluded the reduction in the escrow terms from our fairness assessment.

12.3. Disclaimer

This IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Directors and the Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and the Shareholders without the written consent of BDOCF. BDOCF accepts no responsibility to any person other than the Directors and the Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon BDOCF's consideration and assessment of information provided by the Directors, executives and Management of the Company.

APPENDIX 1: GLOSSARY

| Term | Definition |
|-----------------------------------|--|
| 1H FY21 | Half year ending 31 December 2020 |
| AFCA | Australian Financial Complaints Authority |
| APES 225 | Accounting Professional & Ethical Standards Board Limited issued professional standard APES 225 on valuation services |
| APESB | Accounting Professional & Ethical Standards Board |
| ASIC | Australian Securities & Investments Commission |
| ASX | Australian Securities Exchange |
| BDOCF, we, our or us | BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) |
| Calculation Period | The 12 months ending on the anniversary of the Commencement Date |
| Capex | Capital expenditure |
| Cash Component | The \$7.5 million cash payable as part of the total Termination Payment |
| COE | Capitalisation of maintainable earnings |
| Commencement Date | The commencement of the Management Agreement on 17 November 2017 |
| Corporations Act or Act | Corporations Act 2001 |
| DCF | Discounted cash flow method |
| Directors | Directors of Propel |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| ESAs | Executive Service Agreements |
| Escrowed Shares | The 14,732,667 shares currently held in escrow until 17 November 2027 by individuals associated with the Manager |
| EV | Enterprise value |
| FME | Future maintainable earnings |
| FMV | Fair market value |
| FOS | Financial Ombudsman Service Limited |
| FSG | Financial Services Guide |
| FY18 | Financial year ending 30 June 2018 |
| FY19 | Financial year ending 30 June 2019 |
| FY20 | Financial year ending 30 June 2020 |
| Investment Strategy | Propel's acquisition led growth strategy to acquire social infrastructure and assets which operate within the death care industry in Australia and New Zealand |
| InvoCare | InvoCare Limited |
| k | thousand |
| KMP | Key Management Personnel |
| Licence | Australian Financial Services Licence No: 247420 |
| LR 10.1 and LR 10.11 | ASX Listing Rules from Chapter 10 "Transactions with persons in a position of influence" |
| m | million |
| Management | Management, Directors and other representatives of Propel |
| Management Agreement | The management agreement between Propel Funeral Partners Limited and Propel Investments Pty Ltd dated 11 September 2017 |
| Manager | Propel Investments Pty Ltd |
| NAV | Net asset value |
| NED | Non Executive Director |
| NPAT | Net Profit after Tax |
| Outperformance Amount | The absolute dollar amount that the TSR outperforms the 8% benchmark |
| p.a. | per annum |
| Pre-Transaction Management Costs | The likely costs payable under the Management Agreement for the Remaining Term |
| PIPL or the Manager | Propel Investments Pty Ltd |
| Post-Transaction Management Costs | The likely costs payable under the new management structure over the same period as the Remaining Term |
| Propel or the Company | Propel Funeral Partners Limited |
| Proposed Transaction | The proposed termination of the Management Agreement with PIPL |
| QMP | Quoted market price basis |
| RBA | Reserve Bank of Australia |
| Remaining Term | The remaining period of the Initial Term of the Management Agreement until the end date of 17 November 2027 |
| Report or IER | Independent Expert's Report |
| Results Announcement Date | The date of release of full year audited financial results |
| RG 60 | ASIC Regulatory Guide 60: Schemes of arrangement |



| Term | Definition |
|---------------------------|---|
| RG 111 | ASIC Regulatory Guide 111 Content of expert reports |
| RG 112 | ASIC Regulatory Guide 112 Independence of experts |
| Shareholders | The shareholders of Propel not associated with the Manager |
| Termination Fees | The amount payable by the Company to the Manager upon termination of the Management Agreement, including a fee equal to all fees paid to the Manager 12 months prior to termination and any accrued but unpaid fees. |
| Termination Payment | The \$15 million payment as compensation to the Manager as compensation for the termination of the Management Agreement, comprised of the Cash Component and Termination Shares |
| Termination Shares | 2,307,692 Propel shares to be issued to the value of \$7.5 million determined based on the 30 day VWAP of \$3.25 as at 28 May 2021, the trading day immediately prior to the announcement date, as part of the Termination Payment. |
| Transaction Booklet | Propel's Transaction Booklet in relation to the Proposed Transaction |
| Transaction Consideration | The consideration of \$15 million comprised of \$7.5 million cash and \$7.5 million in scrip |
| TSR | Total Shareholder Return |
| VWAP | Volume Weighted Average Price |

Source: BDOCF



APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- ▶ Propel Interim Financial Report and Investor Presentation, 1H F21
- ▶ Propel Annual Report FY19 and FY20
- ▶ Management Agreement - Propel Funeral Partners, executed 11 September 2017
- ▶ Proposed Remuneration Agreements for the Managing Director & CEO, CFO and Head of Mergers & Acquisitions, General Counsel and Company Secretary, dated 4 May 2021
- ▶ Manager performance fee calculations
- ▶ Propel Meeting Booklet, Draft dated 29 April 2021
- ▶ Propel Prospectus dated 25 October 2017
- ▶ Propel 2019 Corporate Governance Statement
- ▶ Public announcements
- ▶ Discussions with the Directors and Management of Propel
- ▶ IBISWorld AU Industry (ANZSIC) Report S9520, Funeral Directors, Crematoria and Cemeteries in Australia, Allen Allday, September 2020
- ▶ Information sourced from CapitalIQ, and ASX
- ▶ ASIC guidance notes and regulatory guides as applicable
- ▶ Other generally available public information



APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of Propel, the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow (DCF) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- ▶ the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- ▶ the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (NPV).

DCF is appropriate where:

- ▶ the businesses' earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- ▶ earnings or cash flows are expected to fluctuate significantly from year to year;
- ▶ the business or asset has a finite life;
- ▶ the business is in a 'start up' or in early stages of development;
- ▶ the business has irregular capital expenditure requirements;
- ▶ the business involves infrastructure projects with major capital expenditure requirements; or
- ▶ the business is currently making losses but is expected to recover.

Capitalisation of Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the target's business and exclude any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Asset Value Methods

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- ▶ separating the business or entity into components which can be readily sold, such as individual business securities or collection of individual items of plant and equipment and other net assets; and
- ▶ ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- ▶ orderly realisation (NRV): this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- ▶ liquidation: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- ▶ continuing operations (NAV): this is a valuation of the net assets on the basis that the operations of the business will continue. It estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding entity. Adjustments may need to be made to the book value of assets and liabilities to reflect their value based on the continuation of operations.

The net realisable value of a trading entity's assets will generally provide the lowest possible value for the business. The difference between the value of the entity's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.



The net realisable value of assets is relevant where an entity is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding entity, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the entity's value could exceed the realisable value of its assets.

Quoted Market Prices

The price that an entity's security trades on an exchange can be an appropriate basis for valuation where:

- ▶ the security trades in an efficient market place where 'willing' buyers and sellers readily trade the entity's security; and
- ▶ the market for the entity's security is active and liquid.

Recent Capital Transactions

The price of a recent capital raise can be used as a reliable indicator of value where:

- ▶ the equity was issued at 'arm's length' meaning included a willing buyer under no compulsion to buy and a willing seller under no compulsion to sell, each having knowledge of the relevant facts
- ▶ the equity was issued to new investors
- ▶ the transaction occurred no longer than 6 to 12 months prior to the valuation date.

Option Pricing Model

Depending on the terms of the options, we may adopt different option pricing models to value the options. Some of the common option pricing models include:

- ▶ Black-Scholes model
- ▶ Binomial model
- ▶ Employee stock option pricing model
- ▶ Barrier option model.

Other Valuation Considerations

Future events

The business of Propel to be considered in this valuation is that which exists as at the current date.

Other growth potentials, which may result from new activities, business initiatives, acquisitions and the like (which are not capable of estimation), are not within the scope of this valuation.



APPENDIX 4: TYPES OF VALUATION ENGAGEMENTS UNDER APES 225

- ▶ Valuation Engagement means 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. Where a Member has entered into a Valuation Engagement but during the course of performing the Valuation Engagement the Member becomes aware of a limitation or restriction that, if it had been known at the time the Engagement or Assignment was entered into, would have made the Engagement or Assignment a Limited Scope Valuation Engagement, then the Valuation Engagement will become a Limited Scope Valuation Engagement.
- ▶ Limited Scope Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, 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, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material. A limitation or restriction may be imposed by the Client or Employer or it may arise from other sources or circumstances. A limitation or restriction may be present and known at the outset of the Engagement or Assignment or may arise or become known during the course of a Valuation Engagement. A Limited Scope Valuation Engagement may also be referred to as a “restricted-scope valuation engagement” or an “indicative valuation engagement”.
- ▶ Calculation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. A Calculation Engagement generally does not include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.



APPENDIX 5: COMPARABLE COMPANY DESCRIPTIONS

| Company Name | Business Description |
|-----------------------------------|---|
| Service Corporation International | Service Corporation International provides deathcare products and services in the United States and Canada. The company operates through Funeral and Cemetery segments. Its funeral service and cemetery operations comprise funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other businesses. The company also provides professional services related to funerals and cremations, including the use of funeral facilities and motor vehicles; arranging and directing services; and removal, preparation, embalming, cremation, memorialization, and travel protection, as well as catering services. In addition, it offers funeral merchandise, including burial caskets and related accessories, urns and other cremation receptacles, outer burial containers, flowers, online and video tributes, stationery products, casket and cremation memorialization products, and other ancillary merchandise. Further, the company's cemeteries provide cemetery property interment rights, such as developed lots, lawn crypts, mausoleum spaces, niches, and other cremation memorialization and interment options; and sells cemetery merchandise and services, including memorial markers and bases, outer burial containers, flowers and floral placements, graveside services, merchandise installations, and interments, as well as offers preneed cemetery merchandise and services. Service Corporation International offers its products and services under the Dignity Memorial, Dignity Planning, National Cremation Society, Advantage Funeral and Cremation Services, Funeraria del Angel, Making Everlasting Memories, Neptune Society, and Trident Society brands. As of December 31, 2020, it owned and operated 1,470 funeral service locations; and 483 cemeteries, including 297 funeral service/cemetery combination locations covering 44 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. The company was incorporated in 1962 and is headquartered in Houston, Texas. |
| InvoCare Limited | InvoCare Limited provides funeral, cemetery, crematoria, and related services in Australia, New Zealand, and Singapore. The company operates approximately 290 funeral home locations, and 18 cemeteries and crematoria that offers burial, memorialization, and cremation services. It also offers pet cremation services under the Patch & Purr, Pets in Peace, Family Pet Care, and the Lanswood and Edenhill brands; and LifeArt coffins. In addition, the company operates MyGriefAssist, an online grief resource website; and MyMemorial, a website that provides range of cremation and burial memorial options. Further, it offers digital funeral planning services under the Funeral Planner brand name; and Guardian Plan, a prepaid funeral plan. InvoCare Limited was incorporated in 2001 and is headquartered in North Sydney, Australia. |
| Dignity plc | Dignity plc, together with its subsidiaries, provides funeral services in the United Kingdom. It operates through three segments: Funeral Services, Crematoria, and Pre-arranged Funeral Plans. The Funeral Services segment provides funerals and ancillary items, such as memorials and floral tributes. The Crematoria segment offers cremation services, as well as sells memorials and burial plots at the company operated crematoria and cemeteries. The Pre-arranged Funeral Plans segment sells funerals in advance to customers wishing to make their own funeral arrangements. As of December 29, 2017, it owned 820 funeral locations and operated 46 crematoria in the United Kingdom. Dignity plc was founded in 1812 and is headquartered in Sutton Coldfield, the United Kingdom. |
| Carriage Services, Inc. | Carriage Services, Inc. provides funeral and cemetery services, and merchandise in the United States. It operates through two segments, Funeral Home Operations and Cemetery Operations. The Funeral Home Operations segment engages in the provision of consultation, funeral home facilities for visitation and memorial services, and transportation services; removal and preparation of remains; and sale of caskets and related funeral merchandise. The Cemetery Operations segment provides interment rights for grave sites, lawn crypts, mausoleum spaces, and niche; related cemetery merchandise, including outer burial containers, memorial markers, and floral placements; and interments, inurnments, and installation of cemetery merchandise services. As of December 31, 2020, it operated 178 funeral homes in 26 states, and 32 cemeteries in 12 states. Carriage Services, Inc. was founded in 1991 and is based in Houston, Texas. |
| StoneMor Inc. | StoneMor Inc. owns and operates cemeteries and funeral homes in the United States. The company operates in two segments, Cemetery Operations and Funeral Home Operations. The Cemetery Operations segment provides cemetery property interment rights, such as burial lots, lawn and mausoleum crypts, and cremation niches; cemetery merchandise comprising burial vaults, caskets, grave markers, and memorials; and cemetery services, which include opening and closing, cremation, and cemetery merchandise installation services. The Funeral Home Operations segment offers caskets and other funeral related items; and funeral home services, such as family consultation, the removal and preparation of remains, insurance products, and the use of funeral home facilities for visitation and memorial services. As of December 31, 2020, it owned and operated 313 cemeteries in 26 states and Puerto Rico; and 80 funeral homes in 16 states and Puerto Rico. The company is based in Bensalem, Pennsylvania. |
| Propel Funeral Partners Limited | Propel Funeral Partners Limited provides death care services in Australia and New Zealand. It is involved in the collection and transfer of the deceased; provision of mortuary services; arrangement and conducting a funeral; and cremation, burial, and memorialization activities. As of June 30, 2020, the company owned and operated 130 properties comprising 72 owned and 58 leased, which included 31 cremation facilities and 9 cemeteries. It serves individuals and families dealing with, or preparing for, death and bereavement. The company was founded in 2012 and is based in Sydney, Australia. |

Source: CapitalIQ



APPENDIX 6: WORKED EXAMPLE OF PERFORMANCE FEE CALCULATION

| Performance Fee - worked example | | Year 1 | Year 2 | Year 3 |
|--|------------|--------------|--------------|--------------|
| OP | \$ps | \$2.70 | \$2.80 | \$2.85 |
| CP | \$ps | \$2.80 | \$2.85 | \$3.00 |
| D | \$ps | \$0.09 | \$0.10 | \$0.10 |
| FC | \$ps | \$0.04 | \$0.04 | \$0.04 |
| Number of shares on issue | m | 98.2 | 107.1 | 107.1 |
| TSR | % | 8.7% | 6.8% | 10.3% |
| Benchmark | % | 8.0% | 8.0% | 8.0% |
| OMC | \$m | \$265.0 | \$274.9 | \$305.2 |
| CMC | \$m | \$274.9 | \$305.2 | \$321.3 |
| DA | \$m | \$9.3 | \$10.5 | \$10.7 |
| FCA | \$m | \$4.0 | \$4.5 | \$4.6 |
| NC | \$m | \$0.0 | \$25.0 | \$0.0 |
| Outperformance Amount | \$m | \$1.9 | (\$1.6) | \$6.9 |
| Recoupment of prior negative Outperformance Amount | \$m | \$0.0 | \$0.0 | (\$1.6) |
| Outperformance Amount (aggregate) | \$m | \$1.9 | (\$1.6) | \$5.3 |
| Performance Fee (20%) ex GST | \$m | \$0.4 | \$0.0 | \$1.1 |



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Annexure 2: Proxy Form

NAME AND ADDRESS

LODGE YOUR VOTE

 **ONLINE**
www.linkmarketservices.com.au

 **BY MAIL**
Propel Funeral Partners Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

 **BY FAX**
+61 2 9287 0309

 **BY HAND**
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

 **ALL ENQUIRIES TO**
Telephone: 1300 554 474 Overseas: +61 1300 554 474

SRN/HIN

| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|

PROXY FORM

I/We being a member(s) of Propel Funeral Partners Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **10:30am on Thursday, 22 July 2021 at Level 16, 1 Market Street, Sydney NSW 2000 (the Meeting)** and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS


Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions

For Against Abstain*

- 1 Approval of the termination of the Management Agreement and payment of the Termination Fee to the Manager
- 2 Amendment of the Constitution of the Company

| | | |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

 * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:30am on Tuesday, 20 July 2021**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

Propel Funeral Partners Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

