

ASX Announcement

10 March 2023

Allegro's takeover bid for Slater & Gordon Ltd: Release of Target's Statement in response to Allegro's Offer

On 24 February 2023, Slater & Gordon Ltd (**SGH**) announced that it had entered into a bid implementation agreement with a wholly owned subsidiary of Allegro Funds Pty Ltd for a recommended off-market takeover offer for all issued fully paid shares in SGH at \$0.55 cash per share (**Allegro's Offer**). Allegro's Offer opened on 3 March 2023 and is scheduled to close at 7.00pm (Sydney time) on 4 April 2023, unless extended.

In accordance with Item 14 of section 633(1) of the *Corporations Act 2001* (Cth), SGH attaches its target's statement (**Target's Statement**)

The Target's Statement has been lodged with the Australian Securities and Investments Commission and has been sent to Allegro today.

The Target's Statement will be dispatched shortly to SGH shareholders by the following means:

1. if you have nominated an email address to receive communications from SGH, then you will receive an email to your nominated email address with a link to an electronic copy of the Target's Statement; and
2. if you have not nominated an email address to receive communications from SGH, then you will receive a letter from SGH to your registered postal address, which will contain details of a link to an electronic copy of the Target's Statement.

An electronic copy of the Target's Statement and updates in relation to Allegro's Offer will be made available on SGH's website (<https://www.slatergordon.com.au/investors/asx-announcements>) and we encourage shareholders to call the S&G information line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) between 9.00am and 5.30pm (AEDT) Monday to Friday to address any queries.

This announcement has been authorised for release by the Board of SGH.

ENDS

Contact

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Slater & Gordon Ltd



TARGET'S STATEMENT

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU

ACCEPT

ALLEGRO'S OFFER

in the absence of a Superior Proposal

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to how to deal with this document, please contact your legal, financial, taxation or other professional adviser. If you have any questions about the offer or this document please call the S&G Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).

Legal adviser to Slater & Gordon

MinterEllison

Financial adviser to Slater & Gordon

FLAGSTAFF

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Key dates

Offer announced	24 February 2023
Bidder's Statement lodged with ASIC and provided to S&G	3 March 2023
Offer Period commenced	3 March 2023
Date of Target's Statement	10 March 2023
Notice of Status of Conditions due ¹	27 March 2023
Offer Period closes (unless Offer is extended or withdrawn)	7.00pm (AEDT) on 4 April 2023

Important notices

Target's Statement

This document is a Target's Statement dated 10 March 2023 and is issued by Slater & Gordon Ltd ACN 097 297 400 (**S&G**) under Part 6.5 Division 3 of the Corporations Act. This Target's Statement sets out the S&G Board's formal response to the off-market takeover offer made by funds managed by Allegro Funds Pty Ltd (**Allegro Funds**) through its wholly owned subsidiary Wright NomineeCo Pty Ltd ACN 665 965 266 (**Allegro**) in its Bidder's Statement dated 3 March 2023. The purpose of this Target's Statement is to provide you, as a S&G Shareholder, with the information to assist you in your decision as to whether or not to accept Allegro's Offer.

ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and given to ASX on 10 March 2023. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

Allegro's information in this Target's Statement

Except where disclosed otherwise, the information in this Target's Statement in relation to Allegro, Allegro Funds and Allegro Funds' business has been prepared by S&G using publicly available information including the Bidder's Statement. S&G and its Directors are unable to verify the accuracy or completeness of that information and that information should not be considered comprehensive. Accordingly to the maximum extent permitted by law, S&G does not make any representation or warranty, express or implied, as to the accuracy or completeness of that information.

No account of personal circumstances

This Target's Statement does not take into account your individual investment objectives, financial situation or particular needs. It does not contain personal financial or taxation advice. S&G is not licensed to provide financial product advice in relation to S&G Shares or any other financial products. This Target's Statement should not be relied on as the sole basis for any investment decision in relation to S&G Shares or Allegro's Offer generally. Your Directors

¹ If the Offer Period is extended, this date will be taken to be postponed for the same period.

encourage you to obtain independent legal, financial, taxation or other professional advice before deciding whether or not to accept Allegro's Offer.

Forward looking statements

Some statements in this Target's Statement are in the nature of forward looking statements. You should be aware that these statements are predictions only and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to S&G as well as general economic conditions and conditions in the financial markets, exchange rates, interest rates and the regulatory environment, many of which are outside the control of S&G and its Directors. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of S&G, any of its officers or any person named in this Target's Statement with their consent or anyone involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement or any events or results expressed or implied in any forward looking statement, except the extent required by law. You are cautioned not to place undue reliance on those statements.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement. S&G has no obligation to disseminate any updates or revisions to any statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless it is required under Division 4 of Part 6.5 of the Corporations Act to update or correct this Target's Statement (i.e. for certain matters that are material from the point of view of a Shareholder) or under its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Target's Statement. Discrepancies between totals in tables and or in calculations are due to rounding.

Currency

All amounts in this Target's Statement are in Australian dollars unless otherwise stated.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Diagrams and charts

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

Privacy statements

S&G has collected your information from the S&G share registry for the purpose of providing you with this Target's Statement. The type of information S&G has collected about you includes your name, contact details (including your email address where provided) and information on your shareholding in S&G. Without this information, S&G would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the S&G Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by S&G, you can contact the Shareholder Information Line is 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) between 9.00am and 5.30pm (AEDT) Monday to Friday.

Shareholder enquiries

S&G has established a Shareholder Information Line which Shareholders may call if they have any queries in relation to Allegro's Offer.

The telephone number for the Shareholder Information Line is 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia).

The Shareholder Information Line is available Monday to Friday between 9.00am and 5.30pm (AEDT).

Defined terms

Certain terms used in this Target's Statement have defined meanings, as set out in Section 8 of this Target's Statement. Section 8 also set out some rules of interpretation which apply to this Target's Statement.

No internet site is part of this Target's Statement

No internet site is part of this Target's Statement. S&G (www.slatergordon.com.au) and Allegro Funds (www.allegrofund.com.au) maintain internet sites. Any references in this Target's Statement to these or other internet sites are textual references only and the information contained on the sites does not form part of this Target's Statement.

Chair's letter



10 March 2023

Dear Slater & Gordon Shareholder,

On behalf of the Board of Slater & Gordon (**S&G**), I am pleased to present this Target's Statement containing information about the recommended off-market takeover offer for S&G by Allegro, a leading Australian investment group. Allegro has offered 55 cents cash per S&G Share (**Allegro's Offer**).²

Allegro's investment in S&G will bring together a hands-on investor focused on growth-oriented partnerships with Australia's leading law firm built on social justice values. In this context, as a Board we are excited for S&G shareholders, the S&G team, and S&G's current and future clients.

Unanimous recommendation of the S&G Board

The Board, in close consultation with key management personnel, has carefully evaluated Allegro's Offer against the risks and benefits of S&G maintaining the status quo. In deciding to unanimously recommend that all S&G shareholders should **ACCEPT** Allegro's Offer in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable, the Directors have determined that, on balance, the value and certainty provided by Allegro's Offer provides greater benefit to S&G shareholders than retaining their S&G Shares.

Each of your Directors intends to **ACCEPT** Allegro's Offer in respect of all S&G Shares held or which may be held by him or her or which he or she otherwise controls, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

Reasons to ACCEPT Allegro's Offer

The key reasons that the Board has considered in reaching this **ACCEPT** recommendation are as follows:

1. **Allegro's Offer has been independently assessed as fair and reasonable.**
2. **Allegro's Offer is all cash and provides certainty of value for your S&G Shares.**
3. **Avoidance of possible future refinancing requirement and associated dilution risk.**
4. **The S&G share price is likely to remain volatile with limited trading liquidity if Allegro's Offer does not proceed.**
5. **You may face significant risks as a minority shareholder of S&G.**
6. **No Superior Proposal has emerged as at the date of this Target's Statement.**

Refer to Section 1.2 for details regarding these reasons to accept Allegro's Offer.

² The Offer Consideration will be reduced by the cash amount or value of any dividends, distributions or other rights attaching to S&G Shares on or after 24 February 2023 and which a shareholder receives or is entitled to receive.

There are also reasons that you may, despite the Board's unanimous recommendation and the reasons summarised above, decide not to accept Allegro's Offer. Refer to Section 1.3 for a non-exhaustive list of reasons why you may decide not to accept Allegro's Offer.

Allegro as a Strong Steward of S&G

Importantly, the Board believes that Allegro will be a strong steward of S&G going forward. The Board believes that Allegro should provide S&G with a stable capital base and a supportive operating environment, which should in turn enable the S&G team to continue to focus on delivering outstanding outcomes for S&G's clients and stakeholders.

Allegro has indicated the importance of governance and management continuity. We expect that Allegro will invite the three current independent directors to remain on the Board and John Somerville to continue as Chief Executive Officer should Allegro's Offer be successful.

Next steps

You should have received a Bidder's Statement from Allegro containing its off-market cash takeover offer for your shares in S&G together with an Acceptance Form to enable you to accept the offer. Please contact the S&G Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT) if you have misplaced your copy of the Bidder's Statement (which is also available from the ASX website (ASX code: SGH) or from S&G's website at www.slatergordon.com.au) or Acceptance Form and an additional copy will be sent to you free of charge.

The Board encourages you to read this Target's Statement, the Bidder's Statement, and S&G's ASX announcements. We also encourage you to seek independent financial, legal and taxation advice before making any investment decision.

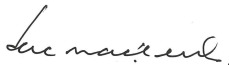
Timing

Allegro's Offer is scheduled to close at 7.00pm (AEDT) on 4 April 2023, unless withdrawn or extended by Allegro. To ACCEPT Allegro's Offer, please refer to the acceptance instructions set out in section 11.4 of the Bidder's Statement and in your personalised Acceptance Form that accompanies the Bidder's Statement.

Further information

You should continue to monitor S&G's ASX announcements. If you have any queries in relation to Allegro's Offer, please contact the S&G Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).

Yours sincerely



James MacKenzie
Chair, Slater & Gordon

What Do Your Directors Recommend?

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU *ACCEPT ALLEGRO'S OFFER*

in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable

The reasons for this recommendation are set out in this Target's Statement

EACH OF YOUR DIRECTORS WHO HOLDS OR CONTROLS
OR WILL HOLD OR CONTROL S&G SHARES INTENDS TO

ACCEPT ALLEGRO'S OFFER

IN RELATION TO THOSE SHARES, IN THE ABSENCE OF A
SUPERIOR PROPOSAL AND SUBJECT TO THE INDEPENDENT EXPERT
CONTINUING TO CONCLUDE THAT ALLEGRO'S
OFFER IS FAIR AND REASONABLE

**TO *ACCEPT ALLEGRO'S OFFER*, COMPLETE, SIGN AND RETURN THE
ACCEPTANCE FORM ENCLOSED WITH THE BIDDER'S STATEMENT IN
ACCORDANCE WITH THE INSTRUCTIONS ON THAT FORM**

If you have any questions, please call the S&G Shareholder Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT)

Why You Should Accept Allegro's Offer

- 1 Allegro's Offer has been independently assessed as fair and reasonable
- 2 Allegro's Offer is all cash and provides certainty of value for your S&G Shares
- 3 Avoidance of possible refinancing requirement and associated dilution risk
- 4 The S&G share price is likely to remain volatile with limited trading liquidity if Allegro Offer's does not proceed
- 5 You may face significant risks as a minority shareholder of S&G
- 6 No Superior Proposal has emerged as at the date of this Target's Statement

Further details on each of these six reasons for ACCEPTING Allegro's Offer are set out in Section 1.2 of this Target's Statement.

Section 1. Reasons why your Directors unanimously recommend that you ACCEPT Allegro's Offer, in the absence of a Superior Proposal

1.1 Directors' unanimous recommendation and intentions

Your Directors unanimously recommend that you ACCEPT Allegro's Offer, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

Each of your Directors intends to **ACCEPT** Allegro's Offer in respect of all S&G Shares held or which may be held by him or her or which he or she otherwise controls, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable. These S&G Shares that the Directors would collectively hold following the exercise of S&G Performance Rights would represent approximately 4.3% of all S&G Shares on issue on a fully diluted basis.

The reasons for your Directors' unanimous recommendation to **ACCEPT** Allegro's Offer are set out in Section 1.2 of this Target's Statement.

In evaluating Allegro's Offer, your Directors encourage you to:

- read the whole of this Target's Statement, together with the Bidder's Statement;
- ensure you understand the consequences of accepting Allegro's Offer, as noted in this Target's Statement and the Bidder's Statement;
- consider your alternatives as outlined in Section 3 of this Target's Statement;
- have regard to your individual risk profile, portfolio strategy, taxation position and financial circumstances; and
- seek independent legal, financial, taxation or other professional advice if you are in any doubt as to what you should do in response to Allegro's Offer.

Your Directors will keep you informed of any material developments with respect to Allegro's Offer and any other competing offer or proposal.

1.2 Reasons why you should ACCEPT Allegro's Offer

1. Allegro's Offer has been independently assessed as fair and reasonable

S&G has engaged Kroll to prepare an Independent Expert's Report in response to Allegro's Offer for the benefit of S&G Shareholders.

After careful and thorough consideration, the Independent Expert has determined that Allegro's Offer is fair and reasonable to S&G Shareholders, in the absence of a Superior Proposal.

In reaching its conclusion, the Independent Expert has assessed the value of a S&G Share to be in the range of \$0.13 to \$0.40 on a 100% controlling interest basis. The Offer Consideration of \$0.55 cash per S&G Share exceeds the Independent Expert's assessed control valuation range.³

Further, the Independent Expert noted :

*"In forming our view as to the value of S&G's operating business, we have considered a range of factors including the competitive nature of the industry and moderate growth trend, S&G's current share of the PIL market and the growth potential of its class actions business, the impact of the COVID-19 pandemic and transformation program, as well as S&G's low conversion of reported profits to cash flow ... and limited cash flow from operations. We have also considered the value associated with the potential for S&G to free up further capital by increasing third party funded disbursements and its substantial carried forward tax losses. ...[W]e have not taken into account any potential financial distress, however, our valuation recognises that an acquirer of S&G would need to recapitalise the business to achieve a sustainable level of debt as S&G is highly geared and operating cash flows are currently insufficient to enable it to repay borrowings and pay interest."*⁴

and

"As we have assessed the Offer to be fair, it is also reasonable. However, irrespective of the requirement to conclude the Offer is reasonable, there are a range of other relevant factors, some of which are compelling, including:

- *the Offer Price is broadly in line with the prices at which S&G Shares traded over the last 12 months;*
- *the Offer represents the best option currently available to S&G Shareholders to exit their investment;*
- *the likelihood of a superior proposal is low;*
- *the Offer provides certainty of value;*
- *in the absence of the Offer, S&G's share price will likely fall over time as the SSF approaches maturity;*
- *there is significant refinancing risk in the current environment;*
- *SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer are receiving a discount to face value on the SSF and are foregoing their equity; and*

³ The Offer Consideration will be reduced by the cash amount or value of any dividends, distributions or other rights attaching to S&G Shares on or after 24 February 2023 and which a shareholder receives or is entitled to receive.

⁴ See section 3.2 of the Independent Expert's Report.

- *there are consequences for S&G Shareholders who do not accept the Offer if Allegro acquires at least 50.1% and less than 90% of S&G Shares.*⁵

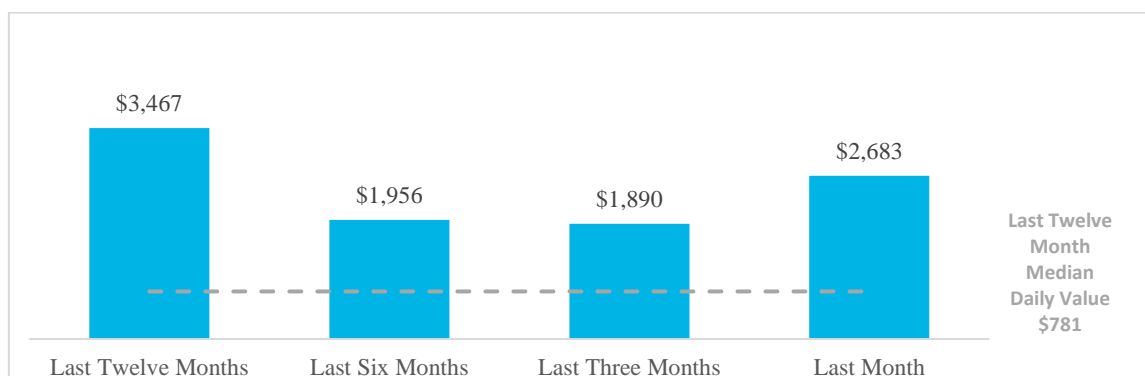
*There are relatively few potential downside factors for S&G Shareholders as a result of the Offer. We note that by exiting their investment, S&G Shareholders will not participate in any future growth in the value of S&G.*⁶

The Board encourages you to read the Independent Expert's Report, which is set out in Appendix 1 to this Target's Statement, in its entirety.

2. Allegro's Offer is all cash and provides certainty of value for your S&G Shares

S&G Shares are highly illiquid and there is no certainty as to the value you may be able to receive now or in the future if Allegro's Offer does not proceed, particularly if you hold an unmarketable parcel of S&G Shares. In the twelve month period preceding the trading halt on 21 February 2023, the cumulative volume of S&G Shares traded represented approximately 1% of shares outstanding.

S&G average daily trading value (A\$, as at 21 February 2023)



Source: IRESS

Notes: Represents average daily AUD trading values in the respective periods to 21 February 2023. Excludes non-trading days.

Allegro's Offer represents a significant liquidity event allowing you to monetise your investment in S&G at a certain cash value, in circumstances where you may (depending on the size of your shareholding) presently face limited opportunities to achieve complete liquidity in respect of your S&G Shares or may only do so at a substantial discount to the applicable prevailing share price.

You will not be required to pay any brokerage charges if you accept Allegro's Offer. It is possible that brokerage charges (and, potentially GST on those charges) would be incurred if you dispose of your S&G Shares other than under Allegro's Offer.

⁵ See section 3.2 of the Independent Expert's Report.

⁶ See section 3.2 of the Independent Expert's Report.

3. Avoidance of possible future refinancing requirement and associated dilution risk

S&G currently has approximately \$117 million of debt, consisting of the \$87 million Super Senior Facility (**SSF**), the term of which was extended by 14 months in June 2022 and is now required to be refinanced by October 2024, and the \$30 million term loan which is required to be refinanced by December 2024.

The interest expense for the debt for the six months ended 31 December 2022 was \$6.1 million, compared to gross operating cash flow (which is before interest expense) for the same period of \$5.5 million.

Should Allegro's Offer not proceed, there is no guarantee as to the availability, timing or nature of alternative debt funding to refinance S&G's debt on terms acceptable to both S&G and the current lenders.

In addition, to the extent that there is an ability to refinance some or all of the debt, such refinancing may require S&G to raise additional equity, and in such circumstances it is possible that current S&G Shareholders' economic and voting interests in S&G may be significantly diluted. There is no guarantee as to the availability of future equity funding and no decision has been made by S&G as to a potential future equity fundraising or its pricing or terms.

4. The S&G share price is likely to remain volatile with limited trading liquidity if Allegro's Offer does not proceed

The S&G share price is likely to remain volatile with limited trading liquidity following the end of the Offer Period if S&G shareholders do not accept Allegro's Offer and Allegro's Offer Conditions are not satisfied or waived (and no Superior Proposal emerges).

5. You may face significant risks as a minority shareholder in S&G

If Allegro and its Associates acquires a controlling or substantial shareholding interest in S&G without achieving minimum acceptances of 90% to move to compulsory acquisition, then S&G shareholders who do not accept Allegro's Offer could be left as minority shareholders in S&G indefinitely with limited exit opportunities due to the illiquid nature of the market for S&G shares.

Allegro has stated in its Bidder's Statement⁷ that an entity wholly-owned by Allegro Fund IV has made private treaty offers to the SSF lenders to acquire their debt interests in the SSF for a purchase price of less than 100 cents for every dollar outstanding under the SSF, the purchase price of which will be reduced by the Offer Consideration received by the relevant SSF lender for any of their S&G Shares to the extent accepted into Allegro's Offer.

Allegro has additionally stated in its Bidder's Statement that SSF lenders representing more than 75% of the value of the SSF have already accepted the private treaty debt offers and that Allegro Funds is continuing to engage with all SSF lenders regarding the potential sale of their debt. These accepting SSF lenders also in aggregate own or control more than 75% of S&G's Shares.

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See section 10.3 of the Bidder's Statement.

If the SSF lenders accept Allegro's Offer, Allegro will acquire a controlling shareholding interest in S&G and potential risks remain in connection with continuing as a minority shareholder in S&G in those circumstances, including:

- Reduced liquidity: the trading liquidity in S&G Shares may continue to be low affecting the ability of S&G Shareholders to dispose of their S&G Shares
- Lack of potential premium for control: once Allegro acquires control of S&G, it is likely to continue to be the case that the trading price for S&G Shares will not carry any potential premium for control, and accordingly, the S&G Share price may fall following the end of the Offer Period
- Allegro control of S&G: Allegro will be in a position to cast the majority of votes at a general meeting of S&G and pass ordinary resolutions requiring a simple majority of the votes cast. This will enable it to control the composition of S&G's Board and could, among other outcomes, result in a change in the current strategic direction of S&G
- Potential delisting: should Allegro successfully pursue delisting of S&G, this may result in potential disadvantages to S&G Shareholders other than Allegro, including:
 - Loss of ability to sell their S&G Shares on the ASX, and limited potential opportunities to realise their S&G Shares, and
 - Various protections for S&G Shareholders under the ASX Listing Rules, including continuous disclosure requirements, restrictions on issue of new S&G Shares and restrictions on related party transactions and changes to the nature or scale of S&G's activities, would no longer apply.

6. No Superior Proposal has emerged as at the date of this Target's Statement

The Board believes Allegro's Offer represents an attractive outcome following the completion of a comprehensive strategic review led by the independent directors of S&G which assessed the potential for corporate level transactions for the benefit of S&G Shareholders.

S&G and its advisers proactively contacted a broad group of domestic and international parties to test potential interest in refinancing the SSF or investing in S&G. The strategic review process gave all parties equal opportunity to submit a proposal.

Since the public announcement of Allegro's Offer on 24 February 2023, no alternative proposal for S&G has emerged. Additionally, as of the date of this Target's Statement, the S&G Board is not aware of any alternative proposal that is likely to eventuate which may be or become a Superior Proposal.

If Allegro's Offer is unsuccessful, Allegro may decide not to make another offer for S&G in the future. In the event that Allegro does make a future offer for S&G, it may be at a lower price than the current Offer Consideration of \$0.55 per S&G Share.

1.3 Possible reasons not to accept Allegro's Offer

Allegro's Offer has a number of potential disadvantages and risks that S&G Shareholders should consider in deciding whether or not to accept Allegro's Offer.

Although your Directors consider that these disadvantages and risks are outweighed by the advantages of Allegro's Offer, and that it is in the best interests of S&G Shareholders to accept Allegro's Offer in the absence of a Superior Proposal, S&G Shareholders should consider their individual circumstances in determining whether or not to accept Allegro's Offer.

(a) You may disagree with the unanimous recommendation of the S&G Board and the Independent Expert's conclusion that Allegro's Offer is fair and reasonable and you may believe that there is a better prospect for increased value if S&G remains a stand alone listed company

In reaching their respective conclusions, the Board and the Independent Expert have made judgements based on future conditions and events which cannot be predicted with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendations of, the Board, and you may not agree with the Independent Expert's conclusions.

(b) You may wish to remain a S&G Shareholder and continue to share in any potential upside or downside associated with that investment

If you accept Allegro's Offer and it becomes or is declared unconditional, you will no longer be an S&G Shareholder. This will mean that you will not participate in the future performance of S&G (either positive or negative) or retain any exposure to S&G's business or assets.

You may prefer to keep your S&G Shares to preserve your investment in a company with the specific characteristics of S&G. However, there is no guarantee as to S&G's future performance, as is the case with all investments. In addition you may be forced to dispose of your S&G Shares as Allegro has stated in its Bidder's Statement⁸ that it intends to proceed to compulsory acquisition of all S&G Shares if it is entitled to do so. See further Section 4.7 of this Target's Statement.

(c) The tax consequences of accepting Allegro's Offer may not be favourable given your personal financial position

The tax consequences of Allegro's Offer will depend on your personal situation and you may consider that the tax consequences are not attractive to you.

A general guide to the taxation implications of Allegro's Offer is set out in Section 6 of this Target's Statement, however this guide is expressed in general terms only and you should consult with your own independent taxation advisers regarding the taxation implications of Allegro's Offer.

(d) You may wish to sell some or all of your S&G Shares on market

If you sell your S&G Shares on market, you will lose the ability to accept the Allegro Offer or any other offer which may eventuate, and may incur brokerage

⁸

See section 2.6 of the Bidder's Statement.

charges. Your ability to sell your S&G Shares on the ASX is subject to there being sufficient liquidity to do so.

(e) If you accept Allegro's Offer this will preclude you from accepting any Superior Proposal that may emerge for S&G in the future

While as at the date of this Target's Statement, the S&G Board is not aware of any alternative proposal that is likely to eventuate which may be or become a Superior Proposal, you may believe that a Superior Proposal for S&G Shares could emerge in the future.

Section 2. Frequently asked questions

This Section answers some questions you may have about Allegro's Offer. It is not intended to address all relevant issues for Shareholders. This Section should be read together with all other parts of this Target's Statement.

Question	Answer
Allegro's Offer	
Who is Allegro Funds and Allegro?	<p>Allegro Funds is an independently owned Australian fund manager investing in businesses headquartered in Australia and New Zealand. Allegro Funds currently has over A\$4 billion in assets under management and is currently investing from Allegro Fund IV, which has which has approximately A\$750 million in committed capital. Allegro Funds' investors include large Australian and New Zealand superannuation funds.</p> <p>Allegro Funds specialises in partnership and transformational capital, applying capital, expertise and a distinctly hands-on approach to investing in businesses.</p> <p>Allegro's Offer is being made by Allegro, a wholly owned subsidiary of Allegro Funds created for the purpose of making Allegro's Offer on behalf of funds managed by Allegro Funds.</p>
What is Allegro offering for my S&G Shares?	Allegro is offering \$0.55 cash for every S&G Share you hold. ⁹
What choices do I have in response to Allegro's Offer?	<p>As a Shareholder you have the following three choices in respect of your S&G Shares:</p> <ul style="list-style-type: none"> • ACCEPT the offer for all of your S&G Shares. Your Directors unanimously recommend that you accept Allegro's Offer, in the absence of a Superior Proposal; • sell your S&G Shares on ASX; or • do nothing.¹⁰ <p>There are implications for you in relation to each of these choices. An outline of these implications is set out in Section 3 of this Target's Statement.</p>
Will S&G remain listed on ASX?	<p>That depends on the outcome of Allegro's Offer.</p> <p>The ongoing listing of S&G on ASX will be subject to S&G satisfying the ongoing requirements under the ASX Listing Rules (including there being the required spread of shareholders). ASX may delist S&G if it does not meet these requirements. An outline of the likelihood of delisting is set out in Section 4.6 of this Target's</p>

⁹ The Offer Consideration will be reduced by the cash amount or value of any dividends, distributions or other rights attaching to S&G Shares on or after 24 February 2023 and which a shareholder receives or is entitled to receive.

¹⁰ Even if you do nothing, it is possible that your S&G Shares may be compulsorily acquired, so that you would not remain a S&G Shareholder. Compulsory acquisition of your S&G Shares would require Allegro and its Associates to acquire a relevant interest in at least 90% of all S&G Shares, either immediately after Allegro's Offer closes or at a future point in time. See further Section 4.7 of this Target's Statement.

Statement.	
Does Allegro's Offer extend to S&G Performance Rights?	<p>No. However, Allegro's Offer will extend to all new S&G Shares that are issued following the exercise and vesting of S&G Performance Rights.</p> <p>The impact of Allegro's Offer on S&G Performance Rights is set out in Section 4.10 of this Target's Statement.</p> <p>As at the date of this Target's Statement, there are 13,532,861 S&G Performance Rights on issue. Exercise of vested Performance Rights is at the option of the holder.</p> <p>S&G has agreed under the Bid Implementation Agreement not to issue any further S&G Shares or S&G Performance Rights during the Offer Period (other than as a result of the exercise and vesting of S&G Performance Rights on issue prior to the public announcement of Allegro's Offer on 24 February 2023).</p>
How to respond to Allegro's Offer	
What do your Directors recommend?	<p>Your Directors unanimously recommend that you ACCEPT Allegro's Offer, in the absence of a Superior Proposal.</p> <p>The reasons for your Directors' recommendation are set out in Section 1.2 of this Target's Statement. That Section also identifies important matters that are relevant to that recommendation and to which S&G Shareholders should have regard in determining whether or not to accept Allegro's Offer and the timing for any acceptance.</p>
What do your Directors intend to do with their own Shares?	<p>Each Director who holds or otherwise controls or may hold or control S&G Shares intends to ACCEPT Allegro's Offer in relation to those S&G Shares, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.</p>
How do I accept Allegro's Offer?	<p>You should follow the instructions set out in the Bidder's Statement and the accompanying documents sent to you by Allegro.</p> <p>Carefully read the instructions so that your Acceptance Form is accurately completed.</p>
How do I reject Allegro's Offer?	<p>To reject Allegro's Offer, you should do nothing.</p> <p>If you decide to do nothing, you should be aware of the rights of Allegro to compulsorily acquire your S&G Shares in certain circumstances. Refer to Section 4.7 of this Target's Statement for more information on compulsory acquisition.</p>
What are the consequences of accepting Allegro's Offer now?	<p>By signing and returning the Acceptance Form you will have agreed to the matters set out in section 11.6 of the Bidder's Statement.</p> <p>If you accept Allegro's Offer now while Allegro's Offer is conditional, some of the consequences include:</p>

- you will receive the Offer Consideration in cash at the specified payment time if the Offer is or becomes unconditional;
- subject to your right to withdraw your acceptance of Allegro's Offer in certain circumstances (see Section 4.9 of this Target's Statement), you will give up your right to sell your S&G Shares on market or otherwise deal with your S&G Shares while Allegro's Offer remains open (including the opportunity to benefit from any Superior Proposal that may emerge);
- subject to your right to withdraw your acceptance of Allegro's Offer in certain circumstances (see Section 4.9 of this Target's Statement), you will relinquish control of your S&G Shares and the Rights attaching to them to Allegro with no guarantee of payment until Allegro's Offer becomes unconditional. In this regard S&G Shareholders should note that the Offer Period could be extended so that Allegro's Offer is open for up to 12 months; and
- subject to your right to withdraw your acceptance of Allegro's Offer in certain circumstances (see Section 4.9 of this Target's Statement), you will appoint Allegro as your proxy in respect of your S&G Shares before Allegro's Offer becomes unconditional.

S&G Shareholders should take sufficient time to consider the terms and the implications of Allegro's Offer before accepting it having regard to their personal circumstance.

If I accept Allegro's Offer now, can I withdraw my acceptance later?

If you accept Allegro's Offer, you may only withdraw your acceptance if Allegro varies its Offer in a way that postpones the period Allegro is required to satisfy its obligations by more than one month and Allegro's Offer remains subject to one or more Conditions. This will occur if Allegro extends the Offer Period by more than one month while Allegro's Offer remains subject to any Condition.

Can I accept Allegro's Offer for only some of my S&G Shares?

No. Allegro's Offer is for all of your S&G Shares and you cannot accept Allegro's Offer for only some of your S&G Shares. Special rules apply to nominees and others holding shares for different accounts.

Refer to sections 11.1(e) and 11.1(f) of the Bidder's Statement for more information on Allegro's Offer.

When do I have to make a decision?

If you wish to follow your Directors' recommendation to **ACCEPT** Allegro's Offer, you must do so before its scheduled closing date. Allegro has stated that its Offer remains open until 7.00pm (AEDT) on 4 April 2023. It is possible that Allegro may choose to extend the Offer Period in accordance with the Corporations Act. In addition the Offer Period may be extended automatically in certain circumstances. See section 11.3(c) of the Bidder's Statement for details of the circumstances in which the Offer Period can be extended.

What if I want to sell my S&G Shares on market?	<p>During the Offer Period you may sell your S&G Shares on market for cash (less any brokerage charges that may be payable), unless you have already accepted Allegro's Offer and have not validly withdrawn your acceptance. The closing price of S&G Shares on 7 March 2023, being the last practicable day before finalising this Target's Statement was \$0.545. Before selling your S&G Shares on market, you should carefully consider the implications of this course of action, including the implications referred to in Section 3 of this Target's Statement.</p> <p>If you hold less than a marketable parcel of S&G Shares, you may still sell your shares on market. However, the brokerage charges and related selling expenses are likely to make it uneconomical for you to do so.</p> <p>You should contact your broker for information on how to sell your S&G Shares on market and your tax adviser to determine the tax implications of such a sale.</p>
Can I be forced to sell my S&G Shares?	<p>You cannot be forced to sell your S&G Shares unless Allegro is legally allowed to proceed to compulsory acquisition of S&G Shares. This requires Allegro and its Associates to acquire at least 90% of all S&G Shares (under Allegro's Offer or otherwise).</p> <p>If Allegro does compulsorily acquire the outstanding S&G Shares you will receive the same consideration for your S&G Shares that you would have received under Allegro's Offer but it will take longer for you to receive the Offer Consideration.</p> <p>For more information about compulsory acquisition refer to Section 4.7 of this Target's Statement.</p>
Are there any taxation implications of accepting Allegro's Offer?	<p>A general outline of the tax implications for certain Australian resident S&G Shareholders of accepting Allegro's Offer is set out in Section 6 of this Target's Statement. As that outline is general in nature and does not take into account your individual circumstances, you should not rely on that outline as advice for your particular circumstances.</p> <p>You should also seek your own independent taxation advice as to the taxation implications applicable to your specific circumstances.</p>
What should I do if I do not receive or have misplaced my Acceptance and Transfer Form?	<p>If you have not received your Acceptance Form or you have misplaced it, please call the S&G Shareholder Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia).</p>
Will Allegro increase its Offer?	<p>Allegro has not declared its Offer to be final. Accordingly, Allegro could increase its Offer if it chooses to do so in its discretion.</p> <p>However S&G cannot speculate on whether Allegro will increase its Offer as this is a matter for Allegro.</p>
What happens if	<p>If Allegro improves the Offer Consideration, all S&G Shareholders</p>

Allegro increases its Offer?	who accept Allegro's Offer will be entitled to the improved consideration (whether they accepted Allegro's Offer before or after the consideration is improved).
What happens if I accept Allegro's Offer and a Superior Proposal is subsequently made by a third party for my S&G Shares?	<p>If you accept Allegro's Offer, you are only able to withdraw your acceptance if Allegro varies its Offer in a way that postpones for more than one month the time by which Allegro must meet its obligations under its Offer, for example, by extending the Offer Period for more than one month while Allegro's Offer remains conditional.</p> <p>Accordingly if you accept Allegro's Offer, you may be unable to accept any other Superior Proposal that may emerge.</p>
What happens if I do nothing?	<p>You will remain a S&G Shareholder.</p> <p>If Allegro acquires 90% or more of S&G Shares and Allegro's Offer becomes unconditional, Allegro states that it intends to compulsorily acquire your S&G Shares. See Section 4.7 of this Target's Statement for more details.</p>
Can Allegro extend the closing date of its Offer?	<p>Yes. Allegro has stated that its Offer remains open until 7.00pm (AEDT) on 4 April 2023. It is possible that Allegro may choose to extend the Offer Period in accordance with the Corporations Act.</p> <p>In addition the Offer Period may be extended automatically in certain circumstances. See Section 4.9 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.</p>
When will I receive payment if I accept Allegro's Offer?	<p>It is important to understand that even if you accept Allegro's Offer, you will not receive any payment unless all of the Conditions are satisfied or waived.</p> <p>If Allegro's Offer becomes unconditional, you will receive your Offer Consideration by the earlier of:</p> <ul style="list-style-type: none"> • one month after the date of your acceptance of Allegro's Offer or, if Allegro's Offer is subject to a Condition when you accept Allegro's Offer, within one month after the contract arising from your acceptance of Allegro's Offer becomes unconditional; and • 21 days after the end of the Offer Period.
Offer Conditions and their implications	
What are the conditions of Allegro's Offer?	<p>Allegro's Offer is subject to a number of Conditions, including:</p> <ul style="list-style-type: none"> • Allegro obtaining a relevant interest in at least 50.1% of S&G Shares; and • no S&G prescribed occurrences occurring. <p>The Conditions are set out in full in Annexure A to the Bidder's Statement.</p>

	To receive the Offer Consideration, all of the Conditions (other than the No Prescribed Occurrences Condition) must be satisfied or waived by Allegro before the Closing Date of Allegro's Offer. Please refer to Section 4.2 of this Target's Statement for a discussion of the Conditions and their implications.
Are there any risks of accepting Allegro's Offer while it is still conditional?	<p>Yes. If you accept Allegro's Offer now while Allegro's Offer is subject to Conditions, there are significant consequences for you including that:</p> <ul style="list-style-type: none"> • you will give up your rights to sell your S&G Shares on ASX or to otherwise deal with them (for example, by accepting a Superior Proposal from another bidder if such a proposal is made), subject to your right to withdraw your acceptance of Allegro's Offer in certain circumstances; and • you will relinquish control of your S&G Shares and the Rights attaching to them to Allegro with no guarantee of payment until Allegro's Offer becomes unconditional, subject to your right to withdraw your acceptance of Allegro's Offer in certain circumstances.
What happens if I accept Allegro's Offer and the Conditions are not satisfied or waived?	<p>If the Conditions are not satisfied and Allegro has not waived the Conditions before the end of the Offer Period (other than the No Prescribed Occurrences Condition, which can be waived by the end of three Business Days after the end of the Offer Period), Allegro's Offer will lapse and your acceptance of Allegro's Offer will be void and of no effect whatsoever. This in turn means that:</p> <ul style="list-style-type: none"> • you will not receive any Offer Consideration from Allegro; and • you will continue to own your S&G Shares and you will then be free to deal with them.
How will I know when Allegro's Offer is unconditional?	<p>Allegro is required to inform S&G, ASX and S&G Shareholders as soon as any Conditions are satisfied or waived.</p> <p>Notices from Allegro will be available on S&G's ASX company announcement platform.</p> <p>Allegro has set 27 March 2023 as the date on which it will give S&G and ASX a notice required by law on the status of the Offer Conditions. This date will be extended if the Offer Period is extended before the notice is given.</p>
General	
What if I have further questions?	<p>You should contact your legal, financial, taxation or other professional adviser. If you have any questions about Allegro's Offer or this document please call the S&G Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).</p>

Section 3. Your choices as a S&G Shareholder

You have the following three choices available to you in response to Allegro's Offer.

1. **ACCEPT Allegro's Offer**

This is the course of action unanimously recommended by your Directors in the absence of a Superior Proposal. To **ACCEPT** Allegro's Offer you should complete and return your Acceptance Form that accompanied the Bidder's Statement.

The Bidder's Statement contains further details of how to accept Allegro's Offer.

There may be tax consequences for you if you accept Allegro's Offer. Refer to Section 6 of this Target's Statement for a general outline of the tax implications of accepting Allegro's Offer for Australian resident shareholders.

2. **Sell your S&G Shares on ASX**

During the Offer Period you may sell your S&G Shares on market through the ASX for cash, provided you have not already accepted Allegro's Offer (or if you have accepted Allegro's Offer but have validly withdrawn that acceptance). See Section 4.4 for details as to how to withdraw your acceptance of Allegro's Offer.

The latest trading price for S&G Shares may be obtained from the ASX website www.asx.com.au using the code *SGH*. Your Directors note that the market price of S&G Shares have traded consistently within the range of \$0.51 to \$0.68 during the last 12 months prior to 21 February 2023. As at 7 March 2023, being the last practicable date before the finalisation of this Target's Statement, S&G Shares closed at \$0.545. Accordingly you may wish to realise immediate value by selling your Shares on ASX. However your Directors cannot provide any assurance as to the market price you will achieve by selling your Shares on ASX, as the future market price is uncertain and may be impacted by many factors.

If you sell your S&G Shares on market, you will receive the consideration for that sale of your Shares sooner than you will receive the Offer Consideration if you accept Allegro's Offer. In addition, if you sell your S&G Shares on market:

- you will lose the ability to accept Allegro's Offer and receive the Offer Consideration (and any increase in the Offer Consideration if one occurs) in relation to those Shares;
 - you will lose the ability to accept any offer from a competing bidder if one eventuates;
 - you may be liable for CGT on the sale;
 - you may incur a brokerage charge; and
-

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- you will lose the opportunity to receive future returns from S&G in relation to those S&G Shares.

You should contact your broker for information on how to sell your S&G Shares through the ASX and your tax adviser to determine your tax implications from such a sale.

3. Do Nothing

If you do not wish to accept Allegro's Offer, or sell your S&G Shares on ASX, you should do nothing.

If you decide to do nothing, you should be aware of the rights of Allegro to compulsorily acquire your S&G Shares in certain circumstances. For information on compulsory acquisition, refer to Section 4.7 of this Target's Statement.

Section 4. Information about Allegro's Offer and other important issues

4.1 Summary of Allegro's Offer

The Offer	<p>Allegro is offering to acquire all of your S&G Shares.</p> <p>You may only accept Allegro's Offer for all of your S&G Shares. Special rules apply to nominees and others holding S&G Shares for different accounts.</p>
Offer Consideration	<p>Allegro is offering \$0.55 cash for every 1 S&G Share you hold.¹¹</p> <p>The Offer Consideration will only be received if all of the Conditions of Allegro's Offer are satisfied or waived.</p>
Offer Conditions	<p>Allegro's Offer is subject to two Conditions. See Section 4.2 of this Target's Statement for further details.</p> <p>The Offer Consideration will only be received if all of the Conditions of Allegro's Offer are satisfied or waived.</p>
Allegro has not yet declared its Offer final	<p>Allegro has not yet declared its Offer final. Accordingly, it is open to Allegro to increase the Offer Consideration including in response to any competing takeover or other similar proposal being announced by a third party.</p> <p>If Allegro improves the Offer Consideration, the Corporations Act entitles any S&G Shareholder who has already accepted Allegro's Offer to receive the benefit of the improved Offer Consideration.</p> <p>Nevertheless there are still risks of accepting Allegro's Offer while it remains conditional. See Section 4.2 of this Target's Statement.</p>
Offer closing date	<p>Allegro's Offer is scheduled to close at 7.00pm (AEDT) on 4 April 2023 unless Allegro's Offer is extended or withdrawn.</p>
Procedural aspects	<p>The Offer Period may be extended by Allegro.</p> <p>The Offer Period may be required by law to be extended in certain circumstances.</p> <p>Allegro's Offer may be withdrawn in limited circumstances.</p> <p>Allegro must notify S&G and ASX on the status of Conditions by a certain date (being 27 March 2023 unless the Offer Period is extended before that date in which case the date will correspondingly be extended).</p> <p>If you accept Allegro's Offer and all of the Conditions are satisfied or waived, Allegro is required to provide your Offer Consideration within a certain timeframe.</p> <p>These and other procedural aspects of Allegro's Offer are outlined in Section 4.9 of this Target's Statement.</p>

¹¹ The Offer Consideration will be reduced by the cash amount or value of any dividends, distributions or other rights attaching to S&G Shares on or after 24 February 2023 and which a shareholder receives or is entitled to receive.

4.2 Conditions of Allegro's Offer

Allegro's Offer is subject to two Conditions which are set out in full in Annexure A to the Bidder's Statement.

Unless all of these Conditions are satisfied or waived by Allegro before the end of the Offer Period,¹² Allegro's Offer will lapse and no consideration will be received by any S&G Shareholders who have accepted Allegro's Offer. Furthermore S&G Shareholders who accept Allegro's Offer will lose the ability to deal with their S&G Shares including accepting any potential higher competing offer, except in certain limited circumstances.

When considering how these Conditions might affect the prospects of success of Allegro's Offer, you should be aware of the following considerations.

	Condition (adopting the Condition numbering in Annexure A to the Bidder's Statement)*	Your Directors' observations
1	50.1% minimum acceptance condition	<p>As at the date of this Target's Statement, approximately 94% of S&G Shares are held by hedge funds that also own the entirety of the SSF.</p> <p>As at the date of this Target's Statement, none of these shareholders have publicly stated whether they will accept Allegro's Offer.</p> <p>Allegro has stated in its Bidder's Statement¹³ that an entity wholly-owned by Allegro Fund IV has made private treaty offers to the SSF lenders to acquire their debt interests in the SSF for a purchase price of less than 100 cents for every dollar outstanding under the SSF, the purchase price of which will be reduced by the Offer Consideration received by the relevant SSF lender for any of their S&G Shares to the extent accepted into Allegro's Offer.</p> <p>Allegro has additionally stated in its Bidder's Statement that SSF lenders representing more than 75% of the value of the SSF have already accepted the private treaty debt offers and that Allegro Funds is continuing to engage with all SSF lenders regarding the potential sale of their debt. These accepting SSF lenders also in aggregate own or control more than 75% of S&G's Shares.</p>

¹² Or in the case of the *No Prescribed Occurrences during the Offer Period* Condition, by the end of three Business Days after the end of the Offer Period.

¹³ See section 10.3 of the Bidder's Statement.

2	No S&G Prescribed Occurrences	This Condition is largely within S&G's control. Your Directors will ensure that S&G does not take any action during the Offer Period which would trigger this Condition. This Condition will be taken to be satisfied if, at the end of the Offer Period, there is no event that constitutes a breach of this Condition.

*This is a summary of Conditions only. The Conditions are set out in full in Annexure A to the Bidder's Statement.

4.3 Potential effect of Allegro's Offer on S&G's material contracts

S&G has identified a number of material contracts to which S&G or a related body corporate of S&G is a party that contain change of control provisions which may be triggered as a result of, or as a result of acceptances of, Allegro's Offer.

A summary of the relevant provisions of these agreements is set out below. This information has been included in this Target's Statement because it may impact on the future prospects of S&G if Allegro obtains a relevant interest in more than 50% of S&G Shares. This may be relevant to S&G Shareholders who remain as minority Shareholders in S&G.

It is important to note that it is not a condition of Allegro's Offer that no change of control provisions under any material contract are triggered as a result of, or as a result of acceptances of, Allegro's Offer.

The relevant provisions are set out below:

(a) Financing arrangements

(i) SSF

Under the SSF, a Review Event will occur if S&G Shares are suspended from quotation on ASX for a continuous period of more than 10 Business Days (or such longer period to which the Agent consents (acting on the instructions of the holders of 66.667% of the outstanding SSF debt) or S&G is removed from the official list of the ASX. The occurrence of a Review Event may, in certain circumstances, lead to the Agent having the right to terminate and accelerate the obligation to pay all of the outstanding SSF debt including all accrued interest.

(ii) GCI Facility

Both a change of control and the delisting of S&G will constitute a Review Event under the GCI Facility. On a Review Event, the lender may, within 30 days of the occurrence of the Review Event, decide to review the facility and its terms and the parties must negotiate in good faith for 30 days to agree changes to the GCI Facility. If an agreement is not reached within that time the lender can give a notice to S&G, requiring, within 180 days, the transfer of its debt under the GCI Facility to an alternative lender, or if this cannot be arranged, cancellation and prepayment of such debt. Allegro has indicated in

its Bidder's Statement¹⁴ that it expects S&G to seek a waiver in respect of any Review Event under the GCI Facility. In the event the relevant third party consents are not obtained or waived and the relevant lenders require repayment, Allegro may seek to cause S&G to refinance the relevant debt.

(b) Lease agreements

(i) Australian leases

S&G Group leases several offices and other premises. Some of the leases in Victoria contain change of control provisions which will require S&G to seek consent from the landlord if a change of control occurs and satisfy the landlord that Allegro is financially sound and capable of performing all of the obligations of S&G under the lease.

(ii) UK separation arrangements

With reference to the Separation Deed entered into between an Allegro entity and S&G UK and summarised in section 10.4 of the Bidder's Statement, S&G has confirmed that should Allegro take control of at least 50.1% of S&G through acceptances of its takeover offer and Allegro declares its offer unconditional, it will work with Allegro to facilitate implementation of the arrangements summarised in the Bidder's Statement.

(c) Insurance policies

Some of S&G's insurance policies, including its Directors' and Officers' Liability Insurance Policy would be impacted if a change of control occurs. These may either necessitate replacement insurance policies or consent from the relevant insurer to the change in control.

S&G intends to put in place run off directors' and officers' liability insurance cover on terms not less favourable than the terms of S&G's existing Directors' and Officers' Liability Insurance Policy in respect of retiring directors.

4.4 Other risks of accepting Allegro's Offer

(a) You generally lose the ability to deal with your Shares

If you accept Allegro's Offer, you are only able to withdraw your acceptance in the following limited circumstance: if Allegro varies the Offer in a way that postpones for more than one month the time by which Allegro must meet its obligations under the Offer. This will occur if Allegro extends the Offer Period by more than one month and Allegro's Offer remains subject to Conditions.

Accordingly, if you accept Allegro's Offer now while it is conditional, some of the consequences include the following (subject to your right to withdraw your acceptance of Allegro's Offer in the limited circumstance described above):

- you will give up your rights to sell your S&G Shares on ASX or otherwise deal with them (for example, by accepting any other offer from a competing bidder if one eventuates); and
- you will relinquish control of your S&G Shares and the Rights attaching to them to Allegro with no guarantee of payment until Allegro's Offer becomes unconditional.

¹⁴ See section 6.7 of the Bidder's Statement.

The effect of acceptance of Allegro's Offer is set out in section 11.6 of the Bidder's Statement. S&G Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their S&G Shares and the representations and warranties which they give by accepting Allegro's Offer.

In particular S&G Shareholders should note that on Allegro's Offer, or any contract resulting from the acceptance of Allegro's Offer, becoming unconditional and Allegro paying the Offer Consideration, Allegro will be entitled to attend meetings of S&G and vote on their behalf in respect of their S&G Shares to defeat resolutions relating to competing offers which may adversely affect the success of Allegro's Offer.¹⁵

4.5 Consequences of Allegro acquiring less than 90% of S&G

If Allegro acquires more than 50% but less than 90% of the S&G Shares then, assuming all Conditions to Allegro's Offer are satisfied or waived, Allegro will acquire a majority shareholding in S&G.

In those circumstances S&G Shareholders who do not accept Allegro's Offer will become minority shareholders of S&G. This has a number of possible implications, including:

- Allegro will be in a position to cast the majority of votes at a general meeting of S&G. This will enable it to control the composition of S&G Board of Directors and senior management, and control the strategic direction of the businesses of S&G and its subsidiaries;
- the S&G Share price may fall immediately following the end of the Offer Period although this may be mitigated by the underlying attractiveness of S&G's business; and
- if the number of S&G Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing then Allegro may seek to have S&G removed from the official list of the ASX. If this occurs S&G Shares will not be able to be bought or sold on the ASX.

In addition, if Allegro acquires 75% or more of the S&G Shares it will be able to pass a special resolution at a meeting of S&G Shareholders. This would enable Allegro, among other things, to pass amendments to S&G's constitution.

If Allegro's Offer lapses or if Allegro acquires less than 50% of S&G Shares, the trading price of S&G Shares may be higher or lower than the Offer Consideration. If you remain a S&G Shareholder in this circumstance, you will continue to enjoy the rewards, and be subject to the risks, of being a S&G Shareholder.

4.6 Potential delisting

Allegro states in its Bidder's Statement¹⁶ that if it obtains greater than 90% of S&G Shares, Allegro will seek to delist S&G from ASX. Alternatively, if Allegro obtains more than 50.1% but less than 90% of S&G Shares, Allegro states that it may also seek to delist S&G from ASX, subject to the ASX Listing Rules.¹⁷

Therefore, there is a possibility of S&G being delisted following Allegro's Offer. If this occurs, S&G Shares will not be able to be bought or sold on the ASX.

S&G Shareholders should note the following points regarding any potential delisting of S&G:

¹⁵ See section 11.6(c)(vii) of the Bidder's Statement.

¹⁶ See section 7.4 of the Bidder's Statement.

¹⁷ See section 7.5 of the Bidder's Statement.

- Any decision to apply to the ASX to delist S&G would need to be made by the S&G Board, not by Allegro as the controlling Shareholder.
- The S&G Board, including nominee directors appointed by Allegro, could only decide to seek a delisting if the S&G Board concludes that this action is in the best interest of S&G and its Shareholders as a whole, at the relevant time.
- Even if (a majority of) the S&G Board resolved to delist S&G from ASX, this action would still require the ASX's consent and is likely to be subject to conditions imposed by ASX, which would be likely to include the approval of S&G Shareholders by special resolution, potentially with voting restrictions applicable to Allegro and its associates.
- ASX states¹⁸ that its power not to act on an entity's request for removal from the official list exists to ensure that the removal is being sought for acceptable reasons. For example, ASX notes that a request to remove an entity from the ASX that is primarily or solely aimed at denying minority shareholders a market for their securities, in order to coerce them into accepting an offer from a controlling shareholder to buy out their securities, would be an unacceptable reason for requesting removal from the official list.
- ASX applies a number of guidelines to safeguard the interests of minority shareholders in the context of any proposed delisting.
- A key ASX guideline is that the approval of S&G minority shareholders would most likely be needed for the ASX to allow delisting unless each of the following three conditions are met:

(a) Allegro has at least 75% control of S&G at the time delisting is sought; and

(b) there are fewer than 150 S&G Shareholders (excluding Allegro and its related bodies corporate) whose shareholding is worth at least A\$500. As at the date of this Target's Statement, S&G has approximately 1,710 Shareholders; and

(c) Allegro's Offer remains open for at least an additional two weeks after Allegro attains at least 75% control of S&G.

If, despite the above procedural protections, S&G is ultimately delisted at some point in the future, any remaining Shareholders would be holders of unquoted shares. A delisting would result in a number of disadvantages for Shareholders such as:

- the absence of an orderly, transparent and timely mechanism for share trading;
- restricted information compared to that currently provided. S&G would no longer be subject to the continuous disclosure requirements of the ASX Listing Rules. If S&G remains a public company after delisting and has at least 100 members, S&G would still be required to disclose material information to ASIC and likely on its website. Nevertheless, the level of shareholder reporting in these circumstances could be diminished; and
- the ceasing of various requirements and protections for minority shareholders under the ASX Listing Rules and the Corporations Act. Examples of provisions that would cease to

¹⁸

See ASX Guidance Note 33 which sets out ASX's policy in relation to a delisting request.

apply include: restrictions on the issue of new securities, a governance framework for related party transactions, requirements to seek Shareholder approval for significant changes in the nature or scale of S&G's activities and the annual preparation and consideration of a remuneration report.

4.7 Compulsory acquisition

(a) Compulsory acquisition following Offer

Allegro states in its Bidder's Statement that if it becomes entitled to proceed to compulsorily acquire outstanding S&G Shares at the end of the Offer Period under Part 6A.1 of the Corporations Act, Allegro intends to do so.¹⁹

Under Part 6A.1 of the Corporations Act, Allegro will be entitled to compulsorily acquire any S&G Shares in respect of which it has not received an acceptance of its Offer on the same terms as Allegro's Offer if, during or at the end of the Offer Period:

- Allegro and its Associates have a relevant interest in at least 90% (by number) of the S&G Shares; and
- Allegro and its Associates have acquired at least 75% (by number) of the S&G Shares that Allegro offered to acquire (excluding S&G Shares in which Allegro or its Associates had a relevant interest at the date of Allegro's Offer and also excluding any S&G Shares issued to an Associate of Allegro during the Offer Period).

If these thresholds are met, Allegro will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted Allegro's Offer.

(b) Future compulsory acquisition by Allegro

Even if Allegro does not satisfy the compulsory acquisition threshold referred to in Section 4.7(a) of this Target's Statement, it is possible that Allegro will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the S&G Shares. Allegro would then have rights to compulsorily acquire S&G Shares not owned by it within six months of becoming the holder of 90% under the general compulsory acquisition right under Part 6A.2 of the Corporations Act. The price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

(c) Challenging compulsory acquisition

S&G Shareholders have statutory rights to challenge any compulsory acquisition. However, a successful challenge will require the relevant S&G Shareholders to establish to the satisfaction of a court that the terms of Allegro's Offer do not represent *fair value* for the S&G Shares. If S&G Shares are compulsorily acquired, Shareholders who have their S&G Shares compulsorily acquired are not likely to receive their Offer Consideration until at least one month after the compulsory acquisition notices are dispatched to them.

4.8 Risks of status quo

If the Offer Conditions are not satisfied or waived by the end of the Offer Period, Allegro's Offer will lapse and S&G will remain an independent ASX listed company.

If the Offer Conditions are satisfied or waived by the end of the Offer Period but Allegro acquires less than 50% control of S&G, S&G will remain an independent ASX listed company.

¹⁹ See section 7.4 of the Bidder's Statement.

If S&G remains an independent ASX listed company, Shareholders who do not accept Allegro's Offer will have foregone the opportunity to realise value for their S&G Shares under Allegro's Offer.

4.9 Procedural aspects of Allegro's Offer

Extension of Offer Period	<p>Allegro may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to below) while Allegro's Offer is subject to Conditions.</p> <p>However, if Allegro's Offer becomes unconditional (that is, if all the Conditions are satisfied or waived), Allegro may extend the Offer Period at any time before the end of the Offer Period.</p> <p>In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:</p> <ul style="list-style-type: none"> • Allegro improves the Offer Consideration; or • Allegro's voting power in S&G increases to more than 50%. <p>If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.</p> <p>The maximum duration of the Offer Period is 12 months.</p>
Notice of status of Conditions	<p>Section 11.12 of the Bidder's Statement states that Allegro will give a Notice of Status of Conditions to the ASX and S&G on 27 March 2023.</p> <p>Allegro is required to set out in its Notice of Status of Conditions:</p> <ul style="list-style-type: none"> • whether Allegro's Offer is free of any or all of the Conditions; • whether so far as Allegro knows, any of the Conditions have been satisfied; and • Allegro's voting power in S&G. <p>If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In those circumstances, Allegro is required, as soon as practicable after the extension, to give a notice to the ASX and S&G that states the new date for the giving of the Notice of Status of Conditions.</p> <p>If a Condition is satisfied during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Allegro must as soon as practicable give the ASX and</p>

	<p>S&G a notice that states that the particular Condition has been satisfied.</p> <p>As at the date of this Target's Statement Allegro had not given notice that any of the Conditions had been satisfied or waived.</p>
Withdrawal of Offer	Allegro may withdraw its Offer with the written consent of ASIC and subject to the conditions (if any) specified in ASIC's consent.
Effect of acceptance	If you accept Allegro's Offer then, unless withdrawal rights are available (see below) and you exercise these rights, you will give up your right to sell your S&G Shares on market or to sell your Shares to any other person that may make a takeover bid, or to otherwise deal with your Shares in any manner.
Limited ability to withdraw your acceptance	If you accept Allegro's Offer, you may only withdraw your acceptance of Allegro's Offer if Allegro varies its Offer in a way that postpones, for more than one month, the time when Allegro needs to meet its obligations under the Offer. This will occur if Allegro extends the Offer Period by more than one month and the Offer is still subject to Conditions.
Timing for receipt of Offer Consideration if you accept	<p>The terms of Allegro's Offer are that no Offer Consideration for any S&G Shares accepted into the Offer will be provided by Allegro until the Offer becomes unconditional.</p> <p>If Allegro's Offer becomes unconditional, you will receive your Offer Consideration by the earlier of:</p> <ul style="list-style-type: none"> • one month after the date of your acceptance of Allegro's Offer or, if the Offer is subject to a Condition when you accept the Offer, within one month after the contract arising from your acceptance of Allegro's Offer becomes unconditional; and • 21 days after the end of the Offer Period. <p>Refer to section 11.7 of the Bidder's Statement for further details on when you will receive your Offer Consideration from Allegro.</p>
Effect of an improvement in Offer Consideration for Shareholders who have already accepted	If Allegro improves the Offer Consideration under its takeover bid, all S&G Shareholders, whether or not they have accepted Allegro's Offer before that improvement in the Offer Consideration, will be entitled to the benefit of that improved consideration.
Lapse of Allegro's Offer	Allegro's Offer will lapse if the Conditions are not satisfied or waived by the end of the Offer Period, in which case all contracts resulting from acceptance of Allegro's Offer and all acceptances that have not resulted in binding contracts are void. In that situation you will remain a S&G Shareholder and will be free to deal with your S&G Shares as you see fit.

4.10 Effect of Allegro's Offer on S&G Performance Rights

S&G operates an incentive scheme as part of its remuneration strategy for executives and employees. As this plan involves the acquisition of S&G Shares by employees, Allegro's Offer may trigger rights to allow employee securityholders to participate in the Offer in the same manner as other S&G Shareholders.

In summary, Allegro's Offer will have the following consequences.

The Long Term Incentive Plan (as approved by S&G Shareholders at the 2019 Annual General Meeting) provides for the grant of S&G Performance Rights to certain Directors, members of S&G's Executive Leadership Team and other executives, subject to the satisfaction of specific vesting and other conditions.

While the S&G Performance Rights remain unexercised the participants do not have the same benefits as other holders of shares in S&G, such as dividend and voting rights. However, once vesting conditions and the exercise condition has been met and a participant exercises their S&G Performance Rights, then, as holders of shares, participants have the same benefits as other holders of shares in S&G, such as dividend and voting rights.

As at the date of this Target's Statement, there are 13,532,861 S&G Performance Rights on issue, out of which 6,644,480 S&G Performance Rights are collectively held by certain Directors. All outstanding S&G Performance Rights have vested and are capable of exercise. S&G has agreed under the Bid Implementation Agreement not to issue any further S&G Performance Rights during the Offer Period.

The exercise of vested S&G Performance Rights is a matter for the holders of the Rights.

Given that Allegro's Offer extends to *all new* S&G shares that are issued due to the conversion of, or exercise of S&G Performance Rights on issue prior to the public announcement of Allegro's Offer on 24 February 2023, holders of the S&G Performance Rights who exercise their S&G Performance Rights may participate in Allegro's Offer in the same manner as other S&G Shareholders in respect of those new S&G Shares issued to them following the exercise, if they elect to do so. Acceptance of Allegro's Offer is a matter for such former S&G Performance Rights holders.

The Bid Implementation Agreement provides that all unexercised Performance Rights at the conclusion of the Offer Period are to lapse promptly after the conclusion of the Offer Period.

The relevant S&G Directors have stated that they intend to accept Allegro's Offer for all S&G Shares they own or control following the exercise of their S&G Performance Rights, in the absence of a Superior Proposal.

Section 5. Profile of Slater & Gordon

5.1 Introduction

S&G is a leading Australian consumer law firm, whose mission is to give people easier access to world class legal services. The firm provides specialist legal and complementary services in a broad range of areas.

Revenue is generated from providing legal and associated services to individual clients across Australia annually. Revenue for the S&G Group is not reliant on any one key customer or case outcome.

S&G listed on ASX in 2007 and currently has approximately 1,710 Shareholders and has approximately 911 employees.

5.2 Business activities

(a) Personal Injury Law (PIL)

The PIL practice is a significant part of S&G's business, and S&G have built a strong reputation for its expertise in handling a wide range of personal injury cases. S&G has specialist legal teams in each of the following PIL practice areas:

- workers' compensation;
- motor vehicle accident;
- public and product liability;
- medical negligence;
- asbestos and silicosis litigation;
- comcare, military and police compensation;
- superannuation and insurance; and
- institutional abuse.

The PIL practice operates on the basis of No Win – No Fee (**NWNF**) conditional fee arrangements, which it introduced in Australia in 1994.

(b) Class actions

The S&G class action practice covers a number of areas, including:

- shareholder class actions;
- consumer class actions;
- product liability class actions; and
- environmental breaches class actions.

5.3 Financial information

S&G's last published financial statements are for the financial half year ended 31 December 2022, announced on the ASX on 24 February 2023. Your Directors are not aware of any material changes to the financial position of S&G since the release of the above financial information.

5.4 Key risks faced by S&G

Set out below is a summary of the key risks that S&G Shareholders are exposed to as a result of their investment in S&G. The risks identified in this Section are not exhaustive, and no assurances or guarantees of future performance of, profitability of, or payment of dividends by S&G are given.

Company specific risks

Conflicts of duties	As an incorporated legal practice, S&G has a duty to the court, first, and then to its clients. Those duties prevail over S&G's duty to shareholders. There may be instances where S&G and its lawyers, in exercising their duties to the court or to the client (or both), act other than in the best interests of shareholders. An example is in settlement negotiations where S&G's duty to its client would be favoured over any short term cash flow or funding needs of S&G's business.
Regulatory environment	S&G is subject to significant regulatory and legal oversight in respect to both the conduct of individual legal practitioners employed by S&G and the areas of law in which S&G practises and operates its business. S&G's business operations could be adversely affected by actions of State, Territory and Commonwealth governments. If a legal practitioner employed by S&G commits unsatisfactory professional conduct or professional misconduct, there is the potential for the relevant regulator to take disciplinary action against the individual, S&G's legal practitioner director(s) and S&G itself. Changes in government legislation, guidelines and regulations associated with S&G's areas of practice, such as decreases in the maximum amount of legal fees which can be recovered or the amount of damages its clients can claim in particular types of matters, could also adversely affect S&G.
Recoverability of Work-in-Progress	Work in progress (WIP) represents the value of work that has been undertaken on client matters, that has not yet been billed. The majority of S&G's legal services are provided on a 'No Win- No Fee' basis. In such cases fees are charged only in the event of a successful outcome and given the amount of fees that can be charged to clients are regulated, there is uncertainty around the ultimate recovery of WIP prior to the conclusion of a client's matter. The valuation of WIP in these cases is assessed in accordance with Australian Accounting Standards and is based on a formula involving the stage of progress of the matter and the likelihood of success based on past experience for cases of the relevant type. This exposure is greater in relation to S&G's Project Litigation services as the WIP exposure on a single matter is higher. Although S&G has taken actions to assist in the recoverability of its WIP, such as with its case selection processes and utilisation of litigation funding, and periodically makes provisions for unrecoverable WIP, it is a difficult value to predict and recognise with certainty.

Company specific risks

Personnel	S&G depends on the talent and experience of its people. In particular, S&G's growth is reliant on its ability to attract, develop and retain high quality lawyers and other professional fee-earning staff. Should any of its key people or a significant number of the other people leave S&G, particularly to work for a competitor, or the development of its staff be unable to deliver the growth for its service offerings, this may have an adverse effect on S&G. It may be difficult to replace key personnel or to do so in a timely manner or at comparable expense.
Professional liability and uninsured risks	The provision of legal advice by S&G gives rise to the risk of potential liability for negligence or other similar client claims. Any such claims may cause financial and reputational damage to S&G. Although S&G maintains professional liability insurance and a dedicated Professional Standards team to mitigate the financial risk, S&G's profitability may be adversely affected if the insurance does not cover a potential claim, the claim exceeds the coverage available or the deductible on numerous claims in a period is material.
Brand and reputational risk	The reputation and branding of S&G is an important factor in its success. Anything that diminishes S&G's reputation or brand would likely be adverse to S&G's revenue, profitability and growth. The actions of S&G's employees, including breaches of the regulations to which S&G is subject or negligence in the provision of legal advice, may damage the S&G brand.
Competition and growth	S&G operates in a competitive market, competing for its offering of personal injury and/or other legal services. Competitive factors include the quality of advice and service, innovation, reputation and price. S&G's service offerings and marketing may not attract clients to support its growth strategy. These risks may adversely impact S&G's financial performance.
Operations and systems	There are a number of key operational risks which arise directly from S&G's operation as a major participant in the Australian legal services industry and associated with its growth strategy, including implementation of strategic and business decisions, technology and cyber security risk, counterparty performance under outsourcing and referral arrangements, business continuity planning, legal risk, data privacy and integrity risk, information management and security, client default risk and external events. S&G's financial performance and position may be adversely impacted by these risks.
Capital and funding management	Funding and management of capital and liquidity remains a key focus following the recapitalisation in December 2017. In addition the SSF is required to be refinanced by October 2024 and the \$30 million term loan is required to be refinanced by December 2024. There is no guarantee as to the availability, timing or nature of alternative debt funding to refinance S&G's debt on terms acceptable to both S&G and the current lenders. Additional funds may need to be obtained through capital raisings or cash flow may

Company specific risks

need to be managed through seeking to negotiate current debt arrangements. These factors may adversely impact S&G's working capital management program.

Business risks

ASX market volatility

The market price of S&G's securities will fluctuate due to various factors, many of which are non-specific to S&G, including recommendations by brokers and analysts, Australian and international general economic conditions, inflation rates, interest rates, exchange rates, changes in government, fiscal and monetary and regulatory policies, changes to laws, global investment markets, global geo-political events and hostilities, investor perceptions and other factors that may affect S&G's financial performance and position. In the future, these factors may cause S&G's securities to trade at or below their issue price. Factors such as those mentioned above may also affect the income, expenses and liquidity of S&G. Additionally, the stock market can experience price and volume fluctuations that may be unrelated or disproportionate to the operating performance of S&G.

Liquidity risk

S&G is a listed entity. Therefore, the ability to sell Shares will be a function of the turnover of the Shares at the time of sale. Turnover itself is a function of the size of S&G and also the cumulative investment intentions of all current and possible investors in S&G at any point in time. S&G Shares have very low liquidity given that approximately 94% of S&G Shares are held by hedge funds that also own the entirety of the SSF.

Economic environment

General economic factors such as interest rates, exchange rates, inflation, business and consumer confidence and general market factors, including those impacted by climate change risks, may have an adverse impact on S&G's earnings or value of its assets.

Litigation

S&G may, in the ordinary course of business, be involved in possible litigation disputes. Any such dispute may be costly and adversely affect the operational and financial results of S&G.

Force majeure events

Events may occur within or outside Australia that could impact on the Australian economy, the global economy, the operations of S&G, the price of the S&G shares and S&G's ability to pay dividends. The events include but are not limited to acts of terrorism, an outbreak of war or other international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or manmade events or occurrences that could have an adverse effect on the on the demand for S&G's services and its ability to conduct its business. S&G has only a limited ability to insure against some of these risks.

Coronavirus (COVID-19) risk	<p>The outbreak of the coronavirus disease (COVID-19) has impacted global economic markets and continues to do so. The price of the S&G shares may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19. Further, any governmental or industry S&G's operations and are likely to be beyond the control of S&G. While the impact of COVID-19 on S&G's business and financial performance has likely moderated, the situation is continually evolving, and the consequences are therefore inevitably uncertain.</p> <p>The lockdowns that were put in place during the initial phases of COVID-19 impacted business performance and S&G's FY22 result. Lockdowns and ongoing restrictions meant limited mobility amongst large parts of the population resulting in fewer work and road injuries and consequently in lower file openings and slower progression of files in the first half. However, with the lockdowns and other restrictions being relaxed toward the end of the first half and into the second half and with people returning to the road and workplace, enquiry levels returned to pre-pandemic levels. The barriers to claims progression were reduced.</p>
Geo-political factors	<p>S&G may be affected by the impact that geo-political factors have on the Australian and world economy or on financial markets and investments generally or specifically. This may include international wars, terrorist activities and governmental responses to such activities, including the ongoing conflict in Ukraine.</p>
Taxation	<p>Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of an investment in S&G Shares or the holding and disposal of those S&G Shares. Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which S&G operates, may impact the future tax assets or liabilities of S&G. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and shareholder returns.</p>

5.5 Directors

S&G's Directors are:

- James MacKenzie (Chair, Independent Non Executive Director)
- John Somerville (Managing Director, CEO)
- Mark Dewar (Non Independent Non Executive Director)
- Merrick Howes (Non Independent Non Executive Director)
- Michael Neilson (Executive Director)
- Elana Rubin (Independent Non Executive Director)
- Jacqui Walters (Independent Non Executive Director)

The profiles of the S&G Directors are set out in S&G's 2022 Annual Report.

Section 6. Taxation consequences

6.1 Introduction

The information in this Section is a general summary of the Australian income tax (including CGT), GST and stamp duty consequences for S&G Shareholders who accept Allegro's Offer.

This information is relevant only to those S&G Shareholders who hold their S&G Shares on capital account. This information relates only to S&G Shares, and not to other rights held over S&G Shares.

Stamp duty and GST information is set out in Sections 6.5 and 6.6 of this Target's Statement respectively.

This Section does not consider the Australian income tax consequences for S&G Shareholders:

- who hold their S&G Shares as trading stock or as revenue assets;
- who hold their S&G Shares as assets used in carrying on a business or as part of a profit-making undertaking or scheme;
- who acquired their S&G Shares through an employee share scheme, including as a result of the exercise of vested Performance Rights;
- who are Australian tax residents but hold their S&G Shares as part of an enterprise carried on, at or through, a permanent establishment in a foreign country;
- who are foreign resident shareholders who have used their S&G Shares at any time in carrying on a business through a permanent establishment in Australia;
- that may be subject to special tax rules, such as financial institutions, insurance companies, partnerships, tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents; or
- who are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) or the investment manager regime in Division 842 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their S&G Shares.

The information in this Section is a guide only, and is based on taxation law and practice in effect as at the date of this Target's Statement. It is not intended to be an authoritative or complete statement or analysis of the taxation laws applicable to the particular circumstances of every S&G Shareholder.

S&G Shareholders should seek independent professional advice regarding the taxation consequences of accepting Allegro's Offer or otherwise disposing of their S&G Shares.

S&G Shareholders who are tax residents of a country other than Australia (whether or not they are also residents or temporary residents of Australia for tax purposes) should also take into account the tax consequences under the laws of their country of residence.

6.2 Tax consequences of disposal of S&G Shares by Australian residents

(a) General CGT considerations

Acceptance of Allegro's Offer will result in the disposal of S&G Shares by S&G Shareholders.

This disposal will constitute a CGT event for the S&G Shareholder. Where an S&G Shareholder accepts Allegro's Offer, the date of disposal for CGT purposes will be either:

- (a) if at the time of acceptance Allegro's Offer is conditional, the time at which Allegro's Offer becomes unconditional;
- (b) if at the time of acceptance Allegro's Offer is unconditional, the time at which the S&G Shareholder accepted Allegro's Offer; or
- (c) if the S&G Shareholder does not accept Allegro's Offer and the S&G Shares are compulsorily acquired by Allegro, the time at which the S&G Shares are acquired.

If Allegro's Offer does not become unconditional, then no CGT event will occur.

The disposal of S&G Shares may result in a capital gain or capital loss for the S&G Shareholder.

A capital gain will arise if the S&G Shareholder's capital proceeds exceed the cost base of their S&G Shares. A capital loss will arise if the S&G Shareholder's capital proceeds are less than the reduced cost base of their S&G Shares.

Capital proceeds

The capital proceeds received by a S&G Shareholder who accepts Allegro's Offer (or has their S&G Shares otherwise acquired under Allegro's Offer) will be equal to the sum of the amount of cash received in respect of the disposal of the S&G Shares.

Cost base and reduced cost base

The cost base of S&G Shares should include the money that a S&G Shareholder has paid or was required to pay to acquire its S&G Shares, plus certain other non-deductible amounts associated with the acquisition and holding of the S&G Shares and disposal to Allegro, such as brokerage charges or stamp duty. The reduced cost base of S&G Shares should be determined in a similar manner.

In respect of the cost base or reduced cost base of the S&G Shares, this amount may be reduced as a result of having received historical non-assessable distributions from S&G, such as returns of capital.

Net capital gain

Subject to the CGT discount discussed below, capital gains and capital losses of a taxpayer in a year of income are aggregated to determine whether the taxpayer has a net capital gain or loss for that period. Any net capital gain, after applying carried forward capital losses (subject to the applicable loss recoupment rules), is included in the taxpayer's assessable income. It is subject to income tax after deductions, including, subject to satisfying any applicable loss recoupment rules, deductions for any tax losses.

Capital losses

Capital losses may only be offset against capital gains realised in the same income year and cannot be deducted against other income for income tax purposes. A net capital loss for an income year can, subject to satisfaction of the loss recoupment rules, where applicable, be carried forward to be offset against capital gains in future income years.

S&G Shareholders should seek their own tax advice in relation to the operation of the loss recoupment rules.

(b) CGT discount

S&G Shareholders who derive a capital gain as a result of accepting Allegro's Offer may be eligible for the CGT discount.

Broadly the CGT discount can reduce an eligible taxpayer's capital gain if the taxpayer has held the relevant asset (in this case, the S&G Shares) for at least 12 months prior to the earlier of the disposal, or entry into a contract for the disposal, of the relevant asset. The CGT discount applies after an eligible taxpayer has applied capital losses (including capital losses available from prior years, subject to the relevant loss recoupment rules) against their capital gains for the income year.

The size and availability of the applicable CGT discount is determined by the legal status of the S&G Shareholder:

- (a) individuals can reduce any capital gain made by 50%;
- (b) complying superannuation entities can reduce any capital gain made by one third;
- (c) companies (other than in a capacity as trustee) are not entitled to the CGT discount; and
- (d) the application of the CGT discount rules to a trustee of a trust is complex, particularly where distributions to beneficiaries of the trust are attributable to discounted capital gains. S&G Shareholders that are trustees of trusts should obtain specific tax advice on the application of the CGT discount rules to them.

6.3 Taxation consequences of disposal of S&G Shares by non residents

Sale of S&G Shares

A S&G Shareholder that is not a resident of Australia for tax purposes should be able to disregard any capital gain or capital loss that would otherwise arise in respect of the disposal of its S&G Shares unless their S&G Shares are 'indirect Australian real property interests'.

A S&G Shareholder's S&G Shares are indirect Australian real property interests if both of the following requirements are satisfied:

- (a) the S&G Shareholder, together with its 'associates' (as defined in section 318 of the *Income Tax Assessment Act 1936* (Cth)), held a combined interest of at least 10% in S&G, respectively, either at the time the S&G Shares were disposed of (or were taken to have been disposed of) or for at least 12 months during the 24 months before the S&G Shares were disposed of (for CGT purposes); and
- (b) more than 50% of the market value of S&G's assets is attributed to direct or indirect interests in taxable Australian real property (broadly, Australian land interests or mining rights in respect of resources located in Australia).

Where both the above requirements are satisfied, foreign S&G Shareholders may be liable for tax on gains from the disposal of their S&G Shares and may be required to lodge a tax return in connection with the disposal of S&G Shares. S&G does not consider that the S&G Shares should be characterised as indirect Australian real property interests.

6.4 Foreign resident capital gains tax withholding

Generally foreign resident capital gains tax withholding applies at a rate of 12.5% to the capital proceeds in a transaction involving the acquisition of the ownership of an asset that is an Australian indirect real property interest from a 'relevant foreign resident'.

A 'relevant foreign resident' for these purposes is any S&G Shareholder, at the time the transaction is entered into, that:

- (a) is known or reasonably believed by Allegro to be a foreign resident;
- (b) is not reasonably believed by Allegro to be an Australian resident, and either has an address outside Australia or has authorised Allegro to provide a financial benefit to a place outside Australia; or
- (c) has a connection outside Australia of a kind specified in the regulations.

Under the Australian foreign resident capital gains tax withholding rules, Allegro, as the purchaser of S&G Shares, may be required to pay 12.5% of Allegro's Offer Consideration to acquire the S&G Shares (**Withholding Amount**) to the Australian Taxation Office (**ATO**) if the S&G Shares represent indirect Australian real property interests and Allegro considers, or reasonably believes, that a S&G Shareholder is a 'relevant foreign resident'.

Allegro has indicated in the Bidder's Statement that, if Allegro Australia is not provided with a completed Foreign resident capital gains withholding – vendor declaration form available from the Australian Taxation Office website at:

https://www.ato.gov.au/uploadedFiles/Content/LB_1/downloads/Foreign%20resident%20capital%20gains%20withholding%20-%20vendor%20declaration.pdf

within the requisite time from a S&G Shareholder to declare that:

- it is an Australian tax resident; or
- the S&G Shares it holds are not indirect Australian real property interests,

or Allegro reasonably believes that the information in the form is false, Allegro may withhold the Withholding Amount from the Allegro Offer Consideration paid to the relevant S&G Shareholder.

Any amount paid to the ATO in connection with the foreign resident capital gains tax withholding regime (**Withholding Amount**) may be able to be offset by a S&G Shareholder against the actual tax payable on the gain from the disposal of the S&G Shares and is refundable by the ATO to the extent that the Withholding Amount paid to the ATO exceeds the S&G Shareholder's actual tax payable.

As mentioned above, S&G does not consider that the S&G Shares should be characterised as indirect Australian real property interests, and therefore, the foreign resident capital gains tax withholding should not apply.

S&G Shareholders that are not residents of Australia for tax purposes should obtain specific tax advice in relation to the application of the foreign resident capital gains tax withholding to them.

6.5 Stamp Duty

No Australian stamp duty should arise for the S&G Shareholders in respect of the disposal of their S&G Shares to Allegro.

6.6 GST

No GST should be payable by S&G Shareholders in respect of their acceptance of Allegro's Offer.

S&G Shareholders may be charged GST on third party costs (such as adviser fees) they incur and which relate to their participation in Allegro's Offer. S&G Shareholders may not be entitled to input tax credits for such costs, but should seek independent advice in relation to their specific circumstances.

Section 7. Additional information

7.1 Directors' interests and dealings in S&G securities

(a) Interests in S&G securities

As at the date of this Target's Statement, the Directors of S&G and their respective interests in S&G securities are set out in the table below:

Name	Position	S&G securities held by or on behalf of Director
James MacKenzie	Chair, Independent Non Executive Director	1,245,840 S&G Performance Rights
John Somerville	Managing Director and Chief Executive Officer	3,322,240 S&G Performance Rights
Mark Dewar	Non Independent Non Executive Director	Nil
Merrick Howes	Non Independent Non Executive Director	Nil
Michael Neilson	Executive Director and Company Secretary	1,245,840 S&G Performance Rights
Elana Rubin	Independent Non Executive Director	415,280 S&G Performance Rights
Jacqui Walters	Independent Non Executive Director	415,280 S&G Performance Rights

(b) Dealings in S&G Shares

No Director has acquired or disposed of a relevant interest in any S&G Shares in the 4 months ending on the date immediately before the date of this Target's Statement.

(c) Intentions of your Directors in relation to Allegro's Offer

Each of your Directors who has, or will have, a relevant interest in S&G Shares intends to **ACCEPT** Allegro's Offer in relation to those S&G Shares, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

7.2 Interests and dealings in shares in Allegro

(a) Interests in shares in Allegro

As at the date of this Target's Statement, no Director had a relevant interest in any shares in Allegro.

(b) Dealings in shares in Allegro

No Director has acquired or disposed of a relevant interest in any shares in Allegro in the 4 months ending on the date immediately before the date of this Target's Statement.

7.3 Benefits and agreements

(a) Directorships

As at the date of this Target's Statement, no Director of S&G is a director of Allegro.

(b) Benefits in connection with retirement from office

As a result of Allegro's Offer no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of S&G.

(c) Agreements connected with or conditional on Allegro's Offer

There are no agreements made between any Director of S&G and any other person in connection with, or conditional on, the outcome of Allegro's Offer other than in their capacity as a holder of S&G Shares issued as a result of any exercise of any S&G Performance Rights respectively held by them.

(d) Benefits from Allegro

None of the Directors has agreed to receive, or is entitled to receive, any benefit from Allegro which is conditional on, or is related to, Allegro's Offer, other than in their capacity as a holder of S&G Shares issued as a result of the exercise of S&G Performance Rights respectively held by them as outlined in Section 7.1 of this Target's Statement.

(e) Material interests of Directors in contracts with Allegro

None of the Directors has any interest in any contract entered into by Allegro.

7.4 Material litigation

S&G does not believe that it is involved in any litigation or dispute which is material in the context of S&G and S&G Group taken as a whole.

7.5 Issued capital

As at the date of this Target's Statement, S&G's issued capital consisted of 141,073,337 S&G Shares.

S&G also has 13,532,861 S&G Performance Rights on issue as at the date of this Target's Statement.

7.6 Substantial holders

As at the date of this Target's Statement, the following persons held an interest in S&G Shares of more than 5% as disclosed in substantial holding notices provided to ASX:

Name	Number of S&G Shares	Percentage of S&G Shares ²⁰
AIO Finance (Ireland) DAC	37,100,244	53% ²¹
TCA Opportunity Investments SARL	6,190,736	9% ²¹
York Global Finance BDH LLC	5,802,877	8% ²¹
Merrill Lynch (Australia) Nominees Pty Limited	9,020,608	7% ²²
Perpetual Corporate Trust Limited	3,591,500	5% ²¹

7.7 ASX announcements

S&G is a *disclosing entity* under the Corporations Act and therefore has continuous disclosure obligations under that legislation and also under the ASX Listing Rules. S&G is required to immediately disclose to the market through ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of S&G Shares.

S&G's announcements are available free of charge from the ASX website at www.asx.com.au (ASX code: SGH).

7.8 Material change in financial position of S&G

There has been no material change to the financial position of S&G since the release of the S&G Half Year Financial Results and Business Update announced to ASX on 24 February 2023.

7.9 Bid Implementation Agreement

On 23 February 2023, S&G and Allegro entered into a Bid Implementation Agreement in respect of Allegro's Offer. Consistent with the negotiated, recommended nature of Allegro's Offer, this deed contains certain exclusivity and matching rights in favour of Allegro. A summary of these provisions and other key terms of the Bid Implementation Agreement is set out in S&G's ASX announcement dated 24 February 2023 and also in section 10.2 of the Bidder's Statement.

7.10 Takeover response costs

Allegro's Offer will result in S&G incurring expenses that would not otherwise have arisen in the 2023 financial year. These include legal, financial and tax expenses from advisers engaged by S&G to assist in responding to Allegro's Offer. The total cost of the takeover response depends on the outcome of the various offers and proposals for S&G and required response activities, and the complexity of the issues addressed in the response. Therefore it is difficult to estimate the likely total cost to S&G. However as at the date of

²⁰ Percentage of shares in which a relevant interest is held based on total issued capital of S&G at the time a substantial shareholder notice was provided to S&G.

²¹ Substantial shareholder notice received pre entitlement offer completed on 20 September 2019 and based on issued shares of 69,527,235.

²² Substantial shareholder notice received post entitlement offer completed on 20 September 2019 and based on issued shares of 138,428,817.

this Target's Statement, the Directors estimate the total response costs to be approximately \$2.2 million.

7.11 Consents

Flagstaff Partners has consented to being named in this Target's Statement as the financial adviser to S&G and has not withdrawn that consent at the date of this Target's Statement.

MinterEllison has consented to being named in this Target's Statement as the legal adviser to S&G and has not withdrawn that consent at the date of this Target's Statement.

Computershare Investor Services Pty Limited has consented to being named in this Target's Statement as S&G's share registry and has not withdrawn that consent at the date of this Target's Statement

Kroll Australia Pty Ltd has given before the date of this Target's Statement, and has not withdrawn, its consent to being named in this Target's Statement as the Independent Expert in relation to Allegro's Offer.

Each person named in Section 7.11 of this Target's Statement as having given its consent to the inclusion of a statement or to being named in this Target's Statement:

- has not authorised or caused the issue of this Target's Statement;
- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than a statement included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

7.12 Reliance on ASIC class orders

As permitted by *ASIC Class Order 13/521*, this Target's Statement contains statements which are made, or based on statements made, in documents lodged by Allegro with ASIC or given to ASX and trading data on ASX. In accordance with these class orders, the consent of Allegro or ASX (respectively) is not required for the inclusion of such statements or data in this Target's Statement. Any S&G Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the S&G Shareholder Information Line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia).

In addition, as permitted by *ASIC Corporations (Consents to Statements) Instrument 2016/72*, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or published book, journal or comparable publication.

In addition, as permitted by *ASIC Corporations (Consents to Statements) Instrument 2016/72*, this Target's Statement contains share price trading and financial data sourced from FactSet, IRESS and Bloomberg, without their consent.

7.13 ASIC declarations

On 10 March 2023, ASIC granted S&G a modification of section 648C of the Corporations Act in connection with Allegro's Offer. The effect of this modification is to allow S&G to:

- deliver an electronic copy of this Target's Statement via electronic mail to the nominated email addresses of those S&G Shareholders who have elected to receive communications electronically from S&G; and
- send a letter or postcard, in lieu of the Target's Statement, to those S&G Shareholders who have not elected to receive communications electronically from S&G, providing details of where S&G Shareholders can access an electronic copy of the Target's Statement or how to request a hard copy of the Target's Statement.

S&G has not been granted any waivers by the ASX in relation to Allegro's Offer.

7.14 No other material information

This Target's Statement is required to include all the information that S&G Shareholders and their professional advisers would reasonably require to make an informed assessment whether or not to accept Allegro's Offer but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in the Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the only information that S&G Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept Allegro's Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in releases by S&G and Allegro to ASX before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

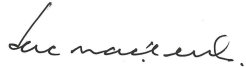
- the nature of S&G Shares (being fully paid ordinary shares);
- the matters S&G Shareholders may reasonably be expected to know;

- the fact that certain matters may reasonably be expected to be known to the professional advisers to S&G Shareholders;
- the nature of Allegro's Offer; and
- the time available to S&G to prepare this Target's Statement.

7.15 Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors. All Directors voted in favour of that resolution.

Signed for and on behalf of S&G by:



James MacKenzie

Chair

Date: 10 March 2023

Section 8. Glossary and interpretation

8.1 Glossary

Acceptance Form	the acceptance and transfer form enclosed with the Bidder's Statement and which forms part of the Offer
AEDT	Australian Eastern Daylight Time or Australian Eastern Standard Time as applicable in the relevant jurisdiction
Allegro	Wright NomineeCo Pty Ltd ACN 665 965 266
Allegro Funds	Allegro Funds Pty Ltd ACN 128 866 053
Allegro Fund IV	Allegro Fund IV and an associated side car fund managed by Allegro Funds.
Allegro's Offer or Offer	the recommended off market takeover bid by Allegro to acquire all S&G Shares for \$0.55 cash per Share as announced to ASX on 24 February 2023 and as described in the Bidder's Statement
ASIC	the Australian Securities and Investments Commission
Associate	has the same meaning as given to that term for the purposes of Chapter 6 of the Corporations Act (as modified by ASIC from time to time) as if S&G was the designated body under section 12(1) of that Act
ASX	ASX Limited ABN 98 008 624 691 or, where the context requires, the Australian Securities Exchange, a financial market operated by it
ASX Listing Rules	the listing rules of ASX, as amended or replaced
Bid Implementation Agreement	the bid implementation agreement entered into between S&G and Allegro Funds dated 23 February 2023 in relation to Allegro's Offer
Bidder's Statement	the bidder's statement by Allegro dated 3 March 2023 setting out the terms, Conditions and other information in relation to Allegro's Offer
Business Day	a day on which banks are open for business in Melbourne, excluding a Saturday, Sunday or public holiday
CGT	capital gains tax
Competing Transaction	<p>any expression of interest, proposal, offer or transaction which, if completed substantially in accordance with its terms, would mean:</p> <ul style="list-style-type: none"> (a) a person (other than Allegro or its Related Bodies Corporate) would, directly or indirectly acquire an interest (including an economic interest) or Relevant Interest in, or become the holder of: <ul style="list-style-type: none"> (i) 10% or more of all S&G Shares; (ii) voting power of 10% or more in S&G; or (iii) all (or a substantial part) of the business conducted by the S&G Group;

- (b) a person (other than Allegro or its Related Bodies Corporate) would, directly or indirectly acquire Control of S&G or the S&G Group; or
- (c) a person (other than Allegro or its Related Bodies Corporate) would, directly or indirectly acquire or merge with S&G Group; or
- (d) a person (other than Allegro or its Related Bodies Corporate) would, directly or indirectly acquire or obtain an interest (including an economic interest) in the whole (or a substantial part) of the S&G Group or the businesses or assets or property of the S&G Group;

in each case, whether by takeover offer, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, joint venture, partnership, reverse takeover bid or other transaction or arrangement.

Conditions	the conditions of Allegro's Offer set out in Annexure A to the Bidder's Statement
Corporations Act	the <i>Corporations Act 2001</i> (Cth)
Director	a director of S&G
GCI Facility	the facility agreement dated 6 December 2021 between, among others, S&G and Global Credit Investments Pty Ltd
GST	goods and services tax
Independent Expert or Kroll	Kroll Australia Pty Ltd ACN 116 738 535
Independent Expert's Report	the report prepared by the Independent Expert included as Appendix 1 to this Target's Statement
Long Term Incentive Plan	the S&G Long Term Incentive Plan (as approved by S&G Shareholders at the 2019 Annual General Meeting)
No Prescribed Occurrences Condition	the Condition set out as Condition 2 in Annexure A to the Bidder's Statement
Offer Consideration or Offer Price	the consideration offered by Allegro under its Offer. As at the date of this Target's Statement, the Offer Consideration is \$0.55 cash for each S&G Share
Offer Period	the period during which Allegro's Offer will remain open for acceptance in accordance with section 11.3 of the Bidder's Statement
Related Body Corporate	has the meaning given to that term in the Corporations Act
relevant interest	has the meaning given in sections 608 and 609 of the Corporations Act
Rights	all accretions and rights that accrue to or arise from S&G Shares after 23 February 2023, including all rights to receive dividends (but expressly excludes any franking credits attaching to those dividends or any other distribution) to receive and subscribe for shares, notes or other securities

and all other distributions or entitlements declared, paid, made or issued by S&G after that date, but does not include any S&G Performance Rights

S&G or Company	Slater & Gordon Ltd ACN 097 297 400
S&G Board or Board	the board of directors of S&G
S&G Group	S&G and each of its Related Entities
S&G Share or Share	a fully paid ordinary share in the capital of S&G
S&G Shareholder or Shareholder	a holder of S&G Shares
S&G Performance Right	a performance right issued under the Long Term Incentive Plan
S&G Performance Rights Holder	a holder of one or more S&G Performance Rights
S&G Share or Share	a fully paid ordinary share in the capital of S&G
S&G Shareholder or Shareholder	a holder of one or more S&G Shares
SSF	<p>the documents consisting of:</p> <ul style="list-style-type: none"> (a) the document titled 'Subscription Agreement', between, among others, S&G and Global Loan Agency Services Australia Pty Ltd (ABN 68 608 829 303) (as Agent) dated 28 April 2017 and as amended from time to time; and (b) the document titled "Security Trust Deed" between, among others, S&G and Global Loan Agency Services Australia Nominees Pty Ltd (ABN 39 608 945 008) dated 16 April 2012, as amended from time to time
Superior Proposal	<p>a bona fide Competing Transaction of the kind referred to in paragraph (b), (c) or (d) of the definition of Competing Transaction which has not resulted from a breach by S&G of any of its obligations under clause 6 of the Bid Implementation Agreement (it being understood that any S&G authorised actions by Related Persons of S&G not permitted by clause 6 will be deemed to be a breach of S&G for these purposes) and, in the determination of the S&G Board in order to satisfy what the S&G Board consider to be its fiduciary and statutory duties (after consultation with its external legal and financial advisers):</p> <ul style="list-style-type: none"> (a) is reasonably capable of being completed, taking into account all aspects of the Competing Transaction; and (b) would, if completed substantially in accordance with its terms, be or be reasonably likely to be more favourable to Shareholders as a whole than Allegro's Offer, <p>in each case, taking into account all terms and conditions and other aspects of the Competing Transaction and Allegro's Offer (including any timing considerations, any conditions precedent, the identity of the</p>

proponent or other matters affecting the probability of the Competing Transaction being completed)

Target's Statement	this document
unconditional	that the Offers and any contracts resulting from acceptance of the Offers are no longer subject to fulfilment of any of the Conditions

8.2 Interpretation

In this Target's Statement, unless the context otherwise requires:

- the singular includes the plural and vice versa and words importing one gender include other genders;
- terms defined in the Corporations Act as at the date of this Target's Statement have the meanings given to them in the *Corporations Act 2001* (Cth) at that date;
- a reference to dollars, A\$, AUD, \$ and cents is a reference to Australian currency;
- a reference to a statute of any parliament or any section, provision or schedule of a statute of any parliament includes a reference to any statutory amendment, variation or consolidation of the statute, section, provision or schedule and includes all statutory instruments issued under the statute, section, provision or schedule;
- a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- a reference to a Section or Appendix is a reference to a section of or appendix to this Target's Statement and a reference to this Target's Statement includes any Appendix;
- a reference to a document or instrument include the document or instrument as novated, altered, supplemented, or replaced from time to time;
- a reference to time is a reference to AEDT; and
- headings and bold type are used for reference only.

Appendix 1 - Independent Expert's Report



The Directors
Slater & Gordon Limited
Level 7
330 Collins Street
Melbourne VIC 3000

10 March 2023

Dear Directors

Part One – Independent Expert's Report

1 Introduction

On 24 February 2023, Slater & Gordon Limited (**S&G**) announced that it had entered into a Bid Implementation Agreement with Wright NomineeCo Pty Ltd (**Allegro**), a subsidiary of Allegro Funds Pty Ltd (**Allegro Funds**), under which Allegro will acquire 100% of the issued ordinary shares in S&G (**S&G Shares**)¹ by way of a recommended off-market takeover offer at \$0.55 cash per S&G Share (**Offer Price**) (**Offer**).²

On 3 March 2023, Allegro lodged a bidder's statement (**Bidder's Statement**) with the Australian Securities and Investments Commission (**ASIC**), sent the Bidder's Statement to S&G and ASX Limited and gave notice that it had completed dispatch of the Bidder's Statement to S&G Shareholders. The Offer opened on 3 March 2023 and closes at 7:00 pm on 4 April 2023 unless extended or withdrawn (**Offer Period**).

An overview of the Offer is provided in Section 5.1 of this report and Section 1 of the Bidder's Statement.

The Offer is subject to the following key conditions:

- Allegro acquiring a relevant interest of at least 50.1% of S&G Shares (**Minimum Acceptance Condition**); and
- no prescribed occurrences, excluding the issue of S&G Shares on exercise of outstanding performance rights.

Wright HoldCo Pty Ltd (**Allegro Debt Purchaser**), an entity wholly owned by Allegro Funds, has entered into debt purchase deeds with Super Senior Facility (**SSF**) lenders representing more than 75% of the outstanding debt interests in the SSF (**Debt Purchase Deeds**). Under the Debt Purchase Deeds, the holders of S&G's SSF debt will receive, in aggregate, less than 100 cents per dollar of the face value of SSF Debt held, including accrued payment-in-kind (**PIK**) and capitalised interest, but not including accrued cash interest, less the Offer Price paid for any of their S&G Shares to the extent accepted into the Offer. The SSF lenders also have a right to require Allegro Debt Purchaser to acquire their debt interests for the same purchase price in the event the Minimum Acceptance Condition is satisfied and, in the case of SSF lenders holding less than 50% of S&G Shares, such SSF lenders have accepted the Offer.

An overview of the Debt Purchase Deeds is provided in Section 5.3 of this report Section 10.3 of the Bidder's Statement.

¹ Including all new S&G Shares that are issued following the exercise or vesting of S&G Performance Rights.

² The Offer Price will be reduced by the cash amount of any dividends, distributions or other rights attaching to S&G Shares on or after 24 February 2023 and which a shareholder receives or is entitled to receive.

S&G is a leading Australian personal injury law (**PIL**) and class actions law firm. Whilst S&G is listed on the Australian Securities Exchange (**ASX**), a majority of the equity in S&G is owned by SSF lenders. As at 21 February 2023, the last trading day prior to the announcement of the Offer, S&G had a market capitalisation of \$79.7 million.³

Allegro Funds is an independently owned Australian fund manager, investing in businesses headquartered in Australia and New Zealand. Allegro Funds currently has over \$4.0 billion in assets under management and is currently investing from Allegro Fund IV, which has approximately \$750 million in committed capital. Allegro Funds' investors include large Australian and New Zealand superannuation funds.

The directors of S&G (**S&G Directors**) unanimously support the Offer and recommend that S&G Shareholders accept the Offer, in the absence of a superior proposal and subject to the independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable to S&G Shareholders.

The S&G Directors have appointed Kroll Australia Pty Ltd (**Kroll**) to prepare an independent expert's report setting out whether, in our opinion, the Offer is fair and reasonable to S&G Shareholders in the absence of a superior proposal.

This report sets out Kroll's opinion as to the merits or otherwise of the Offer and will be included in the Target's Statement prepared by S&G to be sent to S&G Shareholders.

Further information regarding Kroll, as it pertains to the preparation of this report, is set out in Appendix 1.

Kroll's Financial Services Guide is contained in Part Two of this report.

2 Scope of report

The transaction is to be implemented by way of a takeover offer. Section 640 of the Corporations Act states that a target's statement made in response to a takeover offer for shares in an Australian listed entity must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- the parties to the transaction have common directors.

In this case, a statutory requirement for an independent expert's report does not apply since:

- Allegro's shareholding in S&G is less than 30%; and
- the directors of Allegro Funds or Allegro are not directors of S&G.

Even where an independent expert's report is not strictly required by the law, it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member. Although not required by law, the S&G Directors have requested Kroll prepare an independent expert's report for the Offer.

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides in particular, Regulatory Guide 111 'Content of expert reports' (**RG 111**) which outlines the principles and matters which it expects a person preparing an independent expert report to consider.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this report.

3 Opinion

3.1 Background

S&G operates as a leading Australian PIL and class actions law firm. The PIL market in Australia is fragmented and highly competitive and is the source of approximately 87% of S&G's FY22 revenues.⁴

In considering the Offer, it is important to understand the recent history of S&G. S&G listed on the ASX in 2007 and subsequently made a series of acquisitions in Australia and the United Kingdom (**UK**), the most notable being the acquisition of Quindell Plc's (**Quindell**) Professional Services Division in 2015 for approximately \$1.2 billion, which significantly increased S&G's gearing. The acquisition was not successful; underperforming management's expectations, the business struggled to meet its financial obligations and

³ Calculated as the closing share price of \$0.565 multiplied by 141,073,337 S&G Shares outstanding.

⁴ S&G Results Announcement Investor Presentation. August 2022.

during 2016 S&G commenced an operational restructure and turnaround strategies. S&G was also subject to various class actions principally due to an approximate 90% share price decline between 30 March 2015 and 24 February 2016.

This led S&G to undertake a recapitalisation in December 2017 via a creditors' scheme of arrangement, which sought to provide the company with a sustainable level of debt and additional liquidity. As part of the recapitalisation, all UK operations and UK subsidiaries were separated from S&G and transferred to a new UK holding company wholly owned directly by the company's senior lenders. The shareholder class actions were resolved by a shareholder claimant scheme. The recapitalisation resulted in the company's senior lenders holding approximately 95% of the company's equity.

Despite the debt reduction as part of the 2017 recapitalisation, S&G's borrowing costs and debt remained sizable in comparison to cash flow generated by the operations and subsequently debt increased further, mainly reflecting drawdowns on a new working capital facility as well as the PIK nature of the company's debt, whereby interest is accrued but not payable until the facility is repaid and a higher interest rate is applied to PIK interest. Consequently, S&G sought to further reduce borrowings and in August 2019, announced a \$75.6 million capital raising, the proceeds of which were to be used to reduce borrowings from \$159 million to \$85 million whilst also doubling the number of shares on issue from 69.5 million to approximately 139.1 million.

S&G also invested in rebuilding the class action practice and in a transformation program to streamline processes, drive efficiencies and benefit from economies of scale. The COVID-19 pandemic, however, resulted in fewer PIL claims and delays in case processing and billing, weakening the financial performance and cash flows of S&G. As part of managing the impact of the COVID-19 pandemic, S&G announced on 20 April 2020 that it had agreed in principle with its senior lenders to extend the maturity of its SSF to 2023.

S&G's profitability recovered in 2H22 and 1H23 as a result of improved case velocity and strong demand for the company's services. Progress has also been made towards achieving operational efficiency and improvements in the management of working capital. Cash flow generation, however, remains weak with high work-in-progress (WIP) balances and significant interest costs on debt with operating cash flow insufficient to reduce borrowings and pay interest. This led to S&G again renegotiating the SSF whereby the SSF was extended to October 2024, with staged increases in interest rate and a proportion of interest to be paid in cash (rather than PIK).

In summary, S&G remains heavily geared relative to the operating cash flows being generated by the business. In the absence of the Offer, there is no clear pathway or certainty as to how or whether the SSF can be refinanced beyond the October 2024 maturity, creating considerable uncertainty as to the future value of a S&G Share.

It is also not possible to consider the Offer without recognising that the SSF lenders hold 93.5% of S&G's equity⁵ and that ultimately, they will evaluate any transaction having regard to both their debt and equity investments. The current sale process was initiated by the S&G Board and their advisors. The Offer Price represents a negotiated outcome and the accepting SSF lenders are effectively foregoing a portion of the face value of their debt and all of their equity value to provide an exit opportunity for S&G's minority shareholders and holders of performance rights.

Allegro has stated in the Bidder's Statement that SSF lenders representing more than 75% of the value of the SSF have already accepted the private treaty debt offers and entered into Debt Purchase Deeds as at 3 March 2023 and that it is continuing to engage with all SSF lenders regarding the purchase of their debt. These accepting SSF lenders also in aggregate own or control more than 75% of S&G's Shares.

3.2 Summary of opinion

In our opinion, the Offer is fair and reasonable to S&G Shareholders, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Offer is:

- **fair**, by comparing the Offer Price to our assessed value of a S&G Share on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111; and

⁵ Excludes performance rights

- **reasonable**, by assessing the implications of the Offer for S&G Shareholders, the alternatives to the Offer that are available to S&G and the consequences for S&G Shareholders of not approving the Offer.

Kroll has assessed the value of a S&G Share on a controlling interest basis to be in the range of \$0.13 to \$0.40. **As the Offer Price of \$0.55 exceeds our range of values for a S&G Share, the Offer is fair to S&G Shareholders.**

This range of values is relatively wide, reflecting S&G's high financial leverage (63.0% market gearing⁶).

In forming our view as to the value of S&G's operating business, we have considered a range of factors including the competitive nature of the industry and moderate growth trend, S&G's current share of the PIL market and the growth potential of its class actions business, the impact of the COVID-19 pandemic and transformation program, as well as S&G's low conversion of reported profits to cash flow (cash conversion ratio⁷) and limited cash flow from operations. We have also considered the value associated with the potential for S&G to free up further capital by increasing third party funded disbursements and its substantial carried forward tax losses. In accordance with the requirements of RG 111, we have not taken into account any potential financial distress, however, our valuation recognises that an acquirer of S&G would need to recapitalise the business to achieve a sustainable level of debt as S&G is highly geared and operating cash flows are currently insufficient to enable it to repay borrowings and pay interest.

Our analysis of the fairness of the Offer is detailed further in Section 3.3 of this report.

In accordance with RG 111, an offer is reasonable if it is fair. As we have assessed the Offer to be fair, it is also reasonable. However, irrespective of the requirement to conclude the Offer is reasonable, there are a range of other relevant factors, some of which are compelling, including:

- the Offer Price is broadly in line with the prices at which S&G Shares traded over the last 12 months;
- the Offer represents the best option currently available to S&G Shareholders to exit their investment;
- the likelihood of a superior proposal is low;
- the Offer provides certainty of value;
- in the absence of the Offer, S&G's share price will likely fall over time as the SSF approaches maturity;
- there is significant refinancing risk in the current environment;
- SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer are receiving a discount to face value on the SSF and are foregoing their equity; and
- there are consequences for S&G Shareholders who do not accept the Offer if Allegro acquires at least 50.1% and less than 90% of S&G Shares.

There are relatively few potential downside factors for S&G Shareholders as a result of the Offer. We note that by exiting their investment, S&G Shareholders will not participate in any future growth in the value of S&G.

Other matters which S&G Shareholders should consider in assessing the Offer include:

- one-off transaction costs associated with the Offer;
- the Offer is subject to the satisfaction of certain conditions; and
- tax implications for S&G Shareholders.

We have also considered consequences for S&G Shareholders if the Offer does not proceed.

Our analysis of the reasonableness of the Offer is detailed further in Section 3.4 of this report.

The decision as to whether or not to approve the Offer is a matter for individual S&G Shareholders based on their views as to value, expectations about future market conditions and their particular circumstances including investment strategy and portfolio, risk profile and tax position. The extent to which any S&G

⁶ Calculated as S&G's gross borrowings as at 28 February 2023 of \$116.7 million plus lease liabilities of \$18.9 million as at 31 December 2022 divided by the sum of gross borrowings, lease liabilities and market capitalisation of \$79.7 million (\$0.565 per S&G Share as at 21 February 2023, the last trading day before the announcement of the Offer, multiplied by 154.6 million shares outstanding).

⁷ The cash conversion ratio is calculated as net cash flow from operating activities/EBITDA.

Shareholder holds S&G's SSF debt may also influence their decision. In this regard, Kroll has prepared this report without taking into consideration the individual circumstances of S&G Shareholders. If in doubt, S&G Shareholders should consult their own professional adviser regarding the action they should take in relation to the Offer.

3.3 The Offer is fair

3.3.1 S&G equity value

Kroll has assessed the value of S&G's equity to be in the range of \$20.5 million to \$61.6 million, which corresponds to a value per S&G Share in the range of \$0.13 to \$0.40. The range of values is relatively wide and reflects the uncertainty associated with S&G's earnings and cash flow generation as well as its high financial leverage (63.0% market gearing⁸).

Our range of assessed values represents 100% ownership of S&G and, therefore, incorporates a control premium. The total equity value is the value of S&G's operating business and non-operating assets/(liabilities)(net), less the face value of borrowings and capitalised interest under the SSF and term loan. The value attributed to S&G's operating business is an overall judgement as to the opportunities and risks associated with the business, having regard to a market approach. The valuation is summarised as follows.

S&G Valuation Summary (\$ million unless otherwise stated)

	Section Reference	Valuation Range	
		Low	High
Maintainable net operating revenue ¹	9.3.2	195.0	215.0
Maintainable EBITDA margin after incentive payments ²	9.3.2	22.5%	22.5%
Maintainable EBITDA after incentive payments²		43.9	48.4
Public company cost savings	9.3.2	2.4	2.4
Maintainable EBITDA after incentive payments and before public company costs		46.3	50.8
Capitalisation multiple	9.3.3	3.50x	4.00x
Value of S&G's operating business (controlling basis)		162.0	203.1
Other assets/(liabilities)(net)	9.4	(5.6)	(5.6)
Enterprise value of S&G (controlling basis)		156.4	197.5
SSF as at 28 February 2023	9.5	(86.8)	(86.8)
Term loan as at 28 February 2023	9.5	(30.2)	(30.2)
Lease liability	8.5	(18.9)	(18.9)
Implied equity value of S&G (controlling basis)		20.5	61.6
Diluted number of Slater & Gordon Shares outstanding (million)	8.7.2	154.6	154.6
Value per S&G Share (controlling basis)		0.13	0.40

Source: Kroll analysis.

Notes:

1. After bad and doubtful debts and before specified items.
2. Before specified items (other than incentive payments).

Our range of assessed values of a S&G Share takes into consideration the synergies and benefits available to a pool of potential purchasers. In this regard, we note that synergies available to an acquirer of S&G are not expected to be substantial and may be limited to public company cost savings (refer to Section 9.2.3 of this report).

It should be noted that a valuation of S&G in the current economic and geopolitical environment is complex and requires judgement. In forming our view as to the value of S&G Shares we have considered a series of factors including:

- the competitive nature of the class actions and PIL industries;
- moderate PIL industry growth, comprising a mix of strong growth in medical negligence and abuse cases, and flat growth for motor vehicle accidents and workplace compensation;
- S&G is assumed to sustain its current 10% PIL market share;

⁸ Calculated as S&G's gross borrowings as at 28 February 2023 of \$116.7 million plus lease liabilities of \$18.9 million as at 31 December 2022 divided by the sum of gross borrowings, lease liabilities and market capitalisation of \$79.7 million (\$0.565 per S&G Share as at 21 February 2023, the last trading day before the announcement of the Offer, multiplied by 154.6 million shares outstanding).

- growth potential of S&G's class actions business, offset by its limited history;
- the impact of the COVID-19 pandemic on earnings and cash flow generation. CY22 revenue includes a degree of 'catch up' in velocity as matters were able to be progressed following COVID-19 related delays and is not expected to be sustained;
- the impact of the transformation program on profitability and the margin of an efficient operator;
- S&G's reliance on a 'No Win – No Fee' (**NWNF**) revenue model, its current low cash conversion ratio and limited cash flow from operations;
- S&G's significant debt burden and inability to repay borrowings and pay interest.
- the potential for S&G to free up further capital by increasing third party funded disbursements; and
- S&G's substantial carried forward income tax losses, however, recognising that the ability to utilise them is uncertain and an acquirer would be unlikely to attribute significant value to them.

In accordance with the requirements of RG 111, we have not taken into account any potential financial distress, however, our valuation recognises that an acquirer of S&G would need to recapitalise the business to achieve a sustainable level of debt as S&G is highly geared and currently, operating cash flows are insufficient to enable it to repay borrowings and pay interest.

The assessed value range takes into account S&G's current relatively low cash flow conversion ratio relative to Shine and other professional services firms. The range of values of S&G's operating business implies a multiple of 13.0 to 16.4 times average gross operating cash flow (**GOCF**)⁹ for FY20 to FY22, which is high in comparison to the implied GOCF multiple for Shine (5.7 times average GOCF for FY20 to FY22¹⁰).

The assessed enterprise value in the range of \$156.4 million to \$197.5 million exceeds the implied enterprise value based on the terms of the transaction since SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer will receive less than 100 cents in the dollar of the face value for their debt and will also forego the Offer Price for their S&G Shares. Potentially, the terms of the transaction reflect the desire of the SSF lenders to exit their investment at this point in time at a price that is certain as opposed to being exposed to the uncertainties that would have arisen if they continued to hold their investment and the SSF approached maturity in October 2024.

Our valuation range of \$0.13 cents to \$0.40 cents per S&G Share is:

- below the net assets per S&G Share as at 31 December of \$1.42. This reflects that Kroll has assessed a fair value for S&G's equity, which takes into account S&G's low cash conversion ratio and unsustainable capital structure whereas the book value of equity reflects WIP on a historical cost basis and does not take into account S&G's low cash conversion ratio;
- below recent trading in S&G Shares, however, we do not consider S&G's recent share trading to be an appropriate basis for comparison due to the following:
 - S&G Shares are extremely illiquid with only 1.1% of shares traded in the 12 months to 21 February 2023, the last trading day before the announcement of the Offer. During this period, there was no trading on four days and trading generally involved small parcels of shares. S&G has an extremely limited free float (approximately 6.5%) and no broker coverage;
 - S&G does not have a recent history of paying dividends nor is there any realistic expectation that a dividend will be declared in the short term, which would support the trading price; and
 - in the last 12 months, the trading price has moved within a limited range and on low volumes. In the event there was a sale of a material parcel of shares, it is likely the trading price would have fallen substantially.

3.3.2 Assessment of fairness

A comparison of our assessed value of a S&G Share, on a control basis, to the Offer Price is illustrated as follows.

⁹ GOCF is cash flow from operations plus net interest paid.

¹⁰ Shine's 5.7x GOCF multiple is calculated as Shine's market capitalisation as at 7 March 2023 (190.3m) divided by Shine's average GOCF from FY20-FY22 (33.37m).

Fairness Assessment



Source: Kroll analysis.

As the Offer Price exceeds our range of values for a S&G Share, the Offer is fair.

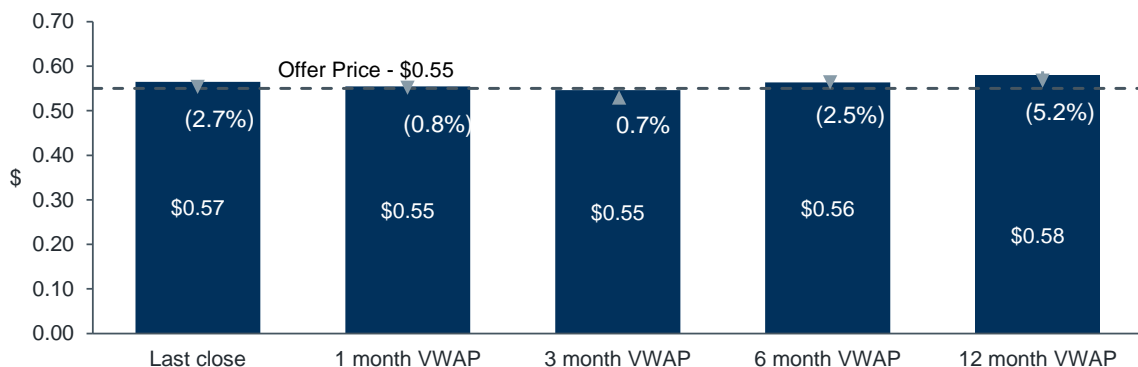
3.4 The Offer is reasonable

In accordance with RG 111, an offer is reasonable if it is fair. **As we have assessed the Offer to be fair, it is also reasonable.** However, irrespective of the requirement to conclude the Offer is reasonable, there are a range of other relevant factors, some of which are compelling.

3.4.1 The Offer Price is broadly in line with the prices at which S&G Shares traded over the last 12 months

The \$0.55 cents Offer Price is broadly consistent with S&G's closing price and volume weighted average price (VWAP) calculated over a range of periods up until 21 February 2023, the last trading day prior to the announcement of the Offer.

Comparison of Offer Price to the S&G Share Price as at 21 February 2023



Source: Kroll analysis.

Note: The premiums and discounts illustrated above have been calculated based on S&G's closing share price and VWAP up until 21 February 2023, the last trading day prior to the announcement of the Offer

The Offer Price is broadly in line with the prices at which S&G Shares traded over the last 12 months. This is not unexpected given the context of the transaction. The Offer Price represents a negotiated outcome and SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer are effectively foregoing a portion of the face value of their debt and the Offer Price with respect to their S&G Shares to remove the S&G minority shareholders and performance rights.

As discussed, Kroll does not consider the S&G share price to be a reliable indicator of fair value as the shares are extremely illiquid. Consequently, it is not possible to assess whether Allegro is paying a control premium for S&G Shares on the basis of a comparison between the Offer Price and the S&G share price.

3.4.2 The Offer represents the best option currently available to S&G Shareholders

In our view, the Offer represents the best option currently available to Shareholders. In assessing the merits of the Offer, we have considered the relative attractiveness and feasibility of alternatives available to S&G, including:

- refinancing of the current debt facilities;
- capital raisings;

- sale of non-core assets;
- wind up; and
- maintaining the status-quo.

Refinancing of current debt facilities

A refinancing of the current SSF or an extension of its maturity would not have resulted in a material and sustainable reduction in the financial obligations for S&G.

Capital raisings

As a result of S&G's current market capitalisation (being less than 60%¹² of its outstanding debt), current trading performance and other prevailing market conditions, a further capital raising would not necessarily raise sufficient funds to address S&G's current capital requirements and would have execution and completions risks. We note that the non-renounceable entitlement offer in 2019 raised \$75.6 million at a discount of 13.5%.

Sale of non-core assets

S&G has previously divested non-core businesses. Accordingly, there are no businesses of sufficient value that are capable of separation and/or of sufficient size to materially reduce the debt to a sustainable level, given the current performance of the group and the performance improvement requirements to be achieved by the Company.

Wind up

The book value of S&G's equity is \$1.42 per S&G Share. This exceeds Kroll's assessed value of \$0.13 to \$0.40 per S&G Share. Kroll has considered whether a higher value per share could be attained in an orderly realisation of S&G's assets.

In the event of an orderly realisation, the value of a S&G Share is likely to be nil since:

- it is unlikely that S&G could receive the full value of the WIP:
 - there is little precedent for transactions involving class action files;
 - pricing for WIP is unlikely to be at or around book value and significant discounts would be expected for a number of reasons:
 - S&G would be seen in the market as a "forced seller";
 - there are likely to be capacity constraints in the broader system to deal with the volume of matters, given S&G's size as one of the three largest participants in the PIL and class actions markets in Australia, with a WIP of \$338.4 million as at 31 December 2022;
 - a new legal team would need to come up to speed on any given file, which would be factored into the value;
 - payment of consideration for file transactions are typically contingent on success. This would mean either delayed payment (potentially years), or a material discount to book value as a result of the risk assumed, reducing the present value of the consideration received. It is uncertain whether sufficient consideration for the WIP (net of costs) could be received prior to the maturity of the SSF in October 2024;
- nil value would be ascribed to S&G's tax losses (an asset of \$61.3 million as at 30 June 2022 or a book value of \$0.40 per S&G Share);
- there would be additional costs to wind up the business that are not fully recognised in the accounts including:
 - redundancy and separation entitlements for S&G's approximately 900 employees;
 - the need to retain a sufficient legal and support team (which means ongoing cost) to progress matters so to keep within required timetables and not further erode value during the sale process;

¹² Based on a market capitalisation as 21 February of \$79.7 million, gross borrowings of \$116.7 million as at 28 February 2023 and lease liabilities of \$18.9 million as at 30 December 2022.

- S&G's large lease footprint that would need to be dealt with and would incur break costs; and
- debtholders would receive priority over S&G Shareholders, such that the full face value of debt and any PIK would need to be repaid before any equity is available for shareholders. PIK would also continue to accrue in the process.

Status quo

It is not possible to maintain the status quo given the SSF refinance due in October 2024. As stated previously, based on current financial results it is unlikely that the existing debt arrangements could have been refinanced on their current terms given rises in global interest rates since the prior refinancing.

If the Offer is not implemented, S&G will be at risk of becoming insolvent at some time prior to 31 October 2024, when the SSF matures, in the absence of a refinancing, capital raising or combination thereof. In such circumstances, S&G Shareholders could expect to realise nil value. Further, even though SSF lenders representing more than 75% of the value of the SSF have already accepted the private treaty debt offers this does not change the SSF maturity date and relevant implications for S&G Shareholders.

Conclusion

Having considered the alternatives available to S&G, the Offer provides a better outcome for S&G Shareholders relative to all other options currently available to S&G and, according to the S&G Directors, represents the only executable option for S&G. It secures value for S&G Shareholders primarily because the SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer are receiving less than 100 cents in the dollar for the face value of their debt less the value of the Offer Price of \$0.55 per S&G Share (refer Section 3.4.7). The Offer also de-risks the refinancing risk associated with the SSF maturity in October 2024 (refer Section 3.4.5).

3.4.3 The likelihood of a superior proposal is low

Since the announcement of the Offer on 24 February 2022, no alternative bidder has emerged. Whilst the opportunity for a superior proposal remains, at this point in time, we consider the likelihood of a superior proposal to be low given that SSF lenders control 93.5% of S&G¹³ and SSF lenders representing more than 75% of the value of the SSF and more than 75% of S&G Shares have already accepted the private treaty debt offers and entered into Debt Purchase Deeds.

3.4.4 The Offer provides certainty of value

The Offer provides S&G Shareholders with an opportunity to exit their investment in S&G at a price that is certain, without incurring transaction costs.

S&G Shareholders who accept the Offer will no longer be exposed to the liquidity risk associated with realising an investment on market. Whilst trading of S&G Shares has been within a tight range over the last 12 months, trading is extremely illiquid. Consequently, should a substantial number of S&G Shareholders wish to exit their investment, in the absence of the Offer, it is highly likely that the share price would fall materially. Furthermore, the uncertainty relating to the SSF maturity in October 2024 means that it is highly likely that the share price will fall as this date approaches. As such, there is no certainty as to the price at which S&G Shareholders would realise their investment at that time.

Any future on-market sale by S&G Shareholders would likely incur transaction costs, which would be avoided if the Offer is accepted.

3.4.5 In the absence of the Offer, S&G's share price will likely fall over time as the SSF approaches maturity

The share price of S&G at the time of the announcement was broadly in line with the terms of the Offer. In the absence of the Offer, a superior proposal or speculation concerning a superior proposal, it is reasonable to expect that the S&G share price will fall over time as a result of:

- a deterioration in the Company's risk profile. Although holders of over 75% of the SSF have already accepted the private treaty debt offers and entered into Debt Purchase Deeds, the SSF still remains and there will be increasing uncertainty as to the ability of S&G to refinance the SSF which matures in October 2024, with the potential for the company to enter into administration if it cannot be refinanced;

¹³ Excludes performance rights

- the absence of material positive cash flow from the business and, therefore, the ability to either repay debt, fund interest payments, or pay a dividend; and
- the potential of the SSF lenders to undertake corporate actions which may be to the detriment of minority S&G Shareholders by comparison to the current proposal.

3.4.6 There is significant refinancing risk in the current environment

S&G's existing SSF facilities mature on 31 October 2024. Since these facilities were negotiated in a more favourable debt environment (most recently in August 2022), it is likely that the interest margins on these facilities would increase in the event that they could be refinanced. Furthermore, given the relatively high existing leverage within S&G's business (approximately 58% balance sheet gearing¹⁴) combined with the current negative free cash flow, there is significant risk as to whether existing debt levels could be refinanced. If refinancing is unavailable, this would require additional equity injections from existing shareholders or other investors which would, in all likelihood, dilute future equity returns. In the event these actions cannot be achieved then as stated previously, S&G would be at risk of becoming insolvent. The Offer, therefore, removes this risk as S&G Shareholders will no longer be exposed to the refinancing risks associated with S&G.

3.4.7 SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer will receive a discount to face value and are effectively foregoing their equity

SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer will receive less than 100 cents in the dollar of the face value of their debt, inclusive of any consideration received by the S&G lenders under the Offer and the Debt Purchase Deeds. Should accepting SSF lenders be paid in full and not forgo their equity value, the total consideration under the transaction implies a value to all equity holders which would be substantially lower.

3.4.8 There are consequences for S&G Shareholders who do not accept the Offer if Allegro acquires at least 50.1% and less than 90% of S&G Shares

The Offer is subject to the Minimum Acceptance Condition of 50.1%. If Allegro acquires 90% or more of S&G Shares, it will be entitled to compulsorily acquire the remaining 10% of shares.

If Allegro acquires at least 50.1% and less than 90% of Allegro Shares, S&G Shareholders who do not accept the offer will be minority shareholders. In addition:

- the S&G share price may fall and trade below the Offer Price;
- S&G Shares may become even less liquid;
- the strategy and operations of S&G will be determined by Allegro to the extent permitted by law, which may not be consistent with the current strategy and direction of S&G;
- S&G's capital structure and board configuration may change;
- the existing S&G Shares on issue may be diluted in the event that Allegro decides to undertake a capital raising; and
- S&G may be delisted from the official list of the ASX, further reducing liquidity.

3.4.9 By exiting their investment, S&G Shareholders will not participate in any future growth in the value of S&G

By exiting their investment in S&G, Shareholders will not participate in any other takeover bid or Superior Proposal that may be made for S&G Shares, or in the future growth in the value of S&G, should a transaction not proceed. However, S&G Shareholders will no longer be exposed to the risks associated with S&G.

3.5 Other considerations

In forming our opinion, we have also considered a number of other factors. Whilst we do not necessarily consider these factors to impact our assessment of the reasonableness of the Offer, we have addressed them as follows.

¹⁴ Based on net debt of \$116.9 million and total equity of \$200.7 million.

One-off transaction costs

If the Offer is not implemented, S&G estimates that aggregate transaction costs will be approximately \$2.2 million (excluding GST and disbursements). These transaction costs are primarily payable to S&G's financial, legal and tax advisors, the independent expert, and the S&G Share Registry (refer to Section 7.10 of the Target's Statement).

The Offer is subject to the satisfaction of certain conditions

There are certain conditions which, if not satisfied, will result in the Offer not being implemented. In particular:

- Allegro acquiring a relevant interest of at least 50.1% of S&G Shares; and
- no prescribed occurrences, excluding the issue of S&G Shares on exercise of outstanding performance rights.

If any conditions precedent prevent the Offer from being implemented, S&G Shareholders will continue to hold their existing S&G Shares.

For further details as to conditions precedent, refer to Section 5.2 of this report and Annexure A to the Bidder's Statement.

Taxation implications for S&G Shareholders

Section 6 of the Target's Statement considers the implications of accepting the Offer for resident and non-resident S&G Shareholders who hold their shares on capital account. In particular, the disposal of S&G Shares will be a capital gains tax event for resident S&G Shareholders. This means that resident S&G Shareholders will need to determine whether a capital gain or a capital loss arises in respect of their disposal of S&G Shares. Non-resident S&G Shareholders will need to determine their own tax outcomes but depending on their circumstances may not be subject to any capital gains tax from the disposal of their S&G Shares.

We note that S&G Shareholders should consider their individual taxation circumstances and review Section 6 of the Target's Statement for further information where it applies to their circumstances. S&G Shareholders should obtain their own independent professional advice on the tax consequences of disposing of their S&G Shares under the Offer.

3.6 Consequences if the Offer does not proceed

In the event that the Offer does not proceed, S&G will continue to operate in its current form and remain listed on the ASX. As a consequence:

- although SSF lenders representing more than 75% of the value of the SSF have already accepted the private treaty debt offers and entered into Debt Purchase Deeds, S&G Shareholders will continue to be exposed to the risks associated with the debt refinancing (refer to Section 3.4.6 of this report) as the change in ownership does not impact on the terms of the SSF;
- the S&G share price will likely fall as the refinancing date approaches (refer to Section 3.4.5 of this report) and will continue to be illiquid; and
- S&G will incur an estimated \$2.2 million (excluding GST and disbursements) of one-off transaction costs in relation to the Offer.

4 Other matters

Our report has also been prepared in accordance with the relevant provisions of the *Corporations Act 2001* (Cth) (the **Corporations Act**) and other applicable Australian regulatory requirements and has been prepared solely for the purpose of assisting S&G Shareholders in considering the Offer. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

This report constitutes general financial product advice and has been prepared without taking into consideration the individual circumstances of S&G Shareholders. This advice, therefore, does not consider the financial situation, objectives or needs of individual S&G Shareholders.

The decision of S&G Shareholders as to whether or not to accept the Offer is a matter for individual shareholders who should, therefore, consider the appropriateness of our opinion to their specific circumstances. As an individual's decision to accept the Offer may be influenced by their particular

circumstances, we recommend that individual S&G Shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

References to \$ is Australian dollars, unless otherwise stated. References to a financial year have been abbreviated to FY. For S&G, this represents the 12 months to 30 June. Calendar years have been abbreviated to CY and half year periods have been abbreviated to H.

Our opinion is based solely on information available as at the date of this report. This information, and our limitations and reliance on information section, are set out in Appendix 2. We have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

Kroll has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is included at the end of this report.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin
Authorised Representative



Celeste Oakley
Managing Director



Independent Expert's Report
and
Financial Services Guide
in relation to the proposed acquisition of Slater & Gordon Limited



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5 The Offer

5.1 Offer

On 24 February 2023, S&G announced that it had entered into the Bid Implementation Agreement with Allegro under which Allegro will acquire 100% of S&G Shares by way of the Offer, a recommended off-market takeover offer at the Offer Price of \$0.55 cash per S&G Share.

On 3 March 2023, Allegro lodged the Bidder's Statement with ASIC and gave notice that it had completed dispatch of the Bidder's Statement to S&G Shareholders. The Offer opened on 3 March 2023 and closes at 7:00 pm on 4 April 2023 unless extended or withdrawn (the Offer Period).

The S&G Directors unanimously support the Offer and recommend that S&G Shareholders accept the Offer, in the absence of a superior proposal and subject to the independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable to S&G Shareholders. Subject to those same two qualifications, each S&G Director intends to accept, or procure the acceptance of, the Offer in respect of each S&G Share they hold or control disposal of, including as a result of the exercise of performance rights respectively held by them.

5.2 Conditions precedent to the Offer

The Offer is subject to the following key conditions:

- the Minimum Acceptance Condition i.e. Allegro acquiring a relevant interest of at least 50.1% of S&G Shares ; and
- no prescribed occurrences, excluding the issue of S&G Shares on exercise of outstanding performance rights.

The Offer is subject to certain exclusivity provisions that are effective during the Exclusivity Period,¹⁵ including 'no-shop', 'no talk and no due diligence' and 'notice of approach' provisions and Allegro has a right to match a competing transaction. The 'no talk and no due diligence' and 'notice of approach' provisions are subject to a fiduciary carve out in the event of a superior proposal being made.

5.3 Debt Purchase Deeds

SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer will receive less than 100 cents in the dollar of face value of their debt held, inclusive of any consideration received by the accepting SSF lenders under the Offer and the Debt Purchase Deeds (refer Section 10.3 of the Bidder's Statement).

However, Allegro Debt Purchaser has no agreement, arrangement or understanding with any of the accepting SSF lenders in respect of any S&G Shares under the Debt Purchase Deeds. As such, the accepting SSF lenders remain free to vote and dispose of any interest in any S&G Shares as they determine and no accepting SSF lender has any obligation to accept the Offer.

Allegro has stated in the Bidder's Statement that SSF lenders representing more than 75% of the value of the SSF have already entered into Debt Purchase Deeds as at 3 March 2023 and that it is continuing to engage with all SSF lenders regarding the sale of their debt.

5.4 Transaction costs

If the Offer does not become unconditional, S&G expects to pay approximately \$2.2 million (excluding GST) in transaction costs.

6 Scope of the report

6.1 Purpose

The S&G Directors have requested Kroll to prepare an independent expert's report setting out whether, in our opinion the Offer is fair and reasonable to S&G Shareholders in the absence of a superior proposal.

¹⁵ Exclusivity Period is the period from 23 February 2023 until the earlier of the date of termination of the Bid Implementation Agreement and the end of the Offer Period. The Offer Period is the period during which the Offer remains open for acceptance as specified in the Bidder's Statement, as extended in accordance with the Corporations Act.

Section 640 of the Corporations Act states that a target's statement made in response to a takeover offer for shares in an Australian listed entity must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- where the parties to the transaction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the takeover offer is fair and reasonable, and give the reasons for forming that opinion.

In this case, a statutory requirement for an independent expert's report does not apply since:

- Allegro's shareholding in S&G is less than 30%; and
- the directors of Allegro and Allegro Funds are not directors of S&G.

Even where an independent expert's report is not strictly required by the law, it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member. Although not required by law, the S&G Directors have requested Kroll prepare an independent expert's report for the Offer.

6.2 Basis of assessment

We have referred to guidance provided by ASIC in its Regulatory Guides in particular, RG 111, which outlines the principles and matters which it expects a person preparing an independent expert's report to consider when providing an opinion on whether a takeover bid is fair and reasonable to shareholders.

RG 111 issued by ASIC indicates the principles and matters which it expects a person preparing an independent expert's report to consider in determining whether an offer is fair and reasonable. RG 111 distinguishes between the analysis required for control transactions and other transactions. In relation to control transactions, RG 111.10-12 states:

- 'fair and reasonable' is not regarded as a compound phrase;
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer;
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash;
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison; and
- an offer is 'reasonable' if it is 'fair'. An offer might be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.11 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer. This comparison can be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target entity. That is, RG 111.11 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition, any special value of the 'target' to a particular 'bidder' (e.g. synergies that are not available to other bidders) should not be taken into account under the comparison.

RG 111.13 sets out the factors an expert might consider in assessing whether an offer is reasonable:

- the bidder's pre-existing voting power in securities in the target;
- other significant shareholding blocks in the target;
- the liquidity of the market in the target's securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of the target;
- any special value of the target to the bidder, such as particular technology, etc;
- the likely market price if the offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

7 Industry

7.1 Overview

S&G operates as a leading Australian PIL and class actions law firm. The PIL market in Australia is a highly competitive and fragmented market and is the source of approximately 87% of S&G's FY22 revenues.¹⁶ The prevalence of class actions in Australia has increased strongly in the last decade. Sections 7.2 and 7.3 provide a detailed overview of the PIL and class action markets.

7.2 Personal injury law

7.2.1 Overview

PIL is the specialisation of providing advice and representation to individuals who have suffered a physical or psychological injury. As a result of the injury sustained, individuals may be entitled by statutory or common law rights to make a claim for compensation.

Unlike other legal services, PIL services are often provided on a NWNF basis. Under this arrangement, a claimant will not be charged legal fees for work performed by their own solicitor if a claim is unsuccessful. However, if a claim is successful, the legal firms are entitled to recover their fees and, in some jurisdictions, an additional 'success fee' calculated as a percentage of the total legal fees.

The Australian PIL market is estimated to generate revenue of approximately \$1.8 billion in 2022 and is projected to grow by a CAGR of 3.2% to \$2.1 billion by 2027.¹⁷ The PIL revenue pool can be roughly split into three core segments as follows: motor vehicle accidents (34.9% of total PIL revenue), workplace injuries (32.7%) and other personal injury claims (32.4%).

7.2.2 Market structure

The Australian PIL market has stabilised following a period of consolidation during the last decade but overall remains fragmented. Large PIL firms utilise sophisticated marketing to enable a stable supply of PIL work, allowing the firms to sustain revenue. This environment has continued to maintain the status of three market leaders: S&G, Maurice Blackburn Pty Ltd (**Maurice Blackburn**) and Shine Justice Ltd (**Shine**), all of which specialise in PIL and class actions. S&G is estimated to have approximately 10% market share of the PIL sector.¹⁸ An overview of Maurice Blackburn's and Shine's operations are detailed as follows:

- **Maurice Blackburn:** was established in Melbourne in 1919. Unlike its two competitors, Maurice Blackburn is privately owned and has avoided acquisitions, growing organically to have over 30 offices across Australia. Maurice Blackburn recorded \$244 million in revenue in FY22¹⁹ and is estimated to have approximately 7.5% market share of the PIL sector.
- **Shine:** was founded in 1976 and has been an ASX listed company since 2013. Originally based in Queensland, Shine has expanded principally through acquisitions, establishing a presence across Australia. Shine achieved total revenues of \$215 million in FY22²⁰ and is estimated to have approximately 8% market share of the PIL sector.

Together, Shine, Maurice Blackburn and S&G account for approximately 25% of the Australian PIL market, with the approximately 2,000 small to medium sized businesses across Australia sharing the remaining market. The PIL market is heavily state-based as a result of different legislative regimes across Australia. PIL firms tend to focus on a particular state and may specialise in a specific type of personal injury law.

7.2.3 Key industry drivers

Motor vehicle accidents

Motor vehicle accident claims represent the largest share of the Australian PIL market. In recent years, fatal vehicle accidents in Australia have declined due to improvements in vehicle and road safety, as well as greater enforcement of laws surrounding speeding and drink driving. Motor vehicle road deaths declined by 11.4%²¹ from 1,277 in 2011 to 1,131 in 2021. In contrast, hospitalised injuries increased by 18.3%, from

¹⁶ S&G Results Announcement Investor Presentation. August 2022.

¹⁷ IBISWorld Industry Report OD5519. March 2022.

¹⁸ IBISWorld Industry Report OD5519. March 2022.

¹⁹ Maurice Blackburn Pty Ltd – ASIC Form 388. October 2022.

²⁰ Shine Corporate Annual Report 2022.

²¹ BITRE – Australian Road Deaths Database: Fatalities.

approximately 53,000 injuries in 2011 to 62,700 injuries in 2020.²² The growth in hospitalised injuries mirrors the 20.7% growth in registered motor vehicles from 2011 to 2020.²³

The onset of the COVID-19 pandemic led to significant lifestyle changes including a reduction in the volume of motor vehicle traffic in major metropolitan cities across FY20.²⁴ However, this decline was partially reversed in FY21, signalling a modest, if any, change to average motor vehicle behaviour in Australia over the medium term.

Workplace related injuries

Workplace injuries form the second largest portion of PIL claims. Akin to advancements in motor vehicle safety, significant workplace safety improvements have been made with government agencies increasing awareness of workplace safety risks and appropriate protocol for both employees and employers. Moreover, there continues to be a structural shift in the economy away from more dangerous blue-collar industries such as manufacturing, towards safer service-oriented work. Despite this, the number of serious claims has increased from FY17 to FY21 by 22.5%.²⁵ Growth in the number of serious workplace injury claims has been seen in the manufacturing, construction and health care sectors. Part of this growth can be explained by the recent focus on mental and psychological injuries caused at work. In FY20, 9% of serious workplace claims cited mental health as the injury or disease caused by the workplace incident. The Victorian WorkSafe scheme reported that 15.1% of new claims in FY22 were mental injury claims, up from 13.1% in FY21.²⁶ Increased awareness of employee rights with respect to mental health is likely to further increase the prevalence of mental health related workplace injury claims.

The COVID-19 pandemic created significant changes in the workplace behaviours of many Australians. The shift to hybrid and virtual work reduced the workforce exposed to potential physical workplace accidents, having a negative impact on workplace related claims. Future patterns and trends in remote working will impact the number of workplace injury claims. However, dangerous working environments for healthcare and security staff throughout the COVID-19 pandemic lockdowns, as well as adverse vaccination reactions and medical negligence, have led to pockets of growth within the PIL market. Moreover, the shift to virtual work environments may lead to new psychological and stress related workplace injuries in the future.

Consumer awareness

The third core segment of the PIL market in Australia relates to other personal injury claims. These claims range from non-work public liability to medical negligence to institutional abuse. As Australians become increasingly aware of their rights with respect to these complex matters, there is expected to be a natural increase in the supply of cases. The Royal Commission into Institutional Responses to Child Sexual Abuse, published in 2017, is a clear example of greater consumer awareness and regulatory changes instigating personal injury abuse claims. One key outcome of the Royal Commission was the abolishment of the three-year time limit on making a common law institutional abuse claim. This reform enabled victims of historical institutional abuse to claim redress payments and other services in respect of their personal injuries.

Population growth

Australia's growing population is a fundamental driver of personal injury claims. As Australia's population continues to grow, with an expected population size of 30 million in 2033,²⁷ the larger population is expected to increase demand for personal injury law services given a larger workforce, more motor vehicle users and individuals susceptible to other personal injury claims.

7.2.4 Key industry trends

In recent years, the PIL market structure has stabilised in Australia, with the three leading firms, S&G, Maurice Blackburn and Shine, maintaining their position within the market. Given the consistent market leadership from these firms alongside a lack of major legislative reforms in recent years, this stabilisation signals a competitive yet established PIL market in Australia.

Brand awareness continues to be seen as a key factor in PIL. Given NWNF arrangements are employed by all major competitors, new business is generally driven by brand awareness and marketing. Therefore, firms

²² AIHW – Injury in Australia.

²³ ABS Motor Vehicle Census, 2011-20.

²⁴ Australian Infrastructure and Transport Statistics. Yearbook 2021.

²⁵ Key work health and safety statistics, Australia 2021. Safe Work Australia.

²⁶ Worksafe Annual Report 2021-22.

²⁷ Australian Budget October 2022-23. Centre for Population.

in Australia invest significantly, across multiple channels and referral partners, to improve lead generation and process efficiencies to compete with industry leaders.

The PIL industry has traditionally recorded work in progress (**WIP**) and revenues against milestone events. PIL fees in Victoria are based on court scales or are fixed, depending on the matter type and case complexity, rather than time based costing. The approach outside Victoria varies between jurisdiction and matter type (e.g. New South Wales has both time-based and fixed costings). The Victorian Supreme and County Courts recently recommended that time-based costings be introduced to replace the current scale system. The impact of the change is unclear however its implementation will require process and administrative changes for PIL firms.

As mentioned previously the COVID-19 pandemic, with its extensive impacts and consequences, has had varying effects on PIL practice lines such as motor vehicle accidents and workplace injuries. In addition, the COVID-19 pandemic caused significant courtroom closures and Australian legal system delays as the courts sought to shift to virtual procedures. These changes have led to new methods and procedures in the way that PIL cases are now conducted.

7.3 Class actions

7.3.1 Overview

Class action law is a type of legal proceeding whereby one party (plaintiff or applicant), brings a claim on behalf of a wider group of people who have been impacted by the unlawful conduct. Class action matters tend to be large and procedurally complex with significant legal costs involved. A class action requires seven or more people to have claims against the same person, for a similar or related circumstance, which give rise to at least one substantial common issue of law or fact.²⁸

In Australia, there are class action regimes in both the Federal Court and the State Supreme Courts. Certain State regimes have historically differed from the Federal Court regime, adding jurisdictional nuances.

Significant legal complexities in class action lawsuits result in substantial cost burdens. As a result, class actions can be funded by third party litigation groups, which fund the costs of the legal proceedings for all parties to the action, with the litigation funder receiving a pre-determined percentage of the damages awarded if the action is successful, which includes a funding charge. Additionally, some class actions are funded by the law firm on a NWNF basis, with legal fees, and, potentially, a 25% uplift, received only in the event of a successful case. In Victoria in 2020, legislation was passed introducing Group Cost Orders (**GCOs**), enabling the plaintiff's legal fees in class actions to be determined as a percentage share of any award earned in, or settlement of, a successful class action.

Market structure

The Australian class action plaintiff law firm market has traditionally been shared by three leading plaintiff firms, which represent approximately 77% of the volume of filings since 2012.²⁹ These three market leaders are Maurice Blackburn, S&G and Shine, although a number of new players have entered the market in recent years.

7.3.2 Key industry drivers

Class action types

Class action filings in Australia have increased steadily since 2016, with 2020 seeing more class actions filed than in any prior year.³⁰ Consumer, employee and shareholder claims continue to be the three most common class action claim types. Consumer claims represented 23% of class action filings in 2021,³¹ reflecting consumer filings against banks, superannuation trustees and insurers following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (**Financial Services Royal Commission**). Employment-related claims are increasing in prevalence as a result of wage underpayment actions and represented 19% of filings in 2021. Shareholder claims represented 15% of class action filings in 2021, with the claims brought against listed companies.

High volume sectors

²⁸ Ashurst. A quick guide to class actions in Australia.

²⁹ S&G Results Announcement Investor Presentation. August 2022.

³⁰ Allens. Class Action Risk 2021.

³¹ Allens. Class Action Risk 2022.

The banking and financial services sector has represented the largest target of class action filings historically. In recent years, this has been driven by revelations borne out of the Financial Services Royal Commission. However, in 2021 the government sector faced the most filings as a result of wide-ranging claims including environmental damage, lockdowns during the COVID-19 pandemic, treatment of indigenous Australians and staff underpayments.

Regulatory enforcement action

The priorities of Australian regulators and governments can act as a lead indicator of class action filings. Following the Financial Services Royal Commission, there was an increase in class actions brought against businesses in these industries. The ACCC continues to be focused on consumer concerns including issues related to the COVID-19 pandemic, financial services reforms, product safety and digital platforms. These focus areas may see an increased volume of class action filings in the near term.

7.3.3 Key industry trends

Litigation funding continues to be an important focus for the industry. Reforms in Victoria that introduced contingency fees for plaintiff firms have led to a reduced volume of third-party funded actions, with one third of 2020 filings having received third party funding, down from 59% in 2019 and 75% in 2018. This decline has been helped by changes to listed company continuous disclosure laws and regulatory confusion for litigation funders with respect to their licensing requirements.

Industry, regulatory and economic concerns have been seen to drive class action filings. Recent industry themes and concerns include climate change, the COVID-19 pandemic and data breaches. Class actions relating to the 2009 Victorian Black Saturday bushfires resulted in almost \$700 million worth of payouts to thousands of victims³² and the cumulative number of global climate change related litigation cases has doubled since 2015.³³

The considerable impacts of the COVID-19 pandemic, including lockdowns and vaccination campaigns, are expected to increase class action volumes. In Victoria, there have been class actions filed against the State for public housing lockdowns³⁴ and extended forced business closures,³⁵ in addition to a class action brought by security contractors against their employer for inappropriate workplace safety control measures.³⁶

Similarly, the increased prevalence of cyber-attacks is likely to drive class action volumes with respect to customer data. The Australian Cyber Security Centre noted a 13% increase in cybercrime reports within Australia in FY22 relative to the previous year.³⁷ The recent data breaches at Optus and Medibank have led to initial class action investigations at class action firms, including Maurice Blackburn³⁸ and S&G.³⁹

8 Profile of S&G

8.1 Background

S&G is a leading Australian PIL and class actions law firm. Whilst S&G is listed on the ASX, the majority of the equity in S&G is owned by SSF lenders. As at 21 February 2023, the last trading day prior to the announcement of the Offer, S&G had a market capitalisation of \$79.7 million.⁴⁰

S&G was founded in Victoria, Australia in 1935 by Bill Slater and Hugh Gordon, with the objective of servicing the legal needs of unions and their members. S&G's core competencies were workers compensation and industrial and employment law practice. It was involved in a number of landmark cases. A summary of S&G's history to date is discussed as follows.

³² Supreme Court of Victoria. Court approves distribution of almost \$700M in 2009 Black Friday Bushfires.

³³ Australian Government Solicitor. Recent trends in climate change litigation. 2022.

³⁴ Supreme Court of Victoria. COVID-19 Flemington Towers- Hassan v van Diemen.

³⁵ Supreme Court of Victoria. COVID-19 Security Contractors- Markovic v Unified Security Group Pty Ltd.

³⁶ Supreme Court of Victoria. COVID-19 State Government- 5 Boroughs NY Pty Ltd v State of Victoria.

³⁷ Australian Cyber Security Centre Annual Cyber Threat Report 2021-22. November 2022.

³⁸ Maurice Blackburn. Join a class action: <https://www.mauriceblackburn.com.au/class-actions/join-a-class-action/>

³⁹ S&G. Current class actions: <https://www.slatergordon.com.au/class-actions/current-class-actions>

⁴⁰ Calculated as the closing share price of \$0.565 multiplied by 141,073,337 S&G Shares outstanding.

S&G History

Year	Description
1935	<ul style="list-style-type: none"> S&G founded.
1986	<ul style="list-style-type: none"> S&G opens offices in Sydney and Perth
1989	<ul style="list-style-type: none"> S&G representing over 200 former Wittenoom workers reaches settlement with CSR.
1994	<ul style="list-style-type: none"> Introduces innovative NWNF legal fee structure.
2007	<ul style="list-style-type: none"> Becomes world's first publicly listed law firm.
2012	<ul style="list-style-type: none"> S&G entered the UK legal market through the acquisition of Russell Jones & Walker (RJW) for approximately \$80 million. Granted regulatory licence to practice in the United Kingdom, paving the way to complete RJW acquisition.
2015	<ul style="list-style-type: none"> Announces \$890 million capital raising at \$6.37 per share to fund \$1,225 million acquisition of Quindell Plc (Quindell). Profit guidance withdrawn, predominantly due to underperformance of segments of UK operations and a revised approach to financial forecasting.
2016	<ul style="list-style-type: none"> Shareholder class action served on S&G. ASIC served notices to produce documents relating to an ASIC investigation into the accuracy of financial records and accounts of the company for the period 1 December 2014 to 29 September 2015.
2017	<ul style="list-style-type: none"> ASIC investigation concludes with no enforcement action. Announces a recapitalisation agreement with senior lenders and a separation of the UK assets from the Australian business. The Federal Court of Australia approves both the Creditors' Scheme of Arrangement and the Shareholder Scheme of Arrangement. The recapitalisation resulted in the company's senior secured lenders, predominantly hedge funds, holding approximately 95% of the company's equity. Completes a strategic and operational review of the Australian business, including the closure of a number of practices.
2019	<ul style="list-style-type: none"> Announces a \$75.6m non-renounceable entitlement offer at \$1.15 per share to repay Syndicated Debt Facility. The offer, completed on 19 September 2019, resulted in an approximate doubling of the number of shares on issue.
2020	<ul style="list-style-type: none"> Agrees with SSF lenders to extend the maturity date of its SSF to 2023. Victoria legislates GCOs for class actions.
2021	<ul style="list-style-type: none"> The first GCO was made in the Allen -v- G8 Education Ltd case heard in the Victorian Supreme Court. S&G, as the class members' lawyers, is able to recover 27.5% of the amount of any award or settlement as legal costs.
2022	<ul style="list-style-type: none"> Agrees with SSF lenders to extend the maturity date of its SSF to 2024.

Source: S&G Management and ASX announcements.

The four key stages of S&G's history are summarised as follows.

8.1.1 Australian growth

S&G began to expand nationally, opening offices in Sydney and Perth in 1986.

As a result of changes in law practice ownership laws, S&G was incorporated in 2001 and increased its national presence by opening offices in Queensland and the Australian Capital Territory (**ACT**) in 2003, Adelaide in 2007 and Hobart in 2009.

In 2007, S&G listed on the ASX, with 17 offices across Australia. The purpose of listing was to provide existing shareholders an exit opportunity, and to provide capital to accelerate the delivery of its growth strategy which included consolidating the PIL market via acquisitions. In the years following listing, S&G continued consolidating the PIL market, completing another 24 material transactions, predominantly Australian based practices focused on PIL.

8.1.2 United Kingdom expansion

In 2011, the United Kingdom liberalised law firm ownership laws, providing S&G with an opportunity to expand globally. At the time, the United Kingdom's PIL market displayed similar characteristics to the Australian market, which encouraged S&G's expansion.

The expansion into the United Kingdom was formalised on 30 January 2012 with the acquisition of RJW for total consideration of £53.8 million. As a result, S&G's debt facilities increased from \$89 million to \$160 million to fund the transaction and provide additional capacity for future growth.

On 30 March 2015, S&G announced its largest transaction, the acquisition of Quindell's Professional Services Division (**PSD**) for upfront cash consideration of £637 million and an earn-out based upon specific case performance. At the time of the announcement, Quindell, a listed entity on the United Kingdom's Alternative Investment Market stock exchange, had been subject to investor queries primarily related to its accounting practices, which saw its share price fall 78% from a peak of £66 in February 2014. The transaction was considered an opportunity to acquire a business with established routes to market via claims management companies and relationships with insurers and insurance brokers. S&G also became interested in ancillary business units within Quindell which had the potential to introduce and provide personal injury clients with complementary service offerings. The transaction was funded through an \$890 million fully underwritten capital raising and \$375 million of fully underwritten bank debt.

8.1.3 Financial distress & recapitalisation

After completing the Quindell PSD acquisition, S&G's share price came under significant pressure as ASIC opened an investigation into its FY14 and FY15 financial statements and the Financial Conduct Authority in the United Kingdom opened an investigation into Quindell in relation to public statements made regarding Quindell's FY13 and FY14 financial accounts. As a result of the lacklustre performance of the UK assets, management withdrew FY16 forecast guidance in December 2015.

During 2016, S&G commenced an operational review to improve profitability and cash management. Despite this, the business struggled to meet its financing obligations and worked to renegotiate its debt facilities and recapitalise the business.

On 13 October 2016, after an approximate 90% share price decline between March 2015 and February 2016, S&G was served with a shareholder class action. Maurice Blackburn, acting for the class, sought compensation for shareholders who purchased shares during this period, claiming there was inadequate due diligence, risk disclosure and market guidance in relation and subsequent to the PSD acquisition (the **Hall Proceeding**). Subsequent to this, on 24 May 2017, S&G announced that it was served with an application to the Federal Court issued on behalf of Mr Delaney by his solicitor ACA Lawyers (the **Delaney Application**). The applicants covered by the Delaney Application were considering bringing claims against S&G on a basis similar, but not identical, to the claims which were the subject of the Hall Proceeding. On 20 June 2017, S&G was served with a further class action from shareholders who purchased shares between 24 August 2012 and 19 November 2015 seeking compensation (the **Babscay Proceeding**).

In December 2017, S&G finalised a recapitalisation via a creditors' scheme of arrangement, which sought to provide the company with a sustainable level of debt and additional liquidity. All UK operations and UK subsidiaries were separated from the company and transferred to a new UK holding company wholly owned directly by the company's senior lenders. The shareholder class actions were resolved by a shareholder claimant scheme. The recapitalisation resulted in the company's senior lenders holding 95% of the company's equity and occurred alongside a board renewal program which installed new directors chosen by the new majority equity owner. The recapitalisation reduced net debt from approximately \$747.7 million (as at 30 June 2017) to approximately \$108.5 million.⁴¹ As part of the recapitalisation, senior secured debt under the Syndicated Facility Agreement was refinanced and amended with a five year maturity with payment in kind (**PIK**) interest accrued but not payable until the facility is repaid and a higher interest rate applied to PIK interest.

Immediately following the announced exit of the UK businesses in 2017, S&G invested in a transformation program to review existing legal services. This resulted in a streamlined operational focus on core services in PIL and class action law and the closing of a number of non-core practices and underperforming offices.

8.1.4 Post 2017

Despite the substantial debt reduction in the 2017 recapitalisation, S&G's debt was still sizable in comparison to cash flow generated by the operations and increased from \$117.1 million at 31 December 2017 to \$155.1 million at 30 June 2018, mainly reflecting drawdowns on a new working capital facility as well as the PIK nature of the company's debt. Consequently, S&G sought to further reduce debt held within the business. On 30 August 2019, S&G announced a \$75.6 million pro rata fully underwritten non-

⁴¹ KPMG's S&G Independent Expert Report, 2017.

renounceable entitlement offer at a 13.5% discount to the closing share price the proceeds of which were to be used to repay the Syndicated Facility. The entitlement offer reduced borrowings from \$159 million to \$85 million whilst doubling the number of shares on issue from 69.5 million to approximately 139.1 million.

S&G announced on 20 April 2020 that it had agreed in principle with its senior lenders to extend the maturity of its SSF to 2023.

The COVID-19 pandemic had a material effect on the PIL industry in Australia. Extended lockdowns and court closures caused delays with case processing and work in progress billing, while the shift to virtual work and industry shutdowns reduced the number of workplace accidents. Simultaneously, with lockdowns across major metropolitan cities in Australia, traffic volumes were subdued, resulting in fewer serious traffic accidents. These factors ultimately resulted in weakening financial performance for S&G towards the end of the lockdown period.

S&G's FY21 financial results showed improvements in profits relative to the prior year however the COVID-19 pandemic began to influence gross operating cashflow, with a 43% decline partially driven by the reduction in billed fees. The COVID-19 pandemic had a substantial impact on FY22 results with significant declines in net revenues, EBITDA, net profit and gross operating cash flows. ASX announcements attributed the worsening financial performance to reduced enquiries and slower file progression particularly in Victoria and New South Wales, both of which experienced significant lockdowns across 2021 and 2022, resulting in increases in S&G's WIP and subsequent negative operating cash flows.

S&G was awarded the first GCO in December 2021 in a shareholder class action of Allen -v- G8 Education Ltd. The Victorian Supreme Court determined that S&G was entitled to recoup 27.5% of any award or settlement as legal fees, representing the first GCO awarded in Australia.

S&G's recovery in 2H22 and 1H23 was strong, with the company reporting unaudited EBITDA margins in the vicinity of 25% to 30% as a result of improved case velocity and strong demand for the company's services. Progress was made towards achieving operational efficiency and improvements in the management of working capital. Despite improved earnings and working capital management, cash flow generation remained weak as a result of strong growth in WIP and significant interest costs on debt with operating cash flow insufficient to reduce borrowings and pay interest. On 17 August 2022, S&G announced that the maturity date on the SSF was again renegotiated. The SSF would be extended to October 2024, with staged increases in interest rate and the proportion of interest to be paid in cash (rather than PIK).

8.2 Strategy

S&G's stated mission is to give people easier access to world class legal services. S&G has a strong strategic focus on personal injury and class actions and achieves its mission through its consistent use of the NWNF model for clients, enabling easier access for Australians to an expensive legal system. S&G has entered and expanded into these two core market segments through a combination of acquisition and organic growth since 1935.

S&G's new business generation and success is driven by its strong focus on client advocacy and care, engaged teams and leading reputation and brand awareness. S&G's people are important to the services provided, creating trust in the business's brand, however, the company's strong brand recognition and awareness means that it is not dependent on individual lawyers to acquire new clients.

S&G goes to market via the following channels:

- Direct to consumer
 - Traditional broadcast including radio, television, transit and billboards
 - Diverse digital including social, display, YouTube, paid search, online video and native
 - Earned media including social reviews
 - various other digital channels including Facebook and paid
- Business to business
 - Strategic referral partnerships including with advocacy groups, unions and private health insurers
 - Business development activity including with medical / allied health professionals, non-PIL law firms, personal referrals etc.

S&G continues to invest in marketing and digital capabilities to support growth and the ongoing transformation of the company. S&G's strategy aims to combine leading technology with significant data

assets from past cases and precedents in order to enhance lead generation and case decisioning, standardise the PIL process, generating efficient and consistent outcomes for the business and clients.

8.3 Business operations

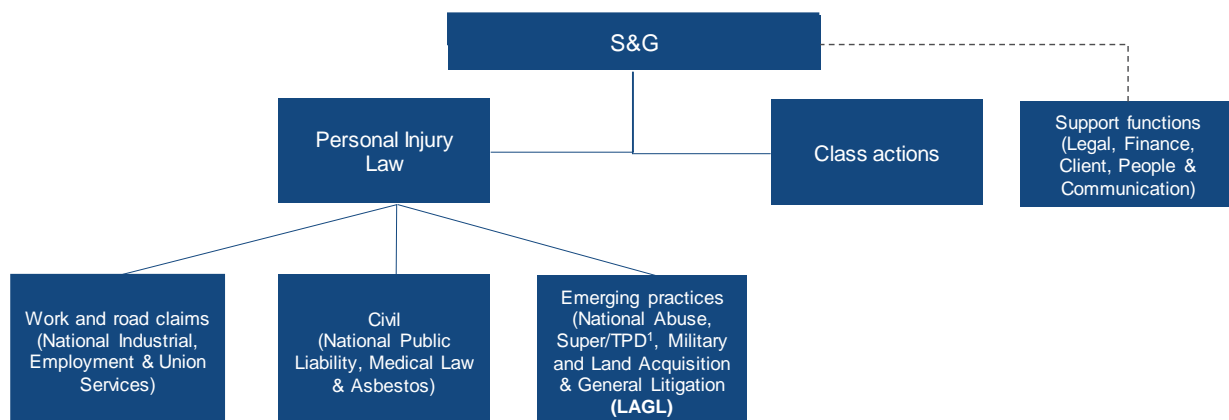
S&G's headquarters are in Melbourne, Victoria. As at 30 June 2022, S&G employed approximately 800 full time equivalent staff across 49 office locations.⁴² S&G specialises in PIL and class actions and also offers a limited offering of other legal services including compulsory acquisitions and industrial and employment law.

S&G's operations are consolidated into one Australian business and reporting segment with functional divisions:

- work and road claims;
- civil claims;
- emerging practices;
- class actions; and
- support services (Legal, Finance, Client, People and Communications).

The current group structure is depicted in the following figure.

S&G Group Structure



Source: S&G Management.

Note:

1. Total and Permanent Disability (TPD).

The majority of S&G's Australian offices are located on the east coast, with New South Wales (NSW), Victoria and Queensland comprising 46 of the 49 offices.

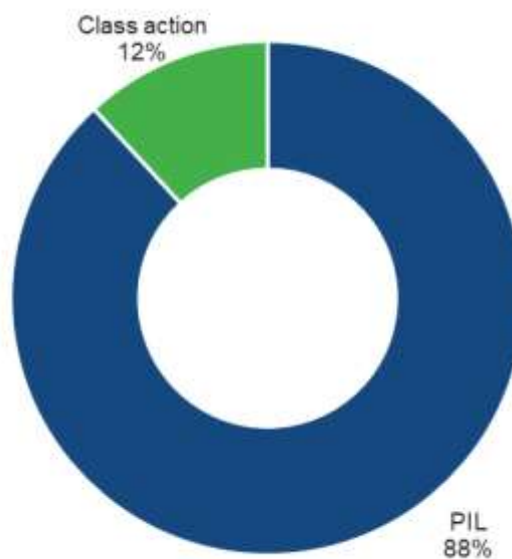
Unlike a traditional law firm, S&G is structured as a company rather than a partnership. S&G addresses staff retention and employee engagement through its Long-Term Incentive Plan (LTIP) for group management and senior executives. Lawyers on individual employment agreements as well as management are able to participate in a cash-based short term incentive plan (STIP).

S&G's largest revenue driver is PIL with 88% of 1H23 revenue derived from this business unit. Class action revenue accounts for 12% which includes S&G's general law practice line which includes Land Acquisition and General Litigation (LAGL) and industrial and employment law practices.⁴³

⁴² S&G Website: <https://www.slatergordon.com.au/offices>

⁴³ S&G Management.

S&G Revenue by Practice Group in 1H23



Source: S&G 1H23 Results Presentation.

S&G has traditionally generated revenue by focusing on developing the S&G brand through direct-to-consumer marketing whilst growing and maintaining relationships, particularly with mining and construction unions.

The two practice groups are discussed further as follows.

Personal Injury Law

S&G's PIL business provides specialist legal services to consumers across a number of areas, including:

- civil liability claims, such as medical negligence, use of product injuries and asbestos claims;
- motor vehicle accident claims, comprising claims related to physical or psychological injuries suffered in car or motorcycle accidents including those involving pedestrians, cyclists or public transport users;
- workers compensation, comprising claims related to industrial accidents and psychological injuries; and
- other emerging practices, including abuse, disability insurance and military compensation claims.

S&G provides PIL services across Australia but has a geographical focus on the eastern side of Australia, with a heavy reliance on the Victorian market. A breakdown of S&G's 1H23 PIL WIP by geography and practice is as follows.

S&G PIL WIP by Geography and Practice as at 31 December 2022



Source: S&G 1H23 Results Presentation.

Fees

Since 1994, the majority of PIL work has been conducted on a NWNF basis, whereby S&G is paid only if the client's case is successful. More specifically, the client only pays when and if they recover damages from a settlement or a favourable ruling.

The NWNF model facilitates access to the legal system for clients who would otherwise not be able to afford to fund their own legal costs. The model also encourages lawyers to be selective and diligent in the cases they manage, as S&G takes on the financial risk of each case, reducing the desire to take on speculative cases.

Fees typically include a combination of a normal fee and in some jurisdictions, an uplift success fee. Normal fees are calculated on the basis of either a scale of fees, hourly rates, court scales or a legislated fixed fee, and an estimated range of fees must be disclosed to clients at the outset of their engagement. The fee estimate may be varied from time to time during an engagement. The success fee is typically a percentage added to the normal fees. Fees charged to the client are subject to the regulation of each jurisdiction.

PIL Change in WIP revenue is recognised progressively over time using a milestone-based approach. Recognition is driven by:

- the number of active matters;
- expected fee, determined based on historical fee data;
- success rate, determined based on historical success of similar concluded matters; and
- risk adjustment, which is simulated at each reporting period using a Monte Carlo simulation.

WIP revenue converts into fee revenue upon the successful resolution of a case.

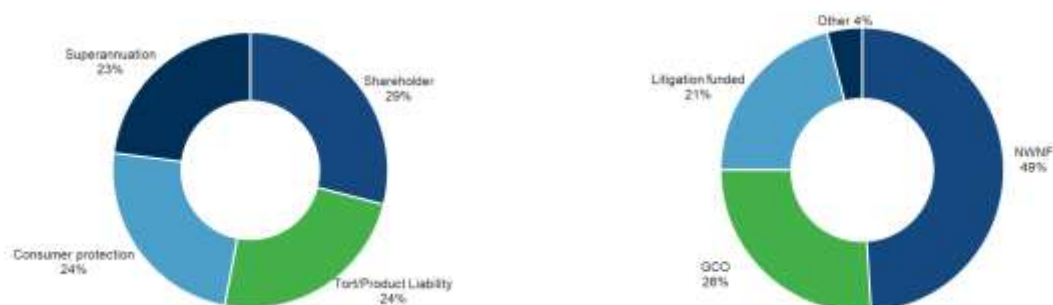
Cash flow

A key consequence of the NWNF structure and recognising revenue on a stage of completion basis is that there can be a significant delay between PIL revenue recognition and realisation of cash. In addition, significant working capital including payment of disbursements is invested over the lifecycle of the PIL case portfolio before cash is realised. This is discussed further in Sections 8.5 to 8.6.

Class actions

S&G's class action business operates as one practice group. S&G engages in various types of class action. Litigation funded class actions have declined in popularity recently however NWNF arrangements are common for class actions. Since 2020, an increasing number of actions are funded on a GCO basis. Class action revenues are dependent on the associated fee arrangements and recognised based on time applied after reaching a success criteria hurdle as opposed to the percentage of completion method employed for PIL cases. Revenue recognised is carried as WIP until the matter is finalised and a client invoice is raised. The revenue recognition approach for class actions is dependent on the associated fee arrangements. A breakdown of S&G's class actions 1H23 WIP by action type and funding source as at 31 December 2022 is as follows.

S&G Class Actions WIP by Action Type and Funding Source as at 31 December 2022



Source: S&G 1H23 Results Presentation.

S&G's current class actions are as follows:

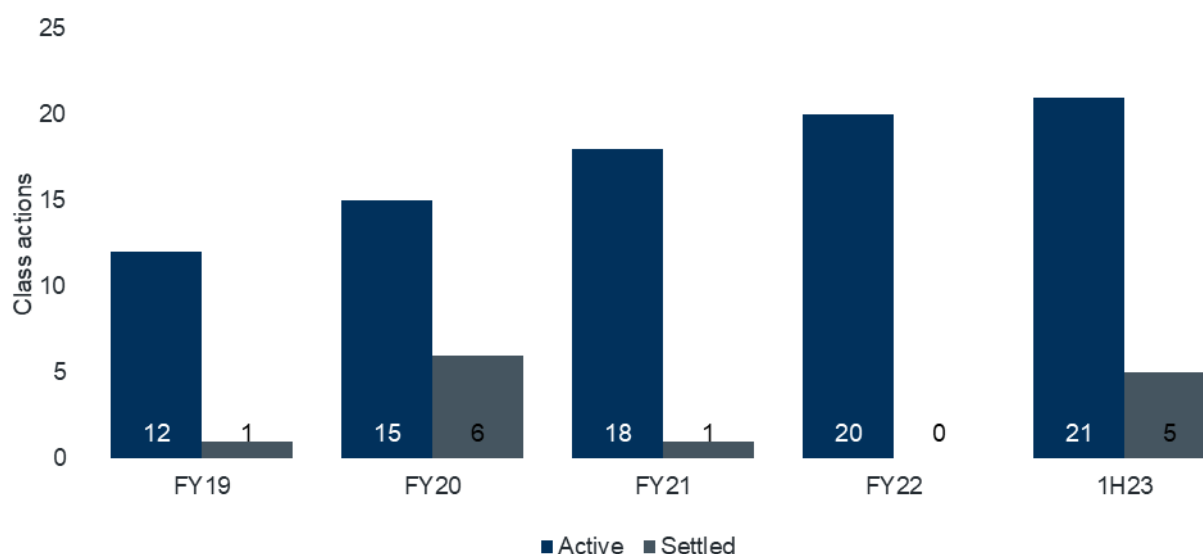
S&G Current Class Actions

Company, Entity or Persons (Target)	Class Action Type
a2 milk	Shareholder
ANZ	Consumer protection (credit insurance)
ANZ/One Path	Superannuation
Beach energy	Shareholder
Brambles	Shareholder
BT Super	Superannuation
CGU	Consumer protection (business interruption claim)
Colonial first state (interest rates)	Superannuation
Colonial first state (fees)	Superannuation
Commonwealth Bank of Australia	Consumer protection (credit insurance)
Essure	Product liability
Hollards	Consumer protection (business interruption claim)
IPO Wealth	Consumer protection (financial product)
NSW Police	Tort/ product liability (festival strip searches)
G8 Education	Shareholder
IPO Wealth fund	Tort/ product liability
Noumi (formerly Freedom foods)	Shareholder
Star Entertainment	Shareholder
Treasury Wine Estates	Shareholder
Western Power, Ventia, a private landowner	Tort/ product liability (Perth Hills bushfire damages)
Westpac	Consumer protection (credit insurance)

Source: S&G Management.

S&G's class action volumes and historical settlement rates over the past four financial years are as follows:

S&G Active & Settled Class Actions by Financial Year



Source: S&G Investor Presentations & Management.

S&G's class action revenues also includes S&G's general law practices. This general law practice line represents a relatively immaterial revenue source for the business and are residual business units from S&G's historical personal legal service strategy but include services in:

- Compulsory acquisition law: S&G provides services to people who are having their land and property acquired by the government for public purposes; and
- Industrial & employment law: S&G provide general industrial and employment law services including services for contract negotiation, unfair dismissal, discrimination at work and industrial law services to unions.

8.4 Financial performance analysis

The following table summarises the financial performance of S&G for FY19, FY20, FY21, FY22 and CY22.

S&G Financial Performance (\$ millions)¹

	FY19 audited	FY20 audited	FY21 audited	FY22 audited	CY22 reviewed²
Fee revenue	156.1	161.4	154.2	155.4	166.5
Change in WIP	3.4	15.8	48.1	26.6	44.5
Net revenue from contracts with customers	159.5	177.2	202.3	182.0	211.1
Bad & doubtful debts	(5.9)	(4.9)	(5.0)	(5.1)	(4.3)
Net operating revenue before specified items	153.5	172.4	197.4	177.0	206.8
Labour	(90.7)	(97.3)	(106.8)	(108.0)	(106.1)
Non-labour costs	(45.3)	(39.8)	(41.9)	(39.6)	(39.5)
EBITDA before specified items	17.5	35.3	48.7	29.3	61.2
Specified items ³	(2.3)	(14.5)	(8.7)	(5.5)	(2.5)
EBITDA	15.2	20.9	40.0	23.8	58.6
Depreciation and amortisation	(4.4)	(9.4)	(8.0)	(7.6)	(6.8)
Operating profit	10.8	11.4	32.0	16.2	51.8
Other income	0.9	1.1	1.5	0.6	0.3
Finance charges	(11.9)	(12.7)	(12.1)	(13.3)	(13.9)
Profit before tax from continuing operations	(0.1)	(0.2)	21.3	3.5	38.1
Income tax expense	33.2	(1.5)	(7.1)	(1.5)	(11.8)
Profit after tax from continuing operations	33.0	(1.7)	14.2	1.9	26.3
Profit after income tax expense from discontinued	(1.8)	0.5	0.3	0.2	0.1
Profit after tax	31.3	(1.2)	14.5	2.2	26.4
Financial					
Net revenue from contracts with customers growth	na	11.2%	14.2%	(10.0%)	11.6%
Net operating revenue before specified items growth	na	12.3%	14.5%	(10.3%)	12.0%
EBITDA before specified items growth	na	102.0%	37.7%	(39.7%)	81.3%
EBITDA growth	na	37.0%	91.6%	(40.5%)	129.3%
Operating profit growth	na	5.4%	180.2%	(49.4%)	194.0%
Profitability⁴					
EBITDA before specified items margin	11.4%	20.5%	24.7%	16.6%	29.6%
EBITDA margin	9.9%	12.1%	20.3%	13.4%	28.3%
Operating profit margin	7.1%	6.6%	16.2%	9.2%	25.0%
Interest coverage					
Interest coverage (times) ⁵	1.5	3.4	4.7	2.6	5.2

Source: S&G Annual and Half Year Reports and Results Presentations, S&G Management; Kroll analysis.

Notes:

1. Sums presented in table may not add due to rounding.
2. Sum of 2H22 results (audited) and 1H23 results (reviewed). Growth rates for CY22 are calculated against CY21.
3. Specified items include retention bonuses & LTIP, redundancy costs, transformation expenditure, other non-core expenditure and IFRS 9 adoption effects.
4. EBITDA before specified items margin, EBITDA margin and operating profit margin are calculated based on Net operating revenue before specified items.
5. EBITDA excluding specified items/finance charges excluding imputed lease interest.

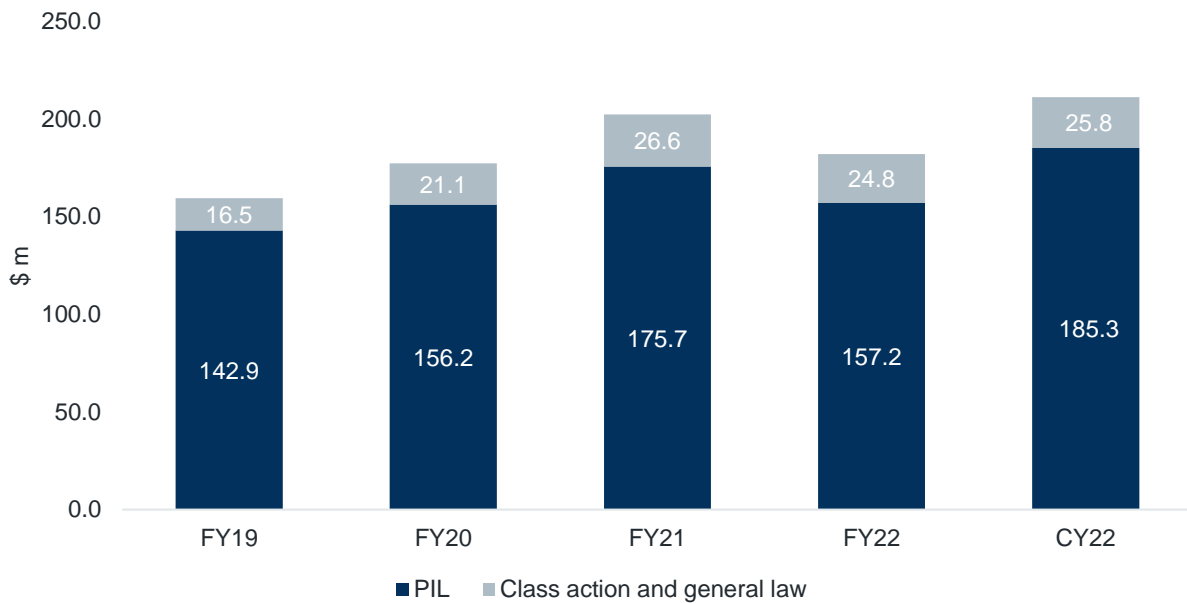
In relation to the financial performance of S&G, we note:

- net operating revenue before specified items is comprised of fees billed to customers (fee revenue) and change in WIP (together, revenue from contracts with customers), net of bad & doubtful debts.

Revenue across S&G's practices and segments are carried as WIP until a client invoice is raised. PIL and class actions WIP are calculated on different bases as discussed in Section 8.3;

- the allocation of S&G's revenue from contracts with customers between the PIL practice and class action and general law practices is illustrated as follows:

Revenue From Contracts With Customers By Segment



Source: S&G Annual Reports.

- net operating revenue before specified items increased by 12.3% in FY20, driven mainly by a \$4.8 million fee increase in class action and general law net operating revenue due to class action settlements and a \$15.8 million change in WIP due to improved PIL quality and new files;
- net operating revenue before specified items increased by 14.5% in FY21, as WIP growth was supported by organic PIL growth (in excess of industry growth) and the development of the class actions business, partially offset by a decline in fee revenue as the COVID-19 pandemic impacted settlement activity across PIL and class actions;
- net operating revenue before specified items decreased by 10.3% in FY22 as a result of lower growth in PIL WIP in 1H22, as prolonged lockdowns (in Victoria, in particular) resulted in a decline in the number of new PIL cases (although WIP growth recovered in 2H22) and lower class action fee revenue arising from the timing of settlements;
- net operating revenue before specified items increased by 12.0% in CY22 (compared to CY21) reflecting:
 - the recovery in 2H22;
 - higher PIL fee revenue in 1H23 driven by a stronger resolution rate and higher average fees per settlement due to growth in emerging and civil practices, partially offset by lower class actions fee revenue due to a shift in portfolio mix from litigation funded to GCO matters; and
 - improved WIP growth in 1H23 due to improved PIL matter velocity due to post COVID-19 normalisation and a degree of 'catch up' in as matters were able to be progressed following COVID-19 related delays and growth in new matters in emerging and civil practices offset by a reduction in work and road matters. Class actions WIP growth was driven by an increase in NWNF/GCO matters;
- in FY20, higher labour costs (mainly due to investments and normalisation of leave and bonuses) and marketing costs were offset by the favourable \$7.2 million impact of adopting AASB 16 'Leases'. In FY21, total costs increased by 8.5%, reflecting higher labour costs due to investment in growth practices (e.g. medical negligence, abuse) and normalised STIP, and higher non-labour costs due to investment in marketing and technology. In FY22, non-labour costs declined and labour costs increased marginally as costs associated with additional employees in growth practice groups offset the benefits from ongoing transformation initiatives. Labour costs declined compared to CY21,

benefiting from a non-cash write back of a prior year short term bonus accrual that was ultimately not paid (\$3.5 million), while non-labour costs increased marginally, reflecting continued focus on cost reduction across facilities, IT and administration expenses;

- EBITDA before specified items increased by 102.0% in FY20, reflecting strong growth in net revenue from contracts with customers and the benefit of lease accounting. In FY21, EBITDA before specified items increased by 37.7%, driven by strong growth in net revenue from contracts with customers, in excess of cost growth. In FY22, EBITDA before specified items declined to 16.6%, reflecting particularly weak 1H22, followed by a recovery in 2H22. In CY22, EBITDA before specified items increased by 81.3%, driven by the recovery in 2H22 and significant outperformance in 1H23 compared to 1H22;
- EBITDA before specified items margin expanded from 11.4% in FY19 to 24.7% in FY21 as S&G gained market share in the PIL market and developed the class action business. The lower margin of 16.6% in FY22 reflects a margin of 4.9% in 1H22 and a recovery in 2H22 to 26.3% (reflecting a recovery of revenue and cost containment). EBITDA before specified items margin of 29.6% in CY22 reflects a full year of the recovery from the effects of the COVID-19-pandemic and the aforementioned WIP growth;
- a breakdown of specified items is presented as follows:

Specified Items (\$ millions)¹

	FY19 audited	FY20 audited	FY21 audited	FY22 audited	CY22 reviewed²
IFRS 9 adoption effects	7.2	-	-	-	-
Retention bonuses & LTIP ³	(0.9)	(5.0)	(4.0)	(1.6)	(1.0)
Redundancy costs	(1.1)	(2.1)	(0.8)	(0.3)	(0.0)
Transformation expenditure	(7.5)	(7.4)	(4.0)	(2.5)	(2.7)
Other non core expenditure	-	-	-	(1.1)	1.2
Specified items	(2.3)	(14.5)	(8.7)	(5.5)	(2.5)

Source: S&G Annual and Half Year Reports.

Notes:

- Sums presented in table may not add due to rounding
- Sum of 2H22 results (audited) and 1H23 results (reviewed).
- Bonuses, retention and LTIP establishment in FY19.

- specified items were significant in FY20 reflecting the establishment of the LTIP in FY19 and ongoing transformation program, however, have declined in FY21 and FY22. S&G did not receive any support under the Federal Government's JobKeeper support scheme during the COVID-19 pandemic;
- EBITDA margin increased from 9.9% in FY19 to 20.3% in FY21. The EBITDA margin in FY20 of 12.1% was adversely impacted by higher specified items. The lower margin of 13.4% in FY22 includes the impact of a weak (0.2%) margin in 1H22 and a strong 24.8% margin in 2H22 and reflects the impact of a reduction in specified items. EBITDA margin reached 28.3% in CY22;
- the increase in depreciation and amortisation from FY20 reflects the addition of right-of-use assets following the adoption of AASB 16 'Leases';
- finance charges increased from \$11.9 million in FY19 to \$12.7 million in FY20, reflecting the inclusion of \$2.4 million interest on leases in FY20 as a result of the adoption of AASB 16 'Leases'. Interest on borrowings (excluding leases) declined in FY20 as a result of lower borrowings, remained flat in FY21 as borrowings remained stable then increased in FY22 as borrowings increased. Finance charges in FY22 included a funding facility termination expense;
- interest coverage increased from 1.5 times in FY19 to 4.7 times in FY21 as interest on borrowings (excluding leases) declined in FY20 and earnings increased in each year, then declined to 2.6 times in FY22, reflecting both lower earnings and higher interest expenses. In CY22, interest coverage rose significantly to 5.2 times, reflecting the higher EBITDA before specified items in CY22 compared to FY22 and steady interest expenses;
- in FY19 and FY20, S&G incurred losses before tax from continuing operations as finance charges exceeded operating profit. S&G achieved positive profit before tax from continuing operations in FY21 of \$21.3 million, however, this declined to \$3.5 million in FY22, before recovering to \$38.1 million in CY22;

- S&G received an income tax benefit of \$33.2 million in FY19 due to the recognition of prior years' deferred tax losses; and
- no dividends were declared over the period presented.

8.5 Financial position analysis

S&G's financial position as at 30 June 2019, 2020, 2021 and 2022 and 31 December 2022 are summarised in the following table.

S&G Financial Position (\$ millions)¹

	2019 Audited	As at 30 June 2020 Audited	2021 Audited	2022 Audited	As at 31 December 2022 Reviewed
Receivables	84.0	85.2	80.2	88.7	93.9
Work in progress	223.7	239.2	286.1	313.7	338.4
Other assets	9.7	11.4	12.4	8.4	8.3
Payables	(58.5)	(63.7)	(74.1)	(76.4)	(78.2)
Provisions	(23.6)	(23.1)	(29.3)	(29.6)	(28.3)
Net working capital	235.3	248.9	275.4	304.9	334.1
Right-of-use assets	-	19.7	15.6	13.7	11.8
Property, plant and equipment	6.6	3.6	2.7	2.1	1.6
Intangible assets	2.2	1.6	0.9	1.5	1.4
Assets held for sale	-	1.4	-	-	-
Deferred tax assets	67.8	76.3	80.3	86.9	86.6
Deferred tax liabilities	(81.7)	(91.4)	(102.7)	(111.0)	(117.9)
Total funds employed	230.2	260.1	272.1	298.1	317.6
Cash	12.6	26.5	20.7	15.6	13.8
Financing arrangements	(158.6)	(91.9)	(89.2)	(108.7)	(111.8)
Leases	-	(32.3)	(23.2)	(21.1)	(18.9)
Net debt (excluding leases)	(146.0)	(97.7)	(91.7)	(114.2)	(116.9)
Net assets	84.2	162.3	180.5	184.0	200.7
Contributed equity	1,351.5	1,434.8	1,435.2	1,435.8	1,436.3
Reserves	9.9	6.0	9.3	10.0	9.6
Accumulated losses	(1,277.3)	(1,278.5)	(1,264.0)	(1,261.9)	(1,245.2)
Total equity	84.2	162.3	180.5	184.0	200.7
Statistics					
Number of shares at period end (millions)	69.5	138.4	139.1	140.2	141.1
Net assets per ordinary share (\$)	1.21	1.17	1.30	1.31	1.42
Working capital					
WIP turnover (times) ²	17.2	17.8	22.3	24.2	24.2
Debtor turns (days) ³	na ⁴	65.8	53.7	56.1	53.8
Average 90+ day debtors ratio (%) ⁵	42.8%	35.0%	30.5%	28.4%	24.8%
Gearing					
Net gearing (%) ⁶	43.1%	17.0%	16.5%	21.0%	20.9%
Net debt/EBITDA (times)	8.3	1.9	1.4	3.2	1.8 ⁷

Source: S&G Annual and Half Year Reports, S&G Management; Kroll analysis.

Notes:

1. Sums presented in table may not add due to rounding.
2. Calculated as 12 times WIP/gross fees for the full year.
3. Ending total debtors/rolling 12 months total billings.
4. Comparable debt turns metric not available due to a change in methodology in 1H21.
5. Average of daily ratios for each year.
6. Net gearing calculated as (total interest-bearing debt excluding lease liabilities less cash)/Total assets.
7. Calculated using CY22 EBITDA.

With regard to the financial position as at 31 December 2022, we note the following:

- S&G's working capital requirements are significant as a majority of cases are on a NWNF or GCO basis, such that legal costs and a substantial share of disbursements are funded by S&G over the duration of the case. PIL cases take approximately two and a half years from initiation to resolution and class actions generally take three to five years to resolve;

- in relation to S&G's net working capital:
 - receivables increased to \$93.9 million as a result of a \$3.9 million increase in third party funding of disbursements and \$1.5 million increase in office funded disbursements due to the continued build of the class actions business and included trade and other receivables⁴⁴ (\$33.1 million) and disbursement receivables⁴⁵ (\$60.8 million). Disbursement receivables are recoveries of external payments made on behalf of the client for services related to the case, such as barrister and doctor fees, courier fees and court fees;
 - WIP is the most significant component of working capital. Growth in WIP since FY19 has been the primary factor driving growth in net working capital. Further analysis of S&G's WIP is discussed in the following Section 8.5.1;
 - other assets include prepayments, professional indemnity insurance and lease rental guarantees;
 - payables of \$78.2 million consisted of legal creditors (i.e. counsel fees and other disbursements payable by S&G of \$23.3 million), trade creditors and accruals (\$15.5 million) and third party funded disbursements (\$39.4 million). S&G has an agreement with a third-party disbursement funder, MAF Credit Pty Ltd (trading as Fair Go Funding) (**Fair Go Funding**), which provides funding to clients to fund disbursements in respect of certain individual matters. They are reimbursed out of any settlement proceeds on the matter. S&G has provided a financial guarantee to Fair Go Funding for the repayment of clients' obligations in certain circumstances. Payables increased in 1H23 due to a \$3.9 million increase in third party funding for disbursements, offset by a reduction in legal creditors and other payables;
 - provisions of \$28.3 million include employee benefits (\$21.6 million), solicitor liability claims (\$3.9 million) and other provisions (\$2.7 million); and
 - further analysis of S&G's net working capital is discussed in the following Section 8.5.3;
- right-of-use lease assets of \$11.8 million and lease liabilities of \$18.9 million primarily relate to office premises;
- property, plant and equipment had a net book value of \$1.6 million as at 31 December 2022, reflecting S&G's low fixed capital needs and leasing of the majority of its office premises;
- the intangibles balance of \$1.4 million is primarily comprised of goodwill and software;
- net assets per share decreased at 30 June 2020, reflecting the dilutionary impact of the capital raising in September 2019, and increased at 30 June 2021 due to a decrease in accumulated losses in FY21. Net assets per share remained stable in FY22 but increased at 31 December 2022 due to a decrease in accumulated losses in 1H23;
- net gearing declined significantly from 43.1% to 17.0% between 30 June 2019 and 30 June 2020, reflecting the impact of the capital raising announced on 30 August 2019, the proceeds of which were used to repay borrowings. Net gearing increased from 16.5% in 30 June 2021 to 21.0% in 30 June 2022, reflecting the execution of a new working capital facility (**December 2024 Term Loan**). S&G drew down \$25.0 million as part of the December 2024 Term Loan, exceeding the \$15 million repayment of prior term loan. Similarly, net debt/EBITDA declined between 30 June 2019 and 30 June 2021 and increased between 30 June 2021 and 30 June 2022; and
- net gearing remained stable between 30 June 2022 and 31 December 2022, however, net debt/EBITDA declined significantly from 3.2 times to 1.8 times, reflecting growth in EBITDA.

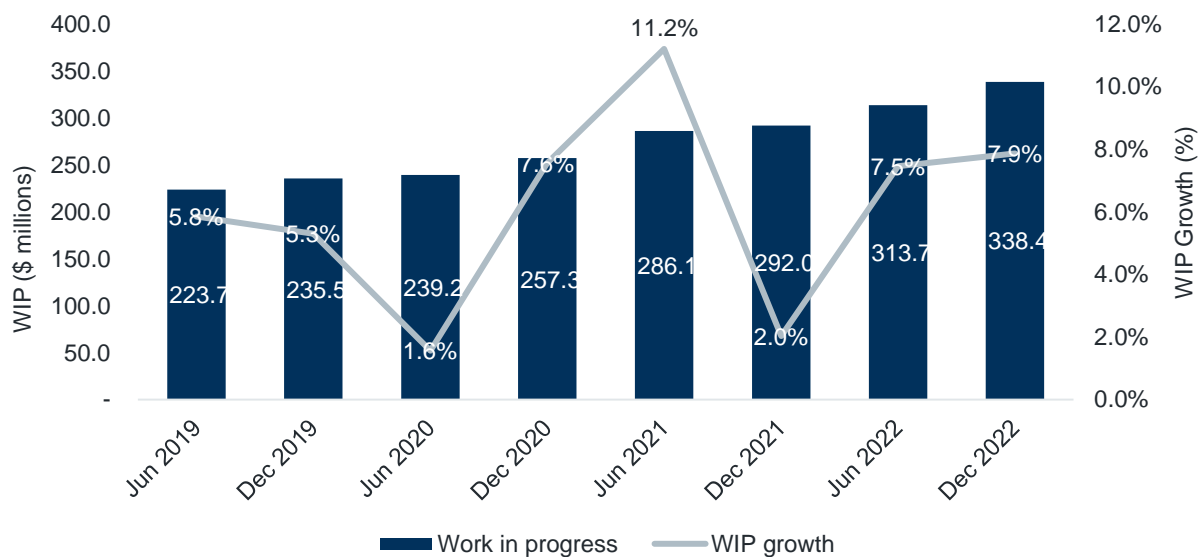
8.5.1 WIP

The movement in S&G's WIP from 30 June 2019 to 31 December 2022 is shown as follows.

⁴⁴ Net of provision for impairment.

⁴⁵ Net of provision for impairment.

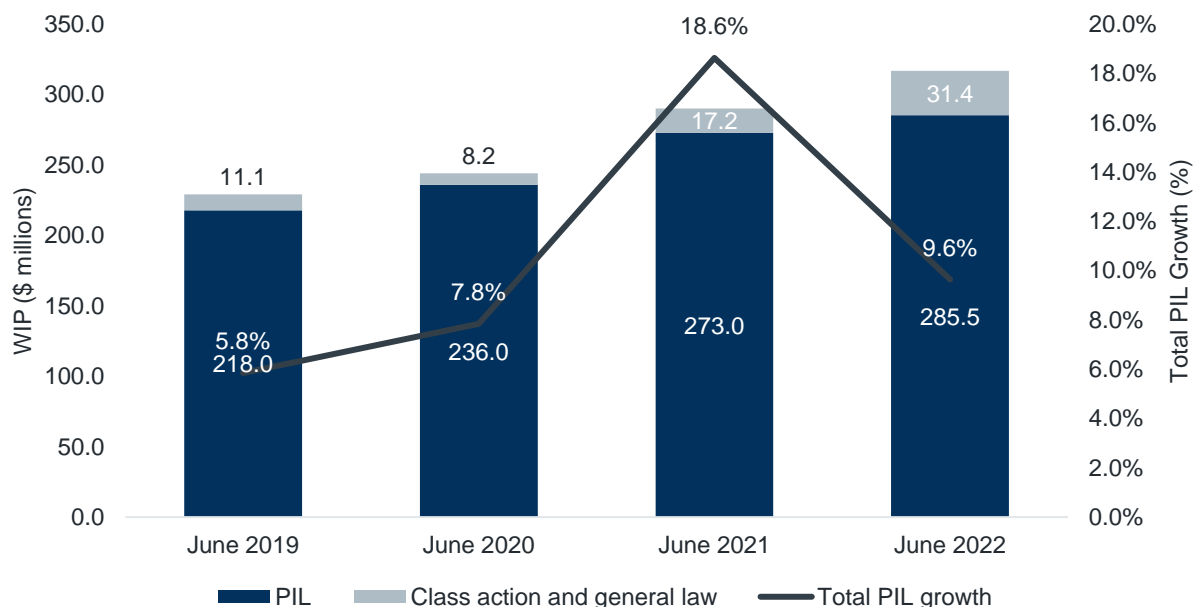
WIP



Source: S&G Annual and Half Year Reports.

WIP increased at a CAGR of 12.6% from 30 June 2019 to 31 December 2022. WIP grew strongly in 1H21 (7.6%) and 2H21 (11.2%) with a 5% net growth in PIL files and a 14% increase in PIL WIP per file over the year due to improved business quality and progressions, and reduced settlement activity and increasing case durations during the COVID-19 pandemic. WIP also increased strongly in 2H22 (7.5%) and 1H23 (7.9%), reflecting net growth in files and increases in WIP per file due to a changing practice mix and a degree of 'catch up' in velocity as matters were able to be progressed following COVID-19 related delays. The allocation of S&G's WIP between PIL and class action and general law is illustrated in the following chart.

WIP By Case Type (excluding provision for impairment)



Source: S&G Annual Reports.

From 30 June 2019 to 30 June 2022, PIL WIP increased by a CAGR of 9.4% and class action and general law WIP increased by a CAGR of 41.3%, reflecting matter progression and low settlement volumes for class actions. None of S&G's class actions settled in FY22, in part due to delays in courts, medical panels and tribunals slowing case progression during the COVID-19 pandemic, and defendants taking a more adversarial approach to class action litigation.

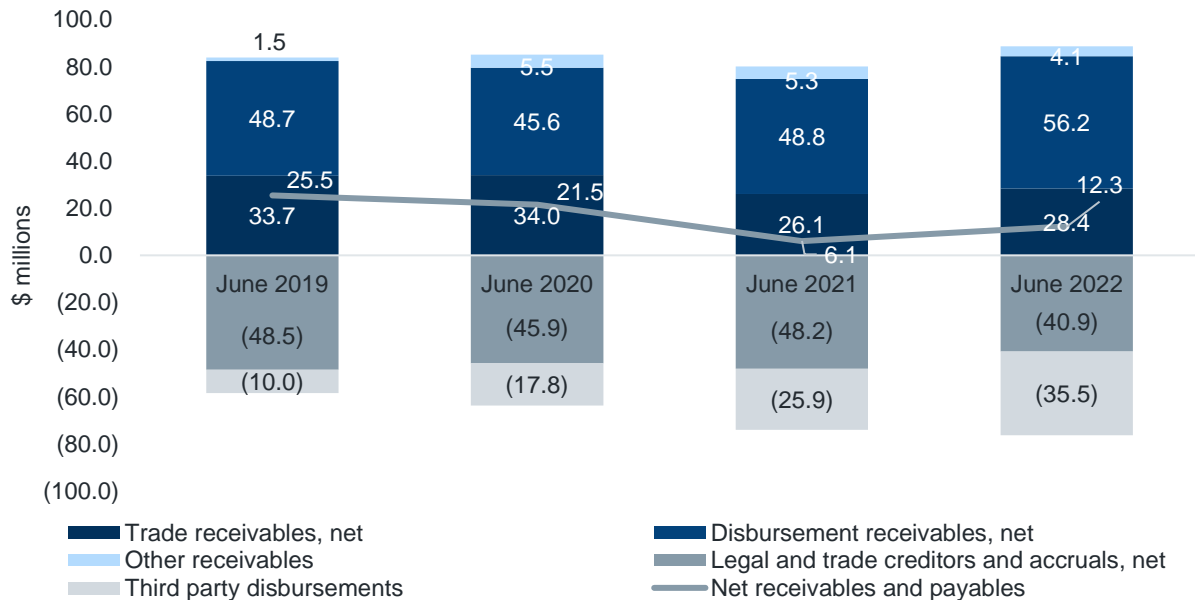
In FY20, WIP turnover increased slightly reflecting lower duration, higher quality PIL matters. The increase in FY21 reflects active file growth, increasing duration and the longer class actions lifecycle. In FY22, PIL

WIP increased due to matter duration offset by settlements outweighing new matters, while General Law WIP increased due to a higher proportion of GCO cases and longer duration matters, while court delays impacted settlements particularly in General Law.

8.5.2 Receivables and payables

S&G's receivables and payables from 30 June 2019 to 30 June 2022 are set out as follows.

Receivables and Payables



Source: S&G Annual Reports.

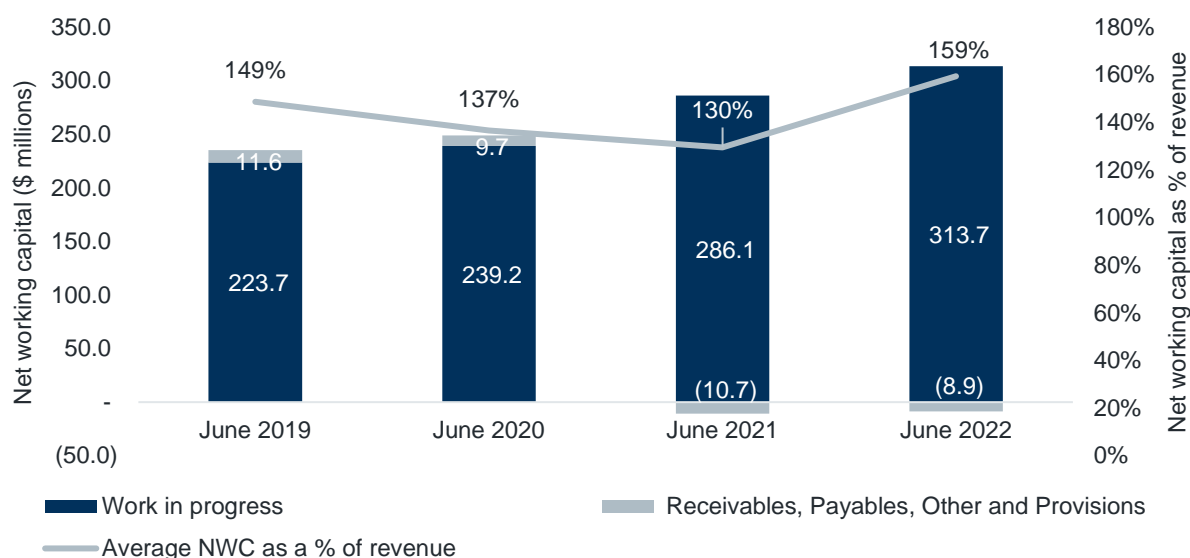
Despite growth in the business, trade receivables and payables remained relatively steady as a result of significant progress in managing debtors and payables, while disbursements were increasingly funded by a third-party:

- third-party funded disbursements increased significantly from \$10.0 million in FY19 to \$35.5 million in FY22 and \$39.4 million in 1H23, reducing 'office funded' disbursements and, therefore, S&G's working capital needs; and
- debtor turns declined between FY20 and FY22 from 65.8 days to 56.1 days and average 90+ day debtors ratio has fallen from 42.8% in FY19 to 28.4% in FY22, reflecting the benefits of introducing a centralised billings system and improved debtor collections process in FY21.

8.5.3 Net working capital

As a consequence of S&G's fee structure, with its high reliance on PIL and resultant WIP balance, S&G's operations require high working capital investment. Net working capital investment has been significant and has increased historically, as shown in the following chart.

Net Working Capital¹



Source: S&G Annual Reports; Kroll analysis.

Note 1: Net working capital is calculated as receivables (current and non-current) plus WIP (current and non-current) plus other assets (current and non-current) minus payables (current and non-current) minus provisions (current and non-current). Net working capital as a percentage of revenue is calculated as average net working capital divided by net revenue from contracts with customers.

In relation to the above figure, we note:

- net working capital as a percentage of revenue is high relative to other professional services businesses, which generally reflects the working capital intensity of NWNF and GCO fee arrangements. Working capital requirements are, however, reduced through the increasing use of third party disbursement funding;
- since FY19, net working capital has increased at a CAGR of 8.3% up until FY22, reflecting growth in WIP from active file growth, matter mix and progression, as discussed above in Section 8.5.1. As discussed, trade receivables and payables have not increased significantly as a result of working capital management; and
- the net working capital to revenue ratio increased in FY22 as net revenue from contracts with customers declined by 10.1% whilst net working capital increased due to the previously mentioned increase in WIP. At 31 December 2022, the net working capital to revenue ratio is 151%, slightly improved compared to 30 June 2022.

8.5.4 Tax

As at 30 June 2022, S&G had \$201.9 million of revenue tax losses that were recognised in the statement of financial position (an asset of \$61.3 million).

8.5.5 Debt

S&G's borrowings as at 28 February 2023 consisted of a \$86.8 million super senior facility (SSF), comprising a fully drawn \$65.0 million facility and \$21.8 million in capitalised interest) and a December 2024 Term Loan with a book value of \$29.9 million (comprising a fully drawn loan facility of \$30.0 million and accrued interest of \$153,616, less unamortised bank loan costs of \$192,751). Current financing arrangements are summarised in the following table.

Financing Facilities as at 28 February 2023 (\$ millions)

Type	Facility Limit	Interest rate	Undrawn (\$)	Carrying Amount (\$) ¹	Capitalised interest (\$)	Unamortised Bank Loan Costs (\$)	Maturity
Super senior facility	65.0	Fixed rate - 12.5% ²	-	86.8	21.8	-	31 Oct 24
Term loan	30.0	Fixed rate - 11.0%	5.0	29.9	0.1	(0.2)	10 Dec 24
Total			5.0	116.7	21.9	(0.2)	

Source: S&G Annual Reports, S&G Management; Kroll analysis.

Notes:

1. Carrying amount includes capitalised interest.
2. Comprises 10.0% cash component and 2.5% PIK. Increases to 10.0% cash and 3.0% PIK on 1 January 2024 and 10.0% cash and 4.0% PIK on 1 July 2024.

In relation to S&G's financing arrangements, we note:

- the SSF incurs a fixed interest rate and interest is either capitalised or paid in cash. From 1 January 2021, 25% of the interest became payable in cash and this increased to 50% at 1 July 2021. On 16 August 2022, the maturity date of the SSF was extended to 31 October 2024 from 31 July 2023 and the applicable interest rate for cash payments increased from 5.0% until 31 December 2022 to 10.0% from 1 January 2023. The payments of all increases are to be capitalised. As at 31 December 2022 and 30 June 2023, repayments are required to be paid from excess cash; and
- the December 2024 Term Loan was executed in December 2021 with a maturity date of 10 December 2024. The facility is secured against a borrowing base of eligible receivables, eligible WIP and a specific bank account. The remaining \$5.0 million undrawn under the facility as at 31 December 2022 was drawn on 12 January 2023.

As at 31 December 2022, the weighted average time to maturity of S&G's financing facilities was 22.2 months. S&G was in compliance with all financial covenants.

8.5.6 Unrecognised items

Items not recognised in the statement of financial position include:

- S&G has provided certain lease rental guarantees with a face value of \$2.7 million as at 31 December 2022. S&G has also provided lease guarantees for certain offices located in the United Kingdom; and
- as at 30 June 2022, S&G had one GCO case. To receive a share of the damages awarded to the plaintiffs under a GCO fee arrangement, S&G takes some adverse cost risks by providing indemnities to lead plaintiffs and is liable for the defendant's costs where the defendant is successful in defending the claim and is successful in obtaining an adverse cost order. S&G considers it improbable that it will be liable for any adverse costs relating to its GCO case.

Class action legal proceedings commenced in 2018 relating to the company's former auditors, Pitcher Partners, as noted in the S&G FY22 Annual Report, were settled favourably in early FY23.

8.6 Cash flow analysis

The following table summarises the cash flow statement of S&G for FY19, FY20, FY21, FY22 and CY22.

S&G Cash Flow

	FY19 Audited	FY20 Audited ²	FY21 Audited	FY22 Audited	CY22 Reviewed ³
EBITDA	15.2	20.9	40.0	23.8	58.6
(Increase)/decrease in WIP	(3.2)	(15.8)	(45.8)	(26.6)	(44.5)
Interest received	0.3	0.2	1.1	0.0	0.0
Borrowing costs paid	(5.3)	(5.5)	(4.4)	(8.4)	(9.2)
Borrowing costs paid (net)	(5.0)	(5.3)	(3.4)	(8.4)	(9.2)
Net cash from operating activities of discontinued	(1.8)	0.8	0.4	0.3	0.1
Change in other working capital and other adjustments ⁴	(4.9)	20.2	21.2	(3.2)	(12.8)
Net cash (used in)/provided by operating activities⁵	0.3	20.7	12.4	(14.1)	(7.9)
Payment for software development	(0.7)	(0.0)	-	(0.6)	(0.2)
Payment for plant and equipment	(1.1)	(0.3)	(0.8)	(0.6)	(0.2)
Proceeds from disposal of intangible asset	(1.0)	1.0	-	-	-
Capital expenditure (net) ⁶	(2.9)	0.7	(0.8)	(1.3)	(0.5)
Costs associated with acquisition of businesses	(0.0) ⁷	-	-	-	-
Deposits for and return of bank guarantees	0.1	-	-	2.1	0.0
Proceeds from disposal of business	1.0	0.9	-	-	(0.7)
Free cash flow	(1.5)	22.3	11.5	(13.2)	(9.0)
Loans repaid/(advanced) to related parties and employees	0.1	-	-	-	-
Proceeds from borrowings	11.6	19.5	5.7	31.4	1.7
Repayment of borrowings	(16.4)	(19.4)	(14.6)	(16.4)	(1.6)
Repayment of principal portion of lease liabilities	-	(7.1)	(8.4)	(6.8)	(6.4)
Transaction costs of rights issue	-	(1.5)	-	-	-
Net cash generated/(used)	(6.1)	13.8	(5.8)	(5.1)	(15.3)
Opening cash and cash equivalents	18.8	12.6	26.5	20.7	29.1
Closing cash and cash equivalents	12.6	26.5	20.7	15.6	13.8
Statistics					
Cash conversion ratio ⁸	1.9%	99.4%	31.0%	(59.1%)	(13.4%)

Source: S&G Annual and Half Year Reports; Kroll analysis.

Notes:

1. Sums presented in table may not add due to rounding.
2. In FY20, S&G raised approximately \$75.6 million via a rights issue under which 65.7 million new shares were issued to senior lenders as sub-underwriters of the offer (a 'debt for equity swap' with no cash impact other than payment of transaction costs).
3. Sum of 2H22 results (audited) and 1H23 results (reviewed).
4. Adjustments to reconcile EBITDA with net cash receipts. Excludes movements in WIP. Includes the add back of non-cash specified items (\$7.0 million gain in FY19, \$5.6 million expense in FY20, \$3.0 million expense in FY21 and \$1.7 million expense in FY22). FY20 also reflects a \$4.5 million decrease in receivables and a \$5.3 million net increase in payables, provisions and other liabilities. FY21 also reflects a \$4.8 million net reduction in receivables and other assets and a \$8.5 million net increase in payables, provisions and other liabilities. In CY22, there was a \$6.5 million net increase in receivables and other assets and a \$2.1 million net decrease in payables, provisions and other liabilities.
5. Cash receipts from customers less payments to suppliers and employees.
6. Consists of payment for software development, payment for plant and equipment and proceeds from disposal of intangible asset.
7. "0.0" means number less than 0.05.
8. The cash conversion ratio is calculated as net cash flow from operating activities/EBITDA.

In relation to S&G's cash flows, we note the following:

- S&G has a low cash conversion ratio (an average of 18.3% from FY19 to FY22), reflecting significant growth in WIP and high borrowing costs to fund its working capital requirements;
- S&G has not generated sufficient cash flow from operations to materially reduce borrowings or pay all interest expenses on borrowings, with a significant portion of borrowing costs being capitalised (\$4.0 million in FY22, \$6.5 million in FY21);
- In FY22, S&G increased borrowings to fund the \$14.1 million net cash used in operating activities and the \$6.8 million repayment of the principal portion of lease liabilities;
- In CY22, despite higher EBITDA, the substantial increase in WIP and higher borrowing costs paid resulted in \$7.9 million cash used in operating activities which, together with the repayment of the principal portion of lease liabilities, was funded from cash balances; and

- S&G has not paid dividends over the period presented.

8.7 Capital structure

As at 7 March 2023, S&G has the following securities on issue:

- 141,073,337 ordinary shares on issue
- 13,532,861 performance rights.

S&G's current capital structure is a legacy of a series of recapitalisations following the acquisition of Quindell's professional services division in 2015. The company is listed on the ASX, however the majority of the equity is owned by the institutional investors that hold S&G's SSF. An overview of S&G's equity and debt ownership is provided as follows.

8.7.1 Ordinary shares

As at 7 March 2023, there were 1,732 registered shareholders of S&G's 141,073,337 shares on issue, of which 900 hold unmarketable parcels (less than \$500 per parcel).

S&G has received notices from the following substantial shareholders:

S&G Substantial Shareholders as at 7 March 2023

Substantial Shareholder	Date of notice	Number of shares	Percentage ¹
AIO V Finance	1 March 2019	37,100,244	53.36%
TCA Opportunity Investments SarL	1 March 2019	6,190,736	8.90%
York Global Finance BDH, LLC	1 March 2019	5,802,877	8.35%
Merrill Lynch (Australia) Nominees Pty Ltd	27 September 2019	9,020,608	6.52%
Perpetual Corporate Trust Limited	1 March 2019	3,591,500	5.17%

Source: ASX Announcements.

Note 1: Percentage of shares in which a relevant interest is held is based on the total issued capital of S&G at the time the substantial shareholder notice was provided.

8.7.2 Performance rights

S&G operates an employee Long Term Incentive Plan (the **Plan**), approved by the shareholders of the company in 2019. The Plan provides participants with nil-exercise price performance rights to acquire new shares in S&G which are subject to restrictions to be determined by the Board. There have been four issuances (Tranches 1 to 4) to date. The key terms of the issued Rights and outstanding balances as at 24 February 2023 are summarised as follows.

Issued and Vested Performance Rights as at 24 February 2023

Rights	Key terms	Number outstanding and vested
Tranche 1	Tranche 1 performance rights are deemed vested and exercisable subject to the fulfillment of service conditions or a performance-based exit event condition.	11,835,480
Tranche 2	Tranche 2 performance rights are deemed vested and exercisable subject to a service condition.	757,381
Tranche 3	Tranche 3 performance rights vest at pre-determined dates, subject to service and performance conditions.	620,000
Tranche 4	Tranche 4 performance rights vest at pre-determined dates, subject to service and performance conditions.	320,000
Total Unquoted Securities		13,532,861

Source: FY22 Annual Report, S&G.

In accordance with the Plan, all unvested performance rights will automatically vest if there is a change of control event and the participants can elect to either request S&G to buy-back their performance rights or exercise the vested performance rights and dispose of the shares delivered to the participant. In accordance with the Bid Implementation Agreement, S&G will procure that all unvested performance rights will vest and that all S&G Shares issued or to be issued in respect of the exercise or vesting of any performance rights be released from any restrictions or holding locks, in both cases upon Allegro acquiring a relevant interest in 50.1% of the S&G Shares and the Offer becoming unconditional. As at the date of this report, all

outstanding S&G Performance Rights have vested and are capable of acceptance. Accordingly, on a fully diluted basis (assuming all performance rights are exercised), the total number of S&G Shares is 154,606,198.

8.7.3 Debt and equity ownership

A majority (93.5%) of the equity is owned by SSF lenders. As a result, S&G has an extremely limited free float (6.5%⁴⁶).

The debt and equity ownership of these influential owners is summarised in the following table.

S&G Key Debt and Equity holders as at 24 February 2023

Substantial owner	Debt (SSF)	Equity
AIO V Finance (Anchorage)	58.6%	52.7%
TCA Opportunity Investments SarL (Taconic)	9.8%	9.2%
York Global Finance BDH, LLC	9.2%	8.6%
Bank of America	6.8%	6.4%
Metrics Credit Partners	5.7%	5.3%
Davidson Kempner Capital	5.0%	4.9%
River Birch Master Fund	2.4%	4.3%
Varde	1.9%	1.7%
PAG	0.7%	0.6%
Institutional investors	100%	93.5%
Free float	na	6.5%

Source: S&G. Equity ownership is calculated based on the current number of S&G Shares outstanding.

8.8 Trading performance

In assessing S&G's share price performance, we have:

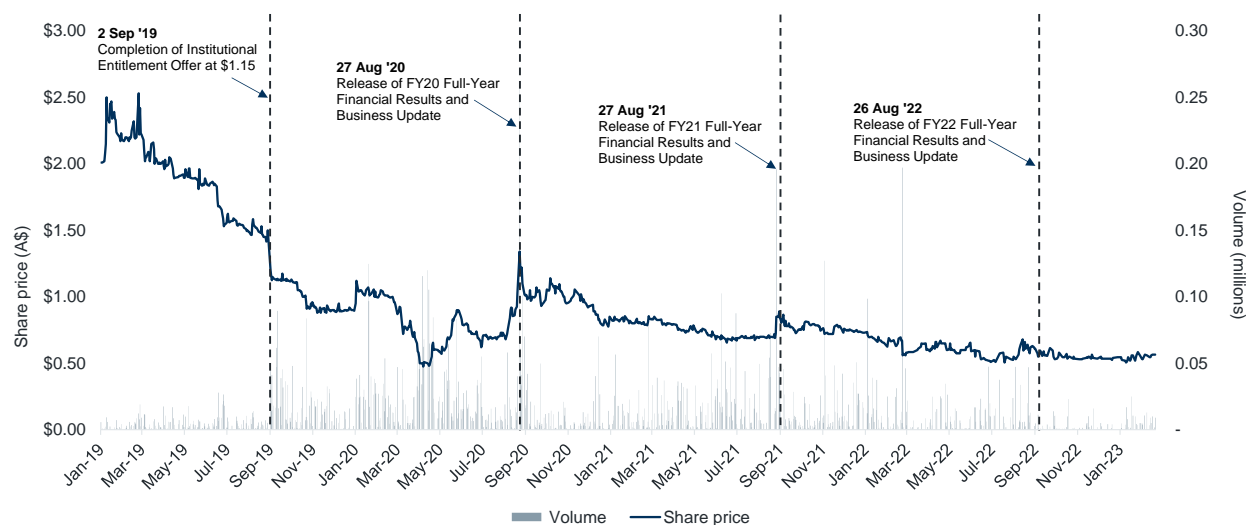
- analysed price and volume performance since 1 January 2019;
- compared S&G's security price movement to the S&P/ASX Small Ordinaries (**Small Ordinaries**) and comparable company, Shine (ASX:SHJ) over the period since 1 January 2019; and
- assessed the VWAP and trading liquidity of S&G securities for the period up to the announcement of the Offer.

8.8.1 Share price and volume performance

S&G's share price performance and the volume of shares traded over the period from 1 January 2019 to 21 February 2023, the last trading day before the announcement of the Offer, is illustrated as follows.

⁴⁶ Excludes performance rights

S&G Trading Price and Volume from 1 January 2019 to 21 February 2023



Source: S&P Capital IQ; Kroll analysis.

Since 1 January 2019, S&G's share price has declined by 72.1%, significantly underperforming the market and its peers, likely reflecting the dilutionary equity raisings, absence of a dividend, weak cash conversion and uncertain debt servicing ability compounded by the illiquidity of S&G Shares due to the extremely limited free float.

After closing at a high of \$2.53 on 25 February 2019 (the day prior to the announcement of its 1H19 Financial Results), the S&G share price declined by 81.0% to close at a low of \$0.48 on 8 April 2020, potentially reflecting:

- the announcement of its 1H19 Financial Results, which indicated a decline in revenue from continuing operations of 12.0%;
- the announcement on 30 August 2019 of the \$75.6 million non-renounceable entitlement offer at a price of \$1.15 (representing a 13.5% discount to the theoretical ex-rights price of \$1.33 on the day prior);
- the announcement on 21 October 2019 that the company was unable to claw back funds from Watchstone (Quindell's parent entity) for the Quindell acquisition; and
- the market-wide sell-off in response to the COVID-19 pandemic, reaching a low of \$0.48 on 8 April 2020.

The S&G share price recovered from late April 2020 until August 2020, supported by:

- a market update on 20 April 2020 that S&G had reached an agreement in principle with its senior lenders to extend the maturity date of its SSF from December 2020 to July 2023. Following this announcement, the share price rose sharply by 30.9% (from the day before the announcement) to close at a high of \$0.64 on 21 April 2020; and
- the release of its FY20 Full-Year Financial Results and Business Update on 27 August 2020, which indicated a 60.6% increase in reported EBITDA before specified items and 112.2% increase in revenue from contracts with customers.

The S&G share price generally declined between September 2020 and 21 February 2023, potentially reflecting S&G's continuing weak cash conversion and inability to materially reduce its borrowings, compounded by continued impacts of the COVID-19 pandemic on matter origination and progressions and a lack of class action settlements.

On 27 August 2021, S&G released the FY21 Full-Year Financial Results and Business Update, which indicated a positive net profit after tax over the year, a 37.7% increase in reported EBITDA before specified items, and a 14.2% increase in revenue from contracts with customers. On that day, the share price increased by 17.2% to close at \$0.85 on 30 August 2021.

The share price gradually declined from September 2021 onwards. The announcement of the 1H22 Financial Results and Business Update on 24 February 2022, which indicated a 13.5% decline in revenue from contracts with customers and a weak EBITDA margin of (0.7%) as S&G was negatively impacted by

effects of the COVID-19 pandemic (particularly in Victoria) which resulted in a decline in the number of new PIL cases. The S&G share price declined by 14.9% on the date of the announcement.

The announcement that S&G had successfully extended the term date of its SSF from 31 July 2023 to 31 October 2024 and the release of the FY22 Full-Year Financial Results and Business update (which showed significantly better revenue and profitability compared to the 1H22, as described in Section 8.4) both led to share price increases. Despite short-term increases in response to these announcements, the share price overall has declined slightly since March 2022, in-line with the S&P/ASX Small Ordinaries Index which has fallen by 9.9% since 1 March 2022. The S&G share price reached \$0.57 on 21 February 2023.

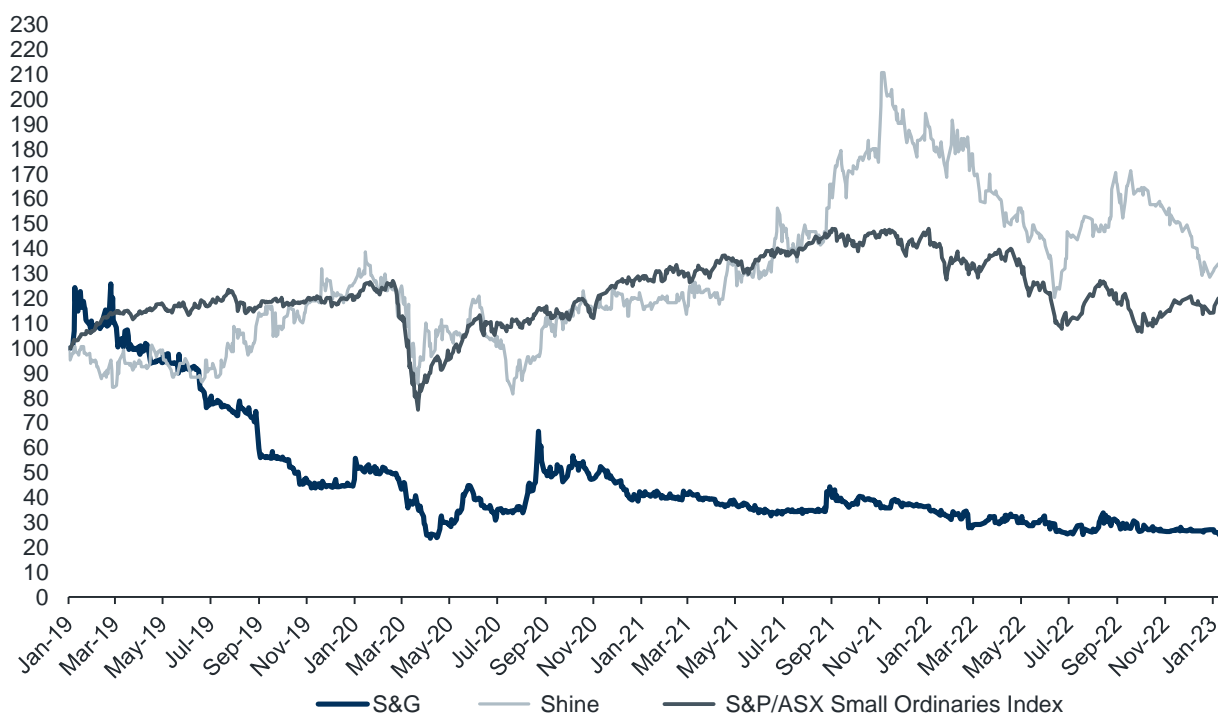
8.8.2 Relative performance

S&G is not a member of any major indices. As a result, the relevant index chosen for comparative purposes is the S&P/ASX Small Ordinaries Index (**ASX Small Ordinaries Index**), which comprises companies with market capitalisations from \$96.9 million to \$14,615.1 million.

The following chart illustrates S&G's share price trading performance relative to the ASX Small Ordinaries Index and Shine (ASX: SHJ) between 1 January 2019 and 21 February 2023, the last trading day before the announcement of the Offer.

The securities of both Shine and S&G are illiquid, with two Shine founders owning 25% of the company each and S&G having an extremely limited free float (see Section 8.8.3). As a result, share price analysis in these two companies may not accurately reflect true underlying value at a given point in time.

S&G Share Price Performance Relative to ASX Small Ordinaries Index and Shine



Source: S&P Capital IQ; Kroll analysis.

Following a short initial period of outperformance at the start of 2019, the S&G share price underperformed the ASX Small Ordinaries Index and Shine over the remainder of 2019 until the onset of the COVID-19 pandemic.

From late April 2020 until the end of August 2020, the S&G share price outperformed both the ASX Small Ordinaries Index and Shine, potentially reflecting an agreement in principle with its senior lenders to extend the maturity date of its SSF the release of its FY20 Financial Results and Business Update on 27 August 2020.

From September 2020 to December 2021, the S&G share price has generally underperformed the ASX Small Ordinaries Index and Shine, reflecting the company's mixed financial results, financial uncertainty discussed in Section 8.8.1 and greater relative exposure to the Victorian market, where COVID-19 pandemic related lockdowns were more extensive and protracted. The Shine share price outperformed the index

during this period, increasing 79% as a result of strong financial performance across multiple metrics including NPAT, earnings per share and gross operating cashflow, driven by a positive outcome from a class action filed against Ethicon Sarl, Ethicon Inc. and Johnson & Johnson Medical Pty Limited (the **Mesh Class Action**). Since January 2022, S&G has performed marginally better than Shine, both suffering declines in excess of 20%, underperforming a declining index.

8.8.3 Liquidity

An analysis of the periodic VWAPs and liquidity of S&G's shares for the 12 month period prior to and including 21 February 2023, the last trading day before the announcement of the Offer, is set out as follows.

S&G Liquidity up to 21 February 2023

Period	Price (\$)			Cumulative value (\$ million)	Cumulative volume (\$ million)	Percentage of issued capital
	Low	High	VWAP			
1 day	0.57	0.57	0.57	0.0	0.0	0.0%
1 week	0.55	0.57	0.56	0.0	0.0	0.0%
1 month	0.52	0.59	0.55	0.1	0.1	0.1%
3 months	0.51	0.59	0.55	0.1	0.2	0.1%
6 months	0.51	0.66	0.56	0.2	0.4	0.3%
12 months	0.51	0.69	0.58	0.9	1.5	1.1%

Source: S&P Capital IQ; Kroll analysis.

With regard to the table above, we note the following:

- S&G's shares have exhibited extremely low liquidity over the 12 months to 21 February 2023, with only 1.1% of total shares on issue traded (18.3% of free float);
- there was no trading on four days in the 12 months to 21 February 2023;
- trading involved small parcels of shares; and
- S&G has no broker coverage.

9 Valuation of S&G

9.1 Summary

Kroll has assessed the value of S&G's equity to be in the range of \$20.5 million to \$61.6 million, which corresponds to a value per S&G Share in the range of \$0.13 to \$0.40. The range of values is relatively wide and reflects the uncertainty associated with S&G's earnings and cash flow generation as well as its high financial leverage (63.0% market gearing⁴⁷).

Our range of assessed values represents 100% ownership of S&G and, therefore, incorporates a control premium. The value attributed to S&G's operating business is an overall judgement as to the opportunities and risks associated with the business in the current economic and geopolitical environment, having regard to a market approach. The total equity value is the value of S&G's operating business and the value of non-operating assets/(liabilities)(net), less the face value of borrowings and capitalised interest under the SSF and term loan. Our rationale for the selection of this approach is set out in Section 9.2.2 of this report. The valuation of S&G is summarised as follows.

⁴⁷ Calculated as S&G's gross borrowings as at 28 February 2023 of \$116.7 million plus lease liabilities of \$18.9 million as at 31 December 2022 divided by the sum of gross borrowings, lease liabilities and market capitalisation of \$79.7 million (\$0.565 per S&G Share as at 21 February 2023, the last trading day before the announcement of the Offer, multiplied by 154.6 million shares outstanding).

S&G Valuation Summary (\$ million unless otherwise stated)

	Section Reference	Valuation Range	
		Low	High
Maintainable net operating revenue ¹	9.3.2	195.0	215.0
Maintainable EBITDA margin after incentive payments ²	9.3.2	22.5%	22.5%
Maintainable EBITDA after incentive payments²		43.9	48.4
Public company cost savings	9.3.2	2.4	2.4
Maintainable EBITDA after incentive payments and before public company costs		46.3	50.8
Capitalisation multiple	9.3.3	3.50x	4.00x
Value of S&G's operating business (controlling basis)		162.0	203.1
Other assets/(liabilities)(net)	9.4	(5.6)	(5.6)
Enterprise value of S&G (controlling basis)		156.4	197.5
SSF as at 28 February 2023	9.5	(86.8)	(86.8)
Term loan as at 28 February 2023	9.5	(30.2)	(30.2)
Lease liability	8.5	(18.9)	(18.9)
Implied equity value of S&G (controlling basis)		20.5	61.6
Diluted number of Slater & Gordon Shares outstanding (million)	8.7.2	154.6	154.6
Value per S&G Share (controlling basis)		0.13	0.40

Source: Kroll analysis.

Notes:

1. After bad and doubtful debts and before specified items.
2. Before specified items (other than incentive payments).

Our range of assessed values of a S&G Share takes into consideration the synergies and benefits available to a pool of potential purchasers. In this regard, we note that synergies available to an acquirer of S&G are not expected to be substantial and may be limited to public company cost savings (refer to Section 9.2.3 of this report).

It should be noted that a valuation of S&G in the current economic and geopolitical environment is complex and requires judgement. In forming our view as to the value of S&G Shares we have considered a series of factors including:

- the competitive nature of the class actions and PIL industries;
- moderate PIL industry growth, comprising a mix of strong growth in medical negligence and abuse cases, and flat growth for motor vehicle accidents and workplace compensation;
- S&G is assumed to sustain its current 10% PIL market share;
- growth potential of S&G's class actions business, offset by its limited history;
- the impact of the COVID-19 pandemic on earnings and cash flow generation. CY22 revenue includes a degree of 'catch up' in velocity as matters were able to be progressed following COVID-19 related delays and is not expected to be sustained;
- the impact of the transformation program on profitability and the margin of an efficient operator;
- S&G's reliance on a NWNF revenue model, its current low cash conversion ratio and limited cash flow from operations;
- S&G's significant debt burden and inability to repay borrowings and pay interest.
- the potential for S&G to free up further capital by increasing third party funded disbursements; and
- S&G's substantial carried forward income tax losses, however, recognising that the ability to utilise them is uncertain and an acquirer would be unlikely to attribute significant value to them.

In accordance with the requirements of RG 111, we have not taken into account any potential financial distress, however, our valuation recognises that an acquirer of S&G would need to recapitalise the business to achieve a sustainable level of debt as S&G is highly geared and currently, operating cash flows are insufficient to enable it to repay borrowings and pay interest.

The assessed value range takes into account S&G's current relatively low cash flow conversion ratio relative to Shine and other professional services firms. The range of values of S&G's operating business implies a

multiple of 13.0 to 16.4 times average GOCF⁴⁸ for FY20 to FY22, which is high in comparison to the implied GOCF multiple for Shine (5.7 times average GOCF for FY20 to FY22).

The assessed enterprise value in the range of \$156.4 million to \$197.5 million exceeds the implied enterprise value based on the terms of the transaction since SSF lenders which have entered into Debt Purchase Deeds and decide to accept the Offer will receive less than 100 cents in the dollar of the face value for their debt and will also forego the Offer Price for their S&G Shares. Potentially, the terms of the transaction reflect the desire of the accepting SSF lenders to exit their investment at this point in time at a price that is certain as opposed to being exposed to the uncertainties that would have arisen had they continued to hold their investment and the SSF approached maturity in October 2024.

Our valuation range of \$0.13 cents to \$0.40 cents per S&G Share is:

- below the net assets per S&G Share as at 31 December of \$1.42. This reflects that Kroll has assessed a fair value for S&G's equity, which takes into account S&G's low cash conversion ratio and unsustainable capital structure whereas the book value of equity reflects WIP on a historical cost basis and does not take into account S&G's low cash conversion ratio; and
- below recent trading in S&G Shares, however, we do not consider S&G's recent share trading to be an appropriate basis for comparison due to the following:
 - S&G Shares are extremely illiquid with only 1.1% of shares traded in the 12 months to 21 February 2023, the last trading day before the announcement of the Offer. During this period, there was no trading on four days and trading generally involved small parcels of shares. S&G has an extremely limited free float (approximately 6.5%) and no broker coverage;
 - S&G does not have a recent history of paying dividends nor is there any realistic expectation that a dividend will be declared in the short term, which would support the trading price; and
 - in the last 12 months, the trading price has moved within a limited range and on low volumes. In the event there was a sale of a material parcel of shares, it is likely the trading price would have fallen substantially.

9.2 Approach

9.2.1 Overview

Our valuation of S&G has been prepared on the basis of 'fair value'. The generally accepted definition of fair value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length. Fair value excludes 'special value', which is the value over and above the value that a particular buyer, which can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

In the absence of market distortions, the most reliable evidence for the value of a business is the price at which the business, or a comparable business, has been bought and sold in an arm's length transaction. Where direct market evidence is unavailable, estimates of value are made using methodologies that infer value from other available evidence. Some of the commonly used valuation methodologies for estimating the value of a business include:

- the market approach;
- income approach; or
- cost approach.

These approaches are discussed in further detail in Appendix 3.

The decision as to which approach to adopt will depend on various factors including the availability and quality of information, the maturity of the business and the actual practice adopted by purchasers of the type of asset or business involved. A secondary methodology is often adopted as a cross-check, where possible, to ensure the reasonableness of the outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, the market approach and income approach are commonly used as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of

⁴⁸ GOCF is gross operating cash flow and is calculated as cash flow from operations plus net interest paid.

the underlying assets. For businesses that are either non-profitable, non-tradeable or asset rich (e.g. real estate investment trusts), a cost approach is often adopted as there tends to be minimal goodwill, if any.

9.2.2 Selection of valuation methodology

A discussion of the rationale for the selection of the valuation methodologies is set out as follows.

Market approach

The market approach is based on comparing the asset or business to identical or comparable assets or businesses for which there is available price information. It is commonly adopted where:

- the asset or business or similar assets or businesses are actively publicly traded (**market comparable methodology**);
- there are frequent and/or observable transactions in comparable assets or businesses (**comparable transactions methodology**); and
- there is substantial operating history and a consistent earnings trend.

S&G has generated positive EBITDA since 2019 and with continuing transformation initiatives, is not expected to reach steady state efficiency in the short term. There is no basis to expect that the business will be unable to continue indefinitely assuming it has an appropriate capital structure. In addition, there are sufficiently comparable publicly traded companies from which to calculate meaningful multiples. Consequently, a market approach has been used as the primary valuation approach for the operating business.

Application of this approach involves the capitalisation of the cash flows or earnings of a business at a multiple that reflects both the risks of the business and the future growth prospects of the income it generates. This methodology requires an element of professional judgement as to:

- the level of earnings or cash flows that are expected to be maintainable indefinitely, adjusted for non-recurring items and other known factors likely to impact on future operating performance; and
- an appropriate capitalisation multiple that reflects the risk and growth prospects associated with the level of earnings being capitalised. The capitalisation multiple is usually determined having regard to market evidence derived from comparable transactions and sharemarket prices for comparable companies, whilst also considering the specific characteristics of the business being valued.

The earnings bases to which a multiple is commonly applied include revenue, EBITDA, EBIT and net profit after tax. The choice between parameters is usually not critical and should give a similar result. We note that EBITDA is commonly used in the valuation of professional services businesses. Consequently, we have utilised historical EBITDA as the basis for our market approach. We have also considered multiples of GOCF.⁴⁹

Rule-of-thumb valuation benchmarks are sometimes considered to be an application of the market approach. They generally should not be given substantial weight unless market participants place particular reliance on them.

Income approach

Under an income approach, the value of an asset is determined by converting future cash flows to a current value. It is commonly adopted when:

- the income producing ability is the critical element affecting value from a market participant perspective;
- future cash flows can be estimated on a reasonable basis; and
- there is not a substantial operating history, there is a variable pattern of cash flow, or the asset has a finite life.

The most common application of the income approach is the discounted cash flow (**DCF**) methodology. This methodology allows for cash flows to reflect a range of scenarios to be modelled.

⁴⁹ GOCF is gross operating cash flow and is calculated as cash flow from operating activities plus interest paid, less interest received.

Utilising the DCF methodology requires estimation of cash flows for a number of years and discounting those cash flows back to present value. S&G has provided an internal budget for FY23 including run rate data, however, has not provided long term projections from which to undertake a DCF methodology.

Cost approach

A cost-based approach is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). Professional services firms are not asset rich, and a portion of their value is generally related to intangible assets, such as intellectual property or goodwill. Therefore, the cost approach would not capture the growth potential or internally generated intangible value associated with S&G.

Net asset value does not take into account S&G's low cash conversion ratio and unsustainable capital structure whereas these can be captured in other valuation approaches (either explicitly in a DCF analysis or indirectly through a selection of multiples under the market approach). Furthermore, S&G's WIP is recognised on a historical cost basis. It is difficult to estimate at what price this could be sold, if at all, and over what period of time.

Kroll has, however, considered the potential value to S&G Shareholders of an orderly realisation of assets as an alternative to the Offer in Section 3.4.2 of this report.

9.2.3 Control premium

Consistent with the requirements of RG 111, we have assumed 100% ownership of S&G and, therefore, our valuation includes a control premium.

Successful transactions are commonly completed with an implied acquisition premium to the pre-trading equity price of the target in the order of 25% to 40% depending on the individual circumstances.⁵⁰ In considering the evidence provided by actual transactions, it is important to recognise that the observed premium for control is an outcome of the valuation process, not a determinant of value, and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including:

- the acquirer's capacity to realise full control over the strategy and cash flows of the target entity;
- the magnitude of synergies available to all acquirers, for example, the rationalisation of costs related to duplicated functions, or the removal of costs associated with the target being a listed entity;
- uncertainties related to the timing of full realisation of target synergies;
- the expected costs to migrate and integrate the business;
- the nature of the bidder (i.e. whether the acquirer is a financial investor or a trade participant);
- synergistic or special value that may be unique to a particular acquirer;
- the interest acquired in the transaction with consideration to the bidder's pre-existing shareholding in the target;
- the prevailing conditions of the economy and capital markets at the time of the transaction with consideration to the position in the overall market cycle;
- desire (or anxiety) for the acquirer to complete the transaction;
- whether the acquisition is competitive; and
- the extent the target company's share price already reflects a degree of takeover speculation.

The premium that is ultimately applied must have regard to the circumstances of each case. In some situations, it may be appropriate to apply no premium for control, for example, there are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering. Accordingly, an assessment as to an appropriate control premium, if any, is essentially a matter of judgement.

The multiples derived for listed comparable companies generally reflect prices at which portfolio interests (i.e. minority interests) are traded and consequently, do not include a control premium. They may also be

⁵⁰ 2022 Mergerstat Review. Range represents median premium from 2012 to 2021. Premiums are calculated based on the seller's closing price five business days before the initial announcement. The calculations exclude negative premiums and premiums over 250%.

impacted by the level of liquidity in trading of the particular security. Accordingly, when valuing a business as a whole (i.e. on a 100% basis), or when valuing the main undertaking of a business, it is appropriate to reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

The number of potential strategic acquirers for S&G is limited, as S&G is one of the largest players in the Australian market and foreign acquirers are unlikely to reap significant synergies given the differences in local legislation and legal practices. Any acquirer of S&G, including a financial buyer, could, however, save S&G's public company costs. Consequently, we consider a limited control premium could reasonably be expected to be paid by a hypothetical acquirer.

We have included a control premium by adjusting maintainable EBITDA to exclude public company costs rather than by applying a control multiple based on recent transaction evidence since in the case of S&G, the multiples implied by market comparables are superior to the transaction evidence. Adding both an adjustment to earnings to reflect synergies and a control multiple in the valuation would result in an overstatement of the benefits of the transaction.

9.3 Value of S&G operating business

9.3.1 Overview

Kroll has assessed the value of S&G's operating business using a market approach having regard to multiples of EBITDA for selected listed companies engaged in legal services, intellectual property (IP) and professional services, and transactions involving companies operating in the legal services industry. This assessment requires consideration of an appropriate level of maintainable earnings (refer to Section 9.3.2 of this report) and an appropriate capitalisation multiple (refer to Section 9.3.3 of this report).

The results of this assessment are presented as follows.

Value of S&G's Operating Business (\$ million)

	Section Reference	Valuation Range	
		Low	High
Maintainable revenue from contracts with customers	9.3.2	200.0	220.0
Less: bad and doubtful debts	9.3.2	(5.0)	(5.0)
Maintainable net operating revenue¹		195.0	215.0
Maintainable EBITDA margin after incentive payments ²	9.3.2	22.5%	22.5%
Maintainable EBITDA after incentive payments²		43.9	48.4
Public company cost savings	9.3.2	2.4	2.4
Maintainable EBITDA after incentive payments and before public company costs		46.3	50.8
Capitalisation multiple	9.3.3	3.50x	4.00x
Value of S&G's operating business (controlling basis)		162.0	203.1

Source: Kroll analysis.

Notes:

1. After bad and doubtful debts and before specified items.
2. Before specified items (other than incentive payments).

9.3.2 Maintainable earnings

Maintainable earnings should reflect the earnings that can be achieved in the future for the business on an ongoing basis. It is an estimation of the earnings or cash flows that a hypothetical purchaser would utilise for valuation purposes, having regard to historical and forecast operating results, non-recurring items of income and expenditure, and other known factors that are likely to have an impact on operating performance. In selecting maintainable earnings for S&G, we have considered S&G's historical financial performance for FY19 to CY22.

In assessing maintainable earnings for S&G, the following factors have been considered:

Maintainable net operating revenue

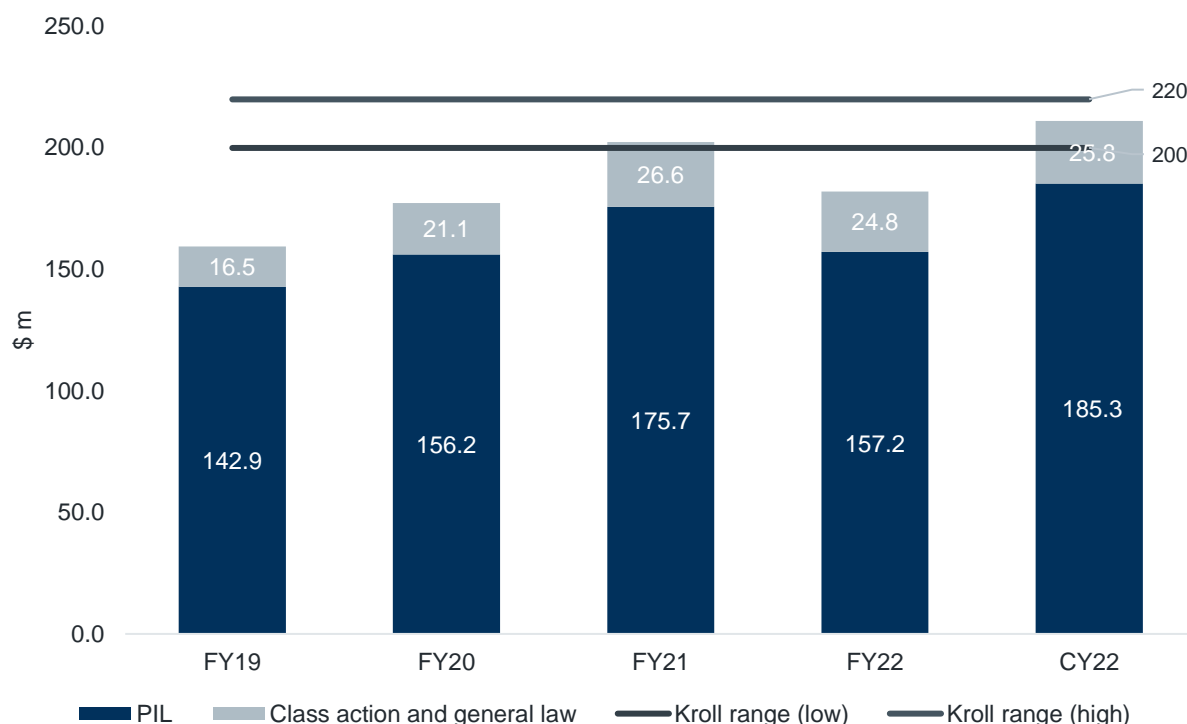
Net operating revenue before specified items is comprised of fees billed to customers (fee revenue) and change in WIP (together, revenue from contracts with customers), net of bad & doubtful debts. Kroll has selected a maintainable revenue from contracts with customers in the range of \$200 million to \$220 million

and deducted an assumed \$5.0 million in bad & doubtful debts to arrive at maintainable net operating revenue for S&G in the range of \$195 million to \$215 million.

Revenue from contracts with customers

The following figure shows maintainable revenue from contracts with customers generated by PIL and class actions since FY19.

Revenue From Contracts With Customers By Segment



Source: Kroll analysis.

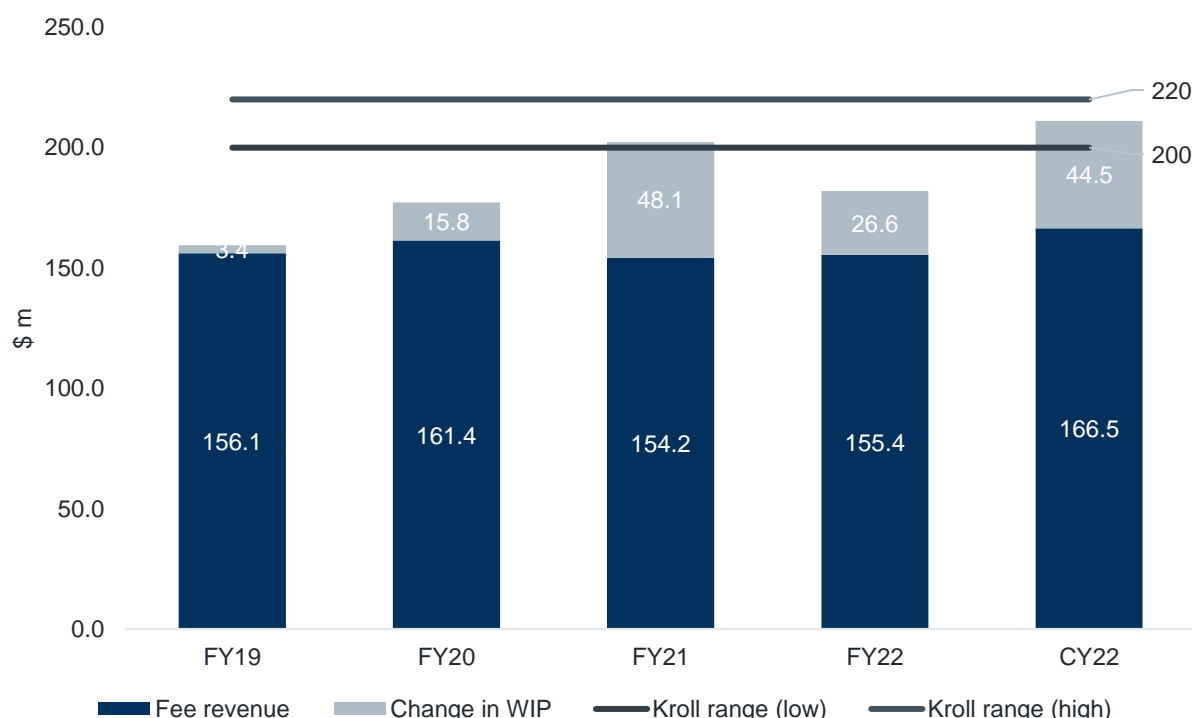
In relation to the chart, we note:

- overall, throughout the period presented, revenue increased at a CAGR of 8.3% with growth in class action revenues (12.6% CAGR) outpacing growth in PIL revenues (7.8% CAGR);
- revenue declined in FY22 as prolonged lockdowns resulted in a decline in the number of new PIL cases and lower class action fee revenue arising from the timing of settlements. This was followed by strong 2H22 and 1H23 revenue growth. CY22 revenue includes a degree of 'catch up' in velocity as matters were able to be progressed following COVID-19 related delays and is not expected to be sustained;
- PIL revenues are a function of the volume of enquiries that S&G receives, the conversion yield (that S&G turns these enquiries into legal cost signed agreements), case success rate and average success fees. In selecting a maintainable revenue from contracts with customers for the PIL business, Kroll has considered S&G's historical PIL enquiry volumes, conversion yield, case success rates and average success fees in selecting a maintainable revenue estimate;
- the PIL industry is experiencing moderate growth, comprising a mix of strong growth in medical negligence and abuse cases, and flatter growth for more mature parts of the industry such as motor vehicle accidents and workplace compensation;
- S&G's share of the PIL market has increased from 9% in 2018⁵¹ to 10% in 2022. It is assumed that S&G will maintain its current market share; and
- the current portfolio of class actions at S&G is developing, with 21 active class actions and capacity to increase in the coming years, although the business has a limited track record.

⁵¹ IBISWorld Industry Report OD5519. May 2018.

The following figure shows the contribution of fee revenue and increases in WIP to S&G's revenue since FY19.

Revenue from Contracts with Customers (\$ million)



Source: Kroll analysis.

In relation to the chart, we note:

- S&G has relatively stable fees billed revenue, increasing at a CAGR of 1.9% from F19 to CY22;
- the strong increase in WIP growth (a CAGR of 109.1%) from FY19 and CY22, mainly reflecting the development of the class actions business; and
- higher fees billed and WIP growth in CY22, which reflects a degree of 'catch up' in velocity as matters were able to be progressed following COVID-19 related delays and which is not expected to be sustained.

Having regard to the above factors, Kroll has selected a maintainable revenue from contracts with customers for S&G in the range of \$200 million to \$220 million.

Maintainable net operating revenue before specified items

In addition, S&G's bad & doubtful debts were approximately \$5.0 million on average from FY19 to FY22. Consequently, Kroll has assessed S&G's maintainable net operating revenue before specified items in the range of \$195 million to \$215 million.

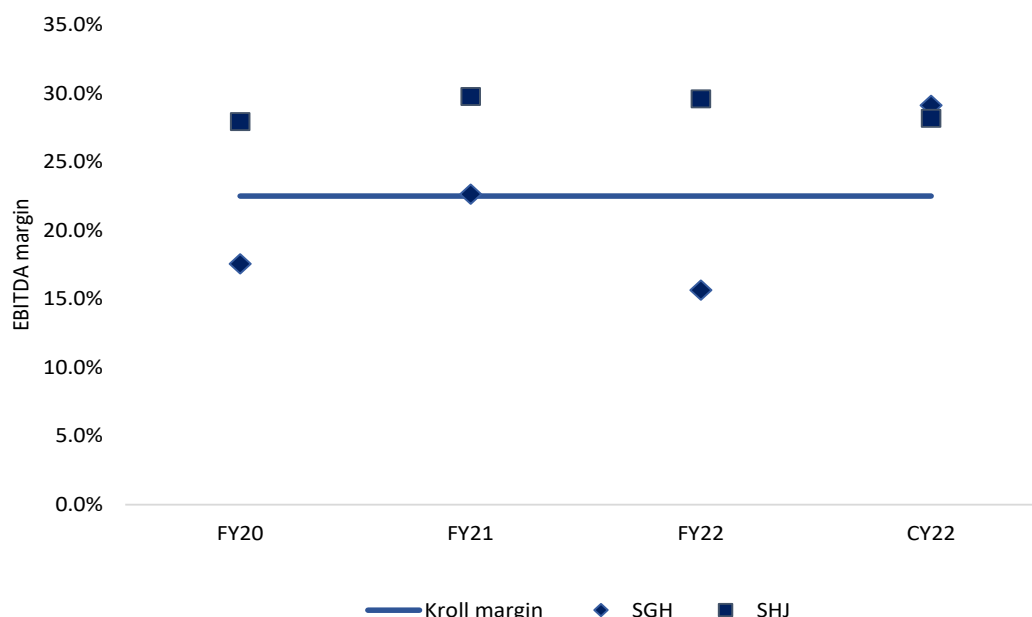
Maintainable EBITDA margin

A maintainable EBITDA margin (after incentive payments and before other specified items) was applied to the maintainable net operating revenue (before specified items) to determine the maintainable EBITDA. The EBITDA margin is determined with reference to the cost structure of an 'efficient business' that operates in the professional legal industry, which is based upon analysis of S&G's recent earnings, comparable company analysis and discussions with S&G management.

Kroll has focused on EBITDA margins after non-cash share-based incentive payments but before transformation expenditure and other specified items, since S&G will be required to make incentive payments (either in cash or shares) on an ongoing basis in order to retain and incentivise employees.

The following figure illustrates S&G's EBITDA margin (after incentive payments and before other specified items) as well as the margin of its closest peer, Shine, since FY20 (i.e. post adoption of IFRS 16 Leases).

Maintainable EBITDA margin (after incentive payments and before other specified items)



Source: Kroll analysis.

In relation to the chart, we note:

- the improvement in S&G's margins over time reflects the ongoing transformation program. The COVID-19 pandemic impacted S&G's FY22 margin, particularly the lockdowns in Victoria, as S&G's largest market. S&G's CY22 margin of 29.1% reflects the 'catch up' in the velocity of matters towards the end of the COVID-19 pandemic restrictions. S&G management does not expect this level of performance to be sustainable for S&G;
- relatively strong and consistent EBITDA margins for Shine, an average of 28.9% over the period. Shine's higher margin relative to S&G is driven by lower employee benefit expenses relative to S&G (52.4% of total revenue in FY22, compared to 61.3% for S&G). In addition, Shine appears to have been less impacted by lockdowns associated with the COVID-19 pandemic, potentially reflecting its Queensland focus, with margin growth experienced in FY21 and FY22; and
- S&G management considers a sustainable margin of an efficient operator (before all specified items) to be approximately 25%. S&G's average retention bonuses & LTIP were \$4.0 million in FY19 and \$5.0 million in FY20, before declining during the COVID-19 pandemic. This efficient operator margin is equivalent to a margin after incentive payments of approximately 22.5%.

Having regard to the above factors, Kroll has selected a maintainable EBITDA margin (after incentive payments and before other specified items) for S&G of 22.5%. This is equivalent to the highest EBITDA margin S&G has achieved since FY20, not including CY22 when there was a 'catch up' of cases after COVID-19 restrictions eased.

Public company cost savings

As discussed in Section 9.2.3, an acquirer of S&G could likely only save public company costs. Kroll has assumed that all public company costs are saved. Public company costs include Board, ASX listing and other fees, share registry, AGM and annual report, audit fees and director and officer insurance and are estimated at \$2.4 million per annum.

9.3.3 Capitalisation multiples

In determining an appropriate range of capitalisation multiples to apply to S&G's maintainable earnings, we have considered the following:

- trading multiples of comparable listed legal, IP and professional service companies in Australia and the United Kingdom (**comparable companies methodology**);

- multiples implied by recent transactions involving Australian and global companies that provide legal services (**comparable transactions methodology**); and
- the specific attributes of S&G.

On balance, we consider that a multiple of 3.5 to 4.0 times maintainable EBITDA (excluding a control premium⁵²) is appropriate for S&G. This multiple is at and above the multiple for the most comparable company, Shine, of 3.5 times CY22 EBITDA.

Further details regarding the identified comparable transaction and companies are included in Appendix 4 of this report.

Trading multiples of comparable companies

There are few listed law firms in Australia and the United Kingdom. Further, the PIL industry in Australia is highly fragmented, comprising small, privately held business and a few major competitors – S&G, Shine and Maurice Blackburn, however, the latter is unlisted. The lack of similar fee structures and service line work reduces the comparability of many listed law firms to S&G. The most comparable company is Shine which, similar to S&G, is engaged in PIL and class actions and utilises a NWNF fee structure for PIL matters. Kroll has also considered Australian listed professional service firms in the comparable company analysis.

Sharemarket Evidence

Company Name	Country	Market Capitalisation	Enterprise Value ¹	EV/EBITDA		EV/GOCF ⁴	
		(\$ millions)	(\$ millions)	LTM ²	NTM ³	FY20-22	(CY22)
Legal services							
Shine	Australia	125.0	190.3	3.5	2.6	5.7	nmf.
AF Legal	Australia	12.9	15.3	nmf.	n/a ⁵	11.2	nmf.
Gateley	UK	230.3	268.0	9.3	8.7	15.7	20.0
DWF	UK	220.7	413.5	7.6	5.7	14.3	10.8
IP Firms							
IPH Limited	Australia	1,915.4	2328.2	16.2	13.5	23.9	22.2
QANTM	Australia	123.8	165.6	6.1	6.1	9.1	12.4
Professional Services Firms							
Kelly Partners	Australia	194.9	270.5	10.7	9.2	16.9	12.9
CountPlus	Australia	61.7	58.5	7.0	5.6	5.3	9.1

Source: S&P Capital IQ, Mergermarket, company financial statements; Kroll analysis.

Notes:

1. Enterprise value is calculated as market capitalisation plus net debt, minority interests, preferred shares and leases. Market capitalisation of comparable companies are shown as of 7 March 2023.
2. LTM multiples calculated based on CY22 EBITDA figures.
3. NTM multiples are based on FY23 (NTM) broker consensus forecasts available after 30 January 2023 and sourced from S&P Capital IQ.
4. GOCF is calculated as net cash from operating activities plus net interest paid.
5. na represents not available.

In relation to the trading multiples of the identified listed comparable companies, we note the following:

- S&G's relatively low cash conversion ratio, an average of 18.2% from FY19 to FY22, compared to Shine (49.4%), driven by differences in funding and disbursement policies;
- the multiples are based on sharemarket prices and do not typically include a control premium;
- the multiples at which the comparable companies are trading are primarily influenced by their relative size, diversification, revenue stability, cash flow conversion and growth prospects. For law firms, the multiples may also be influenced by the specific local jurisdictions in which they operate, and timing relative to the company's WIP cycle and disbursements;

⁵² As discussed in Section 9.2.3 of this report, Kroll has included a control premium by capitalising synergies available to a typical acquirer rather than including a control premium in the multiple.

- Kelly Partners Group Holdings Limited (**Kelly Partners**) and CountPlus Limited (**CountPlus**) are less comparable as they operate in the wealth sector. In addition, each is more diversified and has a stronger growth profile than S&G and Kelly Partners is also larger than S&G. They are trading at multiples of 10.7 and 7.0 times LTM EBITDA, respectively;
- although IPH Limited (**IPH**) and QANTM Intellectual Property Limited (**QANTM**) offer legal services, their service lines (i.e. IP) are different from S&G (PIL and class actions) and are subject to different competitive and regulatory environments. In addition, their revenue is relatively stable, displaying annuity like characteristics, and working capital requirements are significantly lower as they generally undertake engagements on the basis of receiving ongoing retainers rather than on a NWNF basis. As a result, IPH and QANTM have significantly higher cash conversion ratios (74.3% and 81.8% respectively in FY22) relative to S&G (negative) and Shine (16.8%). IPH is also significantly larger than S&G. Accordingly, multiples for these IP services firms are high (16.2 and 6.1 times LTM EBITDA, respectively);
- Gateley (Holdings) Plc's (**Gateley**) legal service offering encompasses four operating segments that generally bill work on the basis of fixed fee arrangements and are not subject to the revenue uncertainty and cash flow conversion issues of PIL and class action litigation. Gateley is heavily exposed to the property sector with 45% of FY22 revenues derived from property legal services. Accordingly, we consider Gateley to have limited comparability to S&G and we would expect Gateley to trade at a premium to PIL firms, as evidenced by its trading multiple of 9.3 times LTM EBITDA;
- DWF Group Plc (**DWF**) derived 85% of FY22 revenues from legal advisory services, highlighting DWF's presence as a diversified law firm particularly focused in the United Kingdom and European markets. DWF has recently acquired a law firm in Canada and has grown revenues by approximately 76% over the last four years. Accordingly, DWF is trading at a relatively high multiple (7.6 times LTM EBITDA);
- AF Legal Group Ltd (**AF Legal**) operates as a family and relationship law firm in Australia and, therefore, demand for services is driven by different underlying dynamics. AF Legal provides family law services at agreed rates to clients, resulting in a higher cash conversion ratio relative to S&G. AF Legal has undergone significant transformation in the last four years; and
- Shine is the most comparable listed company to S&G as it primarily derives revenue from PIL and class actions and is a key competitor in Australia. A comparison of Shine and S&G follows:
 - similar to S&G, Shine operates its PIL services on a NWNF basis. For class actions, Shine has shifted to litigation funding in recent years, resulting in a comparatively lower requirement for working capital relative to S&G, which has recently been reducing its share of litigation funded class actions in favour of GCO arrangements. This results in a higher cash conversion ratio of 16.8% (FY22) relatively to S&G's low cash conversion ratio;
 - Shine's classification of services between PIL and its New Practice Area business segment differs from S&G, limiting direct comparability of segments, however, Shine is considered to have a slightly more mature class actions business with a slightly higher number of class actions than S&G in recent years, and experienced a significant settlement on the Mesh Class Action in December 2020;
 - Shine's revenue increased at a CAGR of 6.2% from FY19 to FY22, slightly higher than S&G's 4.9% growth over the period;
 - total WIP balances as at 31 December 2022 were broadly comparable (\$362.3 million for Shine, \$338.4 million for S&G); and
 - Shine has lower financial leverage than S&G, with a net debt to enterprise value of approximately 40%.

As a result of Shine's higher growth, larger scale, higher cash conversion ratio and lower financial leverage, we would expect it to trade at a higher multiple relative to S&G. Shine is trading at a multiple of 3.5 times CY22 EBITDA.

Shine's implied LTM EBITDA⁵³ multiples have declined significantly since 1 June 2018 are as follows.

⁵³ Shine does not currently receive significant broker coverage, and as such Kroll has considered LTM multiples more insightful than NTM multiples.

Shine – Historical EBITDA multiples, excluding a premium for control



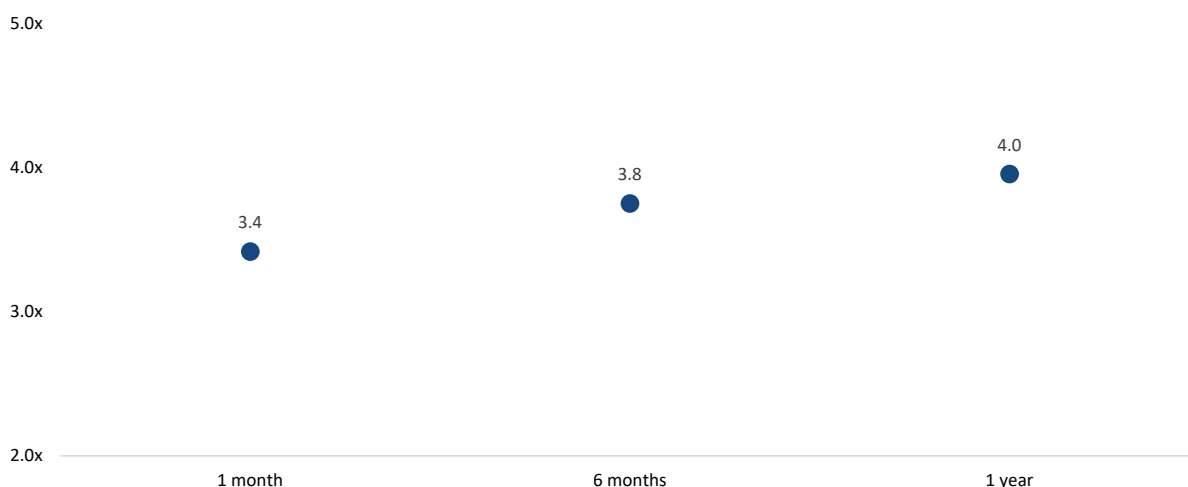
Source: S&P Capital IQ and Kroll analysis.

From June 2018 to February 2019 Shine's EBITDA multiple declined following a fall in its share price caused by a reduction in NPAT by 5.2% in FY18 and slower than anticipated recovery in its historical Land, Energy and Resources practice which led to an impairment charge of \$5 million in 1H19. The EBITDA multiple increase in February 2019 was due to the adoption of the IFRS16 accounting standard.⁵⁴ From June 2018 to February 2019, the EBITDA multiple increased following a 15% increase in dividends in FY19 and positive outlook for FY20 based on improved business conditions. Following the onset of the COVID-19 pandemic, Shine's EBITDA multiple declined between March 2020 and July 2020 as a result of broad sharemarket price declines. Shine's share price improved from August 2020 following 30% growth in EBIT announced in Shine's FY20 results. The improvement was attributed to growth in the New Practice business segment and the impact of new profits from recent acquisitions (Carr & Co, and ACA lawyers in FY19).

During 2021 Shine's share price almost doubled from \$0.84 on 1 March 2021 to a peak of \$1.55 on 5 November 2021 due to strong financial performance (9.8% growth in EBITDA in FY21), driven largely by the New Practice Areas business unit which had diversified into new service offerings and geographies. Shine's EBITDA improved again in FY22 (14.3%) driven by 14.9% revenue. However, Shine's share price declined in 2022 by 34%, resulting in Shine's EBITDA multiple falling to 3.3 times by the conclusion of 2022. Shine's share price fell another 26% in February 2023 following the release of weaker profits in 1H23 (18% decline in NPAT on 1H22).

Average LTM EBITDA multiples across the past 12 months are illustrated in the following table.

Shine – average LTM EBITDA multiple as at 7 March 2023, excluding a premium for control



Source: S&P Capital IQ and Kroll analysis.

Notes:

- Historical EBITDA multiples are calculated as enterprise value divided by Last Twelve Months' EBITDA. All averages are calculated with reference to an end date of 21 February 2023.

⁵⁴ Operating leases were added to total debt from February 2019 which resulted in an increase in enterprise value.

Shine is currently trading at a LTM EBITDA multiple of 3.5 times which is at the low end of its historical EBITDA multiple range. In addition to the current challenging operating environment, Shine's EBITDA multiple may be discounted as a result of:

- the expectation or potential for margin compression as a result of a tight labour market for lawyers within Australia; and
- people risk, particularly within Shine's class action team that has recently lost senior personnel including Jan Saddler.

Multiples implied by recent transactions involving legal services companies

When valuing a business as a whole (i.e. S&G on a 100% controlling basis), it is appropriate to reference the multiples achieved in recent transactions as it is widely accepted that the price paid in transactions represents the market value of a controlling interest in the company. The difference between the value of a controlling interest and a minority interest is referred to as a premium for control. The size of this premium will vary depending on the circumstances of each transaction, including the equity share acquired, type of consideration offered, existing ownership of the target, competitive tension in the sales process, the negotiating position of the parties, and the availability and quantum of synergies.

As S&G operates in the Australian legal services industry, we have sought to identify relevant domestic transactions. These multiples will be influenced by the specific legislation and regulatory environment of the domestic markets in which they serve, as well as other company specific factors. Whilst there has been substantial consolidation of the Australian legal services industry in recent years, most of these transactions involved privately owned firms for which there is insufficient public information to allow implied multiples to be calculated. Consequently, we have also considered transactions in the United Kingdom. We have not identified comparable transactions with sufficient financial and transactional data in other comparable jurisdictions such as the United States.

S&G itself has undertaken many acquisitions as the company expanded its service offering and reach in Australia and entered the UK market, as noted in Section 8.1 of this report. Acquisitions since 2018 included Quindell's PSD, Pannone LLP, Fentons Solicitors LLP and RJW in the UK, and several law firms across Australia. The consideration paid for acquisition targets during that period ranged between \$0.4 million for a PIL firm based in Victoria and \$1.2 billion for Quindell's PSD, and publicly available implied LTM EBITDA multiples ranged between 4.2 times and 8.0 times. We have excluded these transactions from our analysis as the most recent S&G transaction with sufficient data to allow for the calculation of multiples was over five years ago.

As there are relatively few recent domestic transactions that are directly comparable with S&G, we have also considered transactions that involve companies that are relatable in a broader sense of providing specialised consumer services, including IP services and professional services firms.

The following table sets out the EV/EBITDA multiples implied by recent transactions in Australia and the United Kingdom that involved companies providing services relatable in a broader sense to those offered by S&G, for which sufficient financial and transactional data is publicly available.

Transaction Evidence

Date ¹	Target	Acquirer	Target Location	Implied EV ² (A\$ millions)	EBITDA multiple (times) ³
Law firm transactions					
19 May 2022	Coffin Mew LLP	Knights Group Holdings plc	United Kingdom	20.4	4.2 ⁴
31 January 2022	Langleys Solicitors LLP	Knights Group Holdings plc	United Kingdom	21.9	6.1 ⁴
5 March 2020	ASB Law LLP	Knights Group Holdings plc	United Kingdom	16.6	5.4 ⁴
20 January 2020	Keoghs LLP	Davies Group Limited	United Kingdom	260.4	6.1 ⁴
31 January 2019	BrookStreet des Roches LLP	Knights Group Holdings plc	United Kingdom	18.0	3.7 ⁴
31 August 2018	AF Legal Pty Ltd	Navigator Resources Limited (nka:AF Legal Group Limited)	Australia	5.7 ⁵	5.3
IP services firm transactions					
15 October 2019	Murgitroyd Group Limited	Sovereign Capital Partners LLP	United Kingdom	118.6	13.0

12 March 2019	Xenith IP Group Limited	IPH Limited	Australia	206.1	11.1
20 February 2019	Chapman IP Limited	Murgitroyd Group Limited	United Kingdom	12.0	8.7
Professional services and other firm transactions					
1 February 2021	A & M Bacon Limited; Partners in Costs Limited	Frenkel Topping Group plc	United Kingdom	15.9	6.6
2 December 2019	Apis Group Pty Ltd	Accenture plc	Australia	46.0	3.7
8 October 2018	Taylor Byrne Holdings Pty Ltd	LandMark White Limited	Australia	8.4	3.7
31 August 2018	Project Management Partners Pty Ltd	Outsourcing Inc.	Australia	41.0	6.0

Source: S&P Capital IQ, Mergermarket, Company financial statements; Kroll analysis.

Notes:

1. Date of announcement of transaction.
2. Implied EV refers to enterprise values as of the date of completion, converted to Australian Dollars based on the prevailing exchange rate at the time.
3. Historical EBITDA multiples are calculated on revenue in the 12 months prior to the most recently available results as at the transaction announcement date.
4. EBITDA multiples exclude members' remuneration charged as an expense.
5. Includes the estimated net present value of a contingent consideration of \$0.5 million, conditional on AF Legal's normalised EBITDA exceeding \$1 million in any half yearly period.

Each of the transactions listed in the previous table are described in Appendix 4.

We note the following in relation to the transaction multiples:

- none of the transactions are directly comparable to S&G's operations in terms of both operations and geographical footprint;
- the transactions relate to the acquisition of 100% of the businesses (in the case of the acquisition of Xenith IP Group Limited (**Xenith**) the remaining 80.1% stake not owned by the acquirer) and, therefore, implicitly incorporate a premium for control;
- with the exception of Keoghs LLP (**Keoghs**), Murgatroyd Group Limited (**Murgatroyd**) and Xenith, the transactions relate to businesses that are significantly smaller than S&G. All else being equal, smaller companies often transact at lower multiples due to them being considered riskier as they generally have less access to capital and may have short operational histories;
- the most recent Australian and UK transactions involving IP services firms are the acquisitions of Murgitroyd by Sovereign Capital Partners LLP, Xenith IP by IPH Limited and Chapman IP Limited (**Chapman IP**) by Murgitroyd. These transactions implied relatively high multiples of between 8.7 to 13.0 times. IP services firms tend to transact at higher multiples than other law firms as they tend to have relatively stable revenues and lower working capital needs;
- the most recent Australian transactions of (non-legal) professional services firms are the acquisitions of Apis Group Pty Ltd (**Apis Group**) by Accenture plc, the acquisition of Taylor Byrne Holdings Pty Ltd (**Taylor Byrne**) by LandMark White Limited, and the acquisition by Outsourcing Inc. of Project Management Partners Pty Ltd (**PMP**). Apis Group is a consulting firm specialising in providing consulting services to government clients, Taylor Byrne is a property valuations firm and PMP is a consulting firm offering project management and project delivery services. The acquisition of PMP occurred at a relatively high multiple of 6.0 times, possibly reflecting high historical growth rates and expected growth prospects (revenue had risen 36.7% over the two years leading to the acquisition), expected revenue synergies by the acquirer which expected to cross-sell human resources (**HR**) outsourcing services to PMP clients, and the acquirer's belief that PMP's revenue from government clients (which represented almost one-third of revenue) were less susceptible to economic fluctuations;
- the acquisitions of A & M Bacon Limited (**A & M Bacon**) and Partners in Costs (**PIC**) Limited by Frenkel Topping Group, announced together on 1 February 2021, occurred at an implied multiple of 6.6 times. A & M Bacon and PIC are specialist firms engaged in providing legal costs advisory services including costs budgeting, costs recovery and costs related strategic advice. Whilst this differs in nature to S&G's legal practices, and neither firm provides services on a NWNF basis, both firms deal with personal injury claims and civil and commercial litigation claims from a costs advisory perspective;

- the law firm transactions occurred at multiples in the range of 3.7 to 6.6 times historical EBITDA. The most recent Australian transaction is the acquisition of AF Legal by Navigator Resources Limited. AF Legal provides family law services in Australia. Its business model is broadly comparable to S&G's PIL operations because like S&G, the company is not dependent on individual lawyers to acquire new clients (rather relying on digital marketing) and, like S&G's PIL practice, the business has a low proportion of recurring clients. However, AF Legal does not operate on a NWNF basis and is much smaller than S&G, limiting comparability. The transaction occurred at an implied multiple of 5.3 times;
- the most recent UK transactions involving law firms (excluding IP services firms) are the acquisitions of Keoghs by Davies Group Limited, BrookStreet des Roches LLP (**BrookStreet des Roches**) by Knights Group Holding plc and a series of acquisitions made by Knights Group Holdings plc (**Knights Group**) of Coffin Mew LLP (**Coffin Mew**), Langleys Solicitors LLP (**Langleys**), ASB Law LLP (**ASB Law**) and Brookstreet des Roches LLP (**Brookstreet des Roches**). All of the targets involve limited liability partnerships, and their implied multiples exclude members' remuneration charged as an expense, representing the portion of profits automatically distributed to members of the partnership. Whilst these charges represent a profit distribution, in practice they also have salary-like characteristics. Even if these firms were structured as corporations rather than partnerships, it is likely that some proportion of these charges would have to be incurred as remuneration to senior employees and executives (instead of being available for distribution to shareholders). To the extent that these charges in practice represent remuneration to members (as opposed to distributions of profits) the multiples implied by the transactions would be understated;
- of these, the acquisitions of Coffin Mew, Langleys, ASB Law and BrookStreet des Roches by Knights Group occurred at implied multiples of between 3.7 and 6.1 times. The transactions involved regional commercial law firms with business models significantly different to S&G, relying on client relationships with commercial businesses. Furthermore, they do not operate on a NWNF basis, suggesting significantly lower working capital requirements; and
- Keoghs works in partnership with insurers and businesses to defend against insurance claims. Whilst Keoghs does not provide services on a NWNF basis, its volume driven business model (processing in excess of 100,000 claims per annum) makes it operationally more comparable to S&G. The acquisition occurred at an implied multiple of 6.1 times.

The specific attributes of S&G

Kroll has selected a maintainable EBITDA multiple (excluding a premium for control⁵⁵) for S&G in the range of 3.5 to 4.0. The selected multiple straddles the EBITDA multiple for Shine and takes into account the following:

- the competitive nature of the class actions and PIL industries;
- moderate industry growth, comprising a mix of strong growth in medical negligence and abuse cases, and flat growth for motor vehicle accidents and workplace compensation;
- S&G's reliance on a NWNF revenue model, its current low cash conversion ratio and limited cash flow from operations;
- S&G's market position in the PIL market and strong brand name;
- growth potential of S&G's class actions business, offset by its limited history;
- the impact of the transformation program on profitability; and
- S&G's significant debt burden and inability to repay borrowings and pay interest.

9.4 Other assets and liabilities

S&G's net assets include additional assets and liabilities not required to sustain the adopted level of maintainable earnings. Based on our analysis and discussions with management, remaining, after-tax transformation costs of approximately \$4.0 million per annum for the next two years have been valued at a liability of \$5.6 million. No value has been attributed to S&G's tax losses since it is uncertain whether an acquirer would be able to use them and furthermore, we consider that an acquirer is unlikely to pay for them.

⁵⁵ As discussed in Section 9.2.3 of this report, Kroll has included a control premium by capitalising synergies available to a typical acquirer rather than including a control premium in the multiple.

9.5 Net debt

In order to arrive at the value of S&G's equity, it is necessary to deduct the net borrowings from the unlevered value of S&G. Kroll has assessed S&G's net debt position for the purpose of this valuation to be \$135.9 million. This amount includes the balance of the SSF and term loan (including capitalised interest and excluding capitalised borrowing costs) at 28 February 2023 (\$86.8 million and \$30.2 million, respectively) and lease liabilities as at 31 December 2022 (\$18.9 million). S&G's cash balance of \$13.8 million as at 31 December 2022 has not been treated as surplus to the operations as it is required for working capital purposes.

Appendix 1 – Kroll disclosures

Qualifications

The individuals with overall responsibility for preparing this report on behalf of Kroll are Ian Jedlin and Celeste Oakley. Ian is an Associate and Accredited Business Valuation Specialist of the Institute of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Securities Institute of Australia and holds a Master of Commerce. He is also a member of the Standards Review Board of the International Valuation Standards Council. Celeste holds a Bachelor of Economics, a Bachelor of Laws and a CFA designation. Both Ian and Celeste have extensive experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Kroll's opinion as to whether the Offer is fair and reasonable to S&G Shareholders. Kroll expressly disclaims any liability to any S&G Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, Kroll has had no involvement in the preparation of the Target's Statement or any other document prepared in respect of the Offer. As such, Kroll takes no responsibility for the content of the Target's Statement as a whole or other documents prepared in respect of the Offer (other than this report).

Independence

Kroll considers itself to be independent in accordance with the requirements of Regulatory Guide 112 issued by ASIC on 30 March 2011. In considering independence, it is noted that Kroll does not have, and has not had within the previous two years, any business or professional relationship with S&G or Allegro Funds or any financial or other interest that could reasonably be regarded as capable of affecting our ability to provide an unbiased opinion in relation to S&G. Kroll's only role with respect to the Offer has been the preparation of this report.

Kroll will receive a fixed fee of \$250,000 (excluding GST and out of pocket expenses) for the preparation of this report, which is additional to the fee received for the preparation of the independent expert's report that was included in the Target's Statement. This fee is not contingent on the conclusions reached or the outcome of the Offer. Kroll will receive no other benefit for the preparation of this report.

Declarations

S&G has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us in the preparation of this report.

During the course of this engagement, Kroll provided draft copies of this report to management of S&G for comment as to factual accuracy, as opposed to opinions, which are the responsibility of Kroll alone. Changes made to this report as a result of those reviews have not altered the methodology or opinions of Kroll as stated in this report.

The engagement has been conducted in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (**APESB**).

Kroll is authorised by Millinium Capital Managers Limited, Australian Financial Services License no. 284336, to provide the following financial services as their Corporate Authorised Representative:

- provide financial product advice in respect of the following classes of financial products:
- interests in managed investment schemes including investor directed portfolio services; and
- securities;

with respect to retail clients and wholesale clients.

Consents

Kroll consents to the inclusion of this report in the form and context in which it is included in the Target's Statement to be issued to S&G Shareholders. Neither the whole nor any part of this report or its attachments

or any reference thereto may be included or attached to any other document without the prior written consent of Kroll as to the form and context in which it appears.

Kroll consents to:

- a) be named in its capacity as the independent expert appointed by the board of directors of S&G in the Target's Statement; and
- b) the inclusion in the Target's Statement of:
 - i. this report, in the form and context in which it is included in the Target's Statement; and
 - ii. all references to this report, and statements extracted from or based on this report, in the form and context in which each such reference and statement is included in the Target's Statement.

Appendix 2 – Limitations and reliance on information

Limitations and reliance on information

Kroll's opinion is based on prevailing economic, market, business and other conditions at the date of this report and corresponds with a period of continued uncertainty associated with the COVID-19 pandemic and escalation of the Russia-Ukraine conflict. To the extent possible, we have reflected these conditions in our opinion. However, the factors impacting these conditions continue to evolve and can change over relatively short periods of time. The impact of any subsequent changes in these conditions on the global economy and financial markets generally, and the assets being valued specifically, could impact upon value in the future, either positively or negatively. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

Our report is also based on financial and other information provided by S&G and its advisers. S&G has been responsible for ensuring that information provided by it and its representatives is not false or misleading or incomplete. S&G has represented in writing to Kroll that to its knowledge, the information provided is complete and not incorrect or misleading in any material respect. Complete information is deemed to be information which at the time of completing this report should have been made available to Kroll and would have reasonably been expected to have been made available to Kroll to enable us to form our opinion. We have no reason to believe that any material facts have been withheld from us.

In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying such information. Nothing in this report should be taken to imply that Kroll has in any way carried out an audit of the books of account or other records of S&G for the purposes of this report. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards, as applicable.

In addition, we have also had discussions with S&G in relation to the nature of the business operations, specific risks and opportunities, historical results of S&G and prospects for the foreseeable future of S&G. This type of information has been evaluated through analysis, inquiry and review to the extent considered necessary or practical as part of the information used in forming our opinion is comprised of the opinions and judgements of management. Kroll does not warrant that its procedures and inquiries have identified all matters that a more extensive analysis might disclose as they did not include verification work nor an audit or review engagement in accordance with standards issued by the Auditing and Assurance Standards Board or equivalent body.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. Such information is often not capable of external verification or validation.

The statements and opinions included in this report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Disclosure of information

In preparing this report, Kroll has had access to all financial information considered necessary in order to provide the required opinion. S&G has requested Kroll limit the disclosure of certain information relating to S&G. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising S&G. As such the information in this report, unless otherwise indicated, has been limited to the type of information that is regularly placed into the public domain by S&G.

Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information

- Target's Statement;
- Bidder's Statement;
- results presentations and annual reports for S&G for FY19 to FY22 and financial results for 1H23;

- ASX announcements, press releases, media and analyst presentations and other public filings by S&G including information available on its website;
- recent press articles regarding S&G;
- various industry reports, primarily IBISWorld Industry Report OD5519, March 2022;
- information sourced from S&P Capital IQ;

Non-public information

- S&G Board papers and other internal briefing papers prepared by S&G; and
- other confidential documents, presentations and workpapers.

In addition, we have had discussions with, and obtained information from, senior management and Directors of S&G.

Appendix 3 – Valuation methodologies

The most reliable evidence as to the value of a business or asset is the price at which that business or asset has been bought and sold in an arm's length transaction.

In the absence of direct market evidence, an estimate of value is provided using methodologies that rely on other sources of evidence. Consistent with International Valuation Standards, valuation methodologies applicable to assets or businesses can be categorised under three approaches: market approach, income approach and cost approach.

These approaches have application in different circumstances. The decision as to which approach to adopt will depend on various factors including the availability and quality of information, the maturity of the business and the actual practice adopted by purchasers of the type of asset or business involved.

Market approach

The market approach is based on comparing the asset or business to identical or comparable assets or businesses for which there is available price information. It is commonly adopted where:

- the asset or business or similar assets or businesses are actively publicly traded (**market comparable methodology**);
- there are frequent and/or observable transactions in comparable assets or businesses (**comparable transactions methodology**); and
- there is substantial operating history and a consistent earnings trend.

The market comparable methodology indicates the value of a business by comparing it to publicly traded companies in similar lines of business. An analysis of the trading multiples of comparable companies yields insight into investor perceptions and, therefore, the value of the subject company. The multiples are evaluated and compared based on the relative growth potential and risk profile of the subject company vis-a-vis the publicly traded comparable companies. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands.

The comparable transaction methodology indicates value based on exchange prices in actual transactions. This process essentially involves the comparison and correlation of the subject company with other similar businesses recently sold or currently offered for sale. Offer Prices such as timeframe of transaction, premiums, and conditions of sale are analysed, and the observed transaction multiples are subjectively adjusted to indicate a value for the subject company.

A key step in both methods is determining the appropriate unit of comparison. In a business valuation common units of comparison include, revenue, EBITDA, EBIT, net profit after tax and book values. The choice will typically depend on the industry and characteristics of the subject asset.

Rule-of-thumb valuation benchmarks are sometimes considered to be an application of the market approach. They generally should not be given substantial weight unless market participants place particular reliance on them.

Income approach

Under an income approach the value of an asset is determined by converting future cash flows to a current value. It is commonly adopted when:

- the income producing ability is the critical element affecting value from a market participant perspective;
- future cash flows can be estimated on a reasonable basis; and
- there is not a substantial operating history or there is a variable pattern of cash flow, or the asset has a finite life.

The most common methodology adopted is the DCF methodology. It has a strong theoretical basis and benefits by explicitly estimating future cash flows, allowing it to be used in a variety of circumstances, whether that be a start-up or an established business. It also allows for various scenarios and/or sensitivities to be modelled. Under a DCF methodology, forecast cash flows are discounted back to the valuation date resulting in a present value for the asset. Where there is an explicit forecast period a terminal value will typically be included, representing the value of the asset at the end of this period, which is also discounted

back to the valuation date to give an overall value for the business. The rate at which the future cash flows are discounted (the discount rate) should reflect not only the time value of money, but also the risk associated with the asset or business' future operations. Whilst discount rates are generally determined from observable data, substantial judgement is required in their determination. Further, the cash flows themselves also require considerable judgement in their preparation, placing significant importance on the quality of the underlying cash flow forecasts and the determination of an appropriate discount rate in order for a DCF methodology to produce a sensible valuation figure.

DCF's can also be extremely sensitive to what may be considered small changes in various assumptions and the longer the forecast period the more difficult it is in general to forecast cash flows with sufficient reliability. As such, it is important to adequately understand the basis and risks associated with the various assumptions used to derive the cash flow forecasts and recognise the impact it can have on resulting values including the value range. Notwithstanding, DCF methodologies are widely used and benefit from the rigour associated with the preparation of future cash flows.

Cost approach

Under a cost approach the value of an asset is determined having regard to the cost to replace or reproduce the asset. The most common methodologies include:

- the replacement cost;
- the reproduction cost method; and
- the summation method.

A cost based approach is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies).

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Appendix 4 – Market evidence

Comparable companies

The following table sets out the trading multiples for the selected comparable companies to S&G.

Comparable companies

Company Name	Country	Market Capitalisation	Enterprise Value ¹	EV/EBITDA		EV/GOCF ⁴	
		(\$ millions)	(\$ millions)	LTM ²	NTM ³	FY20-22	(CY22)
Legal services							
Shine	Australia	125.0	190.3	3.5	2.6	5.7	nmf.
AF Legal	Australia	12.9	15.3	nmf.	n/a ⁵	11.2	nmf.
Gateley	UK	230.3	268.0	9.3	8.7	15.7	20.0
DWF	UK	220.7	413.5	7.6	5.7	14.3	10.8
IP Firms							
IPH Limited	Australia	1,915.4	2328.2	16.2	13.5	23.9	22.2
QANTM	Australia	123.8	165.6	6.1	6.1	9.1	12.4
Professional Services Firms							
Kelly Partners	Australia	194.9	270.5	10.7	9.2	16.9	12.9
CountPlus	Australia	61.7	58.5	7.0	5.6	5.3	9.1

Source: S&P Capital IQ, Mergermarket, company financial statements; Kroll analysis.

Notes:

1. Enterprise is calculated as market capitalisation plus net debt, minority interests, preferred shares and leases. Market capitalisation of comparable companies are shown as of 7 March 2023.
2. LTM multiples calculated based on EBITDA from most recently available results as of 7 March 2023.
3. NTM multiples are based on FY23 (NTM) broker consensus forecasts available after 30 January 2023 and sourced from S&P Capital IQ.
4. GOCF is calculated as net cash from operating activities plus net interest paid.
5. na represents not available.

Legal Services firms

AF Legal Group Ltd

AF Legal operates as a family law firm in Australia. It provides advice to clients in respect of divorce, separation, property and children's matters together with litigation services. AF Legal provides services at agreed rates, generating legal fee revenue, consisting of both billed fees and WIP. On 19 October 2022, AF Legal announced that it had entered into an agreement to merge with GTC Legal Group, an Australian law firm. On 24 November 2022, AF Legal announced that the transaction had been terminated. AF Legal is based in Melbourne with over 90 employees and generated \$18.6 million of revenue in FY22. AF Legal is listed on the ASX with a current free float of 62.2% and low financial leverage (6% Debt to EV⁵⁶).

Gateley (Holdings) Plc

Gateley is a legal and professional services company which provides commercial legal services to individuals and businesses in the United Kingdom, Europe, the Middle East and other regions. The company offers a range of services, such as legal, banking, corporate, restructuring advisory, taxation, commercial dispute resolution/litigation, and other legal services. Since 2015, Gateley has acquired ten businesses which has diversified its offerings and contributed to growth. Gateley generated £137.2m of revenue in FY22, diversified across its four core segments of corporate (27.9% of total revenue), business services (13.2%), people (14.1%) and property (44.8%) services. Gateley is listed on the London Stock Exchange with a free float of 96.5%, operates with low financial leverage (12% Debt to EV) and employed 1,368 staff at the end of FY22.

DWF Group Plc

DWF is a global provider of integrated legal and business services which includes dispute resolution, regulatory, contracts management, litigation, compliance risk and other services. DWF provides its services

⁵⁶ Refinitiv.

in Europe, the Middle East, Asia, Australia, and North America. DFW caters to clients in the consumer, energy and natural resources, financial services, government and insurance sectors. DWF generated £416.1m of revenue in FY22, diversified across its three core segments of Legal Advisory (85.3% of total revenue), Connected Services (8.2%) and Mindcrest (6.5%). DWF entered the Canadian legal market on 7 November 2022 with the announcement of its acquisition of Whitelaw Twining, an independent Canadian law firm, for £27.7m. DWF is listed on the London Stock Exchange with a free float of 79.9%, operates with moderate financial leverage (35% Debt to EV) and employed over 4,000 staff at the end of FY22.

Intellectual Property Firms

IPH Limited

IPH provides IP and products in Australia and internationally. As at 30 June 2022, IPH works as a network of member firms working in eight IP jurisdictions, with clients in more than 25 countries. The company offers IP services related to the provision of filing, prosecution, enforcement, and management of patents, designs, trademarks, and other IP services. The IPH group network comprises leading IP firms AJ Park, Griffith Hack, Pizzey, Spruson & Ferguson and online IP services provider Applied Marks. IPH generated \$374.3m of sales revenue in FY22 from IP services (95.7% of FY22 sales revenue) and legal services (4.3%). IPH, on 7 October 2022, completed the acquisition of Canada's leading IP agency firm, Smart & Biggar for \$387m. Smart & Biggar recorded revenues of \$96.3m in FY22. IPH has invested over \$860m in acquisitions over the last seven years. As a result, the company has incurred restructuring costs associated with the integration and simplification business operations. IPH is listed on the ASX with a free float of 93.5%, low financial leverage (9% Debt to EV) and employs more than 900 staff.

QANTM Intellectual Property Limited

QANTM provides IP for start-up technology businesses, multinationals, public research institutions, and universities in Australia, New Zealand, Singapore, Malaysia, and Hong Kong. QANTM offers highly specialised services associated with the creation, protection, commercialisation, enforcement and management of IP rights. QANTM owns the Davies Collison Cave, FPA Patent Attorneys and Sortify.tn brands. QANTM generated \$127.2m of revenue in FY22 across two revenue streams and operates with low financial leverage (25% Debt to EV). Service charge revenue is earned by providing professional services to clients for ongoing protection of IP and represented 75.8% of FY22 revenues. Associate charge revenue (24.2% of FY22 revenue) reflects revenue earned from recharging the cost of arranging for IP protection in other jurisdictions and for the recharge of barrister, agent and expert fees. QANTM is a Melbourne-based company that is listed on the ASX with a free float of 73.7% and has 380 employees across Australia, New Zealand, Singapore, Malaysia, Hong Kong, USA and the UK.

Professional Services Firms

Kelly Partners Group Holdings Limited

Kelly Partners provides chartered accounting and other professional services to businesses, individuals and families. Kelly Partners provides accounting and taxation services, audits, business structuring, bookkeeping, and all other accounting related services. It is also engaged in broking services, wealth management, investment office and other non-accounting services. Kelly Partners recorded revenues of \$67.4m in FY22 with all core revenues derived from professional services revenues. Kelly Partners has grown in recent years via acquisition, completing 27 minor acquisitions since 2019. Kelly Partners operates out of 28 offices and employs more than 450 people. Kelly Partners is headquartered in Australia and listed on the ASX with a free float of 39.7% and low financial leverage (22% Debt to EV).

CountPlus Limited

CountPlus provides accounting, business advisory, and financial planning services in Australia. It is engaged in providing accounting, tax, audit services, financial planning and advice in relation to investment, superannuation, insurance and wealth services. At 30 June 2022, CountPlus employed 3,455 people in 136 members and equity firms. CountPlus acquired four accounting firms and two services firms in FY22. CountPlus recorded revenues of \$85.3 million in FY22 across accounting (60.1% of FY22 revenue), financial planning (14.1%), wealth (9.6%), services (6.3%) and other (9.9%). As at 30 June 2022, CountPlus had four wholly-owned, eight partly-owned and seven associates firms engaged in accounting business. It also had one partly-owned wealth services business and two partly-owned subsidiaries operating in its services business. CountPlus has low financial leverage (24% Debt to EV).

Comparable transactions

The following table sets out the key comparable transactions.

Comparable Transactions

Announcement Date	Target	Acquirer	Percentage Acquired (%)	Implied EV (100%) (A\$ million) ¹	EV / LTM EBITDA (times) ²
Law firms					
19-May-22	Coffin Mew LLP	Knights Group Holdings plc	100.0	20.4	4.2
31-Jan-22	Langleys Solicitors LLP	Knights Group Holdings plc	100.0	21.9	6.1
5-Mar-20	ASB Law LLP	Knights Group Holdings plc	100.0	16.6	5.1 ³
20-Jan-20	Keoghs LLP	Davies Group Limited	100.0	260.4	6.1 ³
31-Jan-19	BrookStreet des Roches LLP	Knights Group Holdings plc	100.0	18.0	3.7 ³
31-Aug-18	AF Legal Pty Ltd	Navigator Resourced Limited	100.0	5.7 ⁴	5.3
IP services firms					
15-Oct-19	Murgitroyd Group Limited	Sovereign Capital Partners LLP	100.0	118.6	13.0
12-Mar-19	Xenith IP Group Limited	IPH Limited	80.1	206.1	11.1
20-Feb-19	Chapman IP	Murgitroyd Group Limited	100.0	12.0	8.7
Professional services and other firms					
1-Feb-21	A & MBacon Limited; Partners in Costs Limited	Frenkel Topping Group plc	100.0	15.9	6.6
2-Dec-19	Apis Group Pty Ltd	Accenture plc	100.0	46.0	3.7
8-Oct-18	Taylor Byrne Holdings Pty Ltd	LandMark White Limited	100.0	8.4	3.7
31-Aug-18	Project Management Partners Pty Ltd	Outsourcing Inc.	100.0	41.0	6.0

Source: S&P Capital IQ, Mergermarket, company financial statements; Kroll analysis.

Notes:

1. Implied EV refers to the total implied enterprise value (**EV**) in respect of the acquisition.
2. LTM multiples calculated based on EBITDA from most recently available results as at the transaction announcement date.
3. EBITDA multiples excludes members' remuneration charged as an expense.
4. Includes the estimated net present value of a contingent consideration of \$0.5 million, conditional on AF Legal's normalised EBITDA exceeding \$1 million in any half yearly period.

Law firm transactions

Coffin Mew / Knights Group

Knights Group agreed to acquire Coffin Mew for an implied enterprise value of \$20.4 million on 19 May 2022. Coffin Mew was a regional full-service law firm operating in the South Coast of England, with particular strength in its commercial real estate and private wealth practices. The acquisition was intended to facilitate Knights Group's entry into the South East market of the UK.

Langleys Solicitors LLP / Knights Group

Knights Group agreed to acquire Langleys Solicitors for an implied enterprise value of \$21.9 million on 31 January 2022. Langleys Solicitor was an independent regional law firm operating in York and Lincoln in the United Kingdom. The acquisition was intended to facilitate Knights Group's entry into the East of England.

ASB Law / Knights Group

Knights Group agreed to acquire ASB Law for an implied enterprise value of \$16.6 million on 5 March 2020. ASB Law was a full service commercial law firm operating in the South East market of the UK. The consideration paid comprised of 7.3 million in cash, issuance of 181,675 new ordinary shares and a deferred cash consideration of up to 0.4 million, to be paid in equal instalments on the first and second anniversary of completion. The acquisition was intended to facilitate Knights Group's entry into the South East market of the UK. Knights Group expected substantial synergies from the acquisition, such that the profit before tax margin would increase from approximately 4.0% in FY19 to in excess of 15.0% by FY21.

Keoghs / Davies Group Limited

Davies Group Limited (**Davies**) announced the acquisition of Keoghs on 20 January 2020 for an implied enterprise value of \$260.4 million. Keoghs is a UK-based provider of legal solutions to insurers and businesses. It operates under a high volume, defendant-only model and processes in excess of 100,000 claims per annum. The rationale of the transaction was to broaden Davies' capability and expertise in the insurance industry and grow its insurance solution offering which included claim management and underwriting.

BrookStreet des Roches / Knights Group

Knights Group announced the acquisition of BrookStreet des Roches for an implied equity value of \$18.0 million on 31 January 2019. BrookStreet des Roches was a UK-based commercial law firm with a particularly strong reputation in the real estate sector. The rationale of the acquisition was to support Knights Group in its geographical expansion outside London and enhancing its expertise in real estate sector.

AF Legal / Navigator Resources

ASX listed Navigator Resources Limited (**Navigator Resources**) announced the acquisition of AF Legal on 31 August 2018 in a reverse takeover offer. The consideration paid included a cash payment and an equity consideration of Navigator Resources shares. Additionally, Navigator Resources agreed to pay \$0.5 million in two instalments of \$0.25 million) if the normalised EBITDA of AF Legal exceeds \$1 million in any half-yearly period. Inclusive of the estimated net present value of the contingent instalments, the transaction represented an implied enterprise value of \$5.7 million. AF Legal is an Australian family law firm which operates under an innovative business model focused on generating business through digital marketing rather than client relationships.

IP services firm transactions

Murgitroyd / Sovereign Capital Partners LLP

Sovereign Capital Partners LLP announced the acquisition of Murgitroyd on 15 October 2019 for an implied enterprise value of \$118.6 million. The offer price represented a premium of 4.7% over Murgitroyd's closing share price one week prior to the announcement. Murgitroyd is an international IP services firm engaged in delivering patent and trademark legal advice.

Xenith IP / IPH Ltd

IPH Ltd (**IPH**) announced the acquisition of an 80.1% stake of Xenith IP at an implied enterprise value of \$206.1 million on 12 March 2019. IPH already held a 19.9% of stake in Xenith IP, acquired in February 2019 for \$33.0 million. The offer price represented a 36.8% premium over Xenith IP's closing share price

one week prior to the announcement. Xenith IP provides IP consulting, advisory, and management services. IPH's strategic rationale for the acquisition was to support its strategy of consolidating the market for IP services, and access potential synergies from cross-selling Asia-based services to Xenith's clients.

Chapman IP / Murgitroyd

Murgitroyd announced the acquisition of Chapman IP on 20 February 2019 for an implied enterprise value of \$12.0 million. Chapman IP is a UK and European patent and trademark related services provider with sector specialisation in materials sciences, chemistry, engineering, IT and technology. The acquisition was intended to complement Murgitroyd's existing European network and client base and expected to be earnings enhancing for Murgitroyd in the first full financial year following acquisition.

Professional services and other firm transactions

A & M Bacon; PIC / Frenkel Topping

Frenkel Topping, an independent financial adviser specialising in providing expert services to clients seeking damages for personal injury and medical negligence, announced on 1 February 2021 that it would acquire A & M Bacon and PIC for an implied enterprise value of \$15.9 million for both businesses. A & M Bacon and Partners in Costs are two separate civil and litigation businesses. A & M Bacon is a specialist firm which provides legal costs advisory services including costs budgeting, costs recovery and costs related strategic advice. PIC also provides legal costs advisory services and specialises in civil litigation claims including personal injury, professional negligence, and commercial claims. The strategic rationale for the acquisitions was to help Frenkel Topping consolidate personal injury and clinical negligence market in the UK by acquiring complementary businesses. The relatively high multiple of 6.6 times likely reflects significant synergies available to Frenkel Topping by acquiring two highly complementary businesses.

Apis Group / Accenture plc

Accenture plc (**Accenture**) announced the acquisition of Apis on 2 December 2019 for a consideration of \$46.0 million. Apis Group is a Canberra-based consultancy which services government clients. The acquisition was intended to enable Accenture to expand and strengthen its services to government and health clients in Australia.

Taylor Byrne / LandMark White Limited

LandMark White Limited (**LandMark White**) announced the acquisition of Taylor Byrne on 8 October 2018 for an implied enterprise value of \$41.0 million. Taylor Byrne was a Brisbane-based property valuation firm operating from regional offices in Queensland and New South Wales,. The rationale of the acquisition was to advance LandMark White's growth strategy and increase its regional footprint.

PMP / Outsourcing Inc

Outsourcing Inc. announced the acquisition of PMP on 31 August 2018 for a consideration of \$41.0 million. PMP is a Australia-based provider of project management and delivery services. The acquisition was intended to support Outsourcing Inc.'s geographical expansion into the Australian professional services market. The relatively high multiple of 6.0 times likely reflects high historical growth rates and expected growth prospects (revenue had risen 36.7% over the two years leading to the acquisition), expected revenue synergies by the acquirer which expected to cross-sell HR outsourcing services to PMP clients, and the acquirer's belief that PMP's revenue from government clients (which represented almost one-third of revenue) were less susceptible to economic fluctuations.

Part Two – Financial Services Guide

What is an FSG?

This Financial Services Guide (“FSG”) is an important document that provides you with information to help you decide whether to use our financial services.

This FSG contains information on:

- who we are;
- who our authorised representatives are;
- how we can be contacted;
- certain financial services that we can offer you;
- how we, our authorised representatives and other parties involved in providing the financial services are paid in relation to the financial services we offer; and
- details of how you can make a complaint about us or the financial services we provide.

Who we are?

Kroll Australia Pty Ltd (ACN 116 738 535), (“We”, “us” and “Kroll”) is authorised to provide retail financial services on behalf of Millinium Capital Managers Limited (ACN 111 283 357) (“Millinium”), Australian Financial Services License (“AFSL”) no. 284336, as a Corporate Authorised Representative (“CAR”). We have also appointed Mr. Ian Jedlin as an authorised representative to Millinium’s AFSL (our “Authorised Representative”). All authorised representatives of Kroll are authorised representatives of Millinium. We aim to provide quality financial products and services to investors. Kroll acts on its own behalf when providing financial services.

Kroll has been engaged by Slater & Gordon Limited (“Client”) to prepare an independent expert’s report (“Report”) in connection with the Offer. Client will provide our Report to you.

Our details

Kroll Australia Pty Ltd
Level 32, 85 Castlereagh St
SYDNEY
NSW 2000
www.kroll.com
Ph: 02 8286 7200

Our Authorised Representative

Ian Jedlin
ASIC authorised representative: No. 000404117
Level 32, 85 Castlereagh St, SYDNEY, NSW 2000

Authorised Financial Services

Kroll is authorised by Millinium to provide the following financial services as their CAR:

- provide financial product advice in respect of the following classes of financial products:
 - interests in managed investment schemes including investor directed portfolio services; and
 - securities,
- with respect to retail clients and wholesale clients.

This FSG only relates to the provision of general advice by Kroll.

Personal Advice

Neither we nor our authorised representatives can provide you with personal advice. Personal advice is advice that takes into account your objectives, financial situation and needs. Where you are referred to a financial planner for personal advice, they will make reasonable enquiries to understand your personal objectives, financial situation and needs. Their personal advice, and any relevant warnings, will be provided to you in their Statement of Advice (“SOA”).

Remuneration

Kroll charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay Kroll \$250,000 (excluding GST and out of pocket expenses) for preparing the Report. Kroll and its officers, representatives, related entities and associates (“Personnel”) will not receive any other fee or benefit in connection with the provision of the Report. All Personnel that provide general advice on our behalf in providing services are on contract to us and receive a salary or payments in accordance with their respective contracts. They may also receive a bonus, but it is not related to the general advice provided in the Report.

Kroll may provide professional services, including consultancy, business intelligence, transfer pricing and financial advisory services, to the person who engaged us and receive fees for those services Kroll and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaint Redressal

If you have a complaint, please let either Kroll or the Authorised Representative know. Formal complaints should be sent in writing to Complaints Officer, Kroll, Level 32, 85 Castlereagh St, SYDNEY, NSW 2000. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 8286 7227 and they will assist you in documenting your complaint. If the complaint cannot be settled in the first instance by Kroll, you should contact Millinium via the contact details set out below:

In writing:

Dispute Resolution Officer
Millinium Capital Managers Limited
GPO Box 615
Sydney, NSW, 2000

When your complaint is received by Millinium it will be entered onto Millinium's complaints register. All details of the complaint will be sent to the Disputes Resolution Officer who will investigate the circumstances of the complaint. If the Disputes Resolution Officer is unable to reach a satisfactory resolution of the complaint within thirty (30) business days of receipt, you should contact Australian Financial Complaints Authority ("AFCA"). The details are:

In writing:

<https://www.afca.org.au/make-a-complaint>

Telephone

1300 56 55 62 (local call rate)

Email

info@afca.org.au

Website

www.afca.org.au

Please note that AFCA can currently only deal with claims for compensation up to \$1,085,000. Monetary limits and the AFCA terms of reference do change from time to time. Current details can be obtained from the AFCA website listed above.

Corporate Directory

Directors

James MacKenzie (Chair, Independent Non Executive Director)

John Somerville (Managing Director, CEO)

Mark Dewar (Non Independent Non Executive Director)

Merrick Howes (Non Independent Non Executive Director)

Michael Neilson (Executive Director)

Elana Rubin (Independent Non Executive Director)

Jacqui Walters (Independent Non Executive Director)

Legal Adviser

MinterEllison
Collins Arch
Level 20
447 Collins Street
Melbourne Victoria, 3000

Financial Adviser

Flagstaff Partners
Level 20
101 Collins Street
Melbourne Victoria, 3000

Secretary

Michael Neilson

Registered Office

Level 12, 485 La Trobe Street
Melbourne Victoria, 3000
Phone: (03) 9602 6888
Website: www.slatergordon.com.au

Share Registry

Computershare Investor Services
Limited
Yarra Falls, 452 Johnston Street,
Abbotsford
Victoria, 3067

SGH

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

10 March 2023

**RELEASE OF TARGET'S STATEMENT RECOMMENDING SLATER & GORDON LTD
SHAREHOLDERS TO ACCEPT ALLEGRO'S OFFER**

On 24 February 2023, Slater & Gordon Ltd (**S&G**) announced that it had entered into a bid implementation agreement with a wholly owned subsidiary of Allegro Funds Pty Ltd for a recommended off-market takeover offer for all issued fully paid shares in S&G at \$0.55 cash per share (**Allegro's Offer**). Allegro's Offer opened on 3 March 2023 and is scheduled to close at 7.00pm (Sydney time) on 4 April 2023, unless extended.

S&G has now released its Target's Statement responding to Allegro's Offer and an electronic copy can be found on S&G's website.

HOW TO ACCESS THE TARGET'S STATEMENT

Online

The Target's Statement can be accessed via the website below:

<https://www.slatergordon.com.au/investors/asx-announcements>

Paper

Request a copy of the Target's Statement free of charge from the S&G information line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia)

Your Directors unanimously recommend that
ALL S&G shareholders ACCEPT Allegro's Offer,
in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

Each of your Directors intends to **ACCEPT** Allegro's Offer in respect of all S&G Shares held or which may be held by him or her or which he or she otherwise controls, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.


The key reasons that the Board has considered in reaching this **ACCEPT** recommendation are as follows:

1. **Allegro's Offer has been independently assessed as fair and reasonable.**
2. **Allegro's Offer is all cash and provides certainty of value for your S&G Shares.**
3. **Avoidance of possible future refinancing requirement and associated dilution risk.**

4. **The S&G share price is likely to remain volatile with limited trading liquidity if Allegro's Offer does not proceed.**
5. **You may face significant risks as a minority shareholder of S&G.**
6. **No Superior Proposal has emerged as at the date of the Target's Statement**

Please refer to the Target's Statement for further details.

Yours faithfully

A handwritten signature in black ink, appearing to read 'James MacKenzie'.

James MacKenzie
Chair, Slater & Gordon Ltd

From: Slater & Gordon Limited
Sent: Friday, 10 March 2023
To:
Subject: Target's Statement – Off-market takeover offer from Allegro



10 March 2023

RELEASE OF TARGET'S STATEMENT RECOMMENDING SLATER & GORDON LTD SHAREHOLDERS TO ACCEPT ALLEGRO'S OFFER

Dear Shareholder,

On 24 February 2023, Slater & Gordon Ltd (**S&G**) announced that it had entered into a bid implementation agreement with a wholly owned subsidiary of Allegro Funds Pty Ltd for a recommended off-market takeover offer for all issued fully paid shares in S&G at \$0.55 cash per share (**Allegro's Offer**). Allegro's Offer opened on 3 March 2023 and is scheduled to close at 7.00pm (Sydney time) on 4 April 2023, unless extended.

This email is being sent to you because you are shown on the register of shareholders of S&G as holding S&G shares and you have elected to receive shareholder communications electronically.

If you have recently sold all of your S&G shares, please disregard this email.

S&G has now released its Target's Statement responding to Allegro's Offer and an electronic copy can be accessed via the methods noted below.

HOW TO ACCESS THE TARGET'S STATEMENT

Online	Paper
<p>The Target's Statement can be accessed via the website below:</p> <p>https://www.slatergordon.com.au/investors/asx-announcements</p>	<p>Request a copy of the Target's Statement free of charge from the S&G information line on 1300 917 012 (within Australia) or +613 9415 4876 (outside Australia)</p>

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ALL S&G shareholders ACCEPT Allegro's Offer,

in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

Each of your Directors intends to **ACCEPT** Allegro's Offer in respect of all S&G Shares held or which may be held by him or her or which he or she otherwise controls, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that Allegro's Offer is fair and reasonable.

The key reasons that the Board has considered in reaching this **ACCEPT** recommendation are as follows:

1. **Allegro's Offer has been independently assessed as fair and reasonable.**
2. **Allegro's Offer is all cash and provides certainty of value for your S&G Shares.**
3. **Avoidance of possible future refinancing requirement and associated dilution risk.**
4. **The S&G share price is likely to remain volatile with limited trading liquidity if Allegro's Offer does not proceed.**
5. **You may face significant risks as a minority shareholder of S&G.**

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Please refer to the Target's Statement for further details.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'James MacKenzie'.

James MacKenzie
Chair, Slater & Gordon Ltd

You have received this message because you have elected to receive electronic securityholder communications. To change your preferences login to [Investor Centre](#), select the "Communication Preferences" option and follow the prompts. We may occasionally send marketing material about products and services. To opt-out of receiving these communications, reply with the word "unsubscribe".