

BPS TECHNOLOGY LTD

Buy

Let them entertain you

Software & Services / Internet Software & Services

24 November 2016

Company Update

Ticker	BPS
Stock Price	\$0.970
Target Price	\$1.350
Forecast Capital Return	39.9%
Forecast Dividend Yield	5.0%
Estimated Total Return - 12 Mth Forward	44.9%

Company market data

Market Cap.	\$87.3m
Free Float (%)	63.3
Enterprise Value	\$95.1m
52 Week Range	\$0.76 - \$1.30
Shares Out.	90.5m

Estimates changes

	2016a	2017e	2018e	2019e
Core NPAT	7.4	10.8	13.5	14.8
Core EPS dil. (€)	11.7	12.8	14.9	16.3
DPS (€)	4.0	5.0	6.5	7.1

All figures are in AUD unless otherwise specified.

Share price performance

BPS TECHNOLOGY LTD vs. AS51 (rebased index)



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Event

We initiate coverage of BPS Technology (BPS) with a **BUY rating** and a **12 month target price of \$1.35/share**. We view the recent Entertainment Book acquisition as transformational for the business and can see a clear pipeline of cost out opportunities and revenue growth.

Investment View

BPS is a payments platform connecting customers to a variety of SMEs. The original BPS business has 2 inter-related and complementary offerings:

1. Bartercard - a barter trade exchange platform facilitating B2B trade between 24,000 SMEs with approximately \$600m of transactions annually. The platform enables SMEs to trade their excess inventory.
2. Bucqi - a B2C payments platform which utilizes the 24,000 SMEs in the Bartercard network to create a portable rewards and loyalty payment platform for consumers and SMEs.

We view Entertainment Book as the growth driver for the group going forward. It is a leading sales channel, providing special offers to restaurants and leisure operators across 21 regions for ~550,000 paying customers or members. It is distributed through not-for-profits, schools and community groups.

We see the following growth drivers for the Entertainment Book business:

Cost out drivers:

- Reduced rental expense as Entertainment Book or BPS can exit expired leases and consolidate office space;
- IT and other admin cost savings as previously outsourced functions are brought in-house; and
- Decreasing production costs as more members subscribe to a digital membership rather than buy the physical book.

Revenue drivers:

- Increase membership growth by introducing an auto-renewal function, offering different membership "bundles" e.g. by geography or "family packs" and adding increased functionality on the app to make it transactional etc.;
- Adding a new source of revenue by charging SMEs for data e.g. customer spending habits, geographies etc.; and
- Cross-selling the BPS offering.

Trading at a FY17 PE of 7.6x with a 5% fully franked dividend yield, we view BPS as a value trade. Given the estimated margin expansion and top line growth, we would expect the stock to re-rate over time.

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	9.5	14.3	17.4	18.8
EV/EBITDA		6.7x	5.5x	5.1x
Core NPAT	7.4	10.8	13.5	14.8
Core EPS (Diluted) (€)	11.7	12.8	14.9	16.3
P/E		7.6x	6.7x	6.1x
EPS growth	(21.4%)	9.0%	17.0%	9.2%
DPS (€)	4.0	5.0	6.5	7.1
Yield	4.0%	5.0%	6.5%	7.1%
DPS growth	(27.3%)	25.0%	30.3%	9.1%
Dividend Payout Ratio	34.2%	39.2%	43.6%	43.6%

All figures are in AUD.

We initiate with a BUY and 12 month target price of \$1.35

We issue a BUY rating and a 12 month price target of \$1.35, an estimated ~45% total return comprised of a 5% dividend yield and a 40% capital return.

Our target price is set at our DCF based current valuation shown below. We use a WACC of 12.8%.

Figure 1: Moelis current valuation of BPS

	\$m	Per share (\$)
Enterprise Value	122	1.35
Net Debt (Cash)	(2)	(0.02)
Equity Valuation	121	1.33

Source: Moelis analysis

Our 12 month target price of \$1.35 implies a FY17 PE of 10.6x and FY17 EV/EBITDA of 9.1x, still at a discount to the XSI.

What are comparable companies?

We compare BPS to 2 distinct groups of companies that have similar drivers to BPS' divisions:

Figure 2: Comparable companies' trading multiples

Company	Ticker	Country	Price	Market Cap	EV	P/E		EV/EBITDA		EV/Sales		
			\$	\$m	\$m	FY17	FY18	FY17	FY18	FY17	FY18	
BPS Technology Ltd (Consensus)	BPS	Australia	0.97	88	96	7.4x	6.0x	6.5x	4.5x	0.9x	0.7x	
BPS Technology Ltd (Moelis estimates)	BPS	Australia	0.97	88	96	7.8x	6.9x	6.9x	5.8x	0.9x	0.8x	
ASX Small Cap Industrials	XSI					12.0x	11.0x	9.5x	8.8x			
Booking / ordering / discounts												
Emerchants Ltd	EML	Australia	1.88	460	433	39.1x	22.9x	25.9x	15.1x	7.0x	5.2x	
Mobile Embrace Ltd	MBE	Australia	0.11	49	37	4.8x	3.5x	2.4x	1.8x	0.4x	0.3x	
Groupon Inc	GRPN	United States	5.50	2,323	1,834	37.5x	19.7x	8.3x	6.5x	0.6x	0.5x	
American Express Co	AXP	United States	98.93	66,704	87,939	13.0x	11.8x	11.4x	10.9x	2.7x	2.6x	
Rewardle Holdings Ltd*	RXH	Australia	0.05	8	8	nm	nm	nm	nm	3.3x		
						Average	23.6x	14.5x	12.0x	8.6x	2.8x	2.2x
Loyalty / frequent flyer programs												
Multipius Sa	MPLU3	Brazil	13.72	5,560	4,304	10.8x	10.7x	7.1x	7.0x	1.9x	1.9x	
Smiles Sa	SMLE3	Brazil	18.44	5,693	5,305	10.5x	10.3x	9.3x	8.7x	3.2x	3.0x	
						Average	10.7x	10.5x	8.2x	7.9x	2.6x	2.4x

* Trailing 12 month multiples are used due to lack of estimates in Bloomberg

Source: Bloomberg, Moelis Analysis

1. Booking / ordering / discount based companies:

We compare the Entertainment Book to the likes of Emerchants Clipp, Groupon, American Express and Rewardle.

- a. **Emerchants** is a broad-based issuer and processor of prepaid financial cards, ranging from reloadable cards through to traditional, single-store gift cards. It also offers an incentive and reward card platform. Emerchants provides their customers (stores etc) with data and customised reporting and analytics.
- b. **Clipp** is part owned by Mobile Embrace and it is a cashless transaction system where consumers can save up to 40% off their food and drink bill if they meet the minimum spend (subject to certain times and days). They pay for their bill

via a smartphone app and using their pre-loaded credit card details. Venues have the ability to offer last minute deals to encourage customer patronage. It also increases efficiency as customers open and close tabs from their phones resulting in faster service and shorter queues. The vast majority of Clipp’s venues are pubs.

- c. **Groupon** offers customers the ability to pre-purchase discounted offers at a range of venues subject to certain times and days.
- d. **American Express** offers cardholders “Amex offers” where customers can access various discounts (subject to using the American Express credit card for the purchase and minimum spending requirements) from a range of venues, add the offer/s to their cards and receive the discount in the form of a rebate or credit on their statement. For instance, “Spend \$200 or more in one or more transactions online at davidjones.com.au by 4/12/16 to receive one \$40 credit. Limited to the first 20,000 cards to save the offer.”
- e. **Rewardle** is a marketing and transactional platform that combines membership, points, rewards, mobile ordering and payments along with social media integrations, into a single cloud based platform. Merchants place customer facing Rewardle tablet on their counter that acts as a kiosk. During visits, customers check-in on the tablet using a card or the Rewardle smartphone app to collect points and redeem rewards. Rewardle gives customers choice over the reward they receive and portability of points. Merchants gain stronger customer engagement and gain valuable insight that they can use to make future business decisions.

In the table below, we have also compared the attributes of BPS’ programs to unlisted companies such as; Hey You, Dimmi, Catch of the Day, Living Social and Scoopon.

Figure 3: Comparison of booking / ordering / discount companies

COMPANY	ABILITY TO BOOK?	ABILITY TO PAY?	OFFERS DISCOUNTS?	INCENTIVES FOR LOYALTY?	PORTABILITY / TRANSFER OF POINTS?	APP BASED?	PHYSICAL VERSION?	RESTRICTIONS ON USE?	UP FRONT COST TO VENUE	COST TO CUSTOMER	COMMISSION CHARGED
Entertainment Book	Coming soon	Coming soon	Yes	No	No	Yes	Yes	No	Nil	\$70 / year	Nil
Bucqi	No	Yes	No	Yes	Yes	Yes	No	No	\$99 / month	Nil	6.5%
Mobile Embrace (Clipp)	No	Yes	Yes	No	No	Yes	No	Yes	Nil	Nil	3%
Groupon / Living Social	No	Yes	Yes	No	No	Yes	No	Yes	\$30 - \$240 / year	Nil	up to 50%
Rewardle	No	Yes	No	Yes	Yes	Yes	Yes	No	\$49 / month	Nil	Nil
Hey You	No	Yes	No	Yes	No	Yes	No	No	\$12.50 / week	Credit card processing fee	averages 5%
Dimmi	Yes	No	No	Yes	Yes	Yes	No	No	\$25 / month	Nil	\$1-\$3 / customer
Catch of the Day / Scoopon	No	Yes	Yes	No	No	Yes	No	Yes	Not specified	can be up to \$69 / year	Not specified

Source: Company, Moelis Analysis

2. Loyalty and frequent flyer programs:

According to the “For love or money 2016” survey conducted by Directivity, 82% of Australians over 18 years old are enrolled in at least one loyalty program and the average number of memberships is 3.9. The study revealed that there were 3 motivations of loyalty – convenience of use and redemption, transactional applications and emotional connection. Portability of points and a guaranteed earnings and redemption ratio is one advantage Bucqi has over traditional loyalty and frequent flyer programs.

Moelis' pro-forma P&L

Figure 4: Moelis' pro-forma P&L estimates

A\$m	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
BPS revenue	25.0	26.3	51.3	25.2	26.4	51.6	25.6	26.8	52.4
% chg	0%	5%	2%	1%	1%	1%	1%	1%	1%
EB revenue	31.1	27.2	58.3	32.7	28.7	61.3	33.8	29.8	63.6
% chg				5%	5%	5%	4%	4%	4%
Total revenue	56.1	53.5	109.6	57.9	55.1	112.9	59.4	56.5	115.9
% chg				3%	3%	3%	3%	3%	3%
BPS EBITDA	4.3	5.0	9.3	4.5	4.9	9.4	4.6	5.0	9.6
% chg	-7%	5%	-1%	2%	-1%	1%	2%	2%	2%
EB EBITDA	2.9	2.0	4.9	4.6	3.4	8.0	5.2	4.0	9.2
% chg				56%	71%	62%	13%	16%	14%
Total EBITDA	7.3	7.0	14.3	9.1	8.4	17.4	9.7	9.0	18.8
% chg				24%	20%	22%	8%	8%	8%
Margin	13.0%	13.1%	13.0%	15.6%	15.2%	15.4%	16.4%	16.0%	16.2%
D&A	(0.6)	(0.6)	(1.3)	(0.6)	(0.7)	(1.3)	(0.7)	(0.7)	(1.3)
EBIT	6.7	6.4	13.0	8.4	7.7	16.1	9.1	8.4	17.4
% chg				26%	21%	24%	8%	8%	8%
Margin	11.9%	11.9%	11.9%	14.5%	14.0%	14.3%	15.3%	14.8%	15.1%
Net interest expense	(0.3)	(0.3)	(0.7)	(0.3)	(0.3)	(0.6)	(0.3)	(0.2)	(0.5)
Tax expense	(0.8)	(0.8)	(1.6)	(1.1)	(1.0)	(2.0)	(1.1)	(1.1)	(2.2)
Effective tax rate	13%	13%	13%	13%	13%	13%	13%	13%	13%
NPAT	5.5	5.2	10.8	7.0	6.5	13.5	7.7	7.1	14.8
% chg				27%	24%	26%	9%	9%	9%

Source: Company, Moelis Analysis

We view the Bartercard business as more of an annuity stream with low top-line growth. We have not explicitly estimated revenue for the Bucqi business given the focus on Entertainment Book post the acquisition. We view the near-term growth drivers of the business as:

1. Cost out program driving EBTIDA margin expansion
2. Revenue growth from Entertainment Book; and
3. Revenue uplift from combining or cross selling the Entertainment Book and existing BPS business.

We will explain our revenue and cost assumptions for both BPS and Entertainment Book below.

We estimate an effective tax rate of 13% for BPS. This is due to:

- Investment costs that are deductible for tax purposes but not expensed on the P&L;
- IPO costs of ~\$5m that were capitalized against share capital but deductible for tax purposes over 5 years;
- Technology R&D tax rebates;
- Tax effect of trade dollar transactions; and
- Lower tax rates due to BPS operating in foreign jurisdictions.

The Entertainment Book transaction in more detail

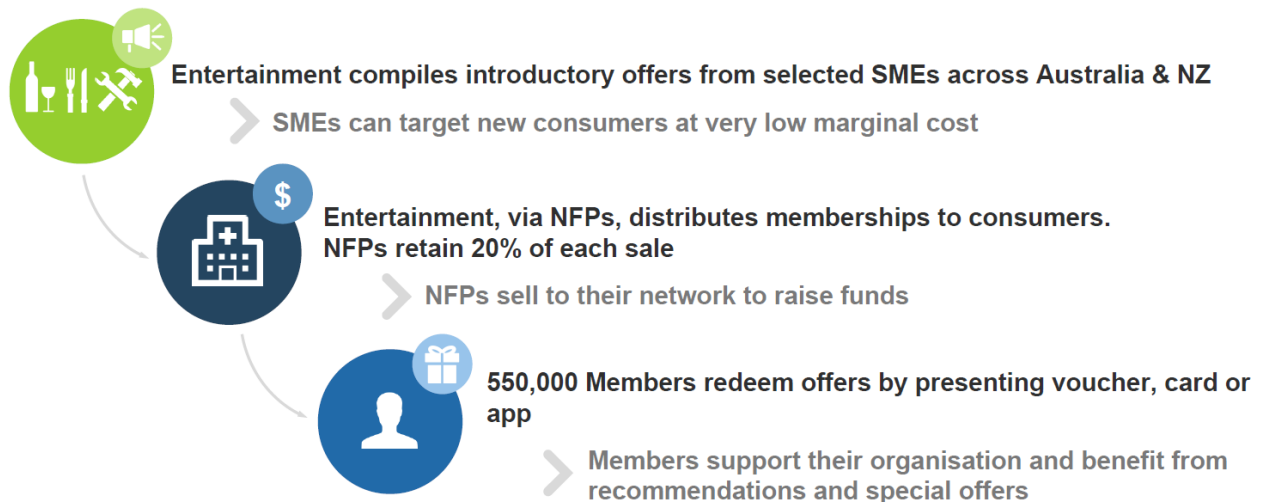
Background

Entertainment Book in Australia was established more than 20 years ago and is a leading sales channel for the hospitality industry with ~550,000 paying customers. It provides restaurant and activity guides that contain special offers across 21 specific regions in Australia and New Zealand. It also offers direct booking platforms for hotels, restaurants and car hire.

Memberships are available in a printed book format and a digital format which is accessible via a smartphone app. These memberships are distributed through schools, community groups and not-for-profit organisations as a fundraising mechanism. The books are sold for between \$55-\$70 depending on the region and the community group generally receives a 20% commission for the memberships sold. The Entertainment Book network consists of:

- 13,000 SMEs, predominantly in the tourism and hospitality sector;
- 18,000 not-for-profit, schools and community groups; and
- 550,000 consumers, known as members.

Figure 5: Entertainment connects SMEs with consumers via NFPs



Source: Company, Moelis Analysis

In August 2016, BPS raised \$30m equity to fund the acquisition of Entertainment Book (\$25m) and provide growth and working capital (\$5m). At a purchase price of \$25m, we estimate that BPS paid 5.1x FY17 EBITDA.

Guidance

BPS provided a trading update for 1H17 on 26 Oct. It noted that the incorporation of Entertainment Book into the BPS Group had been substantially completed and progressed according to plan. 1Q17 results for Entertainment Book exceeded expectations and the indications were that it would exceed targets for 1H17. BPS gave the following group 1H17 pro-forma guidance:

- Revenues expected to exceed \$55m;
- EBITDA expected to exceed \$6.8m;
- EPS expected to exceed 7.1cps; and
- The \$5m convertible note that was issued in December 2015 will be redeemed on 12 December 2016.

We estimate that in order to achieve 1H17 EPS of 7.1cps, BPS will have to reach revenue of at least \$56.1m and EBITDA of \$7.3m. While our estimates are largely in-line with BPS FY17 pro-forma guidance released at the time of acquiring Entertainment Book, we would be disappointed if the company didn't beat these numbers.

Figure 6: Moelis' estimates vs. BPS guidance

A\$m	BPS GUIDANCE		MOELIS ESTIMATES			BPS GUIDANCE
	1H17		1H17E	2H17E	FY17E	FY17
Revenue	>55		56.1	53.5	109.6	109.1
Opex			(48.8)	(46.5)	(95.3)	(95.0)
EBITDA	>6.1		7.3	7.0	14.3	14.2
D&A			(0.6)	(0.6)	(1.3)	(1.3)
EBIT			6.7	6.4	13.0	12.8
Net interest expense			(0.3)	(0.3)	(0.7)	(0.6)
PBT			6.4	6.0	12.4	12.2
Effective tax rate			13%	13%	13%	13%
Tax expense			(0.8)	(0.8)	(1.6)	(1.6)
NPAT			5.5	5.2	10.8	10.6
Weighted avg. shares			77.6	90.5	84.4	90.5
EPS (cps)	>7.1		7.1	5.8	12.8	11.8

Source: Company, Moelis Analysis

Drivers of future growth (FY18 and beyond)

We understand that the FY17 pro-forma guidance given by BPS assumes no synergies, conservative revenue growth for BPS and Entertainment Book and no expansion of margins. Below we outline potential cost savings and revenue uplift opportunities in FY18 and beyond.

Potential cost savings

We expect 2 main sources of cost savings in FY18 and FY19 – reduced rental expense, IT and admin costs as well as reduced production costs as there's a greater uptake for the digital membership. We acknowledge there would be other sources of cost reduction i.e. headcount reduction, however, until growth and integration plans of Entertainment Book are announced, we are hesitant to factor this in to our estimates.

Figure 7: Moelis' cost estimates for the Entertainment Book

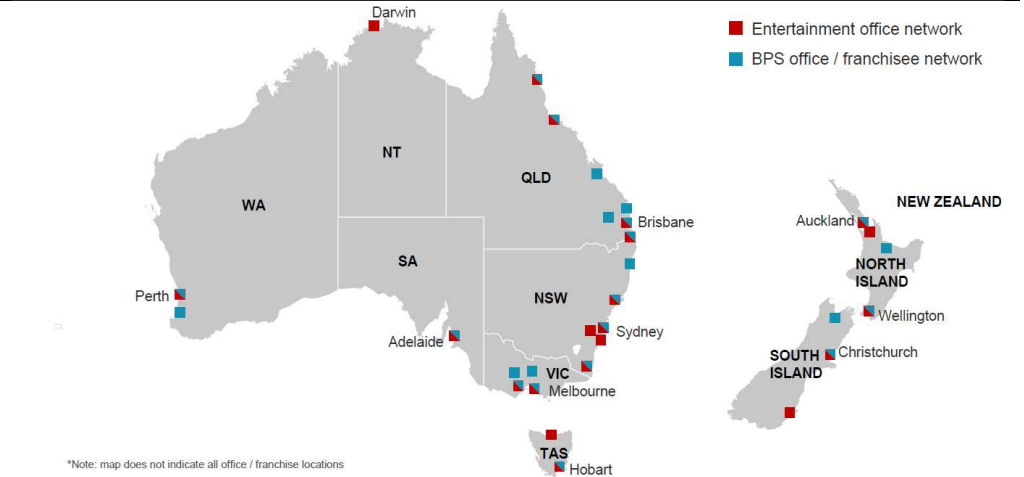
A\$m	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
Production costs	(2.3)	(2.2)	(4.4)	(2.0)	(2.0)	(4.0)	(1.9)	(1.9)	(3.8)
Commission paid + gift card costs	(12.1)	(9.4)	(21.5)	(12.1)	(10.8)	(22.9)	(12.6)	(11.2)	(23.8)
Costs of services (production & commission paid)	(14.3)	(11.6)	(25.9)	(14.2)	(12.7)	(26.9)	(14.6)	(13.1)	(27.6)
% of sales	46.1%	42.6%	44.5%	43.4%	44.4%	43.9%	43.0%	44.0%	43.5%
% chg	43.0%	15.6%	29.3%	-1.1%	9.9%	3.8%	2.6%	2.7%	2.7%
Employee benefits expense	(10.4)	(10.2)	(20.6)	(11.4)	(10.0)	(21.5)	(11.8)	(10.4)	(22.3)
% of sales	33.5%	37.5%	35.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
% chg	1.6%	-0.4%	0.6%	9.9%	-1.6%	4.2%	3.6%	3.8%	3.7%
Lease rental expense (operating leases)	(0.9)	(0.9)	(1.8)	(0.7)	(0.7)	(1.4)	(0.5)	(0.5)	(1.0)
% of sales	2.9%	3.3%	3.1%	0.02	0.02	0.02	0.01	0.02	0.02
% chg	3.5%	3.3%	3.4%	-22.2%	-22.2%	-22.2%	-28.5%	-28.6%	-28.5%
Other	(2.5)	(2.5)	(5.0)	(1.8)	(1.8)	(3.5)	(1.8)	(1.8)	(3.5)
Total opex	(28.1)	(25.2)	(53.3)	(28.1)	(25.2)	(53.3)	(28.6)	(25.7)	(54.4)

Source: Company, Moelis Analysis

1. Reduced rental, IT and admin expenses

As can be seen from the map below, BPS and Entertainment Book operate in similar geographic localities. We believe that this will mean that Entertainment Book can exit existing leases as and when they expire over the next 3 years. We estimate the cost savings would be ~\$0.4m per year over the next 4 years.

Figure 8: BPS and Entertainment Book offices



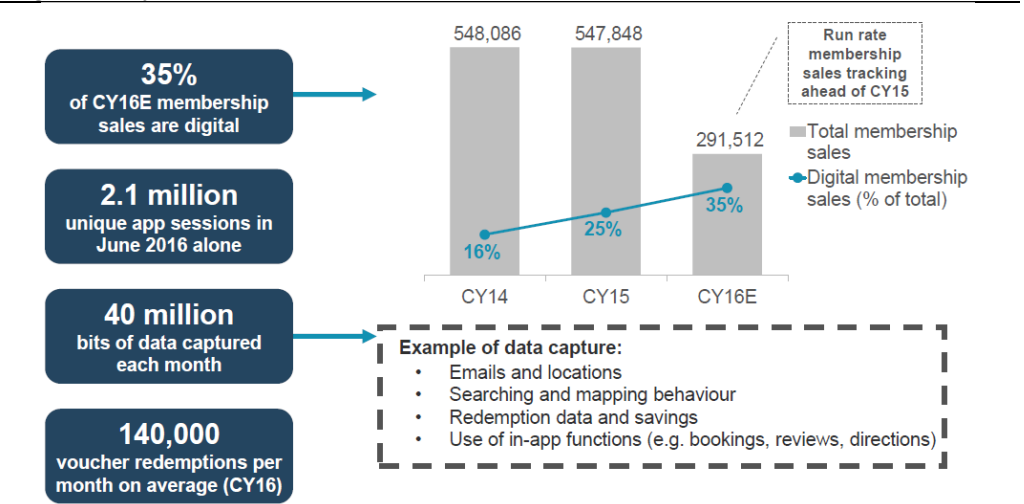
Source: Company presentation

In FY18 we also assume that Entertainment Book can reduce its IT expenses by ~\$0.5m as it brings it in-house. Similarly, we allow for a further \$1m in cost reduction as Entertainment Book brings other administration functions in-house.

2. Move from the physical book to digital

Since the launch of the Entertainment Book app in April 2014, digital membership sales have been growing rapidly as a proportion of total sales.

Figure 9: Key statistics and data capture for the Entertainment Book app



Source: Company presentation

We estimate that the proportion of customers who subscribe to a print membership will decline from 65% in FY17 to 50% in FY19. We estimate that production costs (publishing and distribution) are ~\$10/book, therefore, our production costs decrease by \$0.6m from FY17 to FY19 (despite an estimated 12% increase in customers).

We see 3 key drivers for the move to digital:

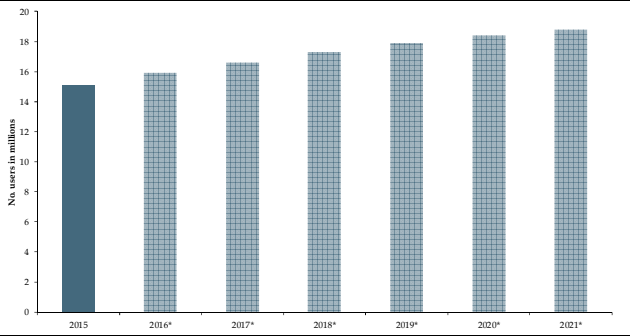
- Convenience factor

The biggest driver for customers moving to a digital membership has been the convenience factor. Subscribers don't have to remember to bring the book with them, they always have their phones on them. Additionally, the app updates automatically when new offers are added to the platform and they are instantly alerted to the new offers without the need to check their email.

- Increased penetration of smartphones in the Australian market

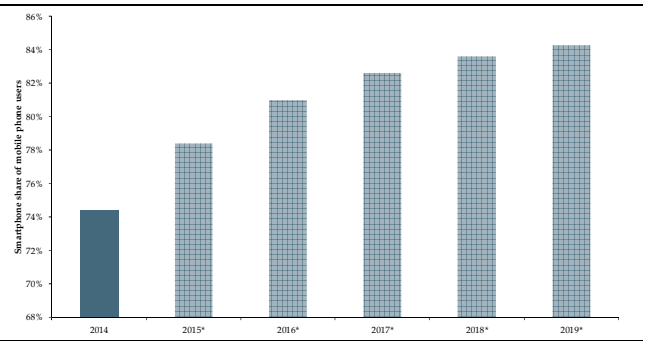
Customers require a smart phone to use the digital Entertainment Book. Australia has an extremely high penetration of mobile phone ownership and smartphones are rapidly growing in popularity primarily due to falling handset prices and faster, more reliable mobile networks.

Figure 10: Smartphone users in Australia



Source: Statista

Figure 11: Smartphone share of mobile phone users

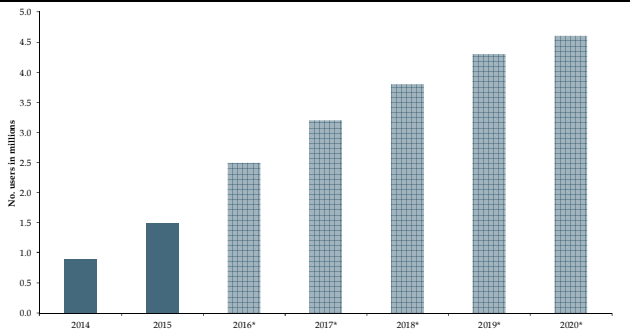


Source: Statista

- The growth of "mobile wallets"

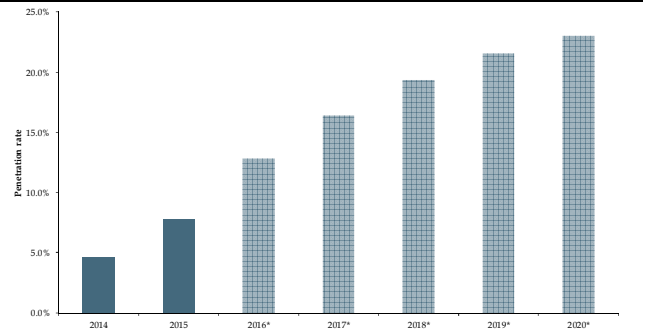
Smartphones are increasingly being used for a wide range of activities, including engaging with social media, making bookings and ordering/paying for goods and services including the collection of offers and deals.

Figure 12: Aus users in the mobile payments segment



Source: Statista

Figure 13: User penetration in mobile payments in Aus

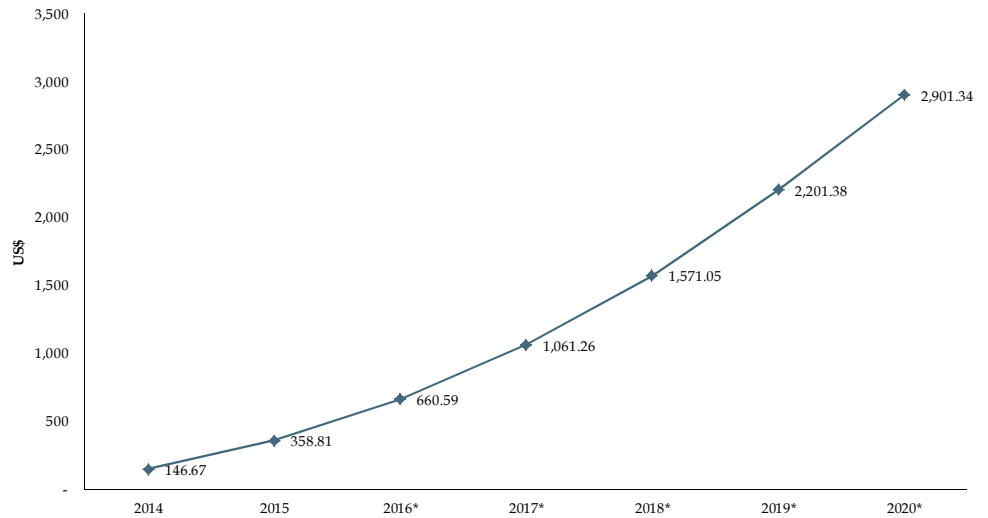


Source: Statista

Globally, spending on smartphones has skyrocketed, from \$16bn in 2010 to \$214bn in 2015. Australians are among the most prolific users of smartphones in the world and there is already an expectation that mobile payments will increase >150% in the next 3 years.

Apple Pay launched in November 2015, with American Express the first card to be accepted on the device. Since that time, adoption of the technology by Amex members has surpassed all expectations. There are also early indications that spending on Apple Pay is higher than traditional payments for American Express card members.

Figure 14: Average transaction value per mobile payment user



Source: Statista

The attraction of a mobile wallet is it makes it easier for retailers to engage consumers in loyalty programs and reward schemes. This may manifest in Entertainment Book giving its digital subscribers access to “digital only” offers. Even if no additional offers were given to digital subscribers, we believe that over time, consumers would prefer a digital version of the discount coupons/card that the book provides. A 2016 Vibes Mobile Consumer study reported that 60% of consumers say their positive opinion of a retailer would increase by that retailer offering mobilized coupons and offers that they could save to their mobile devices.

Potential revenue uplift

We estimate that the main driver of revenue growth for the Entertainment Book is the number of membership subscriptions. An explanation of Entertainment Book's revenue sources are below:

- **Membership subscriptions** range from \$55 to \$70 depending upon location. Income is recorded at the gross amount before allowance for commissions. We understand the main selling season for the Entertainment Book is April to August but revenue is amortised over the entire financial year. In recent years Entertainment Book memberships have grown ~5% p.a.
- We understand that Entertainment Book earns ~3% margin on **gift card sales**.
- Income from **My bookings** reflects the commission on bookings from the use of accommodation website range between 5-10% of the value of the transactions.
- **Advertising revenue** is driven by an annual placement fee of \$25,000-\$35,000 plus commission of 4-10% of the value of any transaction secured from the advertising.

Figure 15: Moelis' revenue estimates for the Entertainment Book

A\$m	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
Membership subscriptions	19.1	18.3	37.4	20.4	19.6	40.0	21.4	20.6	42.0
% chg				7.0%	7.0%	7.0%	5.0%	5.0%	5.0%
Gift card sales	9.7	7.2	16.9	9.9	7.3	17.3	10.1	7.5	17.5
% chg				2.5%	2.5%	2.5%	1.5%	1.5%	1.5%
My bookings	0.5	0.4	1.0	0.5	0.4	1.0	0.5	0.4	1.0
% chg				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Advertising	1.1	1.2	2.3	1.1	1.2	2.3	1.1	1.2	2.3
% chg				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other revenue	0.7	0.1	0.8	0.7	0.1	0.8	0.7	0.1	0.8
% chg				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total revenue	31.1	27.2	58.3	32.7	28.7	61.3	33.8	29.8	63.6

Source: Company, Moelis Analysis

Our revenue estimates could prove conservative, particularly in FY18 and FY19. We see the following 3 avenues for additional revenue growth (not included in our current estimates):

- Improve the Entertainment Book offering and app to drive membership growth

We see 4 obvious improvements Entertainment Book could make to the app to drive membership growth. We understand some of these improvements will be introduced shortly, however, the impact of these improvements probably won't be seen until the FY18 and FY19 selling periods.

1. **Drive an increase in membership renewal by introducing an auto-renew function (or opt-out system).** We understand that Entertainment Book is hoping to introduce this by February and will utilize its database to send an email to subscribers (of the digital and physical membership). The default will be the same location and charity from which members purchased their last Entertainment Book, however, there will be an option to change this.
2. **Different membership options to drive an increase in members.** At the moment, memberships are available in 2 formats – the Book or the Digital Membership (the digital membership can be loaded on to 2 devices for immediate family members). Each type of membership applies to a particular geographical region e.g. Sydney and surrounds; Sydney Greater West; Newcastle, Central Coast and Hunter; South Coast etc. It is conceivable that Entertainment Book could provide a “bundled offer” where members could

purchase both a physical and digital membership for a discounted price, a family offering or perhaps discounts for purchases for 2 or more geographical areas.

3. **Make the app transactional.** In the section above, we outline the growth of mobile wallets. We see the ability to book and pay via the Entertainment Book app when members redeem offers as a huge improvement. Firstly, it would appeal to consumers who do not want to be seen to be using a “digital coupon” or forget to show the Entertainment Book discount to staff at the right time. Secondly, we think cardless transactions appeal to consumers given it is fast, efficient and less susceptible to fraud. Finally, we imagine staff at the participating venues would find the transactional app as more efficient – less time keying in codes to trigger the discount, bringing the EFTPOS terminal to the table and printing receipts.
4. **Expand the booking offering to include tables at restaurants etc.** Entertainment Book owns 33% of Now Book It, a cloud-based table management system for restaurateurs. It provides them with a console so they can view upcoming bookings, waitlists, priority customers and table availability. There is also detailed reporting and analytics and a SMS gateway for booking confirmations. Entertainment Book could expand its booking capabilities and integrate the Now Book It system in its app – enabling customers to use the app from booking to payment, increasing loyalty and driving membership renewal. It could also potentially expand the number of venues signed up to the Now Book It system and enhance the data collection and analytics available.

- Charging businesses for data analytics

Entertainment Book collects a vast amount of data relating to members’ spending habits, locations, amount of spend etc. We see this data is incredibly valuable for a SME. For instance, the location data – where customers were coming from, the average spend per customer, spending preferences etc would be valuable to a business looking to expand its operations and determining the best location for another store. Furthermore, analysis of digital payments data can demonstrate a return on investment to merchants and enhance consumer engagement.

- Cross-selling the BPS offering

BPS could cross-sell its Bartercard and Bucqi offering to Entertainment Book merchants and consumers. A set of assumptions and potential revenue uplift were outlined in the acquisition presentation in August 2016. If you assume that 1,200 Entertainment Book merchants joined Bartercard and 50,000 consumers joined Bucqi (~10% of the network) and the average annual Bartercard transaction value was \$18,000 per merchant and the Bucqi transaction value was \$1,800 per consumer, this would represent ~\$3m of additional revenue.

In our view, we think it is unlikely that as many as 10% of the network would join Bartercard given the subdued growth rates in member acquisition over recent years and the roll out of Bucqi would have to be substantially accelerated to entice 50,000 consumers to join.

The future of Bucqi and Bartercard

Background

BPS is a fully integrated channel enablement and payments platform connecting customers to a variety of small and medium size enterprises (SMEs). It has 2 related and complementary offerings which drive customers to small businesses:

1. Bartercard – a barter trade exchange network facilitating B2B trade between 24,000 SMEs throughout Australia and abroad with approximately \$600m of transactions annually. It is useful to think of it as a way for SMEs to trade their excess inventory.
2. Bucqi – a B2C payments platform which will use the 24,000 SMEs in the Bartercard network to create a portable rewards and loyalty payment platform for consumers and SMEs.

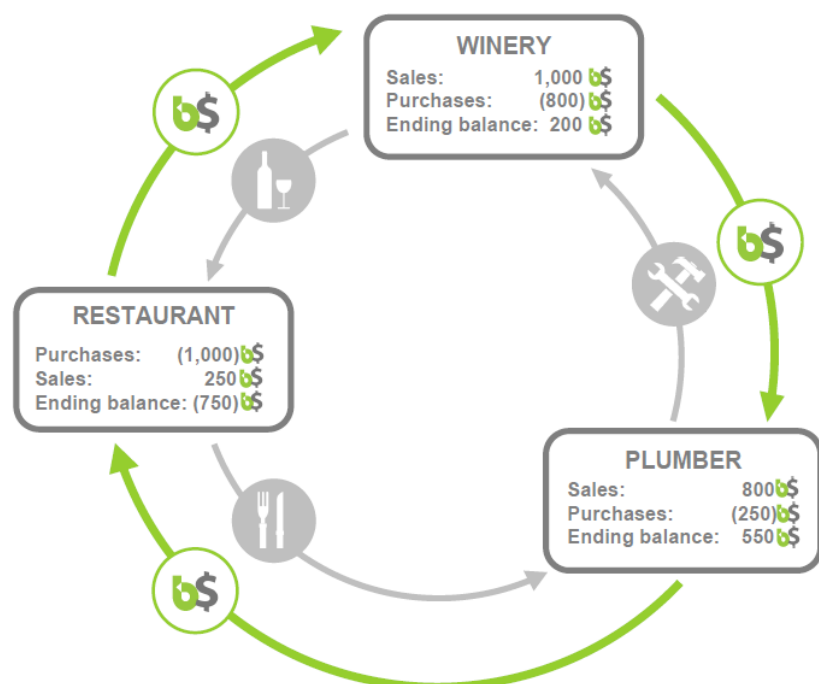
The 2 offers interact:

- A user of Bartercard can also use the Bucqi system for the same monthly fee and vice versa;
- 1 Bartercard dollar = 1 “Bucq” (Bucqi dollar) and can be freely exchanged i.e. a consumer pays for a coffee partly in Bucqs, the café can exchange those Bucqs for Bartercard dollars and pay a supplier in Bartercard dollars (as long as they are a Bartercard member); and
- Just like a Bartercard dollar is portable to any SME in the Bartercard system, a Bucq is portable i.e. consumers can earn or redeem Bucqs at any SME that is part of the Bucqi system.

A worked example:

1. Winery has \$1,000 of excess stock
2. Restaurant purchases wine with \$1,000 bartercard dollars (for tax purposes, equal to A\$1,000)
3. Winery uses \$800 bartercard dollars on plumbing services
4. Plumber dines at restaurant and spends \$250 bartercard dollars

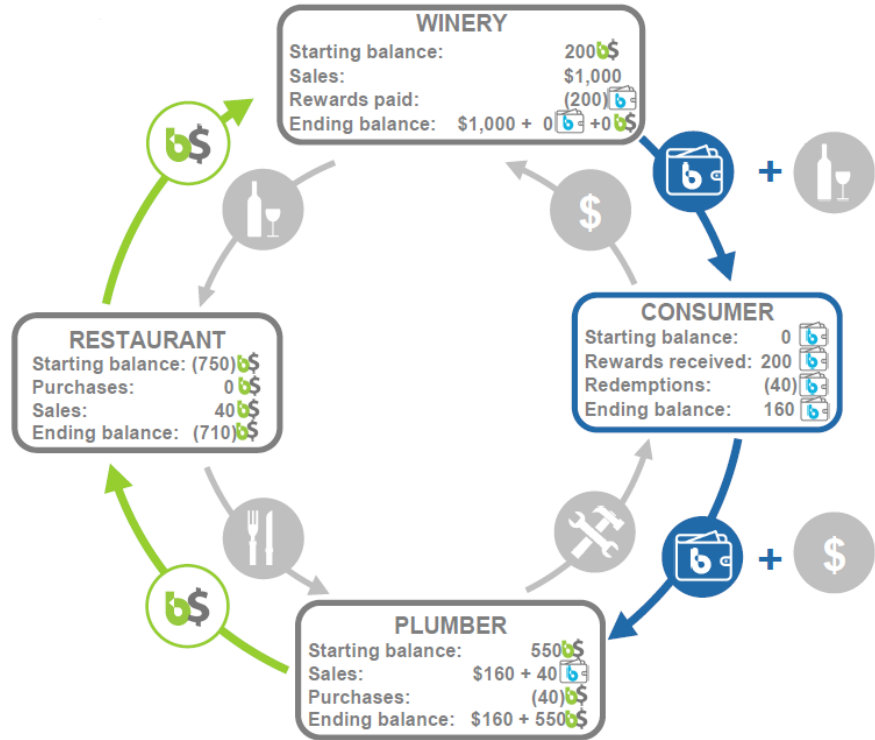
Figure 16: Bartercard system in action



Source: Company presentation

Figure 17: Interaction of Bartercard and Bucqi systems

1. Consumer pays for \$1,000 of wine using the Bucqi mobile app
2. The winery rewards the consumer with 200 Bucqs
3. The Consumer buys \$200 of plumbing services; pays \$160 in cash and redeems 40 Bucqs
4. Plumber exchanges those 40 Bucqs for 40 Bartercard dollars and dines at a restaurant and spends the 40 Bartercard dollars.



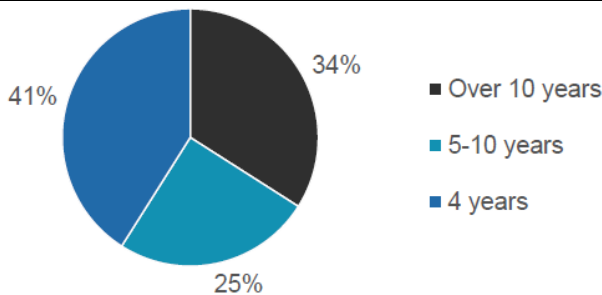
Source: Company presentation

Bucqi is still in testing mode and has only been rolled in Queensland. Bartercard’s key statistics are:

- \$600m annual transaction value;
- 24,000 merchants and 50,000 cardholders – 34% of merchants have been with BPS for over 10 years;
- 70 offices across 8 countries; and
- 500 staff.

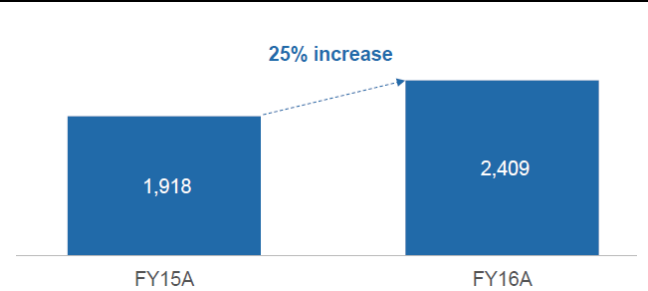
There was a 25% increase in new members in Australia in FY16 following the introduction of the new business model (no upfront payments / higher recurring monthly fees).

Figure 18: Merchants by duration as at 30 June 2016



Source: Company presentation

Figure 19: New Aus members for FY15A and FY16A



Source: Company presentation

Bartercard's revenue outlook - subdued top line growth

Figure 20: Moelis' revenue estimates for Bartercard business

A\$m	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
Subscription fee revenue	4.1	3.9	8.0	4.1	3.9	8.0	4.1	3.9	8.1
Transaction revenue	7.8	10.5	18.3	7.9	10.7	18.6	8.1	10.9	19.0
Licence fees	1.1	2.0	3.0	1.1	2.0	3.1	1.1	2.0	3.1
Total revenue from Australia	12.9	16.4	29.3	13.1	16.6	29.7	13.3	16.9	30.2
Subscription fee revenue	1.2	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.2
Transaction revenue	5.4	4.9	10.3	5.5	4.9	10.5	5.6	5.0	10.6
Total revenue from NZ	6.6	5.9	12.5	6.6	6.0	12.6	6.7	6.1	12.8
Subscription fee revenue	0.5	0.6	1.1	0.6	0.6	1.3	0.7	0.7	1.3
Transaction revenue	2.3	0.5	2.8	2.4	0.5	2.8	2.4	0.5	2.9
Total revenue from UK	2.8	1.1	3.9	3.0	1.1	4.1	3.1	1.1	4.2
Subscription fee revenue	0.1	0.2	0.3	0.1	0.2	0.3	0.1	0.2	0.3
Transaction revenue	0.3	0.4	0.7	0.3	0.4	0.7	0.3	0.4	0.7
Licence fees	0.3	0.2	0.6	-	-	-	-	-	-
Total revenue from USA	0.7	0.8	1.5	0.4	0.6	1.0	0.4	0.6	1.0

Source: Company, Moelis Analysis

Our assumptions for Bartercard's subscription fee revenue is detailed in the table below. Note that our estimate for membership growth applies to members on the new payment plan. We assume that the members on the old payment plan continue to pay the lower monthly rate, however, we acknowledge that BPS may gradually transfer them to the new payment plan.

Figure 21: Moelis' assumptions for subscription fee revenue

COUNTRY	OLD PAYMENT	NO. MEMBERS ON OLD	NEW PAYMENT	NO. MEMBERS ON NEW	MEMBERSHIP GROWTH		
	PLAN		PAYMENT PLAN		PLAN	PAYMENT PLAN	FY17
Australia	A\$39/month	9000	A\$99/month	3000	5%	1.5%	1.5%
NZ	NZ\$25/month	4800	NZ\$99/month	700	5%	1.5%	1.5%
UK	£25/month	1800	£49/month	400	3%	1.5%	1.5%
USA	N/A	N/A	US\$29/month	550	3%	1.5%	1.5%

Source: Company, Moelis Analysis

Transaction revenue is driven by trading volumes. BPS charges 6.5% of the transaction value as a commission to both the buyer and seller for each transaction processed through the exchange. Licence fees represent sales of Bartercard licences in India, the UK and the USA. We have only included currently known licence agreements in our forecast.

Bartercard's cost outlook - tracking in-line with sales

We have estimated that Bartercard's costs will continue to track in-line with sales.

Figure 22: Moelis' cost estimates for the Bartercard business

A\$m	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
Costs of services	(5.4)	(5.5)	(10.9)	(5.5)	(5.5)	(11.0)	(5.5)	(5.6)	(11.2)
% of sales	21.7%	20.9%	21.3%	21.7%	20.9%	21.3%	21.7%	20.9%	21.3%
% chg	64.4%	-33.5%	-5.5%	0.7%	0.5%	0.6%	1.4%	1.4%	1.4%
Employee benefits expense	(11.5)	(11.7)	(23.2)	(11.5)	(11.8)	(23.4)	(11.7)	(12.0)	(23.7)
% of sales	45.7%	44.5%	45.1%	45.7%	44.8%	45.2%	45.7%	44.8%	45.2%
% chg	-10.5%	39.7%	9.4%	0.6%	1.2%	0.9%	1.4%	1.5%	1.4%
Lease rental expense (operating leases)	(1.3)	(1.3)	(2.6)	(1.3)	(1.3)	(2.6)	(1.3)	(1.3)	(2.6)
% of sales	5.2%	4.9%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
% chg	0.5%	4.2%	2.3%	-3.1%	1.7%	-0.7%	1.4%	1.4%	1.4%
Other	(2.5)	(2.8)	(5.3)	(2.5)	(2.8)	(5.3)	(2.5)	(2.8)	(5.3)
Total opex	(19.4)	(20.5)	(41.2)	(20.0)	(20.7)	(41.5)	(20.2)	(21.0)	(42.0)

Source: Company, Moelis Analysis

Moelis' pro-forma balance sheet and cash flow estimates

Figure 23: Moelis' estimates for pro-forma balance sheet

A\$m	FY17E	FY18E	FY19E
Cash	15.3	22.4	30.0
Receivables	11.0	11.3	11.6
Inventories	6.0	6.2	6.4
Other Current Assets	2.9	2.9	2.9
Current Assets	35.2	42.8	50.9
PP&E	2.1	2.1	2.1
Equity Accounted Investments	1.5	1.5	1.5
Deferred tax assets	9.2	9.2	9.2
Goodwill	51.5	51.5	51.5
Other Intangibles	15.3	16.0	16.7
Receivables	2.0	2.1	2.2
Non-Current Assets	81.7	82.4	83.1
Payables	8.8	9.1	9.3
Short Term Debt	-	-	-
Provisions	1.6	1.6	1.6
Income tax payable	4.4	4.4	4.4
Employee entitlements	2.2	2.2	2.2
Unearned revenue	20.6	20.6	20.6
Current Liabilities	37.6	37.8	38.1
Trade and other payables	2.3	2.3	2.3
Provisions	0.3	0.3	0.3
Deferred tax liabilities	1.8	1.8	1.8
Long Term Borrowings	10.0	10.0	10.0
Non-Current Liabilities	14.4	14.4	14.4
Net Assets	64.9	72.9	81.5
Net Cash	5.3	12.4	20.0

Source: Company, Moelis Analysis

Key balance sheet items:

- Inventories include acquired non-core franchise territories intended to be resold for the BPS business and gift cards for the Entertainment Book business;
- Intangibles include goodwill from the acquisitions of key franchise territories, various brand names/international rights and technology for BPS and brand names and licences for the Entertainment Book and software
- Unearned revenue is the revenue received upfront for the Entertainment membership subscriptions
- We estimate that BPS will be \$5.3m net cash by the end of FY17 – the \$5m convertible note will be repaid via an approved \$10m banking facility.

Figure 24: Moelis' estimates for pro-forma cash flow statement

A\$m	FY17E	FY18E	FY19E
Cash Flow from Operations	11.3	14.6	15.9
Capex	(2.7)	(2.0)	(2.0)
Free cash flow	8.6	12.6	13.8

Source: Company, Moelis Analysis

The FY17 dividend of 5cps represents a payout ratio of 40% and ~53% of free cash flow.

Board of directors and senior management

Murray D’Almeida, Independent Non-Executive Chairman

Murray has over 35 years of diverse national and international business experience. Murray began his career as an accountant in Perth. He founded Retail Food Group Limited (ASX: RFG) and led its global expansion.

Murray's current board roles include:

- Chairman of Management Resource Solutions Plc;
- Chairman of Barrack Street Investments Ltd;
- Director of Pacific Environment Ltd;
- Member Gold Coast Light Rail Business Advisory Board;
- Councillor Southern Cross University;
- Director of Tasmania Magnesite NL;
- Trustee of Currumbin Wildlife Foundation;
- Chairman of the Bartercard Charity Foundation.

Tony Lally, Independent Non-Executive Director

Anthony has 30 years senior executive experience in the financial services sector, most recently, as Chief Executive Officer of Sunsuper, the third largest Superannuation fund in Australia. Anthony has extensive experience in funds management and led Australia’s largest retail funds management business at Commonwealth Bank (1993-2000). He was Head of Retail for Asia Pacific at Deutsche Asset Management, based in Tokyo (2000-2002) and later a Partner at Deloitte (2003-2005). A key feature of his career has been building successful businesses. Anthony is not seeking re-election at BPS’ AGM on Monday 28 November. He has accepted an offer from the Board to remain as a consultant to the Company and the Board will commence a search for an appropriate replacement.

Trevor Dietz, CEO and Director

MSc, FAICD, FPNA, FFIN, CMAHRI

- Over 30 years combined experience in banking and barter digital currency
- Proven innovator of technology and business systems
- Has overseen the recent development of the Tess trading platform
- Before joining BPS Technology, Trevor was COO of the Bartercard Group and prior to that Managing Director of Bartercard Australia
- Fellow of the AICD, Fellow of the Institute of Public Accountants, Fellow of the Financial Services Institute of Australia, and a Chartered Member of the Australian Human Resources Institute
- Non-Executive Director of Institute of Business Leaders, Deputy Chair, Board of Advice Bond Business School, Founder & Director of Bartercard Charity Foundation

Tony Wiese, CFO and Director

Chartered Accountant

- 25 years experience in financial and executive management
- Successful track record of listing and growing companies
- Was a main board director of the listed Super Group Limited and Onelogix Group Limited
- Tony is a member of the Institute of Chartered Accountants and Global Accounting Alliance

Brian Hall, CEO of Bartercard Group

- Founder and CEO of Bartercard
- Brian has over 25 years of sales and sales management experience
- The past 25 years Brian has been hands-on developing the sales and trading systems and franchise model of Bartercard

Andrew McIntyre, Head of Software Innovation and Development

- Over 20 years' practical technology experience in a mixture of roles working in the public, private and not-for-profit sectors
- Strong background in strategy, policy implementation, service delivery and client services
- Proven track record as an agent of change in challenging environments
- Bachelor degree of Information Technology from Griffith University; currently pursuing a Masters degree in Computational Finance and Econometric and Neuroscience with the University of Washington

Philip Scott, General Manager, Mobile Payment Systems

- Creator of the bucqi mobile payment system
- Strong background as a technology developer, both software (desktop and web based) and hardware (custom consumer and industrial electronic designs)
- Substantial experience in software and web development for mobile devices
- Extensive experience in Marketing and Technology Development in the consumer space
- Bachelor of Engineering (Electronics), Electronic and Software Engineering from the University of Pretoria

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	48.1	50.2	109.6	112.9	115.9
<i>Growth</i>		4.3%	118.3%	3.0%	2.7%
EBITDA	9.9	9.5	14.3	17.4	18.8
<i>Growth</i>		(4.7%)	50.8%	22.0%	7.8%
Dep'n & Amort	(0.6)	(0.8)	(1.3)	(1.3)	(1.3)
EBIT	9.3	8.7	13.0	16.1	17.4
<i>Growth</i>		(7.2%)	50.3%	23.8%	8.2%
Net Interest Expense	0.0	(0.5)	(0.7)	(0.6)	(0.5)
Profit Before Tax	9.4	8.1	12.4	15.5	17.0
Tax	(1.5)	(0.8)	(1.6)	(2.0)	(2.2)
<i>Tax Rate (%)</i>	15.6%	9.7%	13.0%	13.0%	13.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	7.9	7.4	10.8	13.5	14.8
<i>Growth</i>		(6.9%)	46.3%	25.5%	9.2%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	7.9	7.4	10.8	13.5	14.8
EPS (Underlying) (€)	14.9	11.7	12.8	14.9	16.3
<i>Growth</i>		(21.4%)	9.0%	17.0%	9.2%

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	2.7	0.9	15.3	22.4	30.0
Inventory	5.8	5.8	6.0	6.2	6.4
Current Receivables	6.3	10.4	11.0	11.3	11.6
PPE	1.2	1.0	2.1	2.1	2.1
Intangibles	26.4	32.1	66.8	67.5	68.1
Other	3.3	6.0	12.7	12.8	12.9
Total Assets	46.1	56.6	116.9	125.1	134.0
Current Payables	6.7	4.8	8.8	9.1	9.3
ST Debt	0.0	3.6	0.0	0.0	0.0
LT Debt	0.0	5.0	10.0	10.0	10.0
Provisions	1.7	1.9	1.9	1.9	1.9
Other	8.1	5.6	36.0	36.2	36.5
Total Liabilities	13.4	20.2	52.0	52.2	52.5
Net Assets	32.7	36.4	64.9	72.9	81.5
Equity & Reserves	26.2	25.8	46.7	46.8	46.8
Retained Profits	6.6	10.8	18.2	26.1	34.7
Shareholders' Equity	32.7	36.7	64.9	72.9	81.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	32.7	36.7	64.9	72.9	81.5

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
EBITDA	9.9	9.5	14.3	17.4	18.8
Net Interest	0.0	(0.5)	(0.7)	(0.6)	(0.5)
Tax	0.0	(0.1)	(1.4)	(2.0)	(2.2)
Δ in Working Capital	(5.4)	(6.0)	3.2	(0.2)	(0.2)
Other	2.1	2.5	(4.2)	0.0	0.0
Operating Cash Flow	6.7	5.4	11.3	14.6	15.9
<i>Growth</i>		(19.5%)	108.5%	29.4%	8.9%
Capex	(8.8)	(6.7)	(2.7)	(2.0)	(2.0)
Acquisitions	(16.1)	(1.5)	(22.5)	0.0	0.0
Divestments	0.3	0.0	0.0	0.0	0.0
Other	0.0	(1.4)	0.0	0.0	0.0
Investing Cash Flow	(24.6)	(9.5)	(25.2)	(2.0)	(2.0)
Equity Raised	22.5	4.6	26.0	0.0	0.0
Dividends Paid	(1.3)	(3.1)	(3.5)	(5.6)	(6.2)
Net Borrowings	0.0	1.6	(1.3)	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	21.2	3.1	21.2	(5.6)	(6.2)
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
Change in Cash	3.4	(1.0)	7.2	7.0	7.6
Free Cash Flow	(2.7)	(2.1)	8.6	12.6	13.8

Valuation Summary	
Current Mkt Capitalisation	87.3
Shares on Issue	90.5
Last Price	0.970
12 Mth Target Price	1.350
Total Estimated 12 Mth Return	44.9%
12 Mth Fwd Capital Return	39.9%
12 Mth Fwd Dividend Yield	5.0%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (€)	14.9	11.7	12.8	14.9	16.3
<i>Growth</i>	-	(21.4%)	9.0%	17.0%	9.2%
P/E (x)			7.8x	6.7x	6.1x
Small Industrials (ex Fin's)	16.9x	16.9x	15.0x	13.7x	13.0x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)			6.7x	5.5x	5.1x
Small Industrials (ex Fin's)	16.8x	18.5x	10.7x	9.5x	8.8x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (€)	5.5	4.0	5.0	6.5	7.1
<i>Growth</i>	-	(27.3%)	25.0%	30.3%	9.1%
Yield (%)	5.5%	4.0%	5.0%	6.5%	7.1%
Payout Ratio (%)	37.0%	34.2%	39.2%	43.6%	43.6%
Franking (%)	0.0%	50.0%	100.0%	100.0%	100.0%
NTA	6.3	4.5	(1.9)	5.4	13.4
NTA/Share (\$)	0.12	0.07	(0.02)	0.06	0.15

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	17.1%	12.9%	9.2%	10.8%	11.0%
ROE	24.1%	20.0%	16.6%	18.5%	18.1%
ROIC	24.1%	18.8%	21.9%	26.6%	28.2%
Net Debt (Cash) (\$m)	(2.7)	7.7	(5.3)	(12.4)	(20.0)
Net Debt/EBITDA (x)	(0.3x)	0.8x	(0.4x)	(0.7x)	(1.1x)
ND/(ND + Equity) (%)	(9.1%)	17.4%	(9.0%)	(20.4%)	(32.5%)
Interest Cover (x)	(282.5x)	16.2x	19.9x	26.8x	35.3x
Working Capital	2.9	9.7	(17.7)	(17.4)	(17.2)
Working Capital/Sales (%)	5.9%	19.3%	(16.1%)	(15.4%)	(14.9%)

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	(0.05)	(0.04)	0.10	0.14	0.15
Price/FCPS (x)	nm	nm	9.9x	7.2x	6.5x
Free Cash Flow Yield (%)	(5.1%)	(3.5%)	10.1%	13.9%	15.3%
Gross Cash Conversion	61.2%	54.8%	94.0%	100.1%	100.8%
Capex/Sales (%)	(18.2%)	(13.3%)	(2.5%)	(1.8%)	(1.8%)
Capex/Depreciation (x)	14.6x	8.3x	2.2x	1.5x	1.5x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	20.7%	18.9%	13.0%	15.4%	16.2%
EBIT	19.4%	17.3%	11.9%	14.3%	15.1%
NPAT	16.4%	14.7%	9.8%	12.0%	12.7%

Valuation Methodology	
WACC (%)	12.8%
Discounted Cash Flow Valuation	1.333
Sum-of-the-Parts Valuation	n/a
Average Valuation	1.333
12 Mth Target Price	1.350

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