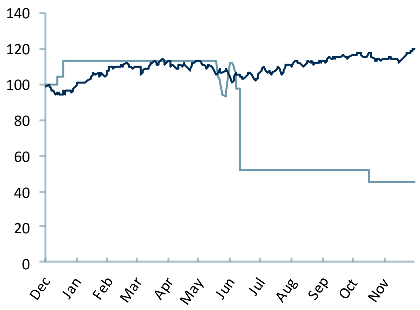
ESTIMATES

VALUE RANGE

EUR 3.51 – 3.56



V177 vs.TecDAX (darker line) 12m to 30/11/2012

Thursday, 13 June 2013

Close Price 30/11/12	€ 2.75
Value Range Low	€ 3.51
Value Range High	€ 3.56
Ex-D-Börse Ticker	M77
Financial YE	31-Dec
Currency	EUR

Business Activity
Investment fund in financials consolidation

Key Metrics

MCAP (m)	€ 43
Net Debt (Cash) (m)	€ 1
EV (m)	€ 44
52 Wk Hi	€ 6.96
52 Wk Lo	€ 2.75
Free Float	N/A

Key Ratios

ROCE %	N/A
Net Debt (Cash) /	2.28%
FX Rate	N/A

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Millhouse Inc Plc Compact Valuation

PE access for all – ready for London listing

Millhouse Inc Plc provides access to a PE play. The company is targeting high quality financial services acquisitions for consolidation. Competitive advantage is conveyed by the company's prudential capital strategy. The opportunity is underpinned by increased regulatory burden and higher capital requirements. We believe that the consolidation phase will be followed by a period where demand will exceed supply. Millhouse Inc Plc delisted from the illiquid Frankfurt First Quotation board during November 2012 (see final 12m chart, close price and metrics to left) and is now preparing for a London listing on GXG where improved liquidity and progress in the business plan suggest an attractive debut.

- Pipeline includes Tier 1 deals with expected EBITDA 14E >EUR 21m
- EBITDA growth highly geared compared to revenues due to prudential capital efficiencies following consolidation
- Outstanding top quartile investment performance record, FCF positive in year 1 and expected liquidity bump on GXG debut
- Consolidation play in financials sector, which is facing aggressive increases in capital requirements and regulatory burden
- Strong highly experienced and seasoned entrepreneurial management team

ACF est. EUR (m)	Revenue	EBITDA	uFCF	EPS	EPS (diluted)
2014E	141	19.0	16.6	1.004	0.292
2015E	177	25.9	16.7	1.079	0.314

Multiples	EV/ Revenue	EV/ EBITDA	EV/ uFCF	P/ EPS	P/ EPS (diluted)
2014E	0.31x	2.33x	2.67x	2.74x	9.43x
2015E	0.25x	1.71x	2.65x	2.55x	8.77x

Share Price History	£ 0.10 Par Value	€ 1.00 Par Value (adj.)
NoSh (m) 30/11/12	144.5	15.77
Close Price 30/11/12	€ 0.30	€ 2.75
Value Range Low	€ 0.38	€ 3.51
Value Range High	€ 0.39	€ 3.56
Ex-D-Börse Ticker	M77	
Financial YE	31-Dec	
Currency	EUR	
NoSh (m) 13/06/13		15.79
NoSh (m) expected dilution (Exp D)		26.30
NoSh (m) full dilution (FD)		54.30
Key Metrics		**adj.**
MCAP (m)	€ 43	€ 43
Net Debt (Cash) (m)	€ 1	€ 1
EV (m)	€ 44	€ 44
52 Wk Hi	€ 0.76	€ 6.96
52 Wk Lo	€ 0.30	€ 2.75
Free Float	N/A	N/A

*Key Metrics uFCF adj.	2014E	2015E
uCPS	1.06	1.255
uCPS (Exp D)	0.636	0.753
uCPS (F D)	0.308	0.365
P/uCPS	2.59x	2.19x
P/uCPS (Exp D)	4.32x	3.65x
P/uCPS (FD)	8.93x	7.54x

*Note that in the table above we show unlevered Free Cash Flow Per Share (uCPS) based upon current NoSh, expected dilution (Exp D) and full dilution (FD). P/uCPS uses the adj. close price as per front page and this page.

Investment Case

Competitive background

The financial sector meltdown that started 30th June 2007, in our assessment, continues to pressure many financial institutions and regulators. Institutions are under cash flow pressure on falling transactions and trading volumes. Regulators continue to review and strengthen regulatory frameworks.

The resultant tougher capital requirements and operational hurdles are gradually forcing out less competitive players and are causing stronger quality players to adopt business line exit or consolidation strategies. This environment is creating potential acquisition opportunities for Millhouse Inc Plc, which can deploy prudential capital.

Consolidation opportunity

Firstly, the consolidation phase provides Millhouse Inc Plc with a concentrated opportunity to acquire high quality assets. In the consolidation phase Millhouse Inc Plc projects that it can deliver geared EBITDA and FCF margin from consolidation synergies, a key part of which is the competitive advantage delivered by the efficient use of prudential capital. Secondly, post consolidation there is likely to be a mismatch between demand and supply providing for margin development leading to exit valuation multiple re-ratings.

● **Proven performance** - Private equity investment performance from CEO, David Millhouse, is consistent first quartile. According to Private Equity Performance Monitor MillhouseIAG Private Equity Trusts ranked 64/274 (top quartile) on a net IRR basis and 2/274 (99th percentile) on a return multiple basis for all reporting private equity and venture funds worldwide. Benchmarked against other reporting venture funds only, the results were 7/70 (top decile) on a net IRR basis and 2/70 (97th percentile) on a return multiple basis. The performance record is available for inspection (source: Prequin 2009).

● **Strong management** - Seasoned entrepreneurial and blue chip management team with proven M&A and integration experience. **Pipeline targets** - Tier 1 investments signed up and backed up with a pipeline containing investments at Tier 2 and Tier 3 stages of preparation. ● **FCF positive** in the first year of the business plan post raises.

Catalysts

Completion of initial working capital raise.

GXG listing (to remove an element of liquidity discount).

Management Team

➢ Chairman, Mr Philippe Paillart

The Board is chaired by Mr Philip Paillart - former CEO and Vice Chairman of DBS Bank, Singapore's largest Bank, past CEO and Chairman of Ford Credit and Ford Financial Services, Group Executive Director of Standard Chartered Bank and Group (directly in charge of retail banking worldwide as well as the Group Strategy). He expects to be a very active member of the team.

Philippe created Citibank Personal Banking, the first global retail organisation within Citibank. Mr Paillart has a multinational network of senior business relationships and leads a board with the management depth pertinent to the financial services industry with M&A experience in Australian, European and Asian countries.

➢ Founder & Deputy Chairman, Mr David Millhouse

David Millhouse has been a CEO since 1983. He is a highly seasoned serial entrepreneur and experienced international director in the PE and VC sectors. He has three degrees and 30 years of practical experience in building and managing international companies.

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

➢ Managing Director, Mr Harry Charlton

Harry Charlton, fellow of the Institute of Chartered Accountants (Australia) and proven goal-oriented executive, with a record of driving efficiency and productivity. Harry has global large-cap industrial and institutional experience including banking, PE and VC. Harry is a 'hands on' goal oriented leader able to direct highly skilled finance and operational management teams. He has significant M&A, restructuring and operational experience.

Twice elected Chairman of the Institute of Directors (Western Cape, South Africa), he is insistent on best corporate governance practices. Harry is extremely experienced in the identification of strategic imperatives and aligning resources to maximise shareholder value. Harry also has an exemplary record in tackling malfeasance and served in the military.

Note: Full CVs available at www.millhouse.co

Valuation

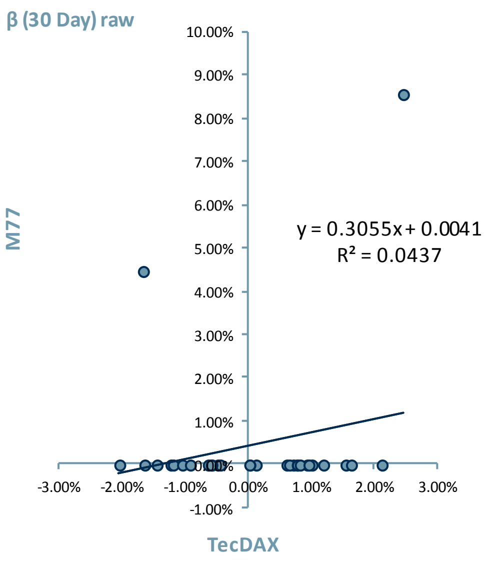
ACF est. EUR (m)	2012A	2013E	2014E	2015E	2016E
Revenue	0	0	141	177	277
EBITDA	-0.1	-0.1	19.0	25.9	43.9
Net Income	-13.9	-0.1	15.8	17.0	27.7
uFCF	-0.1	-0.1	16.6	16.7	19.8
uCPS (diluted)	-0.002	-0.002	0.306	0.308	0.365

Note: Net Income 12A includes the write off of start-up costs and intangibles totalling €13.9m

M77 WACC Calc	*ERP Global
Pre-tax cost of debt	5.0%
ETR	22.6%
After-tax cost of debt	3.9%
Current Leverage	
Debt	2.3%
Equity	43
Target Leverage	
D / (D+E)	30.0%
ACF β adj levered	0.54
rf	3.10%
Rm	8.1%
ERP	5.0%
Cost of equity	5.79%
WACC	95.79%

*Bloomberg ticker indicates ACF market ERP

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



Valuation Range		
NPV uFCF (m)	22.95	
NPV TV uFCF (m)	33.85	
EVF (m)	56.81	
TV Mulitple	10.0x	
% TV of total NPV	59.59%	
Net Debt (m)	0.99	
Fair Value (m)	55.82	
NoSh (m)	15.79	
NoSh (diluted) (m)	54.33	
Intrinsic Value per Share €	3.53	
Adj. Close Price €	2.75	
VR (low - high)	**3.51**	**3.56**
VR Spread	1.50%	
Implied VR Return (low - high)	27.6%	29.5%

Note: actual close price on front page of this ACF research note is based on shares in issue (NoSh) on 30/11/12 of 144,452,863 and £0.10 par value shares whereas valuation is based upon shares in issue at date of this note (NoSh 15,790,182) and the Adjusted Close Price is based upon the €1.00 par value adjusted NoSh on 30/11/2012 of 15,766,306.

Financial Analysis

● **Competitive advantage** – The great majority of financial services businesses are cottage industry scale, according to management, and cannot raise the EUR 10m prudential capital (see below) required to run high quality large scale businesses. This gives Millhouse Inc Plc a very significant strategic advantage and this increased regulatory requirement for prudential capital is driving consolidation in Australian, Asian and UK markets.

● **Revenue growth and mix assumptions** - Millhouse Inc Plc intends to acquire assets on a cash and equity basis aiming for 100% holdings. Our applied growth rates during 2014E and 15E are driven by acquisition activity. 2016E onwards we expect growth to be composed of organic and acquisitions growth. Our organic perpetuity growth rate forecast is 25%-26%. We forecast underlying opex growth of 5% but this is distorted in the first 5 years by acquisition growth. We are currently expecting a WCAP/Revenues ratio of around 5% and an average operational (maintenance) capex/sales ratio of 1.5% accompanied by underlying D&A/capex 30%.

The key message for investors in respect of the revenue mix is that a) management expect it to be a relatively consistent mix year on year. And that b), approximately 66% of underlying cash flows derived from revenues are not dividend dependent and therefore represent a more predictable and reliable source of revenue than the more volatile dividend flows. Dividends are always subject to management reinvestment decisions as part of capital expenditure, working capital, debt reduction and acquisition rather than repatriation back to group.

● **EBITDA growth** – Management assesses that in the UK the prudential capital (see specific analysis below) regime is more relaxed and this means that prudential capital can be re-used to produce a margin gearing effect with respect to EBITDA and FCF. The EUR 10m escrowed prudential capital is available for all investees (not per investee) and all further acquisitions (subject to regulatory approval). Therefore EBITDA can grow faster than revenue (see exhibit 1 below for acquisitions' expected EBITDA).

● **D&A** – **Note** the company wrote down all intangibles relating to IP (source: Value Tech report) in 2012 under IAS 38 (future economic benefit and reliable measurement cost of asset criteria) In 2011A and 12A write-offs of start-up costs and intangible assets were EUR 2.9m and 11.9m respectively. It is reasonable to infer the write-downs distort the start-up costs of the business in 2011 and 12. **Prudential capital** (see specific analysis below) is not depreciated other than by inflation.

● **Effective Tax Rate (ETR) on EBT** – We expect the ETR to run between 22% and 27%, a first year shield with an ETR 14E of 11% and no cash tax payments until 2015. Australia is our expected tax jurisdiction - headline rate 30% with ETRs between 16% and 35%.

● **Capex (Capital Expenditure)** – There are three very different types. 1) **Maintenance capex**/sales of 1.5%; 2) **growth capex** (EUR 50m assumption) used for acquisitions; 3) **prudential capex** (EUR 10m assumption).

● **Prudential capital (10m EUR assumption)** – The Prudential capital-holding bank makes an undertaking to the relevant regulatory authority to protect this capital in case the regulatory authority needs to make a claim on it. The prudential capital can be "pledged" against multiple assets (acquisitions) and as such is a significant driver of Millhouse Inc Plc's competitive advantage, EBITDA and FCF margin gearing. According to management prudential capital is never actually paid out in Australia, nevertheless the company has taken insurances against the EUR 10m prudential liability. **Protection and prudential requirements – 1)** Insurance protection; **2)** Limited liability to assets; **3)** Prudential protection

● **Acquisitions** - The model assumes that acquisitions will be paid in cash in year one but in practice we expect a combination approach with cash and stock offers based upon a forward warranted EBITDA underwritten with a downward ratchet if the acquisition does not achieve the EBITDA target.

● **Dilution and Options** – Fully diluted shares in issue would total 54,332,240 vs. 15,798,944 shares at the date of this note. Management believes that de-facto full dilution will be 26,298,944 shares from options net of buybacks and treasury share cancellations. The Board views that options affording holders rights to the issue of 12,264,486 shares are unlikely to be taken up.

● **Free float** – Currently most of Millhouse Inc Plc shares are best characterised as closely held by management, early investors and advisors.

● **Use of funds** – Includes:

- Working capital requirement
- Prudential capital (EUR 10m)
- Acquisition capex (EUR 50m)

Exhibit 1: Millhouse Inc Plc Acquisition Targets

Pipeline Class	Definition	Number of Targets and Projected EBITDA 14E & 15E
Tier 1	Completed due diligence (DD) or close to completion of DD	Ten [10] - before corporate costs & synergies EBITDA EUR: -2014E 20.9m; -post 2015E 7.6m.
Tier 2	Would like to carry out due diligence (DD).	Before corporate costs & synergies EBITDA EUR: -2015E 5.8m; -post 2015E 0.7m.
Tier 3	Further out from DD but of interest	Before costs & synergies EBITDA EUR: -2015E 29.9m

Source: Company Reports

Notes [Intentionally Blank]

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