GORDON CAPITAL REVIEW

Small & Micro Cap Review

Autumn 2016

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Small and Micro Cap Review – Autumn 2016

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Source all charts: ASX

Armidale Investment CORPORATION | GORDON CAPITAL

ARMIDALE INVESTMENT CORPORATION LIMITED

Well positioned for the next phase of growth

DIRECTORS

Bruce Hatchman, Chairman
Andrew Grant, Managing Director
Cameron McCullagh, Executive Director
Mark Smith, Non-Executive Director
Steve White, Non-Executive Director

MARKET DATA

ASX Code:	AIK
Current Price(3/5/15):	$0.105
52 week Share Price Range:	$0.09 – $0.12
Latest NTA (30/3/16):	13.56 cents
Market Capitalisation:	$57.5 million

CAPITAL STRUCTURE

Shares on Issue:	547.8 million

FINANCIAL SUMMARY

$mill	2013-14 (A)	2014-15 (A)
Net Profit	3.7	7.8
Total Assets	38.0	57.5
Shareholders Equity	36.9	56.3
NTA per share ($)	0.143	0.143

MAJOR SHAREHOLDERS

GEGM Investments	33.1%
NAOS Asset Management	19.9%
Sandon Capital	11.8%

CORPORATE DETAILS

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Sydney, NSW, 2000
Ph: 02 9299 9690
http://armidaleinvestmentco.com.au/

KEY POINTS

- AIK is an investment company with interests in several industries although the overwhelming exposure is to commercial finance.
- The strategy is to maximise returns through active management of its investees and by providing funding support for their respective growth strategies
- NTA is the key valuation metric – currently at a significant premium to the share price.
- AIK acquired 60% of finance aggregator and specialist finance broker, Platform Finance Group in November 2015. PFG greatly expanded AIK's exposure to the finance sector and complements the investment in Hal Group.
- Over 90% of AIK's gross asset value is attributable to its investment in equipment lease financier Hal Group (HAL) and Platform Finance Group.
- AIK's growth profile is now mostly linked to the growth in demand for equipment finance. Hal is expected to increase equipment lease origination by around 38% in FY 2016, after increasing by 49% in FY 2015, whilst PFG is expected to increase its financing by about 17% (35% growth in FY 2015).
- Strong underlying operational growth will drive valuation gains. The next annual valuation is due in May 2016.
- AIK has a very well capitalised, ungeared balance sheet providing considerable capacity to fund further growth in its portfolio of investments.

INVESTMENT PROPOSITION

NTA is at a significant premium to the current share price

Armidale Investment Corporation has rebalanced its industry exposures with a view to achieving accelerated valuation growth. A combination of strong underlying growth in its core investments will see the company overwhelmingly oriented towards growth from financing essential business assets and motor vehicles. As AIK is structured as an investment company its primary valuation metric is NTA which is currently about 29% above its current share price.

With significant valuation upside

Although strong underlying profit growth in its core investments is not directly reflected in AIK's income statements, it has a very strong bearing on the independent valuations and ultimately the NTA which may be expected to significantly increase following the annual valuation which is next due around May 2016.

BUSINESS OVERVIEW

Principal investments providing exposure to the finance, telecoms and retail sectors …….

Armidale Investment Corporation is a listed investment company and has significant interests in the finance, telecoms, and retail industries through direct investment in Hal Group (98% owned), Platform Finance Group (60% owned), and Riverwise (32% owned). AIK's strategy is to maximise returns through passive, strategic and active management and by providing funding and management services to support their respective growth strategies.

Hal Group has enjoyed very strong growth over the past three years as the business has been scale-up

Hal Data Services (now Hal Group) was established in 1993 and provides equipment lease finance to small and large businesses, corporations and governments. Prior to the GFC, Hal was originating about $60 annually in equipment leases, however, in the post GFC environment where access to finance largely dried up, new loan origination fell to relatively insignificant levels. Over the past three years, finance channels have progressively reopened and AIK has recognised the value of Hal's core business, enabling lease origination activities to be scaled-up. Hal has markedly expanded its lease book and with the benefit of more internal sales staff and new external sales channels, lease origination has grown rapidly. After growing by 49% in FY 2015, to $22.5 million, management expects new lease origination to reach $31 million in FY 2016, nearly 38% growth. AIK is now documenting a $20 million funding arrangement from a Tier 1 bank which will be an important factor in driving growth in FY 2017.

The interest rate spread covers about half of Hal's operating costs but overall profit is generated from excess income earned post the expiry of the lease. This excess income comprises monthly rentals beyond the lease term (most rentals extend for a few months beyond the term) and proceeds from the sale of the equipment (the equipment is fully written off over the lease term). This excess income is historically equivalent to over 20% of the original equipment value under the lease. This means that over the next three or more years, Hal's cash flow and profit will rise sharply as leases originated since 2012 expire.

PFG is oriented to the commercial equipment market…

AIK acquired 60% of Platform Finance Group (PFG) in December 2015. PFG is an asset finance aggregator and specialised finance broker engaged in plant, equipment & motor vehicle finance to the commercial and consumer finance sectors. PFG is both a service provider to third-party finance brokers and a broker in its own right with PFG's owned volume being approximately 50% of the total. About 75% of transactions are for motor vehicles, mostly to corporates, business and ABN holders although retail purchasers are responsible for a significant share. As a service provider, PFG is able to offer brokers multiple finance sources, a standardised quotation and processing platform, education and compliance frameworks and CRM and marketing support as well as the ability to offer consumer level finance and insurance products. This is a level of support that is just not available to independent brokers and even most broker groups. Further, PFG's ability to deliver consistently large volume flow to each of its finance providers means that margins are significantly higher than the brokers can achieve independently.

Where it is No2 in the market…..

PFG is the second largest independent aggregator and largely competes with the banks and other financial institutions (including its own sources of finance). It shares commission income with the brokers but more particularly due to scale is able to capture volume bonuses (which are typically beyond the capacity of individual brokers) from the finance providers which is a major source of revenue.

And experiencing very high rates if growth

Over the three years to June 2015, the volume of finance processed through PFG increased by 180% to $852 million, of which nearly 50% was handled by the company's in-house brokers. NPAT grew from $1.1 million to $2.9 million over the same period. Volume growth in 2015 was 35%. The key factors driving growth have been some acquisitions, strong growth in online business and more particularly the success in growing the independent broker base (over 5,000 independent brokers are supported). This growth model appears to be capable of delivering sustainable underlying volume growth near 20% per annum for the next few years. The company is forecasting total finance handled of about $1 billion in FY 2016, about 17% higher than the previous year.

Riverwise's sole investment is a 100% interest in Leading Edge Group (LEG), which operates sales channels for Telstra (Australia), Spark – formerly Telecom NZ and BT (UK) as well as a leading retail buying group supporting about 900 independent retailers in numerous market segments. The investment in Riverwise now represents less than 10% of the overall value of AIK's investments.

LATEST PROFIT RESULT AND VALUATION

Transformation of the investment portfolio and strong underlying growth in investee businesses are masked in the AIK financials

AIK reported a modest net profit of $15K for the six months ended 31 December 2016, compared with a net profit of $614K for the previous corresponding period. Given AIK's structure as an LIC, the interim financials do not provide a complete picture of the company's performance. The clues, however, lie in the marked growth in Interest income over the past two years and the large increase in total assets and shareholder equity, which occurred mostly during the period under review. On the other hand, unrealised gains and repayments of the Hal note, both significant revenue contributors in previous years, no longer have an impact in the December half year. AIK is currently in the practice of appointing an independent party to conduct valuations of its investments on an annual basis. We understand that this exercise will next be completed in May 2016.

The large increase in interest income over the past two years reflects the very high rate of growth achieved by TL Rentals (the equipment lease division of Hal Group) which was partly funded by loans from AIK. Hal's funding mix is constantly subject to change so the slight fall in AIK's interest income in the December 2015 half year was due to a lower average AIK lending compared with a year earlier with other funding sources supporting the growth in Hal's lease origination.

More significantly, the partial acquisition of Platform Finance Group (PFG) which was completed in December 2015 was a major factor in the substantial rise in total assets. AIK acquired 60% of PFG for $22.9 million, which is held as an investment at that value.

Although majority owned by AIK, both investments are deconsolidated. Accordingly, the contribution to revenue of these investments to AIK largely comprises interest on any loans, any change in valuation (currently on an annual basis), distributions under the Hal loan note and dividends. We understand that the PFG dividend policy provides for 75% of after tax profit to be distributed to shareholders on a bi-monthly basis.

BUSINESS DRIVERS AND GROWTH PROFILE

AIK now overwhelmingly exposed to the finance sector…

The acquisition of a 60% interest in Platform Finance Group in November 2015 markedly changes the profile and growth dynamics of AIK. Hal and PFG, both of whom operate in the finance sector, represent in excess of 90% of the value of the company's gross assets. Although there has been no change in the investment in Riverwise, it now represents less than 10% of gross assets.

….which will drive the company's valuation

AIK's investment assets are independently valued annually with Hal's valuation based on a DCF whilst PFG basis and Riverwise are valued on the basis of sustainable earnings. In 2015, a decline in Riverwise's valuation offset a large gain in the value of Hal as a result of the strong growth in the latter's lease book. Going forward, AIK's valuation will be largely driven by Hal and PFG. Although the mechanics of their respective valuations differ, their underlying growth will be driven by similar dynamics in the growth in demand for commercial finance.

The growth dynamics of the Hal and PFG businesses are very strong and look to be sustainable for the next three to five years, at least. Just as importantly, however, there are considerable cross-referral synergies that have the potential to deliver significant additional growth, especially for Hal. Hal's competitive advantage lies in being able to efficiently process and manage finance proposals, some of which typically don't fall comfortably within the banks rigid "tick the box" processes. We understand that in the short time since AIK's partial acquisition of PFG, nearly $1.5 million in referrals have been made to Hal and it is possible that such referrals could generate 10% or more of Hal's lease origination in FY 2016.

AIK is not a typical portfolio driven LIC but rather an active manager. The past few years have been focussed on restructuring Leading Edge (wholly owned by Riverwise of which AIK owns 32%) and re-igniting the Hal business. In 2015, the growth phase gathered momentum and culminated with the acquisition of the 60% interest in PFG.

Cameron McCullagh, who was appointed Executive Director of AIK in October 2015, has over 30 years' experience in the finance sector and has a strong record of building financial services businesses. Given his history, he is expected to have a strong role in driving AIK's growth strategy over the next few years. He founded and grew White Outsourcing to an entity with back office administration of over $30 billion, and was CEO of Employers Mutual until 2010, having grown it from $30 million of annual premium under management to over $1 billion. As COO, Mr McCullagh took operational responsibility for the broker accumulation strategy and the successful listing on the ASX of the insurance broking accumulator Steadfast Group. He is a director of Leading Edge Group and A S White, which has approximately 400 employees providing shared service teams in Asia. His wife is AIK's largest shareholder.

Although AIK has not outlined a plan for the longer term expansion of its interests in the finance sector, the recent investment in PFG may point to further aspirations to build a larger, broadly based asset finance group. Accordingly, further acquisitions in the sector are possible.

FINANCIAL SUMMARY

INCOME STATEMENT			
($'000)	**HY 14**	**HY 15**	**HY 16**
Interest	473	813	800
Unrealised Gains	601	442	-
Repayment HAL	890	-	-
Other	178	324	303
Revenue	**2,142**	**1,479**	**1,103**
EBITDA	**1,605**	**902**	**179**
Deprn, & Amort	(97)	(97)	(97)
PRE TAX PROFIT	**1,508**	**805**	**82**
Tax	-	(191)	(67)
NET PROFIT	**1,508**	**614**	**15**

CASH FLOW			
($'000)	**HY 14**	**HY 15**	**HY 16**
Net Cash Flow From Operations	247	(568)	(147)
Net Cash Flow From Investing	(1,408)	(94)	(10,662)
Net cash Flow From Financing	-	-	-
Net Change In Cash	**(1,161}**	**(662)**	**(10,809)**

BALANCE SHEET			
($'000)	**Dec 2014**	**June 2015**	**Dec 2015**
Current Assets			
Cash & Equivalents	108	10,835	25
Receivables	271	210	25
Other	4,683	6,503	10,803
	5062	17,548	10,853
Non-Current Assets			
Plant & Equipment	-	-	-
Intangibles	481	386	289
Financials	32,859	39,590	61,076
Total Assets	**38,402**	**57,523**	**72,218**
Current Liabilities			
Payables	173	263	9,609
Debt	64	64	64
Other	431	316	194
	668	643	9,867
Non-Current Liabilities	9	69	135
Shareholders' Equity	37,725	56,811	62,216
Liabilities & Equity	**38,402**	**57,523**	**72,218**

Commentary:

As Armidale is as an investment company, its subsidiaries, Hal and PFG are not consolidated into its accounts. Accordingly, most of the balance sheet and cash flow activity relates to its investment activities.

Further, reported profit is very volatile due to the impact from unrealised gains in valuation which varies widely from year to year. As the annual valuation usually occurs in May, there is no longer any valuation impact on the half yearly income statement.

In the six months ended 30 June 2015, AIK raised about $11 million in new capital most which was initially parked as cash, with a small amount on-lent to Hal Group. During the six months ended 31 December 2015, these cash holdings together with a small amount of additional capital that was raised, was used to fund the investment in PFG.

The company has a small corporate overhead which is easily covered by cash flows from its investments. Surplus cash flow is therefore also available for reinvestment.

INNATE IMMUNOTHERAPEUTICS LIMITED

Proven world–first drug technology that's taking the pain out of Multiple Sclerosis

DIRECTORS & MANAGEMENT

Michael Quinn	Non-Executive Chairman
Simon Wilkinson	Managing Director & CEO
Christopher Collins	Non-Executive Director
Elizabeth Hopkins	Non-Executive Director
Dr Robert Peach	Non-Executive Director
Andrew Sneddon	Non-Executive Director
Dr Gill Webster	CSO
Jeff Carter	CFO
Andrew Cooke	Company Secretary

MARKET DATA

ASX Code:	IIL
Current Price (3/5/16):	$0.285
52 Week Share Price Range:	$0.12 - $0.34
Market Capitalisation:	$56 million

CAPITAL STRUCTURE (as at 26/04/16)

Shares on Issue:	196.4 million
Unquoted Securities (options)	18.6 million
Loyalty Rights*	33.0 million

*Expiring December 2016

MAJOR SHAREHOLDERS (as at 26/04/16)

C. Collins (R-NY 27th District)	17.3%
Australian Ethical	9.8%
Caitlin & Cameron Collins	5.2%
Top 20	53.6%

CORPORATE DETAILS

Innate Immunotherapeutics Limited
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Tel +61 2 8003 3650
innateimmuno.com

KEY POINTS

- **Innate Immunotherapeutics (ASX: IIL) has designed and developed a drug for use in treating advanced Multiple Sclerosis:** Medical biotechnology company IIL has manufactured a unique proprietary technology that utilises a patient's own immune system to combat the deleterious effects of neuro-degenerative such as Secondary Progressive Multiple Sclerosis (SPMS).
- **Currently conducting a Phase 2B drug trial**: The Company is undertaking a randomized, double-blind placebo Phase 2B trial with a 93 patient group to determine the efficacy of the MIS416 drug in treating SPMS. The trial is due for completion in April 2017.
- **Early results show positive improvement:** Through previous Phase 1 and 2A trials and IIL's New Zealand-based compassionate use program - now in its 8th year – patient reported responses to treatment have been overwhelmingly positive with no significant safety concerns.
- **Other treatment capabilities:** The MIS416 drug developed by IIL has shown positive efficacy results in animal disease models of cancer, infection and certain neuro-inflammatory conditions.
- **SPMS treatment options are extremely limited:** Currently there are no approved drugs for the safe and effective ongoing treatment of SPMS.
- **Big Pharma closely monitoring trial outcome:** Completion of the Phase 2B trial and accompanying report is expected to accelerate corporate transaction interest in IIL from Big Pharma via either a trade sale or licensing agreement for MIS416. The market for SPMS treatment is estimated at more than US$4 billion or more.

INVESTMENT PROPOSITION

Leading medical biotechnology company

Innate Immunotherapeutics Limited (ASX: IIL) is a leading Australian medical biotechnology company that has designed and developed a proprietary drug – MIS416 - that targets the human innate immune system.

Using a unique immunomodulatory microparticle technology, the Company has developed a bacteria-sourced treatment for Secondary Progressive Multiple Sclerosis (SPMS), an advanced and highly disabling form of the neuro-degenerative disease, multiple sclerosis.

Innate Immunotherapeutics has previously conducted successful Phase 1 and 2A trials along with an ongoing Compassionate Usage program in New Zealand that has provided a unique and early insight into the efficacy of **Innate's** drug treatment.

12-month Phase 2B trial currently underway

The Company has recently finalised patient enrolment into a 12-month Phase 2B Randomised, Double-Blind, Placebo-Controlled trial of the efficacy and safety of MIS416 in the treatment of SPMS. A total of 93 patients have been recruited from seven sites across Australia and New Zealand with the trial participants receiving a weekly measured dose of MIS416 intravenously.

100% safety record to date

The Phase 2B clinical trial will determine whether MIS416 is safe, tolerable, and improves a range of signs and symptoms associated with SPMS. Such results have already been observed through the earlier trials and anecdotal reports received from patients, clinicians and caregivers. Observed improvements in SPMS sufferers have been documented in cognition, mobility, strength and a reduction in pain and inflammation.

A report on the efficacy of the Phase 2B trial will be published In mid-2017.

Innate is confident the results of this trial will confirm the success and suitability of MIS416 in the safe treatment of SPMS and diminution in symptoms associated with advanced multiple sclerosis. The previous goal for treatment in these patients was to slow the rate of disease progression however MIS416 appears to be achieving a much more beneficial treatment effect.

No currently approved drugs for treatment of SPMS

With no currently approved drugs for the effective ongoing treatment of SPMS, the Company expects that between completion of the trial (early 2017) and publication of its report (July 2017) there will be a significant level of market competition to acquire or licence MIS416 ahead of a Phase 3 trial.

Innate has signalled its preferred approach would be a staged buyout of the whole company by a Big Pharma corporate. These parties recognise the significant opportunities presented in the US$4 billion SPMS treatment space as well as the potential for an immune modulating drug like MIS416 to treat other neurological conditions such as refractory epilepsy and CNS trauma, as well as certain cancers that are prime targets for immuno-oncology treatment approaches.

During the waiting period for the trial's completion and results to be published, **Innate** is also developing a manufacturing scale-up plan for the commercial production of the MIS416 drug which it intends to include as part of the eventual sale or licencing package.

Current prices unlikely to be revisited

Whilst the importance of awaiting success from the Phase2B trial results cannot be overstated, there is a significant opportunity now to participate in high-value upside with current prices unlikely to be revisited.

BUSINESS OVERVIEW

Since 2004, Innate Immunotherapeutics has been developing its proprietary immune modulating drug technology with an initial focus on the Secondary Progressive form of Multiple Sclerosis (SPMS).

Multiple Sclerosis

Two types of MS

Multiple Sclerosis (MS) is a progressively degenerative disease of the body's immune system where the protective myelin sheath surrounding nerve fibres in the brain is damaged which in turn leads to a wide range of health complications and loss of neurologic function. There are two main forms of MS:

- **Relapsing Remitting MS** (RRMS) – generally affects younger people
- **Secondary Progressive MS** (SPMS) – skews towards older persons

Within 20 years of initial diagnosis, 75% of people with RRMS go on to develop SPMS which significantly impacts their cognitive function, mobility and overall quality of life. Despite the high number of approved drugs available in the treatment of RRMS these drugs have been found to be ineffective in the treatment of SPMS.

SPMS market estimated to be worth more than US$4 billion

Furthermore, there are currently no approved drugs or effective ongoing treatment of SPMS, a market which has been estimated to be worth more than US$4 billion. Innate is targeting this market specifically for the potential commercialisation opportunity of its MIS416 drug.

	Relapsing Remitting MS	Secondary Progressive MS
Sufferers worldwide:	60%	**30%**
Number of approved disease modifying drugs:	13	**0**
Estimated annual market revenues (2015)*:	US$20.5 BILLION	-
Estimated potential annual market revenues:	**IIL TARGET MARKET**	**US$4 BILLION**

RRMS and SPMS comprise 90% of the MS market. The remaining 10% comprises two rarer forms of progressive multiple sclerosis

**Source: Leerink Partners Estimates, Company Reports & SEC Filings*

MIS416

Innate has been developing a biologically-derived drug – MIS416 – which can uniquely target both the regulatory and defensive functions of the innate immune system which has been found to be effective in the treatment and management of SPMS symptoms.

Patents in place

The Company has been issued patents covering the use of MIS416 to treat all forms of multiple sclerosis in all major markets, being primarily North America, Europe and Australasia.

Previous Trials

Previous trials successful and safe

A Phase 1B trial in patients with either Primary Progressive or Secondary Progressive MS was completed in October 2011. A follow-on Phase 2A study in patients with SPMS was completed in July 2012.

Results from both studies met or exceeded expectations providing the impetus for the current Phase 2B trial underway in Australia and New Zealand. The early NZ based trials received significant funding support for the National MS Society of the United States (NMSS) and also the NZ Government. The NMSS took an equity position in the Company and is currently Innate's 8th largest shareholder.

Compassionate Use

Compassionate use program provides likely Phase 2B trial data signatures

For the past 8 years, SPMS patients in New Zealand have been receiving treatment for SPMS with MIS416 under a Compassionate Use program. This has been possible as use of an unapproved experimental medicine is permitted under NZ drug laws. This program has provided substantial anecdotal data on the longer-term efficacies of MIS416 drug treatment and the likely results from the current Phase 2B trial.

Current Trial

Recruitment for the Phase 2B trial was completed in April 2016. A total of 93 patients have enrolled in the trial which lasts 12 months.

STUDY DESIGN	
Phase	2B
Design	Randomised, double-blind, placebo-controlled study of the efficacy and safety of MIS416 in the treatment of subjects with SPMS
Sites	5 x Australia and 2 x New Zealand
Number	93 subjects with SPMS randomised 2:1 to MIS416 or saline placebo
Doses	Weekly intravenous infusion of MIS416 or saline over 13 cycles of 4 doses per cycle (52 weeks)

KEY OBJECTIVES

- To determine the efficacy of MIS416, relative to placebo, as assessed by various measures of neuromuscular function, disability and health status and to determine the safety and tolerability of once weekly intravenous treatment
- To explore the effect of MIS416 on disease activity and neurodegeneration by measuring a wide range of blood markers, imaging markers and patient reported outcomes
- Study is exploratory by design in preparation for Phase 3
- No adjustments have been made for multiplicity of outcomes, success will be judged on consistency of outcomes rather than statistical testing

STATUS

- First patient enrolled in October 2014
- Last patient enrolled in April 2016
- No interim analysis
- Clinical study report Q3 2017

Proof of Concept platform enhances saleability

Success in the Phase 2B trial will generate significant commercial opportunities for MIS416, not only as an effective treatment for SPMS but as a Proof of Concept for its immune modulating microparticle platform which has the potential to be used in other neurology and immuno-oncology medical applications.

BUSINESS DRIVERS AND GROWTH PROFILE

Value transformative technology

Innate Immunotherapeutics' development pathway for its MIS416 drug is approaching a critical milestone. A successful documented efficacy outcome from the Phase 2B trial in Secondary Progressive Multiple Sclerosis will be transformative for the Company.

There is already widespread interest among major pharmaceutical companies in the outcome of the trial and of the potential for MIS416 in treating advanced MS sufferers. Also for its derivative platform use in treating a number of other significant and debilitating medical conditions.

Widespread interest from Big Pharma in trial outcome

The Company has a high degree of confidence in the safety and efficacy of its drug and of its pecuniary value to Big Pharma in marketing its potency toward greatly improving patient care outcomes.

Innate has signalled its preference for a compete sale of the Company and its associated technology culminating from a competitive bidding process. A staged exit also remains a likely possibility or licencing agreement for the manufacture, sales and marketing of MIS416. For shareholders, all these options would create significant value.

Transaction value at significant multiple to current market capitalisation

Recognising the uniqueness of the drug treatment and its capacity to capture whole of market share we expect any acquisition process to begin at a significant multiple to the Company's current market capitalisation.

MACH7 TECHNOLOGIES LIMITED (M7T)

Taking Patient-Centric Care Into The Next Dimension

DIRECTORS & MANAGEMENT

Ken Poutakidis, Non-Executive Chairman
Dr Nigel Finch , Non-Executive Director
Damien Lim, Non-Executive Director
Nobuhiko Ito, Non-Executive Director
Albert Liong, Managing Director/Global CEO
Jenni Pilcher, Global CFO/CEO (Aust)
Alyn Tai, Company Secretary

MARKET DATA

ASX Code:	M7T
Current Price (03/05/16):	$0.067
52 Week Share Price Range:	$0.04 - $0.19
Market Cap (listed shares):	$25.7 million
Enterprise value:	$59.9 million

CAPITAL STRUCTURE (as at 02/05/16)

Shares on Issue (listed):	383.7 million
Shares on Issue (escrowed):	510.8 million
Performance shares	300.0 million
Options (Unlisted	114.8 million

MAJOR SHAREHOLDERS (as at 02/05/16)

BV Healthcare II Pte Ltd	~8.99%
Ravindran Krishnan	~6.46%
Pt Dwi Satrya Utama	~5.28%
United Overseas Venture Sdn Bhd	~5.23%
Perco Group Pty Ltd	~4.58%

CORPORATE DETAILS

Mach7 Technologies Limited
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Tel +61 3 9646 2222
mach7t.com

KEY POINTS

- **Mach7 Technologies Limited (ASX: M7T) is expanding its global medical imaging technology footprint:** Mach7 is developing a leading IP position in the provision of three-dimensional medical imaging technology to the healthcare community worldwide.
- **Focused on servicing growing patient specific healthcare:** Patient specific healthcare means successful outcomes can be achieved more quickly along with the ability to generate truly individual and customised medicine in a more accessible form.
- **Merger with 3D Medical Limited completed in April 2016:** US-based Mach7 is building on its existing Australian alliance to further develop their operational synergies and market opportunities on a global scale.
- **Merger changes medical image management landscape:** Mach7 delivers a globally accessible medical imaging solution deliverable across multiple platforms.
- **Mach7 offers secure IP and US$ cash flow:** Mach7 has a well-established platform managing >1 billion images across a growing blue-chip customer base with a solid order pipeline and significant "land grab" opportunities to substantially boost revenues from forecast double-digit industry growth over next two years.
- **Technology application attractive to public and private sector medical practitioners:** Mach7 merger with 3DM will build on alliances already in place within the Australian healthcare sector and provide access to the largest market of medical and healthcare service providers: the United States.
- **Patient healthcare not constrained by proprietary systems:** Mach7's Vendor Neutral Archive (VNA) software architecture allows medical practitioners and healthcare service providers to easily identify, connect and share diagnostic images and patient care intelligence - anytime, anywhere it is needed.
- **Merger builds on existing product suite:** Mach7 has access to a number of patient specific modules that will augment and enhance its product offering including: 3D Printing, GestSure & EchoPixel along with important local alliances with Capitol Health and Telstra Health.

INVESTMENT PROPOSITION

Leading medical specific 3D printing & holographic imaging provider

Mach7 Technologies Limited (ASX: M7T) is Australia's leading medical specific 3D printing and holographic projection provider. The Company has a suite of advanced medical imaging products that allow clinicians and other medical professionals to create, access, analyse and share patient specific information across multiple, compatible platforms towards improving patient outcomes. Since listing - as 3D Medical Limited - in February 2015, the Company has formed a number of key alliances to strengthen the value proposition of its core medical imaging business.

Bespoke healthcare and tailored patient wellbeing

The merger between US-based Mach7 Technologies Limited and 3D Medical brings a number of compelling opportunities for the combined group to expand its reach into the growing market for bespoke healthcare services and tailored patient wellness solutions.

The demand for more tactile medical diagnostic imaging technology and the capacity to diagnose, evaluate and plan key surgical response on an individual patient specific basis will become an increasingly vital and expected part of patient care.

Merger with Mach7 offers compelling opportunities to develop greater market share

The most significant component of Mach7's software architecture is the capacity and ability to share data and imaging across multiple platforms. This inbuilt flexibility and efficacy makes it a potential market leader above proprietary PACS (Picture Archive Communications Systems) platforms that provide terminal specific data analysis and retrieval systems.

With its Vendor Neutral Architecture (VNA) platform Mach7 has developed a diagnostic tool that is independent of source data with the capacity to be shared across multiple platforms both within a networked enterprise and across healthcare providers.

Vendor Neutral Architecture software improves workflow and diagnostic flexibility

Mach7's VNA is expected to deliver improved workflow regimes and drive greater efficiencies in patient diagnosis, evaluation and outcomes. This is expected to have considerable appeal to public and private sector medical practitioners and healthcare service providers which 3DM have identified as their primary target market.

Three-dimensional printing provides a tactile interface over viewing a two-dimensional rendering through a screen. 3D visualisation offers higher measurement accuracy and precision and a platform to deliver bespoke personalised medicine to patients and offers superior resolution to CT or MRI scanners and provides a more detailed roadmap to planning complex and sensitive surgeries.

Truly individual and customised medicine

Three-dimensional data imaging provides patient anatomical data in a more accessible form that can be comprehensively examined and visualised with greater contextualisation and the ability to generate truly individual and customised medicine.

Merger with Mach7 Technologies

In late March 2016, 3D Medical shareholders approved an all-scrip merger with US-based Mach7 Technologies, a global specialist medical software developer. Following the merger the Company changed its name to Mach7 Technologies Limited (ASX: M7T). Following completion of the merger, the combined entity maintains the following key contracts:

- Exclusive Australian distributor of Mach7 enterprise software
- License and distribution agreement with Telstra Health
- Exclusive Australian distributor of Echopixel hologram software and GestSure in-theatre management tool
- 3D printing of biomodels and implants

BUSINESS OVERVIEW

In October 2014, Safety Medical Products Limited, a publicly-listed company specialising in developing medical equipment, agreed to acquire 100% of the issued shares of private company 3D Medical Limited via a share sale and purchase agreement. After successfully raising A$4.1 million via prospectus, 3D Medical Limited listed on the ASX in February 2015. In April 2016, 3D Medical merged with US-based digital imaging solutions company, Mach7 Technologies Limited, to become a medical-specific 3D printing and holographic projection and data integrations provider which markets the following products:

Mach7 Technologies

Founded in 2008, Mach7 is a global provider of enterprise image management systems and services that allow healthcare providers to identify, connect, and share diagnostic image and patient care intelligence where and when it is needed.

Mach7 uses VNA architecture to improve data-sharing and evaluation efficiencies

Mach7 has locations in Asia, Australia, and the Middle East and has developed a strong US presence with its vendor neutral archiving (VNA) process that facilitates complete image management including rapid record identification, integration, synchronisation and routing and advanced clinical viewing. This allows for enhanced workflow efficiencies and greater capacity for improved patient data communication. Mach7 has a well-established client base with a number of hospitals and radiology clinics in Australia and New Zealand.

3D Printing

3D printing has evolved to essential status in pre-surgical planning

Mach7's 3D Printing service allows medical and healthcare practitioners to 3D print physical patient-specific anatomical parts as functional and visual aids utilising the images and data already captured by conventional diagnostic imaging tools. These printed objects are particularly relevant in complex pre-surgical planning and are extremely beneficial in patient engagement and communication.

GestSure

GestSure technology utilises hand movements to control, orientate and manipulate medical images in theatre, improving surgical speed, hygiene and accuracy.

EchoPixel

EchoPixel offers a unique virtual reality evaluation tool that allows medical practitioners to use sophisticated suspended imaging techniques (holographic projection technology) that enable the user to manipulate, crop, dissect and segment the suspended image.

Strategic partnerships

Since listing in 2015, 3D Medical also pursued and secured a number of key alliances including partnerships with Capitol Health and Telstra Health.

Capitol Health utilises the Company's 3D anatomical printing services and currently generates more than 1 million scans per annum that are capable of being transformed into 3D models. In 2015 3DM and Capitol Health signed a 5-year Exclusive Supply Agreement to supply three-dimensional printing of its diagnostic imaging data.

Strategic alliance with Telstra Health

In June 2015, 3DM signed a software support and license agreement with **Telstra Health**, a division of Australian telecommunications company, Telstra Corporation Ltd (ASX: TLS), whereby Telstra Health became a reseller of the Mach7 image management software, integrating the technology to create new products for the Australian healthcare market and also allowed for the supply of specific Telstra Health products to 3DM's new and existing customers.

The agreement with Telstra Health provides for software licensing and support agreement for Mach7 medical imaging platform.

BUSINESS DRIVERS AND GROWTH PROFILE

The rapid pace of change in patient healthcare is driving unprecedented innovation toward streamlining and unifying the current multi-platform offering

Mach7 expects its initial revenue to be sourced from two key activities:

- **Licencing**: medical imaging software solutions such as Mach7 VNA, EchoPixel and GestSure that value-add medical imaging data
- **Manufacturing**: design and production of 3D-printed patient-specific anatomical objects (bio-models) built from medical imaging data

The Company has identified key target markets for its products and services from radiology providers and medical specialists in such areas as cardiology, neurology, gastroenterology and orthopaedics.

Cross platform image delivery solution

The most compelling advantage of medical 3D printing is the ability to generate truly individual and customised medicine. Patient specific bio-modelling and a cross platform image delivery and diagnostic solutions mean successful outcomes can be achieved more quickly and delivered with a greatly enhanced longer-term recovery prognosis.

Global entry point

While Australia continues to be an early-adopter of healthcare IT technology facilitating Mach7 to further consolidate its position in the domestic diagnostic imaging sector, there is considerable opportunity for Mach7 - with its expanded product via the 3D Medical merger - to deepen its existing alliances and develop new market share opportunities for its business platform globally and in particular within the largest market of medical and healthcare service providers: the United States.

Scalable IP

The complementary nature of Mach7 Technology-3D Medical businesses provides a strong platform for growth and the ability to leverage off the synergies inherent in both companies. Mach7 offers a scalable IP business opportunity with US experience and exposure with the ability to deliver a range of healthcare IT services into developed and emerging markets.

FINANCIAL SUMMARY

PROFORMA BALANCE SHEET (post-Mach7/3D Medical merger)

	1H 2016 Actual	Proposed Transaction	Mach7 1H16 Actual	Intergroup Eliminations	Consolidate Balances
	A$000	A$000	A$000	A$000	A$000
Current Assets					
Cash and cash equivalents	2,581		851		3,432
Trade and other receivables	2,837		1,879	-2,380	2,336
Other current assets	-		182		182
Total Current Assets	**5,418**		**2,912**	**-2,380**	**5,950**
Non-Current assets					
Property, plant & equipment	772		191		963
Other non-current assets	-		214		214
Investment in Mach7 Group	-	35,381			
Total Non-Current Assets	**772**	**35,381**	**405**	**-35,381**	**1,177**
Intellectual property and goodwill	-			**39,795**	**39,795**
Total intangible assets	-	-	-	**39,795**	**39,795**
TOTAL ASSETS	**6,190**	**35,381**	**3,317**	**2,034**	**46,922**
Current Liabilities					
Trade and other payables	289		1,006	-187	1,108
Deferred revenue	-		1,631		1,631
Total Current Liabilities	**289**		**2,637**	**-187**	**2,739**
Non-Current Liabilities					
Bank loan	-		**2,915**		**2,915**
Other non-current liabilities	-		2,179	-2,179	
Total Non-Current Liabilities	-		**5,094**	**-2,179**	**2,915**
TOTAL LIABILITIES	**289**		**7,731**	**-2,366**	**5,654**
NET ASSETS	**5,901**	**35,381**	**-4,414**	**4,400**	**41,268**
Equity					
Contributed equity	15,175	35,381	21,354	-21,354	50,556
Options Reserve	1,541		-302	288	1,527
Accumulated Losses	-10,815		-25,466	25,466	-10,815
TOTAL EQUITY	**5,901**	**35,381**	**-4,414**	**4,400**	**41,268**

Source: Mach7 Technologies

SENETAS CORPORATION LIMITED

Global leader in high speed network encryption well positioned for growth

DIRECTORS

Francis Galbally, Chairman
Andrew Wilson, Executive Director
Lt General Ken Gillespie, Non-Executive Director
Lachie Given, Non-Executive Director
Lawrence Dave Hansen, Non-Executive Director

MARKET DATA

ASX Code:	SEN
Current Price (3/5/16):	$0.11
52 week Share Price Range:	$0.10 - $0.22
Market Capitalisation:	$119 million
Enterprise Value:	$103 million

CAPITAL STRUCTURE

Shares on Issue:	1,078 million

FINANCIAL SUMMARY

$000 Y/E June	2013-14 (A)	2014-15 (A)
Operating Revenue	11,037	15,907
EBITDA	2,734	6,022
Net Profit ①	2,957	4,016
EPS (c)	0.28	0.37
Net Cash	6,800	15,900
Shareholders' Equity	9,026	13,093
Total Assets	15,170	22,392

① Based on continuing operations

MAJOR SHAREHOLDERS

Madison Park LLC	19.9%
Francis Galbally	13.1%

CORPORATE DETAILS

312 Kings Way
South Melbourne Vic, 3205
Ph: (03) 9868 4555
www.senetas.com

KEY POINTS

- Senetas is the global leader in high speed network encryption hardware and the only manufacturer that is certified to the four major global standards. This gives Senetas a significant competitive advantage.
- The exponential growth in data volumes is driving greater adoption of Layer 2 networks, which is positive for Senetas being a market leader in this space.
- Senetas's technology encrypts voice, video, or data streams at a wire speed up to 10Gbps, reducing the complexity and importantly the cost in meeting data protection and privacy requirements.
- Net profit declined 18% to $1.6m in HY2016 (HY2015: $1.9m). Revenue increased 7% to $8.7m compared to $8.1m in HY2015. Sales delays and the increased R&D spend were the major reasons behind the lower profit result.
- Net cash flow remained positive with cash on hand increasing to $16.3m (FY2015: $15.9m). Senetas remains debt free.
- As previously flagged, year on year sales can be potentially volatile in as much as large orders, over which the company has no control over timing can have a major impact on performance in a particular period. This was clearly evident in the HY2016 result.
- Second half net profit before tax is expected to be similar to the previous corresponding period resulting in a FY2016 net profit before tax of around $5m (after tax $3.5m).
- Progress on development of new products and technologies remains on track with government and commercial interest in these products remaining strong.
- Senetas invests heavily in R&D (approx. 35% of revenue) to ensure that it is at the forefront in capturing new opportunities. The R&D spend for FY2016 is expected to be about 30% higher than normal due to the development of its large pipeline of new products and technologies.

INVESTMENT PROPOSITION

With a sustainable business model and global distribution, Senetas is well positioned for growth.

Senetas is well positioned to participate in the massive growth of the global hardware encryption market. The US, Asia, European and Middle-East markets represent significant growth opportunities for Senetas with governments, defence departments and commercial organisations becoming increasingly aware of the risks of cyber-attack and the integrity of data in motion. The distribution agreement with its partner Gemalto secures access to its global sales, partnering and support locations, enabling Senetas to penetrate new markets.

Despite the lower profit expectation for FY2016, we remain confident on the medium term outlook for Senetas. With a growing presence in international markets, superior technology, positive industry fundamentals, and a robust balance sheet, Senetas remains a strong long-term growth story.

BUSINESS OVERVIEW

Layer 2 technology purpose built to satisfy small through to high speed data environments.

The core business of Senetas is the design and manufacture (under contract) of high performance encryption hardware. The product range known as CypherNet is capable of encrypting nearly any LAN/WAN infrastructure with no loss of quality. Senetas's layer 2 technology encrypts voice, video, or data streams at a wire speed up to 10Gbps, significantly reducing the complexity and importantly the cost in meeting data protection and privacy requirements. They are purpose built to satisfy security requirements from small branch locations to high speed corporate and data centre environments.

A number of new products have been released.

Senetas CN is a complete family of high-performance purpose built encryptors for ETHERNET, SONET, FIBRE CHANNEL, LINK and ATM networks. The CN 6100 has been designed with a future road map to secure data at 40 Gbps to 100 Gbps, to cater for the growing high speed data requirements due to technologies such as Cloud Computing, Big Data and Data Centre services. Senetas CS is a flexible new encryption platform, designed in a small desktop form factor to provide an integrated data security solution for point to point or multipoint Ethernet links up to 10 Mbps. New and innovative product enhancements have included: the CN4010 low cost encryptor (launched March 2014) the CN6010 cost reduced 1Gb rackmount (launched January 2014) and the CN8000 multi-slot investigation which is currently undergoing trials with customers.

Only company certified to the four major global standards.

Senetas is the only company certified to the four major global standards: Common Criteria EAL4+, FIPS 140-2 Level 3, Communications-Electronics Security Group (CAPS) for its Ethernet IG product in the UK and NATO (North Atlantic Treaty Organisation) information security product certification covering NATO member states. This gives Senetas a distinct advantage over its major competitors ATmedia, Certes Networks and InfoGuard when selling to the government sector and major commercial organisations as it provides assurance that its products conform to the highest quality standards.

Global distribution reach established with Gemalto.

Senetas operates a go to market model whereby Gemalto is its sole distributor in global markets (excl. Australia and NZ). Gemalto has substantial global market reach, with a sales force located across 45 countries servicing their global customer base. Senetas shares in revenue from product sales as well as maintenance sales. It also provides customer support services. In Australia and NZ, Senetas sells and distributes its products through a number of channel partners including UXC Ltd, Nextgen and HP.

LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK

For the six months to 31 December2015**,** Senetas reported a net profit of $1.6m, compared to $1.9m in HY2015, on a 7% increase in revenue to $8.7m. The result was at the upper end of revised guidance being aided by a significantly lower tax rate compared to HY2015. Profit before tax declined 34.6% to $1.85m. Operating cash flow was lower reflecting income tax

Sales delays and the higher R&D spend impacted on the HY2016 profit result.

paid of $1.25m (HY2015: nil) and the 65% increase in R&D spend with product development costs being expensed. Cash reserves increased to $16.3m at 31 December 2015 (30 June 2015: $15.9m). The HY2016 profit result was impacted by three key factors: delays in contracts that should have been completed prior to 31 December 2015; some temporary sales disruption resulting from the restructure of Gemalto's sales force; and the increased R&D spend flagged by Senetas at the FY2015 results announcement.

Improved performance expected in second half 2016, with profit growth to resume in FY2017.

With increased stability post Gemalto's sales restructure and the completion of delayed product sales in the second half 2016, revenue and profit should exceed the first half 2016. We are forecasting a net profit after tax of $3.5m for FY2016, which is line with Senetas's current guidance. We expect profit growth to resume in FY2017 with net profit after tax forecast to increase around 37% to $4.8m. This forecast could prove to be conservative given the number of new product releases due in FY2017. With the significant global opportunities available and the new products being released to the market we are confident that Senetas can return to profit growth in FY2017 and beyond. The strong balance sheet will also enable disciplined investment in organic and inorganic growth initiatives.

BUSINESS DRIVERS AND GROWTH PROFILE

Senetas is firmly focussed on its core data encryption products following a period of significant restructuring which has streamlined the business and improved efficiencies. The business model is now far more sustainable and being the **only manufacturer certified to the four major global standards** with access to a global distribution channel through its partner Gemalto, is well positioned to exploit the massive growth opportunities existing in the high speed encryption market.

In a globally interconnected environment, organisations are experiencing unprecedented growth in valuable digital assets in the form of intellectual property, scientific data, business information and government privacy and secrets. Market Analyst Data Corporation (IDC) is forecasting exponential growth in data volumes and valuable digital assets. The digital universe size is expected to increase by 40% per annum to 2020, which requires high speed data throughput. In 2013, only 20% of the 40% growth in valuable digit assets was protected.

With data centre traffic increasing at unprecedented levels, the risk of data interception is increasing.

To cater for this growth, enterprises, carriers, and content delivery networks are upgrading their networks to ensure that this information can be shared at very high speed. With data flowing at up to 10 gigabits per second (soon to be at 40-100Gbps) across hundreds of millions of kilometres of optical fibre cable, there is plenty at stake if data interception occurs.

While vast amounts of money are invested in securing data at rest (intrusion detection systems, email and malware security and firewall protection), organisations often underestimate the magnitude of risk to critical data while it is in transit across private or public networks. Cyber intrusions are clearly the largest threat to these digital assets while they are stored, moved and shared. For businesses, government agencies and critical infrastructure utilities, the financial and reputational risks are huge if they ignore the protection of data in transit.

The Australian government has highlighted the risks of not protecting data in recent papers. In early 2013, the then Australian Prime Minister Julia Gillard announced $1.5b in funding for a new cyber security centre (ACSC) which became operational in late 2014. The ACSC brings cyber security capabilities from across government into one location. It is a hub where the private and public sector can collaborate and share information to combat serious cyber security threats. Partner agencies include: the Australian Crime Commission (ACC); Australian Federal Police; Australian Security Intelligence Organisation; Australian Signals Directorate (ASD); Computer Emergency Response Team (CERT) and the Defence Intelligence

Organisation.

The Defence Signals Directorate (DSD) reported a 30% increase in the average number of serious online attacks against the government in 2013 that required a heightened response and the ACSC in its 2015 Threat Report warned that the number of state and cyber criminals with capability will continue to increase. Senior intelligence officials remain concerned about the vulnerabilities across "hardened" areas including the major banks, telecommunications, Governments and infrastructure utilities. Corporations globally are now recognising the need to protect valuable data that is being transported at very high speeds across sophisticated IT networks and in many countries, including Australia, new data privacy and protection regulations have been introduced with heavy penalties for breaches.

The US and UK represent key growth markets for Senetas's encryption products.

The key growth markets for Senetas' products remain the US, where the encryption hardware market is forecast to reach US$65b by 2020 growing at a compound rate of 6.5% and the UK where the Government has estimated the cost of cyber-crime to be at least £27b per year. Other potential growth markets for Senetas include Asia, Eastern Europe and the Middle-East. According to a recent report titled 'The Hardware Encryption Market' it is estimated that the global hardware encryption market will reach $166.7b by 2018, growing at a compound annual growth rate of 62%.

Around 90% of global networks are still Layer 3 IP/TCP routed networks However, with the substantial growth in network traffic (volume and reach), the high-bandwidth applications such as data-centre connectivity, disaster recovery/business continuity measures and data storage replication, organisations and network providers are increasingly embracing the benefits of layer 2 Ethernet services. Layer 2 encryption is designed to be transparent to end users with little or no impact on network performance and the cost per gigabyte is the lowest. It is estimated that the addressable layer 2 encryption market will reach at least $460m by 2017.

Organisations are increasingly embracing layer 2 Ethernet services.

With the growth in data volumes, driving greater adoption of Layer 2 networks and the increased awareness of the need to protect valuable data travelling around networks at very high speeds, Senetas being the market leader in Layer 2 encryption technology for networks running at speeds up to 10Gbps and with its proven range of proven certified encryption protection solutions for governments, defence departments and the commercial market is the major beneficiary of this trend.

New technology agreements and customised algorithm encryptors extend technology reach potentially providing alternate revenue streams.

Senetas is actively pursuing new technology partnerships with vendors specialising in Layer 2 networking and CCTV Technologies to maximise future revenue growth. In January 2015, Senetas completed a technology partner agreement with Avaya a major international data network provider. Avaya's standards based SPB fabric Connect solution is based on Layer 2 Ethernet technology as a foundation for building virtualized data networks for the Datacentres, Campus LANs, MANs and WANs. Senetas' encryptors provide Fabric Connect network transmitted data maximum protection without compromising network performance and satisfy the needs of government and larger corporations requiring certified defence-grade encryption technology. They also provide a scalable encryption solution to match large Fabric Connect network solutions across the WAN. Senetas is also focussing on the development of 'custom algorithm' encryptors for new and growing markets particularly in non-western countries. Senetas has commenced work on a large custom algorithm project for a major European customer. Senetas' custom encryption algorithm product is currently undergoing testing and is expected to be revenue producing in FY2017.

FINANCIAL SUMMARY

INCOME STATEMENT			
($'000)	**Dec. 13**	**Dec. 14**	**Dec. 15**
Revenue	**4,828**	**8,119**	**8,666**
EBITDA	**412**	**2,836**	**1,806**
Depreciation	-144	-137	-172
Finance Cost	38	121	211
Pre Tax Profit	**306**	**2,820**	**1,845**
Tax	134	-876	-260
Net Profit	**440**	**1,944**	**1,585**

BALANCE SHEET			
($'000)	**Dec. 2014**	**June 2015**	**Dec. 2015**
Current Assets			
Cash & Equivalents	10,005	15,902	16,339
Receivables	4,409	4,043	2,910
Inventories/Other	854	965	1,140
	15,268	20,910	20,389
Non-Current Assets			
Plant & Equipment	736	751	731
Goodwill	94	124	124
Other	918	607	609
Total Assets	**17,016**	**22,392**	**21,853**
Current Liabilities			
Payables	1,269	2,068	1,782
Debt	0	0	0
Other	4,345	5,757	2,978
	5,614	7,825	4,760
Non-Current Liabilities			
Debt	0	0	0
Other	423	1,474	2,343
Shareholders' Equity	10,979	13,093	14,750
Liabilities & Equity	**17,016**	**22,392**	**21,853**

CASH FLOW			
($'000)	**Dec. 13**	**Dec. 14**	**Dec. 15**
Net Cash Flow From Operations	914	3,573	570
Net Cash Flow From Investing	-60	-363	-132
Net cash Flow From Financing	0	0	0
Net Change In Cash	**854**	**3,210**	**438**

KEY RATIOS			
(%)	**Dec. 13**	**Dec. 14**	**Dec. 15**
Revenue Growth	49.8	68.2	6.7
EBITDA Growth	Large	Large	-36.3
EBITDA Margin	8.6	34.9	20.8
Net Debt/Equity	n/a	n/a	n/a
Intang./Equity	1.9	0.86	0.84

Commentary

Despite the lower net profit in HY2016, Senetas's balance sheet continued to improve with cash continuing to build and shareholders' equity increasing 13% to $14.7m. Net assets have now increased over 37% during the past twelve months. The return on equity also remained high at 13% for the six month period.

Trade and other receivables declined 28%, compared to FY2015 reflecting the ongoing improvements in inventory management with Gemalto, while the decline in total liabilities resulted from the payment of income tax in HY2016 and lower pre-paid maintenance income as maintenance contracts matured.

With Senetas continuing to generate strong operating cash flows, business growth is essentially self-sustaining. Senetas is unlikely to pay dividends in the short-term but rather invest in value creating opportunities. Management will continue to investigate new innovative products and technologies as well as seek compatible acquisition opportunities.

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TOTAL FACE GROUP (TFG)

Leading consolidator in the fragmented non-invasive aesthetic market

DIRECTORS

Paul Fielding, Executive Chairman
Joanne Hannah, Director and CEO
Dr Vilma Di Maria, Non-Executive Director
John Conidi, Non-Executive Director

MARKET DATA

ASX Code:	TFG
Current Price (3/5/16):	$0.32
52 week Share Price Range:	$0.25 - $0.42
Market Capitalisation (quoted):	$13.7 million
Enterprise Value:	$21.9 million

CAPITAL STRUCTURE

Shares on Issue (quoted):	42.7 million
Shares on Issue (escrowed):	32.0 million

FINANCIAL SUMMARY

$000 Y/E June	2013-14 ②(A)	2014-15 ①(A)
Operating Revenue	15	2,280
EBITDA	-314	-431
Net Profit	-314	-610
EPS (c)	N/A	-0.15
Net Cash	N/A	5,720③
Shareholders' Equity	N/A	12,404③
Total Assets	N/A	15,334③

① Statutory P/L.
② From date of incorporation 22nd April to 30 June 2014.
③ Based on Pro-forma balance sheet includes impact of Heber Davis acquisition, the pre IPO capital raising and the IPO.

MAJOR SHAREHOLDERS

Paul Fielding	17.2%
Mick Catanzariti	7.7%
Australian Executor Trustees	6.4%

CORPORATE DETAILS

Level 4, Bank House
11-19 Bank Place
Melbourne 3000
Ph: (03) 8547 3600
www.totalfacegroup.com.au

KEY POINTS

- Total Face Group (TFG) currently operates 11 non-surgical premium aesthetic clinics in Melbourne and Sydney, employing 34 highly qualified clinicians and 12 doctors.
- In a highly fragmented market growing at 10% per annum, with strong demographic and societal drivers, TFG is in an excellent position to be the leader in industry consolidation.
- TFG has an experienced board and team of industry professionals and with a high degree of customer loyalty and strong reputation, is well placed to deliver on its growth initiatives.
- TFG has demonstrated an early track record of high revenue growth with a material improvement noted in the performance of acquired clinics.
- TFG generates high operating margins and expects to maintain a clinic margin of at least 25% over the long-term. There is potential for margin improvement as their new end-to-end systems (TESSA) is employed across the network and scale benefits are realised.
- For HY2016, TFG reported a net loss after tax of $563K (HY2015: $259K) on revenue of $2.9m. The result included the costs of ASX listing and only part contributions from recent acquisitions.
- TFG is approaching profitability and is expected to be cash flow positive by 30 June 2016. On the basis of the existing network, revenue is forecast to reach $17m in FY2017, compared to the current run rate of $12m.
- For FY2017, based on an operating margin of 25%, we are forecasting an operating profit before corporate costs of around $4.3m and a net profit after tax of approximately $1.5m (EPS 0.02c). TFG is not expected to pay tax as it has accumulated tax losses.
- TFG is in a strong financial position with cash on hand of $3.74m at 31 March 2016 and no bank debt. We feel there is a significant pipeline of acquisition opportunities and we expect TFG to undertake a further capital raising during 2016, allowing TFG to maintain a conservative financial structure.

INVESTMENT PROPOSITION

Strong market position well placed to be the leader in industry consolidation.

Total Face Group (TFG) is a high growth company that provides investors with exposure to the fast growing non-surgical aesthetic market. The company has a compelling business model that underpins its organic and acquisition growth strategy. Having a strong market position in a very fragmented market and a highly regarded reputation, TFG is in an excellent position to be the leader in industry consolidation. This has the potential to provide substantial rewards for investors over the next few years.

Strong profit uplift expected over the next few years.

Despite being at the early stages of development, TFG has gained the attraction of institutional investors. We are confident that TFG can deliver on its growth objectives having a very experienced board, operating and practitioner team. With TFG approaching profitability and a cash flow positive outcome, the stock looks compelling value considering the significant potential profit uplift expected over the next few years from the existing clinic network and acquisitions. For FY2017, we expect TFG to deliver a net profit after tax of at least $1.5m from the existing clinic network based on TFG's revenue forecast of $17m.

BUSINESS OVERVIEW

TFG operates premium non-surgical medical aesthetic clinics within Australia. The company was incorporated in April 2014 and was listed on the ASX in January 2016, following a successful IPO which raised $6m (15m shares issued at $0.40). Through acquisitions and greenfield developments, TFG has now established 11 clinics across Melbourne and Sydney with 34 highly qualified clinicians and 12 Doctors.

Anti-ageing, Skin solutions and Body fat reduction the prime focus of TFG.

TFG provides client services across three key modalities: **Anti-Ageing (65%of revenue)** - anti wrinkle treatments, dermal filler treatments, lip enhancement treatments; **Skin Solutions (25% of revenue)** – medical grade skin peels, Obagi® skin care, intense pulsed light and laser; **Body Fat Reduction using Coolsculpting® (10% of revenue) -** a process when fat cells are exposed to extreme cold they die and are eliminated naturally by the body. There is no downtime or surgery associated with this procedure. Consumer products are also sold through the clinics and offer significant leveraging opportunities as new products and clinics are added.

Business model and growth strategy based around organic growth within existing clinics and acquisitions across Australia.

TFG's business model and strategy is based around four key elements of brand creation and recognition, clinical excellence and medical governance, organic growth and acquisitions. TFG's consistency in messaging, branding, customer service and clinical outcomes ensures that it maintains a strong and loyal customer base and this represents a key competitive advantage. TFG's customers are aged 18 years and above with the customer profile depending on the type of treatment being given. It has a data base of over 15,000 customers, and approximately 10,000 are active. The company has a highly experienced team of doctors, nurses and dermal therapists who build long-term relationships with customers by developing personalised treatment plans. To aid this process, in-house and external staff training programs are undertaken to ensure that treating staff are trained in the latest equipment and techniques. TFG has strong industry knowledge and supplier relationships with some of the world's leading pharmaceutical companies including Galderma®, iNova, Lumenis, ZELTIQ and Allergan. These companies supply over 90% of TFG's consumables and equipment.

Growth will be driven organically and through acquisitions in what is a large and growing non-invasive aesthetic market. As brand recognition strengthens and with the implementation of TFG's end to end technology systems (TESSA) which allows for safe and consistent client consultations and treatments, clinician utilisation rates are expected to increase resulting in higher revenue. The implementation of a single nationwide telephone number 13 FACE has reduced the cost of marketing multiple telephone numbers and enhanced brand awareness which in turn helps organic growth initiatives. Greenfield clinics are opened in under-represented regions with close scrutiny paid to the demographics and competitive landscape.

TFG applies strict criteria to all acquisitions

Acquisitions are the key part of TFG's future growth strategy given the fragmented nature of the non-invasive aesthetic market. There are a number of key criteria that TFG adheres to when assessing an acquisition: the business must be profitable; the business must enhance the geographic or client spread; the business must have a good reputation; key personnel must stay in the business for at least 12 months; the business must be able to operate from the same location; the services offered must fit with TFG; and there must be opportunities to grow the business.

LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK

Result included pre-IPO costs and only part contributions from recent acquisitions.

For the six months to 31 December 2015, TFG reported a statutory loss of $563K (HY2015 $259K), on revenue of $2.9m (HY2015 $788K). The EBITDA loss was $270K. At the operating level, profit of the clinics was $604K, at a margin of 20%. The result included part contributions from acquisitions and preparation for its ASX listing. In the period since 31 December 2015, TFG raised $6m and was admitted to the ASX on 14 January 2016. In February 2016, it also completed the acquisitions of Rejuven8 and Face Today which were outlined in the Company's Prospectus and further acquired LaseByTheSea in March 2016. At 31 March 2016, cash on hand was around $3.74m with no bank debt.

During HY2016, TFG acquired Heber Davis in Sydney representing its first entry into this market. This made a positive contribution to the result and in addition TFG achieved significant organic growth from its existing Melbourne clinics. Other initiatives included: further investment in TESSA; secured new revenue producing equipment; recruited extra clinical staff from within the industry; and commenced standardisation of procedures and policies across all acquired clinics.

TFG expected to be cash flow positive by 30 June 2016 and profitable in FY2017.

With a significantly expanded network and the associated scale benefits, TFG is well placed for growth. We expect TFG to be profitable in second half 2016 and cash flow positive by 30 June 2016. The existing network currently delivers annualised revenue of $12m and an operating profit before corporate costs of around $3.1m (at an operating margin 26%). There is often a seasonal aspect to the business being influenced by holidays and the payment of school fees etc.

The revenue target for FY2017 is $17m within the current clinic footprint. Assuming an operating clinic margin of 25% (based on current supply contracts) we are forecasting an operating profit before corporate costs of around $4.3m for FY2017. Significant organic and acquisition opportunities exist to grow the network and margin improvement can be expected as brand recognition increases and scale builds.

BUSINESS DRIVERS AND GROWTH PROFILE

Non-invasive cosmetic industry estimated at $420m.

The non-invasive cosmetic industry in which TFG operates is generally classified within Plastic Surgery. The industry is estimated to generate revenue of around $1b per annum of which 42% is addressable by TFG ($420m). Customers are able to access non-invasive treatments from a range of non-medical and medical practitioners. Cosmetic injectable products are classified as Schedule 4 medicines under the Therapeutic Goods Administration (TGA) which restricts purchase. This impacts the competitive landscape and the ability of new participants to enter the industry which is positive for TFG being an established player.

The industry in Australia is highly fragmented with practitioners often operating from one location with less than 10 employees. Typical operators include: those who rely on low

Fragmented nature of the market represents huge opportunity for TFG being an industry leader.

pricing and high volume to drive revenue; plastic surgeons and dermatologists seeking diversification; beauty, skin care or day spa clinics seeking higher margins; and general practitioners supplementing traditional revenue streams. This represents a huge opportunity for TFG to participate in industry consolidation and significantly lift the returns from acquired clinics. The creation of a premium brand enables TFG to deliver a broader range of services than what could be achieved by a single clinic.

Non-invasive aesthetic market growing at 10% and has proven to be resilient to economic conditions.

The non-invasive aesthetic market is growing at a faster rate than surgical procedures at around 10% per annum driven essentially by increased social acceptance and affordability with consumers undergoing procedures more frequently, the accessibility of services and the lower risk of post treatment complications. The administration of injections into the skin, face and body remains the largest product segment within the industry and is highly profitable. Non-surgical aesthetic treatments have also shown to be resilient to depressed economic conditions, which was evident during the downturns of 2008 and 2009 with industry growth remaining robust during this period. Other factors driving growth include: Customer demographics with younger clients seeking treatment; the ageing population; Australian climate; higher levels of obesity; sociological pressures including increased divorce rates; and increased trust of products and procedures.

With the acquisition opportunities available growth can be sustained for a number of years.

Against this backdrop, with its strong brand and reputation and being well funded (no bank debt), TFG is capable of sustaining growth for a number of years with much depending on the pace of acquisitions and the proper execution of its strategy. Within the addressable non-invasive aesthetic market, it is estimated that there are about 30-50 clinics available for potential acquisition by TFG in Australia. We estimate on average these clinics generate revenue around $2.0m per annum, resulting in a potential revenue impact of $60m-$100m to an acquirer before any revenue synergies. Assuming a sustainable operating margin of 25%, the potential profit contribution of these clinics is in the vicinity of $15m-$25m before any cost synergies. Previous acquisitions by TFG have been done on EBITDA multiples of 4.0x-4.5x. We understand that TFG is currently examining several potential acquisitions.

TFG has demonstrated its ability to significantly improve performance of acquired clinics and grow existing clinics.

Since incorporation in 2014, TFG has undertaken a number of acquisitions and has demonstrated its ability to improve performance through the addition of new services and products and has delivered significant efficiency gains with the benefits of increased scale. With the introduction TFG's proprietary end-to-end systems (TESSA) and other standardised procedures, further efficiencies are expected to be delivered in the future. With the corporate and operating infrastructure now largely in place, there is minimal incremental fixed costs as new clinics are added which significantly enhances the potential operating leverage of acquired clinics as revenue and cost synergies are derived.

Existing and new clinics will benefit from the rollout of Coolsculpting® within the body fat reduction modality which currently only constitutes around 10% of total revenue. TFG forecasts Coolsculpting® to represent approximately 20% of revenue as increased marketing initiatives including the 360 and i360 campaigns take effect. Current marketing campaigns combined with the continued maturity of TESSA has the potential to substantially increase clinician utilisation rates and grow revenue and profits from what are established businesses with a long history and loyal client base.

Investment fundamentals are attractive.

We are confident that TFG can achieve substantial revenue and profit growth over the next few years as existing clinics improve performance and scale builds. The fundamentals for investors are attractive in a fast growing and fragmented industry. On the basis of the FY2017 revenue forecast of $17m (from the existing clinic network) and an operating margin of 25%, we are confident that TFG can achieve a net profit after tax of at least $1.5m (EPS 0.02c) in FY2017. TFG is not expected to pay tax as it has accumulated tax losses.

FINANCIAL SUMMARY

INCOME STATEMENT			
($'000)	**Dec. 13**	**Dec. 14**	**Dec. 15**
Operating Revenue	**-**	**788**	**2,983**
EBITDA	**-**	**-190**	**-270**
Depreciation	-	-46	-225
Finance Cost		-23	-68
Pre Tax Profit	**-**	**-259**	**-563**
Tax	-	0	0
Net Profit	**-**	**-259**	**-563**

CASH FLOW			
($'000)	**Dec. 13**	**Dec. 14**	**Dec. 15**
Net Cash Flow From Operations	-	-281	-1,027
Net Cash Flow From Investing	-	-1,793	-3,192
Net cash Flow From Financing	-	1,252	4,424
Net Change In Cash	**-**	**-822**	**205**

⑤ Statutory accounts pre-IPO.

BALANCE SHEET			
($'000)	**June ④2015**	**June ③2015**	**Dec. ④2015**
Current Assets			
Cash & Equivalents	372	6,955	577
Receivables	238	265	84
Inventories/Other	209	520	1,453
	819	7,740	2,114
Non-Current Assets			
Plant & Equipment	1,408	1,707	2,055
Goodwill	3,217	5,606	5,971
Other	245	281	322
Total Assets	**5,689**	**15,334**	**10,462**
Current Liabilities			
Payables	681	1,410	935
Debt	295	405	527
Other	71	253	449
	1,047	2,068	1,911
Non-Current Liabilities			
Debt	784	830	1,217
Other	1	32	29
Shareholders' Equity	3,857	12,404	7,305
Liabilities & Equity	**5,689**	**15,334**	**10,462**

③ Pro-Forma balance sheet Includes impact of Heber Davis acquisition, the pre-IPO capital raising of $4m and the IPO which raised $6m (completed in January 2016).

④ Statutory accounts pre-IPO.

Commentary

TFG is in a strong financial position post the IPO, having cash on hand of $3.74m at 31 March 2016 and no bank debt. All balance sheet debt relates to equipment finance leases.

With TFG expected to undertake further significant acquisitions, we believe the company may seek additional equity funding during 2016 to maintain its conservative financial structure.

The business generates strong cash flow with negative underlying working capital as customers generally pay 'as you go' or before a treatment.

TFG has recently entered into a retail finance agreement with zipMoney to deliver flexible interest free payment plans to customers across its clinic network. The agreement is focussed on Coolsculpting® body fat reduction where clients are offered an integrated 'interest- free, pay later' service. This service improves the affordability of Coolsculpting® treatments and allows for greater flexibility in package and plan pricing.

TRADITIONAL THERAPY CLINICS LIMITED

Powerful business model fuelling high rates of growth

DIRECTORS

Andrew Sneddon, Chairman
Zhirong Hu, Managing Director
Sanzheng Zhang, Executive Director
Jeff Fisher, Non-Executive Director
Glen Lees, Non-Executive Director

MARKET DATA

ASX Code:	TTC
Current Price (3/5/16):	$0.65
52 week Share Price Range:	$0.41 - $0.70
Market Capitalisation:	$150.6 million
Enterprise Value:	$119.9 million

CAPITAL STRUCTURE

Shares on Issue:	231.7 million

FINANCIAL SUMMARY

$mill (Y/e Dec)	2014 (A)	2015(A)
Revenue	30.9	44.8
EBITDA	19.3	25.9
Net Profit	13.0	24.8
EPS (c)	6.8	7.7
Total Assets	48.6	78.1
Shareholders Equity	19.0	46.5
Net Cash	14.2	30.7

MAJOR SHAREHOLDERS

Hwazon Investment Ltd	67.0%

CORPORATE DETAILS

Level 36, Gateway
1 Macquarie Place, Circular Quay
Sydney, NSW, 2000
Phone: (02) 8075 4641

www.ttc-ltd.com

KEY POINTS

- In a highly fragmented industry, TTC operates the largest network of foot massage and therapy clinics in China.
- In an industry with few standards, TTC is a well-recognised and government accredited brand (Fuqiao), operating high quality facilities with standard services, operating procedures and well trained and qualified staff.
- The number of clinics has more than doubled since 2013 to over 330. The number is expected to continue to grow significantly over the next few years.
- A franchise model continues to drive rapid business growth with about 35 – 40 franchised clinics a year to be opened in each of the next few years
- The company has started to buy back established clinics from franchisees to drive profit growth. The 8 most recently acquired clinics were acquired on an EBITDA multiple of less than 2.5 times. This is a sustainable valuation multiple and the company expects to acquire at least 10 clinics a year. Currently there are 19 company owned clinics.
- Each franchised clinic delivers about $50K in annual fees (plus an upfront training fee); each company owned clinic delivers about $700K-$800K in operating profit.
- A key element of the business model is the company's own facility to train all therapists and managers employed in the clinics. Over 3,500 therapists are trained each year.
- With three local Directors and a Sydney based finance team, the company is committed to best practice corporate governance.

INVESTMENT PROPOSITION

High growth company and market leader

Traditional Therapy Clinics is a high growth company that provides investors with exposure to the continuing urbanisation in China and the rapid growth in services to the China middle class. The company has a compelling, self-funding business model that underpins its growth strategy. Moreover, as the leader and standard setter in a highly fragmented market, the company owns the most valuable brand in the industry and is recognised as a premium offering.

With an attractive valuation

There is no doubt that as a Chinese company, the stock is heavily discounted and will remain so until the general perceptions regarding Chinese companies are dispelled. Notwithstanding these perceptions, the company has attracted support from fund managers in Asia and Australia. With forecast profit growth of about 37% in 2016, the discount would seem to be excessive and with prospective PER of considerably less than 10 and a prospective yield of about 10%, the current valuation would seem to be quite attractive.

BUSINESS OVERVIEW

Largest operator of foot massage clinics in China

Since its establishment in 1998, by Ms Zhirong Hu, TTC's Managing Director, TTC has risen to become the largest operator of foot massage and therapy clinics in China. With over 300 clinics, the company's Fuqiao brand is the most recognised provider in China of foot massage and traditional therapy.

In a very large and highly fragmented market, where there are less than 20 multi-clinic service providers, TTC's differentiator is a well-recognised and government accredited brand (Fuqiao), high quality facilities, standard services and operating procedures and well trained and qualified staff. In an industry with few standards, TTC's Fuqiao is a premium offering.

Rapid growth driven by a franchise model over which the company retains full operating control

The company's business model has been very effective in driving rapid expansion with the network of clinics having tripled since 2011. The key elements of the model are company controlled training of all staff including therapists and clinic managers, third party financial ownership of the clinics (franchisees are investors and have no operational role in the clinics), and tight operational control of the clinics through company trained staff and regular reporting and operational audit.

The franchise model is a powerful growth driver enabling the company to harness substantial investor capital to expedite the clinic roll-out. In 2015, 36 clinics were opened, taking the number of franchised clinics to 333. The company now requires more business qualified managers and is boosting its training to support future growth, accordingly the company is slowing down the roll-out whilst the pool of suitably qualified clinic managers is being increased. In the meantime, new clinic openings are now likely to number between 35 and 40 per annum for the next two or three years.

Franchisees currently capture the bulk of the clinic operating profit (estimated at more than 90%) only paying to TTC a training fee and franchise fee that amounts to about $48K per annum in addition to an upfront "entry" fee of about $100K. Whilst we expect over time that TTC will modify its franchise model to capture a greater share of the value add, the company is now selectively buying back established clinics to drive profit growth.

Selective franchised clinics are being acquired by the company to drive profit growth.

TTC has been buying back clinics that generate between $700K and $800K operating profit on an earnings multiple of around 2 to 2.5. In late 2015, eight clinics were acquired for $12.8 million on an EBITDA multiple of less than 2.2 times and a further 10 or so are expected be purchased on similar multiples in 2016. In 2015, the 19 company owned clinics generated 54% of revenue although representing only 5% of the total network. This share of

ROI is very high

revenue will rise to over 65% in 2016 mostly due to the full year impact of the most recent acquisitions. We expect the company to acquire about 10 clinics per annum for the next few years which will ensure that profit continues to grow rapidly into the medium term. With each acquired clinic costing around $1.6 million, the company has more than adequate financial resources to fund this program.

The services provided by TTC include foot massage, classical massage, cupping, and moxi-bustion (application of heat). These are not unlike physiotherapy or osteopathy which are common and widely used therapy services in Australia. Whilst session lengths vary, a typical session will last about 90 minutes. The typical client is a middle class male, aged between 25 and 65. Although males represent about 70% of the client base, female attendance is rising.

Company controlled training facility is a key element of the business model

The company has designed a staff training program and oversees staff training undertaken at the Chongqing Fuqiao Human Resources Centre, which was established in conjunction with the Chongqing City Management College. Under the arrangement with the College, TTC provides about 30 staff to the centre.

The company's training facility is an important source of competitive advantage. It ensures that consistent, high standards are maintained throughout the company's clinics in addition to providing a ready supply of qualified therapists to both manage the turnover in the existing network and to meet the requirements of new clinics. Currently, there is an annual requirement of between 3,500 and 4,000 new therapists.

Given that the company keeps tight control over the day to day operations of the clinics through the manager whom they have trained and appointed, we would think that the operating risks are relatively low. The bigger risks would seem to be the availability of sufficient suitably trained managers to drive network expansion, the ability to capture more of the operating income from franchisees, the language gap between management and the board (multilingual capabilities are being strengthened) and possibility of resistance to strategic initiatives (currently highly supportive) and the exchange rate. With the exception of the exchange rate, which has no impact on the operating business, these issues are understood and being managed.

LATEST PROFIT RESULT AND EARNINGS OUTLOOK

32% profit growth in 2015….

Traditional Therapy Clinics' financial results for the year ended 31 December 2015 were ahead of prospectus forecasts. The 45% increase in revenue and 32% increase in net profit in 2015 were largely attributable to the continued expansion of the franchised clinic network, strong like for like growth in existing owned clinics, along with the full year impact of the two clinics acquired by the company during 2014.

….driven by the acquisition of established clinics on favourable valuations…

During 2015, 36 new clinics were opened and 8 established clinics were acquired from franchisees. The overall number of operational clinics increased by 36 to 333. As the clinics were acquired towards the end of the year their contribution to revenue and earnings was modest. Nonetheless, the share of revenue attributable to the company owned clinics increased from 52% in 2014 to 54%, whilst the overall EBITDA margin remained very strong at 57.9%.

Reflecting the growth in the company owned network, operating cash flow continues to rise, increasing by 17% in 2015, to $14.3 million, whilst capital spending of $8.8 million was lower than the previous year. Cash resources markedly increased due to the capital raising through the IPO and stood at nearly $31 million as at 31 December 2015 whilst borrowings were inconsequential (<$100K).

…which will support anticipated profit growth of about 37% in 2016

Rising cash flows, coupled with large cash resources and a debt free balance sheet provides TTC with the financial capacity to continue to grow the business (roll-out of the franchised clinics) and profit (buy-back of established clinics) in line with its business plan. The company is likely to achieve about 37% net profit growth in 2016, with a full year contribution to revenue and earnings from the clinics acquired at the end of 2015, and is capable of sustaining 20%+ growth for the next few years at least.

BUSINESS DRIVERS AND GROWTH PROFILE

Highly fragmented market dominated by single clinic enterprises

The Therapeutic Massage industry in China is highly fragmented and dominated by single clinic enterprises. Accordingly, the range of services and standard of service varies widely. Historically, there have been issues of illicit practices, however, in 2007 in response to the rapid growth in the Bath industry, the central Government began to introduce regulations to stamp out these practices and to improve overall standards. Although, the various chains of clinics represent a small share of the market they also play an important role in boosting industry standards and indeed Fuqiao, which has been awarded the designation of “Famous Brand” has played a significant role in this regard in advising the government on standards and appropriate regulation.

TTC stands out as the largest operator….

TTC is the largest foot bath enterprise in China with over 330 clinics in most provinces. The next largest enterprises were China Liangste Group with around 88 clinics including several in Europe, and K-Lotus Massage with about 100 clinics. Given the scale of the market, it would probably be unfair to each of these companies to describe them as competitors when the market is dominated by single clinic enterprises. Indeed, it might be argued that the market would benefit from consolidation and greater presence of multiple multi-clinic networks as a means of improving industry standards and driving growth. Notwithstanding the enormous number of single clinic enterprises, Hejun (a leading China-based consultancy) estimates that the country can support about 4,500 clinics of the quality and standard TTC.

…and capable of sustaining high rates of growth for quite some time

Against this background, we believe that the company’s growth profile is capable of sustaining compound annual revenue growth in excess of 20% per annum at least through 2020. Assuming the company opens about 40 franchised clinics and acquires about 10 established annually, we think that total group revenue will approach $200 million in 2020 with EBITDA in excess of $100 million. The strategy that is designed to deliver this performance can be funded from existing cash resources, ongoing cash flow and a modest level of debt.

There are also considerable opportunities to boost profit growth from modifying the franchise agreements to capture a greater share of the value-add, the introduction of standardised systems (including a CRM) and technology, and by introducing complementary skin care and other branded wellness related products.

As the company ownership of clinics grows, the imperative to introduce sophisticated systems will build. Apart from the need for a management information system to control finances through the company owned clinics, a CRM will enable the development of marketing and loyalty programs, which currently don’t exist. Further, the medium term introduction of an Australian produced, company branded ancillary product range will greatly boost the revenue potential of clinics as well as potentially generating significant Australian profits and franking credits.

FINANCIAL SUMMARY

INCOME STATEMENT			
($,000)	**2013**	**2014**	**2015**
Revenue	**15,639**	**30,864**	**44,799**
EBITDA	**9,705**	**19,281**	**25,930**
Deprn, & Amort	(467)	(862)	(1,203)
Net Finance	89	46	53
PRE TAX PROFIT	**9,327**	**18,465**	**24,780**
Tax	(2,980)	(5,448)	(7,653)
NET PROFIT	**6,347**	**13,017**	**17,127**

BALANCE SHEET			
($,000)	**Dec 2013**	**Dec 2014**	**Dec 2015**
Current Assets			
Cash & Equivalents	18,813	15,158	30,741
Other	289	466	678
	19,102	15,624	31,419
Non-Current Assets			
Plant & Equipment	5,967	32,001	35,452
Intangibles	937	570	10,385
Financials	14,987	359	861
Total Assets	**40,993**	**48,554**	**78,117**
Current Liabilities			
Borrowings	701	80	85
Payables	626	2,973	7,939
Deferred Revenue	7,968	9,510	10,878
Other	1,446	192	305
	10,741	12,755	19,207
Non-Current Liabilities			
Deferred Revenue	19,014	16,824	12,382
Shareholders' Equity	11,238	18,975	46,528
Liabilities & Equity	**40,993**	**48,554**	**78,117**

CASH FLOW			
($'000)	**2013**	**2014**	**2015**
Net Cash Flow from Operations	17,327	12,165	14,315
Net Cash Flow from Investing	(15,623)	(9,438)	(8,756)
Net cash Flow from Financing	(5,035)	(7,256)	9,005
Net Change In Cash	**(3,331)**	**(4,529)**	**14,564**

KEY RATIOS			
(%)	**2013**	**2014**	**2015**
Revenue Growth	77.3	97.4	45.1
EBITDA Growth	~86.0	98.7	34.5
EBITDA Margin	62.1	62.5	57.9
Return on Equity	56.5	68.6	36.8
Net Cash/Equity	61.2	79.5	65.9
Intang./Equity	8.3	3.0	22.3

Commentary:

TTC's financial statements clearly demonstrate the success of its franchising strategy and the rapid roll-out of clinics that it has effectively financed. The model has delivered exceptional growth, high margins and high returns on capital.

The statements also show a company in transition as its model becomes somewhat multi-faceted with the acquisition of clinics by the company. The most notable impact of the strategy to acquire clinics is on the balance sheet with investment in plant and equipment and intangibles (acquired goodwill) becoming a major feature of the balance sheet.

In addition to the rising investment in plant and equipment, the most significant feature of the balance sheet is the high level of deferred revenue. Franchisees pay training fees five years in advance which are amortised to revenue annually in equal amounts over this period. The fees paid in advance have been and will continue to be an important source of funding for the company's growth.

ABOUT OUR TEAM

MICHAEL GORDON

As the principal of Gordon Capital, has had over 30 years experience as a sharemarket analyst. He has managed a number of research teams, and for 10 years, was the owner of Australian Equities Research Pty Ltd, Australia's leading independent producer of sharemarket research and analysis for retail stockbrokers. This experience as both an analyst and business owner has given him an excellent appreciation of the issues of driving and managing growth. Michael's particular strength lies in being able to quickly grasp the essence of a company, its strategic positioning and value proposition, its business model and growth profile. These messages many companies find challenging to easily articulate to the financial community

Michael holds a Bachelor of Commerce from the University of Melbourne and is a Fellow of FINSIA.

STUART GLAZEBROOK

Stuart is a resource industry professional with more than 20 years experience in exploration, mining, equity capital markets, corporate finance and investment banking.

Following an international geological career, Stuart spent several years with a leading equity market communication specialist and was previously part of the highly-ranked analyst team covering the resources & materials sectors at investment bank Credit Suisse.

Stuart is also a Director of Ophir Partners, an Australian-based consulting firm offering executive search, leadership and corporate advisory and communication solutions to companies in the resources, energy, allied engineering and agribusiness sectors..

Stuart has a BSc (Earth Sciences) from La Trobe University with postgraduate studies in Applied Finance & Investment at the Securities Institute of Australia.

DAVID SPRY

David has had over 20 years experience as a sharemarket analyst for retail stockbrokers. He has a business degree with a major in Accounting and understands all aspects of financial analysis.

During his career, he has undertaken extensive research on many companies in most industry sectors. He has constructed financial models, interpreted Accounting standards, liaised with company directors and management and written extensive research reports including weekly and monthly newsletters to clients. David's strengths lie in researching smaller industrial companies where he has had particular success in identifying future growth companies as well as trends in the market. He has added further value by identifying early warning signs for companies that may be having financial or operational issues.

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