Pickles
Capital

Opportunity to Invest

April 2021

The offer – Pickles Capital

The information in this proposal is to determine investment interest purposes only. It is not intended as legal, financial or investment advice and should not be construed or relied on as such. Before making any commitment of a legal or financial nature you should seek advice from a qualified and registered legal practitioner or financial or investment adviser.

You have received this document to consider an opportunity to invest in a wholesale Managed Investment Scheme (MIS) that will provide equity funding to an operating business that will act as a lender. The lending entity will offer secured asset-backed loans to corporate customers. The lending entity will borrow funds of up to 90% of managed funds in order to leverage equity capital.

The information in this document, including all indicative investment returns, is intended as a guide only. These lending activities by their very nature are high risk. Pickles Capital is completely independent to Pickles Auctions Pty Limited.

An opportunity exists for 20 investors to participate in Pickles Capital. Pickles Capital is seeking to raise first round equity funding of $2m, structured as:

- 50% paid upon acceptance of your offer and the formation of Pickles Capital;
- 25% paid on call (when Funds Under Management (FUM) exceeds $5m; and
- 25% paid on call (when FUM exceeds $10m).

Equity will be offered in the form of units in the Pickles Capital Income Fund priced at $25,000 per unit. Investors should have capacity to make further equity investments as the fund grows.

The intention of the fund is to provide a quarterly distribution of net income, subject to cash flow in the fund. Where net income cannot be distributed because of cash flow distributions will be deferred until there is sufficient liquidity in the fund.

An investment committee will be comprised consisting of Bruce Maclennan, Bruce Connors, Dan Cawthorne and Chris Avramis. These members will also act as directors of the corporate trustee of Pickles Capital Lending Trust.

Should you wish to invest in Pickles Capital, please provide an expression of interest with your total investment (as a multiple of $25,000) to Dan Cawthorne (dan.cawthorne@pickles.com.au) by 30 April 2021. The first 19 responses indicating an appetite to invest will be provided a spot in the scheme. Total units issued will be restricted where there is an over-subscription of capital.

Upon receipt of interest meeting the $2m required, we will instruct solicitors to prepare the scheme and all investors will be provided with copies of legal documentation (to form the trust etc.), financial modelling and other resources.

If you have any questions, please contact Dan Cawthorne or Bruce Connors.

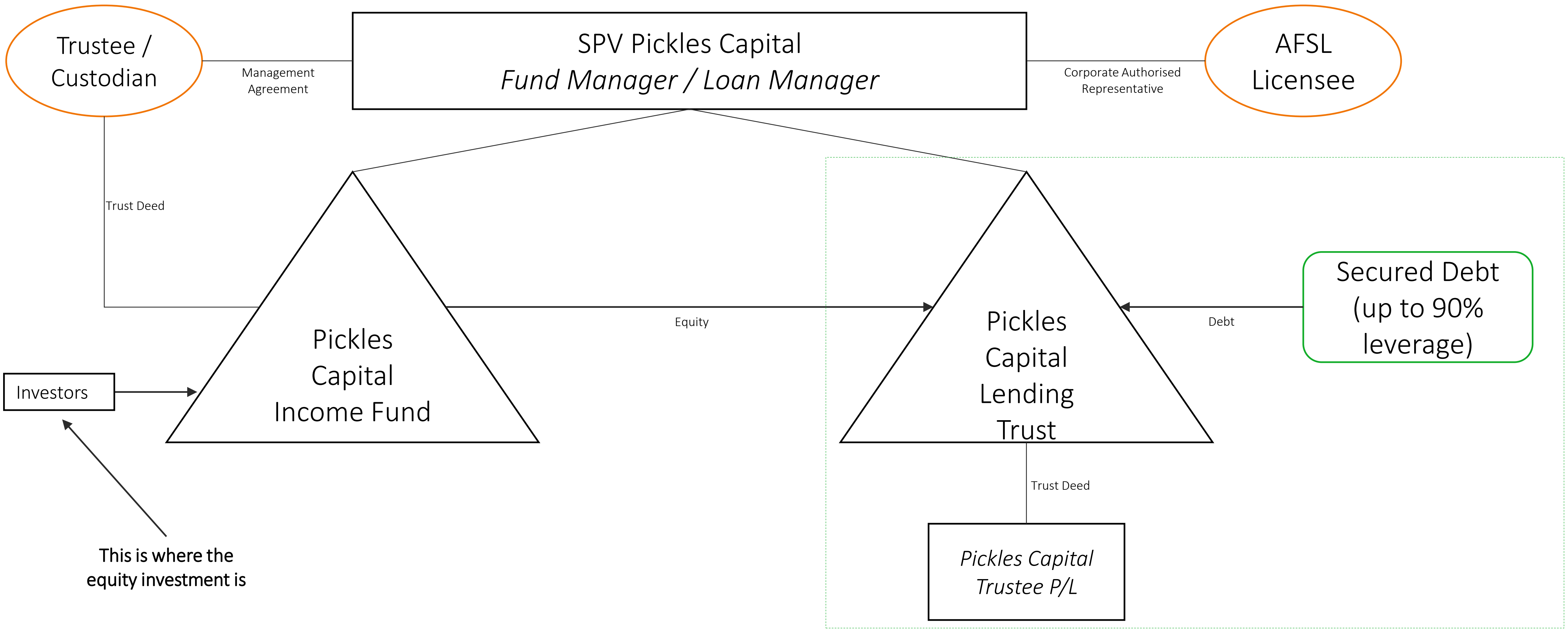
What is Pickles Capital?

- A debt fund that lends money to asset-rich (plant & equipment) businesses seeking alternate sources of finance. This could include businesses suffering from distress needing liquidity or capital to restructure, or businesses wishing to grow.
- Providing asset backed loans (ABL) secured by assets (plant & equipment and property) at <80% LVR. The fund is debt leveraged to maximise returns to the investors, with typical loan periods being between 6 – 24 months.
- The fund will target loans from $500K up to $3M (potential to be larger in the future).
- We will not compete with our clients i.e. mainstream lenders and the product can be complementary to a senior facility providing an appropriate LVR over plant & equipment assets.
- We will conduct our own valuations of the assets. Enabling us to understand the assets and the environment the company is operating in.
- Individual loan & security documents will be prepared by external legal advisors (Norton Rose).
- The fund will be administered and audited by external specialists.
- Limited to 20 investors in a wholesale MIS with minimum investments of c.$25k. At 90% leverage total funds under management would be at c.$22m (target FUM) - $20m debt and $2m of equity.
- Structured so the MIS funds the SPV lender so that we have full control over lending decisions within a lending committee.

Why Now?

- This is an opportunity for employees to have ownership and take risk in an investment “fund” that is complementary to the Pickles business.
- We have a captive distribution network with solid relationships across the restructuring and brokerage industries = our existing referrer base will bring us deals.
- Our sales guys will be equipped with another selling “tool”
- Alternative debt market is worth over $100b today with limited mainstream lending in the ABL space. There is a distinct market for entry into the $1M to $3M space
- Others are offering similar lending but don’t have our asset knowledge and expertise, and platform to value or realise assets
- Bank lending has tightened since the Royal Commission in 2018 and COVID19 is going to throw more caution
- We understand the assets and have a platform to dispose (lower costs to exit) – major differentiator
- Compliments our core business in Industrial – we can help long term clients acquire and dispose of assets across the business lifecycle
- We can provide solutions for SME’s whilst providing attractive returns for our investors/employees
- We have the potential to undercut our competitors – Remagen, GB, Hermes, rates circa 19%
- Pre-lend (valuation fees), monthly/quarterly audits – multiple touches for benefit of earning fees

Fund Structure



External service providers

As a wholesale MIS, we have a number of governance requirements that include holding an AFSL and a trustee. Pickles Capital will outsource this capability as developing it internally will be expensive and is not our core competency. Service providers are summarised below:

- Trustee, MSC Group – upfront fees of c.$20k and ongoing fees of c.0.15% of FUM with a minimum of c.$28k per annum
- AFSL, MSC Group – costs of between c.$19k and c.$27k depending on total FUM
- Loan and fund administration, Alter Domus – upfront fees of c.$4k and ongoing fees of c.$32k per year plus c.$3k per loan
- Auditor, TBD – estimated fees of between $10k and $20k per year
- Lawyers, Norton Rose – estimated establishment fees of c.$75k plus costs for ongoing loan documentation and security registration

Debt Funding

GCI - lender

Have provided indicative terms for a $18m debt facility as follows:

- $18m facility (total capital of $20m including equity funding) capable of being drawn monthly in tranches of $1m, or smaller amounts where available;
- Capital available at call up to $3m of headroom (i.e. if the facility is drawn to $5m, we will have a further $3m available as headroom);
- 11% interest rate per annum, no establishment, drawdown or line fees;
- Default rate of 4% (where we fail to make repayments because of a borrower default in our fund);
- Initially 24-month term;
- Equity requirement of $1m up to a $5m facility, $1.5m up to a $10m facility and $2m for a facility over $10m;
- 90% LVR when facility is fully drawn (as the facility is being drawn down the equity component is to be used first i.e. a first loan of $1.5m would be funded $1.0m equity and $0.5m of debt, a second loan of $1m would be entirely debt funded providing LVR is < 90%);
- Security agreement over the lending entity only (Pickles Capital Lending Trust);
- GCI and Pickles to agree qualifying classes of assets and other credit criteria, and to be flexible with GCI to sign-off on assets/loans within 48 hours;
- In time, as the portfolio builds establish different portfolio parameters such as geographical and asset class concentration; and
- Loans to range from $0.5 to $5m, with opportunities over $5m to be split between Pickles Capital and their fund directly.

Indicative returns

The fund will incur establishment costs of c.$0.2m, which will impair returns on the first year. Based on some high-level indicative scenarios, the following returns have been modelled:

	Low	Base	High	Desired
FUM Year 1 (loans)	$3.4m (5)	$4.2m (6)	$8.8m (12)	$8.8m (12)
FUM Year 2 (loans)	$3.8m (9)	$5.5m (12)	$11.5m (24)	$11.5m (24)
FUM Year 3 (loans)	$3.8m (8)	$5.5m (12)	$11.5m (24)	$19.3m (35)
Year 1 Return	-15.3%	-13.8%	0.8%	0.8%
Year 2 Return	5.4%	11.2%	23.3%	23.3%
Year 3 Return	5.6%	13.3%	26.0%	38.2%
3-year average Return	-1.4%	5.1%	16.6%	20.7%
Annualised operating costs (excl. Interest, loan establishment and establishment)	$0.2m			

Key Assumptions: $1m loan parcels with 2-year terms, 11% interest cost, 15% interest received, funding per GCI proposal. FUM and loans indicated above are at year-end.

The above scenarios do not include a loss provision. These loans by their nature are not without risk and there is a reasonable degree of likelihood that there will be loan delinquency in the fund. Investors should satisfy themselves that the lending criteria and rules are consistent with their appetite for risk.