

12 September 2022

Escient Pty Ltd

Share Valuation Report



For intended audience only

SLM/



Disclaimer

This report ("**Report**" or "**the Report**") is an update to our previous report prepared in February 2022 ("**Previous Report**") and has been prepared solely for the purpose of assisting the current owners of Escient Pty Ltd ("**the Company**") in determining the valuation of the shares in the Company.

The valuations that SLM Corporate Pty Ltd ("**SLM**") has conducted are based on information provided by the Company ("**the Information**").

There has been no independent verification of the Information by SLM.

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Any analysis, estimates, projections or recommendations in this Report involve significant elements of subjective judgment and analysis, which whilst compiled with due care and professionalism, may or may not be correct.

Any forward looking statement does not constitute and should not be regarded as a representation that the projected result will be achieved or that the underlying assumptions are valid.

There are usually differences between any forecast and actual results because events and circumstances frequently do not occur as forecast and these differences may be material.

Any liability to the maximum extent permitted by law, is hereby expressly disclaimed and excluded.

This Report is to be used by the Company for internal purposes only and shall not be circulated to any other party without SLM's express approval.

Glossary

\$K, \$M	AUD\$ Thousand, AUD\$ Million
A, F	Actuals, Forecasts
Company, the Company	Escient Pty Ltd
COVID-19	Coronavirus
DCF	Discounted Cash Flow
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EV or Enterprise Value	The sum of Equity Value and Net Debt
Excess Cash	Amount of cash held in the company beyond what the company needs to support its ongoing operations and growth projections
FY	Financial Year
Previous Report	Valuation Report prepared by SLM in February 2022
Previous Valuation or Previous Value	Value of the Company and/or shares in the Company as per the Previous Report
Recommended Value	Value of the Company and/or shares in the Company as per the Report
Report or this Report	Valuation Report prepared by SLM in September 2022
SLM	SLM Corporate Pty Ltd
the Information	Information provided to SLM by the Company

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Background

- Escient Pty Ltd ("**Escient**" or "**the Company**") is an employee-owned business and digital consulting company providing a range of services including project and program management, business analysis, change enablement, design thinking and architecture.
- The Company was founded in 2016 and is headquartered in Adelaide. It has offices in three other locations namely, Melbourne, Sydney and Brisbane.
- Escient employs a staff of more than 100 and has provided services to over 150 companies, governments and not-for-profits across a number of industry sectors.
- The Australian Financial Review recognised Escient in 2020 and 2021 as one of the fastest growing start-ups in Australia. The Company has also won an award for Employer of Choice in the Australian Business Awards in 2020, 2021 and 2022.
- To encourage employee participation in the ownership of the Company and to reward performance, the Company has in place an Employee Share Scheme and an Employee Share Option Plan.
- The Company's Shareholder Agreement requires the Company to undertake a Company valuation at least twice annually (historically conducted after the end of each half, around March and September).
- SLM Corporate Pty Ltd ("**SLM**") has been engaged by the Company to undertake these periodic valuations of the Company.
- SLM has prepared this report ("**the Report**") as an independent valuation of the Company to satisfy the September 2022 valuation requirement.
- It should be noted that SLM had also prepared a report in February 2022 to satisfy the March 2022 valuation requirement ("**Previous Report**").
- We understand that the Company may use this Report in relation to the issue of shares as per the Employee Share Scheme.

Report Overview (cont'd)

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Key Findings

- To undertake the September 2022 valuation, SLM reviewed the valuation methodologies and key assumptions used in the Previous Report and updated them for current market conditions¹.
- Based on this, we have calculated the **Enterprise Value** of the Company in the **\$9.0M - \$13.5M** range with a Recommended value of **\$11.3M** being the mid-point of the valuation range. The Recommended Value of \$11.3M is approximately 41%² lower than the \$19.2M valuation in the Previous Report.
- As per the most recent balance sheet dated 30 June 2022, the Company had cash and cash equivalents totalling \$6.3M and nil borrowings. To determine the equity value, we have reduced this cash balance for the projected expenses relating to digital transformation project (non-recurring) of approximately \$300k and calculated adjusted cash balance to be \$6.0M³. We understand that the Board has declared a fully franked final dividend of \$0.15 per share which when distributed, will reduce the adjusted cash balance further by approximately \$439k⁴. In addition, based on our discussion with management we understand that the business requires a minimum cash balance of \$4.0M to cover working capital needs of the business and to mitigate the intra-month fluctuations. Any cash holding in excess of these amounts could be distributed as additional dividends and therefore could be considered surplus or Excess Cash. On this basis, and as per the adjusted cash balance, we have determined the amount of Excess Cash to be \$1.5M (refer Appendix 2 for details). We also note that the Company has a number of option tranches outstanding and have notionally calculated the cash receipts from the exercise of these option tranches⁴. These notional cash receipts totalling \$2.6M have also been treated as Excess Cash. Combining the notional cash receipts from the exercise of option tranches with the Excess Cash on the balance sheet increases the Excess Cash balance to \$4.1M. Adjusting the Enterprise Value for the Excess Cash holding to derive the Equity Value⁵, we have valued the **Equity** in the Company at **\$15.3M**⁶.
- As at the date of this Report, the Company had 2,724,843 shares on issue and a further 2,002,819 options on issue which add up to 4,727,662 shares on issue on a fully diluted basis. This implies an **Equity Value per share** on a fully diluted basis of **\$3.25**⁶. Our Equity Value per share of \$3.25 represents a decrease of approx. 37%² on our Previous Valuation of \$5.15 per share.

1. A comparison of the assumptions in the Previous Report and this Report is tabled on page 24.

2. Refer page 25 for a reconciliation of Recommended Value with Previous Valuation.

3. Refer pages 14 and 16 for discussion on the adjustment for the non-recurring items.

4. SLM has calculated the Share price at \$4.69 per share (pre-dilution) which is higher than the maximum exercise price of the option tranches, implying all of the options are in the money. Accordingly, we have assumed that all of the options will be exercised and further that 10% of options exercised will be exercised prior to ex-div date and will receive the \$0.15 per share dividend distribution.

5. Equity Value = EV + Net Excess Cash.

6. Ex-dividend. Note if all the outstanding (vested) options are exercised before the ex-div date, the Equity value per share decreases to \$3.19 due to larger dividend distribution resulting in lower Excess Cash balance. Numbers may not add up due to rounding.

Valuation Methodology

Valuation Methodologies Overview

Background	Valuation Methodology	Valuation	Conclusions
Considered for Valuing the Company			
DCF Valuation	The Discounted Cash Flow ("DCF") methodology recognises the present value (or today's dollar value) of the expected net cash flows, which are expected to be derived from future activities of the business.		Insufficient information
Comparable Multiples	Based on publicly-available information, this methodology ascertains the multiple at which a company might trade on an exchange or the valuation at which it might transact. Revenue or earnings multiples of valuation outputs such as EV can be utilised in the valuation.		Cross Check
Net Asset Valuation	A methodology that deducts the book value of a firm's liabilities from its assets. This method is most often used where the company is asset intensive or has yet to establish an operating track record.		Not Preferred
Rule-of-Thumb Multiples	This methodology applies usual transaction valuation multiples for businesses of similar size, based on the market experience of those who are involved in dealing with such businesses.		Preferred

Discounted Cash Flow Analysis

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Explanation of Methodology

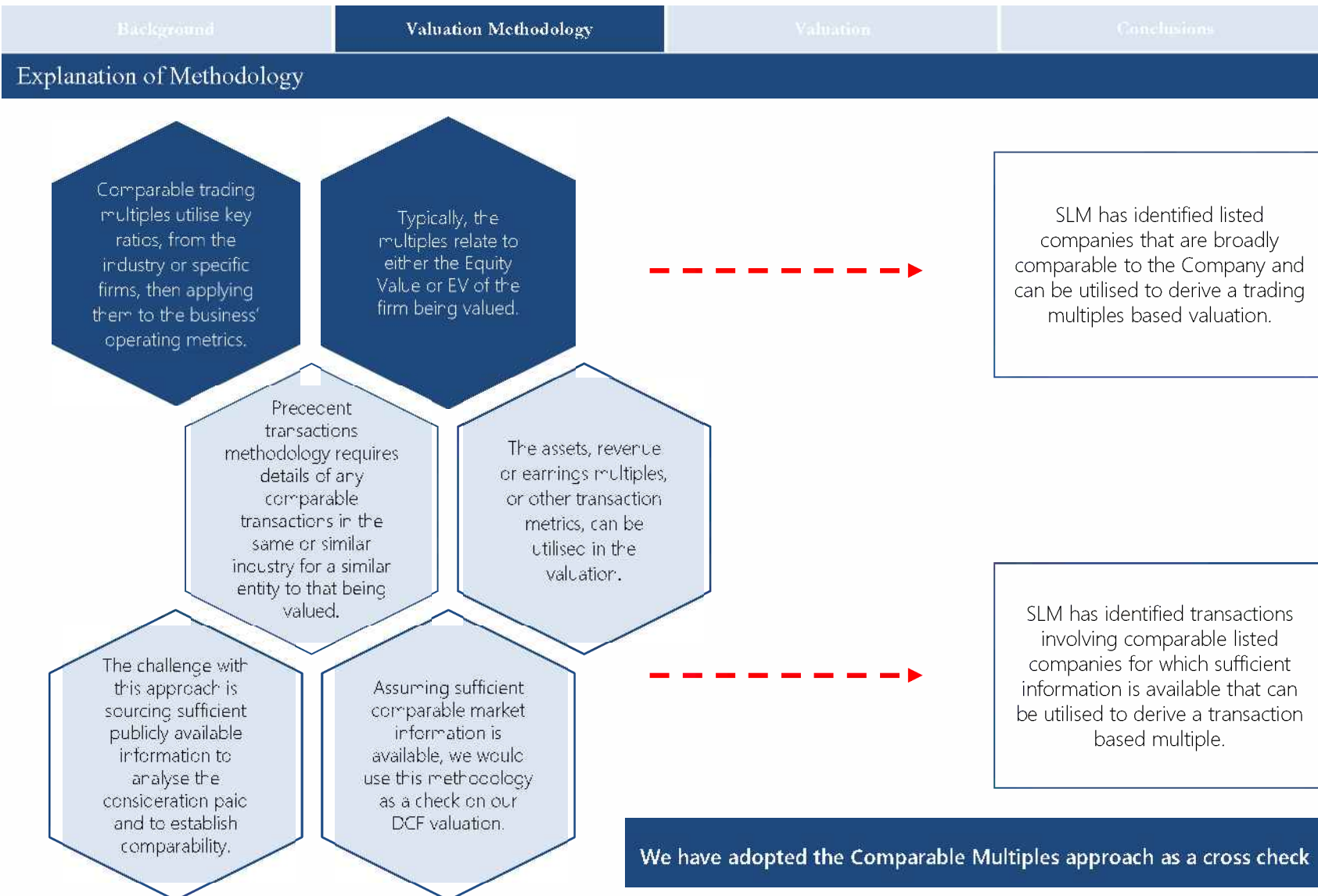
The Discounted Cash Flow (“DCF”) methodology recognises the present value (or today’s dollar value) of the expected net cash flows which are forecast to be derived from future activities of the business and including if relevant, a terminal value, which seeks to value the cash flows to perpetuity reflecting the ongoing life cycle of the business.

These future cash flows are discounted to current values by a discount rate recognising both the time value of money and the risks associated with the cash flow streams. Those risks can include general economic and sector risks and risks particular to the business.

This methodology is normally considered to be the most appropriate method in the calculation of the value where there is adequate information about likely future cash flows, usually over a finite term or assets with a finite life.

DCF models require reasonably accurate forecasting of long term cash flows and is also heavily influenced by changes in the business inputs and assumptions made in respect of these forecasts. Whilst we have been provided with near term earnings forecasts, we have not been provided with sufficient information to construct a reliable DCF model for the Company.

Comparable Multiples



Net Asset Value

Background	Valuation Methodology	Valuation	Conclusions
Explanation of Methodology			
<p>The net asset value methodology values a business on the basis of the book value of its total assets minus its total liabilities, or 'net assets'.</p> <ul style="list-style-type: none"> The net asset value approach is appropriate when valuing businesses with a considerable level of hard assets such as property, plant and equipment. <p>An adjusted net asset value will often be calculated, in order to provide a more accurate valuation of the business.</p> <p>The value ascribed to assets and liabilities under an <i>adjusted</i> approach may be determined on a number of different bases including:</p> <ul style="list-style-type: none"> Orderly realisation – estimates the value at current market rates; Liquidation – estimates the value of the business under distress; and Going concern/replacement cost – estimates the cost of replicating the business. <p>The net asset value method is typically utilised as a validation exercise to support the value determined under alternative approaches. It is most suitable in situations where the business is capital intensive and the value of the hard assets can be determined reasonably.</p> <p>It is however not suitable for valuing service-based operations, such as Escient which have asset light business models. The net asset approach also does not account for intangible value which can come from customer relationships, intellectual property, know-how, brands, goodwill etc.</p>			

Rule-of-Thumb Multiples

Background	Valuation Methodology		Valuation	Conclusions
Explanation of Methodology				
	Valuation ranges			
EBITDA Multiples Range	2 – 3x	4 – 5x	6 – 7x	8x +
Implied Return	50% - 33%	25% - 20%	17% - 14%	Less than 12.5%
Possible Factors	Small business, key person risks, concentrated customer base, competitive market, low profitability, low growth prospects, or a desperate seller	Small to medium business, a sound record of performance, long/strong business history, good growth potential, some intellectual property or some owner risk	Medium to large business, good record of profitability and growth, low key person risk, strong intellectual property or key assets	Large to very large business, excellent record, significant growth profile, high demand industry, key competitive advantage

- SLM has experience in a number of transactions involving privately-owned businesses of a similar size to Escient, giving us some insight into fair market values for these businesses. Typically for private business sale transactions, we consider the EBITDA multiple ranges in the table as a valid rule-of-thumb guide to determine valuation multiples for businesses of various sizes and types.
- Based on our experience, small, private businesses with significant key person risk and limited hard-assets, are typically valued at the lower end of the multiples range in the table above. We have however taken into consideration the medium size of the Company, track record of profitability, growth prospects, established customer relationships and balanced it with some key person risk in valuing the Company in the **4.0x – 6.0x¹** EBITDA multiples range.
- It is important to recognise that these multiples ranges indicate a selection of business sale transactions generically. Specific businesses in particular situations can be bought and sold at quite different multiples, particularly where strategic or synergistic benefits are available to a buyer. Our valuation is on a stand alone basis and excludes any strategic or synergistic benefits that an acquirer may pay.

We have adopted the Rule-of-Thumb approach as the preferred valuation methodology to value the Company.

Rule-of-Thumb Multiples (cont'd)

Background	Valuation Methodology	Valuation	Conclusions
Explanation of Methodology			
<ul style="list-style-type: none"> As noted on page 13 of this Report, SLM has used the Rule-of-Thumb earnings multiples also referred to as the Capitalisation of Earnings valuation method to value the Company. Under this method, a valuation is prepared by applying a capitalisation multiple to the maintainable earnings of a business. In our experience, prospective buyers of small and medium-sized businesses typically price and value these businesses on a multiple of maintainable EBITDA. Accordingly, we have used a EV/EBITDA multiple for the purposes of this valuation. 			
EV/EBITDA Multiple <ul style="list-style-type: none"> The capitalisation multiple used to value a business will be determined by reference to usual transaction valuation multiples for businesses of similar size, based on the market experience of those who are involved in dealing with such businesses. SLM has experience in a number of transactions involving privately-owned businesses of a similar size to the Company giving us some insight into fair market values for these businesses. More information on the capitalisation multiple is detailed on page 13. 			
Maintainable EBITDA <p>A maintainable EBITDA figure is required under the Capitalisation of Earnings valuation method. This figure is formed based on historical and forecast financials, and assumes that the business:</p> <ul style="list-style-type: none"> Has achieved a steady state and is expected to maintain or steadily grow its EBITDA; Operates under normal conditions – i.e. directors receive fair market remuneration and the business incurs no personal expenses of directors/shareholders; and Where appropriate, adjustments are made to historical financials to exclude for example: one-off items, discontinued operations and non-core transactions. When the business operations are temporarily disrupted, the impact of such disruption on the valuation is best considered through adjustment to the balance sheet rather than to the maintainable EBITDA, or the EV/EBITDA Multiple (for e.g. the impact of non-recurring and/or exceptional events¹ on valuation is best considered through their effect on operating cash flow and as adjustments to the cash or debt balances in the Equity Value calculation). 			

1. In cases where the impact of the event is more lasting or permanent, it may be appropriate to adjust or revise the maintainable EBITDA taking into account the impact.

Valuation

Financial Performance

Background		Valuation Methodology		Valuation		Conclusions	
Historical and Forecast Financial Performance							
		FY2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023F	
NSW	Sales/Revenue ¹	\$4,988,545	\$5,781,924	\$6,361,738	\$6,105,491	\$5,417,740	
	EBITDA	\$1,085,139	\$1,148,560	\$2,312,251	\$1,699,288	\$575,111	
QLD	Sales/Revenue ¹	\$20,285	\$1,124,422	\$3,044,442	\$4,778,692	\$6,676,808	
	EBITDA	(\$299,653)	(\$372,351)	\$602,089	\$945,174	\$793,457	
SA	Sales/Revenue ¹	\$6,358,355	\$9,852,671	\$9,449,990	\$10,620,512	\$11,095,274	
	EBITDA	\$928,551	\$2,296,290	\$2,940,616	\$2,248,434	\$2,451,369	
VIC	Sales/Revenue ¹	\$4,607,138	\$5,015,583	\$5,741,823	\$7,167,525	\$8,769,331	
	EBITDA	\$367,215	\$912,156	\$1,081,183	\$1,107,474	\$1,850,125	
NAT	Sales/Revenue ¹	-	-	-	-	-	
	EBITDA	(\$1,601,351)	(\$2,267,884)	(\$3,303,322)	(\$3,396,820)	(\$4,398,971)	
Group	Sales/Revenue ¹	\$15,974,323	\$21,774,601	\$24,597,994	\$28,672,220	\$31,959,154	
	EBITDA	\$479,901	\$1,716,770	\$3,632,816	\$2,603,549	\$1,571,747 ²	
	EBITDA margin	3.0%	7.9%	14.8%	9.1%	4.9%	

- Maintainable earnings are ordinarily estimated by reference to a business' historical or forecast earnings. The following factors should be considered when reviewing the historical and forecast financial performance of the Company:
- COVID restrictions had a significant impact on the Company's commercial performance in FY2021, with a focus on maintaining revenue, cost efficiencies and keeping people safe. The Company acknowledge this was an exceptional period.
- FY2022 represented the largest investment in the Company's history with over \$1.5M being committed to new systems and a number of other initiatives aimed to give the Company the foundation to scale. These initiatives and investments will impact the FY23 financial performance and are expected to underpin ongoing growth in future years. In addition, the Company saw new leadership in the NSW business which saw reduction in headcount, impacting commercial performance. Management expect the region to recover and return to growth.
- Whilst the FY2023 forecast is for the Company to report an adjusted EBITDA of \$1.6M³, considering the Company's historical performance and prospects, investment in growth initiatives, expected recovery in NSW business and discussions with management, we have assumed the normalised EBITDA of the Company to be in the \$2.0M - \$2.5M range. The range is higher than FY2023 budget and FY2023 forecast but below the FY2021 and FY2022 actuals. For the purposes of the valuation we have taken the mid-point of this range of **\$2.25M** as representative of the **maintainable EBITDA** of the business.

Valuation

Background	Valuation Methodology	Valuation	Conclusions
Capitalisation of Earnings			

- Based on our experience, we anticipate that a medium sized private business such as the Company with a track record of growth and profitability, established customer relationships but with some key person risk would be valued in the **4.0x – 6.0x EBITDA** multiples range.

	Valuation		
	Low	High	Recommended
Maintainable EBITDA	\$2,250,000	\$2,250,000	\$2,250,000
EV/ EBITDA Multiple	4.0x	6.0x	5.0x
Enterprise value	\$9,000,000	\$13,500,000	\$11,250,000
Excess Cash on balance sheet ¹	\$1,519,125	\$1,519,125	\$1,519,125
Excess Cash from exercise of options ²	\$2,579,397	\$2,579,397	\$2,579,397
Equity value	\$13,098,522	\$17,598,522	\$15,348,522
Shares outstanding (fully diluted basis)	4,727,662	4,727,662	4,727,662
Equity Value per share (fully diluted basis)	\$2.77	\$3.72	\$3.25

- As noted in the above table, we have calculated the **Enterprise Value** of the Company in the **\$9.0M - \$13.5M** range with a Recommended value of **\$11.3M** being the mid-point of the valuation range.
- As per balance sheet dated 30 June 2022, the Company had cash balance totalling \$6.3M and nil borrowings. To determine the equity value, we have reduced this cash balance for the expenses relating to digital transformation project (non-recurring) of approximately \$300k and calculated adjusted cash balance to be \$6.0M¹. We understand that the Board has declared a fully franked final dividend of \$0.15 per share which when distributed, will reduce the adjusted cash balance further by approximately \$439k. In addition, based on our discussion with management we understand that the business requires a minimum cash balance of \$4.0M to cover working capital needs of the business and to mitigate the intra-month fluctuations. Any cash holding in excess of these amounts could be distributed as additional dividends and therefore could be considered surplus or Excess Cash. On this basis, and as per the adjusted cash balance, we have determined the amount of Excess Cash to be \$1.5M (refer Appendix 2 for details). We also note that the Company has a number of option tranches outstanding and have notionally calculated the cash receipts from the exercise of these option tranches. These notional cash receipts totalling \$2.6M have also been treated as Excess Cash. Combining the notional cash receipts from the exercise of option tranches with the Excess Cash on the balance sheet increases the Excess Cash balance to \$4.1M. Adjusting the Enterprise Value for the Excess Cash holding to derive the Equity Value, we have valued the **Equity** in the Company at **\$15.3M**².
- As at the date of this Report, the Company had 2,724,843 shares on issue and a further 2,002,819 options on issue which add up to 4,727,662 shares on issue on a fully diluted basis. This implies an Equity Value per share on a fully diluted basis of **\$3.25**². Our Equity Value per share of \$3.25 represents a decrease of approx. 37%³ on our Previous Valuation of \$5.15 per share.

Valuation

1. Refer pages 14 and 16 for discussion on the adjustment for the non-recurring items.

2. Ex-dividend. If all the outstanding (vested) options are exercised before the ex-div date, the Equity value per share decreases to \$3.19 due to larger dividend distribution resulting in lower Excess Cash balance.. Numbers may not add up due to rounding.

3. Refer page 25 for a reconciliation of Recommended Value with Previous Valuation.

Valuation (cont'd)

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Comparable Company Trading Multiples

- SLM has identified ASX listed IT Services and Consulting companies which are broadly comparable to the Company considering their activities and services provided.
- The table below summarises the financial performance and trading multiples of these selected comparable companies. As noted in the table below:
 - the historical (FY2022) EV/EBITDA trading multiples range between 5.8-10.7 times with the median at 8.1 times (slightly higher than the 7.9 times multiple in the Previous Report);
 - in the absence of forecast financials, we are unable to calculate the forecast EV/EBITDA multiples for the comparable companies; and
 - companies that have reported decline in year on year EBITDA (negative EBITDA growth) are trading at lower multiples with the median EV/EBITDA multiple of such companies being 6.6 times.

Company Name	Market Cap (\$m)	Enterprise Value (EV) (\$m)	FY2022 Revenue (\$m)	EBITDA (\$M)		EBITDA Growth (%)	EV/EBITDA (times)
				FY2021	FY2022		
CPT Global Limited	16.5	12.4	29.9	4.8	2.2	-55.0%	5.8x
J Curve Solutions	20.4	15.3	15.3	1.2	2.0	61.1%	7.7x
MOQ Limited	23.0	19.2	81.9	3.4	(3.9)	n.a.	n.a.
Comms Group Ltd	29.7	34.9	41.0	3.2	4.1	28.1%	8.5x
Cirrus Networks Holdings Ltd	32.6	23.0	104.1	2.1	2.2 ¹	3.4%	10.7x ¹
Spirit Technology Solutions Ltd	51.9	53.2	138.7	11.5	7.3	-36.9%	7.3x
Tesserent Ltd	138.7	158.8	165.6	9.6	18.6	93.8%	8.5x
Median							8.1x

Note: The financial information in the above table has been sourced from company reports and from Refinitiv Eikon (Thomson Reuters) financial database as at 6 September 2022.

- To derive the appropriate trading multiples to apply to value the Company, we have also taken into consideration the recent financial performance of the comparable companies and selected those companies that have reported negative EBITDA growth in FY2022 (similar to the Company). On this basis, we have adopted EV/EBITDA multiple of 6.6 times to value the Company.

Valuation (cont'd)

Background	Valuation Methodology	Valuation	Conclusions
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Comparable Company Trading Multiples

- Share price based valuation reflects minority interest in the company. Control premium in the 20-30% range is typically added to trading multiples to value the company on control basis. On the other hand, private companies attract an illiquidity discount typically in the 20%-40% range.

	Valuation Low	Valuation High
Maintainable EBITDA	\$2,250,000	\$2,250,000
Comparable companies – EV/ EBITDA trading multiple (refer page 18)	6.3	6.3
Discount (for size and liquidity)	40%	30%
Premium for Control	20%	30%
Applied EV/ EBITDA Multiples	4.7	6.0
Enterprise Value	\$10,605,462	\$13,404,126

As noted in the above table, using the EV/EBITDA trading multiples of comparable companies, we have calculated the:

- Enterprise Value** of the Company in the \$10.6M – 13.4M range. Our Recommended value for the Company of \$11.3M based on the Capitalisation of Earnings methodology is within the valuation range calculated using the comparable company trading multiples. The market evidence therefore supports the Recommended value of **\$11.3M** (Enterprise Value) for the Company.

Valuation (cont'd)

Background	Valuation Methodology	Valuation	Conclusions		
Comparable Transaction Multiples					
<ul style="list-style-type: none">SLM has identified transactions involving ASX listed IT Services and Consulting companies which are broadly comparable to the Company considering their activities and services provided.The EV/EBITDA multiples based on the transaction consideration range between 6.0-15.8 times with the median of 8.3 times.					
Announced Date	Target	Acquirer	Interest	Consideration (\$m)	EV/EBITDA (times)
Jun-22	IT Vision	ReadyTech	100%	23.1	9.2
Mar-22	ARQ Group	NCS Next	100%	290.0	15.8
Feb-22	onPlatinum ICT Pty Ltd	Comms Group Ltd	100%	12.0	6.0
Dec-21	Pearson Corporation	Tesseract Limited	100%	28.8	6.0
Jul-21	Empired Ltd	Capgemini	100%	226.1	10.1
Nov-20	RXP Services Ltd	Capgemini	100%	105.9	6.9
Sep-20	Citadel Group Ltd	Pacific Equity Partners	100%	510.2	14.9
Sep-20	DWS Ltd	HCL Technologies	100%	206.8	7.3
Median					8.3

Note: The financial information in the above table has been sourced from company reports and from Refinitiv Eikon (Thomson Reuters) financial database as at 6 September 2022.

- As can be noted in the above table, the target companies are significantly larger than Escient. Furthermore, our valuation of the Company is on a stand alone basis and excludes any strategic or synergistic benefits that an acquirer may pay for.
- Taking the above factors into consideration, we have applied a discount in the range 30-40% to the median EV/ EBITDA transaction multiple of 8.3 times. These adjustments and the Company valuation are summarised on page 21.

Valuation (cont'd)

Background	Valuation Methodology	Valuation	Conclusions
Comparable Transaction Multiples			
(in \$)		Valuation Low	Valuation High
Maintainable EBITDA		\$2,250,000	\$2,250,000
Comparable transactions - EV/ EBITDA Multiples		8.3	8.3
Discount (for size and standalone basis)		40%	30%
Applied EV/ EBITDA Multiples		5.0	5.8
Enterprise Value		\$11,151,000	\$13,009,500

As noted in the above table, using the comparable transaction EV/EBITDA multiples, we have calculated the:

- **Enterprise Value** of the Company in the **\$11.2M – \$13.0M** range. Our Recommended value for the Company of \$11.3M based on the Capitalisation of Earnings methodology is within the valuation range calculated using the comparable transaction multiples. The market evidence therefore supports the Recommended value of **\$11.3M** (Enterprise Value) for the Company.

Conclusions

Summary of Findings

Background	Valuation Methodology	Valuation of the Company	Conclusions
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Valuation Summary

- We have considered common valuation approaches and believe that the most appropriate methodology for valuing the Company is to use the Rule of Thumb or Capitalisation of Earnings method.
- From the Information provided, we have considered both the historical and forecast EBITDA to establish an indicative maintainable EBITDA for the Company. The maintainable EBITDA forms the basis of our valuation.
- We then applied EV/EBITDA multiples consistent with the size and operating characteristics of the Company.
- Based on the Capitalisation of Earnings valuation, we have calculated:
 - the **Enterprise Value** of the Company in the **\$9.0M - \$13.5M** range with a Recommended value of **\$11.3M** being the mid-point of the valuation range; and
 - As per the most recent balance sheet dated 30 June 2022, the Company had cash and cash equivalents totalling \$6.3M and nil borrowings. To determine the equity value, we have reduced this cash balance for the projected expenses relating to digital transformation project (non-recurring) of approximately \$300k and calculated adjusted cash balance to be \$6.0M¹. We understand that the Board has declared a fully franked final dividend of \$0.15 per share which when distributed, will reduce the adjusted cash balance further by approximately \$439k². In addition, based on our discussion with management we understand that the business requires a minimum cash balance of \$4.0M to cover working capital needs of the business and to mitigate the intra-month fluctuations. Any cash holding in excess of these amounts could be distributed as additional dividends and therefore could be considered surplus or Excess Cash. On this basis, and as per the adjusted cash balance, we have determined the amount of Excess Cash to be \$1.5M (refer Appendix 2 for details). We also note that the Company has a number of option tranches outstanding and have notionally calculated the cash receipts from the exercise of these option tranches². These notional cash receipts totalling \$2.6M have also been treated as Excess Cash. Combining the notional cash receipts from the exercise of option tranches with the Excess Cash on the balance sheet increases the Excess Cash balance to \$4.1M. Adjusting the Enterprise Value for the Excess Cash holding to derive the **Equity Value**³, we have valued the Equity in the Company at **\$15.3M**⁴.
 - We have cross checked the valuation of the Company based on the Capitalisation of Earnings methodology with those based on comparable multiples (trading and transaction). The valuations range based on comparable multiples support our Recommended Value for the Company of \$11.3M (Enterprise Value).
- As at the date of this Report, the Company had 2,724,843 shares on issue and a further 2,002,819 options on issue which add up to 4,727,662 shares on issue on a fully diluted basis. This implies an **Equity Value per share** on a fully diluted basis of **\$3.25**⁴.

1. Refer pages 14 and 16 for discussion on the adjustment for the non-recurring items.

2. SLM has calculated the Share price at \$4.69 per share (pre-dilution) which is higher than the maximum exercise price of the option tranches, implying all of the options are in the money². Accordingly, we have assumed that all of the options will be exercised and further that 10% of options exercised will be exercised prior to ex-div date and will receive the \$0.15 per share dividend distribution

3. Equity Value = EV + Net Excess Cash.

4. Ex-dividend. If all the outstanding (vested) options are exercised before the ex-div date, the Equity value per share decreases to \$3.19 due to larger dividend distribution resulting in lower Excess Cash balance. The numbers may not add up due to rounding.

Summary of Findings (cont'd)

Background	Valuation Methodology	Valuation of the Company	Conclusions
Comparison of Previous Valuation with Current Valuation - Key Assumptions			
	Previous Valuation	Current Valuation	Comments
Valuation Methodologies	<ul style="list-style-type: none"> Capitalisation of Earnings (CEM) Comparable multiples 	<ul style="list-style-type: none"> Capitalisation of Earnings (CEM) Comparable multiples 	As the business has fundamentally remained the same, SLM has adopted the same valuation methodology as in the Previous Report. As in the Previous Report, we have cross-checked our valuations using Comparable Multiples approach (market evidence).
Valuation Date	<ul style="list-style-type: none"> 1-January-2022 	<ul style="list-style-type: none"> 1-July-2022 	The valuation dates were selected on the basis of the Information provided and with reference to the requirement for March and September valuations.
Multiples (EV/EBITDA)	<ul style="list-style-type: none"> 4.0x - 6.0x 	<ul style="list-style-type: none"> 4.0x - 6.0x 	As the business has fundamentally remained the same, SLM has adopted the same valuation multiples as in the Previous Report.
Maintainable EBITDA	<ul style="list-style-type: none"> \$3,841,451 	<ul style="list-style-type: none"> \$2,250,000 (midpoint of \$2.0M-\$2.5M) 	The maintainable EBITDA for the current valuation has been estimated based on actual/historical performance, FY2023 forecast and discussions with management. The midpoint of the range is 41% lower than that adopted in the previous valuation but is higher (7%) than the average of the FY2022 actual and FY2023 forecast EBITDA.
Enterprise Value (EV)	<ul style="list-style-type: none"> \$19.2M 	<ul style="list-style-type: none"> \$11.3M 	Calculated by applying the EV/EBITDA multiple (5.0x) to the Maintainable EBITDA. The lower (41%) valuation is a direct result of assuming a lower maintainable EBITDA.
Excess Cash	<ul style="list-style-type: none"> \$2.1M on balance sheet \$2.3M from the exercise of options 	<ul style="list-style-type: none"> \$1.5M on balance sheet \$2.6M from the exercise of options 	The cash on the Company's balance sheet is considerably in excess of that required for the working capital needs of the business (refer Appendix 2 for details).
Equity Value	<ul style="list-style-type: none"> \$23.6M 	<ul style="list-style-type: none"> \$15.3M 	Calculated by adding Excess Cash to EV. The lower (35%) valuation is due to lower EV and lower Excess Cash.
Number of Shares (fully diluted basis)	<ul style="list-style-type: none"> 4,571,279 	<ul style="list-style-type: none"> 4,727,662 	Updated for changes in Shares and Options register.
Equity value per share (fully diluted basis)	<ul style="list-style-type: none"> \$5.15 	<ul style="list-style-type: none"> \$3.25 	Calculated by dividing the Equity Value by the shares outstanding on a fully diluted basis. The lower (37%) valuation is due to a combination of lower EV, lower Excess Cash and larger number of shares.

Comparison to Previous Valuation

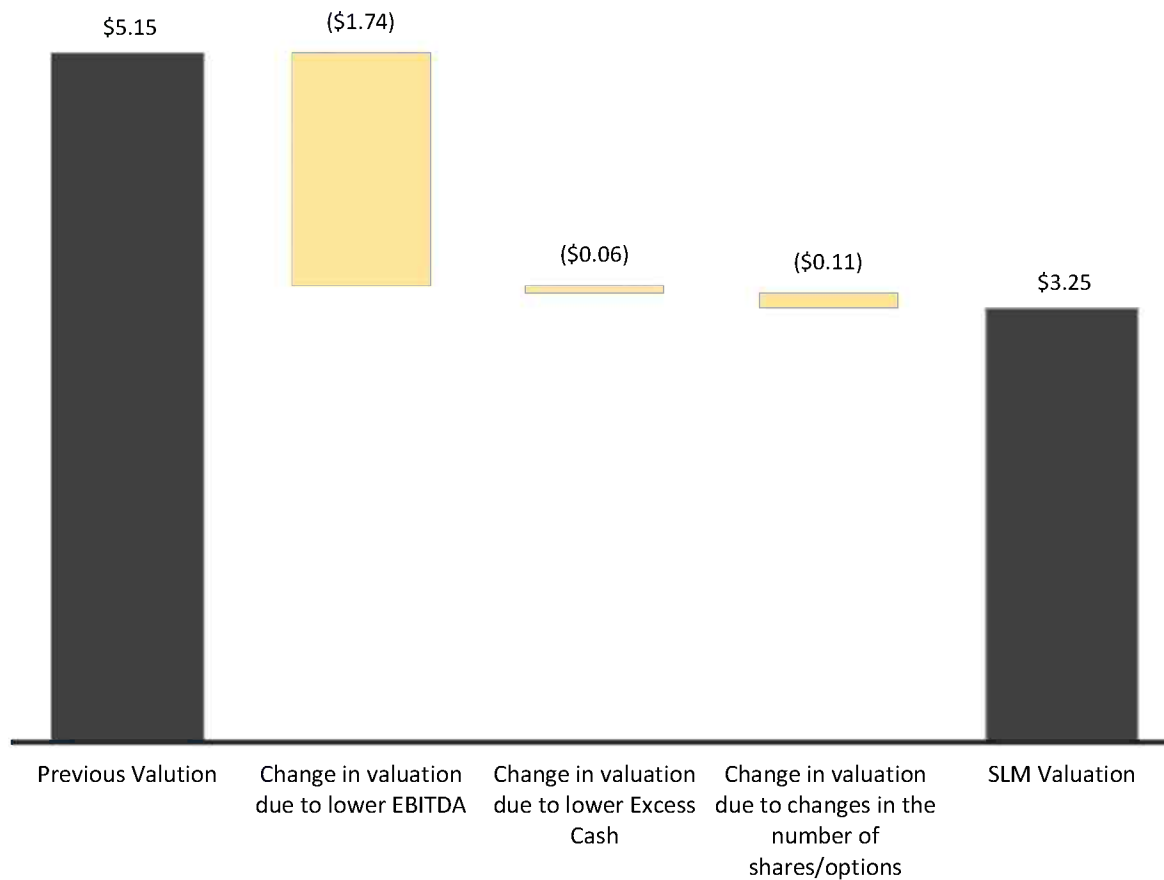
Background

Valuation Methodology

Valuation of the Company

Conclusions

Comparison of Previous Valuation with Current Valuation



Comparison to Previous Valuation

Appendices

Appendix 1

Information Provided to SLM

No	Documents
1	Historical, Budget and Forecast financials for the Company
2	Shares and Options Register
3	Share Valuation - Request for Quote
4	Action Item 56.2 – Future Roadmap

- In addition to the above, SLM has relied on email and phone correspondence with Emma Crosby in relation to this Report.

Appendix 2

Excess Cash Estimation

- Excess cash is the amount of cash held in the company beyond what the company needs to support its ongoing operations and growth projections.
- There is no precise formula or calculation to derive Excess cash. Rather, it is calculated by first estimating the cash required for the ongoing operations of the company and then deducting this from its cash holding.
- There are different approaches that can be considered to estimate the cash (and more broadly the working cap) requirements for the company and the suitability of such approach depends on the industry in which the company operates. For e.g. a consulting business (such as Escient) will have a high cash balance or working capital requirement as it generally takes longer to convert revenues (debtors) to cash receipts than its key expense item, wages (creditors) which is settled more often.
- One such approach to estimating the minimum cash requirements that analysts and industry practitioners consider for a sustainable business is:

$\text{Cash \& Cash Equivalents} + \text{investments} = \text{Current liabilities}$

And from the above, Excess cash can be calculated as:

$\text{Excess cash} = \text{Max} (0, \text{Cash \& Equivalents} + \text{Investments} - \text{Current Liabilities})$

As at 30 June 2022, the Company had cash in bank of \$6.0M (after adjusting for c\$300k for digital transformation project) and current liabilities of \$2.1M implying Excess Cash of c\$3.9M.

- We have also considered an alternative approach to estimating the Excess Cash as summarised below:

Based on our discussions with management, we understand that the minimum cash requirement to cover the working capital needs of the business and to mitigate the intra-month fluctuations is estimated at approximately \$4.0M.

As at 30 June 2022, the Company had cash in bank of \$6.0M. After adjusting for \$439k dividend payments and \$300k for digital transformation project and after accounting for \$4.0M working capital requirement, Excess Cash has been calculated to be \$1.5M.

- Of the two approaches mentioned above, we have adopted the working capital requirement approach owing to its suitability to Escient's business model. Accordingly, we are of the view that, as at 30 June 2022, the Company had **Excess Cash** on the balance sheet of **\$1.5M**.
- The approach is consistent with that adopted in determining the Excess Cash in the Previous Report.

SLM Corporate

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