



FOSTER STOCKBROKING

Information about Foster Stockbroking Research Products and Research Policy

Foster Stockbroking is an Australian Financial Services licensee that prepares research reports. As part of Australian Securities & Investments Commission (ASIC) regulatory guidelines we provide the following information about our research products and policy. For information concerning a specific research report, please refer to the disclosures published in that report.

1. Scope and expertise of research service

For the purposes of Foster Stockbroking Research Products and Research Policy, the term “Research” is as defined in ASIC Regulatory Guides 79 and 264, and for the avoidance of doubt includes, without limitation, Research Reports, Talking Points, Watching Briefs, Desk (or Sales) Notes, and Desk (or Sales) Commentaries published by Foster Stockbroking, or on its behalf, to clients via its email distribution network. Research can be in either report or email format. In addition, only staff in the research department may write Research. Foster Stockbroking’s research is mostly produced across three categories: 1) Research Reports 2) Talking Points and 3) Watching Briefs. Both these products may be in a report or email format

Formal Research Reports. Our research reports are prepared by highly qualified analysts with graduate and post-graduate qualifications across several disciplines. Most analysts possess several years’ experience in equities markets including funds management, stockbroking, and investment banking. Each analyst is highly skilled in writing reports of institutional quality, and in detailed financial modelling.

Our scope is to identify companies that are mostly under-researched or neglected in the market. In most instances these companies are small caps, and are also under-valued. Our expertise is to then to communicate to the market the value and prospects we attribute to the company, as well as clearly describing various aspects of the company’s business and markets.

Foster Stockbroking produces high quality institutional grade research on specific stocks and sectors, specialising in small to medium capitalisation companies.

Stocks under research coverage begin with an initiation report. The analyst is solely responsible for the report and it usually includes detailed valuation and company analysis. Initiation reports usually address company overview; historical financials; earnings projections; peer comparison; valuation; recommendation; industry; board; and risks. Formal Research Reports are usually published when there is:

- **Change in recommendation** which may be caused by a share price decline or appreciation; earnings and valuation changes; industry and environment factors; or company news.
- **Material change in earnings** which may be caused by acquisitions and divestments; trading updates; or announcements.

- **Material change in events** or new company and industry insights.
- **Updated report formal research reports are at least usually published every six months** for formally covered stocks, given that financial accounts are released by the company semi-annually.

Formal research is mostly in the format of a report. However formal research emails may be sent in cases soon following material announcements relating to stocks under formal research coverage. The emails are to provide an interim view while a formal research report is being prepared. The formal report will have more detailed analysis and follow at a later date.

Talking Points. Talking Points cover stocks for which the analyst may have some rudimentary knowledge of, and can employ some fundamental research. Some key financials may be shown but it will usually lack the detailed financial forecasts of research reports. Earnings forecasts, price targets, valuations, or recommendations may be provided in Talking Points, depending on depth of analysis for each stock. The formats of these notes are also generally briefer than research reports. There is no guarantee that a stock covered in Talking Point will be under continuous coverage. All Talking Points are only written by research staff.

Watching briefs. Watching briefs are usually email only and will discuss a wide range of stocks, most of which will not be covered by Foster Stockbroking. As such most of the stocks discussed will not have a recommendation, price-target, or earnings forecasts. The purpose of Watching briefs is to highlight company news and attributes that may be topical or of interest to investors.

2. Coverage and filters

Foster Stockbroking applies a number of filters as part of its process when deciding to select a company for research coverage. These typically include:

- How broadly researched the company is by the market;
- Market capitalisation of the company;
- Quality and accessibility of company management;
- Liquidity of the company's shares;
- Valuation of company relative to the share price;
- Ability of the company to grow earnings;
- Company's balance sheet and cashflow;
- Identifiable future catalysts for re-rating of the share price
- Attractiveness of the company's industry;
- Size of the company's market.

3. Research methodology applied

Foster Stockbroking's analysts employ robust research methodology in providing Formal Research. This process usually involves the following procedures in formal research:

- Analysis of company annual reports and ASX released announcements;
- Company site visits;
- Interview and discussion with company management;
- Gathering of relevant industry, product, and company information from various sources including industry; websites, ASX releases, market reports, and business press;
- Analysis of relevant forces impacting industry such as technological, regulatory, consumer and social, as well barriers to entry and the threat of substitutes;
- Analysis of competition, and company's bargaining power with suppliers and buyers;
- Estimation of growth rate and size of company's markets;
- Financial modelling of both historical and forecast financial statements;
- Analysis of financial ratios such EPS growth, gearing, and interest coverage.
- Valuation of company's shares and business. One or more various tools such as Discounted Cash Flow, EBIT, EBITDA, or Revenue multiples, Price-to-Earnings or Cash Flow multiples, NTA, or Dividend yield can be employed.
- Writing of the research report, communicating the analyst's views, company analysis, financial model, valuation, recommendation, and price-target.

For Talking Points, there will generally be a less intensive methodology applied than for Formal Research, hence why they are not offered or distributed as Formal Research.

For Watching Briefs, analysis is limited to a general view of company announcements and impressions, without any detailed valuation or earnings forecasts. Given the lack of detailed analysis, no recommendation or price target is offered.

Explanation of rating system

Foster Stockbroking employs the following rating system for stocks under Research coverage. Each is shown with a brief explanation:

Rating/Recommendation	Meaning
Buy	Share price is expect to increase by 10% or greater over the next 12 months.
Hold	Share price is expected not to increase by greater than 10%, and not to decrease by greater than -10%, over the next 12 months.
Sell	Share price is expected to decrease by less than -10% over the next 12 months.

Speculative Buy	The stock is very high risk. Share price is expected to increase by greater than 20% over the next 12 months.
Under Review/Restricted	No recommendation is offered. This can be because of research restrictions to avoid conflicts of interest, or a review of other circumstances that need to be concluded before a definitive recommendation can be made.

4. Spread of ratings

Foster Stockbroking's ratings as at 7th October 2020 are listed below. The high proportion of Buy ratings stems from the scope of coverage outlined in Section 1 (*Scope and expertise of research service*) – i.e. Foster Stockbroking seeks to identify mostly small cap stocks that are undervalued in the market – hence they are highly likely to have a Buy or Speculative Buy rating when research is published. Also, once a stock reaches or exceeds Foster Stockbroking's valuation, it is highly probable that research coverage of that stock will cease, and resources devoted to finding an undervalued stock for new research coverage. This means that the firm's spread of ratings will always be highly biased to Buy and Speculative Buy.

Rating	Number of stocks	% of universe
Speculative Buy	5	28%
Buy	13	72%
Hold	0	0%
Sell	0	0%
Restricted	0	0%
Total	18	100%

5. Conflicts management policy

Research adheres to ASIC's regulatory guides for research. In addition to research, Foster Stockbroking provides and undertakes non-research services such as corporate finance, equities dealing and execution, principal trading, marketing, and corporate advisory services. Undertaking these activities can cause potential conflicts of interests to arise in the preparation of research. Foster Stockbroking has a number of procedures and policies in place to manage such conflicts. This includes identifying, assessing, and implementing an appropriate response when conflicts arise. Responses usually comprise managing, avoiding or disclosing the conflict of interest. Major processes in place to manage conflicts include:

5.1 Staff Trading Restrictions

5.1.1 Research Decision Restrictions. All research staff, and any director or staff member of Foster Stockbroking involved in the decision to prepare or publish the research, are prohibited in trading the stock that is subject of the research. These staff are restricted by email by the Head of Research, or the Analyst, as soon as the decision to prepare or publish the Research is made. The stock remains

restricted until the research is published, which is confirmed by the Head of Research, or Analyst, by email.

5.1.2 Research Trading Restrictions. When a report is released that 1) Is an Initiation Report or 2) Has a rating change or 3) Material change in price target, then all staff of Foster Stockbroking, Cranport, and their associates are restricted from either buying or selling the stock for a period of fifteen business days after publication of the Research. The Head of Research or Analyst will notify all staff by email prior to publication of Research of the restriction. Once the 15 business days have elapsed the Head of Research or Analyst removes the stock from the restricted list.

5.2 Recommendation Restrictions

Recommendation and Research restrictions. When a member of Foster Stockbroking Compliance Committee places a stock on the Restricted List - which may be because of access to inside information or signing a mandate specifying terms of non-publicly disclosed equity raising - research during this period will be restricted, meaning it will not be published.

5.2.1 IPO Quiet Period. If FSB provides or has provided capital markets services for a company which FSB releases research on, then there is a potential conflict of interest. FSB does not prohibit providing capital markets services for companies in which we release research, however we seek to manage this potential conflict by imposing a "quiet" period of 2 weeks from IPO listing date in the instance whereby we act as Lead or Joint Lead Manager to an IPO.

5.3 Research Disclosures.

All Research contains general and specific disclosures to alert recipients of the Research of any perceived or actual conflicts of interest, how they are managed, including any specific disclosures. Specific disclosures include:

5.3.1 Non-research services provided. Sometimes research is undertaken on a company, for which Foster Stockbroking has or will receive fees from that company for the provision of non-research services. Any non-research services provided to the company currently, during the past 12 months, or likely to be provided in the future, and any benefits, securities, or fees received by Foster Stockbroking from provision of these services to the company are disclosed. These are disclosed on both the front and end of the research.

Examples of non-research services include:

- Placement, IPO, and underwriting issue of shares. Detailed disclosure would include the value, amount, price, and date of shares issued and Foster stockbroking's role; and
- Corporate mandates for the provision of marketing roadshows and capital markets advisory.

5.3.2 Ownership of securities. All Research contain disclosures on ownership of securities in the company that is the subject of the research, namely whether:

- The Analyst who authored the research owns or does not own securities;

- Foster Stockbroking and associated entities (excluding Cranport) own or do not own securities: and
- Cranport Pty Ltd, an associated entity of Foster Stockbroking, owns or does not own securities.

If any securities are owned by either of the aforementioned parties, the type and number of securities are disclosed. These are disclosed prominently on the front of the Research, as well as at the end of the Research.

5.3.3 Receiving assistance from the company. Whether the analyst who authored the Research received any assistance by the company in reviewing any draft research, including checking for factual accuracy. Report drafts sent to the Company are clearly marked “Strictly Confidential - Draft Only” and no recommendation or price target is disclosed to the company.

Research will also disclose whether the analyst or other Foster Stockbroking staff attended a company site visit within the past 12 months, and whether any expenses were paid for or reimbursed by the company such as accommodation or flights.

5.4 Review of research

All research prior to publication is reviewed by either the Head of Research or, when not practically possible, by peer(s) to ensure the integrity and quality of research. The peers can include other Research Analyst, or a Member of the Compliance Committee who is not involved in an operation which is in conflict with Research. Prior to the research being submitted for review the reviewer is immediately restricted from trading the stock.

5.5 Review of disclosures.

All disclosures are reviewed prior to publication of Research by either the Head of Corporate or a Member of the Compliance Committee. The reviewer of disclosures is restricted in trading the stock prior to checking the disclosures.

5.6 Research Policy

Foster Stockbroking’s Research Policy, including Scope of research, research methodology and criteria used, spread of ratings, and conflicts management policy is published on our website.

5.7 Initiations and cessations

Initiating research coverage. Stocks that have been initiated by Foster Stockbroking and the reason for the initiation are disclosed on the Foster Stockbroking website.

Ceasing research coverage of a stock. When Foster Stockbroking decides not to continue research coverage of a stock, the decision is made available to clients and a reason given. This is made available on the website. When a cessation of coverage decision is made, this is inside information, and all staff that have been involved in the decision to cease coverage are restricted from trading stock once the decision is made, until publication of the cessation notice on the website.

5.8 Authorship and date

All Research is created and written by research analysts only. Foster Stockbroking prohibits corporate staff from creating, writing, or influencing any research. All research has the date of publication to indicate its timeliness, and discloses the name of author to indicate who has been responsible for it.

5.9 Research Register and Archived Research

Foster Stockbroking keeps an archive of research that has been published. Reports are archived and saved electronically in pdf format for a period of seven years. A Research Register is also electronically maintained which includes the date of release, research format, stock, recommendation, price target, and author.

5.10 Inside information

Analysts will declare to Compliance and Head of Research that:

- They are not in possession of any inside information relating to research that they are publishing;
- That the research itself does not contain any inside information; and
- That no other part of the Foster Stockbroking business attempted to influence Research.

This declaration is made prior to the research being published and is in written form by email. If the analyst however is in possession of inside information, or the research contains inside information, or another part of the business has attempted to influence research, the declaration will not be made and the research not published. Whenever the analyst receives access to inside information either orally, electronically, email, video, or in print, this to be recorded in the analyst's notebook as well as date the inside information was accessed.

5.11 Non-Research Reports.

Investor Education Reports: When companies are being roadshowed and marketed with respect to a corporate or equity capital markets transaction for which no prior research exists, an analyst may provide written investor education report (IER) on the company but without stating a recommendation or price target. Any information in the IER should be based on information that is publicly available, including that disclosed in any prospectus or pathfinder. IER material is not Research.

5.12 Research Release Procedures

Foster Stockbroking has a rigorous system of internal research procedures that have been formally adopted as Research Release Procedures and adhered to, from when research is initially decided to be prepared to until after its release. One of the major objectives is to ensure adequate management, disclosure, or avoidance of conflicts of interest that arise.

6. Research Independence Policy

Independence of research analysts from other staff and functions of Foster Stockbroking. Foster Stockbroking prohibits corporate, dealing or other non-research staff from creating, writing, or influencing any research. Research staff are also not supervised by staff from other functions. Research reports prepared by Foster Stockbroking solely express the view of the analyst, which is principally based on employing the research methodology outlined in Section 3 (*Research methodology applied*). The analyst's views and content of the report are not allowed to be influenced by the non-research activities of Foster Stockbroking (e.g. dealing, corporate), or any inducement to secure business or other benefits from a company that is the subject of research.

Separation of Research from other staff and functions of Foster Stockbroking. To maintain independence of Research from other Foster Stockbroking functions and staff such as corporate and dealing, the Research team is physically and technologically separated. This includes separate closed physical offices containing the research analysts as well as their desks, computers, phones, notebooks, and other devices or materials used in the creation of the research. Foster Stockbroking has electronic separation of all Research staff's email addresses, email groups, computers, directories, files, and phones from the non-research operations.

Declarations prior to publishing research. Research analysts must declare to compliance prior to any publication of research that no other part of Foster Stockbroking has made any attempt to influence the research.

Research excluded from corporate mandates. Foster Stockbroking does, and seeks to, have corporate mandates with companies. These mandates usually encompass Foster Stockbroking providing assistance with marketing roadshows and capital markets advisory, including on corporate transactions and capital raisings. However the provision of research is not offered or provided as part of any corporate mandate. If Foster Stockbroking does provide research on a company that it also has a corporate mandate with, the decision to have researched the company has been undertaken based on Section 2: Coverage and Filters. Companies are advised by Foster Stockbroking in writing that they or advisers should not ask research analysts for their views on valuation information, or pass on any views on valuation to the analyst.