



FOSTER STOCKBROKING

Information about Foster Stockbroking Research Products and Research Policy

Foster Stockbroking (FSB) 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 FSB 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, Desk (or Sales) Notes, and Commentaries published by FSB, 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. FSB’s research mostly comprise two product categories: 1) Research Reports and 2) Lunch-Time Bites and 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 identifying companies that are mostly under-researched or neglected in the market. In most instances these are small caps and under-valued. Our expertise is to communicate to the market the value and prospects we attribute to these companies, as well as clearly describing various aspects of their business and markets. FSB 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 mostly published in a pdf format with accompanying email and usually contain price target, recommendation, valuation, and earnings forecasts (where applicable). They are usually, but not exclusively, 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.

Lunch-time Bites and Watching Briefs. These mostly, but not exclusively, cover stocks for which FSB does not provide formal coverage, offering additional investment ideas that lie outside the firm's universe of formally covered stocks. The analyst may have some rudimentary knowledge of the stock, and can employ some fundamental research. Usually some key financials may be shown but will lack the detailed forecasts of research reports. Earnings forecasts, price targets, valuations, or recommendations usually are not provided. Sometimes formally covered research stocks are discussed in Lunch-Time Bites or Watching Briefs. The formats of these notes are also generally briefer than Research Reports. There is no guarantee that a stock covered in Lunch-Time Bites or Watching Brief will be under continuous coverage. All Lunch-Time Bites and Watching Briefs are written by research staff.

2. Coverage and filters

FSB 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

FSB'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 Lunch-Time Bites and Watching Briefs, there will generally be a less intensive methodology applied than for Formal Research, with analysis typically limited to a general view of company announcements and impressions, without any detailed valuation or earnings forecast, and no recommendation or price target is usually offered.

Explanation of rating system

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

Rating/Recommendation	Meaning
Buy	Share price is expected 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

FSB's ratings as at 5 July 2023 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. 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 FSB'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.

<u>Rating</u>	<u>Number of stocks</u>	<u>% of universe</u>
Speculative Buy	3	27%
Buy	8	73%
Hold	0	0%
Sell	0	0%
<u>Restricted</u>	<u>0</u>	<u>0%</u>
Total	11	100%

5. Conflicts management policy

Research adheres to ASIC's regulatory guides for research. In addition to research, FSB 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. FSB 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 FSB and Cranport Pty Ltd (Cranport - an associate of FSB) 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 the FSB 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 it has published research, then there is a potential conflict of interest. FSB does not prohibit providing capital markets services for companies for which we provide publish 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 FSB 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 consideration received by FSB from provision of these services to the company are disclosed. This is 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, price, and date of shares issued and FSB’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 securities;
- FSB and other staff own securities: and

- Cranport owns 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 FSB staff attended a company site visit within the past 12 months, and whether any expenses – such as accommodation or flights - were paid for or reimbursed by the company.

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 another 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. If the Head of Research has written research, it is at his/her discretion whether the research is reviewed by another person.

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

FSB’s Research Policy, including scope of research, research methodology and criteria used, spread of ratings, and conflicts management policy is published on the FSB website.

5.7 Initiations and cessations

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

Ceasing research coverage of a stock. When FSB decides not to continue research coverage of a stock, the decision is made available to clients and a reason given 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. FSB 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 responsible for it.

5.9 Research Register and Archived Research

FSB 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 declarations 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 FSB. FSB 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 FSB 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 FSB (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 FSB. To maintain independence of Research from other FSB 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. FSB 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 FSB has made any attempt to influence the research.

Research excluded from corporate mandates. FSB does, and seeks to, have corporate mandates with companies. These mandates usually encompass FSB 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 FSB 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 FSB 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.