Diverger's capital allocation model

In pursuing the creation of shareholder value through sustainable revenue and profit growth, the Board intends to follow a capital allocation model, that defines an appropriate capital structure, acceptable hurdle rates for different types of investment and dividend payout ratio linked to the strategic direction of the company.

Recognising equity market, debt market and operating exigencies, this policy is set for pursuing capital efficiency and allocation over the medium term, being a rolling 3-5 year horizon.

The Board generally intends to source capital according to the following order of preference:

1. Free cashflow from operations
2. Borrowing capital (debt)
3. Issuing new equity

The preference for debt or equity will also depend on other key metrics at the time of sourcing capital including but not limited to the level of interest rates and the Company share price relative to value.

In deploying that capital to create shareholder value, the Board intends to generally operate in the following order of preference:

1. Investment into operations to sustainably grow revenue and profits, prioritising those that deliver the highest, risk adjusted return on invested capital over the medium term
2. Pay a fully franked dividend in accordance with the dividend policy, whilst retaining free cash flow for investing into existing operations
3. Pay down debt in accordance with the debt policy, whilst accepting that a prudent level of ongoing debt is necessary to support growth in shareholder value
4. Conduct value accretive acquisitions, prioritised as appropriate given the specific business case and other priorities at the time
5. Re purchase shares where circumstances justify

Application of the above orders of preference will be dependent on market conditions at a given point in time. Priority will be given to decisions that are consistent with the business strategy and realisation of the Company's financial targets.

Where relevant, more detail on each allocation priority is summarised below.

Investment into operations

The Board intends to invest free cash flow and/or debt into operations, designed to enhance Earnings Per Share (EPS) over the medium term. In investing free cash flow or debt, the Board requires Return on invested capital (ROIC) to be accretive i.e. ahead of the Company's weighted average cost of capital (WACC), over three years.

The Board will prioritise investments that deliver a higher ROIC relative to this baseline, where relevant and on a risk adjusted basis.

Dividend Policy

In setting the dividend policy, the Board must ensure it aligns with the Company's goals and enhancing shareholder value. The Board has elected to adopt a dividend payout ratio policy that:

- Is expressed as a % of Net Profit After Tax (NPAT) adjusted for non-cash impairment and fair value adjustments (NPATA).
- Is set between 40 and 60% of NPATA
- Pays fully franked dividends (to the extent possible from available franking credits) as appropriate within the guidelines above

The Board intends to operate a Dividend Reinvestment Policy, which will be implemented during FY23.

Debt Policy

The Board considers that the use of debt is an integral component of its Capital Management Policy as it:

- Provides additional capital to fund investments in growth
- Is generally cheaper than equity, by delivering a higher rate of return on a per share basis than issuing new capital, reducing the WACC

In using debt however, the Board recognises the current cycle of inflation and rising interest costs and therefore adopts a conservative capital structure with respect to debt, with a target range of 1.0 – 1.5 times net debt / EBITA. The Board intends to maintain a debt facility higher than the targeted debt ratio, as a prudent measure to assist with managing risk. The Board retains discretion to move above this range for a period of 12 months following a value accretive acquisition.

Share Buy Backs

Based on the current illiquidity of Diverger's shareholder register, the Board has elected to prioritise franked dividends over share buybacks until determined otherwise. The Board will consider conducting one off share buybacks in periods of significant under-pricing and where debt leverage is below the bottom end of the neutral range (<1x).

Issuing New Equity (Raising Capital)

Raising Capital is sourcing capital from investors, in exchange for equity, or equity-based instruments. The Board will preference raising equity capital via all-shareholder rights offerings. The Board reserves the right to make a placement of equity up to its shareholder approved limits, where such issue is in the strategic interests of the Company and for the purposes of value accretive transactions and which meets the investment criteria in this and other Diverger policies. Generally, raising capital will only be conducted where the funds will be used to grow and expand the Company faster, with a targeted higher return to shareholders as a result.

The Board's policy is to consider the merits of raising capital on an 'as needed' basis.

Board Discretion

In setting this Capital Management Policy, the Board retains discretion to temporarily operate outside these metrics based on value accretive opportunities or significant market events.

Document Control

Document Control No.	Document Date	Review / Amended	Board Approval Date	Responsible Person
DVR Capital Management Policy	August 2022	Approved by the Board	August 2022	Acclime