IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE APPRAISAL OF DFC GLOBAL CORP.	CONSOLIDATED C.A. No. 10107-CB

ORDER GRANTING IN PART THE PARTIES' CROSS-MOTIONS FOR REARGUMENT

WHEREAS, on June 13, 2014, Lone Star Fund VIII (U.S.), L.P. acquired Respondent DFC Global Corporation ("DFC") for $9.50 per share in cash in a merger transaction;

WHEREAS, certain former stockholders of DFC ("Petitioners") filed petitions seeking judicial appraisal of their DFC shares under 8 *Del. C.* § 262;

WHEREAS, a three-day trial regarding the appraisal of DFC was held in October 2015 and post-trial argument was heard on April 1, 2016;

WHEREAS, on July 8, 2016, this Court issued a memorandum opinion (the "Opinion"), which concluded that the fair value of DFC was $10.21 per share based on the equal-weighted average of (1) a discounted cash flow model that valued DFC at $13.07 per share, (2) a comparable companies analysis that valued DFC at $8.07 per share, and (2) the sale price for DFC of $9.50 per share;

WHEREAS, on July 14, 2016, DFC filed a motion for reargument asking the Court to reconsider certain aspects of its discounted cash flow model and attaching an affidavit of DFC's expert Daniel Beaulne;

WHEREAS, on July 19, 2016, Petitioners filed a motion for reargument requesting reconsideration of certain aspects of the Court's discounted cash flow model, responding to DFC's motion for reargument, and attaching an affidavit of Petitioners' expert Kevin F. Dages;

WHEREAS, on July 26, 2016, DFC filed an opposition to Petitioners' motion for reargument,

WHEREAS, the Court has considered the parties' submissions, including the supporting expert affidavits;

IT IS HEREBY ORDERED, this 14th day of September, 2016, that:

1. Under Court of Chancery Rule 59(f), "[a] motion for reargument . . . may be served and filed within 5 days after the filing of the Court's opinion or the receipt of the Court's decision." The Court will grant a motion for reargument if it "has misapprehended the law or the facts so that the outcome of the decision would be affected." *Doft & Co. v. Travelocity.com Inc.*, 2004 WL 1366994, at *1 (Del. Ch. June 10, 2004). Petitioners and DFC each requests that the Court reconsider certain aspects of the Court's discounted cash flow valuation model, which is attached to the Opinion as Appendix A. Capitalized terms not otherwise defined in this Order have the same meaning as used in the Opinion.

2. DFC requests that the Court adjust the "Changes in Working Capital" line item in Appendix A of the Opinion to match the working capital assumptions

in the March Projections, rather than the existing line item, which reflects annual working capital assumptions from Beaulne's model and an additional adjustment adding $19.7 million to DFC's 2015 change in working capital.

3. Petitioners request that the Court either (a) lower the working capital projections from those contained in the March Projections to a level more consistent with the model's perpetuity growth rate, or (b) increase the model's perpetuity growth rate to more realistically relate to the higher working capital requirements contained in the March Projections. Petitioners also request that the Court remove Beaulne's foreign currency adjustments from the Court's discounted cash flow model.

4. As discussed in the Opinion, the Court understood that the March Projections were "the focal point of the discounted cash flow analyses" for both experts.[1] The Court thus intended to adopt the March Projections for its discounted cash flow model and to make only one adjustment to those projections to resolve the parties' dispute concerning the treatment of stock-based compensation.[2] By using Beaulne's model as the starting point for the discounted cash flow analysis in Appendix A, however, the Court mistakenly incorporated (a) Beaulne's working capital adjustments to the March Projections, which were explicitly rejected in the

[1] Op. 45.

[2] *See* Op. 52-54.

Opinion,[3] and (b) Beaulne's foreign exchange adjustments to the March Projections, which were not the subject of dispute after trial and which the Court did not intend to incorporate.[4] To correct these errors and align the Court's discounted cash flow model with what was intended in the Opinion, the Court hereby removes these two adjustments from its discounted cash flow model. The first of these two adjustments is sought in DFC's motion for reargument, which is granted in that respect.[5] The second of these two adjustments is identified in Petitioners' motion for reargument and is not opposed by DFC.[6]

5. In re-examining the working capital assumptions in its discounted cash flow analysis, the Court realizes that it misapprehended another material fact in constructing its model, namely, the need to maintain an appropriate correlation between the level of projected working capital and the perpetuity growth rate. In the Opinion, the Court adopted the 3.1% perpetual growth rate from Dages' two-stage discounted cash flow model, which was performed as an alternative to his three-stage growth model. In doing so, the Court observed that a sharp growth rate

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[3] Op. 45.

[4] DFC did not address this issue in its post-trial brief. It was mentioned in post-trial briefing only in a footnote in Petitioners' opening brief, where Petitioners characterized the effect of this adjustment as "*de minimus*." Pet'rs' Post-Trial Br. 21 n.91.

[5] Resp't's Mot. For Reargument ¶ 2.

[6] Pet'rs' Mot. For Reargument ¶ 12; Resp't's Opp. to Pet'rs' Mot. For Reargument ¶ 15.

drop-off "from the projection period to the terminal period is not ideal but not necessarily problematic."[7] In reconsidering the issue, however, the Court realizes it failed to appreciate the extent to which DFC's projected revenue and working capital needs have a codependent relationship, *i.e.*, a high-level requirement for working capital, as reflected in DFC's March Projections, necessarily corresponds with a high projected growth rate.[8]

6. The Court also based its selection of a 3.1% growth rate on the theory that a company's perpetuity growth rate should not exceed the risk-free rate, which both parties agreed was 3.14% in this case.[9] But this proposition is only applicable to companies that have reached a stable stage.[10] The March Projections assume DFC will achieve fast-paced growth throughout the projection period and therefore imply a need for a perpetuity growth rate higher than the risk-free rate.[11]

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[7] Op. 49.

[8] Put differently, the Court failed to accord enough weight to Dages' caution that "a two-stage model with a terminal growth rate of 3.1% is not high enough to adequately take into account a reasonable expectation for DFC Global's growth rate beyond the explicit five-year forecast period." JX 596 ¶ 97.

[9] Op. 49.

[10] *See* Aswath Damodaran, *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset* 305 (3d ed. 2012).

[11] Specifically, the year over year rate of revenue growth in the March Projections is 6.5% for 2015, 9.8% for 2016, 12.2% for 2017, and 11.7% for 2018. *See* JX 596 Ex. 13.

7. Because the Court adopted the working capital assumptions in the March Projections, the Court should have adopted a perpetuity growth rate more consistent with the relatively high level of working capital built into those projections. In Petitioners' motion for reargument, Dages demonstrates that, as a matter of economics, the March Projections support an average sustainable growth rate of 3.9% and a median sustainable growth rate of 4.2%.[12] Dages therefore concludes that a perpetuity growth rate of 4.0%, representing the midpoint of the median and average growth rates underlying the March Projections, is proper in this case.[13] Although a perfect projection of the future is never attainable, the 4.0% perpetuity growth rate that Dages derived using a recognized economics formula corrects the Court's original model in a reasonable manner.[14] Therefore, the Court adopts this higher perpetuity growth rate in its revised discounted cash flow model.

8. In sum, the Court modifies its discounted cash flow analysis (a) to incorporate the working capital assumptions in the March Projections, which it

[12] Dages Aff. Ex. 1A (applying the plowback formula to determine the perpetuity growth rate corresponding to the management projection in each year). The plowback formula provides that the perpetuity growth rate is the product of the reinvestment rate and the return on capital. Dages Aff. ¶ 4; *see also Investment Valuation* at 313.

[13] Dages Aff. ¶ 9.

[14] A 4.0% perpetuity growth rate is below the nominal GDP growth rate, estimated to be between 4.5% and 4.8%, which is another commonly suggested ceiling for a company's perpetuity growth rate. *Investment Valuation* at 306-7. This growth rate also is lower than the 4.5% growth rate implied by Beaulne's convergence model. *See* Op. 50.

intended to do in the first place, (b) to exclude Beaulne's foreign exchange adjustments, which the Court did not intend to include, and (c) to revise the perpetuity growth rate to 4.0% for the reasons explained above. These adjustments are reflected in the model attached as Exhibit 3 to Dages' affidavit submitted with Petitioners' motion for reargument, which the Court adopts and incorporates into its Opinion in the place of the model set forth in Appendix A of the Opinion.[15] In this respect, Petitioners' motion for reargument is granted and the Court's discounted cash flow valuation is adjusted to $13.33 per share. Thus, weighing at one-third each the revised discounted cash flow valuation of $13.33 per share, the multiples-based valuation of $8.07 per share, and the transaction price of $9.50 per share, the Court concludes that the fair value of DFC at the time of the Transaction was $10.30 per share and the Opinion is revised accordingly.

9. The parties are instructed to confer and submit a final judgment in accordance with the Opinion, as modified by this Order, within five business days.

Chancellor

Dated: September 14, 2016

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[15] Apart from incorporating these adjustments, the model attached as Exhibit 3 to Dages' affidavit faithfully adheres to the other conclusions in the Opinion, including the applicable discount rate (10.72%) and the adjustments for stock-based compensation.